# Bond Case Briefs

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## Chicago Agreement Avoids $20 Million Backfiring Swap Payment.

(Bloomberg) — Chicago arranged with a bank to avoid paying $20 million to end an interest-rate swap and is working to avert a separate $40 million fee, according to Mayor Rahm Emanuel's office.

The city faced the potential payments after Moody's Investors Service cut its rating last week to Baa2, two levels above junk, because of mounting pension liabilities. The company said the deteriorating grade may trigger the payments to unwind the swaps, which Chicago entered into as a hedge. The city also is closer to ratings that may force an additional $133 million of payments. Fitch Ratings and Standard & Poor's affirmed their grades for the city.

Chicago agreed with BMO Harris Bank N.A. to avoid the $20 million payment and is negotiating the $40 million sum with San Francisco-based Wells Fargo & Co., according to a statement from Emanuel's office. Reuters reported the negotiations earlier.

"While we agree with Moody's that the city continues to face serious fiscal challenges, under Mayor Emanuel's leadership, we will continue to make the right – though difficult – choices and work toward a continued strengthening of the city's finances and securing our city's future," the mayor's office said in a statement.

**Trigger Levels**

In the case of Chicago, a downgrade below specified rating levels can trigger the swap termination payments. Chicago's grade from Moody's has fallen six levels since August 2010, and the company joins other credit raters in saying more cuts are possible.

Chicago has been addressing its debt since Emanuel took office, according to the city's statement. The efforts include terminating seven swaps and renegotiating 11.

The city has swaps with termination payments of $133 million at lower ratings, according to Moody's. It also is grappling with short-term borrowings of $1.2 billion, including commercial paper and credit lines, that it may need to repay should ratings fall below Baa3.

Municipalities nationwide have entered into swaps contracts, which are agreements to exchange fixed payments for floating ones, to cut borrowing costs. Most were structured to lower expenses when interest rates rose. Yet with the Federal Reserve keeping its benchmark rate at historic lows, some of the agreements backfired, putting borrowers in a position of owing banks money.

Elise Wilkinson, a spokeswoman for Wells Fargo, declined to comment. Jim Kappel at Chicago-based BMO didn't respond to phone calls and e-mails seeking comment.

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March 4, 2015

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