News



St. Louis Cathedral, the seat of the Roman Catholic Archdiocese of New Orleans, as seen from the Mississippi River. (The Guardian/Alamy/Joerg Hackemann)

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The Roman Catholic archdiocese of New Orleans is planning to default on paying a nearly $1m interest payment on more than $41m in bonds it sold in 2017, leading lawyers for the people who purchased the church's debt to allege in open court that it had engaged in "the definition of securities fraud".

An attorney for the archdiocese countered that the allegation was "an extreme stretch".

But whatever the case, the dispute pitting the US's second-oldest Catholic diocese against the holders of revenue bonds refinancing debt that the New Orleans church took on to rebuild after Hurricane Katrina could complicate efforts to settle a federal financial reorganization that is otherwise largely centered on more than 600 clergy abuse claimants.

Lawyers for investors who purchased the church's debts on the bond market made the securities fraud accusations in front of the U.S. bankruptcy judge Meredith Grabill on Friday.

Bondholder attorney Colleen Murphy said various archdiocesan representatives — including archbishop Gregory Aymond, vicar of finance Patrick Carr and church-hired bankruptcy lawyer Lisa Futrell — had said in the press and on calls with bondholders that the archdiocese would "pay 100%" of its debts despite filing for chapter 11 protections.

Murphy added that the archdiocese reassured bondholders by citing its obligation to comply with canon, or church, law to "pay all your debts in full when they come due".

Yet on 6 June, on the official website for municipal securities data and documents, the archdiocese notified its revenue bond holders — who are investors in public securities — that the organization would not make a $930,206.25 interest payment due on 1 July. The notice mentioned a proposed bankruptcy settlement — which had

not gained approval at the time of Friday's hearing — and how the archdiocese did "not intend to seek the reinstatement of the bonds" in light of the settlement proposal.

In its own notice on the same municipal securities website on Tuesday, Murphy's office told bondholders that the church would try to lower the value of their investment through the settlement — though how much "remains unclear".

Murphy's colleague, Christopher Marks, on Friday told Grabill that he was worried the archdiocese might try to argue it is insolvent. Marks said that would create several issues. He didn't elaborate, but — because the archdiocese is technically a non-profit — Grabill has previously said she cannot force the group into liquidation, which would involve shutting the organization down and selling off its assets to pay back its debts.

As part of required financial disclosures, the archdiocese in November estimated its liquidation value would be $315m, with $158m of that already obligated — leaving only $122m available for abuse survivors and others owed by the church.

The notice from Murphy's office said her side had "retained a law firm to advise it on potential causes of action related to possible violations of securities laws against the archdiocese and other parties".

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Murphy was more blunt when speaking with Grabill, saying: "I'm here to tell you that's the definition of securities fraud." She suggested in other contexts it was OK to attribute a reneged promise to "wishful thinking" that collapsed under the weight of reality — "but you say that to the bond market, [and] it's securities fraud".

Marks echoed her in his own remarks to Grabill, saying: "Statements … have been made throughout this case … directly to bond holders, to the public, to the market … that their claims will be paid in full.

"We're talking about securities fraud."

Murphy said many of the bond buyers who stand to be affected by the church's decision to halt the 1 July interest payment are Louisiana citizens. "They're almost

definitely … parishioners," Murphy said. "These are the people they've cut off."

In court, a bankruptcy attorney representing the archdiocese, Mark Mintz, accused Marks and Murphy of "kind of randomly … spouting out accusations". He called their claims "an extreme stretch that really has no basis".

A statement from the archdiocese added in part that the church "strongly disagrees with the inflammatory statements made by the [bondholders'] attorneys in court".

Noel Boeke, a bankruptcy attorney based in Tampa, Florida, who is not involved in the New Orleans case, said the dispute over the bond debt may be little more than "posturing" as the church and its creditors try to confirm a settlement to end a contentious bankruptcy that started in May 2020.

"It would not be unusual for an entity in bankruptcy to have difficulty paying its bond obligations," Boeke said. "These kinds of pre-confirmation skirmishes are everyday meat and potatoes stuff in bankruptcy court."

He said the biggest hurdle for the archdiocese is to get a final agreement with abuse survivors, which, if the currently proposed plan is approved by two-thirds of the claimants, would pay them $180m. The outstanding bond debt — which stood at $37.9m when the archdiocese filed for bankruptcy protection — is smaller by comparison, and Boeke said he would be surprised if that held up a final settlement deal.

Another potential stumbling block: a November 2020 agreement for the church to continue paying interest to bondholders despite the bankruptcy's being unresolved does not allow the church to sell more than $20m in real estate assets — a provision meant to ensure there was enough collateral in case the archdiocese defaulted on the debt.

The proposed bankruptcy settlement calls for selling a collection of apartment complexes that had previously received an offer of about $150m from a prospective buyer. The offer was not accepted at the time.

New Orleans's archdiocese filed for bankruptcy protection in an attempt to limit its financial exposure in connection with the worldwide Catholic church's decades-old clergy molestation scandal. But the church doesn't only owe payments to abuse survivors once its financial reorganization is complete — it also owes other creditors

like the bondholders.

At the time of the church's bankruptcy filing, Louisiana — which includes New Orleans — generally prohibited molestation survivors from pursuing civil damages for long-ago abuse. Yet the state removed that prohibition with a law which took effect in August 2021 and was upheld as constitutional by Louisiana's supreme court in June 2024.

Meanwhile, in a sworn statement filed in criminal court in April 2024, Louisiana state police revealed that they were investigating whether the New Orleans archdiocese ran a child sex trafficking ring responsible for the "widespread … abuse of minors dating back decades" that was hidden from authorities for many years.

A bloc of attorneys representing hundreds of clergy abuse survivors have expressed opposition to the pending settlement agreement, saying their clients deserve in the neighborhood of $300m. The settlement proposal is expected to be discussed at a hearing in Grabill's courtroom scheduled for 26 June.

This story was originally published in The Guardian and WWL-TV Louisiana.