

# Risk and Resilience: The Future of Housing Finance and Investment

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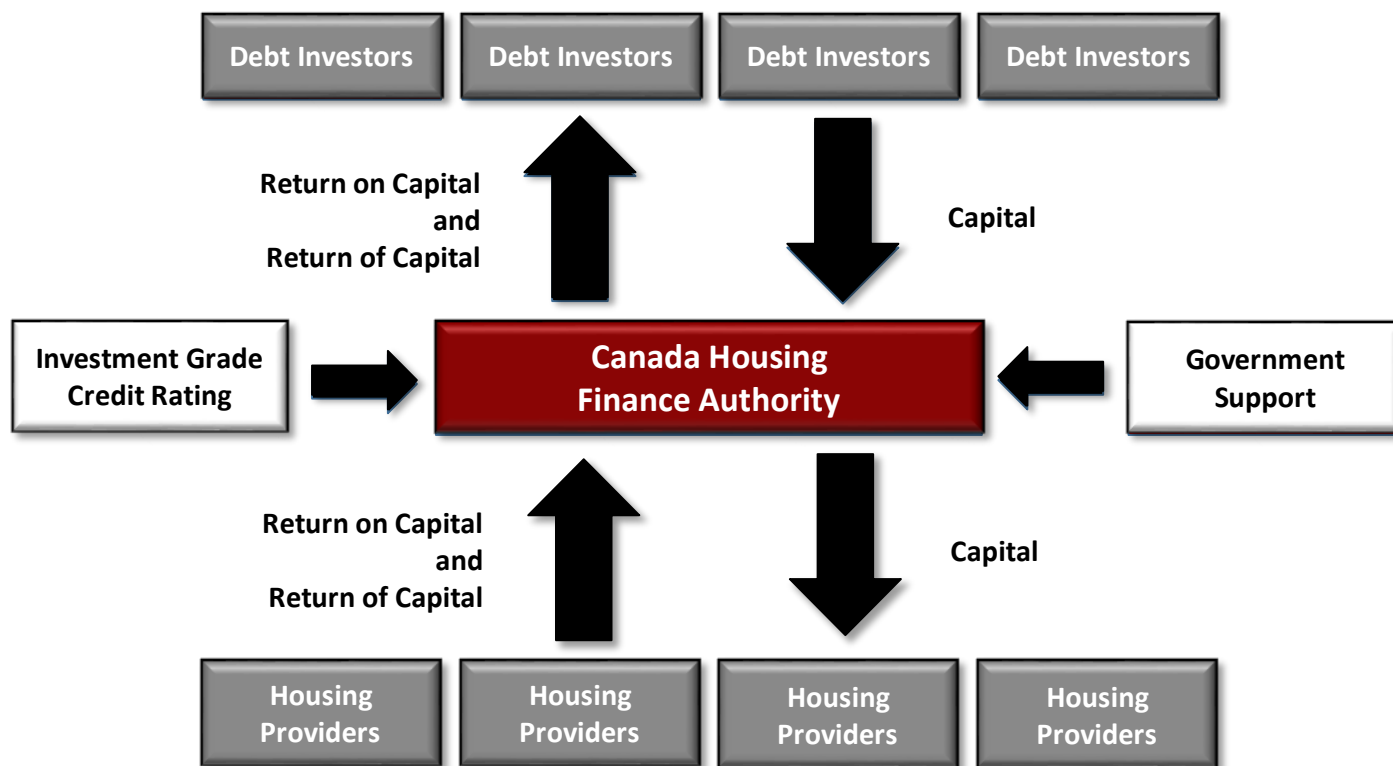
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GLOBAL BANKING AND MARKETS

# Housing Partnership Canada: CHFA Feasibility Report

- Canadian Housing Finance Authority (“CHFA”) would be a new specialized lender dedicated to the Canadian Affordable and Social Housing sectors
- CHFA would raise debt capital in the Canadian capital markets and make loans to qualifying housing projects



# Housing Partnership Canada: CHFA Feasibility Report

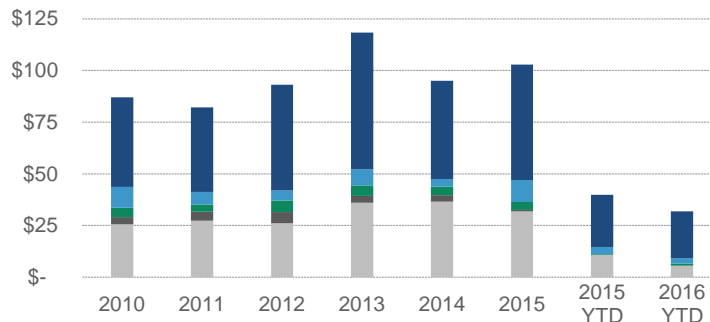
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- This presentation will focus on the funding portion of the CHFA
  - What are the basic financing models available for Issuers (and CHFA) in the Canadian debt capital markets?
  - How can a housing bank sourcing capital from the debt capital markets? How does it gain access this pool of capital?
  - What additional considerations are necessary for a social / affordable housing bank

# Canadian Debt Capital Markets

## Historical Issuance Volumes

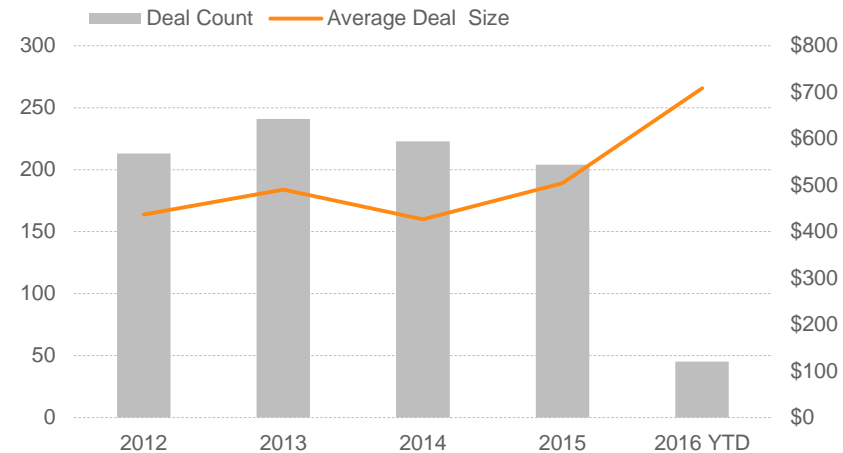
C\$ Billions



	2010	2011	2012	2013	2014	2015	2015 YTD	2016 YTD
Total Government	\$95	\$104	\$100	\$118	\$108	\$119	\$32	\$36
Total Corporate	\$87	\$82	\$93	\$118	\$95	\$103	\$40	\$32
■ Financial (Bank & Non-bank)	\$43	\$41	\$51	\$66	\$48	\$56	\$25	\$23
■ ABS	\$10	\$6	\$5	\$8	\$4	\$11	\$4	\$3
■ Maple	\$4	\$4	\$6	\$5	\$4	\$4	\$0	\$1
■ High Yield	\$3	\$4	\$5	\$3	\$3	\$1	\$-	\$-
■ Other Domestic	\$26	\$27	\$26	\$36	\$37	\$32	\$11	\$6

## Average Deal Size Increasing

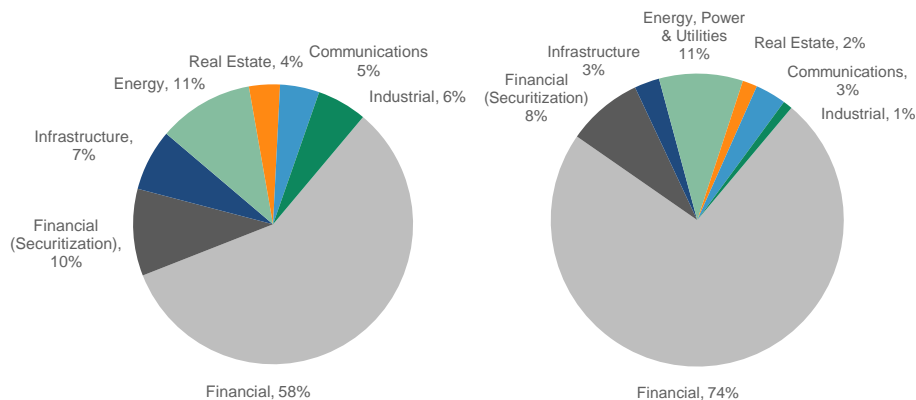
No. of Transactions | C\$ Millions



## Financial Issuance Dominates C\$ Market

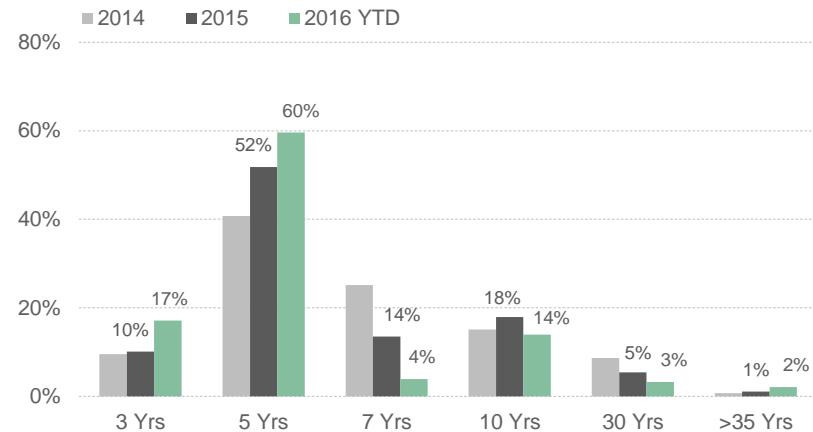
2015

2016 YTD



## 5 Year Tenor Most Popular

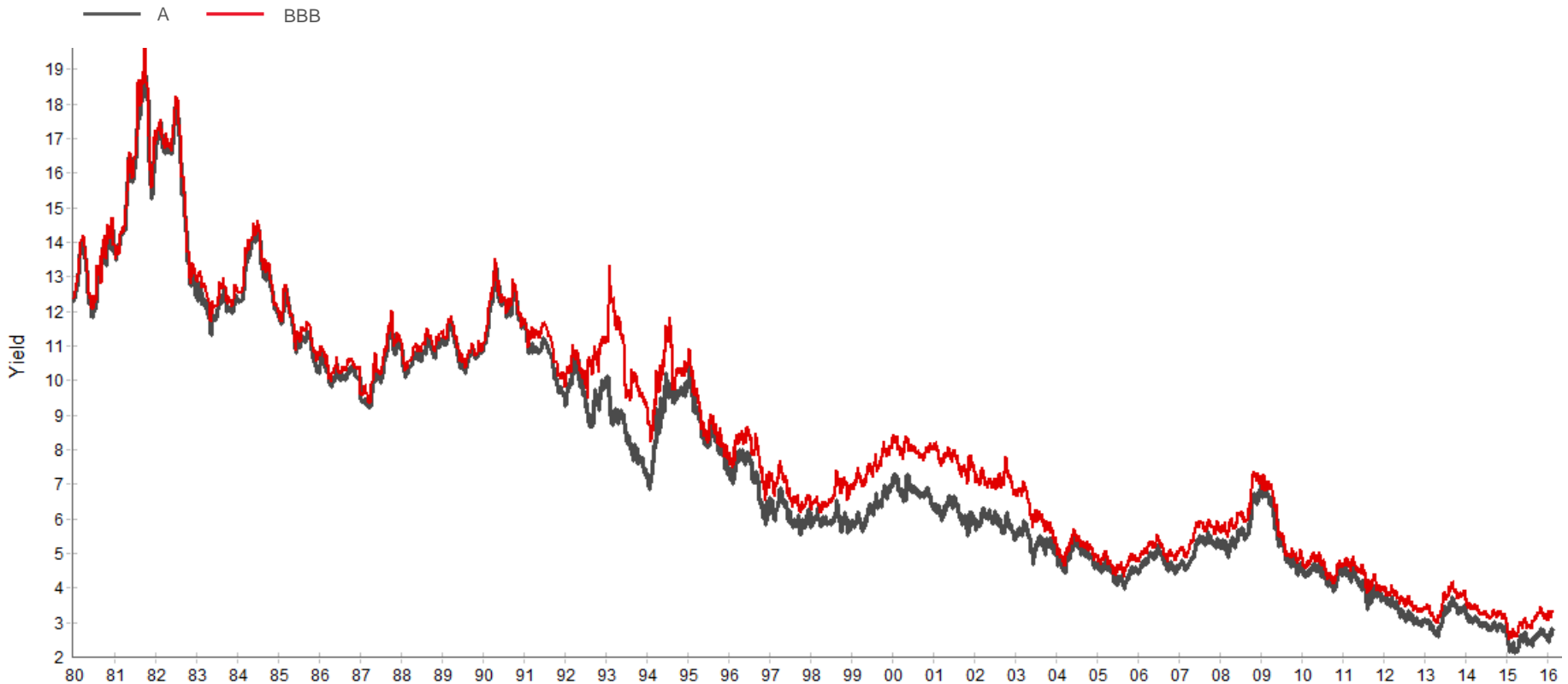
% of Total



# All-in Coupons Remain Historically Attractive

- Despite the recent widening in corporate spreads, all-in coupons remain attractive
- Government of Canada (“GoC”) yields have been volatile as low oil prices and a dropping Canadian dollar have weighed on the economy
  - GoC yields dropped dramatically last February after the Bank of Canada (“BoC”) surprised the market and cut the overnight interest rate to 0.75% from 1.00%
  - The BoC implemented a second rate cut in July lowering the overnight rate to 0.50% in response to weaker than expected growth
- GoC yields are currently at their all-time lows as investors have flocked to safe-haven assets amidst the broader volatility

## All-in Corporate Yields



# Historical Credit Spread Movements

- The magnitude of the widening in credit spreads since last year's lows surpassed that seen in the 2011 downturn
  - Market tone deteriorated throughout the latter half of 2011 primarily due to worries over a Greek default and the U.S. debt ceiling stalemate that led to S&P downgrading the United States' credit rating
- Despite credit spreads widening to their widest levels since 2009, all-in coupon levels remain very attractive due to historically low GoC yields

## Corporate Spreads Widened 65bps Between May 2015 and February 2016

FTSE TMX Corporate Universe Spread | bps



Source: PC Bond

# Recent Transactions

2016 YTD Corporate Issuance Volumes: \$31.9 B

Trade	Issuer	Amount	Coupon	Tenor	Spread	Type	Rating	# Buyers	Estimated NIC
27-Apr-16	Aviva PLC	\$ 450	4.500%	5 yr	+365	Maple	-/-/Baa1	48	n.a.
26-Apr-16	HSBC Bank Canada	\$ 625	3M CDOR+35	1 yr	+35	FRN	A(H)/AA/-	n.a.	n.a.
26-Apr-16	First Capital Realty Inc.	\$ 150	3.604%	10 yr	+205	Snr Unsecured	BBB(H)/-/Baa2	53	-5
26-Apr-16	Master Credit Card Trust II	\$ 8	2.538%	2 yr	n.a.	ABS	BBB/-/Baa1	n.a.	n.a.
25-Apr-16	Master Credit Card Trust II	\$ 4	1.844%	2 yr	n.a.	ABS	AA/-/AA3	n.a.	n.a.
21-Apr-16	CIBC	\$ 1,500	1.900%	5 yr	+107	Deposit Note	AA/A+/Aa3	n.a.	5
20-Apr-16	Royal Bank of Canada	\$ 2,000	1.400%	3 yr	+77	Covered Bond	AAA/-/Aaa	47	7
19-Apr-16	Laurentian Bank of Canada	\$ 300	2.750%	5 yr	+200	Deposit Note	A(L)/BBB/-	n.a.	20
15-Apr-16	MCAP Service Corporation	\$ 507	1.480%	5 yr	+85	MBS	-/-/-	13	n.a.
14-Apr-16	Bank of Nova Scotia	\$ 1,000	3M CDOR+60	2 yr	+60	FRN	AA/A+/Aa3	2	n.a.
5-Apr-16	FortisBC Energy	\$ 150	3.670%	30 yr	+174	MTN	A/-/A3	44	0
5-Apr-16	FortisBC Energy	\$ 150	2.580%	10 yr	+134	MTN	A/-/A3	42	0
4-Apr-16	Altagas Ltd.	\$ 350	4.120%	10 yr	+280	MTN	BBB/BBB/-	58	10-12
29-Mar-16	Bank of Montreal	\$ 1,500	1.880%	5 yr	+122	Deposit Note	AA/A+/Aa3	97	7-10
29-Mar-16	Bank of Montreal	\$ 1,000	3M CDOR+60	2 yr	+60	FRN	AA/A+/Aa3	18	3-5
21-Mar-16	Toronto Dominion Bank	\$ 1,000	3M CDOR+60	2 yr	+60	FRN	AA/AA-/Aa1	n.a.	n.a.
15-Mar-16	Fairfax Financial Holdings Limited	\$ 400	4.500%	7 yr	+348	MTN	BBB/BBB-/Baa3	50	20
11-Mar-16	Home Trust Company	\$ 262	1.300%	4 yr	+86	MBS	-/-/-	10	n.a.
9-Mar-16	Royal Bank of Canada	\$ 2,500	2.030%	5 yr	+134	Deposit Note	AA/AA-/Aa3	90	3
9-Mar-16	Merrill Lynch Canada Inc. NHA MBS	\$ 901	1.250%	5 yr	+88	MBS	-/-/-	18	n.a.
8-Mar-16	Wells Fargo & Company	\$ 1,000	2.222%	5 yr	+157	Maple	AA/A/A2	59	3
3-Mar-16	CIBC	\$ 500	3M CDOR+66	2 yr	+66	FRN	AA/A+/Aa3	n.a.	n.a.
3-Mar-16	Toronto Dominion Bank	\$ 1,500	2.045%	5 yr	+136	Deposit Note	AA/AA-/Aa1	77	2
1-Mar-16	Choice Properties REIT	\$ 100	5.268%	30 yr	+325	Snr Unsecured	BBB/BBB/-	34	n.a.
1-Mar-16	Choice Properties REIT	\$ 250	3.196%	7 yr	+220	Snr Unsecured	BBB/BBB/-	56	5
26-Feb-16	Toronto Dominion Bank	\$ 1,250	4.859%	10 yr	+360	10+5 NVCC	A(L)/A-/A2	65	20
25-Feb-16	Intact Financial	\$ 250	3.770%	10 yr	+255	MTN	A/-/Baa1	50	15
24-Feb-16	Bell Canada	\$ 750	3.550%	10 yr	+242	MTN	A(L)/BBB+/Baa1	77	7
19-Feb-16	Hydro One Inc.	\$ 500	1.840%	5 yr	+125	MTN	A(H)/A/A3	44	0
19-Feb-16	Hydro One Inc.	\$ 500	2.770%	10 yr	+157	MTN	A(H)/A/A3	42	0
19-Feb-16	Hydro One Inc.	\$ 350	3.910%	30 yr	+200	MTN	A(H)/A/A3	45	0
18-Feb-16	Toyota Credit Canada Inc.	\$ 400	2.200%	5 yr	+164	MTN	-/AA-/Aa3	44	7
18-Feb-16	Toyota Credit Canada Inc.	\$ 200	3M CDOR+103	3 yr	+103	MTN	-/AA-/Aa3	12	n.a.

# Fixed Income Investors

- The debt capital markets in Canada is 100% supported by institutional fixed income investors
- Insurance companies, Asset managers, Pension funds, Hedge funds
- Performance typically measured against fixed income index
- No Retail distribution
- High investment grade focus
- Concentrated pool of capital



- Vancouver**
- BC Investment Management
  - Central One
  - Connor Clark & Lunn
  - HSBC Asset Management
  - ICBC
  - Leith Wheeler
  - PH&N

- Edmonton**
- Alberta Teachers
  - AIMCo
  - City of Edmonton
  - Telus Pension

- Calgary**
- Bisset
  - Mawer

- Regina**
- Greystone

- Winnipeg**
- City of Winnipeg
  - GWL
  - IG Investment Management
  - Manitoba Civil Service
  - Province of Manitoba
  - Wawanesa

- Toronto**
- 1832 Toronto
  - Acuity
  - Addenda Guelph
  - Aegon Capital
  - AGF
  - Aurion
  - Aviva
  - Bimcor
  - Blackrock
  - BMO AM
  - CANSO
  - CGAM
  - CI Funds
  - CMHC (Ottawa)

- CPPIB
- Davis Rea
- East Coast
- Fiera IFI
- Fiera Toronto
- Gluskin
- Guardian Capital
- HOOPP
- ING
- Invesco / Trimark
- Jarilowsky & Fraser
- Lawrence Park
- Mackenzie

- Manulife AM
- Marret
- McLean Budden
- MFC Global
- OMERS
- OTPP
- Polar Securities
- RBC Insurance
- RBIM
- RPIA
- Sun Life
- TDAM
- Zechner & Associates

- Montreal**
- 1832 Montreal
  - Addenda Montreal
  - Alphafixe
  - Caisse de Depot
  - CNR Pension
  - Fiera Montreal
  - GCIC
  - Hydro Quebec
  - Industrial Alliance
  - Montrusco
  - PSP Capital
  - Standard Life



# CHFA Assumptions

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- CHFA as a lender, would provide customized lending solutions for social and low income housing
- Based on the feasibility report, there are three basic credit characteristics CHFA that would affect funding:
  1. CHFA is not a regulated bank
  2. Funding program would need to be matched against the assets (i.e. loans) of CHFA
  3. Investment grade rated entity

# Financing Models

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- Issuers / Borrowers can be categorized into four basic funding models
  1. General Obligation Bonds
  2. Guaranteed Bonds
  3. Structured Bonds
  4. Public Private Offerings (i.e. P3)
- Issuers / Borrowers can also be categorized as either:
  1. 'Going Concern' Business; or
  2. Static Asset-backed Pool

# Financing Models

	<b>General Obligation Bonds</b>	<b>Guaranteed Bonds</b>	<b>Structured Bonds</b>	<b>Public Private Partnerships (P3)</b>
<b>Form of Security</b>	Senior Unsecured Debt	Pooled Mortgages	Collateralized Debt	Debt backed a Concession
<b>Size of Market</b>	Large	Medium	Medium to Small	Small
<b>Execution Risk</b>	Low	Low	Medium to High	Medium to High
<b>Cost of Funds</b>	Credit Dependent	Excellent	High	High
<b>Flexibility for Issuer</b>	High	Low to Medium	Low	Low
<b>Transaction Costs</b>	Low	Low	High	High
<b>Market Access</b>	Excellent	Excellent	Low	Medium to Low
<b>Examples</b>	Corporate Issuers e.g. Banks, Utilities  "Going Concern"	CMHC MBS CMB Pools  "Static Asset"	Credit Card ABS Lease Securitization  "Static Asset"	Hospital P3 Road P3  "Static Asset"

# Positioning the CHFA / Basic Recommendations

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What investors want/need to buy bonds and support CHFA:

1. High investment grade ratings
  - MUSH sector investors would expect “A” category credit rating
  - Two credit ratings
2. Investor education
  - Take the time to explain the business (road shows, investor meetings, etc.)
  - Simple story and how it fits into the bigger picture
3. Size / scale
  - Fixed Income index eligibility
  - Liquidity for secondary trading
4. Program of offerings (vs. ‘one and done’)