

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

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STANDARD & POOR'S REVISES THE MUNICIPAL FINANCE AGENCY'S CREDIT RATING

The Chairman of the Board and acting president of the Government Development Bank for Puerto Rico (GDB), Alfredo Salazar, announced today that Standard & Poor's (S&P) revised the credit rating of the Municipal Finance Agency (MFA) from BBB+ to BBB as a consequence of the weakening of the Commonwealth's rating.

“Once again, this decision evidences the dependency of municipalities in central government appropriations making their payment capacity susceptible to the central government's finances,” Salazar said in explaining the reasons for this downgrade. MFA, a GDB affiliate, is preparing to issue \$720 million in the municipal bond market this month. In spite of this change in its rating, MFA still maintains its investment grade equal to the Central Government, which we trust will allow us to place these bonds in the market for the benefit of the municipalities,” Salazar said while adding that this decision by S&P is not surprising. This rating agency tends to equal or bring near the ratings of agencies and public corporations that sell bonds in the market to that of the Commonwealth.

S&P stated as a limiting factor the presence of small, economically depressed, municipalities, “whose individual tax bases exhibit vulnerability and depend on Commonwealth appropriations to equalize local funding, with small borrowers making

up 55% of the loans outstanding.” In this respect, the GDB President said that GDB’s Municipal Financing Department has begun to implement a working plan to produce a real economic profile of the financial condition and payment capacity for each municipality.

“We have repeated on multiple occasions that we need to present the credit rating agencies with the strategies that we plan to use to balance the structural deficit in the general fund and to restructure our finances. The first step is the implementation of fiscal and tax reform. The Legislative Assembly has the obligation to establish, along with the Executive Branch, the parameters that will define the tax reform,” Salazar said in reference to the statement by S&P analyst Kenneth Gear about the need for management to balance general fund operations over the next three years and its dependence on the ability to balance incomes and expenditures through a tax reform. “This process cannot be delayed any more,” Salazar concluded.

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