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## Puerto Rico PFC Rating Lowered To 'CC'; All Puerto Rico Tax-Backed Debt Placed On CreditWatch Negative

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NEW YORK (Standard & Poor's) July 20, 2015--Standard & Poor's Ratings Services has lowered its 'CCC-' rating on Puerto Rico Public Finance Corp. (PFC) series 2011A and B and series 2012 A bonds to 'CC' following non-appropriation of debt service by the legislature in the fiscal 2016 budget. We see default for this debt on its next debt service date, Aug. 1, 2015, as a virtual certainty. The rating outlook is negative.

At the same time we have placed all other Puerto Rico tax-backed debt, currently rated 'CCC-/Negative' on CreditWatch with negative implications. In our view, non-appropriation of PFC debt service represents a departure from Puerto Rico's previous practice of timely funding of debt service and signals deteriorating liquidity, which could call into question the ability to fund debt service payments as early as September. If liquidity pressures intensify so as to call into question near-term debt payments, we would likely lower our rating. Puerto Rico's administration has called for restructuring discussions with all creditors. We believe a default on the PFC bonds would be further demonstration of increasing unwillingness to pay debt in full and also raises the potential for future unequal treatment between various types of bondholders. We expect more clarity after the presentation to the governor and the legislature of recommendations from a special commission on Sept. 1, which could discuss restructuring options.

The legislature did not appropriate for debt service payments for the PFC bonds in its fiscal 2016 budget (the fiscal year began July 1), despite a request by the Puerto Rico Office of Management and Budget to do so. We

believe it is very unlikely the legislature will appropriate for debt service before an upcoming Aug. 1 debt service payment date, as that would require the governor to call a special session of the legislature. To our knowledge, there are no plans to call a special session. It is our understanding that default on these bonds would not create a cross-default with other debt, and PFC bondholders would have limited remedies against the Commonwealth.

#### RELATED CRITERIA AND RESEARCH

##### Related Criteria

- USPF Criteria: State Ratings Methodology, Jan. 3, 2011
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Special Tax Bonds, June 13, 2007
- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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