



# INFORMATION REPORT

<b>TO:</b> Chair and Members Audit, Finance & Administration Committee	<b>WARD(S) AFFECTED:</b> CITY WIDE
<b>COMMITTEE DATE:</b> March 25, 2013	
<b>SUBJECT/REPORT NO:</b> Restructured Master Asset Vehicle (MAV) Notes and Asset Backed Commercial Paper (ABCP) Update (FCS11006(b)) (City Wide)	
<b>SUBMITTED BY:</b> Mike Zegarac Acting General Manager Finance & Corporate Services Department	<b>PREPARED BY:</b> Gerald T. Boychuk, 905-546-4321 Ivo Danesi, 905-546-2424 ext. 6640
<b>SIGNATURE:</b>	

**Council Direction:**

The General Issues Committee directed staff to provide an update to Reports FCS11006 and FCS11006(a), with respect to the City's Restructured Master Asset Vehicle (MAV) Notes and Asset Backed Commercial Paper (ABCP) holdings.

**Information:**

As detailed in Report FCS11006(a) "Restructured Master Asset Vehicle (MAV) Notes and Asset Backed Commercial Paper (ABCP)" submitted to General Issues Committee on March 21, 2012, the remaining restructured Master Asset Vehicle (MAV) notes had a book cost of \$76,355,451 and the Devonshire asset backed commercial paper had a book cost of \$9,919,000 for a total of \$86,274,451. There have been allowances for loss taken in prior years of \$12.9 million on the MAV notes and \$5.5 million against the Devonshire notes. Realized losses of \$3.7 million due to defaults, recalls of \$5.5 million due to partial repayments and one sale at 85% of book cost were taken to year end 2011. There was no budgetary or financial impact on the City's operations.

For 2012, there are no further allowances for losses expected to be taken. As well, there were four out of six MAV notes paying interest as per contract or as earned, and the major restructured MAV strip (CL A-1, CL A-2, CL B and CL C) is projected or forecast to mature in early 2017 at a price of \$0.98. The following table outlines the

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December 31, 2012 book cost of the MAV notes which has declined due to amortization and the 100% redemption of the MAVIII notes as of October 2012. The MAV notes amortized book cost at December 31, 2012, was \$76,282,418 and the total including Devonshire (\$9,919,000) was \$86,201,418. The principal or par value of all restructured notes alone is \$76,211,816. It is noteworthy to mention the City received the repayment of the entire outstanding principal amount of \$71,157 of the MAV III CL 9 Note in 2012. The assigned book cost at restructuring exceeded the principal or par value of the securities at exchange. This continued to be the case for 2012. The premium over book cost has been amortized since Report FCS11006(a) in the amount of \$1,876.00 (\$76,284,294-\$76,282,418). The additional cost is amortized over the remaining expected term of the assets. The table below shows updated book costs and estimated market values for the remaining MAV notes quoted by one dealer for small amounts of restructured strip notes. The market values below assume 100% principal recovery and no interest. There is no budgetary or financial impact on the City's operations expected.

Restructured Notes (MAV) and ABCP (Devonshire)

Description	Credit Rating	Dec. 31/12 Attributed Book Cost	Forecast Value Per Dollar 2017	Market Value 11/7/11	Market Value 2/10/12	Market Value 1/3/13
<b>Restructured</b>						
MAVII CL A-1	AAL	\$41,156,157	\$0.98	\$0.73	\$0.74	\$0.8525
MAVII CL A-2	BBBH	\$27,090,487	\$0.98	\$0.66	\$0.6775	\$0.8175
MAVII CL B	n/a	\$4,917,678	\$0.98	\$0.545	\$0.5575	\$0.78
MAVII CL C	n/a	\$2,266,904	\$0.98	\$0.335	\$0.35	\$0.675
		\$75,431,226				
<b>Strip Value</b>			\$0.98	\$0.68	\$0.69	\$0.83
<b>Tracking</b>						
MAVII CL 13	n/a	\$ 851,192	n/a	n/a	n/a	n/a
MAVIII CL 9	n/a	\$ 0.00	Paid out 100%	n/a	n/a	n/a
Total Restructured		\$76,282,418				
ABCP Devonshire	n/a	\$ 9,919,000	n/a	n/a	n/a	n/a
Total MAV & ABCP		\$86,201,418				
Principal/ Par Value Restructured MAV		\$76,211,816				

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The restructured A-1, A-2, CL-13 and MAVIII notes paid interest (A-1, A-2 notes pay at a rate of BA's less 50 basis points) on a quarterly basis through contract or as received on the CL-13 and MAVIII. There is no additional interest expected relating to the MAV III CL 9 given the note was repaid in full by the end of 2012. As at December 31, 2012, the total interest received since the conversion of ABCP to MAV's is \$5,508,156. The total amount consists of interest received in three separate instalments upon the completion of the restructuring totalling \$4,178,086 and interest received post-restructuring of \$1,330,070.

The restructured MAV notes are forecast to return as much as \$0.98 of principal value per strip. A strip is the combined principal value/par of the A-1, A-2, B and C notes, totalling \$75,360,929. The current market value of the strip as at January 3, 2013, is approximately \$0.8285. The foregoing market value ignores interest income which for 2012 was \$542,818 on the total MAV holdings of \$76,211,816. The simple interest rate of return is approximately 0.71% on all restructured notes, including B and C notes which pay no interest. If the restructured notes mature in early 2017 and \$0.98 principal value is realized, the actual principal loss would approximate \$1.6 million. This is much less than the \$12.9 million allowance allocated, and would result in a recovery of the difference upon disposition. The table below shows various hypothetical market prices and the resulting loss as it compares to the \$12.9 million allowance. The break-even to equal the allowance for loss allocated is a strip price of approximately \$0.83.

<u>MAV Notes</u>	<u>PRINCIPAL</u>	<b>Dec 31, 2012 ATTRIBUTED BOOK COST</b>
MAV II CL A-1	\$ 41,114,727.40	\$ 41,156,157.00
MAV II CL A-2	\$ 27,067,847.00	\$ 27,090,487.00
MAV II CL-B	\$ 4,913,566.00	\$ 4,917,678.00
MAV II CL-C	\$ 2,264,789.00	\$ 2,266,904.00
<b>TOTAL</b>	<b>\$ 75,360,929.40</b>	<b>\$ 75,431,226.00</b>

SALE PRICE	<b>\$0.81</b>	<b>\$0.83</b>	<b>\$0.85</b>	<b>\$0.90</b>	<b>\$1.00</b>
<b>PROCEEDS</b>	\$ 61,042,352.81	\$ 62,549,571.40	\$ 64,056,789.99	\$ 67,824,836.46	\$ 75,360,929.40
<b>BOOK COST</b>	\$ 75,431,226.00	\$ 75,431,226.00	\$ 75,431,226.00	\$ 75,431,226.00	\$ 75,431,226.00
<b>LOSS</b>	\$ (14,388,873.19)	\$ (12,881,654.60)	\$ (11,374,436.01)	\$ (7,606,389.54)	\$ (70,296.60)
<b>WRITEDOWN</b>	12,897,000.00	12,897,000.00	12,897,000.00	12,897,000.00	12,897,000.00
<b>DIFFERENCE</b>	\$ (1,491,873.19)	<b>\$ 15,345.40</b>	\$ 1,522,563.99	\$ 5,290,610.46	\$ 12,826,703.40

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There has been a movement in the market place to institute a Dutch Auction to improve the liquidity of the MAV strips. If passed and approved by all involved groups, this should reduce the discount to current asset value that the notes trade at. This auction procedure would allow the sale of assets at their current prices deducting costs and redeeming full MAV strips and individual classes through the court appointed custodian BlackRock.

The Devonshire ABCP has an allowance for loss of \$5.5 million. Although the City's independent litigation has been terminated, due to external legal counsel error, there is another ongoing action which could result in recovery. Barclay's Bank is involved in litigation against Metcalfe and Mansfield (custodian) in order to realize on collateral which is in the Bank of New York. The initial judgement was favourable to note holders and is being appealed by Barclay's. If Barclay's appeal is dismissed, note holders would likely receive a significant recapture on these notes. As it concerns the City of Hamilton's holdings, the current book value net of the allowance for loss is \$4,419,000 and the recapture could, with accrued interest, approach the original cost of \$9,919,000.