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## UPDATE 2-Major settlement puts Detroit closer to bankruptcy exit

*By Lisa Lambert  
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Oct 16 (Reuters) - Detroit announced on Thursday a last-minute settlement with its final major holdout creditor, Financial Guaranty Insurance Co., as it edged closer to exiting the biggest-ever municipal bankruptcy.

Corinne Ball, an attorney at law firm Jones Day, told U.S. Bankruptcy Court Judge Steven Rhodes that the settlement includes an option for FGIC to develop the Joe Louis Arena and parking garage for a mixed-use project, primarily a hotel serving the nearby Cobo convention center.

The bond insurer will also receive about \$152 million in city notes, part of which will be backed by public parking revenue.

In return, FGIC, which has a \$1.1 billion exposure from insuring the pension certificates of participation (COPs), will drop its objections to the city's plan to adjust \$18 billion of debt, Ball said.

The 11th-hour deal was reached at 2:30 a.m. EDT (0630 GMT) on Thursday, following round-the-clock, court-ordered mediation that began more than a week ago and spanned the weekend, according to those who forged the deal.

Detroit filed for bankruptcy protection in July 2013. FGIC was one of the final opponents still standing after months of settlements with other creditors.

Closing arguments in the trial on Detroit's restructuring plan are expected next week. Then Rhodes must determine if the plan is fair to creditors and feasible for Detroit to enact.

"A settlement with FGIC, as the last major holdout creditor, certainly provides substantial assistance to the city in obtaining approval of its monumental bankruptcy plan," said John Hutton, an attorney at Greenberg Traurig who is not involved in the case.

"The court must still independently determine that the plan is feasible, and must still find that the city has a reasonable likelihood of achieving its financial projections and performing its obligations," he added.

Nonetheless, the deal announced on Thursday does not include seven institutions that hold more than 90 percent of the COPs insured by FGIC. Those parties will be able to opt in to the deal, according to Thomas Moers Mayer, a lawyer for the COP holders.

A key part of the negotiations - where FGIC would accelerate \$170 million in COP payments to holders using funds from a third party - was scrapped late on Wednesday, Mayer said. The holders may decide not to opt in and maintain their objections to the plan after consulting the deal's term sheets, he told Rhodes.

Mayer and FGIC would not identify the third party.

As part of the settlement, Detroit will drop a lawsuit seeking to invalidate \$1.4 billion of COPs it sold in 2005 and 2006 to lower its two retirement systems' unfunded liabilities.

The FGIC deal is similar to one the city reached last month with Syncora Guarantee Inc, which also guaranteed payments on the COPS. That deal contained a financial component and a real estate transaction, with the financial side netting the company, which has a \$400 million exposure, a 13.9 percent recovery.

FGIC's chief executive officer, Timothy Travers, said in a statement that the settlement provides FGIC with a recovery consistent with Detroit's other COP creditors.

"FGIC has always been, and continues to be, believers in Detroit's long-term revival prospects, and this deal gives us the opportunity to participate in and help catalyze that revival," he also said. (Additional reporting by Karen Pierog in Chicago; editing by Meredith Mazzilli and Matthew Lewis)