



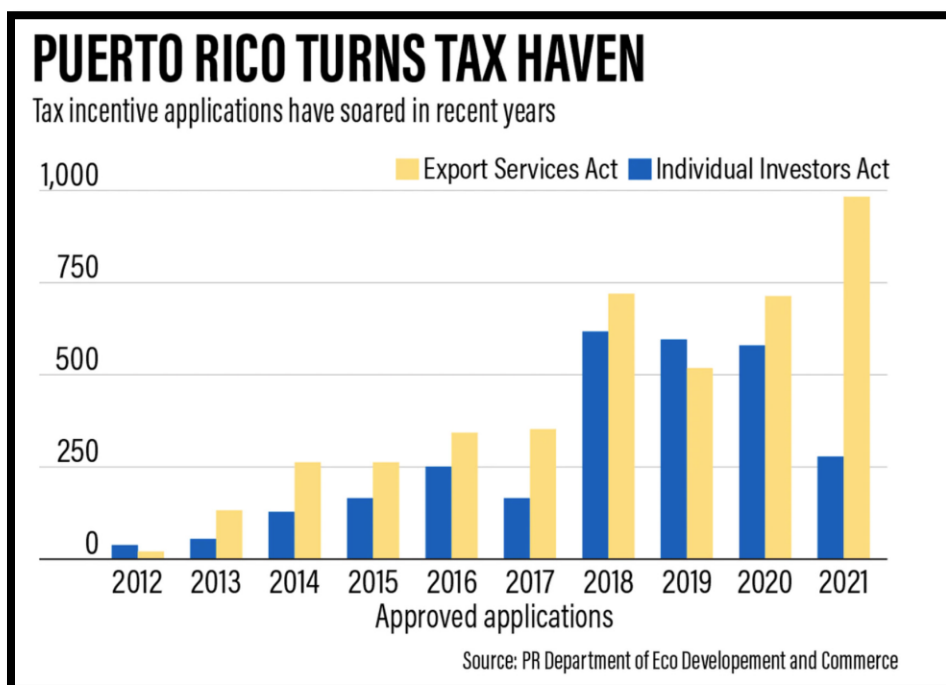
## Puerto Rico exits bankruptcy

March 22, 2022

Did you know that a major U.S. territory had filed for bankruptcy?

On January 19, a federal judge approved a plan to restructure billions of dollars of debt—chiefly municipal bonds sold to investors—filed by the island territory of Puerto Rico. This marks the end of a bizarre saga which saw Puerto Rico issue debt as fast as it could print the certificates into a vast demand for triple-tax-exempt municipal bonds—that is, exempt from federal taxes, state, and local taxes in all 50 U.S. states.

The bankruptcy came about because, while Puerto Rican bonds were popular, especially with certain mutual fund providers, the \$72 billion in debt issued could not be repaid through the taxes Puerto Rico was collecting from its citizens and business community; indeed, the outstanding debt eventually came to equal a whopping 68% of the island territory's total economic output, and that doesn't count the \$55 billion owed in unfunded pensions to government workers. The restructuring will reduce \$33 billion of Puerto Rico's debt by 80% but will still obligate its government to pay \$666 million a year over the next decade to bondholders. Investors in Puerto Rican Munis, meanwhile, are being promised additional "contingent" repayments if sales tax collections exceed projections.



There is a saying on Wall Street, which they obviously hope investors won't hear: "feed the hungry pig." Translated, that means that if there are credulous investors who want to buy something that Wall Street executives know is a dog investment, then the most profitable course is to sell as much as possible regardless of the underlying fundamentals. Companies like UBS, Santander Securities, Merrill Lynch, Morgan Stanley, and Wells Fargo all doubled down on buying Puerto Rican bonds which they must have known were unsustainable and would be repeatedly downgraded. But as the yield on these downgraded bonds moved higher and higher compared with more stable Muni securities, thousands of brokers touted the yield, perhaps forgetting to mention the increasing likelihood that bankruptcy was just around the corner—and the victims were investors greedy for yield and the Puerto Rican citizens whose leaders became addicted to the tsunami of easy money.

**Sources:**

<https://www.advisorperspectives.com/articles/2022/01/20/puerto-ricos-bankruptcy-exit-isnt-the-finish-line>

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<https://www.adn.com/nation-world/2022/01/19/puerto-rico-exits-bankruptcy-after-us-judge-approves-multibillion-dollar-restructuring-plan/>

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