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GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
GOVERNMENT OF PUERTO RICO

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Investors Fully Trust Puerto Rico Bonds

Investors bought more than $1 billion in bonds issued today for the Schools of the 21st Century projects, among other bonds; the demand surpassed the total amount of available bonds by $275 million, allowing the Government Development Bank to save $13 million in financing costs

SAN JUAN, P.R.- Local investors and investors from all over the United States gave their full support to Puerto Rico bonds as they bought two whole issues of $756 million and $225 million, respectively. The demand for the bonds was such that it allowed the Government Development Bank (GDB) to save $13 million, GDB President Juan Carlos Batlle informed.

The big demand for the Puerto Rico bonds takes place two days after Moody's credit rating agency announced its decision to downgrade by one notch—from three it had upped it last year—Puerto Rico's credit rating, essentially due to the financial situation of the Government retirement systems.

"I think this obviously confirms what we said on Monday: Moody's decision to downgrade by one notch our credit has not had any effect whatsoever on investors' demand for our bonds or on financing costs. On the contrary, the demand for our bonds was so strong today that we were able to lower financing costs in the local issue by approximately $13 million over 17 years. And the reason for this is very simple: both local and U.S. investors fully trust the course Puerto Rico is taking. I can assure you that if they didn't trust what we have been doing to point Puerto Rico in the right direction, they would not be buying our bonds," Batlle affirmed.

On Monday, Moody's assigned Baa1 rating to Puerto Rico's general obligations (GOs), one notch below the A3 rating Moody's had assigned Puerto Rico's GOs in April 2010 when it upped the rating three notches, from Baa3—the level right before junk bond status—to A3. The new Baa1 rating assigned by Moody's is at the same level as the BBB+ rating assigned by Fitch to Puerto Rico bonds and one notch above the BBB rating assigned by S&P, which upgraded Puerto Rico's rating last March for the first time in 28 years, not on account of any recalibration of the rating scales, but in recognition of the progress in matters of tax reform, increased income, expenditure control and deficit reduction during the past two years. "Puerto Rico's credit remains at its best level in decades, thanks to the actions we've taken to straighten out Puerto Rico's finances and steer the economy towards a sustainable recovery," Battle stated.

In fact, the local demand for the issue exceeded by $200 million the size of the issue. "This issue was for $756 million in Puerto Rico Public Buildings Authority (PRPBA) bonds to finance the Schools for the 21st Century modernization program. Initially, we had considered issuing only $300 million, but the market demand was such that it represented an opportunity to achieve significant savings, so we decided to issue the whole allocation. As of yesterday, we had received orders for $958 million, $200 million more than the maximum amount authorized for the issue. This great demand allowed us to lower financing costs from 5.75% to 5.65%, which represents savings for the Program in the amount of $13 million over 17 years," GDB Executive Vice President for Finance José Otero explained, adding that all the proceeds of this issue will be used for the program through which some 100 schools are already being modernized or built throughout the Island.

The other issue, also by the PRPBA, was originally for $225 million and it was all placed in the tax-exempt market at national level, known as US (103). The demand for this issue also exceeded the original offer and the issue was successfully increased to $300 million. PRPBA will use the product of this issue to repay credit lines it maintains with the GDB and to restructure part of its debt.

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