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## **Judge Approves Pact to End Detroit Swap Deal.**

DETROIT — A federal judge on Friday approved this bankrupt city's latest attempt to extricate itself from some long-term financial contracts that have been costing it tens of millions of dollars a year, holding up a settlement as an example of "the very spirit of negotiation and compromise" that he hoped other creditors would follow.

Judge Steven W. Rhodes of United States Bankruptcy Court ruled that Detroit could proceed with a plan to pay \$85 million to UBS and Bank of America to terminate the financial contracts, known as interest-rate swaps, that were used to help finance pensions.

Under the terms of the settlement, the two banks agreed to back Detroit's overall plan of adjustment, which is critical for the city's push to resolve its bankruptcy by early fall. Municipal bankruptcy rules say that if one class of impaired creditors votes to approve the city's plan of debt adjustment, the judge may be able to impose the terms forcibly on everybody else. The judge's decision gives Detroit leverage for settlements with other creditors.

Earlier this year, Judge Rhodes had rejected a previous attempt to end the swaps that called for Detroit to pay the banks \$165 million. He called that proposal "just too much money" and noted that Detroit would have a reasonable chance of success if it sued the banks outright, calling the swaps invalid and refusing to make any termination payments at all.

"They might have been discouraged and hardened their positions" by that assertion, Judge Rhodes said of the city and the two big banks. "They chose instead to re-engage."

"The message," he added, "is that now is the time to negotiate."

Detroit's emergency manager, Kevyn Orr, and other officials have been calling for creditors to negotiate settlements quickly out of fear that Detroit's case will become a hopeless quagmire if creditors keep fighting the city's proposals for resolving their debts. The state law that put Detroit under emergency management is scheduled to expire in September.

"There's a lot of pressure on the judge to wrap up this bankruptcy quickly," said Abayomi Azikiwe, an observer who said he was a member of the Moratorium Now Coalition.

Detroit entered into the swap contracts in 2005, when it tapped the municipal bond market for \$1.4 billion to put into its workers' pension funds. Much of the deal was structured with variable-rate debt, and the swaps were intended to work as a hedge, to protect Detroit if interest rates rose. But rates fell, and under those circumstances, the terms of the swaps called for Detroit to make regular payments to UBS and Bank of America. The swaps cost Detroit about \$36 million a year.

The 2005 borrowing also required an unusual structure to avoid violating the city's legal debt limit. In 2009, the debt was downgraded to junk, putting the city out of compliance with the terms of the swaps. So Detroit restructured the swap obligations, offering the two banks the tax revenue that it received from local casinos as a backstop.

When Detroit declared bankruptcy last summer, it estimated the cost of terminating its swaps at about \$345 million. Days before filing its bankruptcy petition, Detroit said Bank of America and UBS had given it a break, so that it would have to pay only about \$250 million to cancel the contracts. But other creditors, facing bigger relative losses, complained that the two banks were still getting way too much. They argued, among other things, that the interest-rate swaps were invalid from the beginning because the use of casino taxes for financial hedges is not allowed under state law.

With complaints about the swap payment mounting last December, Judge Rhodes sent the parties back to renegotiate their deal with the help of another federal judge, Gerald E. Rosen, the chief justice for the Eastern District of Michigan. Judge Rosen is the lead mediator of the Detroit bankruptcy, trying to negotiate settlements among Detroit's more than 100,000 creditors to keep the huge bankruptcy from being mired in endless lawsuits.

Judge Rosen persuaded Bank of America and UBS to agree to a \$165 million settlement just before Christmas, but Judge Rhodes rejected that deal, saying it was still too generous. He urged the two sides to try to negotiate a new settlement.

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