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WSJ: Bond Insurer Takes On Detroit.

DETROIT—Detroit expected a bruising battle with everyone from major banks to municipal unions when it filed its bankruptcy case last year.

But its most persistent adversary has turned out to be a scrappy bond insurer that represents just 5% of the city's debt.

New York-based Syncora Guarantee Inc., with about $400 million at stake, has attempted to block the city's access to casino-tax revenue, new borrowing to repair streetlights and the city's settlement with two major banks. It has sought decades of records from foundations trying to help save the city's art collection, and complained to the judge when it was linked to a statement by the city's emergency manager about the "Huns of Wall Street."

Six bond insurers are the city's biggest creditors after backing payments on $6.1 billion of Detroit's debt, according to a March report by Raymond James.

When a municipality defaults on insured bonds, the insurer becomes responsible for interest and principal payments to bondholders, then tries to recover as much of those payouts as possible from the debtor.

Now, Syncora insists the city's debt-cutting and reinvestment plan aimed at restructuring originally pegged at about $18 billion in long-term obligations unfairly offers modest cuts to its pensioners and much more severe cuts to some bondholders backstopped by insurers like Syncora. A federal trial in bankruptcy court on the plan is scheduled for mid-August.

Voting on the city's plan ended Friday for 70,000 creditors, including 32,000 pension holders. The city expects to announce the results no later than July 21, officials said. According to a person familiar with the matter, city officials are cautiously optimistic that pension holders have approved Detroit's debt-cutting plan.

The plan will help the city shed roughly $7 billion in debt and leave it with about $1.4 billion to reinvest in city services and blight removal, says an internal report from the investment-banking firm Miller Buckfire & Co. released by the city.

Syncora has also helped push for monetizing the Detroit Institute of Arts collection through a possible sale or lease to help repay city debt. It essentially rejects the city's proposal to allow outside donors to contribute the equivalent of more than $800 million over 20 years to reduce pension cuts and allow the museum to stay intact.

"We think this is about us getting as much recovery as we can and getting similar recovery to other similarly situated creditors like the pensioners and retirees," James Sprayregen, a Kirkland & Ellis attorney in charge of Syncora's Detroit case, said. "But from the get-go for whatever reason, we have been vilified as the big bad Wall Street creditor against the little people. And we think that's very inappropriate and unfair."

City officials say Syncora has filed a flurry of legal arguments in an attempt to grind the bankruptcy process to a halt. At various times, the city has called Syncora's methods "scorched earth litigation strategy," as well as a "carpet-bombing approach."

"It's safe to say they have employed a kitchen sink strategy with all of their objections," said Bill Nowling, a spokesman for Detroit Emergency Manager Kevyn Orr. "All that does is add more work for the judge and more delay for the confirmation of the plan."

Detroit has reached settlements with several other insurers with deals better than what is called for in the city's plan for Syncora. For example, the city would pay limited-tax general-obligation bondholders about 34 cents on the dollar for their $164 million in debt. That debt is backed by Ambac Assurance Corp. and BlackRock Inc., according to city documents.

But Syncora's estimated $400 million at stake stems largely from guaranteed payments on a $1.4 billion debt deal engineered in 2005 by then-Detroit Mayor Kwame Kilpatrick that the city is trying to completely wipe out. Company financial reports and legal filings warn that paying up on insured bondholders in Detroit could help push Syncora out of business because the city is offering less than 10 cents on the dollar. So far, Syncora already has paid $62 million to cover losses in Detroit debt through last year, according to the company.

The stock price of its parent company, Syncora Holdings Ltd., closed at $1.99 and the firm has cautioned that Detroit's bankruptcy plan could exhaust its reserves to pay out claims. "They're at a tipping point," said Peter Delahunt, managing director for the municipal-bond department at Raymond James.

James Spiotto, an expert in Chapter 9 municipal bankruptcy with Chapman Strategic Advisors in Chicago, said that Syncora raised potentially important issues about whether a city should be able to sell debt to pay pensions and say afterward that the deal was legally flawed but keep the money. "The city got a benefit from it," Mr. Spiotto said.

By MATTHEW DOLAN
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