

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

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PUERTO RICO RECOVERS BOND BUYER'S CONFIDENCE WITH \$838 MILLION GENERAL OBLIGATION BOND ISSUE

The successful sale by the Commonwealth of Puerto Rico of \$838 million in General Obligation Bonds (GOs) in the United States tax-exempt bond market, reaffirming the confidence of bond buyers in Puerto Rico's credit, was announced today by Alfredo Salazar, the Chairman of the Board of Directors of the Government Development Bank for Puerto Rico.

The GO bond issue was the largest transaction sold in the U.S. municipal bond market this week, and was oversubscribed 2.7 times. This is the first bond issue sold after Standard & Poor's and Moody's removed Puerto Rico's credit from their watch lists for possible downgrade, where they had placed the Commonwealth's GOs, and confirmed their BBB and Baa3 investment grade ratings, respectively.

Commenting on today's development, Mr. Salazar said, "We have taken the first step towards achieving our main objective of improving Puerto Rico's public debt rating. With the support of the traditional buyers and principal U.S. institutional investors such as Franklin Templeton Investments, T. Rowe Price, Rochester Fund, Putnam Management and Alliance Capital, as well as other new investors, we have reopened the market for our bonds and renewed the people's confidence in the future of the economy.

Now we need to work diligently to reactivate the economy and produce the results that we have promised.”

“Another element that evidences the market’s confidence in Puerto Rico’s credit is the fact that more than \$700 million were sold without insurance,” said Jorge Irizarry-Herrans, GDB’s Executive Vice President for Financing. “The insurance companies continue to support our endeavors, and we will use them selectively to maximize the benefits for our transactions.”

Proceeds of more than \$336 million will be invested in public works and infrastructure projects for the municipalities and agencies, such as recreational, hospital and security facilities, urban center revitalization projects, canalization of rivers, improvements to schools, as well as paving roads, and constructing and improving basketball courts, bridges, sidewalks, and theaters.

In addition, proceeds will be used to repay credit lines granted by GDB to the central government and agencies. “With this repayment the Bank will continue to improve its liquidity, as anticipated,” Mr. Salazar said.

GDB expects to begin disbursing the new funds to the mayors as of August 10th. By that time most of the municipalities that will benefit from these funds will have approved the required ordinances stating how they will use these funds to complete construction in progress and initiate new projects that will reactivate their local economies.

Among the municipalities that will benefit are Aguadilla with \$2.5 million, Arecibo with \$1.6 million, Barranquitas with \$1.3 million, Bayamón with \$1.6 million, Culebra with \$1.3 million, Jayuya with \$2 million, Canóvanas with \$1.3 million, and

Guaynabo with \$5.5 million. Also, Las Piedras will receive \$1.5 million, San Juan, \$4.8 million, and Yauco will get \$1.6 million.

Mr. Irizarry explained that the traditional acceptance of the GOs due to their triple tax exemption—at the federal, state and local level—as well as the reduced supply of municipal paper in the market at this time, enabled Puerto Rico to place the bonds at yields ranging from 4.51% for the shortest term in 2017, to 4.95% for the longest maturity in 2035, for a 4.98% average true interest cost. “The rates we received were very favorable for Puerto Rico,” he said.

The bond issue was handled by Morgan Stanley as senior manager, with Goldman, Sachs & Co., Merrill Lynch & Co., Citigroup, JPMorgan, Lehman Brothers, UBS Investment Bank, as well as Wachovia Bank, Raymond James and Popular Securities.

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