

Lawyer sues Mattel in bid to force toymaker to pay for testing of children exposed to lead

A lawyer filed a suit against Mattel Inc. yesterday due to recent recalls of toys made in China that might have contained excessive amounts of lead paint, and he is seeking class-action status. Jeffrey Killino said in a statement the Mattel suit filed in Los Angeles was aimed at forcing the world's largest toy-

TOYS MADE IN CHINA

maker to pay for the testing of children who might have gotten lead poisoning from the toys. Mattel declined to comment. Last week, El Segundo, Calif.-based Mattel recalled millions of

toys, including 436,000 die-cast toy cars from its "Cars" line, because they may have contained excessive amounts of lead, which can cause brain damage in children. *Reuters*



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REAL ESTATE

NO DECLINE UNTIL 2008, CREA SAYS

'SPILLOVER EFFECT MURKY'

BY GARRY MARR

A falling stock market and worries about the U.S. subprime-mortgage market will have little impact on real-estate prices or sales, according to the association that keeps the statistics for the country's housing market.

The Canadian Real Estate Association, which represents real-estate boards across the country, said yesterday home sales and prices will set records this year. However, it can see a decline in the works for 2008.

"The spillover effect in Canada [caused by the U.S. subprime crisis] is still very murky because what does it mean in terms of economic growth in the U.S.?" said Gregory Klump, chief economist with the Ottawa-based group. "If there is any downdraft in the U.S. forecast, Canada can expect to be affected to some extent. But it's not clear what the impact will be."

Mr. Klump pointed out that even if there is a slowdown, it could turn into a blessing for the sector. "If the growth forecast is revised downward by the Bank of Canada, it bodes well for interest rates," he said, noting the possibility of a cut in lending rates.

CREA's new forecast is for 523,100 sales across the country this year, a record and an 8.1% jump from a year earlier. By 2008, the group is calling for a 2% drop in sales activity but next year would still be the second-best on record for activity.

The average price of a home sold across the country in 2007 is expected to reach \$305,900, a record and a 10.4% jump from 2006. By 2008, CREA is saying prices will rise by only another 5.5%.

MLS RESIDENTIAL AVERAGE PRICE FORECAST

| | 2008 FORECAST | 2008 ANNUAL % CHANGE |
|----------------------|---------------|----------------------|
| Canada | 322,700 | 5.5 |
| British Columbia | 454,200 | 5.7 |
| Alberta | 379,000 | 6.6 |
| Saskatchewan | 163,600 | 5.5 |
| Manitoba | 180,000 | 7.7 |
| Ontario | 316,700 | 4.8 |
| Quebec | 219,700 | 6.1 |
| New Brunswick | 142,100 | 4.3 |
| Nova Scotia | 198,600 | 7.5 |
| Prince Edward Island | 139,200 | 5.1 |
| Newfoundland | 149,900 | 4.1 |

SOURCE: CANADIAN REAL ESTATE ASSOCIATION

ANDREW BARR / NATIONAL POST

Lack of clarity adds to woes

DEBT

Continued from Page FP1

Coventree and other issuers typically have deals with big banks that require them to come to the rescue with additional financing in the event of a market collapse. But when Coventree called on its bankers for emergency funding last week, its pleas were declined. That prompted DBRS, the only rating agency that covers the sector in Canada, to issue a series of default warnings. Since then the market for has been all but dry.

Asset-backed commercial paper is backed by bundles of credit obligations ranging from

car loans to credit-card debt to, in some cases, U.S. subprime mortgages. Much of it is packaged with "enhancements," including guarantees by financial players to kick in funding if something goes wrong with the market or with underlying cash flows. Partly on the strength of those arrangements, DBRS gave many Canadian ABCP issues top ratings.

The troubles are exacerbated by the lack of clarity as to exactly what kind of debt investors are exposed to with top-rated issues not requiring a prospectus. That means investors have limited knowledge of what they are buying.

The market crisis now unfolding "is something nobody ever thought would happen," said one industry insider. He said it was always assumed that a default was considered a highly remote possibility.

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"Price increases [will slow] as the market becomes more balanced," Mr. Klump said. "As far as any impact on consumer sentiment about whether now is a good time to make a home purchase, it is still too early to say whether [the subprime crisis] has had an impact because the consumer-confidence surveys are not out. But we are not seeing any evidence yet."

He added Canadian mortgage loans are more secure than U.S. debt. "We didn't lower credit standards in Canada like they did in the U.S.," Mr. Klump said.

Canadian consumers have been allowed to stretch out their debt over longer periods. The standard amortization of a mortgage is now evolving to 40 years after being at 25 for decades, which has lowered monthly payments and allowed Canadians to borrow more.

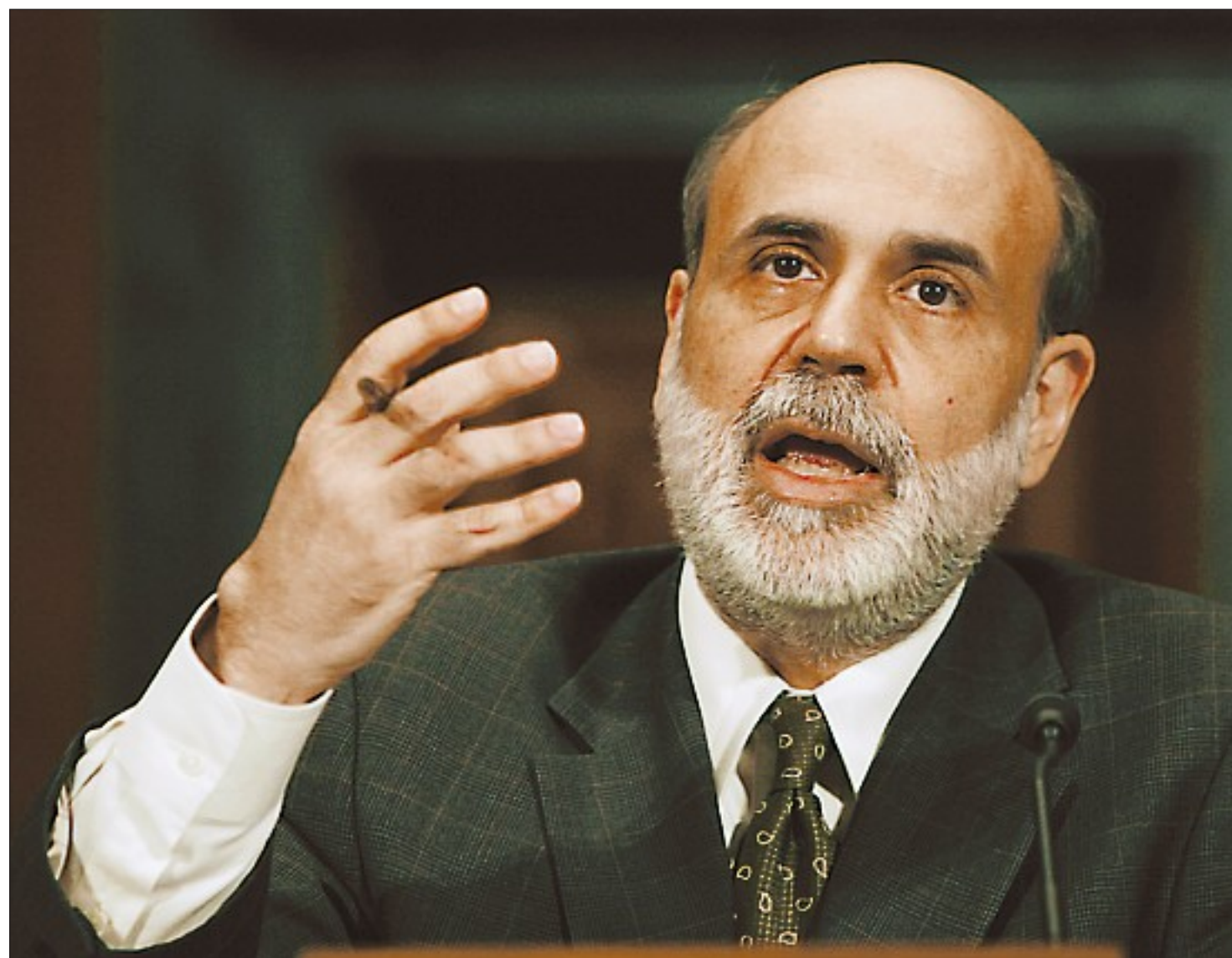
The federal government also changed the rules on mortgage insurance. Consumers with a 20% down payment no longer need to have insurance; that's down from a 25% requirement.

Phil Soper, chief executive of Royal LePage Real Estate Services Ltd., contends the real-estate market remains in much better shape than during the last crash in the 1990s.

"We are predicting a gradual slowdown for all of Canada with the exception of Alberta, which should be able to sustain above-average growth," said Mr. Soper, who doesn't think the Canadian market is comparable to the United States. "The speculative side of real estate has not been large enough during this cycle to affect market movement. This expansion has been driven by people living in the homes they buy."

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JASON REED / REUTERS FILE PHOTO

Ben Bernanke, chairman of the U.S. Federal Reserve, is getting mixed reviews for his handling of the crisis in credit markets.

ANALYSIS

Bernanke blamed for 'rookie mistake'

CUT FED DISCOUNT RATE

BY PETER MORTON
Washington Bureau Chief

WASHINGTON • Ben Bernanke, the rookie U.S. Federal Reserve chairman, continues to get mixed reviews about how effectively he is managing the U.S. subprime-mortgage crisis that has spread across the globe.

Markets as well as many economists are betting Mr. Bernanke, barely 18 months into the job, will be forced to make an emergency Fed rate cut if stability does not soon return to global credit markets.

"Mr. Bernanke was slow off the mark in this crisis," said Peter Morici, an economics professor at the University of Maryland and former chief economist at U.S. International Trade Commission.

Mr. Bernanke and Henry Paulson, the Treasury Secretary, are being hauled on the carpet today to explain to Sen. Christopher Dodd, chairman of the Senate banking committee, how the Bush administration is going to respond to the ongoing turmoil in the markets.

"The American dream is at stake, and that demands leadership now," said Mr. Dodd, a Democratic presidential candidate. "We must act to restore confidence in the markets to revitalize our economy."

Since the credit crisis began just over a week ago, Western central banks have pumped about US\$400-billion into markets in a bid to inject liquidity into a quickly evaporating lending market. The Fed alone has put in nearly US\$98-billion, including another US\$6-billion yesterday.

That has done little to stem the huge erosion in equity markets, which have lost more than US\$5.5-trillion in value from a July 23 peak.

Mr. Bernanke, who comes from the economic academic world, last week made a dramatic but symbolic move in which he cut the Fed discount rate — what it charges banks for direct loans — by half a percentage point to

5.75%, in an effort to increase liquidity in longer-term loans and bonds.

So far, markets are not impressed.

"It was a rookie mistake," said Kenneth Thomas, a lecturer in finance at the University of Pennsylvania's Wharton School in Philadelphia.

The Fed underestimated liquidity needs of investors and the fallout from the housing recession, he said. "This demonstrates the difference between book-smart and street-smart."

Other economists are somewhat more sympathetic to the dilemma Mr. Bernanke faces of trying to reassure markets while not appearing to bail out hedge funds and others who invested in these high-risk subprime mortgages.

"As we saw in [the recessions of] 1990-92 and again from 2001-03, the Fed is not a miracle worker — sometimes the best it can do is offer a sedative to dull the pain as the credit excesses become expunged," said David Rosenberg, chief North American economist at Merrill Lynch & Co. in New York.

Mr. Rosenberg said Mr. Bernanke simply injected liquidity by pushing more cash into markets as credit quickly began to dry up among conventional investors.

"The first rabbit the Fed tried to pull out of the hat didn't work," he said.

With the cut in the discount rate, both bond and stock markets are expecting, and even demanding, the Fed move to cut its far more important Fed funds rate from 5.25%.

"The question is whether the Fed did enough to satisfy the markets, and Wall Street will be relentless until they cut the Fed funds rate," said Peter Cardillo, chief market economist at New York-based brokerage house Avalon Partners.

While Mr. Rosenberg said the Fed does not want to be seen to be bailing out bad credits or reinvigorating speculative behavior, economists such as Oscar Gonzalez at John Hancock Financial Services in Boston contend Mr. Bernanke will ultimately have no choice but to cut rates.

"And the fact that the futures market is already betting on a rate cut may force his hand and that he'll decide to cut rates on the Sept. 18 meeting [of the Fed]."

"This is a financial-market issue, which is bleeding into the economy," said Stephen Stanley, chief economist at RBS Greenwich Capital Markets in Greenwich, Conn.

If nothing else, economists believe Mr. Bernanke has certainly learned a real-time lesson on how quickly markets can deteriorate.

Financial Post, with files from Bloomberg News
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COMMENT

Buy Telus or Bell? What an easy choice

Western rival outshines by almost any metric



DAVID BERMAN
Ahead of the Bell

Given a choice between investing in **Telus Corp.** or **Bell Canada Inc.**, which telecommunications company looks like the better bet?

Both stocks have been beaten up with the rest of the market over the past couple of weeks. Shares in Bell (formerly called BCE Inc.) have dipped 6.4% from their highs. Telus shares have fared even worse, suffering a drop of 21%.

The curious part about the Bell downturn, though, is that the company has been caught up in the unsettled credit market, which has cast doubt on whether the \$52-billion takeover offer from a private-equity group led by the Ontario Teachers' Pension Plan will go through.

Volatility in global credit markets is threatening dozens of similar merger deals because of rising borrowing costs. As a result, many stocks are trading well below their takeover offers. According to Breakingviews, an online financial commentator, six stocks of 25 that are at the centre of big takeover deals worldwide are now trading at discounts of 10% or more. In a normal market, the discount would be close to zero.

In Canada, Bell Canada shareholders have been offered \$42.75 a share. But the shares closed yesterday at just \$39.07, representing a discount of \$3.68 a share, or 8.6%. (During the market's low point last week, the discount was as large as 11%.)

This might look like a mouth-watering arbitrage opportunity, and it is if the deal goes through as planned. But the price that it falls apart — or its price is reduced — is beginning to make the potential gains look less tantalizing.

The deal hinges on the company's ability to issue more than \$33-billion in new debt to finance the takeover, which is hardly a sure thing in today's volatile credit market. The main fear is that the banks issuing the debt will demand new terms, including beefed-up covenants and higher yields to offset rising risks.

These fears have some substance to them. **Home Depot Inc.** has delayed the sale of its HD Supply unit by a week and there is speculation that private-equity buyers may reduce their earlier US\$10.3-billion offer. In a regulatory filing, the home-improvement retailer said that no assurance can be given that the transaction will even close. How this deal transpires will have a huge impact on Bell Canada shares.

The uncertainty surrounding Bell Canada is making Telus look like a better bet. By just about any metric, it outshines Bell. For example, its earnings and dividends are rising faster, and yet the shares trade at a lower price-to-earnings ratio. Its price-to-earnings growth ratio, a measure of how much investors are pay-

TELUS BUYING BELL WOULD HAVE HAD GREATER SYNERGIES

ing for profit growth, is less than one, versus nearly five for Bell Canada.

Telus, as you may recall, made merger overtures toward Bell this year but withdrew its interest because it could not gain access to Bell's financial data. Too bad, because a Telus deal would have wrung greater efficiencies out of the combined companies. Even better, a Telus deal would have given Bell shares some support because of the lower amount of debt required to pull off a merger.

But the best part of a Telus investment is the lower risk involved. The shares, which are at a 52-week low, are likely close to a bottom, giving them more upside potential than downside risk.

On the other hand, Bell Canada's shares have a mere 9% upside and will dive if there are further gyrations in the credit market.

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