

## MEMORANDUM

**To:** Members of the Committee on Financial Services

**From:** FSC Majority Staff

**Date:** February 19, 2016

**Subject:** February 25, 2016, Subcommittee on Oversight and Investigations hearing entitled “Puerto Rico’s Debt Crisis and its Impact on the Bond Market”

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The Subcommittee on Oversight and Investigations will hold a hearing entitled “Puerto Rico’s Debt Crisis and its Impact on the Bond Market” on Thursday, February 25, 2016, at 10:00 a.m. in room 2128 of the Rayburn House Office Building. The following witnesses will testify:

- Dr. Anne Krueger, Senior Research Professor of International Economics, John Hopkins University School of Advanced International Studies
- Mr. Juan Carlos Batlle, Senior Managing Director, CPG Island Servicing, LLC
- Mr. William M. Isaac, Senior Managing Director, Global Head of Financial Institutions, FTI Consulting

Puerto Rico – home to 3.5 million Americans – is the third largest issuer in America’s \$3.7 trillion municipal bond market. Regardless of the state in which the bondholder resides, interest payments on bonds issued by the Commonwealth as well as its political subdivisions and public corporations are generally “triple tax exempt,” meaning that interest payments are not subject to municipal, state, or federal taxes. According to Forbes, about 20 percent of U.S. bond funds hold Puerto Rican debt.<sup>1</sup> However, Puerto Rico is now struggling with more than \$72 billion in public debt spread across 18 different issuers, eclipsing the size of its Gross National Product.

In June 2015, Puerto Rico’s governor, Alejandro García Padilla, stated that “the debt is not payable” and in January 2016, the government defaulted on roughly \$174 million of debt payments owed to its creditors.<sup>2</sup> In May of this year, an additional \$422 million payment will come due, the bulk of which relates to bonds issued by the Government Development

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<sup>1</sup> Frank Holmes, *Muni Investors Get Taste Of Risk With Bad Debt From Puerto Rico*, FORBES (July 27, 2015), available at <http://www.forbes.com/sites/greatspeculations/2015/07/27/muni-investors-get-taste-of-risk-with-bad-debt-from-puerto-rico/#3827082b4dfc>.

<sup>2</sup> See Andrew Austin, *Puerto Rico’s Current Fiscal Challenges*, CONGRESSIONAL RESEARCH SERVICE (Sept. 25, 2015), available at <https://www.fas.org/sgp/crs/row/R44095.pdf>.

Bank for Puerto Rico (GDB), which is responsible for holding government deposits and managing the Commonwealth's finances.<sup>3</sup> In July 2016, Puerto Rico faces another payment of nearly \$2 billion, mostly in debt that is backed by the "full faith and credit" of the Commonwealth under Article VI, Section 8 of its Constitution. Significant questions remain about Puerto Rico's ability to pay its creditors in part because of the failure of the GDB to timely produce audited financial statements.

This oversight hearing will examine matters within the Committee's Rule X subject matter jurisdiction relating to the Puerto Rican debt crisis, including the root causes of the crisis, the health of Puerto Rico's financial services sector, and the impact of the crisis on investors.

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<sup>3</sup> See Megan Davies, *Puerto Rico's upcoming debt payments*, REUTERS (Dec. 30, 2015), available at <http://www.reuters.com/article/us-usa-puertorico-debt-factbox-idUSKBN0UD11G20151230>.