



Mark Connolly
Director

State of New Hampshire

Department of State Bureau of Securities Regulation

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FOR IMMEDIATE RELEASE

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NH SECURITIES BUREAU TAKES ACTION AGAINST UBS **Regulatory Action Focused on Student Loan Market**

Concord, NH (August 14, 2008) – The New Hampshire Bureau of Securities Regulation, a division of the Secretary of State’s Office, announced today that it is taking action against UBS Securities, LLC for fraud. The action relates to UBS's representation of the New Hampshire Higher Education Loan Corporation (NHHELCO) in the sale of bonds used to finance loans to New Hampshire college students and their parents. The Bureau also alleges that UBS engaged in dishonest and unethical business practices and violated its fiduciary duty as underwriter, investment banker, and broker-dealer for NHHELCO. The action is the result of an ongoing investigation of UBS by the Bureau.

New Hampshire has been part of a continuing investigation into fraud in the auction rate securities market, along with other state securities regulators and the Securities and Exchange Commission. After investigating UBS, state and federal regulators reached a global settlement with the firm on August 8th that addressed the concerns of purchasers of auction rate securities. However, the settlement did not address alleged fraud by UBS in its representation of nonprofit lenders that depended on the flow of money from auction rate securities to fund loan programs.

“The Bureau supports last week’s settlement on behalf of retail investors in auction rate securities. We believe that getting investors relief now is the right thing to do,” Mark

-MORE-

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Connolly, Director of Securities Regulation said. "By this action today, New Hampshire is one of the first states to focus on the consequences of failed auction markets to other parties besides investors, specifically regarding students. It is crucial for us to address issues that could impact New Hampshire in a particularly severe way. Our goal with this action is to uncompromisingly enforce the securities laws to ensure that everyone is treated fairly in the wake of a failed process to bring these securities to market. We also believe that this action will go a long way in restoring fairness and liquidity to the market for auction rate securities across the country."

In the cease-and-desist order issued as part of today's action, the Bureau states that UBS knew that the market for these bonds, known as auction rate securities, was on the verge of collapse. At the same time, UBS was actively encouraging NHHELCO to extend its commitment to the sale of these bonds. In addition, during this period UBS was actively considering withdrawing its own holdings in this market while advising NHHELCO to stay in. The market for auction rate securities collapsed in February 2008 due in part to the failure of UBS and other investment bankers to support the market as they had consistently done in the past.

"A critical question in our investigation was whether UBS fully disclosed its knowledge of the impending collapse of the auction rate securities market to NHHELCO. Our investigation revealed that UBS had knowledge that a market collapse was looming but did not disclose that information to NHHELCO," explained Jeff Spill, Deputy Director of Securities Regulation for Enforcement. "Furthermore, UBS failed to inform NHHELCO it was pulling out of and would no longer be supporting the market, as it had done in the past. We believe that UBS failed in its duty of loyalty to NHHELCO, which relied on this financing mechanism to fund loans to students and parents."

Auction rate securities are highly complex investment products. They are essentially bonds whose interest rates are reset at auction frequently. The market for auction rate securities failed in February, leaving investors holding investments they could not sell

and issuers of the securities without the financing they depend on. The market for these securities is now essentially non-existent.

UBS acted as underwriter, investment banker, and broker-dealer for NHHELCO in the offering of the nonprofit's auction rate securities. In these various roles, UBS not only represented NHHELCO in the sale of the securities, it had also acted consistently for years to prop up the market for auction rate securities by buying the investments when other investors were staying out of the market. In February, UBS and several other leading investment banks decided that they would no longer support the market.

NHHELCO provided loans to nearly 50,000 students in New Hampshire in 2007. The collapse of the market for these securities has eliminated \$66.5 million from the amounts which normally would be available to finance student loans. As a result, many students who rely on these loans are facing severe difficulties financing their education or must now seek more expensive or restrictive alternative loans. All of this comes at a particularly difficult time with the beginning of the academic year just around the corner for college students.

STATE OF NEW HAMPSHIRE
BUREAU OF SECURITIES REGULATION
DEPARTMENT OF STATE
25 CAPITOL STREET
CONCORD, NH 03301

STAFF PETITION FOR RELIEF
IN THE MATTER OF:

UBS Securities, LLC
CRD# 7654
COM08-10, COM08-12 and COM08-13

Preliminary Statement

This action is brought as a result of failures to disclose material information with respect to student loan auction rate securities (“SARS”) underwritten, marketed, and sold by UBS Securities, LLC (hereinafter “US” or “UBS”) from November 1st, 2007 to February 13th, 2008 (the “relevant time period”) to certain New Hampshire-based issuers of SARS, New Hampshire Health and Education Facilities Authority (hereinafter “HEFA”) and the New Hampshire Higher Education Loan Corporation (hereinafter “NHHELCO”). The New Hampshire Bureau of Securities Regulation (the “Bureau”) also brings this action for the protection of New Hampshire issuers of SARS, who rely and have relied upon the investment advisory, underwriting, marketing, and broker-dealer services of UBS in connection with their issuances.

NHHELCO — a nonprofit organization located in Concord, New Hampshire and formed to aid students in their efforts to obtain funding for higher education expenses — relied on the student loan backed auction rate market to fund higher education loans to New Hampshire students.

Specifically, NHHELCO had broker-dealer agreements and bond purchase agreements with US as underwriter of SARS issued by NHHELCO. NHHELCO has issued \$1.5 billion in SARS since 1997, all of which is now frozen in the auction rate market. NHHELCO assisted New Hampshire students by lending approximately \$250 million in loans in fiscal year 2007; since the failure of the auction market and the resulting illiquidity of its issuances, NHHELCO has been forced to suspend private loan lending in 2008 leaving 6,500 students without adequate funding. Private loan lending totaled \$66.5 million in 2007. NHHELCO is the largest provider of post-secondary education financing in the state, assisting 47,500 students. The diminished capacity of NHHELCO is particularly harmful to New Hampshire's student population. A 2007 report published by the Project on Student Debt concludes that graduates from New Hampshire universities left school with an average of \$24,800 in debt, more than any other state in the country.

US was the investment adviser, underwriter, marketer and broker-dealer sales organization responsible for directing and advising NHHELCO in its efforts to sell SARS to fund student loans. US, a broker-dealer, investment adviser and underwriter, surreptitiously and in violation of its fiduciary duty to NHHELCO, failed to adequately disclose that the auction rate market was at risk of complete failure, that US was considering withdrawing from the SARS market completely, that US was restructuring other issuers out of the SARS market and into other debt instruments, that UBS inventory of SARS was at limits harmful to UBS, that US was motivated to sell off its SARS inventory, and that the investments made in this market could be frozen with little or no prospect of cash redemption. Instead what US told NHHELCO in the fall of 2007 and into 2008, was that there were disruptions in the market, and that NHHELCO should increase the interest paid on the bonds to attract buyers to the market, a recommendation which jeopardized the financial well being and

viability of NHHELCO as an organization. As an investment adviser and broker-dealer, US had a fiduciary duty to disclose fully and completely that it was having difficulty sustaining the auction rate market, that US was “cherry picking” issuers to exit the SARS market, that US was motivated to sell auction rate securities to protect UBS’ own financial standing, that in particular the SARS market was on the verge of collapse, and that significant changes US initiated in the SARS market were financially detrimental to NHHELCO.

The Auction Rate Market

The auction rate market and the securities sold in these markets were developed by investment banks in the late 1970s and early 1980s as a cheaper, more efficient means for municipalities, non-profit organizations and corporations to raise operating capital. The auction rate market grew over the years to what is now a 330 billion dollar market. About 75% of the auction rate market is comprised of debt instruments that pay periodic interest on principal invested and have long term maturities. About 80 billion of the auction rate market is SARS. Toward the end of 2007, UBS had about 25 billion in the SARS market more than any other broker-dealer on Wall Street and of that 25 billion, over 6 billion was in UBS inventory. The interest rate of auction rate securities is typically set as a spread over a benchmark rate such as the T-bill or LIBOR index. The interest rate adjusts periodically through a so-called Dutch auction process where buyers bid on the securities based upon a desired interest rate. A successful auction establishes the rate of interest at the point where all of the sell orders can be filled. This is called a “clear rate.” Buy bids above the clear rate are not filled. Holders of securities have three options: they can elect to sell, hold, or choose to “hold-at” a certain rate. A “hold-at” order allows the holder to decide to sell or hold based on the going auction rates. If the auction clears above the rate specified in the hold-at order, the

security is sold. If the auction clears below the specified rate, the holder maintains possession of the security. Following a successful auction, all of the sellers receive the return of the face value of their investment. The orders are filled from the inventory of securities holders (including the broker-dealers that sell the securities). The Dutch auction process relies on a greater number of buyers than sellers. If the bids to buy securities are fewer than the number of securities being sold, the auction process fails and the interest rate adjusts to a “maximum rate” or “penalty rate” as dictated in the prospectus and related bond documents.

After years of stable market conditions, the market changed substantially starting in August 2007. Due to defaults in the sub-prime mortgage markets, ratings of insurers backing auction rate securities and mortgage backed securities were downgraded following questions about their ability to support bond obligations. Furthermore, there was a tightening of credit and holders of auction rate products began to sell off their inventories. This led to a rash of auction failures in the summer of 2007. This also led to higher clearing rates for auction rate securities to make up for the increased risk. As questions concerning the value of auction rate securities increased toward the end of 2007, buyers began exiting the market, and broker-dealers stopped supporting the market which resulted in its complete collapse in February 2008.

Internal discussions at US indicate that upper management was aware of the extreme danger in the market, debated the future of this market, and contemplated a complete exit from the SARS marketplace. Toward the end of 2007, investment bankers at US started focusing on the concept of transitioning auction rate debt to other types of debt structure. To the detriment of NHHELCO, US agents remained silent about the true nature of the SARS market and the options available to NHHELCO to help it avert disaster. In its communications with NHHELCO, US advised

NHHELCO to change the terms of its bond issuances to keep pace with increasing clear rates. Specifically, in late 2007 and early 2008, US personnel approached NHHELCO and got them to increase the maximum rates of interest paid by SARS to help bring buyers to the market and told them that, “[a]ll entities in this space are doing the same thing.” See Exhibit 7. NHHELCO was not made aware that some US issuers were being restructured out of the SARS market, that US was considering withdrawing from the SARS market, and that if UBS stopped supporting the market, the entire SARS market would collapse. US mislead NHHELCO to benefit its own interests and kept NHHELCO in a failing market due to US conflict of interest.

NHHELCO and HEFA

HEFA is established under New Hampshire statute RSA 195 and is a corporation and is constituted and established as a public body corporate and agency of the state to fund projects for the health and education of the citizens of New Hampshire. At times, HEFA would issue SARS bonds for the benefit of NHHELCO to aid in the funding of student loans. NHHELCO is a nonprofit corporation established under the authority of New Hampshire State statute to make student loans for higher education. Like many nonprofit organizations across the country, NHHELCO relied on the issuance of auction rate securities for revenue to make loans. From 1997 to the present, with a new issue in each year, NHHELCO issued a total of 1.5 billion dollars of auction rate securities consisting of both tax exempt and taxable bonds under the designation of Education Loan Revenue Bonds (hereinafter “NHHELCO bonds”). The auctions for the NHHELCO bonds reset the interest rates every 28 days. US was the underwriter, selling broker-dealer and marketer of these securities. US also acted as an adviser to NHHELCO. The bonds have

long term maturation dates. When the issuances first entered the market in 1997, a prospectus and Trust Indenture were issued which set the terms of the bonds. The bonds issued by NHHELCO were not in any way guaranteed by the state or any of its political subdivisions. The prospectus and indenture also established the bench mark at which the interest rates would be set and established a maximum interest rate should an auction fail. The interest payment terms of these securities were as stated in the prospectus and Trust Indenture.

In late November 2007, NHHELCO approached US and requested that it underwrite 42 million dollars of new SARS to fund loans for 2008. In December of 2007, after US prepared to distribute the new underwriting, US refused to complete it due to what it referred to as a tightening SARS market. Instead, US recommended that NHHELCO increase their maximum interest rate payable on the NHHELCO bonds to try and bring buyers to the market. In order to respond to US representations about the SARS market, and at the recommendation and advice of US personnel Amy Monblatt, one such amendment issued in December 2007 increased the maximum rate of interest paid to 17% and 18% on the taxable bonds and also increased the maximum rate on the tax exempt bonds. The increase in maximum rate scheme was promoted and designed by US to make the SARS bonds more attractive to investors and to keep NHHELCO in the SARS market. That meant, under a failed auction scenario, there would be no payments made on the bonds and no way out of the investment and that NHHELCO would be obligated to pay the highest interest rates on the bonds.

Even though the “effective period” started on December 17th, 2007, the notice of amendment wasn’t distributed by NHHELCO until March 2008. The notice announced that after May 31st, 2008, the maximum rate would go to zero.

The 1st amendment was due to expire on January 31st, 2008. In January 2008, as UBS inventory grew to 6 billion, US recommended that NHHELCO extend the amendment with a second amendment due to expire on May 31st, 2008. After the market froze on February 13th, 2008, NHHELCO was strapped for new funding. NHHELCO asked US for help in obtaining funding, but US never provided any help. At one point US offered NHHELCO a \$524 million letter of credit to refund certain of NHHELCO's debt, but the term sheet – promised to be provided within 7 – 10 days – was never delivered.

STATEMENT OF FACTS

I. The staff of the Bureau of Securities Regulation, Department of State, State of New Hampshire (hereinafter referred to as the "Bureau") alleges the following issues of fact:

1. US is a registered broker-dealer and investment adviser, licensed and notice filed with New Hampshire and has a CRD number of 7654. US is the company that was responsible for the day-to-day operation of the auction rate securities trading desk and marketed SARS to issuers as an inexpensive, highly liquid capital raising investment instrument. US was a primary underwriter of SARS on Wall Street, and was underwriter of 25 billion in the 80 billion SARS market. As underwriter, US communicated regularly with its SARS issuers and directed them in the SARS market. US is affiliated with UBS Financial Services, Inc. ("UFS"). UFS is a registered broker-dealer and investment adviser licensed with New Hampshire, with a CRD number of 8174. UFS and its division, UBS Wealth Management, were responsible for marketing and selling auction rate securities to the public. David Shulman ("Shulman") is a licensed agent in New Hampshire with a CRD number 1297077. Shulman, an employee of US Securities, LLC, serves as the Managing Director, Global Head Municipal Securities Group/Head of Fixed Income Americas. Shulman was

responsible for decision-making and implementation of UBS policy in the SARS market. Amy Monblatt (“Monblatt”) was a Managing Director at US and an employee responsible for marketing and selling SARS, and was a primary contact between US and NHHELCO.

2. During the relevant time period, US was investment adviser, underwriter, marketer and broker-dealer of auction rate securities to NHHELCO. During the relevant time period, UBS was experiencing significant problems in the auction rate markets and specifically the SARS market. Due to credit tightening and the downgrade of auction rate insurers, auctions began to fail. As auctions began to fail UBS SARS inventory reached excessive levels to a point where Shulman directed his personnel to urgently reduce UBS auction rate inventory and in particular SARS. See Exhibits 1,2,3,4 and 5. In the case of the SARS market, US personnel (including Monblatt) in December 2007 went to the New Hampshire issuer NHHELCO to seek waivers of maximum interest rates as a scheme to make the securities more attractive to investors and to keep NHHELCO in the SARS market. In the case of the NHHELCO bonds, US advised NHHELCO to reset the maximum rate to 17% and 18% on the taxable NHHELCO bonds and increase the maximum rate on the tax exempt bonds. See Exhibits 6, 7 and 8. US knew or should have known that this significant increase would jeopardize the finances of NHHELCO should the auctions or the auction market fail. At this same time, UBS auction rate inventory reached levels that were detrimental to the company. In December 2007, US denied NHHELCO’s request for 42 million dollars worth of new SARS issue. US did not disclose their conflicts of interest, nor did they disclosing the significant prospect of a failed market. To the contrary, UBS sales personnel were touting auction rate securities as safe, liquid and same as cash investments that could be redeemed at each auction. Further, US failed to disclose to NHHELCO that US was considering withdrawing

from the SARS market and “cherry picking” issuers for transitioning SARS issuers into other types of debt structure such as variable rate demand obligations (“VRDOs”). See Exhibits 9 and 10. At this same time US lead NHHELCO to believe that US would continue to support the SARS market going forward. In reality, US was considering withdrawing completely from the SARS market, “cherry picking” issuers for transition out of SARS and into other debt, and was motivated to reduce its enormous inventory of SARS which by January 2008, had reached 25% of the entire UBS SARS float. In one e-mail, UBS personnel indicated that UBS was “killing” the market.

3. During the relevant time period, UBS underwrote, marketed, and sold NHHELCO-issued bonds to purchasers through two broker-dealers: UBS (CRD #7654) and UBS Financial Services, Inc. (CRD #8174).

4. During the relevant time period, US engaged in fraudulent, dishonest and unethical conduct, withheld material information from NHHELCO, and employed a device, scheme, or artifice to defraud, and or engaged in an act, practice, or course of business which operated or would operate as a fraud or deceit on NHHELCO. In so doing, US also breached its fiduciary duty to NHHELCO. US engaged in the following acts any one of which constitutes fraud and misconduct:

A. US advised NHHELCO to increase the maximum interest rate on the NHHELCO bonds contrary to NHHELCO’s best interest and put NHHELCO at risk of significant financial harm;

B. US failed to disclose to NHHELCO that toward the end of 2007, it was considering exiting the SARS market completely;

C. US failed to disclose that it was “cherry picking” issuers to be transitioned out of the SARS market and into other debt;

D. US failed to disclose that it had a conflict of interest due to excessive SARS inventory that US was desperately trying to sell off.

E. US failed to disclose to NHHELCO that the SARS market was at risk of freezing and that the maximum interest rate payable on the NHHELCO bonds could lead to NHHELCO's financial harm.

5. On February 13th, 2008, UBS stopped supporting the SARS market and it froze leaving NHHELCO and investors with illiquidity and hundreds of millions of dollars in financial harm.

II. The staff of the Bureau of Securities Regulation, Department of State, State of New Hampshire alleges the following issues of law:

STATEMENT OF THE LAW

1. US is a person within the meaning of RSA 421-B:2,XVI.
2. US is an "investment adviser" within the meaning of RSA 421-B:2, IX.
3. US is a "broker-dealer" within the meaning of RSA 421-B:2, III.
4. NHHELCO is a "person" within the meaning of RSA 421-B:2,XVI.
5. Pursuant to RSA 421-B:3, it is unlawful for any person, in connection with the offer, sale, or purchase of any security, directly or indirectly, to employ any device, scheme, or artifice to defraud, or to make any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading, or to engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person. UBS is subject to this section for not fully disclosing to NHHELCO that US was considering withdrawing from the SARS market, that the SARS market could completely fail, that they had excessive SARS inventory and were motivated to sell it off, that they were "cherry picking" issuers for transition out of the SARS market. Further, the conduct of US was a devise, scheme, or artifice to defraud, or operated as a fraud or deceit on NHHELCO, when they lead NHHELCO to believe they would support the SARS market and that NHHELCO should increase the maximum interest rates on their bonds going forward and subject themselves to unnecessary and devastating financial risk.

6. Pursuant to RSA 421-B:4, I, it is unlawful for any person who receives any consideration from another person primarily for advising the other person as to the value of securities or their purchase or sale whether through the issuance of analyses or reports or otherwise:
(a) To employ any device, scheme, or artifice to defraud another person; or (b) To engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon the other person. The Respondent violated this section by engaging in acts, practices, or course of business as stated above in paragraph 5.
7. RSA 421-B:10, I(a) and (b)(7) allows the secretary of state to deny, suspend, or revoke any license or application if he finds that it is in the public interest and that the broker-dealer or investment adviser has engaged in dishonest or unethical practices in the securities business. US is subject to this provision with respect to its conduct toward NHHELCO as stated above in paragraph 5.
8. RSA 421-B:10, I(a) and (b)(10) allows the secretary of state to deny, suspend, or revoke any license or application if he finds that it is in the public interest and that the broker-dealer has failed to reasonably supervise its agents. US is subject to this provision.
9. RSA 421-B:10, I(a) and (b)(14) allows the secretary of state to deny, suspend, or revoke any license or application of a broker-dealer or investment adviser if he finds that it is in the public interest and that there is other good cause shown. US is subject to this provision.
10. RSA 421-B:10, III, provides that the secretary of state may issue an order requiring the persons to whom any license has been granted to show cause why the license should not be revoked. US is subject to this provision.
11. RSA 421-B:10, VI provides that the secretary of state, may upon hearing, assess an administrative fine of not more than \$2,500 per violation, in lieu of or in addition to, an order to revoke or suspend any license or application. US is subject to an administrative fine under this section.
12. Pursuant to RSA 421-B:23, whenever it appears to the secretary of state that any person has engaged or is about to engage in any act or practice constituting a violation of this chapter or any rule under this chapter, he shall have the power to issue and cause to be served upon such person an order requiring the person to cease and desist from violations of this chapter. US is subject to this section.
13. Pursuant to RSA 421-B:26,III, any person who, either knowingly or negligently, violates any provisions of this chapter may, upon hearing, and in addition to any other penalty provided for by law, be subject to such suspension, revocation or denial of any registration or license, or an administrative fine not to exceed \$2,500, or both. Each of the acts specified shall constitute a separate violation. US is subject to a fine under this section.

14. Pursuant to RSA 421-B:26,III-a, every person who directly or indirectly controls a person liable under paragraph III, every principal executive officer, or director of such person, and every broker-dealer or agent who materially aids in the acts or transactions constituting the violation, either knowingly or negligently, may, upon hearing, and in addition to any other penalty provided by law, be subject to such suspension, revocation, or denial of any registration or license, or administrative fine not to exceed \$2,500, or both. Each of the acts specified shall constitute a separate violation, and such administrative action or fine may be imposed in addition to any criminal penalties imposed pursuant to RSA 421-B:24 or civil liabilities imposed pursuant to RSA 421-B:25. US is subject to a fine under this section.
15. Pursuant to RSA 421-B:26,V, after notice and hearing, the Secretary of State may enter an order of rescission, restitution, or disgorgement directed to a person who has violated RSA 421-B. US is subject to this section.
16. Pursuant to RSA 421-B:26,VIII, any person who, either knowingly or negligently, engages in any conduct prohibited by RSA 421-B:10,I(a)and (b)(7) may, upon hearing, and in addition to any other penalty provided for by law, be subject to an administrative fine not to exceed \$2,500, or both. Each of the acts specified shall constitute a separate violation. US is subject to this section.

RELIEF REQUESTED

III. The staff of the Bureau of Securities Regulation requests the Director take the following action:

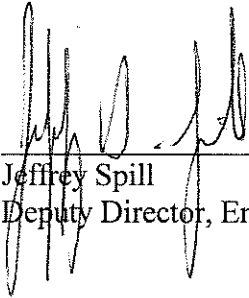
1. Find as fact the allegations contained in section I of the Statement of Allegations of this petition.
2. Make conclusions of law as stated in section II relative to the allegations contained in section I of this petition.
3. Order Respondent to cease and desist in accordance with RSA 421-B:23,I.
4. Order the Respondent to show cause in accordance with RSA 421-B:10,III
5. Order the Respondent to pay an administrative fine in accordance with RSA 421-B:10,VI, RSA 421-B:26,III, 421-B:26,III-a, and 421-B:26,VIII.
6. Order the Respondent to pay the cost of the investigation of this matter in accordance with RSA 421-B:22,IV.
7. Order the Respondents to pay restitution to NHHELCO for damage cause to NHHELCO.
10. Take such other actions as necessary for the protection of New Hampshire investors and

enforcement of the Act.

RIGHT TO AMEND

The Bureau's Staff reserves the right to amend this Petition for Relief and to request that the Director of Securities take additional administrative action. Nothing herein shall preclude the Staff from bringing additional enforcement action under this NH RSA 421-B or the regulations thereunder.

Respectfully submitted by:



Jeffrey Spill
Deputy Director, Enforcement

August 14, 2008

[REDACTED]

From: Mohanty, Seema
Sent: Wednesday, September 05, 2007 6:56 PM
To: Jackman, Ross
Subject: Re: ARC Inventory Breakdown

What is the taxable extendible mkt like here?
If the abs guys want to diversify away from mortgages why not student loans?

-----Original Message-----

From: Jackman, Ross
To: Shulman, David
CC: Mohanty, Seema; Gallichio, Joe
Sent: Wed Sep 05 17:47:58 2007
Subject: FW: ARC Inventory Breakdown

Taxable Student loans = 1.263 B 52%
Tax Exempt Student Loans = 738mm 31%
ARCS Non Student Loans = 406mm 17%

Clearly Student Loans are the problem pushing us over inventory limits. I'm concerned that this will continue as retail buyers continue to prefer traditional muni credits. We need to find a short term and long term solution for this problem. One solution possibly for the Taxable paper is to purchase in the prop book but obviously this does not help long term. Any suggestions or thoughts?

From: Long, Chris
Sent: Wednesday, September 05, 2007 5:06 PM
To: Jackman, Ross
Subject: ARC Inventory Breakdown

<<ARCS Inventory Break Down.xls>>
Christopher R. Long
Executive Director
UBS Securities LLC
1285 Avenue of the Americas
New York, NY 10019
Tel: [REDACTED]
Fax: [REDACTED]

RE: Outline for Conference Calls

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[REDACTED]

From: Monblatt, Amy F [REDACTED]
Sent: Tuesday, November 27, 2007 10:13 AM
To: Shulman, David
Cc: Scruggs, Jeffrey-J
Subject: RE: Outline for Conference Calls
Attachments: ATT33370.txt

Talking to Ted now to coordinate

From: Shulman, David
Sent: Tuesday, November 27, 2007 10:11 AM
To: Monblatt, Amy F
Cc: Scruggs, Jeffrey-J
Subject: RE: Outline for Conference Calls

Thank you ..ball is in your court to work with the appropriate sales management to set up this call and dialogue ...
thank you

From: Monblatt, Amy F
Sent: Tuesday, November 27, 2007 9:34 AM
To: Shulman, David
Subject: RE: Outline for Conference Calls

David, Paul and I already reached out to Pat Luby yesterday to begin the process with the WM Financial Advisors. We'll also circle up with Ted and ask him to help us coordinate. Wednesday's out for me, as I have a day full of non stop conference calls. Thanks, Amy

From: Shulman, David
Sent: Tuesday, November 27, 2007 8:19 AM
To: Monblatt, Amy F; Bass, Jon; Baldo, John; Hynes, Edward-E
Cc: Scruggs, Jeffrey-J; Wozniak, Paul
Subject: RE: Outline for Conference Calls

I would please request Amy that you coordinate with Jon Bass, John Baldo, Ted Hynes ...to scale out this as FIRST an internal call only ...then we will roll out to our clients broadly for an interactive callclearly there is great value and opportunity here and it is important for our salesforce to understand the credit dynamics and the clear market misperception of the instrument ...we have the capabilities and industry expertise to empower our sales team with good information to help move this product ...hopefully we can set up a call for either Wednesday this week or Friday ...definitely worthwhile to include fromm cct all the way to high yield on this

From: Monblatt, Amy F
Sent: Tuesday, November 20, 2007 1:49 PM
To: Shulman, David
Cc: Scruggs, Jeffrey-J; Wozniak, Paul
Subject: Outline for Conference Calls

5/29/2008

From: Hynes, Edward-E
Sent: Thursday, November 29, 2007 7:13 AM
To: Long, Chris
Subject: Re: This am's meeting

I should make it. But just in case, thanks. John Baldo is the head of the group, I believe he'll be running it.

 Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Long, Chris
To: Hynes, Edward-E
Sent: Thu Nov 29 07:10:08 2007
Subject: Re: This am's meeting

Yes

 Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Hynes, Edward-E
To: Monblatt, Amy F; Long, Chris; Brody, Joanna-J
Sent: Thu Nov 29 07:08:32 2007
Subject: Re: This am's meeting

Sure, I just want to remind the sales force that we are not talking about a new product. We are talking about a credit. Its a credit they know. I want to thank them because in September collectively they sold over 1Billion of these, and we need them to help again.

Again reiterating...great credit, household name...reason for cheapness is mode, but there is a price for everything.

I am in traffic outside Lincoln Tunnel. In case I am late, Chris, will you kick off?

 Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Monblatt, Amy F
To: Hynes, Edward-E; Long, Chris; Brody, Joanna-J
Sent: Thu Nov 29 07:03:37 2007
Subject: RE: This am's meeting

Perhaps start with auction stuff and how wide the st loan backed paper is trading. I can then go into credit; differentiate between FFELP and private, etc.

-----Original Message-----
From: Hynes, Edward-E
Sent: Thursday, November 29, 2007 6:48 AM
To: Monblatt, Amy F; Long, Chris; Brody, Joanna-J
Subject: This am's meeting

I think its important to be brief and pertinent in 20 minutes. We are selling to this group. There are lots of products being shown to them. ~~We need them to walk out and see that this is a strong credit w/ strong DBS commitment to support liquidity.~~

Less focus on muni, and more focus on txbl student loan paper. Their clients are buyers of stud loan FRN's. They know the strength of the credit.

[REDACTED]

From: Monblatt, Amy F [REDACTED]
Sent: Wednesday, December 05, 2007 7:20 AM
To: Shulman, David
Subject: Re: Ct
Attachments: ATT28542.txt

Understood.
Amy F. Monblatt
Managing Director
UBS Securities LLC
1285 Avenue of the Americas, 15th floor
New York, NY 10019
Phone: [REDACTED]
Cell: [REDACTED]
Fax #: [REDACTED]
E mail: [REDACTED]

----- Original Message -----

From: Shulman, David
To: Monblatt, Amy F
Cc: Jackman, Ross; Gallichio, Joe; Wozniak, Paul
Sent: Wed Dec 05 07:17:50 2007
Subject: Re: Ct

Amy - there should be no larger priority at this time -i need you to work with your team to go on a campaign for moving this product..no kidding..this is a critical time for us as a business -and we need 100percent focus

David H. Shulman
Global Head Municipal Securities Group

----- Original Message -----

From: Monblatt, Amy F
To: Shulman, David
Cc: Gallichio, Joe
Sent: Wed Dec 05 07:14:13 2007
Subject: Re: Ct

David, thank you. Points well taken.

Amy F. Monblatt
Managing Director
UBS Securities LLC
1285 Avenue of the Americas, 15th floor
New York, NY 10019
Phone: [REDACTED]
Cell: [REDACTED]
Fax #: [REDACTED]

RE: Paul and ted ...need you to put together a salesforce call on muni arcs -student loan ... Page 1 of 1

[REDACTED]

From: Wozniak, Paul [REDACTED]
Sent: Tuesday, December 11, 2007 3:01 PM
To: Shulman, David+; Hynes, Edward-E
Cc: Bass, Jon; Ricci, Barbara; Baldo, John; Jackman, Ross
Subject: RE: Paul and ted ...need you to put together a salesforce call on muni arcs -student loan ...
Attachments: ATT14795.txt

Will do.

Paul
[REDACTED]

From: Shulman, David+
Sent: Tuesday, December 11, 2007 3:00 PM
To: Wozniak, Paul; Hynes, Edward-E
Cc: Bass, Jon; Ricci, Barbara; Baldo, John; Jackman, Ross
Subject: Paul and ted ...need you to put together a salesforce call on muni arcs -student loan ...

~~Please work with bass, baldo, ricci ... to get the group on the line. we need to move this paper and have to explore all angles possible. we need to do this as quickly as possible. please work on this priority.~~

6/11/2008

From: Jackman, Ross
Sent: Tuesday, December 11, 2007 5:55 PM
To: Scruggs, Jeffrey-J
Subject: RE: Please speak to mitul foster with respect to receiving

We need to scrub the book for any deals that will have a max rate in feb. and work on the deals first to be converted to vrdo's. I think eventually most of the book needs to be converted as auctions arent going to come back. I think most BD's moving forward will go the RBC way and get out otherwise.

-----Original Message-----

From: Scruggs, Jeffrey-J
Sent: Tuesday, December 11, 2007 5:52 PM
To: Jackman, Ross
Subject: Re: Please speak to mitul foster with respect to receiving

How much do you need to move by February?

----- Original Message -----

From: Jackman, Ross
To: Scruggs, Jeffrey-J; Mohanty, Seema
Sent: Tue Dec 11 17:40:01 2007
Subject: FW: Please speak to mitul foster with respect to receiving

FYI

From: Jackman, Ross
Sent: Tuesday, December 11, 2007 5:39 PM
To: Monblatt, Amy F; Shulman, David+
Cc: Wozniak, Paul; Foster, Mitul
Subject: RE: Please speak to mitul foster with respect to receiving

We are very concerned about the max rate issue and to continue to support this product (as we own all the tail risk) we need to find a long term solution. Please push these providers into discussions now. The auction product is flawed and we do want to be in a position with resets at T Bills +spreads come february and the turn of the calendar will not correct the problems in this market place.

From: Monblatt, Amy F
Sent: Tuesday, December 11, 2007 5:28 PM
To: Shulman, David+
Cc: Jackman, Ross; Wozniak, Paul; Foster, Mitul
Subject: RE: Please speak to mitul foster with respect to receiving

Had conversations with Mitul today. As we've discussed, and as Mitul herself admits, the Ed Loan Group is more familiar with the providers/players in this market than she is. We have been in frequent contact with them and, when they are willing, have set up meetings. A lot of this has to wait until the calendar turns -- at their request, not ours.

From: Shulman, David+
Sent: Tuesday, December 11, 2007 5:24 PM
To: Wozniak, Paul; Monblatt, Amy F
Cc: Jackman, Ross
Subject: Please speak to mitul foster with respect to receiving

~~add party liquidity for student loans. she has been working on this for a while we need to press these discussions to look at alternative ways to move this paper~~

From: Amy.Monblatt@ubs.com
 Sent: Thursday, December 13, 2007 1:40 PM
 To: Weyl, Stephen;
 Cc:
 Subject: RE: NHHEFA/NHHELCO Max Auction Rate Changes

UBS would be happy to discuss with whomever. Just let us know. Thank you very much for your prompt attention to this. All entities in this space are doing the same thing, for what it's worth. Regards, Amy

-----Original Message-----

From: Weyl, Stephen [mailto:sweyl@haslaw.com]
 Sent: Thursday, December 13, 2007 1:20 PM
 To:

Cc:
 Subject: Fw: NHHEFA/NHHELCO Max Auction Rate Changes

All - After speaking with Kristin Caid, the Authority's bond counsel on the NHHELCO transactions, and Dave Bliss, I'm forwarding Kristin's email to you. Essentially there has been a major upheaval in the auction rate securities market, particularly with respect to issues involving student loans. The student loan bond documents have a maximum rate provision which is calculated based on the lesser of the following three factors: (a) a fixed maximum rate; (b) the applicable usury rate; or (c) a rate derived by applying a percentage to certain indices. Because UBS, NHHELCO's underwriter, is concerned that the Authority's bonds may reach the maximum rate in the near future as a result of the market issues, they have recommended that the Authority's Indentures be amended in the same manner that the NHHELCO taxable documents are being amended. As you can see from Kristin's email, and as she confirmed to me, this is basically a band-aid to get into the first part of next year. By that time UBS can give a better assessment of the state of the market and whether more fundamental, long-term, changes need to be made to the documents.

Although my firm serves as NHHELCO's counsel, I communicated to Dave (who, like Peter, Mary and Tom, is conflicted on this matter) my view that an appropriate Authority representative (which includes Lorraine) could sign off on this change without having a meeting of the Board. I have a call into Bill Tucker, who I have copied on this email and who represents the Authority on this issue, to see if he concurs with that view. If so, Kristin can prepare the appropriate documents for Bill and my review.

It may make sense to have a discussion at our January 17 Board meeting of this issue, and Kristin has indicated her willingness to make herself available by phone to discuss any legal issues. I'm sure that UBS similarly would be happy to be part of the discussion along with a NHHELCO representative if the Board wants that level of involvement. By then we should all have a better idea of what the permanent fix is.

Please do not hesitate to contact me if any of you have any questions about this.

Kind regards, and best wishes for the holidays, Steve

-----Original Message-----

From: [mailto:Kristin.Caid@KutakRock.com]
 Sent:
 To:
 Cc:
 Subject: NHHEFA/NHHELCO Max Auction Rate Changes

It may make sense to have a discussion at our January 17 Board meeting of this issue, and Kristin has indicated her willingness to make herself available by phone to discuss any legal issues. I'm sure that UBS similarly would be happy to be part of the discussion along with a NHHELCO representative if the Board wants that level of involvement. By then we should all have a better idea of what the permanent fix is.

Please do not hesitate to contact me if any of you have any questions about this.

Kind regards, and best wishes for the holidays, Steve

-----Original Message-----

From: Kristin G. [mailto:kristin.g@ubs.com]
Sent: Thursday, December 13, 2007 1:34 AM
To: Steve
Cc: Irvin, [mailto:irvin@ubs.com]
Subject: NHHEFA/NHHELCO Max Auction Rate Changes

Hi Steve,

I hope all is well with you! With everything that is going on in the auction market these days, combined with the Fed's rate cut Tuesday, most auction rate student loan bonds (both taxable and tax-exempt) are bumping up against their maximum rates (I think some have already reached it). The rating agencies have been giving issuers a free pass (i.e., a rating confirmation) to increase the max rate definitions for a temporary period (currently to 1/31/08) in order to avoid failed auctions and other bad consequences of having max rate auctions.

We have advised our clients that the best way to accomplish this is through indenture amendments. We have reason to believe that NHHELCO will be in need of these amendments very soon (maybe immediately) on their bonds, including the NHHEFA tax-exempt bonds. Our question to you is if we need to amend the outstanding NHHEFA bond indentures to accommodate these changes, do you think we would need board action from NHHEFA? If so, would they have the ability (or willingness) to meet anytime soon to approve the amendments? We'd appreciate any insight you'd have on that process.

We'll take a look at the NHHELCO/NHHEFA indentures, but in general we have gotten comfortable that these amendments have been permissible without bondholder consent. We have also gotten comfortable that these amendments do not create a reissuance for tax purposes on the tax-exempt bonds.

I hope this makes sense (it's getting late!). If not, give me a call tomorrow and I'm happy to discuss in more detail. We'd love to know your thoughts.

Thanks,
Kristin

#####
#####

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IRS CIRCULAR 230 NOTICE: To ensure compliance with requirements imposed by the IRS, we



From: Scruggs, Jeffrey-J
Sent: Tuesday, January 08, 2008 11:15 AM
To: Mohanty, Seema; Jackman, Ross
Subject: Re: Negotiated Calendar

I need to get on top of this.

----- Original Message -----

From: Mohanty, Seema
To: Scruggs, Jeffrey-J; Jackman, Ross
Sent: Tue Jan 08 11:12:36 2008
Subject: RE: Negotiated Calendar

My understanding is that dfw is amt and fgic insured - this seems to be triple whammy. I know [redacted] is behind this but this could be very problematic.

-----Original Message-----

From: Scruggs, Jeffrey-J
Sent: Tuesday, January 08, 2008 8:47 AM
To: Jackman, Ross; Mohanty, Seema
Subject: Re: Negotiated Calendar

They have been on calendar for 5+ mths. We need to talk about this. If I actually tell bankers we are not permitted to do an ARC deal (even after we have been appted to it for that long), it will be another indication (perhaps preliminarily) that we are killing this thing.

----- Original Message -----

From: Jackman, Ross
To: Mohanty, Seema; Feery, John-J; Scruggs, Jeffrey-J
Sent: Tue Jan 08 08:41:32 2008
Subject: RE: Negotiated Calendar

I see 2 ARCs deals on the calendar for later this month. We are not permitted to do any further deals.

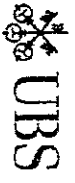
From: Malas, Nicol-N
Sent: Tuesday, January 08, 2008 8:06 AM
To: Mohanty, Seema; Jackman, Ross; Feery, John-J; Coker, Spencer-T+
Cc: Scruggs, Jeffrey-J
Subject: Negotiated Calendar
Importance: High

Attached are the current senior and co-managed calendars. I have asked folks in the respective groups to pay particular attention to updating the co-managed calendar.

Regards,

Nick

Nick Malas
Director



MSG Student Loan Discussion
14 January 2008

Discussion Topics

- ◆ Key points
- ◆ Background
- ◆ Options
- ◆ Proposal



Key Background Points

- ◆ Since 2006, IB has been the sole provider and risk manager for all short term municipal and other auction rate products that WM distributes
- ◆ UBS IB relies heavily on WM for distribution of all ARCS and APS products (to Private Clients and Corp Cash Mgmt)

◆
REDACTED



Background Summary

- ◆ Student Loan backed securities have been in existence for 40 years and have never suffered a downgrade at "A" ratings class and higher
- ◆ Apart from being asset-backed paper, student loan ARS bears no resemblance to SIV or sub-prime paper
- ◆ UBS MSG, as well as Laurie Goodman's Mortgage Strategist research staff, view the Student Loan market and underlying collateral credit quality, as good and differentiate it from other consumer credit sectors. **We strongly suggest that CRC independently review these structures and credits to form their own conclusions.**
- ◆ 79% of UBS Student Loan exposure is FFELP. That means in event of default 97% of the remaining principal and interest is guaranteed by the government
- ◆ Therefore, what we are facing is clearly not a credit crisis but a liquidity issue based on concern for the auction structure and mechanism
- ◆ The ARCS instruments must be modified or enhanced to appeal to money market funds and other institutional investors
- ◆ Both issuers and dealers are incentivized to restructure these deals as soon as possible and are working with liquidity options to complete the process, but it will take months to complete
- ◆ The industry must provide support (backstop) during the conversion process for this to work



UBS current short term holdings

	UBS Current Short Term Holdings (bn)					Total
	Inventory	Corporate Cash	Wealth Mgmt / Priv Client	Institution	Street Holdings	
VRDOs	1.10 bn	2.37 bn	1.48 bn	25.75 bn	0	30.70 bn
APS	0.32 bn	0.21 bn	6.02 bn	0.30 bn	4.65 bn	11.50 bn
MUNI ARC	0.96 bn	1.10 bn	10.56 bn	1.44 bn	1.44 bn	15.50 bn
Student Loan ARC	5.40 bn	9.00 bn	6.35 bn	2.55 bn	2.30 bn	25.60 bn
Total	7.74 bn	12.68 bn	24.41 bn	30.04 bn	8.39 bn	83.30 bn



Overview of Options

Note: Highlighted section indicates proposal

Option 1: Withdraw from the Student Loan Market

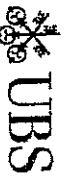
Option 2: Withdraw from Non-State Agency issuers and keep the State Agency issuers

Option 3: Withdraw from Non State Agency issuers as well as some non – key State Issuers

Option 4: UBS continues to support Student Loan and Auction markets

Option 5: Continue to support the Auctions and UBS to provide LOC capability for restructuring into an institutional product (VRDO)

Option 6: Continue to support the Auctions and look to a 3rd Party to provide LOC capability



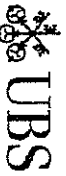
Options (1 of 6)

Option 1: Withdraw from the Student Loan Market

- ♦ Means falling the Student Loan Auctions – UBS becomes first to fall in market
- ♦ IB Student Loan inventory currently 5.5 bn becomes frozen in failed mode - MTM pricing to be determined (30 year nominal maturity with 7-10 year average life), with auction to try to reconvene at next cycle (28 or 35 days)
- ♦ WMM Private Clients hold 6.35 bn - will look to get par but will be frozen with those securities as well and will look to next cycle to see if auction reconvenes
- ♦ Corp Cash Management holds 9.0 bn – will look to get par but will be frozen with those securities as well and will look to next cycle to see if auction reconvenes
- ♦ Contagion effect to other Auction markets highly possible and could mean that UBS takes on additional paper

Likely Case

- ♦ Contagion and reputational risk of UBS becoming first to fail and breaking the moral obligation to support these markets in an orderly fashion
- ♦ Pressure from other Auction markets begins to build as investors look to sell their other Auction products (core Muni ARCS as well as APS) - total held in:
 - Private Clients (10.56 bn core muni ARCS, 6.02 bn APS)
 - Corp Cash Mgmt (1.1 bn core muni ARCS, 0.21 bn APS)
 - IBD Corp clients that hold this paper will be impacted
- ♦ UBS would need to respond to:
 - Regulatory issues
 - Legal risk, rep risk, headline risk
 - FED and/or SEC will get involved
 - Could create crisis of confidence in financial markets



Options (2 of 6)

Option 2: Withdraw from Non-State Agency issuers and keep the State Agency issuers

- ◆ Means resigning from the Non-State agency issuers – approx. 5 bn in program size (can be done easier than state agencies) and supporting State Agency issuers (approx. 20.3 bn)
- ◆ Will need to decide whether we are going to fail the non-state auctions outright or continue to support the issues while attempting to help issuers find suitable replacement broker-dealers
- ◆ Non-state issuers are good quality collateral and more in demand currently
 - UBS Non-State Agency issuer current inventory approx. 2 bn
 - **WM Private Clients** hold approx. 0.6 bn
 - **Corp Cash Mgmt** hold approx. 2.4 bn

Likely case

- ◆ UBS falls Non-State Agency issues (or any other without evidence of clear credit deterioration as rationale) and immediately confidence is lost in the Auction process and UBS in general
- ◆ **WM Private Clients** as well as **Corp Cash Mgmt** lose confidence in Auction process as well as UBS' support in market and attempt to sell back to UBS all their auction instrument exposure
 - ARCS and APS total held in **Private Client**: 22.91 bn
 - ARCS and APS total held in **Corp Cash Mgmt**: 10.31 bn

Best case

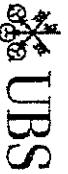
- ◆ Selling pressure from **Corp Cash Mgmt** as well as **Private Client** of State Agency Issuer student loan paper continues and increases our exposure
- ◆ We are able to bifurcate the issuing base and start to resign from programs
- ◆ We reduce overall program size (but still have rep issues from falling)



Options (3 of 6)

Option 3: Withdraw from Non State Agency Issuers as well as some non-key State Issuers

- ♦ See prior slide on withdrawing from Non-State Issuers
 - ♦ Would mean resigning and withdrawing selectively from 18 different State Agency programs (current program size 20.3 bn) that are non-core to the Municipal franchise
 - ♦ When you resign from a State Agency – you must notify issuer of your intent and, in some cases, find a suitable replacement broker-dealer to take over the program (RBC currently has indicated one month ago of their intent to resign from these programs and has informed many of their issuer clients – to date no one has stepped in to take over the broker-dealer function, and RBC continues to support these auctions for their clients while they consider restructuring options)
 - ♦ Would need to decide which clients to cherry pick
- Likely case**
- ♦ UBS Municipal Public Finance Banking Group gets compromised in its state relationships for municipal banking business as issuers view UBS as withdrawing support for their states' financing needs
 - ♦ By cherry picking municipal state agency clients, UBS would lose market share and hope of financing opportunities in the states we would be withdrawing from
 - ♦ Would limit our ability to provide new issue Municipal product to WM from those states and would compromise market position in league tables
- Best case**
- ♦ The banking relationships could be preserved with the states we are withdrawing from
 - ♦ Left with limited banking footprint



Options (4 of 6)

Option 4: UBS continues to support Student Loan and Auction markets

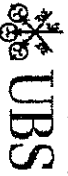
- ◆ Demonstrates that UBS is committed to supporting its WM client base in a product that the firm has been supporting, promoting and growing for 15 years
- ◆ Further demonstrates that, as a market leader in the industry, UBS will support our investor and issuer clients through periods of market turmoil and will emerge as a solution provider, rather than a part of the problem

Likely case

- ◆ UBS could theoretically own 26 bn of Student Loan (highly unlikely) as well as other ARCS and APS inventory (2-5 bn)
- ◆ Another dealer fails the auction BEFORE restructuring begins to take place (sometime in the next 2-3 months) and we have exposure to the inventory we hold at the time. If we fail, then we must determine proper pricing MTM (which may not correlate to the underlying asset value nor real recovery value –given nature of the collateral - or likely outcome)
- ◆ Note: if another dealer fails, our exposure still remains with servicing the current outstanding programs we have been supporting. The decision to fail or not of course is ours as broker-dealer.

Best case

- ◆ Market stabilizes and allows UBS to begin restructuring with the issuers (already in progress). This will reduce ultimate exposure to ARCS market and will help fulfill the goal of lower overall exposure and program size.
- ◆ Uninterrupted client service to the WM franchise
- ◆ Market leader in restructuring and will lead to fee income for the firm
- ◆ Allows the Municipal Securities Group to grow our client franchise



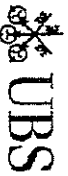
Options (5 of 6)

Option 5: Continue to support the Auctions and UBS to provide LOC capability for restructuring into an institutional product (VRDO)

- ♦ This will provide us the ability to determine and ultimately control a solution to the benefit of the firm as well as for our WM clients
- ♦ Will take pressure off and will allow us to reduce balance sheet allocation
- ♦ We can move forward as a solution provider with confidence and not have to rely on 3rd parties where we lose control of options
- ♦ Our competitors are all pursuing this option with their own liquidity for their own clients (Citi, BOA, RBC, JPM)
- ♦ No capacity issues with respect to institutions filled on UBS exposure - so would be received quite well by the marketplace. UBS has the expertise and the issuer relationships (15+years) currently in place
- ♦ Will result in UBS actually getting paid for our liquidity instead of current situation of moral obligation with no fee for liquidity
- ♦ UBS will earn restructuring fees
- ♦ Will result in reduction of overall Student Loan program size
- ♦ The ARCS market must be converted to become an institutional market and product – an LOC will allow for that

Likely case

- ♦ It will take time to restructure (street estimates are between 2 months and 2 years)
- ♦ **NOTE: BOTH ISSUER AND DEALER ARE INCENTIVISED TO RESTRUCTURE. NO ONE PARTY IS MOTIVATED TO MAINTAIN THE STATUS QUO.**
- ♦ Each issuer is unique and may be constrained in its ability or willingness to restructure by a variety of legal, market and political considerations



Options (6 of 6)

Option 6: Continue to support the Auctions and look to a 3rd Party to provide LOC capability

- ◆ Currently there is limited participation by 3rd Party providers in the student loan market
- ◆ While this is clearly an option, the current lack of depth in the market limits the impact 3rd Party providers can have on existing market conditions
- ◆ Our MSG group is in current discussions with DEPPFA, DEXIA, FSA about potential to provide LOC capability. One issue is that the market away from FSA may have capacity issues on the other's names.
- ◆ The ARCS market and product must be converted to become an institutional product – an LOC will allow for that

Proposal

- ◆ Continue to support all auctions
- ◆ Pursue both Option 4 and 5
- ◆ Provide Liquidity / LOC capability of 10 billion over time to allow MSG to restructure our issues and make them eligible for distribution to institutional and retail clients
- ◆ Solicit input and guidance from FED, along with other dealers
- ◆ Develop strategy to respond to another dealer failing first
- ◆ Establish escalation process to ensure management is informed of all events
- ◆ Continue to reduce exposure by restructuring market and aggressively refine and prioritize overall book of business in the Student Loan portfolio of programs



**STATE OF NEW HAMPSHIRE
DEPARTMENT OF STATE
BUREAU OF SECURITIES REGULATION**

IN THE MATTER OF:

UBS Securities, LLC

)
) ORDER TO CEASE AND DESIST
) ORDER TO SHOW CAUSE
) COM08-10, COM 08-12,
) COM08-13

NOTICE OF ORDER

This Order commences an adjudicative proceeding under the provisions of RSA 421-B:26-a.

LEGAL AUTHORITY AND JURISDICTION

Pursuant to RSA 421-B:23, the Secretary of State has the authority to issue and cause to be served an order requiring any person appearing to him to be engaged or about to be engaged in any act or practice constituting a violation of RSA 421-B or any rule or order thereunder, to cease and desist from violations of RSA 421-B.

Pursuant to RSA 421-B:24, I, any person who willfully violates a cease and desist order issued pursuant to RSA 421-B:23 shall be guilty of a class B felony.

Pursuant to RSA 421-B:10, I(a) and RSA 421-B:10,I(b)(2), the Secretary of State has the authority to deny, suspend, or revoke any license or application of a broker-dealer or investment adviser if he finds that it is in the public interest and that the broker-dealer or investment adviser has willfully violated or failed to comply with any provisions of RSA 421-B, or the Securities Act of 1933, the Securities Exchange Act of 1934, or any rule under any of such statutes.

Pursuant to RSA 421-B:10, I(a) and RSA 421-B:10,I(b)(2), the Secretary of State has the authority to deny, suspend, or revoke any license or application of a broker-dealer or investment adviser if he finds that it is in the public interest and that the broker-dealer has failed to reasonably supervise its agents.

Pursuant to RSA 421-B:10, III, the Secretary of State may issue an order requiring the persons to whom any license has been granted to show cause why its license should not be revoked.

Pursuant to RSA 421-B:10, VI, the Secretary of State may, upon hearing and in lieu of, or in addition to any order to suspend or revoke any license, assess an administrative fine up to \$2,500.00 for each violation of the New Hampshire Securities Act.

Pursuant to RSA 421-B:26, V, the Secretary of State may, in addition to any other penalty provided by RSA 421-B, upon notice and hearing, enter an order of rescission, restitution, or disgorgement directed to a person who has violated RSA 421-B.

NOTICE OF RIGHT TO REQUEST A HEARING

The above Respondent has the right to request a hearing on this order to cease and desist, as well as the right to be represented by counsel. Any such request for a hearing shall be in writing, shall be signed by the Respondent, or by the duly authorized agent of the above named Respondent, and shall be delivered either by hand or certified mail, return receipt requested, to the Bureau of Securities Regulation, Department of State, 25 Capitol Street, Concord, New Hampshire 03301.

Under the provisions of RSA 421-B:23, I, if Respondent fails to request a hearing relative to this order within thirty calendar days of receipt of this order, respondent shall be deemed in default, and this order shall, on the thirty-first day, become permanent.

Upon request for a hearing being received by the Bureau of Securities Regulation, in the manner and form indicated above, a hearing shall be held not later than ten days after such request is received by the Bureau, and within a reasonable time after such hearing, the Secretary of State, or such other person authorized by statute, shall issue a further order vacating or modifying this order, or making it permanent, as the circumstances require.

STATEMENT OF ALLEGATIONS

The allegations contained in the Staff Petition for Relief dated August 14, 2008 (a copy of which is attached hereto) are incorporated by reference hereto.

ORDER

WHEREAS, finding it necessary and appropriate and in the public interest, and for the protection of investors and consistent with the intent and purposes of the New Hampshire securities laws, and

WHEREAS, finding that the allegations contained in the Staff Petition, if proved true and correct, form the legal basis of the relief requested,

It is hereby ORDERED that:

1. The Respondent is hereby ordered to immediately cease and desist from further violations of RSA 421-B;
2. The Respondent shall show cause why its New Hampshire broker-dealer and investment adviser licenses should not be revoked;
3. The Respondent shall pay an administrative fine in accordance with RSA 421-B:10,VI, RSA 421-B:26,III, 421-B:26,III-a, and 421-B:26,VIII.

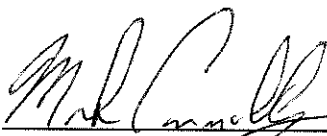
4. The Respondent shall pay restitution to NHHELCO for damage caused to NHHELCO.
5. The Respondent shall pay the Bureau of Securities for costs associated with its investigation.

Failure on the part of the Respondent to request a hearing within thirty days of the date of receipt of this Order shall result in a default judgment being rendered, including imposition of fines and penalties upon the defaulting Respondent.



SIGNED,
WILLIAM M. GARDNER
SECRETARY OF STATE
BY HIS DESIGNEE:

Dated: Aug 14, 2008



MARK CONNOLLY,
DEPUTY SECRETARY OF STATE
AND DIRECTOR, N.H. BUREAU OF
SECURITIES