



February 24, 2015

The Honorable Bob Goodlatte
Chairman
House Committee on the Judiciary
2138 Rayburn House Office Building
Washington, DC 20515

The Honorable John Conyers, Jr.
Ranking Member
House Committee on the Judiciary
B-351 Rayburn House Office Building
Washington, DC 20515

The Honorable Tom Marino
Chairman
Subcommittee on Regulatory Reform,
Commercial and Antitrust Law
House Committee on the Judiciary
2138 Rayburn House Office Building
Washington, DC 20515

The Honorable Henry C. "Hank" Johnson
Ranking Member
Subcommittee on Regulatory Reform,
Commercial and Antitrust Law
House Committee on the Judiciary
B-351 Rayburn House Office Building
Washington, DC 20515

Re: H.R. 870, the *Puerto Rico Chapter 9 Uniformity Act of 2015*

Dear Chairman Goodlatte, Ranking Member Conyers, Chairman Marino, and
Ranking Member Johnson:

I appreciate the Subcommittee's decision to hold a hearing on H.R. 870, the Puerto Rico Chapter 9 Uniformity Act of 2015, on February 26, 2015. Although I am unable to attend the hearing in person, this letter expresses my support for this important legislation.

H.R. 870 has one clear purpose: to allow Puerto Rico to authorize its municipalities to initiate cases under chapter 9 of the Bankruptcy Code. When Congress empowered states to authorize their municipalities to adjust debts in chapter 9, it reserved for itself the ability to make bankruptcy relief available to municipalities of Puerto Rico when the need arises. As witnesses at the hearing no doubt will address, the need has arisen. H.R. 870 is well-drafted and addresses the issue directly, making it one of the shortest and cleanest bills in bankruptcy history.

Enactment of H.R. 870, by itself, would not signify the inevitable initiation of a chapter 9 by a Puerto Rico municipality or the nonconsensual adjustment of any debts. The Puerto Rico government would have to specifically authorize any chapter 9 filing and any Puerto Rico municipality that initiated a chapter 9 case would have to satisfy the Bankruptcy Code's stringent eligibility test. Furthermore, even after a

municipality has been found to be eligible, it cannot adjust debts without significant creditor support and without satisfying multiple statutory standards. Chapter 9 is widely and correctly perceived by experts as a last resort. The extremely low rate of chapter 9 filing is a testament to that view. The possibility of bankruptcy, however, forms a useful backdrop to foster consensual negotiations. Without the potential for bankruptcy access, a single well-funded creditor can impede a debtor and the majority of its creditors from reaching a reasonable and fair restructuring deal even when financial exigencies make that compromise the best option. As seen in the sovereign debt context, the leverage of holdout creditors in the absence of a bankruptcy system can distort negotiations, lead to extensive litigation in multiple courts, and impose significant costs not only on the debtor, but other creditors, stakeholders, residents, and the court system. Indeed, Puerto Rico's effort to develop its own restructuring law, the Public Corporation Debt Enforcement and Recovery Act, due to its exclusion from chapter 9, has already generated significant conflict and litigation, and is sure to continue to do so.

Please do not hesitate to contact me if I can provide any further assistance in your consideration of this issue or legislation.

Very Truly Yours,

A handwritten signature in cursive script, appearing to read "Melissa B. Jacoby".

Melissa B. Jacoby
Graham Kenan Professor
University of North Carolina
School of Law