

## **Ramirez & Co. - Auction Rate Securities Practices & Procedures**

Auction rate securities or (“ARS”) are bonds or preferred securities for which the interest or dividend rate is set periodically through a bidding process (an "Auction"). The auction is conducted by registered broker-dealers, which submit the results to a third party (the "Auction Agent") for a determination of the applicable rate. The following are the material practices and procedures of Ramirez & Co. ("Ramirez") when we are engaged to act as a broker-dealer for auction rate securities.

### **Definitions**

"Auction Failure Event": failure of the auction agent to receive Bids lower than the Maximum Rate for the total amount of securities being auctioned.

"Auction Period": the period for which the auction determines the interest rate on the securities that are the subject of the Auction.

"Auction Procedures": the procedures governing the conduct of an Auction, usually set forth in the indenture or resolution covering the securities and summarized in the offering document for the issue or in supplemental disclosure documents.

"Auction Rate": the rate of interest per annum determined as a result of the Auction.

"Bid": an Order that is an offer to buy.

"Bidder": a party that places a Bid with Ramirez during an Auction.

"Maximum Rate": the maximum interest rate per annum on the securities, as provided in the offering document.

"Minimum Rate": the minimum interest rate per annum on the securities, as provided in the offering document.

"Order": an offer to buy or sell auction rate securities during an Auction, or a Submitted Hold Order.

"Seller": a party that places an Order with Ramirez during an auction that is an offer to sell auction rate securities.

"Submitted Hold Orders": a communication by an existing owner during an Auction that the owner desires to continue to own the securities without regard to the Auction Rate.

### **Bidding by Ramirez for Its Own Account**

Ramirez may be permitted, but not obligated, to submit orders in Auctions for its own account either as a Bidder or a Seller and routinely does so in the auction rate securities market in its sole discretion. If we submits an Order for its own account, it will have an advantage over other Bidders because we will have knowledge of some or all of the other Orders placed through Ramirez in that Auction and, thus, can determine the rate and size of its Order so as to ensure that its Order is likely to be accepted in the Auction and that the Auction is likely to clear at a particular rate. For this reason, and because Ramirez is appointed and paid by the issuer of the securities to serve as a broker-dealer in the Auction, Ramirez interests in conducting an Auction may differ from those of holders and potential holders of the securities who participate in Auctions. See "Auction Dealer Fees." Ramirez would not have knowledge of Orders submitted to the Auction Agent by any other firm that is, or may in the future be, appointed by an issuer of auction rate securities to accept Orders.

Ramirez may routinely place one or more Bids in an Auction for its own account to acquire the securities for its inventory, to prevent an Auction Failure Event (which would result in the Auction Rate being set at the Maximum Rate) or an Auction from clearing at a rate that Ramirez believes does not reflect the market for the securities. Ramirez may place such Bids even after obtaining knowledge of some or all of the other Orders submitted through it. When bidding for its own account, Ramirez may also bid outside or inside the range of rates that it posts in its Price Talk. See "Price Talk."

Ramirez also may routinely encourage bidding by others in Auctions, including to prevent an Auction Failure Event or an Auction from clearing at a rate that Ramirez believes does not reflect the market for the securities. Ramirez may routinely encourage such Bids even after obtaining knowledge of some or all of the other Orders submitted through it.

Bids by Ramirez or by those it may encourage to place Bids are likely to affect (i) the Auction Rate - including preventing the Auction Rate from being set at the Maximum Rate or otherwise causing Bidders to receive a higher or lower rate than they might have received had Ramirez not bid or not encouraged others to bid and (ii) the allocation of securities being auctioned - including displacing some Bidders who may have their Bids rejected or receive fewer securities than they would have received if Ramirez had not bid or encouraged others to bid. Because of these practices, the fact that

an Auction clears successfully does not mean that an investment in the securities involves no significant liquidity or credit risk. Ramirez is not obligated to continue to place such bids or encourage other Bidders to do so in any particular Auction to prevent an Auction from failing or clearing at a rate Ramirez believes does not reflect the market for the securities. Investors should not assume that Ramirez will do so or that Auction Failure Events will not occur. Investors should also be aware that Bids by Ramirez or by those it may encourage to place Bids may cause unfavorable Auction Rates to occur.

In any particular Auction, if all outstanding securities are the subject of Submitted Hold Orders, the Auction Rate until the next Auction will be the Minimum Rate (such a situation is called an "All Hold Auction"). Ramirez is under no obligation to advise existing holders of the fact that an All Hold Auction is likely.

If Ramirez holds any securities for its own account on an Auction Date, Ramirez will submit a Sell Order into the Auction with respect to such securities, which would prevent that Auction from being an All Hold Auction. Ramirez may, but is not obligated to, submit Bids for its own account in that same Auction, as set forth above.

### **Auction Dealer Fees**

For many auction rate securities, Ramirez has been appointed by the issuer of the securities to serve as a dealer for the related auctions and is paid by the issuer for its services. This is typically done pursuant to a contract (the "Broker-Dealer Agreement") between the issuer and Ramirez. The Broker-Dealer Agreement provides that Ramirez will receive from the issuer auction dealer fees at an annual rate of a percentage of the principal amount of the securities sold or successfully placed through Ramirez. As a result, Ramirez interests in conducting Auctions may differ from those of investors who participate in Auctions.

Ramirez may share a portion of the auction dealer fees it receives from the issuer with other broker-dealers that submit orders through Ramirez that Ramirez successfully places in the Auction. In general, auction dealers may share with Ramirez a portion of the fees they receive from an issuer when those dealers submit orders for Ramirez (on behalf of Ramirez or its customers) into auctions in which Ramirez does not serve as a dealer. Similarly, with respect to auctions for other auction rate securities for which Ramirez does not serve as a dealer, the other broker-dealers who serve as dealers in those auctions may share auction dealer fees with Ramirez for orders that Ramirez submits through those broker-dealers that those broker-dealers successfully place in those auctions.

**Price Talk**

Before the start of an Auction, Ramirez may, in its discretion, make available to existing and potential holders of the securities Ramirez good faith judgment of the range of likely clearing rates for the Auction based on market and other information. This is known as "Price Talk." Price Talk is not a guarantee, and existing and potential holders are free to use it or ignore it. If Ramirez provides Price Talk, Ramirez will make the Price Talk available to all existing and potential holders of the securities. Ramirez may occasionally update and change the Price Talk based on changes in issuer credit quality or macroeconomic factors that are likely to result in a change in interest rate levels, such as an announcement by the Federal Reserve Board of a change in the Federal Funds rate or an announcement by the Bureau of Labor Statistics of unemployment numbers. Ramirez will make such changes available to all existing and potential holders that were given the original Price Talk.

**All-or-Nothing Bids**

Auction Procedures normally require the pro rata allocation of securities where there are not sufficient sell orders to fill all bids at the clearing rate. Thus, unless Auction Procedures provide otherwise, Ramirez does not accept "all-or-nothing" bids (i.e., bids whereby the bidder proposes to reject an allocation smaller than the entire quantity bid) or any other type of bid that allows the bidder to avoid pro rata allocation.

**No Assurances Regarding Auction Outcomes**

Ramirez provides no assurance as to the outcome of any Auction. Nor does Ramirez provide any assurance that any Bid will be accepted or that the Auction will clear at a rate that a Bidder considers acceptable. Bids may be rejected or may be only partially filled, and the rate on any securities purchased or retained may be lower than the Bidder expected.

**Deadlines/Auction Periods**

Each particular Auction has a formal time deadline by which all Bids must be submitted by Ramirez to the Auction Agent. This deadline is called the "Submission Deadline." To provide sufficient time to process and submit customer Bids to the Auction Agent before the Submission Deadline, Ramirez imposes an earlier deadline - called the "Internal Submission Deadline" - by which Bidders must submit Bids to Ramirez. The Internal Submission Deadline is subject to change by Ramirez. Ramirez

may allow for correction of clerical errors after the Internal Submission Deadline and prior to the Submission Deadline. Ramirez may submit Bids for its own account at any time until the Auction Submission Deadline. Some Auction Agents allow for the correction of clerical errors for a specified period of time after the Auction Submission Deadline.

For some securities, the Auction Procedures provide that during any Auction period, the issuer of the securities may change the length of the next Auction period. In Auctions that are subject to the changed Auction period, Ramirez may place a bid to buy the securities that may effectively place an upper limit on the rate that can be set at the Auction at a rate that is below the Maximum Rate. Ramirez may negotiate a separate fee from the issuer of the securities in such circumstances.

### **Existing Holders' Ability to Resell Auction Rate Securities May Be Limited**

Existing holders will be able to sell all of the securities in an Auction that are the subject of submitted Sell Orders only if there are Bidders willing to purchase all those securities offered for sale in the Auction.

If sufficient clearing Bids have not been made, existing holders that have submitted Sell Orders will not be able to sell in the Auction all, and may not be able to sell any, of the securities subject to such submitted Sell Orders. As discussed above (see "Bidding by Ramirez for Its Own Account"), Ramirez may submit a Bid in an Auction to keep it from failing, but it is not obligated to do so. There may not always be enough Bidders to prevent an Auction from failing in the absence of Ramirez bidding in the Auction for its own account or encouraging others to bid. Therefore, Auction Failure Events are possible, especially if the issuer's credit were to deteriorate, a market disruption were to occur or if, for any reason, Ramirez were unable or unwilling to bid.

Between Auctions, there can be no assurance that a secondary market for the securities will develop or, if it does develop, that it will provide existing holders the ability to resell the securities in the secondary market on the terms or at the times desired by an existing holder.

Ramirez may, in its own discretion, decide to buy or sell the securities in the secondary market for its own account to or from investors at any time and at any price, including at prices equivalent to, below, or above the par value of the securities. However, Ramirez is not obligated to make a market in the securities, and may discontinue trading in the securities without notice for any reason at any time. Existing holders who resell between Auctions may receive less than par value, depending on market conditions.

The ability to resell the securities will depend on various factors affecting the market for the securities, including news relating to the issuer, the attractiveness of alternative investments, the perceived risk of owning the securities (whether related to credit, liquidity or any other risk), the tax or accounting treatment accorded the securities (including recent clarification of U.S. generally accepted accounting principles as they apply to the accounting treatment of auction rate securities), reactions of market participants to regulatory actions or press reports, financial reporting cycles and market conditions generally. Demand for the securities may change without warning, and declines in demand may be short-lived or continue for longer periods.

### **Resignation of the Auction Agent**

The duties of the Auction Agent are contained in a contract (the "Auction Agent Agreement") among the Auction Agent, the broker-dealer and the issuer of the securities. The Auction Agent Agreement normally provides that the Auction Agent may resign from its duties by giving a certain number of days' notice and may not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent be in place if its fee has not been paid. The Broker-Dealer Agreement normally provides that Ramirez may resign upon a certain number of days' notice or immediately, in certain circumstances, and may not require, as a condition to the effectiveness of such resignation, that a replacement broker-dealer be in place. For any Auction Period during which there is no duly appointed Auction Agent, or during which there is no duly appointed broker-dealer, it will not be possible to hold Auctions, with the result that the interest rate on the securities will be determined in another manner, which may or may not be as favorable to investors.

### **Participation by Issuers/Conduit Borrowers in Municipal Auction Rate Securities**

Certain municipal issuers or conduit borrowers have determined to participate in the auction of their own auction rate securities pursuant to recent guidance from the U.S. Securities and Exchange Commission. These issuers/conduit borrowers are required to provide a notice of their intent to participate in the auction and the interest rate and amounts that they will bid for and certain other detailed bidding information. This information may be found ARS purchaser disclosures.