SP Further Cuts Detroit Rating as City to Halt Paying Pension Debt

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Standard & Poor's Ratings Services downgraded Detroit, Mich.'s, bonds by a notch after the city announced plans to halt debt-service payments on its pension-obligation certificates, or POCs.

The firm cut the ailing city's general obligation, or GO, debt to double-C, which is two steps above default, from triple-C-minus. The outlook is negative.

The POCs have a debt-service payment due Saturday. S&P rates an issue at double-C when it expects default to be a virtual certainty, regardless of the time to default.

Detroit emergency manager Kevyn Orr on Friday presented his restructuring plan to a group of about 150 representatives of bondholders, insurers and other debtholders as a last chance to stave off a possible municipal-bankruptcy filing, which would be the nation's largest.

Mr. Orr's proposal calls for unsecured bondholders carrying about $2.5 billion in debt to take the largest haircut, receiving less than 10 cents on the dollar.

City-employee pensions and retiree health care would also be trimmed. Unfunded retiree pension and benefit obligations of about $9 billion would be cut to less than 10 cents on the dollar under the proposal.

If the debt nonpayment is viewed as a default, it could move the city a step closer to filing for Chapter 9 bankruptcy protection.

S&P on Wednesday lowered Detroit's rating by four notches in anticipation of Friday's news. On Friday, S&P added that it might lower the city's rating within one year.

The city's pension systems representing about 30,000 employees and retirees said in a joint statement Detroit had failed to meet its obligations to withholding payment to fund retiree benefits even as the city continued to pay bondholders. "There must be equitable sharing," the statement said, adding that the systems intended to work cooperatively with the emergency manager.

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