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Every 10 or 100 years we have witnessed financial bubbles that, for a short-term, shook the financial system, including the panic of 1907, the 1987 stock market

crash, the Long-Term Capital Management / Russian debt crisis of 1998 and, most recently, the crisis in our credit markets. Each had its own set of triggers and effect on the overall market. We currently have a crisis of confidence because in the last few years the market price for credit risk was minimal, which resulted in deals getting done that should have been declined. Now, the pendulum has swung the other way, and investors have become extremely risk averse.

What gained momentum earlier this year as a problem isolated to the U.S. housing market has snowballed into a global credit markets crisis. In retrospect we can say that:

- over the last few years U.S. mortgage lenders should not have engaged in relaxed subprime underwriting that went too far, such as the 2/28 ARM where borrowers were qualified at a low two-year teaser rate and not at the much higher reset rate. Borrowers who couldn't refinance after the initial two year period experienced significant payment shock, causing a large jump in subprime foreclosures;
- rating agencies should not have assigned the high ratings to these securitized pools of mortgages;
- investors did not get adequately compensated for the underlying risk and should not have used leverage to finance some of these mortgage pools; and,
- advancements in securitization technology meant that the credit risk imbedded in the U.S. mortgage lending was spread to investors across the globe.

August 2007 has been the most difficult month for participants in the Canadian credit markets. For the first time in history, we had a "run" on commercial paper issuers (Asset Backed Commercial Paper (ABCP) conduits) when investors declined to refinance (or roll over) their investments and instead demanded their money back. As the news from the U.S. gained momentum, these investors got nervous about the credit quality of the assets backing their commercial paper which, in most cases, was rated

AAA (the highest rating) by Dominion Bond Rating Service (DBRS). The Canadian banks were able to weather the storm, given their large balance sheets, diversified funding sources, and access to liquidity provided by the Bank of Canada.

The non-bank commercial paper issuers, such as Coventree Inc., had no ready access to cash (liquidity) and called on the liquidity lines they had in place with the banks. The banks concluded that they were not obliged to provide this support, causing the market for ABCP to collapse. Over \$30 billion of non-bank issued commercial paper has been affected and it is uncertain whether the investors who hold this paper will be repaid in full.

What is the implication? The commercial paper market, one of the primary securitization sources of funding for over \$30 billion of non-insured Canadian mortgages has come to a complete standstill. Only the conduits sponsored by the Canadian banks are refinancing some of their commercial paper at a cost of 0.50%+ higher than just a few weeks ago. In addition, all market investors in non-Government backed securities are demanding much higher yields for taking risk.

We expect the bank commercial paper market will soon return to normal given the enhanced liquidity lines the banks have introduced to make the paper safer. However, right now, one of the key funding sources that most non-conforming mortgage lenders have been relying upon is currently not available. And with all the market nervousness, we expect that investors financing our mortgages will demand significantly higher yields to take on risk.

Keep in mind that the level of risk has not changed; the price of taking on risk has changed. Canadian mortgage portfolios continue to exhibit strong credit performance with relatively low levels of arrears and losses, which are different from U.S. portfolios. For more information on these differences, see our report published on April 10 that compares the U.S. and Canadian subprime and alternative mortgage markets. As a reaction to the higher price of risk, some non-conforming lenders will decide to stop lending, while others will continue to lend through this uncertain period at higher interest rates. myNext Mortgage Company's position is that we will continue to work with our short term liquidity providers to ensure that we have adequate on-going capacity to fund new mortgages, while at the same time working on maximizing our long term mortgage funding choices.