

Hurricane Maria cut a swath of devastation across Puerto Rico last September, leaving behind the worst disaster in modern U.S. history and millions of Americans in need of help. But for many, help was slow to come — if it came at all.

FRONTLINE and NPR spent seven months investigating the federal government's response to the disaster. The resulting film, *Blackout in Puerto Rico*, exposed the federal government's troubled efforts in Puerto Rico, and the inside story of the storm before the storm: years of neglect and mismanagement coupled with Wall Street dealing that made banks billions but fueled a mounting financial crisis.

After the film, citing FRONTLINE and NPR's reporting, House and Senate lawmakers introduced a bill to create an independent commission to investigate the "flawed" federal response and "botched FEMA contracts" the investigation uncovered. Lawmakers also closed a financial loophole that allowed banks to benefit from looser regulations in Puerto Rico, which FRONTLINE and NPR found had wiped out billions in Puerto Rican wealth on the island.

Days after the hurricane, federal officials were already blaming the intensity of the storm for any delays. But FRONTLINE and NPR obtained hundreds of pages of internal documents and emails that paint a picture of a relief agency in chaos, struggling with key contracts, basic supplies and even its own workforce. Documents showed that half of FEMA's staff on the island were "untrained" or "unqualified." Even more stunning, the agency tasked with rebuilding the power grid — the U.S. Army Corps of Engineers — had no experience doing that type of work.

By zeroing in on emergency sheltering programs, FRONTLINE and NPR examined just how ill-prepared the government was. According to documents obtained by the team, FEMA had pre-positioned less than 12,000 emergency tarps on the island before Maria struck. After the storm, it needed hundreds of thousands to help preserve what was left of people's homes. But in FEMA's rush to acquire them, the agency bungled the process. Our reporting revealed that FEMA contracted with two inexperienced companies that failed to deliver, and then with a third who months later imported the tarps from China — a violation of federal rules. After raising this issue with FEMA in an on-camera interview, the company was suspended.

We also detailed how the signature shelter program — Blue Roofs — was glaringly slow, leaving tens of thousands of homes exposed to the elements for months. We discovered that in the first 30 days after Maria, just 439 roofs were repaired in Puerto Rico, compared to more than 4,500 in the first month after Hurricane Irma hit Florida.

To explain why the storm's destruction was so devastating and widespread, *Blackout in Puerto Rico* dug deeper, investigating Wall Street's role in the island's economic demise — a crisis that left the island exceptionally vulnerable to a storm like Maria. Our reporting traced the decades-long history of the Puerto Rican government's deals with Wall Street, which piled up more and more debt, and left the island's infrastructure in decay. With interviews from two banking insiders who had never spoken publicly, the film exposed the financial industry's role in the

island's crippling debt crisis that wiped out billions of dollars of Puerto Rican wealth. The investigation detailed for the first time how Wall Street banks, in one last mega-deal — the largest municipal junk bond offering in U.S. history — took nearly \$900 million, a quarter of the bond proceeds, to reduce their own financial risk not long before the island went bankrupt.

By examining Puerto Rico's historic relationship with the mainland, its crippling debt crisis and the failure of the federal response after Maria, *Blackout in Puerto Rico* shines a light on a neglected island, confronting endemic poverty, unprecedented destruction and a basic question of not when, but whether, it can recover. With many Puerto Ricans still leaving, the island's future, as the film shows, is largely in the hands of locals like Oscar Carrion. Desperate after living for months in the dark, the local shopkeeper bought an old bucket truck for \$2,500 and began restoring power to his community — even though he had no electrical experience. “We’re tired of hearing, ‘It can’t be done, it can’t be done,’” he told us. “If we don’t do it, nobody will do it for us.”

### **Blackout in Puerto Rico**

Submitted in the Video Category

FILM: Blackout in Puerto Rico: <https://www.pbs.org/wgbh/frontline/film/blackout-in-puerto-rico/>

AUDIO: How Puerto Rico's Debt Created A Perfect Storm Before The Storm:

<https://www.npr.org/2018/05/02/607032585/how-puerto-ricos-debt-created-a-perfect-storm-before-the-storm>

AUDIO: How FEMA Failed To Help Victims Of Hurricanes in Puerto Rico Recover

<https://www.npr.org/2018/05/01/607483473/how-fema-failed-to-help-victims-of-hurricanes-in-puerto-rico-recover>

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# Blackout in Puerto Rico

MAN:[subtitles] It's very difficult to be without water and light. You have to fetch water. The food— we can't have food in our refrigerator because it will spoil without electricity.

WOMAN:[subtitles] We can't watch television—

MAN:[subtitles] Or the news. We are not informed. Everything is difficult.

WOMAN:[subtitles] One feels very depressed.

MAN:[subtitles] We can't endure more time here. There is no hope.

NEWSCASTER:We're looking live at the hurricane slamming the island as we speak—

NEWSCASTER:Maria's massive size dwarfing the island, no part of it spared.

NEWSCASTER:Prayers are needed.

LAURA SULLIVAN, Correspondent, NPR:[voice-over] Hurricane Maria barreled into Puerto Rico last September, the worst storm to hit the island in 90 years.

NEWSCASTER:The region was still rebounding from the last storm, Irma, when Maria rolled in.

Gov. RICARDO ROSSELLO, Puerto Rico: This storm was a tropical storm that all of a sudden, in a span of 36, 48 hours, became a category 5 hurricane.

NEWSCASTER: The winds are ferocious right now, 155 miles an hour.

NEWSCASTER: —ripping buildings apart.

Gov. RICARDO ROSSELLO: I was worried about flooding.

NEWSCASTER: Nine to eleven-foot storm surge, upwards of two feet of rainfall.

Gov. RICARDO ROSSELLO: And I was worried about overall damage in infrastructure and the capability we were going to have to communicate after the storm.

LAURA SULLIVAN: Thousands sought refuge in local shelters. The largest was the Roberto Clemente Coliseum in San Juan.

Mayor CARMEN YULIN CRUZ, San Juan: I remember looking at people, and I knew that there was going to be nothing when they went outside— no electricity, no water. And I knew then that there were people that we weren't going to be able to get. And it is the cries that went unheard that still haunt me at night.

MAN: We survived Maria. We survived Maria.

LAURA SULLIVAN: As the island tried to pick up the pieces—

WOMAN: It's hard. We lost everything.

LAURA SULLIVAN: —the force of the storm was apparent.

WOMAN: It's horrible. You can't do anything, and you're just waiting.

MAN: Please do something!

LAURA SULLIVAN:But the extent of the damage wouldn't be known for days.

Gov. RICARDO ROSSELLO:Once you went inland, it looked like a bomb hit Puerto Rico. It looked like a war zone, complete destruction. Everything was brown instead of green. The infrastructure, the electrical infrastructure in Puerto Rico was severely destroyed.

LAURA SULLIVAN:Maria left the entire island without power. And 1,000 miles from the mainland, marshalling help would be a daunting task.

BROCK LONG, FEMA Administrator:This is the most logistically challenging event the United States has ever seen, and we have been moving and pushing as fast as the situation allows.

LAURA SULLIVAN:Two weeks later, the president touched down to survey the situation.

Pres. DONALD TRUMP:I think that the job of the first responders has been something like I've never seen before.

LAURA SULLIVAN:And he sized up the response.

Pres. DONALD TRUMP:I say we got an A-plus in Texas. We got an A-plus in Florida. And we may have done our best work here, but it hasn't been appreciated.

LAURA SULLIVAN:The president said—

Pres. DONALD TRUMP:Flashlights. We don't need them anymore!

LAURA SULLIVAN:—everything was under control.

NEWSCASTER:FEMA says it has the supplies it needs.

MAN:There's a lot of good things happening.

WOMAN:It is really a good news story.

LAURA SULLIVAN:But there was mounting evidence that all was not going as the government claimed.

NEWSCASTER:They are in stifling heat. They have no water. They have no electricity.

NEWSCASTER:Thousands of cargo containers sitting there, full of supplies but not delivered.

WOMAN:Damn it, this is not a good news story!

LAURA SULLIVAN:It was a complicated story. And as we investigated over the next seven months, we would discover that the devastation in Puerto Rico and the trouble recovering were due to forces far beyond just the wrath of the storm.

2017 was a year of disaster unlike any other. I'd been to Houston after Harvey and traveled through Florida after Irma. The storms had ripped apart communities, and lives.

HOMEOWNER:She doesn't know what she's going to do.

LAURA SULLIVAN:but what I'd seen didn't prepare me for what i would find in Puerto Rico. Four weeks after Maria, we joined the military to see how well the recovery was going. We headed to towns along the northeast coast, areas where the hurricane had hit hard.

We were surprised FEMA and the military were still struggling to provide the most basic needs, a month in, still delivering emergency supplies.

[on camera] What are you seeing as the most important thing that has to get done right now?

Gen. JEFFREY BUCHANAN, Cmdr., U.S. Army Maria  
Response: The short term, from my perspective, is really all about water. We've been distributing food, but many places have plenty of food, but people need clean water to be able to drink and survive.

LAURA SULLIVAN: I thought you were going to say power.

Lt. Gen. JEFFREY BUCHANAN: No. Power's the long term. Power's related to everything because the water problem is directly related to lack of electricity

LAURA SULLIVAN: [voice-over] It was a continuing crisis, according to the local mayor in Luquillo.

LAURA SULLIVAN: [on camera] What do you need to make the water work?

Mayor JESUS MARQUEZ RODRIGUEZ, Luquillo: We just need electric generator.

LAURA SULLIVAN: How many generators?

Mayor JESUS MARQUEZ RODRIGUEZ: Just seven. Just seven.

LAURA SULLIVAN: You need seven generators—

Mayor JESUS MARQUEZ RODRIGUEZ: Seven generators.

LAURA SULLIVAN: —and you can provide water for all of your people?

Mayor JESUS MARQUEZ RODRIGUEZ: For all our people, that's right.

LAURA SULLIVAN: [voice-over] But it turns out those generators were nowhere to be found.



THOMAS VON ESSEN, FEMA Regional

Administrator: They're hard to get. We had hurricanes in Texas and Florida. They have to be specifically ordered. They have to be engineered and created in the States or somewhere. So all of that's taking longer than everybody would like, but it's because of the two other hurricanes and because it's an island.

LAURA SULLIVAN: We heard that a lot, the logistical challenges of getting help to Puerto Rico. And traveling from town to town, we saw the hardship of those delays, a third of the island still without running water.

[on camera] What are you hearing about when you might get water?

HOMEOWNER: [subtitles] No, haven't heard anything.

LAURA SULLIVAN: [voice-over] Entire lives piled high in roadside rubbish, nearly half a million homes damaged or destroyed.

HOMEOWNER: [subtitles] Everything upstairs and downstairs.

LAURA SULLIVAN: [on camera] It's ruined!

[voice-over] Eighty percent of the island remained in the dark. And as families waited for help—

[on camera] Oh, my God! Look at this!

[voice-over] —they were living in homes that were shells of what they once were.

As we tried to figure out why the recovery was taking so long, we headed to the eastern mountains, where we found the man tasked with turning the lights back on.

[on camera] How many homes in Puerto Rico are you guys powering?

JOSE SANCHEZ:We're trying to power the entire island.

LAURA SULLIVAN:[voice-over] Jose Sanchez is with the Army Corps of Engineers. He was shocked at what he'd found, not just the number of power poles that went down.

JOSE SANCHEZ:We're talking 60,000 poles.

LAURA SULLIVAN:[on camera] You have to replace 60,000 poles?

JOSE SANCHEZ:That's our estimate.

LAURA SULLIVAN:[voice-over] But also the condition of the entire electric grid.

JOSE SANCHEZ:It's the worst I've seen.

LAURA SULLIVAN:[on camera] Ever?

JOSE SANCHEZ:In my 22 years as an engineer.

LAURA SULLIVAN:Where did things break down here?

JOSE SANCHEZ:It was very weak, even before the storms. You have generation issues. We had power line issues. We have age of the infrastructure issues. So all those things create the problem we have now.

LAURA SULLIVAN:[voice-over] That problem was strikingly visible at the island's aging power plants, like this one, Palo Seco, just outside San Juan.

JOSE SANCHEZ:These power plants, which are obviously the heart of the system—

LAURA SULLIVAN:[on camera] OK.

JOSE SANCHEZ:They're the ones who pump out the blood, if you will.

LAURA SULLIVAN:[voice-over] Palo Seco's been pumping out electricity for more than 50 years, and Sanchez found that its upkeep had been neglected for decades.

[on camera] Is this thing going to break?

JOSE SANCHEZ:Without a doubt, the system is very fragile. It's a lot of conditions that are related to lack of investment. The infrastructure of the entire system is really in bad condition.

LAURA SULLIVAN:Like what? What do you mean?

JOSE SANCHEZ:You can see there's a lot of rust on the parts. There's elements that have not been replaced in years. There's literally just lack of operations and maintenance investments. Puerto Rico is in dire need of not only power plants, but a reconstruction of the grid itself.

LAURA SULLIVAN:[voice-over] And it wasn't just the power grid. We saw vital infrastructure all over the island — water pumping stations, bridges, levees, roads — also starved for upkeep and investment, leaving Puerto Rico vulnerable to the one thing that was sure to come, a major storm.

The more time we spent here, the more it became clear that Maria was a story about two disasters, one natural, one man-made, and the culmination of widespread neglect that traces back more than a century.

NEWSREEL:The timeless surf pounds this Caribbean shoreline of what Christopher Columbus dubbed El Puerto Rico, the rich port.

**LAURA SULLIVAN:**The United States took possession of Puerto Rico in 1898, a conquest of the Spanish-American war.

**EDWIN MELENDEZ,** Ctr. for Puerto Rican Studies, Hunter College:This is when the United States thought to expand their sphere of influence. And some people call it the imperial period. They went to Panama and they expanded through Latin America, so Puerto Rico was sort of a military base for strategic reasons.

**LAURA SULLIVAN:**The U.S. wanted the island, but was less certain about its people.

**SERGIO MARXUACH,** Center for a New Economy, San Juan:There were explicitly racial theories as to why Puerto Rico should not be allowed the same rights— because we were not fit, quote, unquote, for self-government. The Supreme Court put it in a very succinct way. Puerto Rico belongs to but is not part of the United States. So it's like your wallet. Your wallet belongs to you, but it's not part of you, right? So we're essentially property, and that decision is still good law.

**LAURA SULLIVAN:**From early on, Puerto Ricans were given us citizenship, but not full constitutional rights. They serve in the military but can't vote for the president. Under tax law, Puerto Rico is a foreign entity. Yet under maritime law, it's part of the U.S.

**EDWIN MELENDEZ:**Over the years, the one dominant theme in the relations between Puerto Rico and the United States is the inconsistency of American policy towards the territory.

**NEWSREEL:**Sugar cane, backbone of the island's economy—

**LAURA SULLIVAN:**For decades, American companies profited from the island's cheap labor supply and tourists flocked to its beautiful beaches.

**NEWSREEL:**Welcome to Puerto Rico! You'll enjoy native barbecues, golf, tennis, swimming or relaxing and enjoying the sights.

**LAURA SULLIVAN:**But less seen was Puerto Rico's deep poverty.

**NEWSREEL:**Puerto Rico, known as the poorhouse of the Caribbean.

**SERGIO MARXUACH:**Many people find it uncomfortable to admit or to accept the fact that the United States actually had colonies at some point, and some people say they still have in the case of Puerto Rico. And I think deep down, it goes against the grain of the American character, the whole idea of having citizens with a different set of rights, you know, in general, it's very strange.

**LAURA SULLIVAN:**In the 1970's, the economy was struggling. Congress created a special tax break to attract investment to the island. It was called 936. Companies that did business in Puerto Rico could avoid paying taxes on their earnings. It sparked an influx of manufacturing and jobs and helped build a middle class.

But the economic boom wouldn't last. In 1996, Washington ended the tax break.

**EDWIN MELENDEZ:**When that 936 tax credits were phased out, the industry started cutting jobs, and the tax base of the Puerto Rico government was eroded. And as that happened, they needed to either reduce the size of the government or borrow money.

**LAURA SULLIVAN:**With its economy heading into recession, the government's efforts to cut spending created an uproar. So instead, it kept borrowing money to cover its deficits, with one governor after the next piling up more and more debt.

[on camera] So from 2006 to 2014, what was that like here?

**SERGIO MARXAUCH:**It was crazy. The government was borrowing at an incredible clip. It was—

**LAURA SULLIVAN:**So this debt is getting higher and higher.

**SERGIO MARXAUCH:**Higher and higher, and the ability—

**LAURA SULLIVAN:**The economy is shrinking.

**SERGIO MARXAUCH:**Yeah, is shrinking. We said, “Look, we cannot tell you at what point the music's going to stop, but we can tell you the music will stop at some point. This thing is not sustainable. This is going to explode.”

**LAURA SULLIVAN:**[voice-over] The cycle of constant borrowing relied on a place I didn't expect to be going for a story about Maria, New York City. That's where Puerto Rico found a financial lifeline in the municipal bond market, or what insiders call “muniland.”

**CATE LONG, Puerto Rican Bond Specialist:**Muniland compared to the general financial market is like a backwater. It's very slow. Most of the bonds are very secure. There's almost no risk of default. So they're appropriate for, you know,

your child's college account or your grandmother's retirement account.

**LAURA SULLIVAN:**Bonds are IOUs. People buy them and they get paid back later with interest. And municipal bonds are a common way states and cities raise money they need. It's become a huge market, \$3.8 trillion last year. And because Puerto Rico isn't a state, it has a special advantage in selling its bonds.

**CATE LONG:**A New Yorker can't buy a California bond and exempt the tax. Puerto Rico can sell their bonds all across America, and everybody gets tax exemption on the interest.

**LAURA SULLIVAN:**[on camera] Does that make Puerto Rican bonds very attractive?

**CATE LONG:**Highly attractive.

**LAURA SULLIVAN:**[voice-over] Attractive to investors for their tax benefits, and they were relatively safe. And also attractive to banks, which put the deals together and then sell the bonds to investors, like pensions and mutual funds.

**SERGIO MARXAUCH:**Fund managers, they will not admit this now, but when Puerto Rico was selling debt like pancakes, they loved Puerto Rico debt. Why? You would put in these Puerto Rico bonds into your portfolio, and since they had slightly higher interest rates and no taxes attached to them, you immediately looked like a genius, right? You just bumped up the entire return for the entire portfolio. That's your bonus, right? That's your new Mercedes, your new yacht.

**LAURA SULLIVAN:**But in time, these bonds would become surprisingly risky, and there were signs that this wasn't going to end well for Puerto Rico or investors.

We reached out to major banks involved in putting Puerto Rican bond deals together. None would agree to an interview.

[on camera] Has anybody come forward from inside these banks to talk about what was really going on?

**SERGIO MARXAUCH:**No. It's a very close-knit world, right, in Wall Street, and you know, the tendency is just to keep quiet and keep working.

**LAURA SULLIVAN:**In a small office building in San Juan, I found a former bank insider from that close-knit world. He's speaking publicly for the first time about Wall Street's role in the island's economic demise. For more than 25 years, he worked with UBS, the biggest wealth management firm on the island.

His name is Carlos Capacete, and he rose through the ranks to run the bank's largest office in Puerto Rico.

**LAURA SULLIVAN:**[on camera] OK. so take me back to the '90s. What was it like at that time?

**CARLOS CAPACETE, Former UBS Branch Manager:**Oh, it was great. All the New York banks were here in Puerto Rico. There was a lot of activity. There was money flowing. I was managing about a \$3 billion dollar book.

**LAURA SULLIVAN:**[voice-over] Capacete spent most of his career working here, along what's called the "golden mile," where all the big business and banking deals get done.

**CARLOS CAPACETE:**All the major banks in New York would come to Puerto Rico on a regular basis to pitch deals, and they'd bring in, "Listen, we can do an additional \$200 million,"



an additional \$500 million, and that's how the deficit was financed, with all these additional monies.

LAURA SULLIVAN:[on camera] So what's in it for the banks? What do they get out of it?

CARLOS CAPACETE:Oh, on a typical deal, the investment bankers will charge a structured fee, an administrative fee, and all these other fees to get the deal done. Then the banks would go and sell these bonds and make a commission.

LAURA SULLIVAN:Sounds like a long line of people that can make some money.

CARLOS CAPACETE:This is kind of like a money-making machine. You're— as long as there are transactions coming and going, the banks and the financial advisers are making money. They're making a ton of money.

LAURA SULLIVAN:[voice-over] But there were other lucrative deals getting done here, too, not just between the government and the banks but also between the banks and ordinary investors.

[on camera] You must be Ram. I'm Laura Sullivan. Nice to meet you.

RAM LAMBA:Nice to meet you.

LAURA SULLIVAN:Pilar, nice to meet you.

[voice-over] For more than 30 years, Ram Lamba and his wife, Pilar, were university professors. They'd regularly saved money for retirement, and in 2004, Ram was offered an investment opportunity with UBS.

[on camera] Oh, how beautiful!

RAM LAMBA:I met this young fellow at UBS, who said, “Listen, why don’t you put this money in the Puerto Rican bonds? These bonds are protected by the constitution of Puerto Rico.” I said, “My God, what else can I ask for,” you know?

LAURA SULLIVAN:And the clouds roll in.

[voice-over] After a number of years he moved all his retirement savings to UBS, more than \$350,000. And then in 2011, his broker made him an offer.

RAM LAMBA:He said, “I can give you a collateral loan for a million dollars.”

LAURA SULLIVAN:He said, “I’m going to give you a million-dollar loan.”

RAM LAMBA:a loan. And you invest that money in more bonds, Puerto Rican bonds, and then—

PILAR LAMBA:Buy more bonds.

RAM LAMBA:Buy more.

LAURA SULLIVAN:And buy more bonds.

RAM LAMBA:That’s right. And I said, “I don’t think I can handle that. Let’s go to half a million.”

LAURA SULLIVAN:What were your thoughts when he proposed this idea to you?

RAM LAMBA:That this is something unique. I really made it for my retirement, and this is great.

LAURA SULLIVAN:[voice-over] What Ram Lamba says he didn’t know is that UBS had invested his money into special bond funds that were riskier than what’s allowed on the

mainland and that inside the bank, concerns were growing that those funds were in trouble. Yet UBS kept pressing brokers to sell them.

**CARLOS CAPACETE:**There were some hard-line tactics to sell the funds. You know, like, “Go out and get them. Let’s go. You got to sell these funds.” They were just trying to push the bond funds to whoever— whoever had a heartbeat.

**LAURA SULLIVAN:**Capacete says he got wind of a secret trick some brokers had devised to boost bond sales and skirt bank policies. It involved loans.

**CARLOS CAPACETE:**One day, this client comes up to me and tells me, “Hey, you know what? Are you aware of what they’re doing in this other branch?” And I said, “Tell me.” And he told me the scheme. They were taking out the loan. The adviser was telling them to take the money to a local bank.

**LAURA SULLIVAN:**[on camera] A different bank.

**CARLOS CAPACETE:**A different bank. Keep it there for one or two weeks. Bring back a similar amount and use it to buy more Puerto Rico bond funds. They were kind of, like, washing the money.

**LAURA SULLIVAN:**OK.

**CARLOS CAPACETE:**It is unethical. It’s against the bank’s regulations. And it puts the client in a really, really tough risk situation.

**LAURA SULLIVAN:**[voice-over] Capacete complained to UBS managers, but heard nothing. And then finally, after nearly a year, he got a visit from UBS compliance officers in the U.S.

He says they called him into a conference room and said they'd found no evidence that brokers were misusing loans.

CARLOS CAPACETE: And I jumped up and I said, "You're kidding, right?" You know, "This is a joke?" And I said, "What did you do?" And one of them, she was very— and I remember these words— you know, said "What would you have done?"

LAURA SULLIVAN: She said that to you.

CARLOS CAPACETE: And I stood up and I told her "Look at the big accounts and follow the money. That's all you have to do."

LAURA SULLIVAN: Why do you think the bank would want to turn a blind eye to something like this?

CARLOS CAPACETE: Because it was profitable. And I was the one that was— how do you say it in Spanish? Arruinando la fiesta. I was the one that was spoiling their party.

LAURA SULLIVAN: [voice-over] That party ended in 2013. There were growing concerns that the government couldn't pay back all the bond debt it had taken on. The value of Puerto Rican bonds began to plummet. Ram Lamba eventually got a call in to his broker's office. It was about that half-a-million-dollar loan.

RAM LAMBA: He said, "I need that money back." I said, "What do you mean, you need that money back? I don't have that kind of money." He said "Day after tomorrow." I said, "What? In two days, I have to pay?" And when I told her— we were both in shock.

**LAURA SULLIVAN:**He was given a week to pay back the loan. But as bond prices kept falling, he says he lost much of his retirement savings.

**RAM LAMBA:**They knew these bonds were no good, and they were selling it. They deceived so many people. It's not my fault, you see, that they were doing this hanky-panky thing, but they played with me. They played with my sentiments, you see, and that's what I don't like.

**LAURA SULLIVAN:**UBS declined to be interviewed, but pointed to a separate case where the SEC found it didn't mislead its clients. The bank said the loan terms were disclosed, and its investigation found one broker violated UBS policies. As for its former employee, Carlos Capacete, it called him disgruntled and said he'd sued the company.

Though they didn't acknowledge wrongdoing, UBS and four other banks were fined by industry regulators for practices that failed to protect their Puerto Rican clients. Billions of dollars of wealth on the island had been wiped out. And after years of rampant borrowing, the government's financial viability was being wiped out, too. The island was spiraling toward default.

**NEWSCASTER:**Seven years of recession, chronic deficits, lots of borrowing. Now Puerto Rico owes more than \$70 billion.

**CATE LONG:**The government story was always, "We're going to reduce the spending this year," right? "We're going to raise more money." You know, "We're going to get this under control." And, well, they never did.

Gov. RICARDO ROSSELLO:Unfortunately, the government of Puerto Rico was run as a big Ponzi scheme. And what you had was essentially a black box of a government running that had no clarity as to what was being borrowed and— or what was being spent.

LAURA SULLIVAN:By early 2014, Puerto Rico's bonds had been downgraded to junk status. But the government, desperate once again, turned to muniland.

OFFICIAL:We've hired plenty of good financial advisers, legal advisers, and—

LAURA SULLIVAN:And despite the island's economic woes, bankers raised \$3.5 billion, mostly from hedge funds. It was the largest bond offering of its kind in U.S. history.

NEWSCASTER:Would you put this bond in your mother's portfolio?

BANKER:Of course.

NEWSCASTER:Really?

BANKER:Yes.

SERGIO MARXAUCH:There's a famous picture at Morgan Stanley of the entire Puerto Rico financial team celebrating. They had their hands up. They were smiling. You could tell from the body language. And I said, "I don't know exactly what we are celebrating here. This is not good."

LAURA SULLIVAN:The celebration didn't last long. Just 15 months later—

NEWSCASTER:Late today, Puerto Rico, home to nearly 4 million Americans, defaulted on its largest debt payment so far.

**NEWSCASTER:**We're calling it America's Greece, and for very good reasons. The fact is, Puerto Rico, yes, they have just run out of other people's money.

**Former Puerto Rico Gov. GARCIA PADILLA:**And let me put this very clear. We are out of cash.

**LAURA SULLIVAN:**Within a year, Congress put Puerto Rico on a path to bankruptcy and under the financial control of an oversight board.

But we kept wondering, why would the banks do a \$3.5 billion deal with an island on the verge of default? The banks said they were trying to help Puerto Rico manage its finances, but we talked to half a dozen people who either worked on the deal or were close to it. What they said is that this deal seemed to be more than just a bond deal. It was also an exit strategy— for the banks.

None of those we talked to would agree to go on camera. And then we finally found one former bond broker who would.

**AXEL RIVERA, Morgan Stanley, 2013-17:**I started back in 1983 in Wall Street.

**LAURA SULLIVAN:**Axel Rivera was at Morgan Stanley when the record 2014 bond deal was done. He says that as the island got closer and closer to default, banks were getting nervous.

[on camera] What were you told specifically by bankers that you worked with at Morgan Stanley about why they did the deal?

**AXEL RIVERA:**They wanted to try to get as much as they could of their exposure out of their books.

LAURA SULLIVAN:Your colleagues at Morgan Stanley—

AXEL RIVERA:Yes.

LAURA SULLIVAN:—told you that they had exposure to risk at that time.

AXEL RIVERA:That they had much more than what they wanted, and they needed to unwind that.

LAURA SULLIVAN:[voice-over] That exposure was huge. We discovered the banks had hundreds of millions of dollars tied up in Puerto Rican debt, and bond documents show almost a quarter of this deal went to pay them back, nearly \$900 million to pay loans, pay fees or eliminate other risk for banks directly involved.

[on camera] They needed the 2014 bond to get them out.

AXEL RIVERA:That is correct.

LAURA SULLIVAN:Then who gets left paying the bill?

AXEL RIVERA:The bond holders, whomever they are. The banks get out, and everybody else gets stuck with the bill.

LAURA SULLIVAN:[voice-over] None of the banks that put the deal together would agree to an interview, but a few of them sent statements noting that the government of Puerto Rico approved the bond and that the banks didn't have any influence over how the government used the bond proceeds.

Morgan Stanley, one of the lead banks, told us the terms of the deal were fully disclosed to investors and it extended an additional \$250 million in credit to Puerto Rico eight months after the bond.



Still, investors in the 2014 deal and many other bond deals over the years have been left trying to get their money back, like Ram Lamba, who's suing UBS.

[on camera] So the fear then is that you would lose this [inaudible]

RAM LAMBA:Yes.

LAURA SULLIVAN:Do you guys think you'll ever get your money back?

RAM LAMBA:I don't think so. I don't think we'll ever get that money back. You strangle yourself thinking about, "Why did I— what did I do?" And I tell her I think my karma are no good.

LAURA SULLIVAN:You think that?

RAM LAMBA:If you believe in karma and law of karma, in some other life, I must have made something wrong because I don't recollect, to be very honest with you, that in this life, I did anything to hurt anyone.

CARLOS CAPACETE:In Puerto Rico, the crisis is, "Look at what the Puerto Ricans did." Nobody talks about Wall Street, or very few people talk about what Wall Street did. And I suppose I'm part of Wall Street. I don't know. But the bonds that were sold that created the huge \$74 billion bond debt in Puerto Rico was sold using all the investment bankers in Wall Street. They would come down and pitch the deals, and they knew they were doing deficit financing and they knew that they were increasing that amount and they knew that the economy was shrinking.

And if the banks would have been responsible and would have said, "Hey, listen, you can't borrow this amount, so we're

just going to limit this to that,” we wouldn’t be in this place right now.

**LAURA SULLIVAN:**[voice-over] The debt crisis had left the island dangerously vulnerable. Basic services and infrastructure had been chronically neglected. More than ever, Puerto Rico needed a federal government ready to help.

But in the many trips we made here after Maria, we began to realize not only was the island unprepared, so was the federal government. Four months after the storm, we found a community doing what it could to try and rebuild, and we met one of its leaders, Jossie Lozada.

She’d taken it on herself to set up a relief center handing out donated clothes right in front of where her house used to be.

**JOSSIE LOZADA:**[subtitles] That’s my house. That’s what was once my house.

**LAURA SULLIVAN:**[subtitles] This was your house?

**JOSSIE LOZADA:**[subtitles] This was my house.

**LAURA SULLIVAN:**Oh, no.

**JOSSIE LOZADA:**[subtitles] I had the kitchen over there, the living room—

**LAURA SULLIVAN:**[voice-over] It didn’t look like it, but Jossie is actually one of the lucky storm survivors.

[on camera] Did you get any help from the federal government?

**JOSSIE LOZADA:**[subtitles] Yes. I had to go through four inspections. I thank God that I had an inspector that understood my need. FEMA gave me the maximum.

LAURA SULLIVAN:[voice-over] FEMA had given her its maximum amount of assistance, \$33,300, enough for her to rebuild her home. But the amounts FEMA has handed out have varied.

[on camera] How about your friend? How much did your friend get?

JOSSIE LOZADA:[subtitles] Look, he's still living in a car. They gave him \$6,000. It makes me angry.

LAURA SULLIVAN:[voice-over] So far, only half of those who applied for FEMA help are getting any. That's largely because people don't have the property records the agency requires.

[on camera] When you said that part of you — it makes you angry, what is it that makes you angry, feel angry?

JOSSIE LOZADA:[subtitles] That I still see that practically my whole community is sleeping on their balconies. There are people living in shelters. There are people living in their cars, that my community has emptied out because everyone is leaving!

LAURA SULLIVAN:The months of waiting for help were taking a toll in communities all across the island.

ALICE THOMAS, Refugees International:A lot of people in this community, even though we're close to San Juan, haven't received assistance yet.

LAURA SULLIVAN:On one of our trips, we met Alice Thomas—

ALICE THOMAS:And we can talk to her and ask her why that is—

LAURA SULLIVAN:—an expert on disaster response with Refugees International.

ALICE THOMAS:This is her house here.

LAURA SULLIVAN:We joined her as she visited storm victims, checking on the pace of recovery.

LAURA SULLIVAN:[on camera] Oh, boy.

ALICE THOMAS:So you can see, no roof.

LAURA SULLIVAN:[voice-over] Thomas has worked disaster zones around the world— Pakistan, the Philippines, Haiti, Somalia.

ALICE THOMAS:We were pretty surprised to see how slow the response was, compared especially to major emergencies I've seen in foreign countries. For me, the Philippines comes to mind. The response here was much slower.

LAURA SULLIVAN:[on camera] The response here was slower?

ALICE THOMAS:Slower.

LAURA SULLIVAN:Than it was in the Philippines.

ALICE THOMAS:After Haiyan, yeah.

LAURA SULLIVAN:Wow!

ALICE THOMAS:And here we couldn't get over particularly how bad the shelter response was. And that was something we really were focusing on.

LAURA SULLIVAN:[voice-over] Along the east coast, in Yabucoa—

ALICE THOMAS:We were here two months ago—

LAURA SULLIVAN:—we stopped in to see Sara Navarro and her husband. Since Alice saw them last, the federal government had helped put up a temporary roof. But it came more than two months after the storm.

LAURA SULLIVAN:[on camera] Oh, is this from water?

ALICE THOMAS:Is the water still leaking down, Sara, into your room?

LAURA SULLIVAN:Yes.

ALICE THOMAS:Oh, my gosh!

SARA NAVARRO:When it rain, it's coming through.

ALICE THOMAS:The longer people and their homes are exposed to the elements, the more at risk they are, the more at risk their health is, and the more their home is lost. So homes that here were salvageable if they had just gotten some decent tarpaulin—

LAURA SULLIVAN:To keep the rain out—

ALICE THOMAS:—to keep the rain out, within— you know, right away, within a week, would've been largely salvageable.

ALICE THOMAS:What about mold? Are you worried about mold?

SARA NAVARRO:Si. Look.

LAURA SULLIVAN:And how quickly do we usually get tarps out when we're—

ALICE THOMAS:So we usually try to do that very quickly. I mean, if you can get access to a community, you're bringing tarps.

LAURA SULLIVAN:Why could the U.S. government not get that done here in Puerto Rico, in the United States of America?

ALICE THOMAS:I do not know. I mean, according to people who were working on the ground the whole time, they said, quote, unquote, “The whole tarpaulin thing is a mystery.”

LAURA SULLIVAN:A mystery.

ALICE THOMAS:A mystery. Why they couldn’t distribute tarps, I do not know.

LAURA SULLIVAN:[voice-over] That was a mystery we were trying to unravel. Why was a such a basic staple of emergency response, like tarps, not readily available on the island?

We got our hands on internal FEMA documents and communications. They showed that when Maria hit, key emergency supplies were dangerously low or not available at all. And as for tarps, FEMA had less than 12,000.

[on camera] Were you satisfied as the person in charge of this in Puerto Rico that you had the tarps that you needed?

MICHAEL BYRNE, FEMA Coordinating Officer, Puerto Rico:I’m never satisfied, OK? And I don’t— I never look at it as one single piece, OK?

LAURA SULLIVAN:Did you have a problem getting tarps?

MICHAEL BYRNE:We had problems getting everything. When you have to ship it, when you have to add seven days or sometimes longer to everything that you want to bring in. so it is— yeah, it’s definitely a challenge.

**LAURA SULLIVAN:**[voice-over] With such a small stockpile and nearly half a million homes damaged or destroyed, FEMA needed hundreds of thousands of tarps, and needed them fast. So it contracted with a small company called Bronze Star to bring in 500,000 tarps. But Bronze Star had no experience working disasters or delivering tarps. And it didn't work out.

[on camera] The first contract that you canceled was Bronze Star. That was a \$25 million contract. Do you have any insight into why they were even chosen in the first place?

**MICHAEL BYRNE:**What I know is that we followed our procurement practices. And they're very rigid. But if they don't perform, we cancel and we move on.

**LAURA SULLIVAN:**Next up was Global Computers for \$30 million. Their last federal contract was for \$4,000 for kitchen utensils for federal prisons. That one didn't work out, either. Do you have any insight into what happened with that one?

**MICHAEL BYRNE:**No. The only thing I do know is that in every single one of these contracts, we follow our federal procurement guidance, and if they pass that, we'll give them a shot.

**LAURA SULLIVAN:**[voice-over] The next company to get a shot was a small Atlanta firm called Master Group. Its speciality? Importing hookah tobacco.

[on camera] And then Master Group finally for \$30 million did get the tarps. Do you know why or how they were able to get tarps onto the island when the other contractors couldn't?

**MICHAEL BYRNE:**They're good at what they do. I— you know, I don't know what would have made them different.

**LAURA SULLIVAN:**[voice-over] We found one possible reason by looking through import records. It turns out that most of the tarps Master Group brought in came from China. None of the tarp companies would agree to an interview, but one company executive—

[on camera] You wanted to import the tarps from China?

[voice-over] —told me that FEMA wouldn't allow their company to import tarps from China. It's a violation of federal contracting regulations.

[on camera] Is that OK or not OK, to import tarps from China?

**MICHAEL BYRNE:**I'll let my contracting officers answer that question. This is the first time I'm aware of that issue, that it's something about Chinese tarps or China tarps. It's the first time it's been brought to me.

**LAURA SULLIVAN:**Would it frustrate you to find out that two of your contractors were told that they could not import tarps, and then finally, the third contractor just goes ahead and does it, brings the tarps from China, and that this entire process now has lasted months when it could have lasted weeks?

**MICHAEL BYRNE:**If we had 2,000 contracts, which is I believe— and it may not be full— it might have been 1,900 and something contracts that we've all successfully executed. We had a couple of ones that didn't work out well and we dealt with it, OK?

**LAURA SULLIVAN:**But these are the tarp contracts. How are you not frustrated by that?



**MICHAEL BYRNE:**I'm frustrated by everything that the disaster brings, and I continue focus on getting it solved. And so if one path didn't work, I follow another path to get it done.

**LAURA SULLIVAN:**[voice-over] There was another key program to help with shelter. This one's run by the Army Corps of Engineers. It's called Blue Roofs.

**Lt. Gen. TODD SEMONITE, Cmdr., U.S. Army Corps of Engineers:**And we're on the road again. Today, we're really here to look at what's called the Blue Roof mission. Before I get into that, I want to—

**LAURA SULLIVAN:**The Blue Roof program provides storm victims with a sturdier, temporary roof to help them get back home. But this program was having troubles, too.

[on camera] Did you have the supplies that you needed on the island to do the Blue Roof program after the storm hit?

**Lt. Gen. TODD SEMONITE:**The answer is no because a lot of the supplies that were stored— some of the supplies in Puerto Rico got sent to the Virgin Islands after Irma. So this is FEMA's challenge. It's nice to be able to have as much as you possibly can before the storm, but at some point, you've really got to figure out where's that storm going to hit and how do you go as fast as you can once you know.

**LAURA SULLIVAN:**[voice-over] FEMA documents indicate that when Maria struck, there was no plastic sheeting on the island for the Blue Roof program. And an internal review by the Puerto Rican government found that after three months, only about 45 percent of those that asked for a Blue Roof had gotten one.

It said the program was plagued by bureaucratic delays, a lack of pre-planning and continually fell short of promises and expectations. When we checked the numbers, we found a glaring disparity.

[on camera] I mean, after 30 days in Florida, you had 4,500 Blue Roofs up. And in Puerto Rico, after 30 days, you had 439.

Lt. Gen. TODD SEMONITE: Yeah, I think it goes back to how much material you have. Almost all the warehouses were empty. So when we hit, the amount of available supplies, either generators, Blue Roof material, whatever it might be, were just not there to be able to respond in an effort that would have probably been something that could have got us more of a jump start.

LAURA SULLIVAN:[voice-over] The level of response was definitely a stark contrast to what I'd seen in Houston after Harvey and Florida after Irma, where the government seemed far better prepared.

[on camera] Has FEMA been good, been helping out?

MAN: Wonderful.

LAURA SULLIVAN:[voice-over] Just over a week after the storms hit, the federal government had three times as many people on the ground in Texas and twice as many in Florida as it did in Puerto Rico.

Local emergency managers on the mainland were well financed and ready to respond. Nine days into the disaster, federal officials had handed out, on average, twice as much water and more than four times as many meals and tarps in Houston and Florida.

[on camera] Is there any reason to believe that supplies were better pre-positioned in Harvey in Texas and in Irma in Florida than they were in Maria in Puerto Rico?

**MICHAEL BYRNE:**I don't think so. I think what we need to evaluate is whether we had enough. I do know we had supplies. I do know we had— but did we have enough for a Category 4 storm?

**LAURA SULLIVAN:**Right.

**MICHAEL BYRNE:**Probably not.

**LAURA SULLIVAN:**[voice-over] FEMA's own documents point to problems beyond supplies. At the time of Maria, the agency was stretched so thin, half of its staff on the island were trainees or unqualified for this kind of disaster work. One government email described the troubles with shipping. "We cannot survive any longer with any delay of material. I need solutions."

And while there was controversy about Puerto Rico hiring a company called White Fish that had no experience restoring power grids, few knew that the federal government had done a similar thing.

**Lt. Gen. TODD SEMONITE:**All of a sudden, about the eighth day in, the administration asked us to be able to step up and to be able to take on this mission of grid repair. But it is not something that we even planned on doing in any kind of a disaster. We don't do grid repair usually, normally, doctrinally. So then when you've got the mission, the question is, how long does it take to write a contract? We can't afford that process.

LAURA SULLIVAN:To expedite the process, the Corps turned to one of its largest standing contractors, Fluor, a company with experience building power plants but no experience putting power grids back together.

[on camera] And were you satisfied with them?

Lt. Gen. TODD SEMONITE:I was satisfied with them. Now, you're going to ask me —

LAURA SULLIVAN:I am going to ask you—

Lt. Gen. TODD SEMONITE:—“Why should it take seven months to get Puerto Rico up and running?”

LAURA SULLIVAN:Why is it taking seven months to get Puerto Rico up and running?

Lt. Gen. TODD SEMONITE:I'm not satisfied with the level of response that it takes to get people electricity. However, when you understand the level of devastation and the fact that this system was 40 to 45 years old, been broken already by a couple of different storms— here's the other thing, Laura -

LAURA SULLIVAN:But given all of those challenges and difficulties, is seven months for power restoration the best that the Corps can do?

Lt. Gen. TODD SEMONITE:I think in this particular occasion, with the challenges we had, I think it was the best the Corps could do.

LAURA SULLIVAN:You know, you've got a Blue Roof program that's months behind. You've got hundreds of thousands of tarps that never arrived. You've got a power restoration company that has no experience restoring power. You've got material stuck on docks in Florida and Puerto

Rico. You've got a quarter of your workforce unqualified. How is any of this OK?

**MICHAEL BYRNE:**First of all, I don't agree with all of your characterizations of the situation there and that I think we've done a lot of support. Like, how can you look at the fact that we gave a billion dollars in assistance out, that we've given out 62 million liters of water, 52 million meals to the people—how can you categorize that as not providing assistance? I find that that doesn't connect.

**LAURA SULLIVAN:**Because at the end of the day, you have three and a half million Americans who spent months in the dark, sometimes without water. Is this really the best that FEMA can do?

**MICHAEL BYRNE:**I constantly look to get better. But you know, if there's a villain here, OK, if there's a thing, it's the 190-mile-an-hour winds and the 50 inches of rain. That's the villain. That's what did the damage to the people. We've done nothing but try to remedy that. You've found a number of places where we weren't perfect. I'll accept that. Bring it on, OK? I'm going to keep working to get better.

**LAURA SULLIVAN:**[voice-over] Seven months after Maria, more than 100,000 Puerto Ricans are still without power and the island is routinely experiencing outages. As for those tarps, FEMA told us recently that it had suspended Master Group's contract because of quality issues, but it insists it now has 200,000 tarps on the island.

Hurricane season starts in a month.

The focus in Puerto Rico has shifted now to long-term recovery and the estimates for rebuilding run as high as \$90

billion. So far, Congress has approved nearly \$30 billion, but lawmakers say they're reluctant to hand out more until they see evidence that the island can better manage its fiscal affairs.

[on camera] People have said, "If Puerto Rico can't handle its own finances, why should we come and help them if they can't keep their own house in order?"

Gov. RICARDO ROSSELLO:Because this is about fair treatment of the U.S. citizens that live in Puerto Rico. And secondly, it doesn't take into consideration the fact that while there may have been, and there has been poor administration in the past, it is also the aftermath of being a territory.

LAURA SULLIVAN:Do you think that the treatment of Puerto Rico has really changed in all these years?

SERGIO MARXAUCH:No, not really, unfortunately. And we're seeing that right now. A lot of people are leaving the island for reasons that I can totally understand.

LAURA SULLIVAN:Do you think you'll stay?

SERGIO MARXAUCH:I have no idea, but I certainly have to think about my options. I'm not going to lie. The main worry that I have is my children.

LAURA SULLIVAN:If people like you leave and the federal government continues down the path that it's on, what will the future look like for Puerto Rico?

SERGIO MARXAUCH:It will be bleak. If we don't get the help we need from the federal government and we lose people in their prime working years, as is happening right now, we're going to have a very tough time generating the economic

activity we need. And we're going to end up with a place that's probably full of very old people and a lot of very poor families. It would be a very desolate place to live.

**Mayor CARMEN YULIN CRUZ, San Juan:**I like the word in English because it conveys a lot more of what we don't have. We have no "power." And what has happened is in the darkest moment, people get their energy not from an electrical grid, but from that strength of your soul. But for heaven's sake, what is it going to take? How much more do we have to endure for somebody to understand that what is happening in Puerto Rico is a violation of our human rights?

**LAURA SULLIVAN:**It's been the worst blackout in U.S. history. And on one of our last trips here, we came across Oscar Carrion, who runs a local corner store. He'd collected \$2,500 from his neighbors, bought an old bucket truck, scavenged up some spare parts, and with no prior experience, taught himself how to string wire.

When we found Oscar, he and his friends had restored power to about half the 6,000 residents here.

**OSCAR CARRION:**[subtitles] The first time I went up there, I was trembling all over. I still tremble. Actually, I'm afraid of heights and of the electric current. When you light up a zone and you see people's happiness, that's what makes it worth it.

**LAURA SULLIVAN:**[on camera] Why do you get up there and put your life on the line for this?

**OSCAR CARRION:**[subtitles] I don't want to risk my life, but I'm risking it. It's difficult to live in the dark. I have four kids and I don't want them to go through that. We're tired of hearing it can't be done, it can't be done. We made the

decision to try to continue onward. We're used to living in a state of need, so we have to do it for ourselves. If we don't do it, nobody will do it for us.