

FEI Canada Conference Jasper 2008

Canadian Capital Markets – Crises and Cures

Third Party ABCP Market in Canada
August 2007 to May 2008

Presented By: Francesca Guolo



- Approximately \$196.7 billion of asset-backed securities were outstanding in the Canadian securitization market on August 31, 2007.¹
- As of August 31, 2007, of the total amount of Canadian ABCP outstanding of approximately \$116.8 billion (excluding medium-term and floating rate notes), approximately \$83.8 billion was issued by Canadian Schedule I bank-administered conduits and approximately \$33 billion was issued by non-bank administered conduits.²

1. Source: DBRS Limited

2. Source: DBRS Limited

Credit Market in Summer of 2007



“The Federal Reserve’s largest injection of cash into the US banking system since 2001 and similar measures by other central banks around the world have seemingly failed to quell intensifying fears of a global credit crunch. Unfortunately, these notable efforts have not done much to improve many companies’ access to funding, whether in the short end or out the curve. Nor have these actions calmed market participants’ worries about the possibility (and implications) of a “seize up” in credit availability. As a result, credit markets suffered through another frightening week as the VIX registered an intraday print of 37.5, the highest level since October 2002, and credit spreads and equity indexes continued their freefall.”³

- In the period leading up to August 2007, general market conditions gradually worsened as investor sentiment deteriorated on negative U.S. residential mortgage related news, downcast housing data, CDO concerns, prominent earnings misses and concerns regarding digestibility of heavy volumes of underwritten and non-syndicated leveraged buy-out loans.
- Credit conditions continued to weaken during the week of August 13th, and several non-bank sponsored asset-backed commercial paper conduits in Canada were unable to refinance their maturing ABCP.

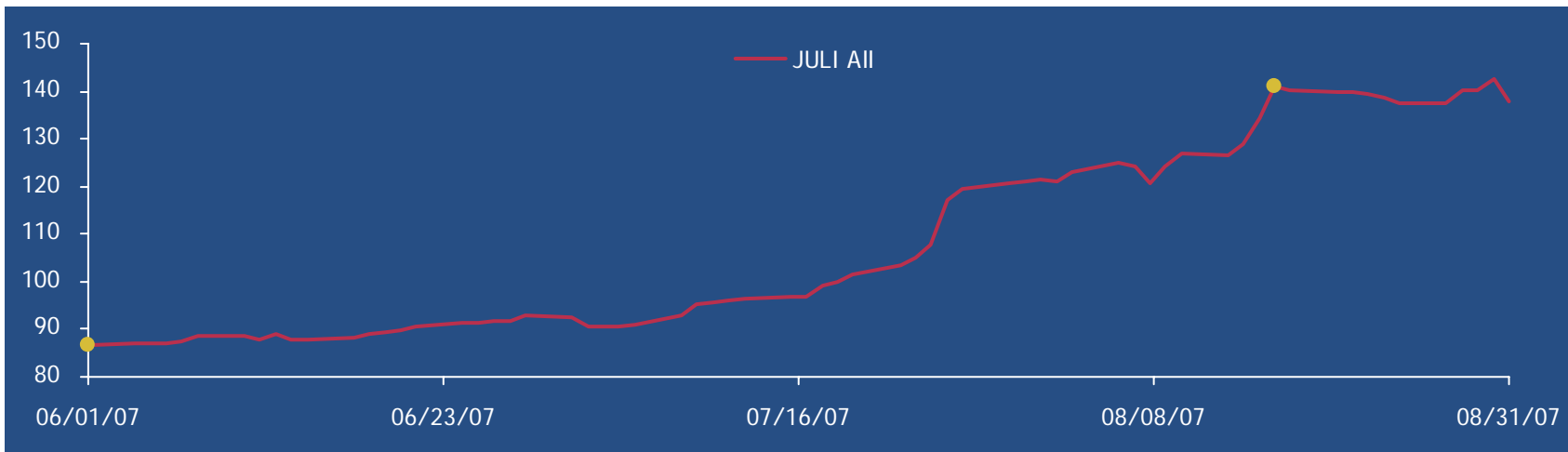
3. Source: Morgan Markets; “Credit Markets Outlook and Strategy, August 17, 2007”.

Credit Market in Summer of 2007



- The graph below illustrates the decline in the credit markets from June 1st, 2007 to August 31st, 2007.⁴

U.S. Corporate Bond Index Spreads (bps)¹



- Economic concerns lead to a credit market sell-off in the remainder of 2007 and early 2008, with spreads reaching record levels.

⁴ Source: Morgan Markets; JULI All U.S. Corporate Spreads

- The assets of the 20 conduits subject to the proposed restructuring can be grouped by the following categories:
 - Traditional assets: Wide range of whole loan and securitized portfolios, ranging from standard auto loan securitizations to immigrant loans.
 - Synthetic assets: Leveraged super senior swaps and unleveraged synthetic CDOs.
 - Cash
- These assets are generally funded by a combination of short-term commercial paper (including extendible notes) and floating rate medium term notes.

Limitations of the Existing Third Party ABCP Structures



Like other securitized vehicles, such as SIVs and ABS funds, the structures were unable to withstand the dramatic worsening of credit market conditions and illiquidity.

- Maturity mismatch of assets and liabilities within the conduits (long term assets having been financed by short term liabilities).
- Leverage embedded in structures by reason of inclusion of leveraged super senior transactions with mark-to-market triggers allowing the asset providers to call for additional collateral.
- Lack of transparency in relation to the underlying assets of the structures, affecting liquidity and market demand for the ABCP.

- Ratings downgrades, decreasing the universe of potential investors/holders.
- Defaults by reason of the inability to refinance maturing ABCP and/or meet additional collateral calls.
- Forced liquidations at significantly depressed prices.
- Systemic risk and “domino effect” as liquidation of significant volume in the market could lead to credit spread widening and, in turn, additional forced liquidations at significantly depressed prices.

Structural Improvements embedded in Proposed Restructuring



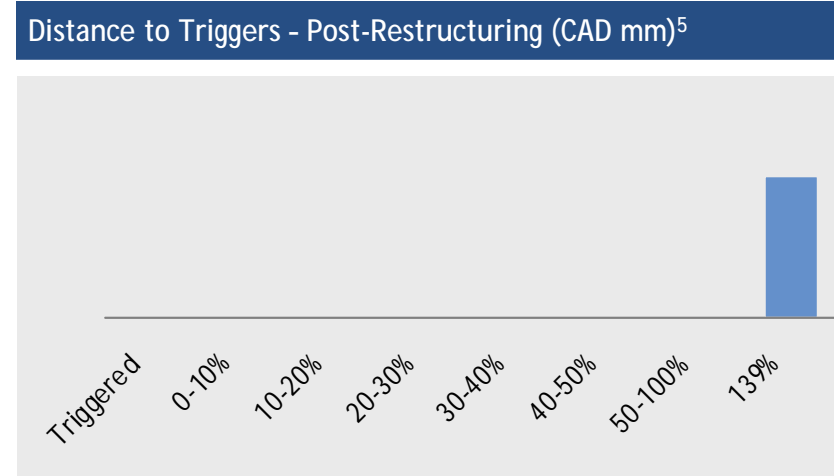
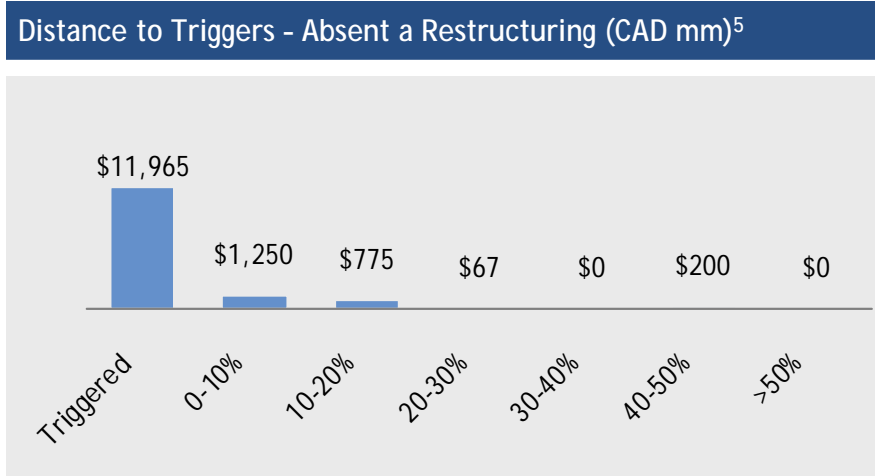
A more robust structure for investors.

- Conduit liabilities termed out to match more closely the term of the conduit assets, eliminating the need to refinance liabilities.
- Assets pooled or combined to reduce the risk of collateral calls.
- Contribution of additional (otherwise unencumbered) collateral and addition of margin funding facility to meet future collateral calls and so strengthen the structure's ability to withstand further market deterioration.

Structural Improvements embedded in Proposed Restructuring



- Restructured margin triggers such that the triggers are more remote and the metrics are more and objective.



- Increased transparency through public disclosure of structure's underlying documents and data.

5. Source: Morgan Markets; JULI All U.S. Corporate Spreads.

- A more robust structure, improving the potential for value recovery over time.
- Improved transparency through public disclosure of detailed information concerning the restructured notes and underlying assets to investors.
- Improved liquidity.