

Bond Case Briefs

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Fitch: Detroit Plan Shows ULT Pledge Has Adequate Protection.

The settlement allowing Detroit's unlimited tax general obligation (ULTGO) bondholders to keep 74% of their principal payments is closer to Fitch Ratings' expectation for how such securities would fare in bankruptcy, absent an express statutory lien. Yesterday's agreement was preceded by an offer of just \$0.15 on the \$1.00 and a legal effort to designate these bonds as unsecured. In our view, this underscores the unpredictable nature of the negotiations for bondholders and issuers. Bond insurers Assured Guaranty, Ltd, Ambac Assurance Corp. and National Public Finance Guarantee Corporation agreed to allow the city to send the remaining 26% of tax revenues levied for ULTGOs to a fund for Detroit's "most vulnerable" retirees, according to U.S. District Chief Judge Gerald Rosen. Whether or not this convinces pensioners to accept the settlement remains to be seen.

The prospects for other bonds in the proceeding also remain uncertain. A separate settlement with limited-tax general obligation bondholders seems likely. The city's current proposal could reduce recovery on certificates of participation (COP) to zero if the COPs are invalidated and the pension system (which benefited from the sale of the COPs) is not required to return the borrowed assets.

Fitch will continue to monitor these actions and their potential implications for settlements in other distressed municipalities.

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