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3-year extension proposed for Fleet Street 2

Cairn Capital released yesterday its restructuring proposals for the Fleet Street 2 CMBS in which it is seeking to extend the legal final maturity of the notes by three years to July 2017.

Under the senior facility agreement, Cairn acts as financial adviser to the sponsors of the borrowers Whitehall Funds and Deutsche Bank's RREEF unit as well insolvent German retailer Arcandor.

Chalkhill Partners strategists reckon that this is the first time a note extension has been proposed to a European CMBS transaction.

The EUR1.192bn CMBS deal was launched in September 2006 with the senior loan secured over a hundred German department stores let to KarstadtQuelle AG. Cairn is also proposing an increase in margin on the notes for each class; covenant amendments; and a switch to sequential pay for the notes.

Noteholders will vote on the plan at an EGM on February 24. Chalkhill believes that there is likely to be a rating implication if the restructuring proposal is accepted – Cairn warned that the rating agencies are unlikely to be able to complete their rating processes in the timeframe available for this restructuring, nor that reliable feedback on potential rating outcomes can be achieved within this timeframe.

According to Chalkhill, the proposals would constitute a distressed debt exchange for rating purposes, and the most likely course of action would be for the rating agencies to downgrade the debt to the D category, or equivalent, before re-rating the new structure.

The strategists pointed out that noteholders face a difficult decision. A creditor failure to approve the Karstadt insolvency plan by the end of 2010 would constitute an event of default. Capita, the servicer, has been appointed as legal and the financial advisers are Paul Hastings and Brookland Partners.