

P R E S S R E L E A S E

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S&P'S PLACES POBs ON CREDIT WATCH; DOWNGRADES PRASA'S RATING

Government Development Bank for Puerto Rico ("GDB") President Javier D. Ferrer and Treasury Secretary Melba Acosta announced that Standard & Poor's Rating Services ("S&P") placed its 'BBB-' rating on the Employees Retirement System ("ERS") of the Government of the Commonwealth of Puerto Rico's senior pension funding bonds ("POBs") on "Credit Watch" with negative outlook. At the same time, S&P lowered by one notch its rating on the Puerto Rico Aqueduct and Sewer Authority's (PRASA's) senior revenue bonds, to "BB+" from "BBB-".

According to S&P, the credit watch placement is based on S&P's recent downgrade of the Commonwealth of Puerto Rico and on the ability of the employers that contribute to the System (the central government, public corporations and municipalities) to continue to make their required contributions to the System in the future. S&P points out that should Puerto Rico fail to adopt comprehensive measures to address its unfunded pension liability, S&P could lower the rating on the ERS bonds, even without a corresponding lowering of the Commonwealth appropriation debt rating.

"This rating action by S&P confirms what we've been saying repeatedly these past few months: we must enact the Pension Reform. S&P's decision gives us time to enact our Reform, which again S&P describes as significant. If we take the pertinent actions and pass, within the next few days, a reform that, even if amended, meets the objectives of the original reform, we will stabilize the Retirement System and avoid a subsequent downgrade, which, as we all know, would have devastating consequences for Puerto Rico. I am hopeful that it will be enacted and we will permanently save the System" Ferrer pointed out.

On a separate note, Acosta emphasized that the Governor's fiscal team will continue working very hard to implement the necessary measures that will help protect and strengthen the finances and credit of the government of Puerto Rico. "We will keep working with urgency implementing measures to increase revenues, combat tax evasion, reduce expenses, so as to reduce the current budget gap" the Secretary stated.

S&P also downgraded the rating on PRASA's senior revenue bonds to "BB+" from "BBB-", and PRASA's bonds guaranteed by the Commonwealth of Puerto Rico, by one notch, to "BBB-" from "BBB". Moody's had already downgraded these bonds to the same level in December 2012.

"This rating action by S&P is closely related to the recent downgrade of Commonwealth GOs, given PRASA's enormous dependency on general fund subsidies. In fact, PRASA's present course

of action, including a rate review and the implementation of other fiscal efficiency measures, is aimed at returning to fiscal and operational self-sufficiency. Once again, taking fiscal responsibility measures such as the ones we're taking is the right path to save PRASA's and Puerto Rico's credit," Ferrer stated.

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