

LENDING

ATB profit suffers \$253M hit

Commercial paper erodes strong year

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EDMONTON JOURNAL
EDMONTON

A bookkeeping loss, brought on by disrupted money markets, prevented ATB Financial from setting a net income record for its financial year that ended March 31.

Alberta's provincially owned bank reported potential losses of \$253.1 million, or 22 per cent of the face value, on its \$1.5 billion in holdings of asset-backed commercial paper (ABCP).

The negative accounting entry ate up most of ATB's 2007-08 record operating net income of \$283.1 million on revenue of \$845.4 million. The ABCP loss provision cut net income to \$30 million.

In 2006-07 operating net income was \$274.4 million on revenue of \$751.5 million.

The precautionary writedown will likely shrink after the national financial community completes an ABCP restructuring agreement currently in final stages of legal approval, ATB chief financial officer Jim McKillop said in an interview.

"We expect to get virtually all our money back," ATB president Dave Mowat said.

"It won't affect our operations in any way," he added.

The 4,700-employee Alberta bank plans to expand its provincewide chain of 291 personal and business financial services outlets by adding six to eight branches in Edmonton, Calgary, Grande Prairie and Fort McMurray.

In 2007, loan business grew by 14 per cent, or about triple the provincial economic growth rate.

Competition heated up by a recent credit union mega-merger will improve all made-in-Alberta financial services and make them stronger rivals of the national chartered banks, ATB predicted.

A review of all ATB's holdings of ABCP showed that only \$13 million, or one per cent, was in danger of being written off permanently because the underlying assets were in jeopardy, he reported.

Canada's ABCP headache remains much less severe than the collapse of the subprime, or high-risk, mortgage market in the United States, the ATB executives said.

American borrowers are defaulting on home loans, leaving money market securities built on them worthless.

In Canada, the ABCP problem remains a "liquidity disruption," or inability to sell the paper because financial markets stopped trading it partly as a side-effect of the U.S. credit crisis.

A wider range of financial assets is represented by ABCP such as car loans and credit card accounts receivable, as well as home mortgages.

ATB participated in the proposed ABCP restructuring agreement, which extends lifespans of the paper to six to nine years to preserve its value by allowing time to recover on underlying credit arrangements.

"No Albertan will be short of cash," Finance Minister Iris Evans predicted under questioning in the legislature by New Democrat Leader Brian Mason.

"They will get their money back. They will get their interest back," Evans said.



Canadians spent \$19.7 billion on home renovations in 2007, up more than \$2 billion from the year before.

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Home-buying plans strongest in Calgary

Canadians spending more on renovations

MARIO TONEGUZZI
CALGARY HERALD

Homeowners in the country's 10 major centres spent nearly \$20 billion on renovations last year, according to a survey released Thursday by Canada Mortgage and Housing Corp.

And home-buying intentions are strongest in Calgary, where eight per cent of households reported they are considering buying a home this year, down from 14 per cent in 2007.

The CMHC's Renovation and Home Purchase Survey said an estimated 1.5 million households in the 10 Canadian centres surveyed indicated they completed renovations last year that cost an average of \$12,800.

"Close to \$19.7 billion was spent on renovations in 2007 across the 10 major centres surveyed, an increase of more than \$2 billion compared to 2006," said Bob Dugan, chief econo-

mist at CMHC. "As well, when Canadian homeowners in these 10 centres surveyed were asked about their plans for this year, 40 per cent indicated that they intend to spend \$1,000 or more on renovations by the end of 2008."

The major centres surveyed were St. John's, N.L.; Halifax; Quebec City; Montreal; Ottawa; Toronto; Winnipeg; Calgary; Edmonton and Vancouver.

Close to half — 46 per cent — of households reported the cost of renovations was in line with what they had budgeted, while 37 per cent went over their planned budget for renovation.

The main reason given by households for renovating last year was to update, add value or to prepare to sell (59 per cent).

The top three renovations completed last year were: remodelling rooms (31 per cent), painting or wall-papering (27 per cent), and hard surface flooring and wall-to-wall carpeting (26 per cent).

On the home purchasing front, six per cent of households across the 10 centres surveyed intend to purchase a home that will be used as a primary residence in 2008. This is down from eight per cent in 2007.

As of Thursday, on the Calgary Real

Estate Board website, there were 7,180 active listings in Calgary metro for single-family homes. In the past 30 days, 1,310 single-family homes have sold for an average price of \$482,318, while the median sale price is \$419,000.

At the end of April, Calgary was experiencing declining sales so far this year in both the condominium market and the single-family home market.

For the first four months of this year, single-family home sales had dropped by 34.4 per cent compared with the similar period in 2007, while condo sales had plunged by 38.3 per cent.

At the same time, new listings for this year are up 19.6 per cent compared with a year ago for single-family homes and 32.5 per cent for condos.

The CMHC survey on home-buying intentions said 42 per cent of households in Canada that stated they intend to purchase a home in 2008 are first-time buyers. This percentage is identical to the share of actual first-time homebuyers in 2007.

The majority of first-time buyers are between the ages of 25 and 34, with a household income between \$40,000 and \$60,000 annually.

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Canadian housing boom over, says RBC

CANWEST NEWS SERVICE
OTTAWA

Canada's long-running housing boom has ended, with the formerly bubbling markets of Calgary and Edmonton already having gone from hot to not, and with the current hot spots of Saskatoon and Regina to follow, a major Canadian bank says.

Mortgage-market innovation delayed the inevitable but couldn't prevent it, Royal Bank of Canada said in its analysis of major urban real estate markets Thursday.

"After yet another blockbuster year for Canada's housing markets in 2007,

the much-anticipated housing market slowdown in Canada has arrived," RBC said.

"The delayed arrival of softer housing markets can be partly attributed to recent mortgage innovation that has seeped into the Canadian market during the last two years," it said, citing higher loan-to-value ratios and longer amortization periods of up to 40 years, which opened the market to a wider range of buyers and prolonged the boom.

The mortgage-market innovations, which make housing more affordable in the short term, also heighten the risk of default in the long term, it said.

Markets in the West, which have

risen the furthest above their underlying values, are the most at risk of an increase in defaults as a result of recent mortgage innovations, the report's author, RBC economist Amy Goldbloom, said in an interview.

However, there will not be a U.S.-style correction, despite such concerns in markets like Calgary and Edmonton, said the report.

"The markets that soared well above their underlying economic fundamentals are the very ones with the most downside potential," the report said. "Calgary and Edmonton have moved from chart-toppers to bottom-of-the-heap in only a matter of months."

BUYOUTS

BCE dives despite chance of new talks

CANWEST NEWS SERVICE

Bell Canada bondholders, whose stunning court victory has stalled the privatization of BCE Inc., said Thursday they remain open to negotiating with the company to strike a compromise that would allow the deal to proceed.

But, experts say, a bigger issue is whether the banks that promised to lend more than \$30 billion to make the takeover work will balk at a renegotiated plan, arguing that is not what they agreed to finance.

BCE investors are not holding their breath waiting for a revamped deal — the stock took its biggest dive in 25 years Thursday, shedding \$4.48, or 12 per cent, to close at \$32.64. Experts predict equity investors would have to accept a lower offer price than the \$42.75 currently on the table to be able to salvage the deal.

"The bondholders are not in the business of shutting down corporate transactions," said Markus Koehnen, a lawyer representing some of the bondholders who challenged the takeover, the largest in Canadian history. "There are commercial solutions to this problem. But the real question is: Does the purchaser still want to do this deal?"

BCE's privatization plan suffered a significant setback Wednesday when the Quebec Court of Appeal overturned a lower court's approval of the takeover. BCE, based in Montreal, said it intends to ask Canada's highest court to take another look at the case, and asked Thursday for an expedited process to hear both an application for leave to appeal and the appeal itself.

It would cost almost \$5.2 billion to buy out the bondholders before tackling on a premium, and because the credit markets have skidded dramatically since BCE and the Ontario Teachers' Pension Plan struck a deal last summer, the money will have to be siphoned away from the equity investors, rather than raising additional capital, outside experts said.

"Since it would be very difficult to raise the money in the debt market, we suspect (BCE's) board would be forced to re-price the deal between nine per cent and 12 per cent to entice the purchasers to execute," said Greg MacDonald, an analyst at National Bank Financial.

Even if Teachers' can work out a deal that would make the bondholders and equity investors happy without needing to borrow more money, the banks may still be able to demand concessions because the structure of the deal would be different.

Observers say that because the credit markets are especially ugly, and the lenders were expected to lose money on the debt, the banks may happily use this as an escape hatch.

Teachers' spokeswoman Deborah Allan on Thursday said: "We continue to remain committed to the deal that we committed to."

BCE's legal and financial quagmire prompted analysts to consider whether rival Telus Corp. could resurrect its takeover ambitions. Telus chased Bell last summer, although it yanked its plans to bid June 26, the day offers were due.

"The real question is: Does the purchaser still want to do this deal?"

MARKUS KOEHNEN,
LAWYER

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