

**UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MICHIGAN**

In re:

Chapter 9

City of Detroit, Michigan,

Case No. 13-53846

Debtor.

Hon. Steven W. Rhodes

Hon. Gerald E. Rosen

**MEDIATORS' RECOMMENDATION FOR APPROVAL OF
SETTLEMENT BETWEEN THE DEBTOR AND SWAP COUNTER-PARTIES**

At a session of said Court, held in
the U.S. Courthouse, Detroit, Michigan
on _____

PRESENT: Honorable Gerald E. Rosen,
U.S. District Chief Judge, Judicial Mediator;
Honorable Elizabeth L. Perris,
U.S. Bankruptcy Judge, Judicial Mediator.

On December 24, 2013, the City of Detroit (the "Debtor"), and UBS AG and Merrill Lynch Capital Services (the "SWAP Counter-Parties") settled their dispute and reached an agreement regarding modification of the SWAP Settlement. The terms of the settlement are set forth in the attached transcript.

As is the case in almost all settlements in bankruptcy (or indeed, in most litigation), this settlement, and the Mediators' recommendation of it, can best be captured and characterized by the admonition, "Do not allow the perfect to become the enemy of the good." This settlement was reached after months of negotiation. Although it is not a

perfect settlement, the mediators believe that, in the interest of all parties, it represents a fair and equitable solution that is advantageous to all concerned. It allows the City to refinance its debt at more favorable terms, saving approximately \$65 million from the original terms of the Forbearance Agreement, approximately \$25 million at the time of the hearing on the assumption of the Agreement, and permitting the City to reduce its interim loan (commonly referred to as the DIP loan) by up to an additional \$65 million. It will further provide much needed financial flexibility by freeing up casino revenues held in the collateral account providing funds needed to maintain operations and bolster city services. As for the SWAP Counter-Parties, it will enable them to avoid the risk of losing all that they invested and further avoid the lawsuit the City threatened to bring which, if successful, could have forced them to disgorge and pay back to the City all of the payments they received under the swaps.

In all, we believe this settlement is a significant first step in the resolution of Detroit's bankruptcy. Therefore, the mediators recommend that the Assumption of the Forbearance and Optional Termination Agreement, dated as of July 15, 2013, and this Settlement be approved, and all objections, including those regarding validity and enforceability, be otherwise overruled. The mediators further recommend that the Bankruptcy Court consider the defendants' pending motion to dismiss in *Syncora Guarantee, Inc. v. UBS AG, et al.*, No. 13-05395, if the motion to dismiss raises the same issues and consideration of the motion will not delay or defer the hearing on the Motion

for Order Authorizing the Assumption of the Forbearance and Optional Termination Agreement, the Settlement, or the post-petition financing. The mediators take no position on the merits of the motion to dismiss.

s/Gerald E. Rosen
Gerald E. Rosen, U.S. District Chief Judge,
Judicial Mediator

s/Elizabeth L. Perris
Elizabeth L. Perris, U.S. Bankruptcy Judge,
Judicial Mediator

Dated: December 30, 2013