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San Bernardino Starts Bondholder Talks Two Years After Bankruptcy.

RIVERSIDE Calif. (Reuters) - San Bernardino, California, has begun face-to-face talks with some of its biggest creditors - bondholders and insurers - for the first time, two years after filing for bankruptcy in a case that has slowed to a crawl in the past 12 months.

Paul Glassman, an attorney representing the city, said in a court hearing on Thursday that an all-day mediation session was held on Aug. 5 with Ambac Assurance Corp, the insurer of \$50 million of pension obligation bonds issued to the city in 2005.

Ambac was also negotiating on behalf of Erste Europäische Pfandbrief-und Kommunalkreditbank AG, the holder of the bonds, and Wells Fargo Bank, the bond trustee and the flagship bank of Wells Fargo & Co. Details of the negotiations are subject to a judicial gag order.

Glassman said the city will begin talks soon with another creditor, bond insurer National Public Finance Guarantee Corp, a unit of MBIA Inc.

San Bernardino, a city of 205,000 people located 65 miles east of Los Angeles, filed for bankruptcy in August 2012 with a budget deficit of \$45 million.

The city is one of a handful of municipal bankruptcies being closely watched by the \$3.7 trillion U.S. municipal bond market. Bondholders, public employees and other state and local governments are keen on understanding how financially distressed cities handle their debts to Wall Street, compared with other creditors like large pension funds such as Calpers, during Chapter 9 protection.

Stockton, another California city that declared bankruptcy around the same time as San Bernardino, is significantly closer to exiting Chapter 9. Detroit, Michigan, which filed the biggest municipal bankruptcy in U.S. history in July 2013, filed a plan of adjustment to deal with its \$18 billion of debt in February.

'TENTATIVE' POLICE PACT

San Bernardino has also reached a "tentative" deal with the police union - the city's biggest - after months of closed-door negotiations, Glassman said. He added that the deal represented "significant progress" in the city's attempt to issue a bankruptcy exit plan, known as a plan of adjustment.

In June, the city reached a deal with its biggest creditor, the California Public Employees' Retirement System (Calpers).

San Bernardino has imposed significant cuts in pay and other benefits on its police and firefighters.

While the police have now reached a deal with city leaders - details are also subject to a judicial gag order - the firefighters have not.

A request by the firefighters' union to impose a January deadline on the city to issue a plan to exit bankruptcy was rejected by U.S. Bankruptcy Court Judge Meredith Jury, who is overseeing the case.

Mark Angelov, an attorney for Ambac, said no progress was made in the mediation session, adding that "the case has been going on a long time. If there continues to be no progress, we may well ask for a deadline for the city to file a plan."

By REUTER
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(Reporting by Tim Reid; Editing by Jan Paschal)

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