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S&P: Why Detroit's Bankruptcy Plan Outcome Doesn't Affect U.S. Municipal General Obligation Ratings.

Since June 2013, when Detroit's Emergency Manager announced the city would not make upcoming debt service payments and was poised to file Chapter 9 bankruptcy should settlements with creditors not be reached quickly, Detroit's lawsuits and court battles have been in the headlines. During this time, the treatment of debt and pension/other postemployment benefit (OPEB) obligations has attracted attention from market participants, including Standard & Poor's Ratings Services.

Standard & Poor's has followed the proceedings over the past 17 months and has carefully considered the bankruptcy's potential impact on general obligation (GO) and similarly supported ratings. In the end, despite months of headlines and court battles, ultimately the outcome of the Detroit bankruptcy will not have an impact on our GO ratings. This view is based on our feeling that there was no precedent set that is widely applicable to GO debt, and that the forward-looking nature of our U.S. local government criteria gives us opportunities to identify and take into account such weaknesses before issuers reach the point of deciding who to pay and not pay, either via bankruptcy or default.

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