

PRESS RELEASE

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CONSUMER PROTECTION ALERT

Collapse of Auction Rate Securities Market Felt in Alaska

Investors Asked to Contact the State of Alaska Division of Banking and Securities

(Anchorage) In February of this year, the auction rate securities (ARS) market began to unravel. Approximately one thousand auctions failed, leaving investors holding ARS instruments which could not be sold. The ARS market failed when bidders failed to show up for auctions. As a result of the auction failures, the issuers of the bonds must pay investors an ARS interest penalty rate determined by the terms of the individual bond contracts, which typically varies between “zero” and 20%. Consequently, the failed auction rate securities are frozen with some investors earning zero percent interest on their investment. Investors are left wondering when they will be able to get their cash back.

Auction rate securities, a specialized corner of the bond market, are long-term debt instruments, issued by entities such as municipalities, state-sponsored student loan agencies, hospitals and closed-end funds. The issuers seek long-term funding through the issuance of these bonds. In the past, ARS have been sold by broker-dealers at auctions occurring at various intervals, typically ranging between seven and 35 days, providing a certain degree of liquidity. Interest rates reset at these auctions. Broker dealers are hired by the issuers to run the auctions. Brokers and financial advisors are paid commissions which typically accrue even when the auctions fail.

Affected investors include individuals, small companies and associations, as well as large institutional investors and agencies across the country. The federal Securities and Exchange Commission is investigating firms which made ARS offerings. Many state securities regulators are conducting probes into the sales practices of brokers and banks which sold these securities and promoted them as highly liquid money market equivalents and “as good as cash,” failing to disclose inherent risks, should the auctions fail.

In recent weeks across the nation, lawsuits have been filed against many banks and brokerage houses, including Citigroup, E-Trade Financial Corp., Merrill Lynch & So., Morgan Stanley, Raymond James Financial, UBS, AG, Wachovia Corp. and Wells Fargo Investments. The auction rate securities market is estimated to be an asset class valued at over \$300 billion. Banks and brokerage houses are not only reducing the value of these assets in their own books, but also are writing down the value of the assets in the portfolio accounts of their customers.

The State of Alaska Division of Banking and Securities has received a number of complaints in recent weeks. Consumer protection is a high priority of Governor Palin’s administration. Affected Alaskan investors are asked to contact the Division’s Securities

Examiner, Roger Prince, at (907) 265-8144 or may e-mail him at Roger.Prince@alaska.gov to make a complaint. A complaint should include the name of the purchaser, the broker, a description of the security, date of purchase and amount of the ARS holding and any representations made by the broker.

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