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Moody's cuts Puerto Rico's bonds further into junk territory

JULY 1

Moody's Investors Service on Wednesday downgraded Puerto Rico's general obligation and guaranteed bonds further into junk territory, citing Governor Alejandro García Padilla's declaration that the commonwealth cannot pay its debt.

The downgrade to 'Caa3' from 'Caa2' affects about \$55.5 billion in bonds and indicates imminent default with little prospect for recovery. Bonds of the Puerto Rico Aqueduct and Sewer Authority were also downgraded to 'Caa3.' (bit.ly/1dySxSZ)

Moody's said the commonwealth's decision to devise broad restructuring plans were "clear signs that holders of even those Puerto Rico securities with strong legal protections face significant loss."

"It appears unlikely that a limited restructuring excluding those better-protected bonds will be sufficient for Puerto Rico to gain the relief desired," Moody's added.

Wednesday's rating action was the seventh downgrade in the past five years, and Puerto Rico's rating has declined 12 notches since 2011, according to Moody's.

Puerto Rico's governor on Monday called for the commonwealth to be allowed to restructure its debts under the U.S. bankruptcy code, while a newly appointed adviser to the U.S. territory said it is "insolvent" and will soon run out of cash.

A spokesman for the commonwealth confirmed late Wednesday that Puerto Rico made payments of around \$1 billion to creditors due on July 1, alleviating fears of an imminent default.

The outlook for all affected securities remains negative, Moody's said. (Reporting by Aurindom Mukherjee in Bengaluru; Editing by Lisa Shumaker)

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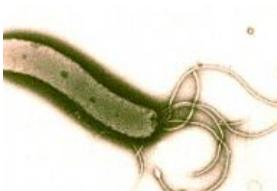


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