
SIFMA Implores Michigan To Change Tack on Detroit.

The Securities Industry and Financial Markets Association warned Michigan Gov. Rick Snyder that the approach he is backing in Detroit's bankruptcy will cost cities across the state, and urged him to uphold the city's unlimited-tax general obligation bond pledge.

SIFMA sent a letter Thursday, the day of Detroit's historic Chapter 9 filing, to Gov. Rick Snyder and Michigan Treasurer Andy Dillon, warning them that treating Detroit GOs as unsecured will likely drive up borrowing costs for issuers across the state, and imploring them to abide by the legal securities of different bonds.

SIFMA's letter to Snyder and Dillon notes that the state's constitution provides that repayment of voter-approved bond debt is guaranteed.

Treating the debt as unsecured could have a major ripple effect, the industry association said.

"We believe that any such treatment will have long lasting negative impact on the ability of Michigan's municipalities to obtain financing on favorable terms," SIFMA general counsel Ira Hammerman wrote in the letter, saying investors may try to sell their Michigan paper and bond buyers may be reluctant to buy Michigan GOs in the future.

"Additionally, actions to diminish or impair or alter the rights of bond holders and their expectation to receive monies described as pledged in offering documents could have material consequences by creating uncertainty and confusion in the enter municipal securities market," Hammerman said. "We implore you to be sensitive to the potential impacts of your actions on the investors in the various classes of Detroit's municipal securities, municipalities in Michigan and their future borrowing ability, and taxpayers in Michigan. We believe it is possible to navigate this financial crisis without hurting the credibility of Michigan municipal bond issuers in the market in the future."

by: CAITLIN DEVITT

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