

AVM, L.P.

Summary Presentation to the Government of
Puerto Rico
An Alternative Municipal Bond Structure

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Executive Summary

- Mosler Bonds are designed to be sufficiently attractive to the investment community ensure the funding of Puerto Rico at very low rates of interest
- Mosler Bonds are identical to existing municipal bonds, with on exception:

The 'default clause' in the bond indenture is replaced by the following statement:

“In the event of non payment, principal and interest, which continues to accrue, can be used for the payment of taxes to the government of Puerto Rico”

Risk of Loss is Eliminated

- In the event of non payment, investors are not dependent on payments from Puerto Rico for debt repayment
- In the event of non payment, investors are instead compensated by reductions of tax payments
- That is, in the event of non payment Mosler Bonds function as interest bearing Puerto Rican tax credits

Ramifications of Mosler Bonds

- Puerto Rico will be able to issue and sell new Mosler Bonds
- The elimination of default risk dramatically lowers interest rates
- Preliminary discussions with investors indicates rates for tax exempt Puerto Rican Mosler Bonds will be below LIBOR + 2%
- Mosler Bonds can be used to immediately fund payments of interest and principal on existing debt

Mosler Bonds as Bank Investments

- Mosler Bonds are attractive bank investments
- Bank profits come from the spread between their cost of funds and the yield on their investments
- Assuming a 10% bank capital ratio, a LIBOR +1% yield on Puerto Rican Mosler Bonds would equal a 10% tax free return on investment for bank shareholders
- This is a very high rate of return for an investment with no default risk
- In the event of non payment, as bank clients made tax payments, the banks would be able to keep their client's dollars and use those Mosler Bonds for the client's tax payments

Mosler Bonds: Safety = Low Yields

- Banks and other investors will compete for Mosler Bonds, thereby driving down the interest rate for Puerto Rico
- The government of Puerto Rico can issue Mosler Bonds at low rates of interest and thereby fund its public corporations at the same yield
- The savings from reduced interest rates could be in excess of \$2 billion per year, and the ability to refinance all government debt on demand immediately ends the crisis