

Director's Office, 350 Winter St. NE, Room 200, Salem, Oregon 97301-3878

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For more information:  
Lisa Morawski, 503-947-7897  
Kevin Anselm, 503-947-7498

## **Oregon settles with national brokers over auction-rate securities**

*More than \$1.4 million in fines will go to the General Fund*

(Salem) — The Oregon Department of Consumer and Business Services has reached settlements with five national brokerage firms as part of a national investigation involving auction-rate securities. The state fined the companies more than \$1.5 million, which includes more than \$1.4 million that will be transferred to Oregon's General Fund. The remaining \$76,000 will go toward the DCBS Investor Education Program, to educate Oregon investors and help them identify and avoid fraud.

The settlements are with Wachovia Securities, LLC, and Wachovia Capital Markets, LLC; Citigroup Global Markets Inc.; Banc of America Securities, LLC, and Banc of America Investment Services, Inc.; Merrill Lynch, Pierce, Fenner, and Smith, Incorporated; and RBC Capital Markets Corporation.

The investigation found the companies misrepresented auction rate securities to investors as safe, cash-equivalent products, even though the products faced increasing liquidity risk. As part of the settlements, the companies also agreed to buy back securities or reimburse eligible investors who lost money. Oregon investors held more than \$313 million in auction-rate securities among the five brokers.

“These settlements provide much-needed relief to Oregon investors who were misled into buying these complex investment products and later found that they could not access their money when they needed it,” said David Tatman, administrator of the DCBS Division of Finance and Corporate Securities.

Auction-rate securities (ARS) are debt instruments with long-term maturities, such as bonds or notes, issued by municipalities or student-loan agencies that have interest rates reset by auction every seven to 35 days. An ARS auction fails if there isn't a buyer available for every auction rate security being offered for sale at the auction. If that happens, the investors who were unable to sell their ARS would continue to hold the ARS and wait until the next successful auction.

In recent years, however, many auction-rate securities had been promoted as being similar to cash deposits or money market accounts. Because of tight credit markets stemming from the subprime mortgage crisis, many auctions where auction-rate securities are traded began to fail. As a result, investors found that they are unable to access their money – contrary to what they were told when they bought the product.

In 2008, state securities regulators began receiving hundreds of complaints from investors. As a result, in April 2008, the North American Securities Administrators Association (NASAA) announced the formation of a multi-state task force, comprised of securities regulators in 12 states, to investigate whether the nation's prominent securities firms had systematically misled investors when placing them in ARS securities.

In addition to the five settlements noted above, other settlements are expected. Oregonians with questions about their investments in ARS are encouraged to call the Division of Finance and Corporate Securities at 1-866-814-9710 or in Salem at 503-378-4140.

To view each order and the breakdown in fines, go to [www.dfcs.oregon.gov](http://www.dfcs.oregon.gov), click on “Search for Enforcement Orders” and then “Securities enforcement orders” and scroll down to company name.

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