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Detroit's Bankruptcy Plan Opposed by Creditor Syncora Guarantee.

City Hopes to Wipe Out or Reduce Billions in Debt; Trial to Start Next Week

DETROIT—A major Detroit creditor on Tuesday objected to the bankrupt city's plan to wipe out or reduce billions of dollars in debt, saying the idea should be scrapped before a trial scheduled to start next week.

New York-based Syncora Guarantee said in a court filing that the plan, put together by state-appointed emergency manager Kevyn Orr and attorneys hired by the city, is unfair, will be too costly to defend, and will ultimately fail.

That would "squander a once-in-a-lifetime opportunity to revitalize one of America's most treasured cities," the filing says.

The largest municipal bankruptcy in U.S. history is set for trial on Aug. 21.

A city spokesman couldn't immediately be reached to comment Tuesday.

Detroit filed for bankruptcy protection a year ago, saying it had no way to pay off at least $18 billion in debt. Syncora's claim is for about $400 million, and it is tied to an interest-rate swap deal on pension bond debt.

In 2009, Detroit pledged money from casino revenue taxes as collateral to avoid defaulting on past pension debt payments. The swaps allowed Detroit to get fixed interest rates on pension bonds with two banks.

The swaps are backed by Syncora, which acts as a trustee and makes payments from casino revenue to parties involved in the swaps. Syncora unsuccessfully tried to keep up to $15 million of casino tax revenue each month in a bank-held trust. Mr. Orr has said the money is crucial in paying for city services.

A primary point in Syncora's objection is a court-mediated agreement between the state, major corporations and foundations that promises more than $800 million over 20 years to support city retiree pensions. The so-called "grand bargain" would stave off the sale of city-owned pieces in the Detroit Institute of Arts to help pay off the city's debt.

Retirees had to vote to approve the deal to see lower cuts to the pensions during Detroit's bankruptcy.

"While no one questions that the mediators, in their own eyes, pursued what they believed was the best course for the city, the road to an unconfirmable plan is paved with good intentions," Syncora wrote in its objection. "The plain truth is that the mediators in this case acted improperly by orchestrating a settlement that alienates the city's most valuable assets for the sole benefit of one creditor group."

The objection also said the city refused to provide Syncora with timely and complete documents on settlements in Detroit's debt plan

Syncora said that after adjustments for interest rates, it would get about 5 cents on the dollar for its debt under Orr's plan.

Detroit's bankruptcy trial "looks like it will go through late September, if not further," said James Sprayregen, a Syncora lawyer.

Syncora's hope is that it can reach an agreement with the city before the trial starts. If Mr. Orr's plan is confirmed at trial, it eventually would be overturned on appeal, Mr. Sprayregen said.

"Before more scarce resources are squandered, we'd rather get to a consensual deal," he said.

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