

# Canadian Structured Finance Newsletter

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## THE CANADIAN SECURED CREDIT FACILITY COMES TO A CLOSE

At the stroke of midnight on March 31, 2010, the Canadian Secured Credit Facility (CSCF) will stop accepting applications for funding. The CSCF was announced in the January 27, 2009, federal budget as part of the Government of Canada's response to the global economic downturn and the lock up in the Canadian asset-backed securities (ABS) market. Up to \$12 billion was made available under the CSCF to purchase ABS backed by loans and leases on vehicles and equipment. The stated objective of the CSCF was to stimulate economic activity by helping business and consumers access financing for vehicles and equipment and to rebuild confidence in the Canadian ABS market. The Business Development Bank of Canada (BDC) was responsible for establishing and maintaining the CSCF under the guidance of the Department of Finance.

As the facility comes to a close, approximately \$3.4 billion of the \$12 billion of available funding has been utilized. CNH Capital Canada funded \$300 million of notes backed by wholesale receivables. GMAC Canada closed two transactions under the facility, a retail loan transaction for \$1.3 billion and a floorplan receivables transaction for \$1.7 billion. PHH Vehicle Management Services funded a little under \$100 million backed by fleet leases in a transaction that was co-funded by debt capital market investors. It is expected that a small number of other transactions for which commitments had been entered into prior to March 31, 2010, may be funded after the facility officially winds down.

Notwithstanding some early market concerns regarding pricing and conditions for funding, the CSCF can be described as a qualified success. The initially announced pricing level was seen by market participants as expensive and not representative of market pricing. There were also concerns raised regarding structural complexity and certain early risk mitigation requirements. These issues were largely addressed during the second price discovery process which was launched in September 2009. In light of the position taken by BDC, some vehicle and equipment financing originators chose to fund outside of the facility. However, by establishing the CSCF the Government of Canada showed its commitment to supporting the Canadian ABS market, not unlike the commitment made by the U.S. federal government through the Term Asset-Backed Securities Loan Facility run by the U.S. Federal Reserve. The establishment of a pricing benchmark also contributed to the stability of the Canadian ABS market during a challenging period and in this way facilitated non-CSCF transactions. The fact that BDC participated as an investor in a number of deals with private sector investors demonstrates how the facility served as a catalyst for transactions without venturing into market-maker territory.

The originators that accessed the CSCF were large multi-national financial corporations. Smaller loan and lease originators were unable to satisfy the requirements to use the facility. For potential issuers, this may have been the greatest source of dissatisfaction with the program. The March 4, 2010, federal budget tacitly acknowledges this issue with the announcement of the Vehicle and Equipment Finance Partnership program, which is specifically designed to expand financing options for small- and medium-sized finance and leasing companies.

As part of the eligibility requirements for participation in the program, BDC required that ABS purchased under the CSCF hold AAA ratings from two credit rating agencies. DBRS rated all securities purchased under the facility and remains the only rating agency with ratings on 100% of the outstanding public ABS vehicle and equipment loan and lease transactions in the Canadian marketplace.

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