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Bankruptcy Ruling Disfavors Florida Dirt Bond Holders

A ruling by the bankruptcy court has put holders of Florida's so-called dirt bonds sold by two Fiddler's Creek Community Development Districts at the end of the pecking order when payments are made to creditors. The ruling made in August states that most of the debt payments to the bond holders would be made only after payments to other creditors. As such, these tax-exempt bond holders are contesting the court ruling which excludes them from a bankruptcy settlement of Fiddler's Creek LLC, the bankrupt builder of a 4,000-acre (1,600-hectare) community in Naples, on Florida's west coast.

Dirt bonds are sold by community development districts set up by property developers to pay for the construction of roads, bridges and utility lines on land for housing projects. 371 districts in Florida issued \$7 billion worth of bonds currently outstanding.

Generally, bond holders are paid out of the revenue collected from homeowner and landowner fees. But the housing industry slump has seen many abandoned, half-completed housing projects and house prices dive to by 42% from their peak in 2006. This has caused a bond default of at least 40%, or \$2.9 billion, of the \$7 billion outstanding, according to data compiled by Bloomberg using disclosures made over the past year. The publisher of Distressed Debt Securities newsletter, Richard Lehmann said, "This is the single biggest default event in the history of the municipal market." Commenting on the court ruling, Lehmann said, "The bondholders were supposed to be the first people in line (to be paid), and now they've been basically made the last."

<http://tampabankruptcy.pro/blog/>

Lehmann also noted that the Fiddler's Creek case is the first in Florida where a development district settled debts with a builder under Chapter 11 bankruptcy procedures over bondholders' objections. This may set a dangerous precedent where other builders seeking to delay bond payments would file Chapter 11 to do so. As it stands, builders of two other districts in Florida, Cordoba Ranch and Landmark at Doral, have filed for Chapter 11 since the Fiddler's Creek settlement. These districts have outstanding bonds totaling \$81.6 million. Other states such as Nebraska, California and Colorado have districts that also borrow to fund industrial and residential projects.

The two Fiddler's Creek districts sold bonds worth more than \$150 million starting from 1996 to finance the cost of building infrastructure in the project that was to include golf courses, tennis courts, clubhouses and 6000 homes. Less than 1,800 homes have been built so far. As a result, the developer lost about \$42 million in expected revenue as buyers refused to close purchases.

In February last year, the developer and 27 other related entities filed for Chapter 11 bankruptcy protection.

If you wish to file for bankruptcy protection, call us at (813) 200 4133 for a free consultation.