

# **Bond Case Briefs**

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## **Moody's: Detroit Default, Plan, Break Ground in Muni Market.**

Detroit's default and debt-restructuring plan are precedent-setting in the U.S. municipal market, Moody's Investors Service said on Monday, because the city is looking to bondholders, as well as labor unions and pensioners, to share the pain.

The city on Friday defaulted on a \$39.7 million payment on certificates of participation and presented a plan to restructure its finances.

"The restructuring plan is unconventional and precedent-setting in the municipal market. It builds a strong case for insolvency, girding the city for a tough fight with creditors of all types," Moody's said in a statement.

The proposal by Emergency Manager Kevyn Orr calls for unsecured creditors to take a pro rata share of \$2 billion of new limited recourse participation notes, which would be issued to replace approximately \$11 billion of unsecured obligations.

"The substantial reduction offered to unsecured creditors, the extent of the city's financial stress and the complexity of the city's debt add to the uncertainty of many classes of debt ultimately recovering their investment," the rating agency added.

On Thursday, before the city's announcement, Moody's downgraded several classes of Detroit debt to Caa2 with a negative outlook.

Moody's also said the plan is unusual as it proposes similar treatment of various debt security types.

It noted that Orr did not propose a plan for creditors who are considered secured, such as the debt of the city's water and sewer enterprises or the city's general obligation debt, which is enhanced by state aid and claims relative to interest rate swaps. However, the latter are subject to negotiations.

"The plan appears to treat the general obligation and pension obligation certificates similarly, which would be a break from tradition," Moody's said.

Standard & Poor's, which on Friday downgraded the city to CC from CCC minus, said it was sure to cut the rating further.