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Bondholder Sues Bankrupt San Bernardino for Favoring Calpers.

(Reuters) – A corporation that holds $50 million of San Bernardino's pension bonds sued the city on Wednesday for giving preferential treatment to California's public pension system as San Bernardino navigates a third year in bankruptcy.

Luxembourg-based Erste Europäische Pfandbrief-und Kommunalkreditbank AG (EEPK), which filed the lawsuit in federal bankruptcy court in Riverside, California, is suing San Bernardino for agreeing to pay in full its debt to the California Public Employees' Retirement System (Calpers), while not yet treating the bondholder equally.

Ambac Assurance Corp., which insures a portion of the pension obligation bond debt, joined EEPK in suing San Bernardino. Both claim equal status with Calpers as creditors. They did not sue Calpers, America's biggest public pension fund with assets of $300 billion.

The lawsuit signals a newly aggressive stance by San Bernardino's capital market creditors after the city made public last year an agreement with Calpers to pay the fund in full when it produces a bankruptcy exit plan. The city has been ordered to produce a bankruptcy blueprint by May.

EEPK's suit speaks to the wider fight between Wall Street and pension funds over how they are treated in municipal bankruptcies.

In two other recent municipal bankruptcies, in Detroit Michigan, and Stockton, California, pensioners have fared much better than capital market creditors, although the judges in both cases said that debt to pension funds is not necessarily inviolate in a Chapter 9 bankruptcy.

The deal with Calpers alarmed San Bernardino's other creditors, who fear they will be forced to bear the brunt of the city's debt restructuring if Calpers is left untouched. They also worry about precedent that could be set if Calpers is left whole.

San Bernardino, a city of 205,000, 65 miles east of Los Angeles, declared bankruptcy in July 2012 with a $45 million deficit. It is one of a handful of municipal bankruptcies that has been closely watched by the $3.6 trillion U.S. municipal bond market.

Bondholders and public employees want to understand how distressed cities handle their debts to Wall Street, compared with other creditors such as Calpers.

EEPK and Ambac said in their filing: "The bondholder pension obligation portion must be treated in all respects equivalently to the Calpers pension obligation portion."

A Calpers spokesman said the fund was still reviewing the filing. Gary Saenz, San Bernardino's city attorney, said Calpers must be treated differently, because stable pensions were vital for the city.

By REUTERS

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(Reporting by Tim Reid; editing by Gunna Dickson)

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