The $100 million question: Will exposure to subprime market hurt taxpayers?

BY ROB FAULKNER
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Nearly $100 million of taxpayers' money is in limbo due to a crisis surrounding a risky city investment.

Hamilton has $97 million of its $691-million investment fund in what's called asset-backed commercial paper, or ABCP, short-term securities made up of mortgages or other debt.

A crisis arose around this type of investment in August in part because of doubt about the value of ABCP, and exposure to the U.S. subprime mortgage market collapse.

What happens to next depends on a team of investors and banks, which agreed to halt trading of ABCP due to the crisis.

The city is expected to unveil a plan to restructure the security holdings on Dec. 14.

So, will the city take a bath when that happens?

"There is always that possibility whenever you make any investment. I remember when the banks were having problems in the '80s. That's why I've got white hair," said finance chief Joe Rinaldo, noting the city made millions in recent years on other investments.

"It is a solid paper," he adds of the security that came with a high rating equivalent to AAA.

Rinaldo did not speculate about what the $97 million might be worth now. He noted its risk is counterbalanced by other investments that are making money.

Hamilton has had 3 per cent to 14 per cent of its investments in ABCP in the past.

Rinaldo says the Dec. 14 plan may convert the security that was short-term to a five- or six-year investment that can't be converted to cash as quickly.

He maintains the debt in the ABCP is still well regarded, but at least one observer isn't so sure.

"It's a lot of money, and it's a high percentage," Mississauga-based independent financial analyst Dianne Urquhart says of Hamilton's ABCP holdings, which currently makes up 14 per cent of its investment fund.

Urquhart, noting some U.S. buyers are now only willing to pay 60 cents a dollar on ABCP debt, said the city shouldn't accept the long-term offering to come out of the Dec. 14 restructuring.

"There's no fault at city hall, and the treasurer shouldn't lose his job," she said. "They bought damaged goods," she adds, hoping the city will get all $97 million back in cash from the organization that sold the investment.

But Nick Bontis, associate professor in McMaster University's DeGroote School of Business, said Hamilton's investment mix is so conservative he calls it "capital preservation."

Not exactly a scary, high-risk mix.

To put its risk in context, he notes the Investors Group Canadian Balanced Fund held 59 per cent in securities, 30 per cent in safe bonds and 11 per cent in cash. The city has 14 per cent in asset-backed securities, 83.3 per cent in bonds and 2.7 per cent in cash.

"OK, we might not get full, realized capital gains on those securities," Bontis said. "But had we not invested there, people would be bitching that we have only a single-digit rate of return."

rfaulkner@thespec.com
905-526-2468

thespec.com
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