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Syncora Gets 13.7% in Detroit Bankruptcy Deal; FGIC Fights.

Detroit creditor Syncora Guarantee Inc. (SYCRF) will recover about 14 percent on what it's owed in a deal that includes $44.8 million in new debt, leaving bankruptcy holdout Financial Guaranty Insurance Co. the last major creditor opposing the city's debt-cutting plan.

Syncora has claimed it's owed more than $333 million. Under its agreement with Detroit, the bond insurer will get two sets of notes, a lease to operate a tunnel to Canada, land near the tunnel and the option for a long-term lease to operate a parking structure.

The deal is a "very favorable one to the city," David Heiman of Jones Day, a lawyer for Detroit, told U.S. Bankruptcy Judge Steven Rhodes at a hearing today after he disclosed the accord and Syncora's estimated recovery. The parties have "laid down their swords," he said.

While the settlement with Syncora may help speed Detroit's record municipal bankruptcy to completion, FGIC remains a significant obstacle, as it faces claims on about $1.1 billion in pension debt it insured. The city planned to almost wipe out that debt, offering holders only about 10 cents on the dollar.

Should investors in the pension debt take losses, FGIC may be forced to pay them. Cutting the debt is part of the city's plan to eliminate more than $7 billion in liabilities while shoring up its retirement system with money from the state and private donors.

Pension Debt

Syncora Guarantee insures more than $300 million of the pension debt and also holds some of the debt directly. The company also insured some tax-backed bonds. Shares of parent Syncora Holdings Ltd. fell 2.3 percent to $2.15 today.

FGIC and Detroit put together a tentative trial schedule after Rhodes asked lawyers to find a way to give the New York-based company time to collect information about the Syncora deal and hire an expert to testify against it.

The trial, in which the judge is considering the feasibility and fairness of Detroit's plan, continued today with the testimony of a pension expert.

Glenn Bowen of pension adviser Milliman Inc. said the city assumed its pension systems would earn about 6.75 percent over time, a figure that has been attacked by pension-bond holders as too low. Using that figure means the city would have to increase the amount of money it sets aside for its two pension systems.

7% Return

Other public pension systems assume they will earn more than 7 percent, the bondholders' attorney, Jonathan Wagner, said in court while questioning Bowen.

Bowen said public agencies will choose a higher or lower return estimate depending on their tolerance for risk. A higher number is riskier because if returns fall short, the agency would have to make up the difference to keep the pension system solvent, he said.

Tomorrow, the city may call Ron Bloom, a Lazard Ltd. vice chairman, who led President Barack Obama's effort to revive the auto industry. A loss of manufacturing jobs in Detroit contributed to the city's decline.

Detroit, a city of about 700,000, filed an $18 billion municipal bankruptcy last year, saying it was unable to provide basic services and still meet financial obligations. Since then, Emergency Manager Kevyn Orr has cut deals with city unions, retired workers and some bondholders to pay them less than they are owed.

Two Series

Under its pact with the city, New York-based Syncora will get two series of notes. The B notes will be worth about $23.5 million, while a series of C notes will be worth $21.3 million and bear a 5 percent interest rate.

The C notes will be tied to parking revenue. The company will also have the option to take over and develop additional parcels for development that will be disclosed in the next few days, lawyers for the city said today at the hearing.

Ryan Bennett of Kirkland & Ellis, an attorney for Syncora, told the judge his client planned to withdraw its objections to the city's debt-reduction plan.

"This is a big day for Syncora and a big day for the city of Detroit," Bennett told Rhodes.

Detroit's bankruptcy plan hinges on a bargain with philanthropic foundations and the Michigan government, who agreed to contribute more than $800 million to the city's public pension system. In exchange, Detroit pledged not to use its art collection to pay debts.

FGIC has said the city could use the collection to boost payments to creditors whose claims the insurer may otherwise be forced to cover.

The case is In re City of Detroit, 13-bk-53846, U.S. Bankruptcy Court, Eastern District of Michigan (Detroit).

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