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Bond Insurer Seeks to Challenge Detroit Suit.

Financial Guarantee Insurance Accuses City of Revising Facts Behind Original Deal

DETROIT—A bond insurer on Monday sought to intervene in a federal lawsuit filed by the bankrupt city of Detroit to nullify an agreement to pay $1.4 billion in pension-related debt."The City's Complaint is baseless, particularly in light of the contractual obligations the City has acknowledged and complied with over the last nine years," attorneys for Financial Guarantee Insurance Co. wrote in court filings Monday.

If the legal challenge is successful, it could set back, if not derail, an aggressive schedule pushed by the city and approved by U.S. Bankruptcy Judge Steven Rhodes to resolve the case as soon as this summer. Detroit became the largest city in U.S. history to file for Chapter 9 municipal bankruptcy protection in July, with an estimated $18 billion in long-term obligations.

The city recently filed its debt-cutting plan and Judge Rhodes tentatively scheduled court hearings on the plan starting in mid-July. In January, after months of fruitless negotiations, the city sued service corporations and city-created trusts over the pension-related debt amassed in the mid-2000s, citing possible fraud in the original agreements.

In Monday's filing, Financial Guaranty argued that the original deal between the city and so-called service corporations provided a financial reprieve for the cash-poor city and was a "good bargain" because its pension payments were much smaller than they would have been without any agreement.

Insurers, including FGIC, could be on the hook for a massive payout for debtholders if the city's suit is successful. The bond insurer accused the city of turning a "crooked eye to history" for revising the facts behind the original agreement and falsely claiming it was "the innocent victim of fraud," court papers said.

FGIC warned that the city's "opportunism and revisionist history have broad repercussions, not the least of which being the impact on the funded status of the City's Retirement Systems," which could benefit them unjustly. Any disproportionate windfall for the city's roughly 23,000 city retirees could threaten the city's ability to get its debt-cutting plan approved with the consent of other creditors and the court, according to the insurer.

By
MATTHEW DOLAN

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