

Moody's downgrades Detroit's GOULT bonds and COPs to Caa1 from B3 and GOLT bonds to Caa2 from Caa1; Water and Sewage Revenue Senior and Second Lien Bonds downgraded to Baa3 and Ba1

http://www.moodys.com/research/Moodys-downgrades-Detroits-GOULT-bonds-and-COPs-to-Caa1-from--PR_260953

Global Credit Research - 28 Nov 2012

Negative outlook assigned to all ratings

New York, November 28, 2012 --

Moody's Investors Service has downgraded the City of Detroit's (MI) General Obligation Unlimited Tax (GOULT) and Certificates of Participation (COPs) ratings to Caa1 from B3, and has also downgraded the city's General Obligation Limited Tax (GOLT) rating to Caa2 from Caa1. These downgrades reflect the city's ongoing precariously narrow cash position and a weakened state oversight framework following the repeal of Public Act 4 (PA 4). The city's GO, COPs and GOLT ratings have been removed from review for possible downgrade and the outlook has been revised to negative. The negative outlook on the GO, COPS and GOLT ratings is based on the rising possibility that the city could file for bankruptcy or default on an obligation over the next 12 to 24 months, the general uncertainty of state oversight as challenges to Public Act 72 (PA 72) persist following the repeal of PA 4, and the city's ongoing inability to implement reforms necessary to regain financial stability.

Concurrently, Moody's has downgraded the ratings for the Detroit Water and Sewage Enterprise Revenue debt one notch to Baa3 (Senior Lien) and Ba1 (Second Lien) as the rising risk of a city bankruptcy filing brings ongoing uncertainty regarding the treatment of these securities in the event of a filing. Ratings for the Detroit Water and Sewage Enterprise Revenue Bonds have been removed from review for possible downgrade and the outlook has been revised to negative. The negative outlook for the water and sewer debt is based on the increasing possibility that the city could file for bankruptcy over the next 12 to 24 months.

Strengths

- Focused and dedicated executive management team supported by a strong working relationship with the Governor's office
- State oversight provided by Michigan Public Act 72 and FSA
- Escrowed bond proceeds available following successful completion of the MFA financing deal

Challenges

- Weak liquidity profile, requiring active cash flow management techniques, including debt refinancing, to meet operating needs

-Ongoing state oversight of the city's finances which may result in appointment of an emergency financial manager, which is the first step to filing for bankruptcy

-Challenges to timely implementation of restructuring provisions outlined in the Financial Stability Agreement; ongoing political instability

-Potential termination payment due for swap agreements issued in conjunction with Certificates of Participation

Outlooks

The negative outlook on the GO, COPS and GOLT ratings is based on the increasing possibility that the city could file for bankruptcy or default on an obligation over the next 12 to 24 months, the general uncertainty of state oversight as challenges to PA 72 persist following the repeal of PA 4, and the city's ongoing inability to implement reforms necessary to regain financial stability. The negative outlook for the water and sewer debt is based on the rising possibility that the city could file for bankruptcy on an obligation over the next 12 to 24 months.

What Could Change the GO, GOLT and COPS Ratings -- UP (or removal of the negative outlook)

- Material operating surpluses, achieved through structurally balanced financial results that will carry forward to future fiscal years

- A material improvement in the city's unrestricted cash and investment position such that the city continues to be less dependent on cash flow borrowing

-Improved liquidity and cash management such that the city's ability to ensure timely debt service payments are not in question

-Removal of uncertainty surrounding state oversight legislative authority

What Could Change the GO, GOLT and COPS Ratings -- DOWN

- Revenue challenges that continue to exceed expenditure (and alternate revenue) solutions

- Continued operating deficits leading to heightened cash-flow weakness

- Further increase of the city's debt leverage

- Increase in likelihood of either a bankruptcy filing or plan to default on debt obligations

-Elimination of legislative authority for state oversight/assistance

What Could Change the Water Rating -- UP (or removal of the negative outlook)

-Statutory or other legal action to definitively remove the system's assets from the estate of the city

- Stabilization or reversal of the city's trajectory towards bankruptcy

- Removal of statutory authority for the city to file for bankruptcy

What Could Change the Water Rating -- DOWN

- Bankruptcy filing, or increasing likelihood of a filing, by the City of Detroit
- Weak operating performance resulting in decreased debt service coverage levels
- Further increased debt ratio
- Weakening of the service area through economic forces or wholesale contract changes

What Could Change the Sewage Rating -- UP (or removal of the negative outlook)

- Statutory or other legal action to definitively remove the system's assets from the estate of the city
- Stabilization or reversal of the city's trajectory towards bankruptcy
- Removal of statutory authority for the city to file for bankruptcy

What Could Change the Sewage Rating - DOWN

- Bankruptcy filing, or increasing likelihood of a filing, by the City of Detroit
- Weak operating performance resulting in decreased debt service coverage levels
- Further increased debt ratio
- Weakening of the service area through economic forces or wholesale contract changes

PRINCIPAL METHODOLOGIES USED

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

The Global Scale Credit Ratings on this press release that are issued by one of Moody's affiliates outside the EU are endorsed by Moody's Investors Service Ltd., One Canada Square, Canary Wharf, London E 14 5FA, UK, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that has issued a particular Credit Rating is available on www.moodys.com.

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities

that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Information sources used to prepare the rating are the following: parties involved in the ratings, parties not involved in the ratings, and public information.

Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

Moody's adopts all necessary measures so that the information it uses in assigning a rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Please see the ratings disclosure page on www.moodys.com for general disclosure on potential conflicts of interests.

Please see the ratings disclosure page on www.moodys.com for information on (A) MCO's major shareholders (above 5%) and for (B) further information regarding certain affiliations that may exist between directors of MCO and rated entities as well as (C) the names of entities that hold ratings from MIS that have also publicly reported to the SEC an ownership interest in MCO of more than 5%. A member of the board of directors of this rated entity may also be a member of the board of directors of a shareholder of Moody's Corporation; however, Moody's has not independently verified this matter.

Please see Moody's Rating Symbols and Definitions on the Rating Process page on www.moodys.com for further information on the meaning of each rating category and the definition of default and recovery.

Please see ratings tab on the issuer/entity page on www.moodys.com for the last rating action and the rating history.

The date on which some ratings were first released goes back to a time before Moody's ratings were fully digitized and accurate data may not be available. Consequently, Moody's provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Genevieve Nolan
Asst Vice President - Analyst
Public Finance Group

Moody's Investors Service, Inc.
100 N Riverside Plaza
Suite 2220
Chicago, IL 60606
U.S.A.

JOURNALISTS: 212-553-0376 begin_of_the_skype_highlighting FREE 212-553-
0376 end_of_the_skype_highlighting

SUBSCRIBERS: 212-553-1653 begin_of_the_skype_highlighting FREE 212-553-
1653 end_of_the_skype_highlighting

Henrietta Chang
VP - Senior Credit Officer
Public Finance Group

JOURNALISTS: 212-553-0376 begin_of_the_skype_highlighting FREE 212-553-
0376 end_of_the_skype_highlighting

SUBSCRIBERS: 212-553-1653 begin_of_the_skype_highlighting FREE 212-553-
1653 end_of_the_skype_highlighting

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.

JOURNALISTS: 212-553-0376 begin_of_the_skype_highlighting FREE 212-553-
0376 end_of_the_skype_highlighting

SUBSCRIBERS: 212-553-1653 begin_of_the_skype_highlighting FREE 212-553-
1653 end_of_the_skype_highlighting