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Standard & Poor's Does Not View Detroit's Chapter 9 Filing As The Start Of A New Trend

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CHICAGO (Standard & Poor's) July 19, 2013--Although the exact timing of Detroit 's bankruptcy filing yesterday may have been a surprise, the action itself was not. Detroit (general obligation debt rating: C/Negative) has been in a state of financial and economic distress for quite some time; given the accompanying lack of notable headway in creditor negotiations, the filing was not unexpected, in Standard & Poor's Ratings Services' view.

With seven rating actions (downgrades or downward outlook revisions) on Detroit since 1999, it is clear that, in our view, the city was making little progress over time in regaining structural stability (see table).

"We view Detroit's default and subsequent bankruptcy filing as idiosyncratic, and not as a symptom of a wider issue in the municipal market," said Standard & Poor's credit analyst Jane Hudson Ridley. Although we have seen isolated pockets of distress across the country, we do not view bankruptcy filings or defaults as a trend. The data from our article "2012 U.S. Public Finance Defaults And Rating Transition Data: Defaults Increase, But The Sector Remains Stable Overall" (published March 28, 2013, on RatingsDirect) support this: in 2012, on the heels of an extremely difficult economic period, there were defaults of nine different Standard & Poor's-rated obligors from a U.S. state and local government universe of more than 18,000 issuers. In our view, a bankruptcy filing is not a discrete event but rather part of a process, as it is likely to be only the beginning of a costly and possibly economically debilitating episode in the broader arc of a municipality's history.

Standard & Poor's continues to evaluate ratings individually. As such, we do not expect Detroit's filing to have a direct impact on credit quality in the rest of the state, or across the country. Although there are state and local government issuers across the U.S. that continue to struggle, we do not anticipate a contagion effect. We base this on our experience evaluating governments that are suffering some amount of financial distress but still have a strong capacity and willingness to repay their debt. However, their challenges sometimes receive disproportionate media coverage and investor interest compared with counterparts in other sectors—at least, in our view as credit analysts.

Our view remains that credit quality across the municipal sector is generally stable and resilient. But we have also consistently emphasized management's role in an obligor's credit quality. "As with other municipalities that have ultimately filed bankruptcy petitions, weak management—along with economic decline—has directly contributed to Detroit's distress, in our opinion," added Ms. Ridley. We have reflected the effects of these characteristics in our negatively trending credit rating on the city for many years. But as our existing rating distribution across the sector implies, we believe the vast majority of obligors we rate are committed to doing what it takes to meet their financial obligations. Obligors that preserve their credit quality through a variety of economic cycles typically exhibit willingness to make difficult decisions and take preemptive policy actions. Those that do not manage toward fiscal sustainability can, depending on other contextual factors, become members of a small but highly visible group of municipal obligors that wind up in outright distress.

City of Detroit GO Bond Rating History

Rating Date	Rating
July 18, 2013	C/Negative
June 14, 2013	CC/Negative
June 12, 2013	CCC-/Negative
March 15, 2013	B/Stable
March 27, 2012	B/Negative
Jan. 7, 2009	BB/Stable
Dec. 20, 2007	BBB/Stable
Nov. 21, 2005	BBB/Negative
March 23, 2005	BBB+/Stable
1999	A-/Stable

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