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NEW PROMESA BOARD MEMBERS MEAN BAD NEWS FOR BONDHOLDERS

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Late yesterday, President Obama announced the names of the members appointed to Puerto Rico's financial control board, commonly known as PROMESA. The members were selected from lists provided by 2 Senators and 2 House representatives. While I may be proven wrong, I believe that the board's membership is too heavily weighted for the benefit of the Commonwealth, and to the detriment of bondholders that have lent this insolvent entity over $70 billion through the years.

Of the seven members, three have backgrounds of bankruptcy experience, similar to Kevyn Orr who oversaw the bankruptcy of Detroit. As such, I feel that these members' priority will not be to reform the government's financial operations. Their main goal and experience will be to arrange for cutting payments to bondholders and vendor creditors. If these members merely follow precedents established in Detroit's bankruptcy, bond investors will be at great risk.

Another member is an expert at public pensions. This experience is needed because of Puerto Rico's weak pension systems. However, it remains to be seen if this board member will favor concessions to the pension funds, at the expense of bond investors that lent Puerto Rico $1.6 billion in 2008 . Failure to pay pension bond investors, whose money went directly to pay Puerto Rico's pensioners, would irreparably damage Puerto Rico's ability to borrow funds in the future, and be seen as a gesture of bad faith for bondholders, most of whom are individuals or families.

This is clearly an evolving situation, which needs to be followed closely. Unfortunately, this looks like the first round of a boxing match where bondholders just took a big right hook to the face.

About the Author

RICHARD P. LARKIN, Stoever Glass & Co., Inc.

Richard Larkin, a recognized 40 year industry veteran, has joined SG & Co. as Director of Municipal Credit Analysis. Mr. Larkin began his career in credit rating analysis at Standard & Poor's in 1975. After rising through the ranks in various analytical and management positions, Dick left S&P as its Chief Municipal Rating Officer, responsible for municipal rating policy, practices, governance and criteria. In 1998, Mr. Larkin joined Fitch Ratings as Chairman of its Public Finance Criteria Committee. He ultimately left to take leading roles in municipal hi-yield analysis at firms JB Hanauer & HJ Sims.

"Dick will be a unique resource to Stoever Glass' municipal clients. His knowledge in specific issues and areas of the municipal bond industry will aid our representatives and their clients in making educated decisions, in a sector where this type of research is unique," said Roland Stoever of Stoever Glass.