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Worries of Municipal Bankruptcies Over the Top?

Of late there has been considerable concern over the fact that cities and local governments are facing severe financial stress until they cannot meet their financial obligations promptly. Filing for bankruptcy is seen as a way out. The section of the bankruptcy code that applies to municipal governments is Chapter 9. Hence some city officials are contemplating filing for Chapter 9 bankruptcy protection.

But cities that file for bankruptcy might be protected financially from creditors but it may very well disrupt other things like investor confidence in municipal bonds issued by local governments. The effect of filing for bankruptcy would be just as devastating as a default on bond payments in terms of investor confidence. Furthermore, filing for bankruptcy would also shut a town out of debt markets and likely jeopardize the reputation of the city leaders.

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Even the very news of bankruptcy to cities is detrimental. Recently the bond market has been spooked by news of mass defaults and bankruptcies even though no city has at that time filed for Chapter 9. This caused some local governments to even postpone plans to issue new municipal bonds, a traditional option for wealthy individuals who want a safe and tax-free investment opportunity.

But according to lawyer Richard Levin, the man who is advising the city of Harrisburg, capital of Pennsylvania on their financial issues, the threat of cities and counties filing for bankruptcy is overblown. Levin says most cities would be able to sort out their financial problems without resorting to bankruptcy filing. Harrisburg is one of the prime candidates for Chapter 9 in the country.

But Levin says any city would want to avoid bankruptcy because of the negative perception it brings. Furthermore, Levin also stresses that many of the budget woes of local governments are pension related, as years of low interest rates have left funds well short of their anticipated investment returns.

Bigger cities such as Cleveland and Philadelphia with worse financial woes have been able to sort them out without having to resort to bankruptcy partly because they want to avoid the fallout that bankruptcy would bring to their financial markets.

But if you are looking for a way out of your debts, you should seek bankruptcy protection. Bankruptcy is your right under the law. Call us at (813) 200 4133 for a free consultation.

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