



**Department of Finance Canada
Announces the Creation of the Canadian
Lenders Assurance Facility**

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In response to prolonged global financial market turbulence, the Department of Finance Canada implemented the Canadian Lenders Assurance Facility (the "Facility"), a temporary program made available to guarantee mid to longer term bank notes issued by Canadian banks and other federally regulated deposit-taking institutions. The Facility is a component of Canada's implementation of the G7 Plan of Action to stabilize financial markets, restore the flow of credit and support global economic growth. It further builds upon a program previously announced by the Department of Finance Canada to maintain the availability of longer-term credit in Canada by purchasing insured mortgage pools from Canadian lenders through the Canada Mortgage and Housing Corporation, a Canadian crown corporation.

According to Finance Minister Jim Flaherty, the Facility will temporarily backstop wholesale bank borrowing to help secure access to longer-term funds so that Canadian financial institutions can continue lending to consumers, homebuyers and businesses in Canada. The Facility also aims to ensure that financial institutions in Canada are not put at a competitive disadvantage when raising funds in wholesale markets given similar actions recently announced by other countries.

The Facility will ensure certain categories of senior unsecured marketable wholesale debt with a term to maturity of at least three months. This insurance will cover principal and interest payments on eligible debt instruments for up to three years from the issue date of the instrument. Debt denominated in Canadian dollars, US dollars, Euros, Sterling or Yen is eligible for the program.

The Facility coverage will be available to any institution meeting the prescribed eligibility criteria, and the maximum amount of coverage for each institution will be determined by formula more particularly described in the Facility.

Insurance provided pursuant to the Facility will be contingent on certain commercial criteria. The Facility will charge a base annualized premium of 135 basis points which will be calculated and charged to the applicant for each satisfactory application for a certificate (the "Guarantee Certificate") when the related guaranteed instrument is issued. This fee will be applied to the gross proceeds of the guaranteed instrument for the duration of the Guarantee Certificate. The base premium is subject to an additional premium of 25 basis points depending on the credit rating of the issuing institution, and an additional premium of 20 basis points for debt instruments issued in a currency other than Canadian dollars.

Before an eligible debt instrument is guaranteed under the Facility, the issuing eligible institution must: (i) submit a satisfactory application to the Minister of Finance to participate in the Facility; (ii) sign the Canadian Lenders Assurance Facility Participation Agreement, which sets out the terms and conditions of the Facility, together with the execution of an indemnity agreement (provided the application is approved by the Minister of Finance); and (iii) submit a satisfactory application for a certificate confirming that a specified maximum value of a specific debt instrument will be guaranteed under the Facility when issued.

The Facility is not meant to replace other wholesale funding options for Canadian financial institutions; rather, it is being made available as a backstop in case conditions in global credit markets disrupt Canadian lenders' access to the funds they require to meet the objectives set out above. As the Facility is available on a voluntary basis to the institutions, it is up to each institution to decide whether or not to apply to participate in the program.

The Facility became available in early November and insurance extended under the Facility will be issued until April 30, 2009.

For more details on the commercial terms and application process of the Canadian Lenders Assurance Facility, please visit the Department of Finance Canada website at www.fin.gc.ca.

This update is intended as a summary only and should not be regarded or relied upon as advice to any specific client or regarding any specific situation.

If you would like further information regarding the issues discussed in this update or if you wish to discuss any aspect of this commentary, please feel free to contact us.

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