

Auction-rate securities still dog some companies

Although some financial institutions are settling with regulators and agreeing to buy back auction-rate securities, some states and companies are still unable to access cash locked down in the securities nearly two years after the debacle began.

HCA, the hospital operator, had about \$400 million in municipal tax-exempt student loan auction-rate securities, as of the end of December 2009. In a recent filing with the Securities and Exchange Commission, the company said the securities "continue to experience market illiquidity since February 2008," when multiple failed auctions occurred due to the credit crisis. "It is uncertain if auction-related market liquidity will resume for these securities," it added.

The company said that it may have to recognize other-than-temporary impairments on these investments in future periods should issuers default on interest payments for instance.

The state of Hawaii, for its part, lost about \$250 million in market value on \$1 billion in student-loan securities that the state has had difficulties unloading, Bloomberg reported Thursday. The state is claiming that Citigroup misled it when it sold the securities as the market was on the verge of collapse.

Like HCA (See HCA's no-win position), Hawaii could do with the extra cash as it tries to close a \$1.2 billion budget deficit.

Bloomberg noted that businesses have been unable to gain access to \$25 billion of the obligations since February 2008, citing an estimate from last year by SecondMarket, a New York-based clearinghouse for illiquid securities.

Texas Instruments was also sold \$524 million in auction rate securities by Citigroup and alleges it was misled, Bloomberg noted. Texas Instruments is now suing Citigroup.

But some parties have been successful at recuperating their cash through settlements.

UBS, for instance, agreed to buy back \$200 million of auction-rate securities and pay a \$64 million fine to the Texas State Securities Board, as reported by Reuters Thursday.