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December 8, 2005

INVESTORS WHOLEHEARTEDLY WELCOME THE PUERTO RICO MUNICIPAL FINANCE AGENCY'S $730 MILLION DEAL

The Puerto Rico Municipal Finance Agency (MFA) successfully placed today $729.75 million in the U.S. tax-exempt market to develop important public works in 74 municipalities and refinance close to $320 million in outstanding bonds at more favorable interest rates, thus, generating savings of nearly $18 million in debt service, announced Government Development Bank for Puerto Rico (GDB) Chairman, Alfredo Salazar.

"Once again the municipal market warmly received bonds issued by this GDB affiliate that allows municipalities to make important improvements in the infrastructure and services that they offer their citizens," said Salazar, adding that the sale will not be final until the bond issue is approved by the GDB and MFA Boards of Directors.

"Investors recognized MFA's strong repayment capacity, which is supported by the Additional Special Tax (CAE, by its Spanish acronym) on real and personal property collected by the municipalities through the Municipal Revenue Collection Center (CRIM, by its Spanish acronym)," Salazar said. "With their strong participation in this issue, investors have also shown their approval of the recently enacted law that set the framework for the development of comprehensive tax and fiscal reform after a historic agreement between Puerto Rico's Executive and Legislative branches," said the head of GDB.

Salazar stated that, in addition to securing payment of the funds that have been and continue to be used in municipal public works, the bond issue will allow GDB to recoup these $409 million in outstanding loans to municipalities and, hence, increase its liquid assets. "This issue is part of an important effort to generate additional liquidity for GDB and strengthen the institution's fiscal position so that it may continue to finance important projects for the people of Puerto Rico," the officer explained.

According to GDB Executive Vice President for Financing, Jorge Irizarry, the MFA issue was placed at interest rates that fluctuated between 3.62%, for the closest maturity in 2007, and 4.47% for the longest maturity in 2030.

"We have been planning this issue for several months and, in September, GDB's Board of Directors agreed to fix interest rate costs in a forward transaction. Even though interest rates have increased since then, the transaction cost to municipalities has remained stable," said Irizarry.

"The successful placing of our bonds responds to the continued acceptance of our credit quality and the triple exemption that Puerto Rico issuers, including MFA, enjoy in the municipal bond market," said Irizarry.

The deal was oversubscribed three times, which provided for the reduction of yields in key maturities. "This, in turn, allowed MFA to pay less for the financing and save more money in its refinancing," Irizarry explained. "In the case of the refinanced portion, we were able to capture over 5% in savings, which is our traditional threshhold," he stated.

Practically half the bond issue was insured by FSA and CIFG, two of the principal bond insurance companies. The coverage raised the rating for the insured portions to AAA by Standard & Poor's and Aaa by Moody's Investors Service, which in turn reduced the cost to the municipalities. The uninsured portion of the bonds was placed at a Baa2 rating by Moody's and BBB by Standard & Poor's, said Irizarry. "Both the interest shown by these companies to insure a significant portion of the issue, and the eagerness of investors to buy the uninsured portion, show the confidence that both sectors continue to have in Puerto Rico," said the Executive Vice President.

"It is noteworthy to point out that the issue also had a good acceptance among individual investors, who placed orders amounting to $90 million yesterday," he added.

The MFA issue was structured by Banc of America Securities LLC, with Oriental Financial Services Corp., as lead managers, and Morgan Stanley, with Popular Securities, and Samuel A. Ramírez & Co., as senior co-managers.