UNITED STATES OF AMERICA Before the SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933 Release No. 8852 / September 28, 2007

ADMINISTRATIVE PROCEEDING File No. 3-12850

In the Matter of

Anchor National Life Insurance Company, n/k/a AIG SunAmerica Life Assurance Company

Respondent.

ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS, MAKING FINDINGS, AND IMPOSING A CEASE-AND-DESIST ORDER PURSUANT TO SECTION 8A OF THE SECURITIES ACT OF 1933

I.

The Securities and Exchange Commission ("Commission") deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 ("Securities Act"), against Anchor National Life Insurance Company, n/k/a AIG SunAmerica Life Assurance Company ("Anchor" or "Respondent").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings, Making Findings, and Imposing a Cease-and-Desist Order Pursuant to Section 8A of the Securities Act of 1933 ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds¹ that:

Summary

- 1. Respondent's failure to disclose certain information to the issuers of municipal bonds in Florida (the "issuers") was a cause of misleading statements or omissions made in connection with the sales of those bonds. As described in more detail below, in particular, Respondent and the bond program advisor for each offering failed to disclose an agreement in each offering ("fee agreement") that created a risk that the Internal Revenue Service ("IRS") might deem the bonds to be taxable. By not disclosing the fee agreement, the bond program advisor violated Section 17(a)(2) of the Securities Act. As a result of its own independent failure to disclose the agreement, Respondent was a cause of the bond program advisor's violations of Section 17(a)(2) of the Securities Act within the meaning of Section 8A of the Securities Act.
- 2. The municipal bonds were issued in three pooled bond offerings totaling \$650 million that occurred between April 1999 and January 2000 (collectively, the "bond offerings" or the "bonds"). Each of the bond offerings raised a pool of funds that was intended to be loaned to a not-for-profit entity that would use the funds to finance the acquisition and rehabilitation of projects throughout Florida. The first offering was for healthcare projects while the second and third bond offerings involved housing projects. Respondent knew or should have known that the information that it failed to disclose to the issuers was relevant to the private placement memoranda ("PPMs"), Tax Exemption Certificate and Agreements ("Tax Agreements"), Payment and Standby Purchase Agreements ("Payment Agreements"), and a Certificate of Financial Advisor ("Certificate") that were used in the bond offerings.
- 3. As mentioned below, after the bonds were offered and sold, the IRS preliminarily took the position that the interest on the bonds was not tax exempt. Ultimately, however, the issuers and Respondent reached a resolution with the IRS and the bonds retained their tax exempt status.

Respondent and the Bond Program Advisor

- 4. <u>Anchor</u> is a stock life insurance company originally incorporated in California and later redomesticated in Arizona. Anchor provided credit enhancement for the bond offerings. It was paid a fee based on a percentage of the unloaned proceeds of the bonds. When a loan was made, Anchor would receive an increased fee percentage on the loaned portion of the bond proceeds.
- 5. <u>The bond program advisor</u> was established in 1986 as a financial services and derivatives firm and has been a registered investment adviser with the Commission since 2001.

2

The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Facts

Federal Tax Law Background

- 6. Under the federal tax regulations, an issuer of municipal pooled bonds must satisfy certain requirements to ensure that the bonds maintain their tax-exempt status. Among other things, the issuer must have a reasonable expectation at the time these types of pooled bonds are issued that most of the net proceeds of the issue (the "required amount") will be loaned within three years of the date of issuance.
- 7. Pursuant to the federal tax regulations, the proceeds of these types of pooled bond offerings can be invested while they remain unloaned. However, issuers earning interest yields greater than the yields on their tax-exempt debt are considered to have generated arbitrage profit, which must be rebated to the IRS in order to maintain the tax-exempt status of the interest paid on the bonds.
- 8. The IRS permits issuers of tax-exempt pooled bonds, when calculating the interest yields on the bonds, to consider some types of fees to secondary parties, such as fees for credit enhancement, as payments for "qualified guarantees" if the payments meet specific IRS criteria.² A qualified guarantee can be treated as additional interest on the bonds, which serves to increase the yield at which the bond proceeds can be invested without generating positive arbitrage that would have to be rebated to the IRS in order to preserve the tax-exempt status of the bonds.³ Any fee that is improperly allocated to a payment for a qualified guarantee cannot be included as additional interest on the bonds when calculating arbitrage rebate. Failure to rebate any arbitrage profit in the time and manner specified by the IRS could jeopardize the tax-exempt status of the bonds.

The Bond Offerings and the Undisclosed Information

- 9. The three bond offerings were offered and sold, respectively, beginning in April 1999, December 1999, and January 2000. All of the bonds were subject to a remarketing agreement as long as they remained outstanding.
- 10. The bond program advisor had several roles in the bond offerings. Among other things, it set up the structure of the offerings and attracted some of the participants to the deals. In addition, the bond program advisor participated in the working group for all three bond offerings

A guarantee is qualified if it satisfies each of the following requirements: (1) as of the date the guarantee is obtained, the issuer must reasonably expect that the present value of the fees for the guarantee will be less than the present value of the expected interest savings on the issue as a result of the guarantee; (2) the arrangement must impose a secondary liability that shifts substantially all of the credit risk for all or part of the payments; and (3) fees for a guarantee must not exceed a reasonable, arm's-length charge for the transfer of credit risk and must not include any payment for any service other than the transfer of credit risk, unless payment for other services is separately stated, reasonable, and excluded from the guarantee fee. 26 CFR 1.148-4(f)(2)-(4).

Positive arbitrage, or arbitrage profit, results when the interest rate earned on the investment of tax-exempt bond proceeds is higher than the interest rate paid on the bonds.

where issues, including tax issues, were discussed. In the second and third offerings, the bond program advisor assumed the role of providing a preliminary analysis to potential borrowers of their request for loan proceeds. Documents in the Trust Indentures for the first and second offerings listed the bond program advisor as an advisor to each borrower. Based on its role in the bond offerings, the bond program advisor had a duty to disclose to the issuers the existence of a fee agreement that created a risk to the tax-exempt status of the bonds.

- 11. Anchor served as the credit enhancement provider for each of the bond offerings and had final approval whether to loan the bond proceeds and, if so, how much to loan on each potential project located by a borrower. Only in the third bond offering were all of the proceeds used to fund loans.
- 12. As the provider of credit enhancement in each deal, Anchor assumed several risks for which it was paid annually a credit enhancement fee in each bond offering amounting to .85% to 1.15% of the unloaned proceeds. When a loan was made, Anchor would receive a fee amounting to approximately 1.25% to 2% of the loaned proceeds of the bonds.
- 13. Each bond offering involved the same bond program advisor that brought Anchor in to serve as the credit enhancement provider. In the second bond offering, the bond program advisor assumed the role of providing preliminary "desktop" underwriting for most of the project funding proposals. In the third bond offering, the bond program advisor provided the "desktop" underwriting for all of the project funding proposals. In all three bond offerings, Anchor entered into the fee agreement with the bond program advisor, pursuant to which Anchor was to pay the bond program advisor .25% annually based on the amount of unloaned bond proceeds for having brought Anchor in as the credit enhancement provider in the three bond offerings and for additional services provided to Anchor in connection with the bond offerings, such as the "desktop" underwriting. Anchor did not disclose the existence of the fee agreement to the issuers. The bond program advisor did not disclose the existence of the fee agreement to the issuers or the borrowers.
- 14. The existence of the fee agreement was material to the issuers for various reasons. First, the undisclosed payment of a fee to the bond program advisor based on unloaned proceeds would have been important to the issuers because it could have conflicted with the bond offerings' purpose of originating loans. This risk was especially significant in the second and third bond offerings, where the bond program advisor's role as preliminary underwriter, although disclosed in the bond offering documents, created a potential conflict of interest, given that the bond program advisor was to be paid on unloaned proceeds. Second, the undisclosed information would have been material because the issuers had to have a reasonable expectation at the time of issuance that the required amount of bond proceeds would be loaned out within three years. Without knowledge of the fee agreement, the issuers calculated and certified as to their reasonable expectations regarding loan origination and made related disclosures without all the information material to their certifications.
- 15. The fee agreement also created an issue as to whether these bond offerings generated arbitrage profits on the bonds. Each fee agreement stated that Anchor would pay the

bond program advisor a fee for "introducing [Anchor] to Letter of Credit Enhancement opportunities and transactions." That reference called into question whether the bond program advisor's fee was actually part of the fee Anchor received for credit enhancement, which could disqualify part or the entire credit enhancement fee from being a qualified guarantee fee and increase the risk that the bonds could be construed as arbitrage bonds.⁴

- 16. Each PPM, which was drafted on behalf of and signed by the issuer for each of the three bond offerings, failed to disclose the fee agreement, which caused them to contain misleading information. Drafts of the PPMs were circulated to the bond offering participants, including Anchor and the bond program advisor before being finalized and distributed to investors.
- 17. Each Tax Agreement also contained misleading information. The Tax Agreements contained as an exhibit a certification by Anchor that the credit enhancement fee did not represent any payment for services other than the transfer of risk. This representation omitted to disclose the possibility that the fee agreement between Anchor and the bond program advisor could cause the bonds to be construed as arbitrage bonds. The Tax Agreements also contained a representation by each issuer that it had reviewed the facts and circumstances surrounding the bond offering as of the date of issuance of the bond offering and that these facts and circumstances were true. The issuer also represented that based on those facts, it expected that the bond proceeds would not be used in a manner that would cause the bonds to be arbitrage bonds. The issuers made these representations without knowledge of the fee agreement.
- 18. The Payment Agreements in the second and third bond offerings also contained misleading information. Pursuant to the Payment Agreements, Anchor had complete discretion to approve or disapprove a loan. In the second and third bond offerings, the Payment Agreements required potential borrowers to submit financial information on proposed acquisition projects to the bond program advisor for its review before applying for a loan from Anchor, and also stated that a borrower needed to receive written approval from the bond program advisor in order to submit a loan request to Anchor. The Payment Agreements in those bond offerings were misleading in that they did not disclose that Anchor was paying the bond program advisor an on-going annual fee based on the unloaned proceeds in these bond offerings and thereby contributing to the bond program advisor's potential conflict of interest.
- 19. In the first bond offering, the bond program advisor executed a Certificate of Financial Advisor ("Certificate"). In the Certificate, the bond program advisor made statements about the credit enhancement fee relevant to an analysis of the tax exempt status of the bonds but did not disclose the fee agreement. As a result of this omission, the Certificate was misleading.

-

The IRS issued preliminary adverse determination letters to the issuers, asserting that the bond interest was taxable, among other reasons, because of arbitrage rebate violations resulting from improper treatment of the credit enhancement fee in each bond offering as a payment for a qualified guarantee on the bonds. Ultimately, Anchor and the issuers reached a resolution with IRS, pursuant to which agreed amounts were paid to the IRS and, among other things, the tax-exempt status of the bonds was preserved.

Anchor's Violations

20. As a result of the conduct described above, Anchor was a cause of violations of Section 17(a)(2) of the Securities Act, which proscribes obtaining money or property by means of any untrue statement of material fact or any omission to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading in the offer or sale of securities.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent Anchor's Offer.

Accordingly, it is hereby ORDERED that:

Respondent Anchor cease and desist from committing or causing any violations and any future violations of Section 17(a)(2) of the Securities Act.

By the Commission.

Nancy M. Morris Secretary