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GDB GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
COMMONWEALTH OF PUERTO RICO

**$1.3 BILLION PRIFA BOND ISSUE
CONFIRMS INVESTORS' PREFERENCE
FOR PUERTO RICO BONDS**

The Puerto Rico Infrastructure Financing Authority (PRIFA) successfully placed today $1.3 billion in bonds in the U.S. tax-exempt market to finance important infrastructure projects, reduce the budget deficit and generate over $40 million in savings, announced Government Development Bank for Puerto Rico (GDB) President, William Lockwood.

"In addition to the favorable conditions in the municipal bond market, the fourfold oversubscription of the issue confirmed the traditional attraction of the Commonwealth of Puerto Rico bonds due to their triple exemption, in spite of the recent downgrade of Puerto Rico's credit by Moody's Investors Service (Moody's) and Standard & Poor's (S&P)", said Lockwood, while stressing that investors embraced the bond issue, which comprised of $600 million in new money and $700 million in refunding, and generated $40 million in savings.

"This transaction served to assess the impact of the recent rating downgrade on the Commonwealth's credit. In that sense, we are pleased to inform that we still have the trust of bond market investors, which allows the Central Government to implement specific short- and long-term measures to achieve fiscal stability and stimulate the economy," Lockwood indicated.

"This issue, in addition to generating nearly $300 million for infrastructure projects, is crucial at this particular time because it will provide nearly $310 million to the General Fund," said GDB's President. This portion of the funds will help cover budget insufficiencies for the current fiscal year by reimbursing to the General Fund expenses incurred in several infrastructure projects during this year.

Coupon bonds achieved yields ranging between 3.16% for the shortest maturity—2011—and 4.54% for the longest maturity—2041. Capital Appreciation Bonds (CAPs), which will accumulate interest until their maturities between 2029 and 2045, registered yields of approximately 4.56% for the shortest maturity, and 4.77% for the longest," Lockwood said. This made it possible for us to attain an all-in-TIC of approximately 4.58%.

"Bonds for certain maturities were insured by FGIC and AMBAC, which generated additional capacity to insure the issue", said GDB's President. "This allowed most of the issue to be marketed with Aaa rating by Moody's and AAA rating by S&P among investors who prefer the highest investment grade," he explained. Meanwhile, he stressed that "we were able to place $300 million in new money without any kind of insurance, which again is evidence of the investor's confidence in our bonds."

The non-insured portion of the bond issue had a Baa2 rating from Moody's and BBB+ from S&P, said GDB's President. In addition, he explained that although the rating assigned by Moody's to this bond issue is the same as that it assigns to the Commonwealth bonds, S&P determined to give this issue a higher rating than it has given Commonwealth bonds given the solidity of resources used to repay it.

"Said resources come mostly from revenues derived from the reimbursement of excise taxes paid as Puerto Rican rum is imported into the United States," Lockwood said. "In the particular case of this debt, the resources correspond to a $20 million annual increase in reimbursements that PRIFA should be receiving from 2006, as provided by the public corporation's enabling act," concluded Lockwood.

According to PRIFA's Acting Executive Director, Magda L. Aguiar, most of the funds generated by this transaction will go to finance water projects, although other state and municipal infrastructure projects will also receive funds.

"The 2005 bond issue will allow PRIFA to use $175.0 million to continue developing water and sewer infrastructure projects, and $125.0 million to finance such projects as the Humacao Fine Arts Project, improvements to the Puerto Rico Supreme Court, and the Quebradillas Coliseum, as well a important road improvement projects and the construction of a new headquarters for the Department of Sports and Recreation," said the Acting Executive Director of the GDB affiliate created in 1988 to provide financial and administrative assistance to public corporations, instrumentalities and municipalities of the Commonwealth.

UBS Financial Services Inc. was lead manager for the bond issue, while Banc of America Securities LLC with Oriental Financial Services, and Merrill Lynch & Co. with BBVA Securities of Puerto Rico, Inc. acted as senior co-managers.