Bond Case Briefs

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Investing in Detroit: Automobiles, Bankruptcy, and the Future of Municipal Bonds.

On July 18, 2013, Detroit, Michigan became the largest municipality in United States history to file for bankruptcy. Since the days of Henry Ford, Americans have been investing in Detroit by buying its most famous product—automobiles. They have also been investing directly in Detroit itself, buying a financial product called municipal bonds. Detroit, along with many other cities, sells municipal bonds to raise money for city projects. Holders of those municipal bonds were major creditors in the city's bankruptcy case.

Many municipal bonds are held by retail investors because bonds have long been considered a relatively safe investment on the theory that cities are not likely to default or go bankrupt. The bankruptcy of a city as large as Detroit, coming on the heels of other Chapter 9 municipal bankruptcies, has made investors question the bonds' stability. Although Detroit's bankruptcy has not undermined bonds' overall safety, the treatment of municipal bond debt in Detroit could affect the future of the $3.7 trillion municipal bond market and the savings of many people outside the Motor City. The ability of cities to finance their projects could also be affected—the riskier municipal bonds are seen to be, the more difficult it will be for cities to sell them at high prices, leaving them stuck in a cycle of municipal poverty. . .

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