

U.S. MORTGAGES

Royal Bank unit in US\$10.98M settlement over 219 foreclosures

A Royal Bank of Canada mortgage unit will pay US\$10.98-million to settle charges it gave the U.S. government false information about borrowers who took out 219 home loans that ended up in foreclosure. RBC Mortgage Co. agreed to the payment to avoid litigation but denied wrongdoing, according to Patrick Fitzgerald, the U.S. attorney in Chicago, who announced the settlement. Investigators accused RBC of knowing that 219 loans made in the Rockford and Freeport, Ill., areas between February, 2001, and

April, 2004, were based on false or fraudulent statements about the borrowers' credit, employment or sources of equity. They said the lender also submitted false information about the loans to the U.S. Department of Housing and Urban Development. "Mortgage lenders should know that they must maintain the integrity of the lending process so that federally insured mortgages will be available to worthy borrowers and not based on fraud and deceit," Mr. Fitzgerald said in a statement. Reuters

COMMENT

TD issue sells at discount



Barry Critchley  
Off the Record

Years ago, one underwriter was over the moon when his firm priced a major equity financing on the offer side of the market.

The same underwriter wouldn't be as impressed these days given this week's mega-issue of common shares by Toronto-Dominion Bank.

The bank, whose shares traded at \$75 last Nov. 30, priced its newest offering at \$39.50, an 8% discount to the \$42.90 closing price last Monday. Add on a further 79¢ for agents' fees and TD Bank will end up with net proceeds of \$38.71 per share, or almost 10% below Monday's close.

To put the terms of current equity financing into perspective, TD last raised common equity in October, 2001. Back then, it raised \$400-million (up from a planned \$350-million) via the sale of almost 10 million shares at \$36.50. Prior to the deal, the stock traded at \$37 — meaning the sale was done at a 1.4% discount. Underwriting fees were 4%. All up, TD received net proceeds that were 5.3% below the price prior to the deal being announced, or roughly half the cost of its latest financing. TD shares closed yesterday at \$40.89.

**Smart Lingo** Earlier this year, Lingo Media Corp., a Canadian company whose shares are listed on the TSX Venture Exchange and which defines itself as "a leader in online and print-based English-language learning products in China," launched the official beta test of its platform.

The idea was to generate traffic, specifically to a group of mostly university students, to the site "that combines educational and textual advertising" — in short, to build a so-called brand awareness. Another goal was to make product improvements prior to the launch of the official 1.0 version. Another goal was to find an advertiser to what Michael Kraft, chief executive, calls, "embedded product placement."

Later today, Lingo Media — which recently secured a \$5-million equity infusion from Egyptian-headquartered Orascom Telecom, a communications company with more than 90 million subscribers — is expected to announce that Mercedes Benz will be its launch sponsor. Lingo Media may also announce that Version 1.0 of its product will start on the weekend or early next week.

Specifically, Mercedes has chosen to showcase its Smart Fortwo car in the panels used to teach conversational English to Chinese nationals. Those panels use an avatar to guide the student through an everyday situation, such as shopping, traveling or eating. The company's avatar guides students through the delights of Paris, Rome and San Francisco. In every panel, there is a photograph of a Smart car.

"It's one thing to build an online service," said Kraft. "It's another thing to build an audience and to modify and expand the product. But it's a very important thing to generate sponsorships, which is what we have done with this announcement," said Kraft, referring to the US\$100,000 deal.

"This announcement is vindication of what we have been trying to do," added Kraft when referring to the site, which he refers to as online, embedded, conversational, digital and interactive. "And what's more, it's fun, fast and free," he added.

Mercedes is pleased with the new arrangement, claiming that Lingo Media's platform represents a "value add for our target audience in China but also provides for an engaging and meaningful brand relationship." Lingo's shares last traded at \$1.18.

Financial Post  
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"We acknowledge that it's taking longer than we would wish and we apologize to all stakeholders for this further delay," committee head Purdy Crawford said of the missed restructuring deadline.

SECURITIES

ANOTHER DEADLINE TO BE MISSED

ABCP RESTRUCTURING

By John Greenwood

Backers of a proposed restructuring of \$32-billion of frozen, asset-backed commercial paper yesterday said they will miss another deadline. An investor committee spearheading the massive workout has warned the job will not be completed by the end of November, the deadline it set last month.

In a statement late yesterday, the so-called Pan-Canadian Investors Committee blamed the delay on the complexity of the restructuring, the large number of participants and conditions in the credit market.

"We acknowledge that it's taking longer than we would wish and we apologize to all stakeholders for this further delay," said Purdy Crawford, the head of the committee.

Canada's market for non-bank-sponsored ABCP seized up in August, 2007, after investors stopped buying the notes and the banks that had agreed to act as emergency liquidity providers declined to step up. Under the restructuring, the frozen ABCP will be converted to long-term bonds. Mr. Crawford's committee originally said it would be completed in the fall of 2007, but after numerous delays it is still not wrapped up, leaving note-holders — including about 2000 retail investors — in limbo.

Some observers blame the delay on the turmoil in financial markets, as a result of which several of the international banks involved in the restructuring, including Citigroup, Merrill Lynch and Deutsche Bank, have taken significant losses. Citigroup's survival may depend on a US\$20-billion bailout unveiled by the U.S. government on Monday, while a severely weakened Merrill Lynch is in the process of being taken over by Bank of America.

Perhaps the biggest challenge facing the restructuring is that the foreign banks may not be legally required to take part. Due to a recent change in Canada's insolvency laws, these banks are exempt from bankruptcy-protection legislation.

The trusts that issued the frozen ABCP were granted protection under the Companies' Creditors Arrangement Act.

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FINANCIAL SERVICES

Caisse de Dépôt denies it sold \$10B in stock

\$13B ABCP EXPOSURE

VANCOUVER • The Caisse de dépôt et placement du Québec dismissed a report yesterday that global financial turmoil had forced it to dump \$10-billion of stocks to free up cash, but Canada's largest pension fund manager conceded it has taken a hit.

The Caisse said its adjustments to deal with the Canadian dollar's instability and the volatile markets have included selling "liquid secur-

ities," but it was "in proportions that are much smaller than those reported in the media."

A spokesman declined to give specifics on how much was sold, but a statement from the Caisse said the actions to preserve capital were completed in October and since then the stock markets have fallen about 12%.

The Caisse began the year with \$155.4-billion of assets, but has sold billions in equities during the past two months after taking losses on currency hedging and derivatives, as well as international real estate and private equity, the *Globe and Mail* re-

ported, citing unnamed sources.

The paper said the fund's hedging strategy took a hit from the recent sharp decline of the Canadian dollar.

"The Caisse has adjusted its currency-hedging operations in the context of the Canadian dollar's instability, and has closed out certain futures contracts that could have created the need for additional capital in a down market," the Caisse said in a written statement.

The arm's-length government agency manages investments for various public and private pension plans. Since the fund manages the retirement savings of Quebecers, the idea of losses eating into pension cheques has become a hot topic in the province's three-week-old election campaign.

"The Caisse deplores being the subject of such attention in a context of extreme market volatility, during a global crisis that affects all international investors," it said in response to yesterday's media report.

The Caisse said it had about \$20-billion in liquid assets.

Pension funds have been losing money as stock markets decline, but the liquidity squeeze is more acute for the Caisse, because the fund has \$13-billion of asset-backed commercial paper that has been frozen since August, 2007, due to the credit crunch, the *Globe and Mail* said.

Reuters



BLOGS

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HEDGE FUND ROMANCE ENDS

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financialpost.com/fpmagazinedaily

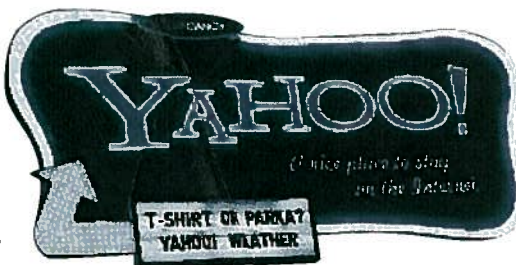
THE CRASH CAN'T CRASH

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CORRECTION

Royal Bank of Canada announced it expects its fourth-quarter revenue to be reduced by investment and trading losses of \$670-million. This number is derived from a total loss of \$1-billion, which is reduced by a gain recognized on the bank's liabilities and will be reduced further by a \$540-million reversal in an Enron-related provision. Amounts were incorrectly added together in a graphic appearing in yesterday's *Financial Post*. The *Post* regrets the error.

COMPANIES IN THE NEWS

Aecon Group Inc.FP9	Manulife . . . . .FP9
AIG Inc. . . . .FP16	Nortel . . . . .FP16
Alcan Inc. . . . .FP5	NovaGold . . . . .FP8
BHP Billiton Ltd.FP5	Parkcentral Capital Management . . .FP2
Bird ConstructionFP9	RBC Mortgage . . .FP2
BMO Financial . . .FP1	Rio Tinto Ltd. . . .FP5
Caisse de dépôt . . .FP2	Royal Bank Cda .FP2
Canadian Natural Resources Ltd. .FP8	Russel Metals . . .FP9
Chrysler LLC . . . .FP3	Seacliff Construction Corp. . . . .FP9
Churchill Corp. . .FP9	SNC-Lavalin . . . .FP9
Crescent Point Energy Trust . . . .FP8	Solera Sustainable Energies Co. . . .FP3
EA Energy Alternatives Ltd. . . . .FP3	Stantec Inc. . . . .FP9
Ford Motor Co. . . .FP3	TD Bank . . . . .FP9
General Motors .FP3	Thomson ReutersFP8
Genivar Inc.FundFP9	Tim Hortons Inc.FP8
Home Capital . . . .FP8	TransCanada . . .FP8
IBI Income FundFP9	TSC Stores LP . . .FP3
Inter Pipeline . . .FP8	UBS AG . . . . .FP16
Lockerbie & HoleFP9	Warner Music . . .FP14