

Canadian Structured Finance Newsletter

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A PROGRESS REPORT ON THE CANADIAN SECURED CREDIT FACILITY

As part of its response to the global economic downturn, the Government of Canada announced in its January 27, 2009 budget the creation of the Canadian Secured Credit Facility (CSCF). The CSCF will purchase up to \$12 billion of asset-backed securities (ABS), backed by loans and leases on vehicles and equipment with the stated objectives of stimulating economic activity by helping businesses and consumers access financing for these products and rebuilding confidence in the Canadian ABS market.

The Business Development Bank of Canada (BDC) has been assigned the responsibility for establishing and managing the CSCF on behalf of the federal government. BDC engaged in a consultation process which ended in late March. As DBRS has ratings on 100% of the outstanding ABS vehicle and equipment loan and lease transactions in the Canadian market, DBRS participated in the consultation and offered the benefit of its knowledge of these asset classes to BDC.

BDC has now released an outline of the program and has sent commitment letters to originators describing the assets classes, amounts and pricing of the ABS that will be purchased.

An initial allocation of between \$9 billion and \$11 billion will be divided between a Large Enterprise Tranche (LET) and a Small Enterprise Tranche (SET); up to \$1.0 billion has been set aside for the SET with the balance going to the LET. The remainder of the \$12 billion will be made available in a second allocation, no later than August 2009.

The LET is aimed at securitization issuers that have been most reliant on securitization in the past. In order to participate in the LET, an originator must be a Canadian entity with previous securitization experience and the ability to generate at least \$300 million of eligible assets between April 1, 2009 and October 31, 2009. The SET is aimed at smaller issuers, and there is no previous securitization requirement. SET participants must be Canadian entities with the ability to generate at least \$100 million of eligible assets between April 1, 2009 and October 31, 2009.

Equipment and vehicle loans and leases must have been originated on or after April 1, 2009, in order to be eligible for inclusion in the CSCF. However, certain exceptions will allow each originator to fund up to \$1.0 billion in the case of the LET and up to \$300 million for the SET of "vintage" assets, which were originated before April 1, 2009.

BDC has announced that all ABS to be purchased by the CSCF must be rated AAA by two of the following rating agencies: DBRS, Moody's Investors Service, Inc. or Standard & Poor's Rating Services. DBRS is pleased to have been selected as one of the eligible rating agencies and looks forward to participating in this important initiative for the Canadian securitization market.

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