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CMBS hit Canada as new asset class

Column Canada to handle \$292M public issue

Barry Critchley
National Post

Wednesday, July 10, 2002

One of the more unusual issues of commercial mortgage-backed securities is set to make its way on to the Canadian scene.

By next week, investors should start to hear about Column Canada Issuer Corp., a new entrant to the relatively new world of CMBS and further proof the local market is ready and willing to embrace a new asset class.

The \$292-million public issue is noteworthy for a few reasons:

- It marks the initial offering by Column Canada, an entity that's part of Credit Suisse First Boston.

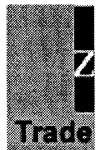
In essence, the CSFB unit provides a mortgage on a variety of commercial buildings in a variety of locations. The mortgages are then bundled together into a pool and sold to investors as commercial mortgage pass-through certificates.

That activity explains why CSFB -- which last year ran the books for about US\$11.4-billion of similar business in the United States, making it the leading underwriter for such transactions -- is a co-lead and co-bookrunner on the financing, which has six classes of securities.

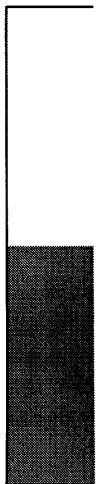
In all, CSFB, whose U.S. transactions are done through Column Financial, an entity that has been around since 1993, has contributed 54% of the assets. (Since it began, Column Financial has

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made almost 5,000 commercial mortgage loans for US\$27.9-billion.)

- The deal marks the first time Commercial Mortgage Origination Co. of Canada, a 100% owned subsidiary of Toronto-Dominion Bank, has provided product to a pool.

The original plan was for CMO to do its own offering. That changed because of less-than-attractive pricing it received for parts of the proposed offering. So rather than wait around, CMO decided to join forces with Column Canada. CMO has contributed about 30% of the assets. It is now planning a stand-alone offering in the fall.

In the past CMO, whose issuing entity is Solar Trust, has done two transactions: a \$190-million deal for a single issuer, Rio-Can Real Estate Investment Trust, and a \$241-million conduit transaction. On the conduit, CMO assembled a pool of mortgages and then sold them off.

The activity by CMO/Solar Trust explains why TD Securities is also a co-lead manager and co-bookrunner on the Column Canada transaction.

- The deal marks the first time that Laurentian Bank has also provided commercial mortgages to a pool, contributing 18% of the pool's assets.

As with TD, Laurentian Bank isn't a stranger to providing commercial mortgages and then securitizing them. A few years back, it packaged up \$200-million of its commercial mortgages and sold them through an offering led by Merrill Lynch.

On this transaction, Laurentian Bank Securities is also in the underwriting group as a selling agent. CIBC World Markets and RBC Dominion Securities are also selling agents.

- The deal features something known as low subordination.

That means 84.25% of the \$310.1-million of assets being offered -- with \$17.8-million being offered privately -- are rated AAA. Alternatively, that percentage means 15.75% of what's being offered are rated below AAA. (The ratings have been provided by S&P and DBRS.)

- - -

Just over five months back, Alberta Energy and PanCanadian petroleum announced a made-in-Canada solution when the two energy companies agreed to merge.

On that transaction, which had an enterprise value of \$27-billion and led to the formation of EnCana, there were a lot of advisors.

For PanCanadian, financial advice came from RBC Capital Markets and Credit Suisse First Boston Corp, while Peters & Co. was the strategic advisor.

For AEC, financial advice came from CIBC World Markets and Merrill Lynch, while strategic advice came from KERN Partners and

FirstEnergy Capital Corp.

Now with the merged company's first major divestiture set to occur -
- EnCana plans to sell its indirect 70% stake in the 297-mile Cold Lake Pipeline System and its 100% interest in the 1,717-mile Express Pipeline System -- two new advisors have been named. Scotia Capital and Morgan Stanley have been awarded the mandate to sell the stakes.

Why the switch and why no role for the firms that acted for either AEC and PanCanadian?

Calls were made to EnCana and an answer wasn't provided.

- - -

The first so-called wide distribution of income trust units proceeded without a hitch yesterday on the TSX.

In all, just more than three million units of Heating Oil Income Fund were crossed at \$11.85 a unit. CIBC World Markets crossed the block.

The wide distribution method ensured those investors who had orders in the TSX's electronic book at the close of business Monday had a chance to participate. "People in the book were filled at \$11.85," said John Manna, TSX's manager of professional trading.

Wide distributions are rarely used on the TSX. Since 1996, about 15 have been done, with five of those having been completed over the past 13 months. The recent ones include:

- June 7, 2001: 46.1 million shares of Abitibi Consolidated at \$12.38.
- Oct. 9, 2001: 9.6 million shares of Loblaw at \$48.50.
- Oct. 16, 2001: 1.6 million shares of Royal Group Technologies at \$22.90.
- Feb. 14, 2002: 5.4 million shares of Cameco Corp. at \$42.25.

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