

Blakes Bulletin

Securitization

Canadian Government to Support Vehicle and Equipment ABS

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As part of its January 27, 2009 budget announcements, the Canadian federal government has announced the creation of a C\$12-billion Canadian Secured Credit Facility for the purchase of term asset-backed securities (ABS) backed by loans and leases on vehicles and equipment. The program, likely to be similar to the U. S. government's term asset-backed lending facility (TALF), is aimed at supporting "financing for vehicles and equipment for consumers and businesses, large and small."

At this point, few details are available, but here are some things we do know.

Firstly, the government says that "This facility will be priced on commercial terms, and will therefore be expected to generate a positive return for the government." At the same time, it is clear that the whole purpose of the facility is to kick-start the availability of reasonable financing in these areas, so the pricing set by the government will need to be low enough to actually achieve this.

Secondly, so far only federally regulated financial institutions, and provincially regulated financial institutions who are approved by the federal government, are eligible to sell into the facility. Other entities interested in the facility may also be able to become eligible by working with the Canadian Office of the Superintendent of Financial Institutions. The *Globe and Mail* has reported finance officials to have said that auto makers' finance arms will have to commit to becoming federally regulated institutions in order to qualify for the program.

Thirdly, the facility accommodates ABS backed by both loans and leases, and relating to both vehicles and equipment.

Fourthly, the Business Development Bank of Canada (BDC) will be the designated federal agency to administer this new facility.

Additional details on the proposal will be required on a number of fronts. Among other things, it is unclear how a typical securitization structure involving a "true sale" of the assets to a conduit, and the issuance by the conduit of the relevant ABS, will fit into all of this. Does the ABS in fact have to be issued by the financial institution in order to be eligible for sale to the government or, for example, can it be issued by a conduit sponsored by that financial institution? Similarly, can the financial institution (or its conduit) buy the leases and loans to be securitized from some other type of entity or must it originate them itself?

As well, it is unclear how this facility will be divvied up among eligible institutions – will it be a first-come, first-served situation or will some more equitable method be applied to make sure all industry participants have access?

The Canadian Finance and Leasing Association has reported in its Member Alert that officials at the Ministry of Finance and BDC will work on a basic framework for this facility. Input from relevant stakeholders will be sought before the package is finalized.

Although most of the details remain to be worked out, it is clear that we have an important vote of confidence in the Canadian securitization industry that should provide significant stimulus to the vehicle and equipment leasing and financing industry.

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