

Canadian Structured Finance Newsletter

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Andrew Fitzpatrick
Assistant Vice
President
+1 416 597 7377
afitzpatrick@dbrs.com

Jireh Wong
Senior Vice President
+1 416 597 7527
jwong@dbrs.com

Jamie Feehely
Senior Vice President
+1 416 597 7312
jfeehely@dbrs.com

Jerry Marriott
Managing Director
+1 416 597 7358
jmarriott@dbrs.com

Toronto
DBRS Tower
181 University Avenue
Suite 700
Toronto, ON M5H 3M7
+1 416 593 5577

New York
140 Broadway, 35th
Floor
New York, NY 10005
+1 212 806 3277

Chicago
101 North Wacker Drive
Suite 100
Chicago, IL 60606
+1 312 332 3429

Nickey Edwards
Publisher
+1 416 597 7332
nedwards@dbrs.com

CIBC AND THE 18-MONTH MORATORIUM

In this the initial Canadian Structured Finance Newsletter, DBRS will focus on an issue in the Canadian structured credit market.

On January 21, 2009, DBRS assigned a final rating of "A" to the Master Asset Vehicle I (MAVI) Class A-1 and Class A-2 Notes (the MAVI Notes) and to the Master Asset Vehicle II (MAVII) Class A-1 and Class A-2 Notes (collectively, with the MAVI Notes, the MAV Rated Notes). In the press release that accompanied the release of the rating reports, DBRS noted that "all but one swap counterparty to MAVI and MAVII have agreed to an 18-month moratorium period during which MAVI and MAVII will not be subject to collateral calls."

CIBC is the swap counterparty for the two leveraged credit default swap (CDS) transactions collateralized by MAVI and MAVII that are not subject to the 18-month moratorium on margin calls (the CIBC Transactions). As a result, CIBC will be able to make margin calls on these transactions if at any point their respective collateralization triggers are breached. These trades do not benefit from either the margin funding facility or senior funding facility available to each of MAVI and MAVII to meet margin calls on the other leveraged CDS transactions held by MAVI and MAVII. However, approximately \$103.3 million of additional collateral was pledged to CIBC prior to the January 21, 2009, closing, increasing the collateralization of the CIBC Transactions.

Unlike all other swap transactions to which the MAV Rated Notes are exposed, the CIBC Transactions have retained their original pre-Montréal Accord restructuring¹ spread-loss triggers.² The size of any margin call would be a function of the cumulative portfolio loss, weighted-average spread of the underlying reference entities and time remaining to maturity.

The CIBC Transactions each reference 160 underlying corporate reference entities. There is a high degree of name overlap between the portfolios, with only five reference entities not appearing in both pools. Each trade has an attachment point of 20%, a detachment point of 50% and a \$250 million initial funded amount. March 20, 2013, is the legal maturity date for each of the CIBC Transactions. Aggregate collateral pledged in support of the CIBC Transactions represents 3.2% of the total assets of MAVI and 1.1% of the total assets of MAVII.

Under the terms of agreements specific to the CIBC Transactions (the CIBC Omnibus Agreements), there are different mechanisms and consequences applicable to MAVI and MAVII upon the occurrence of a trigger breach for which insufficient collateral is available to MAVI or MAVII to fund the related margin call.³

MAVI: Upon breach of a collateralization trigger (among other events), noteholders will exchange a portion of the principal amounts of their MAVI Class A-1 Notes, Class A-2 Notes, Class B Notes and Class C Notes⁴ for an equivalent aggregate principal amount of Class X Notes to be issued by MAVI. Noteholders will then be entitled to provide additional collateral in the proportion that their holdings of Class A-1 Notes, Class A-2 Notes, Class B Notes and Class C Notes constituted of all of the MAVI Class A-1, Class A-2, Class B and Class C Notes. If a noteholder chooses not to provide additional funding, a partial unwind event will occur in respect of a portion of the CIBC Transactions equal to the percentage equivalent of the additional funding that was not provided and a corresponding portion of the CIBC Transaction specific collateral will be liquidated. A noteholder that had not funded additional collateral may receive distributions of the proceeds of such liquidation under the applicable CIBC Omnibus Agreement priority of payments in respect of its Class X Notes, but once all such proceeds are distributed in accordance with such an agreement, such noteholder claims in respect of its Class X Notes will be extinguished. The remaining portion of MAVI Class A-1 Notes, Class A-2 Notes, Class B Notes and Class C Notes will not be impacted by the unwinding of the CIBC Transactions.

MAVII: Upon breach of a collateralization trigger (among other events), no note exchange occurs. MAVII will need to provide 100% of the additional margin called for or an unwind event will occur in respect of a portion of the CIBC Transactions equal to the percentage equivalent of the additional margin not provided. A corresponding portion of MAVII's CIBC specific-collateral will be liquidated and holders of MAVII Notes may receive distributions of the proceeds of such liquidation under the applicable CIBC Omnibus Agreement in respect of their MAVII Notes. However, their claims in respect of those MAVII Class A-1, Class A-2, Class B and Class C Notes will not be extinguished once all such proceeds are distributed. Such collateral liquidation and distribution would likely reduce the subordination available to support the MAV Rated Notes; however, in the absence of other factors, appropriate subordination for an "A" rating would likely remain.

As of February 17, 2009, DBRS analysis indicated that losses equaled 0.84% and that the CIBC Transactions were approximately 35 basis points from their collateral call triggers. The same analysis suggested that on January 2, 2009, the CIBC Transactions were less than 3 basis points from breaching their triggers.

DBRS has analyzed the probability of MAVI or MAVII facing a margin call with regard to the CIBC Transactions that MAVI or MAVII would not be able to satisfy with existing collateral available to be pledged as additional margin. This analysis indicates that the probability of MAVI or MAVII facing such a scenario is less than investment-grade remote.

For further information, please contact Andrew Fitzpatrick at +1 416 597 7377 or afitzpatrick@dbrs.com; Jamie Feehely at +1 416 597 7312 or jfeehely@dbrs.com; or Jerry Marriott at +1 416 597 7358 or jmarriott@dbrs.com.

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1. For more information on the Montréal Accord and the restructuring of the Canadian third-party asset-backed commercial paper market, please see www.dbrs.com.
 2. MAVI and MAVII hold one other transaction that has retained its original margin call triggers. However, this transaction secures an Ineligible Asset Tracking Note that is not rated by DBRS. The performance of this transaction will not impact the MAV Rated Notes.
 3. Please note that the following summary is provided for information purposes only, is not complete and should not be relied upon. For definitive guidance, please see the CIBC Omnibus Agreements.
 4. DBRS does not rate the MAVI Class B or Class C Notes nor the MAVII Class B or Class C Notes.

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