Bond Case Briefs

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FT: BlackRock Steps into Detroit Bonds Fight.

BlackRock, the world's biggest fund manager by assets, is preparing to step in to the fight over the financial future of Detroit, where the treatment of bondholders could set a precedent for struggling towns and cities across the US.

The company lodged a court filing that could allow it to put its legal muscle behind an effort to ensure bondholders get paid ahead of retirees and other creditors.

Detroit's bankruptcy has raised the issue of where general obligation bonds, which are secured against future tax revenues, rank when a US municipality goes under. Institutional investors fear an outcome that could undercut legal protections and therefore bond prices.

Ambac, the bond insurance company, has sued Detroit, claiming tax revenues should be ringfenced to pay general obligation bonds first.

BlackRock last week filed a notice with the court reserving its right to join the case in support.

The fund manager said no decision had been taken about whether to intervene formally, but a spokesman added: "BlackRock agrees with Ambac's position that Detroit's general obligation bonds are senior debt under Michigan law. As a fiduciary, the action we're taking is on behalf of our clients."

Kevyn Orr, Detroit's financial manager, proposed last summer to pay GO bondholders less than 20 cents on the dollar, even though the bonds were backed by the full faith and credit of the city or specific tax-raising powers.

In another controversial move, he also proposed haircuts to city workers' pensions and healthcare benefits, a move that was backed by the bankruptcy court last month.

Ambac guarantees $171m of Detroit's $530m in general obligation bonds, a relatively small segment of the estimated $18bn in liabilities the city says it can no longer afford to pay. Two other insurers are also suing the city over a smaller portion of the GO debt.

BlackRock's holdings of GO bonds amount to just $25m across several of its funds, but its interest in the litigation stems from its potential wider implications. Peter Hayes, head of the firm's municipal bonds group, said when Detroit filed for bankruptcy in July that investors would have to reassess their view of the safety of GO bonds "in Detroit, in Michigan and beyond" – potentially raising borrowing costs for all US municipalities.

"BlackRock's intervention could be helpful in putting the ramifications into perspective," said Mark Palmer, analyst at BTIG Research.

"The danger is that Detroit becomes an encouragement to other municipalities seeking to address their own difficulties by essentially reneging on their debt, instead of raising taxes, selling assets, cutting spending or doing the other things they need to do."

Mr Orr has been attempting to reach settlements with specific groups of creditors individually, and has already won concessions from counterparties to interest rate swaps. He is due to publish his latest comprehensive financial restructuring proposals within the next few weeks.

By Stephen Foley in New York