



*insight beyond the rating.*

# Managing Risk in the Aftermath of the Financial Crisis

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JUNE 1, 2010

# Topics for Today



- Issues and concerns around CMBS – Canada and the US
- How did corporates do in 2009?
- How is ABS performing?
- Ongoing weakness in sovereign debt and the US housing market
- CDOs and other complex financial products
- Transparency, disclosure, and regulation - where are we headed?

# The Post Financial Crisis World

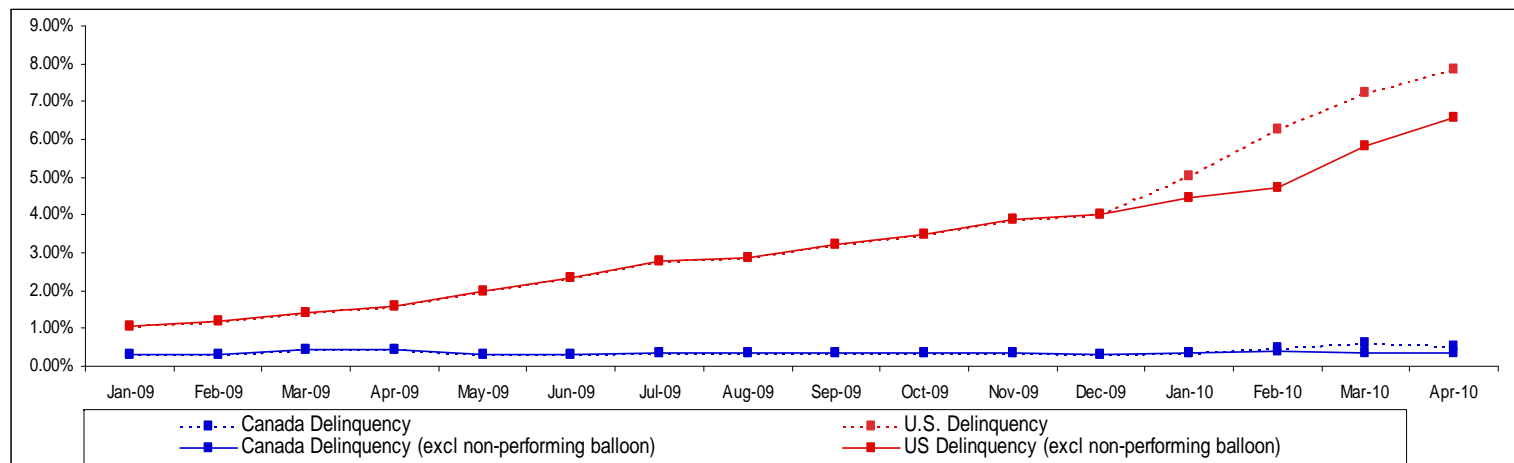


- Financial institutions, structured finance, and corporates all went through a period of tremendous stress
- Many financial institutions were supported
- A small number of corporates were supported
- Support came from governments
- Structured finance separated into two outcomes
  - “Traditional” assets (examples: autos, credit cards, Canadian mortgages)
  - “Problem” assets (US RMBS/US CMBS, aggressive CDOs, ABS CDOs)

# Delinquency: Canada vs. US



## 2009-2010 Month over Month CMBS Delinquency



- Canadian CMBS continue to perform well, despite declining denominator.
- Prior to 2009, US delinquency had always trended higher, from 50-100 bps; disparity is now closer to 600-700bps.
- DBRS does not expect Canadian CMBS delinquencies to mimic the US CMBS delinquencies.

# Update on CMBS



- Canada
  - Upgrades outpace downgrades
  - Likely to see bar-belled performance
  - Concentration can be an issue
    - Tertiary markets
    - Calgary
    - Non-traditional property types
  - Financial performance stable for YE 2009
- US
  - Downgrades outpace upgrades
    - First 'D' rating in 2010
  - Maturity extensions continue
  - Value and cash flow decline YE
  - Defaults rise, albeit slower pace in 2010

# Canadian CMBS Performance



- Near-term Outlook
  - Expect financial performance to undergo stress at properties that are located in tertiary and border-town markets. Specifically Canadian border-town retail and manufacturing/industrial.
  - Delinquencies may rise slightly as a result
  - Non-traditional property types may experience difficulty refinancing (hotels, retirement homes, self storage)
  - Values will hold across most property types
- Long-term Outlook
  - Senior CMBS bonds will exhibit stable ratings and stable performance.

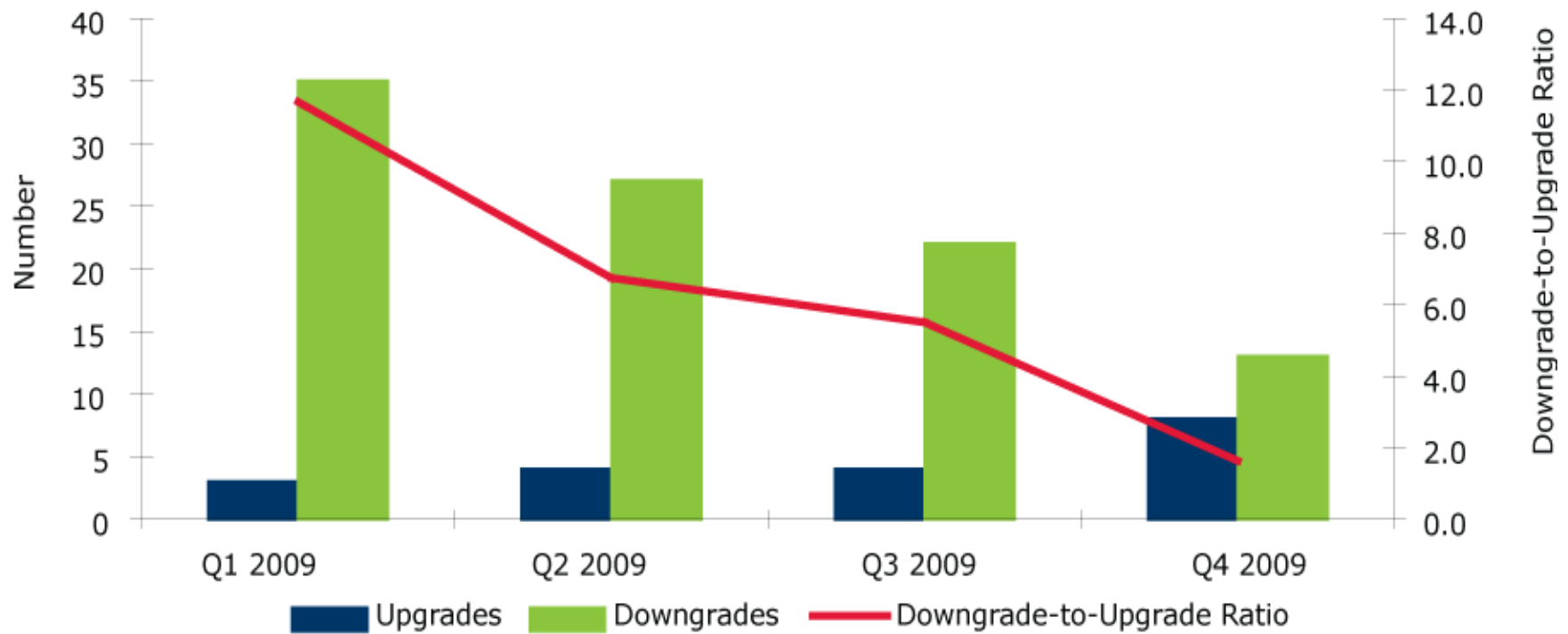
# Rating Changes by Industry - 2009



	Upgrades	Downgrades	Total
Autos & Auto Suppliers	2	11	13
Telecom/Media/Technology	5	6	11
Consumer Products and Retail	2	2	4
Energy	5	1	6
Financial Services	1	57	58
Industrial and Transportation	1	5	6
Infrastructure and Public Finance	3	2	5
Natural Resources	0	13	13
Real Estate	0	0	0
<b>Total</b>	<b>19</b>	<b>97</b>	<b>116</b>

Note: Includes multiple rating actions to individual credits.  
Source: DBRS.

# Quarter by Quarter Rating Activity, 2009



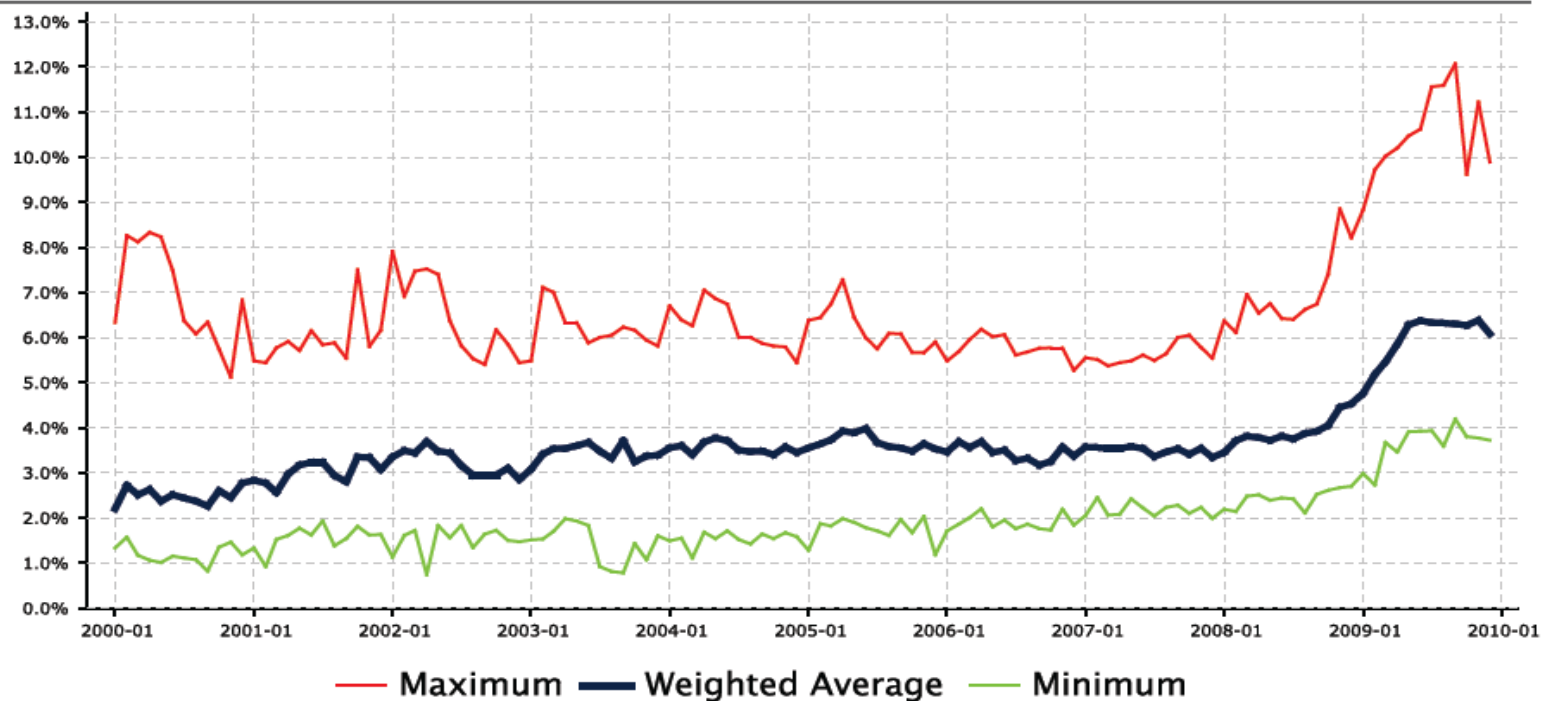
Source: DBRS.

# Canadian Credit Card Loss Rates



- Losses have stabilized but are unlikely to return to previous levels for some time

Loss Rate

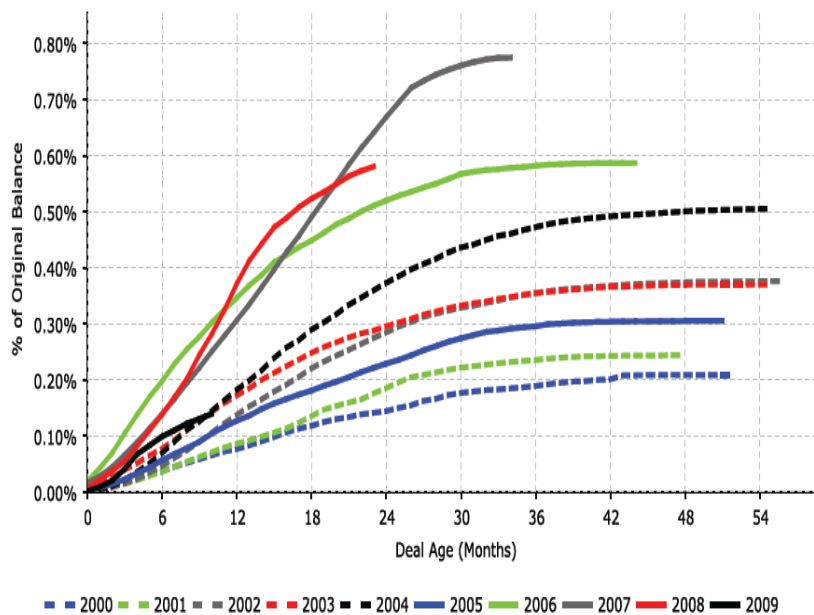


# Auto ABS

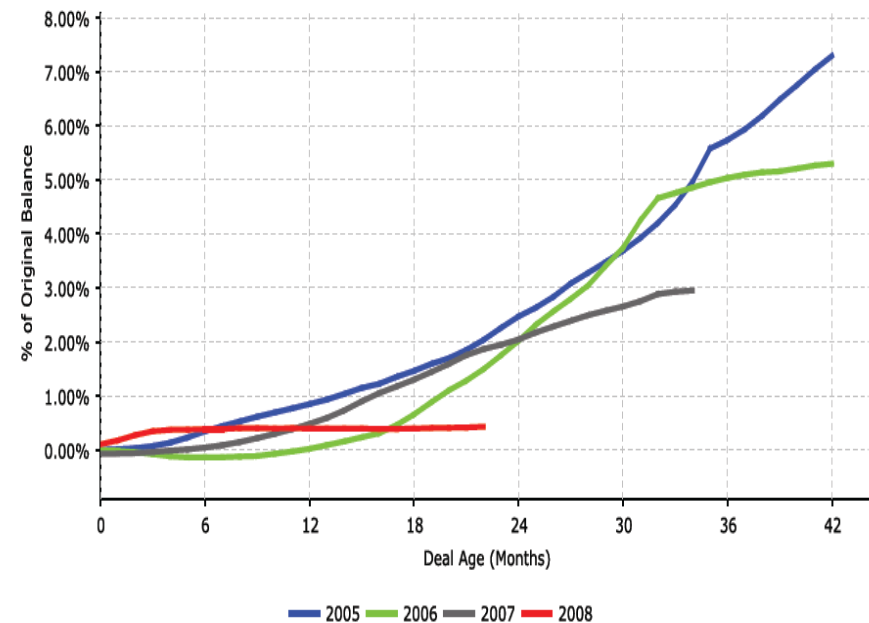


- Canadian performance has remained extremely strong despite a recession and the bankruptcies of two of the Detroit-3

Automotive Cumulative Credit Losses by Issuance Year



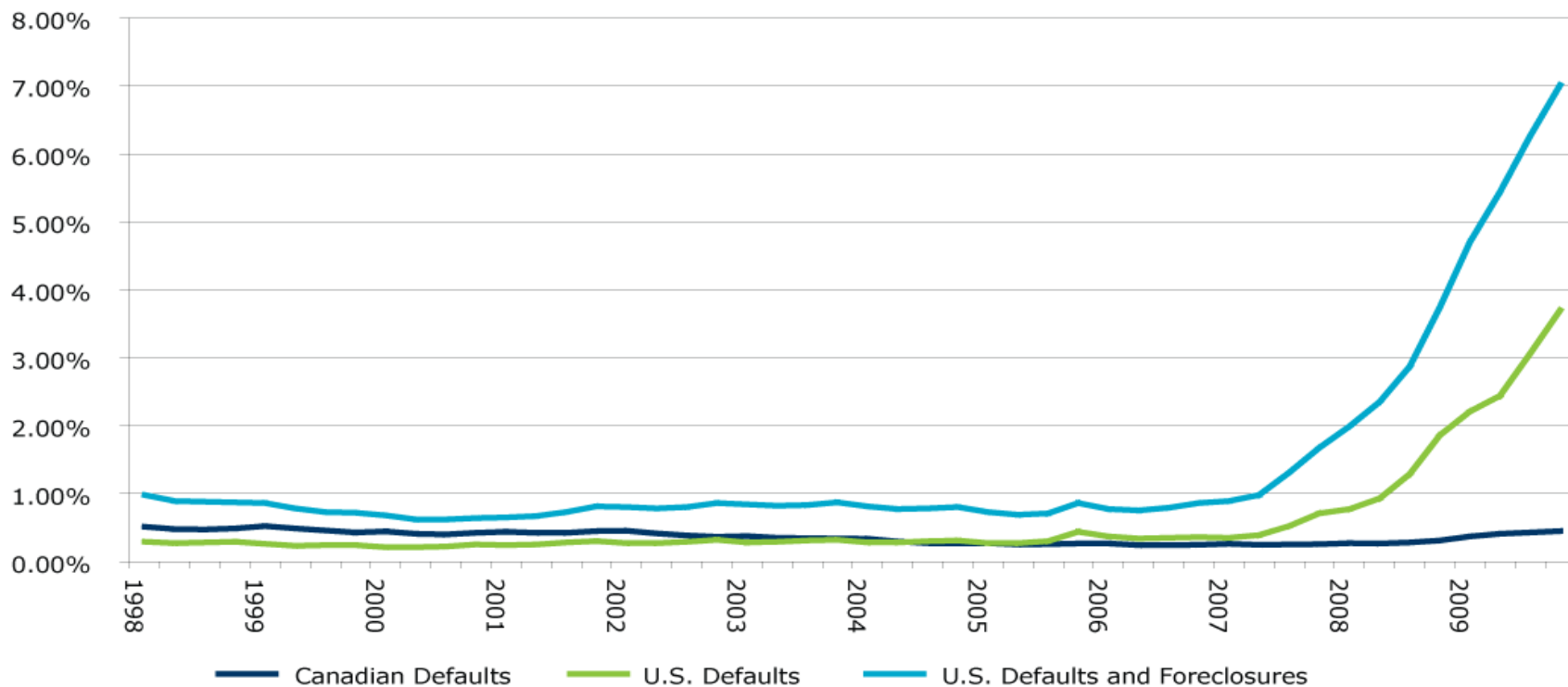
Automotive Cumulative Residual Losses by Issuance Year



# Prime Residential Mortgage Default Rates

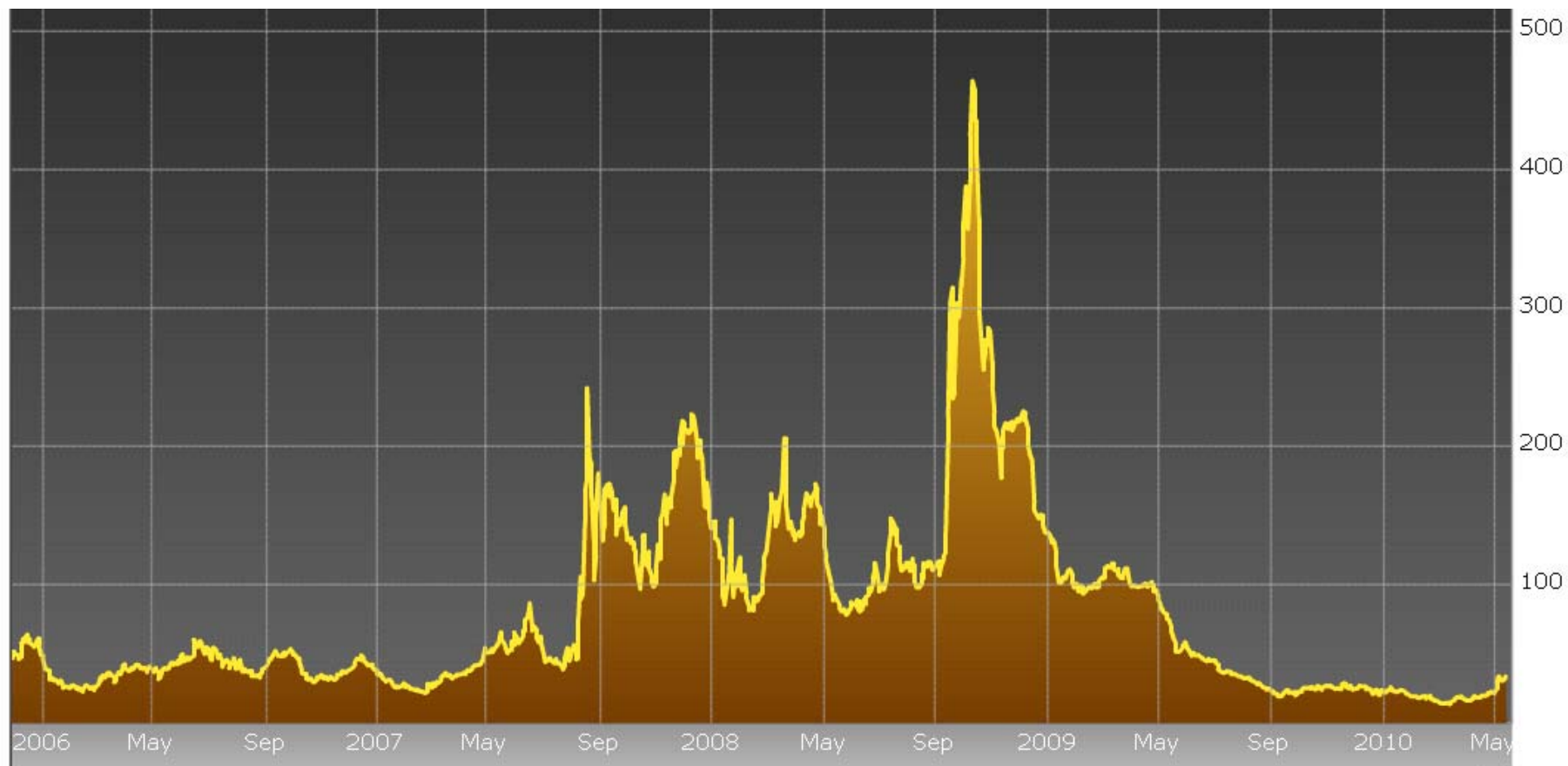


- Canadian prime and non conventional mortgages continue stable performance, divergent from US comparables



Note: Mortgages that are 90+ days delinquent are considered in default.  
Source: DBRS, Canadian Bankers Association, The Mortgage Bankers Association.

# TED Spread



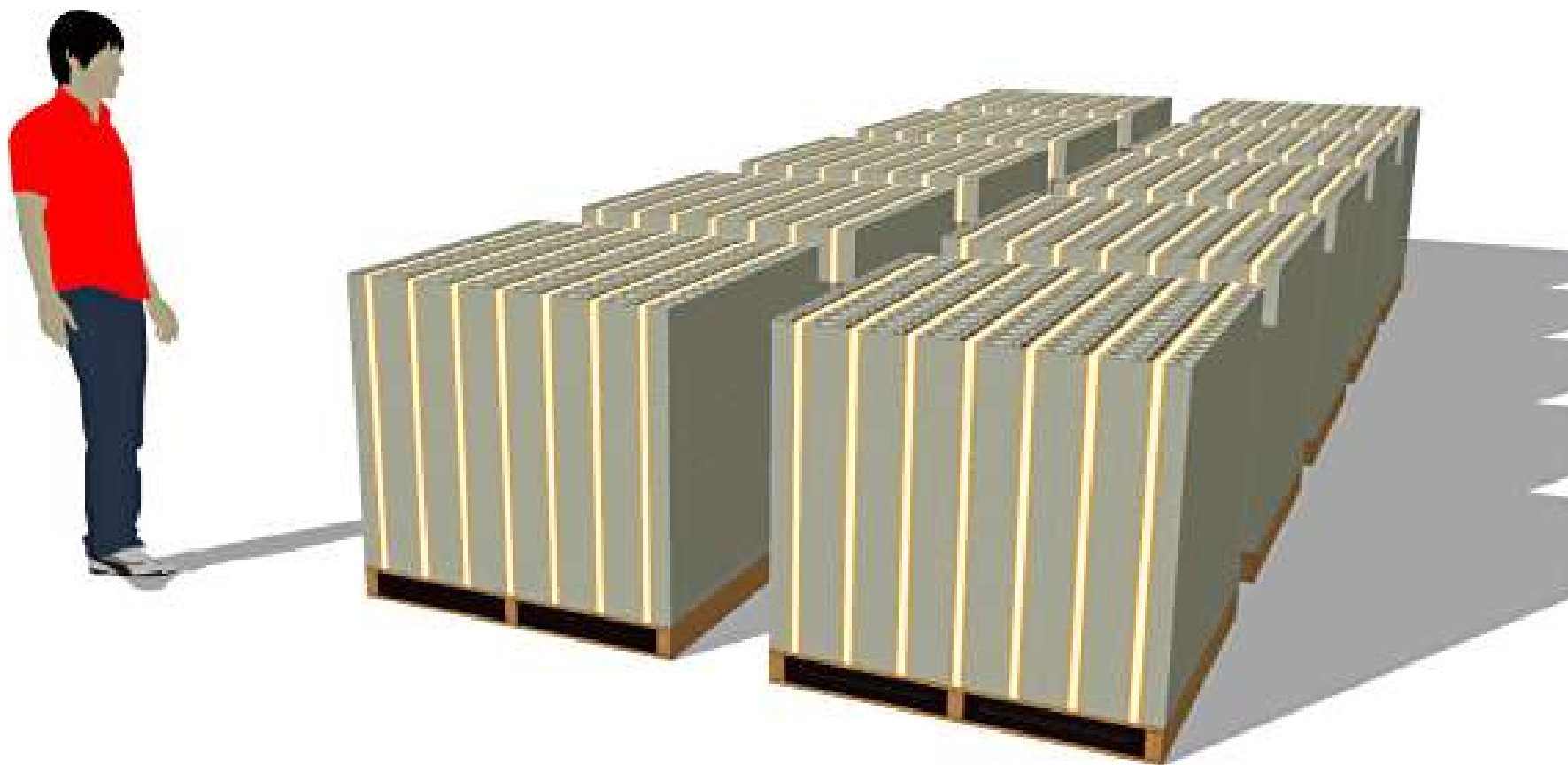
What does \$10,000 look like?



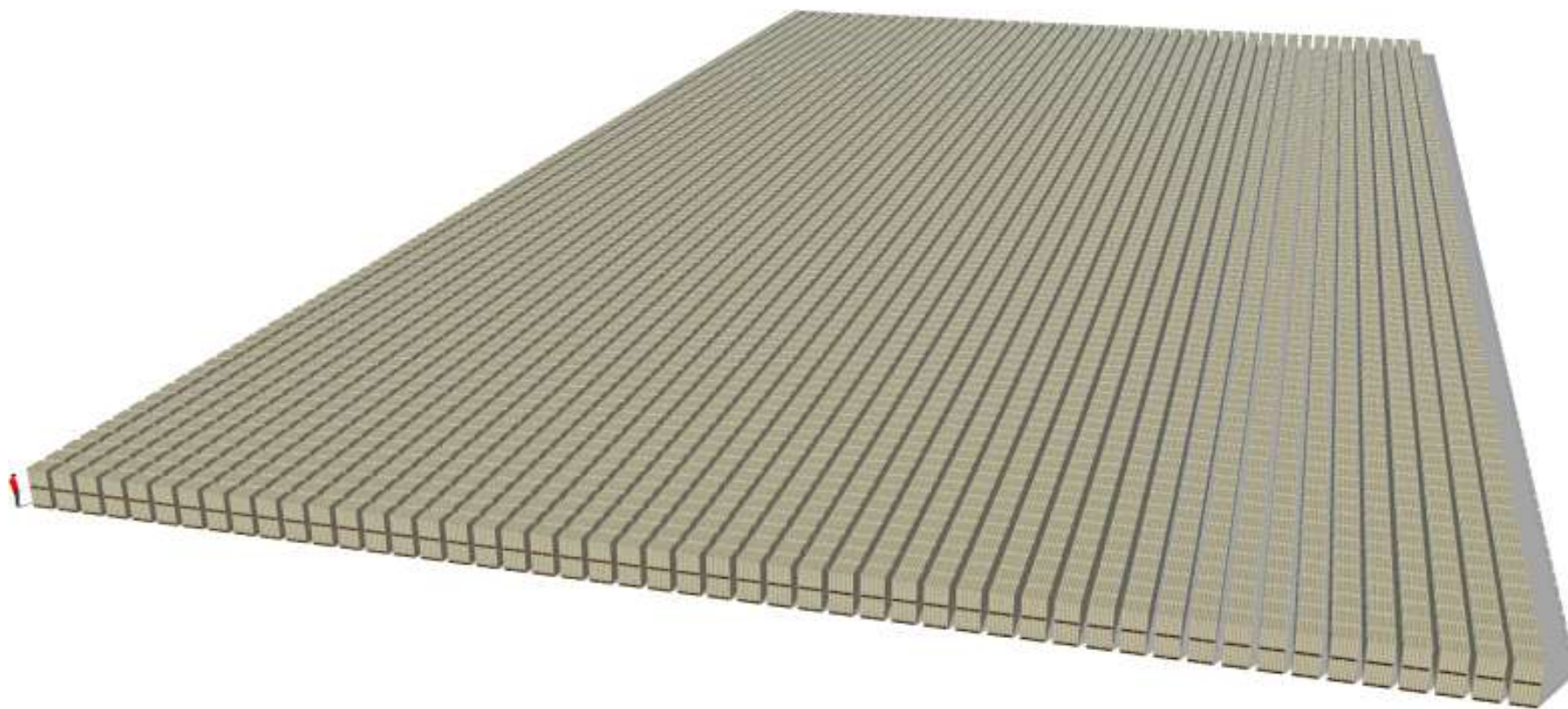
\$1 million



\$1 billion



\$1 trillion (pallets stacked two high!)



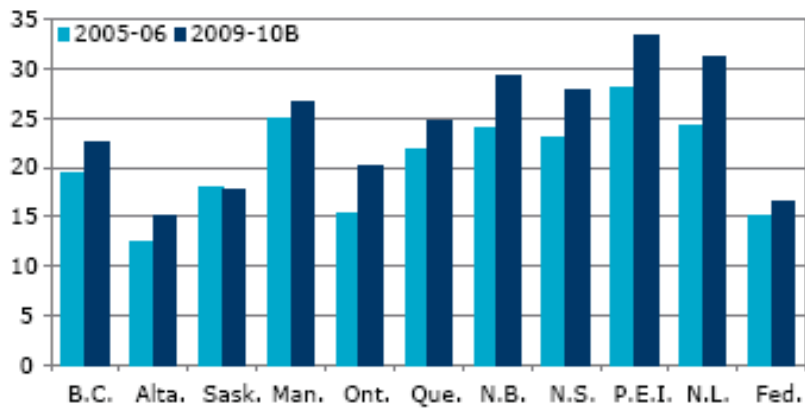
# Assuming this is not an option



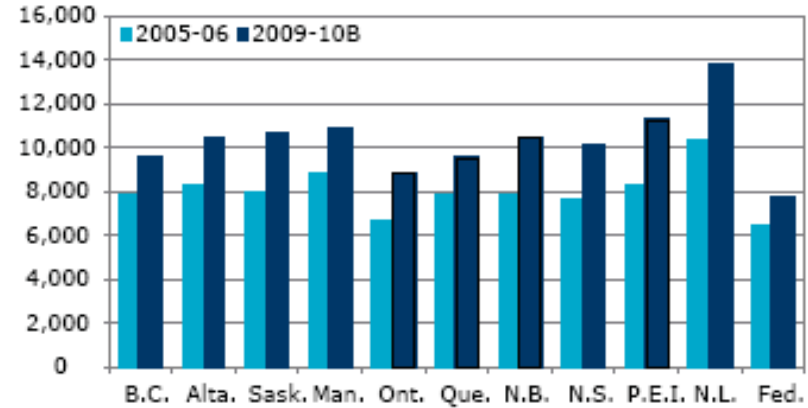
# Total Spending as % of GDP and Per Capita, by Province



**Total Spending as % of GDP**

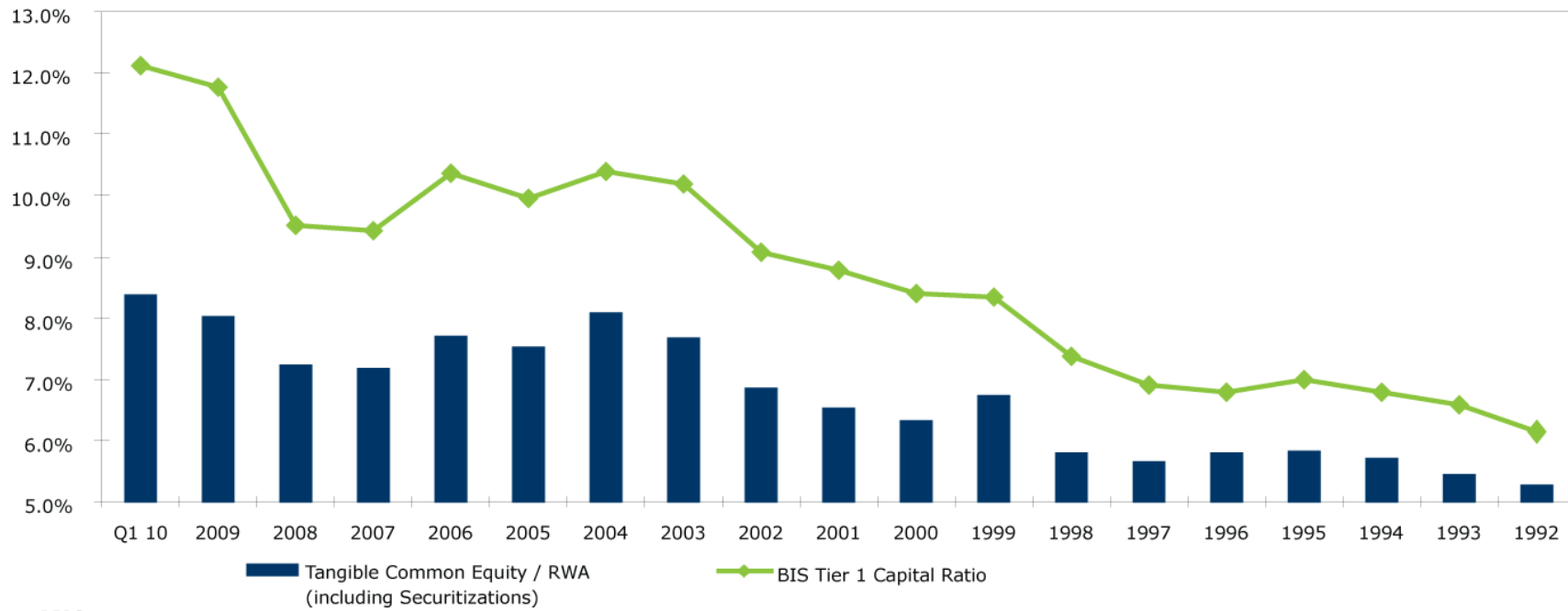


**Total Spending per Capita**



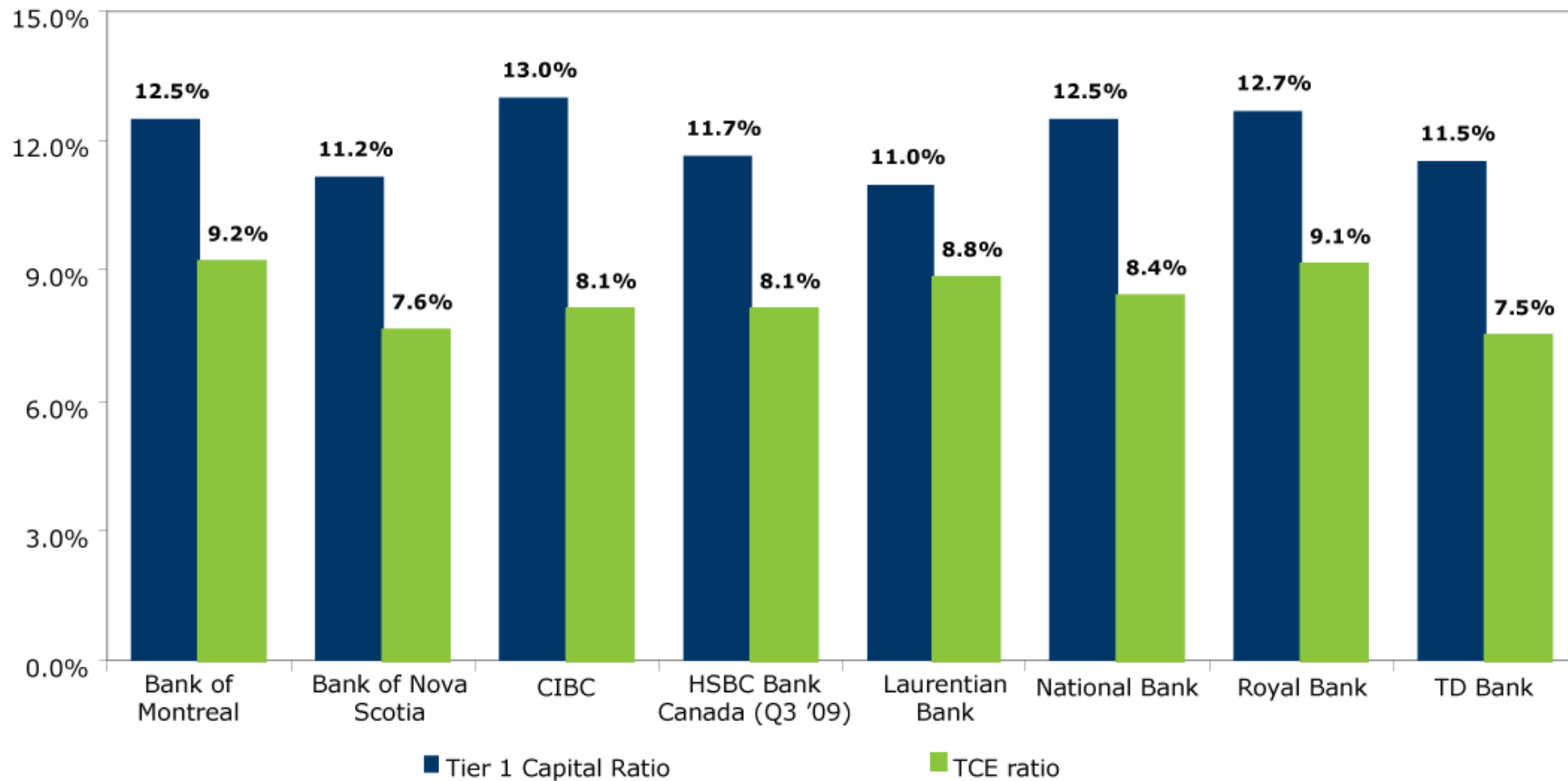
Source: DBRS

# Average Capital Ratios, DBRS-rated Canadian Banks



Source: DBRS.

# Tier 1 Capital and Tangible Common Equity Ratio (January 31, 2010)

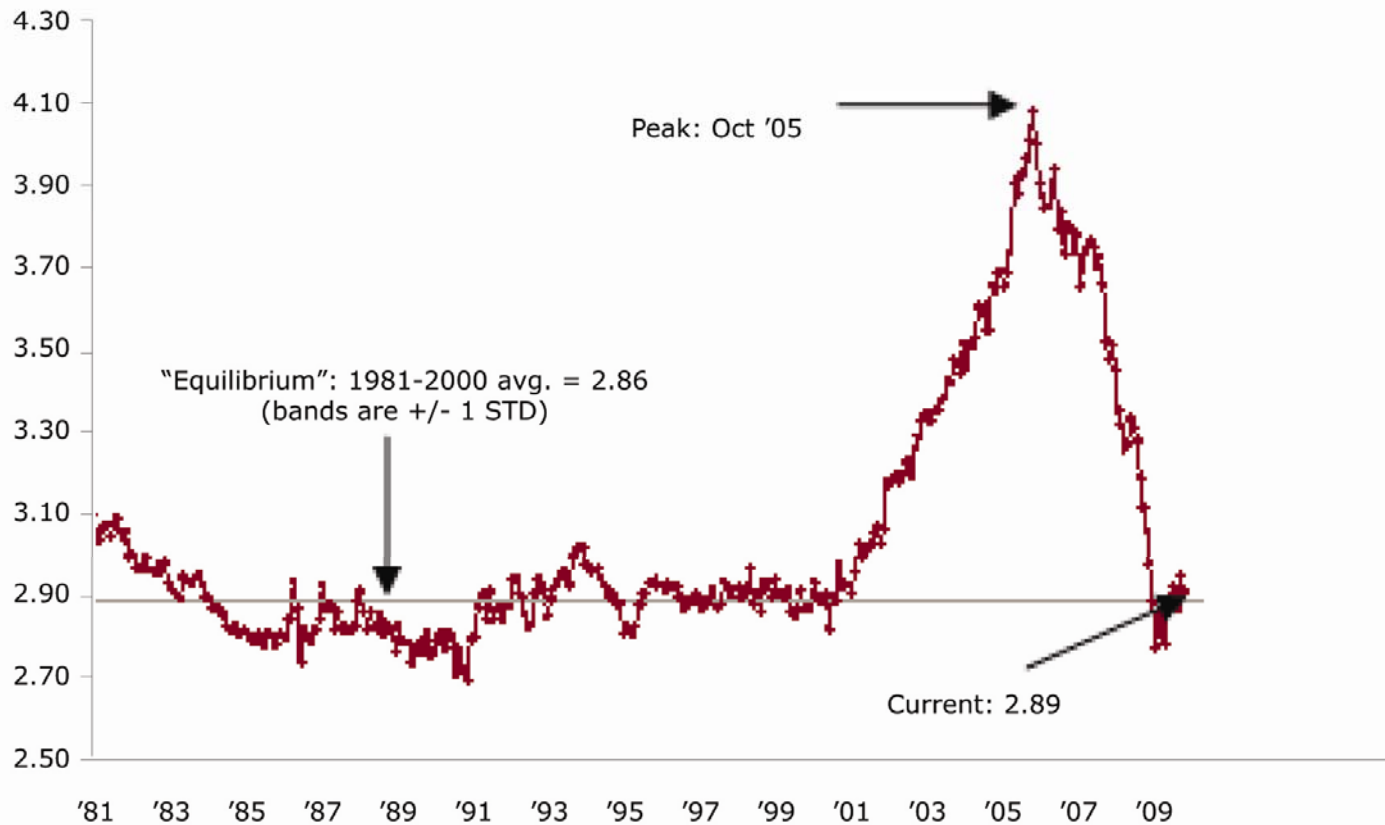


Source: DBRS.

# U.S. Home Price / Income Ratio



## Ratio of Median Single-Family Existing Home Prices vs. Median Family Income

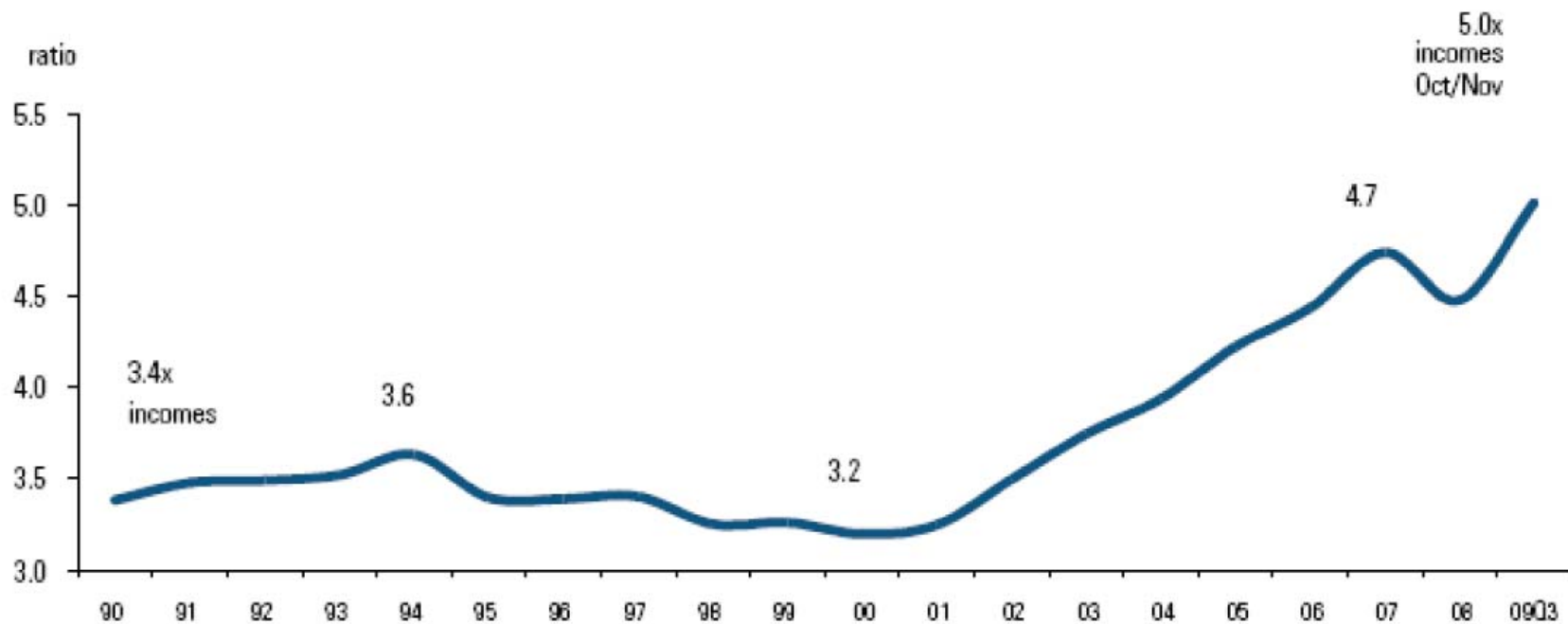


Source: NAR, Census, Credit Suisse.

# Canadian Home Price / Net Income Ratio



## MLS Average Residential Selling Price as a Ratio of Average Household Income after Income Taxes



Source: People Patterns Consulting based on Statistics Canada, Vanier Institute of the Family

# CDOs and Other Complex Financial Products



- CDO and CDO of ABS structures have largely been discontinued
- \*BUT\* basic, senior-subordinate CLO structures have generally recovered
- MAV notes have demonstrated resilience as losses so far this year have been lower than expected
- Complexity going forward expected to be reduced
- Increase in “simpler” structures such as covered bonds
- Renewed interest in traditional ABS

# Transparency and Disclosure



- Canadian Framework for Disclosure
  - DBRS publishes full rating reports including identifying liquidity draw conditions and liquidity providers
  - DBRS will publish a summary of each new ABCP transaction
  - DBRS publishes monthly, line-by-line surveillance performance metrics for all rated ABCP and ABS
  - Securities commissions could mandate additional disclosure
- US Regulatory framework
  - Reg A/B
  - SEC 17(g)(5)

# More Regulation is Coming



- Financial Services
  - Bank capital requirements expected to rise
  - Risk weighting Exchanges, clearing houses Dissolution authority / Bridge Bank Restructuring legacy entities
  - Government Sponsored Entities
  - Monolines
- Regulatory bodies
- Too big to fail
  - Contingent capital
  - Countercyclical capital
- Rating Agencies

# Contact Information



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