

BB&T Scott &
Stringfellow/ BB&T
Capital Markets

Auction Rate Securities
Policies and Procedures

June 14, 2011

Table of Contents:

- I. Introduction
- II. General Overview of the Auction Rate Securities Market
- III. Issuer's Role in the Auction Rate Securities Market
- IV. Broker/Dealer's Role in the Auction Rate Securities Market
- V. Types of Orders
- VI. Auction Agent's Role in Auction Process
- VII. Notification of Clearing Rate
- VIII. Auction Failure
- IX. All Hold Auctions
- X. BB&T Scott & Stringfellow/BB&T Capital Markets Role in Auctions
- XI. Bidding
- XII. Prick Talk
- XIII. Consequences of Bidding by BBT S&S/BBTCM
- XIV. Consequences of Bidding by BBT S&S/BBTCM
- XV. Information on the Likelihood of an All-Hold Auction
- XVI. Auction Rate Securities Held by BBT S&S/BBTCM
- XVII. Auction Dealer Fees
- XVIII. "All-or Nothing" Bids and Market Orders
- XIX. No Assurances Regarding Auction Outcomes
- XX. Deadlines
- XXI. Existing Holder's Ability to Resell Auction Rate Securities May Be Limited
- XXII. Resignation of Auction Agent

I. Introduction

The purpose of this document is to provide BB&T Scott & Stringfellow/BB&T Capital Markets (BBT S&S/BBTCM) customers and potential customers with a general description of BBT S&S/BBTCM's practices with respect to auction rate securities and help clients understand those practices. It is also important for current or potential customers BBT S&S/BBTCM to comprehend the various risk factors involved if currently participating or decide in the future to participate in the auction rate securities market.

To help the reader put these policies and procedures in the proper context; the document begins with a generic description of the auction rate market. Following the general description of the auction rate market, the document then describes the role of BBT S&S/BBTCM in the market. It is important for the reader to fully understand the relevant facts regarding the nuances of the auction rate market before participating.

Current or potential customers should read these policies and procedures in its entirety. Any questions about the content of this document should be directed to your BBT S&S/BBTCM representative or local BBT S&S/BBTCM office for more information. If you have invested in auction rate securities through BB&T Scott & Stringfellow/BB&T Capital Markets you may request a copy of these policies and procedures by contacting your representative or local office.

II. General Overview of the Auction Rate Securities Market

Auction rate securities (also called on occasion: "Auction Market Preferred Stock", "Variable Rate Preferred Securities", or "Periodic Auction Rate Securities") are municipal bonds, corporate bonds, and preferred stocks with interest rates or dividend yields that are periodically re-set through auctions, typically every seven, fourteen, twenty-eight, or thirty-five days. These securities were first offered for sale in the United States financial markets in the mid 1980s. Typical minimum investment in such investment vehicles is \$25,000. Issuers of these securities can include, but are not limited to: closed-end funds, corporations, and municipal authorities.

Auction rate securities have generally been issued as either debt or preferred stock, designed to serve as money market-like instruments. They are usually issued with stated intermediate to long-term maturities or in perpetuity; however they are priced and traded as short-term instruments given their interest or dividend re-set feature. Generally, these instruments are callable at par on the auction date and/or any interest payment date at the option of the issuer. Interest is paid in the current period based on the interest rate determined in the prior auction period. Auction rate securities are an alternative to other variable rate financing options for issuers. For investors, auction rate securities have generally been viewed as an alternative to money market funds.

Auction rate securities are auctioned at par and the return on the investment to the investor and the cost of financing to the issuer between auction dates is determined by the interest rate or dividend yield set through the auction. The interest rate or dividend yield

is set through what is commonly referred to as a “Dutch” auction in which bids with successively higher rates are accepted until all of the securities in the auction are sold. The final rate that sells all of the securities is called the “clearing rate” (lowest rate bid sufficient to sell all securities within the auction), which applies to all of the securities in the auction until the next auction.

III. Issuer’s Role in the Auction Rate Securities Market

The issuer of each auction rate security selects an auction agent, typically a commercial bank (known as the Auction Agent) to conduct certain functions of the auction process.

The issuer also selects one or more broker-dealers to underwrite of the offering and/or manage the auction process.

IV. Broker/Dealer’s Role in the Auction Rate Securities Market

Broker/dealers for auction rate securities manage the auction process. Investors submit orders to buy, hold, or sell through the broker/dealer(s) selected by the issuer of a specific auction rate security. Broker/dealer(s) in turn, submit all orders to the auction agent by the time specified in the auction procedures.

V. Types of Orders

The type of orders an investor can submit in an auction depends on whether the investor already has invested in that particular auction rate security (existing holder) or is making a first time investment in an auction rate security (potential holder).

Existing Holders

May submit to a broker/dealer hold orders, hold order at rate, bid orders, or sell orders.

Hold order: A holder may indicate to the auction dealer the amount of the security that he or she wishes to continue to hold without regard to the clearing rate that sets in the auction. Generally, auction procedures call this type of order a “hold” order. Auction dealers may also refer to it as a “roll” order.

Bid: A holder may indicate to the auction dealer the amount of the security that he or she desires to continue to hold, or a prospective holder may indicate to the auction dealer that he or she wishes to acquire a specified amount of the security, at or above a desired interest or dividend rate that the holder or prospective holder specifies.

Generally, the auction procedures call this type of order a “bid,” and a person who places a bid a “bidder.” If the clearing rate sets below the interest or dividend rate that the holder or prospective holder specifies in his or her bid:

- (1) the holder will be required to sell the securities subject to his or her

bid in the auction; and

(2) the prospective holder will not acquire the securities subject to his or her bid in the auction.

Auction dealers refer to bids by prospective holders as “buy” orders, and bids by holders as “roll-at-rate” orders.

Sell order: If the holder desires to sell a specified amount of the security in the auction without regard to the clearing rate that sets in the auction, he or she will place a “sell” order with the auction dealer for that amount of the security.

Potential Holders

In contrast, potential holders may submit only a bid to buy securities at a specified rate. If the clearing rate is above the specified rate, a potential holder will receive securities. If below the clearing rate, a potential holder will not receive any securities. If the specified rate and the clearing rate are equal, the potential holder may receive all, some, or none of the securities.

VI. Auction Agent’s Role in Auction Process

The Auction Agent's functions include collecting orders from all participating broker-dealers by the auction deadline, determining the amount of securities available for sale (the auction size less hold orders), and organizing the bids in ascending rate orders to determine the winning bid. If there are any orders placed into the auction at a specified rate, the Auction Agent accepts bids with the lowest rate above any applicable minimum rate and then successively higher rates up to the maximum applicable rate, until all sell orders and orders that are treated as sell orders are filled. Bids below any applicable minimum rate or above the applicable maximum rate are rejected.

After determining the clearing rate, the Auction Agent allocates the auction rate securities available for sale to the participating broker-dealers based on the orders they submitted, as such orders are defined below, typically, in the following order of priorities:

- hold orders
- hold-at-rate and buy bids with a rate below the clearing rate
- hold-at-rate orders with a rate at the clearing rate
- and buy bids with a rate at the clearing rate

If there are multiple bids at the clearing rate, the Auction Agent will allocate securities among the bidders at such rate on a pro-rata basis. Existing holders are likely to receive preference over new bidders at the same rate. All accepted bids receive the same interest rate or dividend yields - the clearing rate.

VII. Notification of Clearing Rate

Once the clearing rate has been determined, the Auction Agent notifies the issuer's paying agent and the participating broker-dealer(s) of the clearing rate, which will be effective the business day following the auction or, in the case of daily auctions, the same day. If the issuer of the auction rate security had selected more than one firm to act as broker-dealer for the securities in the auction, the Auction Agent also notifies the participating broker-dealers whether each was a net seller or a net buyer of securities. The settlement of such purchase and sale transactions occurs on the business day following the auction unless the auction is occurring daily in which case the settlement is the same day.

VIII. Auction Failure

The auction procedures as set forth in most offering documents require that, in the event the amount of the security in the auction that is the subject of bids from prospective holders (that is, buy orders) is less than the amount of the security that is the subject of sell orders submitted into the auction, the maximum rate will automatically apply to the entire outstanding amount of the security until the next auction date. This is called "auction failure."

Holders who have submitted sell orders should be aware that, in the event of an auction failure, they will not be able to sell all, and may not be able to sell any, securities in the auction. Specifically, if no buy orders are placed in an auction, holders will not be able to sell any of their securities in the auction. To the extent any buy orders are placed in a failed auction, the auction procedures require the auction agent to fill holders' sell orders on a pro rata basis.

IX. All Hold Auctions

Generally, the auction procedures require that, if in a particular auction all the outstanding securities are subject to hold orders – meaning that no holder has submitted either a roll-at-rate or sell order – the "all hold rate" (or "minimum rate") will automatically apply to the entire outstanding amount of the security until the next auction date. Auction procedures may refer to such a result as an "all hold auction."

Generally, as noted above, the all hold rate is a materially below-market rate determined by a formula set forth in the offering documents. For example, the offering documents could specify that the all hold rate will be based on 60% of LIBOR or an applicable U.S. Treasury Index Rate. In some offering documents, the all hold rate is called the "minimum rate."

X. BB&T Scott & Stringfellow/BB&T Capital Markets Role in Auctions

BBT S&S/BBTCM below outlines its role within the auction rate securities market. Topics covered include bidding by BBT S&S/BBTCM, Price Talk, Dealer Fees, Deadlines, resale of auction rate securities, and resignation of auction agent. Any further questions regarding

BBT S&S/BBTCM's role within the auction rate securities market should be directed to the customer's representative or local office.

XI. Bidding

BBT S&S/BBTCM is 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 BBT S&S/BBTCM submits an order for its own account, it would have an advantage over other bidders because BBT S&S/BBTCM would have knowledge of some or all of the other orders placed through BBT S&S/BBTCM in that auction and, thus, could 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 BBT S&S/BBTCM is appointed and paid by the relevant issuer to serve as a broker-dealer in the auction, BBT S&S/BBTCM's interests in conducting an auction may differ from those of existing holders and potential holders who participate in auctions. BBT S&S/BBTCM would not have knowledge of orders submitted to the Auction Agent by any other firm that is, or may in the future be, appointed to accept orders pursuant to a broker-dealer agreement.

Where BBT S&S/BBTCM is the only broker-dealer selected by the issuer in an auction, BBT S&S/BBTCM would be the only broker-dealer that submits orders to the auction agent in that auction. As a result, in such circumstances, BBT S&S/BBTCM could discern the clearing rate before the orders are submitted to the auction agent and set the clearing rate with its order.

Bidding with Knowledge

BBT S&S/BBTCM may routinely place one or more bids in an auction for its own account to acquire auction rate securities for its inventory, to prevent a failed auction (i.e., an event where there are insufficient clearing bids which would result in the auction rate being set at the Maximum Rate) or an auction from clearing at a rate that BBT S&S/BBTCM believes does not reflect the market for the particular auction rate securities being auctioned. BBT S&S/BBTCM 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, BBT S&S/BBTCM may also bid outside or inside the range of rates that it posts in its Price Talk (to be discussed further down).

Bidding to Prevent Failed Auctions or to Prevent auction rate securities from Clearing at Rate Different than Market Rate BBT S&S/BBTCM also may routinely encourage bidding by others in auctions, including to prevent a failed auction or to prevent an auction from clearing at a rate that BBT S&S/BBTCM believes does not reflect the market for the particular auction rate securities being auctioned. BBT S&S/BBTCM may routinely encourage such bids even after obtaining knowledge of some or all of the other orders submitted through it.

XII. Price Talk

Before the start of an auction, BBT S&S/BBTCM may, in its discretion, make available to its customers who are existing holders and potential holders BBT S&S/BBTCM's 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 guaranty, and existing holders and potential holders are free to use it or ignore it. BBT S&S/BBTCM 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. BBT S&S/BBTCM will make such changes available to its customers who are existing holders and potential holders that were given the original Price Talk.

XIV. Consequences of Bidding by BBT S&S/BBTCM

Bids by BBT S&S/BBTCM 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 BBT S&S/BBTCM not bid or not encouraged others to bid and (ii) the allocation of auction rate securities being auctioned — including displacing some bidders who may have their bids rejected or receive fewer auction rate securities than they would have received if BBT S&S/BBTCM 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 auction rate securities involves no significant liquidity or credit risk. BBT S&S/BBTCM 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 BBT S&S/BBTCM believes does not reflect the market for the securities. Investors should not assume that BBT S&S/BBTCM will do so or that failed auctions and unfavorable auction rates will not occur. Investors should also be aware that bids by BBT S&S/BBTCM or by those it may encourage to place bids may cause lower auction rates to occur.

XV. Information on the Likelihood of an All-Hold Auction

In any particular auction, if all outstanding auction rate securities are the subject of submitted hold orders, the auction rate for the next succeeding auction period will be the so-called "All Hold Rate", as set forth in the document for the auction rate securities in question (such a situation is called an "All Hold Auction"). When an All Hold Auction is likely, BBT S&S/BBTCM may, but is not obligated to, advise its customers who are existing holders of that fact, which might facilitate the submission of bids by existing holders that would avoid the occurrence of an All Hold Auction. If BBT S&S/BBTCM decides to inform its customers who are existing holders of the likelihood of an All Hold Auction, it will make that information available to all such holders at the same time.

XVI. Auction Rate Securities Held by BBT S&S/BBTCM

If BBT S&S/BBTCM holds any auction rate securities for its own account on an auction date, BBT S&S/BBTCM will submit a sell order into the auction with respect to such auction rate securities, which would prevent that auction from being an All Hold Auction.

BBT S&S/BBTCM may, but is not obligated to, submit bids for its own account in that same auction, as set forth above.

XVII. Auction Dealer Fees

For many auction rate securities, BBT S&S/BBTCM has been appointed by the issuer of the securities to serve as a dealer in the auction and is paid by the issuer for its services. BBT S&S/BBTCM is typically appointed to serve as a dealer in the auctions pursuant to an agreement between the issuer and BBT S&S/BBTCM. That agreement provides that BBT S&S/BBTCM will receive from the issuer auction dealer fees based on the principal amount of the securities placed through BBT S&S/BBTCM. As a result, BBT S&S/BBTCM's interests in conducting auctions may differ from those of investors who participate in auctions.

BBT S&S/BBTCM may share a portion of the auction dealer fees it receives from the issuer with other broker-dealers that submit orders through BBT S&S/BBTCM, for those orders that BBT S&S/BBTCM successfully places in the auctions. Similarly, with respect to auctions for other auction rate securities for which BBT S&S/BBTCM does not serve as a dealer, the other broker-dealers who serve as dealers in those auctions may share auction dealer fees with BBT S&S/BBTCM for orders that BBT S&S/BBTCM submits through those broker-dealers that those broker-dealers successfully place in those auctions.

XVIII. "All-or Nothing" Bids and Market Orders

BBT S&S/BBTCM 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 auction procedures that require the pro rata allocation of securities where there are not sufficient sell orders to fill all bids at the clearing rate. BBT S&S/BBTCM also does not accept market order bids. Potential holders may submit buy orders at specified rates only.

XIX. No Assurances Regarding Auction Outcomes

BBT S&S/BBTCM provides no assurance as to the outcome of any auction, nor does BBT S&S/BBTCM provide any assurance that any bid will be successful, in whole or in part, or that the auction will clear at a rate that a bidder considers acceptable. Bids may be rejected or may be only partially filled, or not filled at all, and the rate on any Auction rate securities purchased or retained in the auction may be lower than market rates for similar investments.

BBT S&S/BBTCM will not agree before an auction to buy or sell auction rate securities to a customer after the auction.

XX. Deadlines

Each particular auction has a formal time deadline by which all bids must be submitted by BBT S&S/BBTCM to the Auction Agent, typically 12:30 p.m. or 1:00 p.m., New York time, on a regular trading day and 11:30 a.m., New York time, on any day in

which SIFMA has recommended an early market close. 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, BBT S&S/BBTCM imposes an earlier deadline for all auction rate securities — called the "Internal Submission Deadline" — by which bidders must submit bids to BBT S&S/BBTCM, currently 12:00 p.m., New York time, on a regular trading day and 10:30 a.m., New York time, on any day in which SIFMA has recommended an early market close. The Internal Submission Deadline is subject to change by BBT S&S/BBTCM. BBT S&S/BBTCM may allow for correction of clerical errors after the Internal Submission Deadline and prior to the Submission Deadline. BBT S&S/BBTCM 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.

XXI. Existing Holder's Ability to Resell Auction Rate Securities May Be Limited

Existing holders will be able to sell the auction rate securities in an auction only if there are bidders willing to purchase all the auction rate 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 auction rate securities subject to such submitted sell orders. As discussed above BBT S&S/BBTCM 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 BBT S&S/BBTCM bidding in the auction for its own account. Therefore, failed auctions are possible, especially if the issuer's credit were to deteriorate, if a market disruption were to occur or if, for any reason, BBT S&S/BBTCM were unable or unwilling to bid.

Between auctions, there can be no assurance that a secondary market for the auction rate securities will develop or, if it does develop, that it will provide existing holders the ability to resell the auction rate securities in the secondary market on the terms or at the times desired by an existing holder. BBT S&S/BBTCM may, in its own discretion, decide to buy or sell the auction rate securities in the secondary market for its own account at any time and at any price, including at prices equivalent to, below, or above the par value of the auction rate securities. However, BBT S&S/BBTCM is not obligated to make a market in the auction rate security, and may discontinue trading in the auction rate security 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 any auction rate securities will depend on various factors affecting the market for the auction rate securities, including news relating to the specific issuer of the auction rate securities, the attractiveness of alternative investments, the perceived risk of owning the specific auction rate securities (whether related to credit, liquidity or any other risk), the tax or accounting treatment accorded auction rate securities generally (including recent clarification of United States 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 auction rate securities may change without warning, and declines in demand may be short-lived or continue for longer periods.

XXII. Resignation of the Auction Agent Under the Auction Agent Agreement or BBT S&S/BBTCM Under the Broker-Dealer Agreement Could Impact the Ability to Hold Auctions

The Auction Agent agreement typically provides that the Auction Agent may resign from its duties as Auction Agent by giving at least 45 days notice to the issuer and others and does 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 typically provides that BBT S&S/BBTCM and any other broker-dealer thereunder may resign upon 30 days notice or immediately, in certain circumstances, and does 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 auction rate securities will be determined as described in the relevant documents.