Millions of U.S. citizens reside in the territories of the United States. Historically, the territories have received worse treatment from the federal government than states have, and they currently face special constraints: no access to many federal programs (e.g., Medicaid, Supplemental Security Income, and the Earned Income Tax Credit), only partial representation in Congress, and no representation in the Senate. Long economic downturns, declines in population, and natural disasters have made it extremely difficult or impossible for some territories to bear crushing debt burdens.

Four months after Hurricanes Irma and Maria devastated the U.S. Virgin Islands and Puerto Rico, these territories are struggling to recover. Disaster response and reconstruction have been complicated by the territories’ debt. Few investors are willing to sink money into rebuilding Puerto Rico or the U.S. Virgin Islands if the debt overhang means that the islands have no realistic chance to recover. Congress’s previous attempt to address the Puerto Rican debt crisis—PROMESA—was enacted back in 2016 and was not written to address the devastation of a disaster like Hurricane Maria. It also provides no relief for other territories. A tool that allows U.S. territories to address their overwhelming debt loads would permit them to recover with dignity and build strong economies.

The Territorial Relief Act provides territories that have suffered an extraordinary crisis with a route to comprehensive debt relief and a chance to get back on their feet. The bill gives territories the option to terminate their debt obligations, much in the way U.S. cities and towns can do, if they meet certain stringent legal criteria. If Puerto Rico chooses to terminate its debt load within three years of the Territorial Relief Act being signed into law, this bill contemplates that $15 billion in federal funds will become available to some of the island’s creditors whose holdings were terminated.

**Title I—Territorial Relief:**
- Gives territories the option to terminate their public, unsecured debt, if they meet 2 of these 3 criteria:
  - Population decrease of 5% over 10 years.
  - Received major disaster assistance.
  - Per capita debt exceeds $15,000.
- Provides protection for secured creditors to the extent of the value of their perfected security interests and creates a judicial process for contesting the extent and perfection of security interests.
- Results in debt relief only if either the territory’s governor plus a majority of its legislature, or ⅔ of the territory’s legislature, approve.
- Does not allow a territory to use this debt relief more than once every 7 years.

**Title II—Puerto Rico Debt Restructuring Compensation Fund:**
- Provides federal relief funds to compensate eligible unsecured creditors.
- A special master will allocate those funds.
- $7.5 billion allocated for Puerto Rican creditors whose debt was terminated, including:
  - Puerto Rican residents, banks and credit unions that did business solely in Puerto Rico, the island’s unions and public pension plans, businesses with a principal place of business on Puerto Rico, and anyone else the special master identifies (subject to some exclusions).
- $7.5 billion allocated for mainland creditors whose debt was terminated, including:
  - Individual people, trade unions, pension plans, open-end mutual funds that pledge to waive the manager’s fee for any compensation received, and anyone else the special master identifies (subject to some exclusions).
- Excludes hedge funds and their investors, bond insurers, many financial firms with consolidated assets greater than $2 billion, repo or swaps investors from the distribution.