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Fitch: Few Surprises for Bondholders In Detroit LTGO Settlement.

Fitch Ratings-Chicago/New York-14 July 2014: Detroit's settlement with its limited tax general obligation (LTGO) bondholders is in line with Fitch Rating's expectations.

The settlement would repay the LTGO bondholders without a lien on state aid 34 cents on the dollar. That exceeds earlier offers of 10-20%. A previous settlement agreement provides for LTGO bondholder recovery of 74 cents on the dollar and includes a clause requiring LTGO bondholders (and other classes of impaired unsecured creditors) to receive lower recovery. The city has \$164 million of LTGOs without a lien on state aid and \$379 million of LTGOs with a state aid lien. A court will begin hearing the plan of confirmation on August 14.

Detroit's treatment of LTGO and other bondholders strains the boundaries of what most creditors would have expected to be entitled to in a bankruptcy.

Fitch expects situations like Detroit's to continue to be rare as few governments are as severely stressed as and there is a long-demonstrated willingness of most municipal governments to avoid default and bankruptcy. Also, the nation's slow economic recovery has begun to lessen the financial stress on many other issuers.

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