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DBRS Confirms Certain MAV Note Ratings, Places MAVI and MAVII A-1 Notes Under Review with Positive Implications

Industry: Sec.--Structured Credit

DBRS has today placed the Master Asset Vehicle I (MAVI) and Master Asset Vehicle II (MAVII) and together with MAVI, the MAVs) Class A-1 Notes Under Review with Positive Implications. At the same time, DBRS has confirmed the “A” rating of the MAVI Class A-2 Notes and the BBB (low) rating of the MAVII Class A-2 Notes (the MAVI Class A-1 and Class A-2 Notes together with the MAVII Class A-1 and Class A-2 Notes, the MAV Notes).

In the rating report issued by DBRS upon the issuance of the MAV Notes on January 21, 2009, DBRS stated that three aspects of the transaction were the focus of its rating analysis: (1) legal and structural elements of the transaction; (2) the probability of the structure facing a margin call that could not be satisfied by available collateral and/or available margin funding facilities; and (3) the credit quality of the underlying asset interests held by the MAVs. DBRS further stated that unless certain non-market standard legal and structural elements of the transaction were amended, it would be unlikely that the MAV Notes would be rated higher than “A”.

Certain steps have now been taken to address some of the legal and structural elements of the transaction that DBRS considers non-market standard. In light of these steps, and the significant subordination available with regard to the MAVI and MAVII Class A-1 Notes, a ratings upgrade may be warranted in relation to the MAV I and MAV II Class A-1 Notes. The MAVI and MAVII Class A-2 Notes are presently constrained by factors other than legal and structural elements of the transaction. As such, DBRS does not believe a ratings upgrade to be warranted in relation to such Class A-2 Notes.

From a credit perspective, the vast majority of the asset interests held by the MAVs continue to perform well and are assessed by DBRS at a high investment grade level. Few credit events have occurred in the first half of 2010, and the MAVs continue to benefit from time decay, whereby the underlying CDO transactions grow less risky as their maturity date draws nearer. As discussed in the Canadian Structured Finance Newsletter published by DBRS on June 11, 2010, DBRS has modeled a potential stress scenario involving certain European financial institutions and is satisfied that there would be no credit-driven impact on the ratings of the MAV Notes under such a scenario. These factors have contributed to the confirmation of the MAVI and MAVII Class A-2 Notes.



The MAVI and MAVII Class A-1 Notes benefit from a large amount of credit enhancement, the majority of which is provided by the subordination of the MAVI and MAVII Class A-2 Notes. It is very unlikely that losses in the underlying asset interests would exceed the credit enhancement available to the MAVI and MAVII Class A-1 Notes. As a result, the Class A-1 Notes have been placed Under Review with Positive Implications, reflecting the steps that have been taken to address the non-market standard legal and structural elements of the transaction. From both a legal and a credit quality perspective, the Class A-1 Notes now have the potential to be assigned a rating higher than “A”.

DBRS’s rating analysis also considers the probability of the structure facing a margin call that cannot be satisfied by available collateral and/or available margin funding facilities. On July 16, 2010, the moratorium period on margin calls from which the MAVs have benefitted since the issuance of the MAV Notes will expire. While DBRS believes that the MAVI and MAVII Class A-1 Notes are able to withstand high levels of losses and that several material legal and structural issues have been addressed, the ratings of such notes remain constrained by the spread-loss triggers that will apply to the transaction after the expiry of the moratorium. Current spreads are at a comfortable distance from the collateralization triggers to which the MAVs are exposed. However, credit spreads can be volatile and uncertainty surrounding the potential for a European sovereign default has pushed credit spreads wider in recent weeks. The situation in Europe post the expiry of the moratorium period, as well as ongoing developments in credit markets, will be important factors in resolving the Under Review status of the MAVI and MAVII Class A-1 Notes.

Note:

All figures are in Canadian dollars unless otherwise noted.

The applicable methodologies are Rating Canadian Structured Credit Transactions and Canadian Structured Credit Surveillance, which can be found on our website under Methodologies.

This is a Structured Finance rating.

Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
Master Asset Vehicle I	Class A-1 Notes	Under Review - Positive	A	--	Jun 22, 2010
Master Asset Vehicle I	Class A-2 Notes	Confirmed	A	--	Jun 22, 2010
Master Asset Vehicle II	Class A-1 Notes	Under Review - Positive	A	--	Jun 22, 2010

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Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
Master Asset Vehicle II	Class A-2 Notes	Confirmed	BBB (low)	--	Jun 22, 2010

The full report providing additional analytical detail is available by clicking on the link below or by contacting us at info@dbrs.com.

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