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Detroit Lawyers: 3rd Swaps Settlement Plan Coming Soon; General Obligation Bonds not Secured.

The city of Detroit plans to file details of a proposed swaps settlement with UBS and Bank of America Merrill Lynch within three to four days.

An attorney representing the city in its bankruptcy told Judge Steven Rhodes today of Detroit's plans to file a third proposed settlement. Rhodes nixed the first settlement that would have paid the banks \$230 million. A \$165 million proposal also was shot down last month. Detroit had lined up a loan to pay for the settlements.

In 2009, Detroit pledged casino taxes as collateral to avoid defaulting on pension debt payments. The city locked itself into high interest rates on bonds. The deal became too costly when interest rates plunged.

The announcement about the settlement proposal was made at the start of a hearing about the treatment of general obligation bondholders; city attorneys argued that these bondholders should be treated as unsecured. Bruce Bennett, one of the attorneys leading Detroit's bankruptcy case, urged Rhodes today to reject a demand by bond insurers that the city segregate taxes collected to repay certain bonds.

The bond insurers have sued Detroit, claiming a proposal by the city's emergency manager to cut payments to general obligation bondholders is illegal. The insurers say that pledges the city made when the bonds were issued give bondholders certain rights over the taxes.

The dispute may require the judge to weigh in on a long-running debate among legal scholars about whether certain municipal bonds get priority over more traditional unsecured creditors, such as public employees or suppliers.

"There is not a lien, there is no property interest, and these creditors are just like all others," Bennett told Rhodes.

Bennett argued the city's pledges to bondholders are no different from those made to all unsecured creditors. Such general promises mean the municipal bonds in dispute are unsecured, he said. Detroit didn't set aside any property that could be used as collateral for the bonds or create a special lien on the taxes, according to Bennett.

Rhodes was scheduled to hear this afternoon from lawyers for the bond insurers, including National Public Finance Guarantee Corp. and Assured Guaranty Municipal Corp.

Also up for discussion in court today: the need for an unsecured creditors committee that was formed by the U.S. Trustee. City attorneys argued that the committee should be disbanded because it is not needed and would be costly; Rhodes said he would issue a written opinion on the matter.

By Crain's staff and wire reports

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