

## President Trump & the Puerto Rican Debt Problem - Transcript

**Tom Mullooly:** In episode number 60 we're going to talk about what President Trump said in Puerto Rico.

Welcome to the Mullooly Asset Show, I'm your host Tom Mullooly and this is episode number 60 in our continuing series of videos. We get these topics from our listeners and our viewers and our clients, so if you've got a question, a topic, that you want us to cover, timely, not timely, educational, get in touch with us. You may see it on a future video or in one of our podcasts.

Tim, what are we going to be talking about today?

**Tim: President Trump made a visit to Puerto Rico yesterday, and talked about wiping out their debt. What does that mean?**

**Tom Mullooly:** Okay. Very timely topic, talking about Trump's visit to Puerto Rico, this was just yesterday, so it's important to understand what's going on. Puerto Rico hit with an absolutely horrendous hurricane a couple of weeks ago now, Hurricane Maria that essentially wiped out a lot of the infrastructure on the island. From different reports you hear, you'll see 75, 80, 85% of the island does not have power, they don't have running water, they're running out of food, it's a cash economy so, it's out of control. It's hard to believe this kind of stuff still happens in 2017 but, you also need to know the back story.

Prior to the hurricane, Puerto Rico was essentially bankrupt, which is something that a territory of the United States really can't do. Puerto Rico is a commonwealth technically, Massachusetts is a commonwealth, but it's also a state. So we're running into a situation where Puerto Rico has something like \$70 billion, with a B, billion dollars' worth of tax-free municipal bonds that they are unable to pay the interest on. Forget about getting the principal back, they're unable to pay the interest.

The government of Puerto Rico, the governor, has been trying to work out a deal with the bond holders, where they can work out some kind of arrangement where they get some kind of discounted deal to relieve the financial stress. Very high unemployment, very little industry, really nothing to speak of going on in the island. It's a very sad situation. There used to be tax incentives for businesses to establish a base in Puerto Rico that started in the 1960s, as part of the effort to balance the budget. A lot of these tax credits disappeared in the mid-90s. A lot of businesses just left the island. There were certainly no new businesses coming in, and that's 20 years that's gone on.

Puerto Rico's in a really sad financial shape, they're totally, pardon the pun, under water with a lot of their bonds. Why is this important to folks back on the mainland? Well Puerto Rico, being a territory of the United States, the interest on their bonds is free of any taxes on the state and local level, so if you own a say, New York State tax-free bond fund, my guess is, in the past you've seen a fair amount of Puerto Rico bonds in your portfolio. Same thing with New Jersey, same thing with California, same thing with any of these state tax-free bonds funds where they have an opportunity to buy the bonds. They've owned them in the past. They've been cutting back their exposure on them, but firms like Oppenheimer and Franklin still own a large percentage of Puerto Rico tax-free bonds. It's got a little bit of risk in a place where tax-free bonds is not supposed to have any risk.

So, what happens? Trump goes down yesterday to Puerto Rico, and says some things that a president would like to say like, "We're going to help you, and we're going to do everything we can." They need billions upon billion upon billions of dollars, just to get the power grid back up and to get people back in their homes. I mean, this is going to be a massive restructuring, reconstruction effort, but what about the 70 so billion of existing debt that already happened? Trump says, "We got to wipe out that debt." Wow.

Now, I don't think he's got the authority to say something like that, but he's the President of the United States, so it has to be taken at least semi-seriously. If you want us to wipe out the debt, guess who's next in line? Hey, if you're going to wipe out Puerto Rico's debt, how about Illinois? Technically on percentage terms they're worse off than Puerto Rico, and if you let one state off the hook, what's to stop New Jersey, Rhode Island, Massachusetts, some of these other states that are really drowning in some very bad situations in terms of their finances? So this is going to have a big impact over the next couple of weeks. We'll see if he backtracks what he says about Puerto Rico and doing some kind of bailout for them, but something needs to happen and I'm sure this is going to be a big story going forward.

Great question that we got on Puerto Rico and Trump's visit. Excellent topic for video number 60. Thanks for watching and we will look forward to seeing you on the next video, number 61.