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SIFMA: Detroit's LTGO Treatment Would "Shatter" Muni Industry.

CHICAGO — Detroit's bankruptcy exit plan would "send shock waves through the municipal bond market," and the federal judge overseeing the case should reject it, the Securities Industry and Financial Markets Association argued Monday [in a brief filed](#) with the bankruptcy court.

SIFMA said it realizes the difficulty that Detroit has faced in crafting a plan of debt adjustment that allows it to deliver essential services and repaying obligations.

But its proposal to repay limited-tax general obligation bondholders only 10% to 13% would be illegal under Michigan law, unfairly discriminate against a class of creditors, and cause "havoc" on a muni industry that treats GO bonds as a gold standard.

"The predictable result is that the confidence of investors in the gold standard of GO bonds would be shattered which, in turn, will require municipalities in the future to offer more generous terms, i.e., higher interest rates and a lien on specified collateral, in order to attract sufficient investors," the association said in the brief. "The impact cannot be underestimated."

There is no precedent in Chapter 9 for impairing a class of creditors like the LTGO bondholders so badly, SIFMA argues.

Detroit has reached a settlement with its unlimited-tax general obligation bondholders that calls for a 74% recovery. In its brief, SIFMA focuses on the city's proposed treatment of its LTGO holders, who have not settled. Detroit filed its fourth debt plan last week, and creditors began voting on it Monday. A trial on the plan's confirmation is set for July 24.

If the city succeeds in cramming down its LTGO holders, the move could weaken financial markets and even lead to a loss of jobs and a "stifling of economic growth," SIFMA said.

"Given that all eyes in the bond market are on Detroit, this all but certain effect on demand for GO bonds, with resultant higher borrowing costs, would have a significant negative impact well beyond this case, on municipalities and taxpayers across the United States."

Under Michigan state law, the LTGO holders enjoy a pledge of first budget obligation of ad valorem taxes, SIFMA argues. In addition to violating state law, the city's proposed LTGO treatment unfairly discriminates against a class of creditors. The court should reject the plan, the association says.

It's not the first time that SIFMA, as well as other industry groups such as the Bond Dealers of America, have blasted Detroit's proposed treatment of its GO bondholders. SIFMA in July, days after Detroit filed for bankruptcy, warned Michigan Gov. Rick Snyder that the city's proposal would cost cities across the state and urged him to uphold the local GO pledge.

Law firms Steinberg Shapiro & Clark and Nixon Peabody LLP filed the brief on behalf of SIFMA.

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