

OSWEGO TOBACCO ASSET SECURITIZATION CORPORATION INVESTMENT AND DEPOSIT POLICY

I. STATEMENT OF PURPOSE

The Oswego Tobacco Asset Securitization Corporation (“Corporation”) has adopted this Investment and Deposit Policy (the “Policy”) in accordance with Title 5-A of the New York State Public Authorities Law (“PAL”). This Policy shall detail the Corporation’s instructions regarding the investment and deposit of its funds, all of which shall be consistent with and in compliance with the provisions of law regarding the investment and deposit of Corporation funds.

II. INTRODUCTION

A. Scope – This investment and deposit policy applies to all monies and other financial resources available for investment and deposit on its own behalf or on behalf of any other entity or individual; provided, however, that this investment and deposit policy does not apply to investments with or deposits of any monies of the Corporation held by or on behalf of the trustee under any trust indenture or similar document pursuant to which securities of the Corporation shall have been issued and are secured, all investments and deposits of such funds to be governed solely by the terms of the applicable trust indenture or similar document.

B. Objectives – The primary objectives of the Corporation’s investment activities are, in priority order:

1. to conform with all applicable federal, state and other legal requirements;
2. to adequately safeguard principal;
3. to provide sufficient liquidity to meet all operating requirements; and
4. to obtain a reasonable rate of return.

C. Prudence – All participants in the investment process and all participants responsible for depositing the Corporation’s funds shall seek to act responsibly as custodians of the public trust and shall avoid any transaction that might impair confidence in the Corporation to operate effectively.

Investments and deposits shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the safety of the principal as well as the probable income to be derived.

All participants involved in the investment process and all participants responsible for depositing the Corporation’s funds shall refrain from personal business activity that could conflict with proper execution of the investment program or the deposit of the Corporation’s funds or which could impair their ability to make impartial investment decisions.

D. Diversification – It is the policy of the Corporation to diversify its deposits and investments by financial institution, by investment instrument, and by maturity scheduling.

E. Internal Controls

1. All monies collected by the Corporation shall be immediately deposited in such depositories and designated by the Corporation for the receipt of such funds.
2. The Corporation shall maintain or cause to be maintained a proper record of all books, notes, securities or other evidences of indebtedness held by the Corporation for investment and deposit purposes.
3. The Corporation is responsible for establishing and maintaining an internal control structure to provide reasonable, but not absolute, assurance that deposits and investments are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with the Board's authorization and recorded properly, and are managed in compliance with applicable laws and regulations.

F. Designation of Depositories

The Corporation shall designate as depositories of its money those banks and trust companies authorized to serve as such pursuant to said law.

III. INVESTMENT POLICY

A. Permitted Investments

Consistent with Section 11 of the General Municipal Law, the Corporation is authorized to invest monies not required for immediate expenditure for terms not to exceed its projected cash flow needs in the following types of investments:

1. Special time deposit accounts; and
2. Certificates of deposit,

provided, however, that special time deposit accounts and certificates of deposit are permitted investments provided that (1) they shall be payable within such time as the proceeds shall be needed to meet expenditures for which the moneys were obtained and (2) they are collateralized in the same manner as set forth in Section IV below for deposits of public funds.

B. Authorized Financial Institutions

The Corporation shall maintain a list of financial institutions approved for investment purposes and establish appropriate limits to the amount of investments which can be made with each financial institution. All financial institutions with which the Corporation conducts business

must be credit worthy. Banks shall provide their most recent Consolidated Report of Condition (Call Report) at the request of the Corporation.

IV. DEPOSIT POLICY

A. Deposits; Collateralization of Deposits in Excess of FDIC Limit

Consistent with the provisions of Section 10 of the General Municipal Law, all deposits of the Corporation, including certificates of deposit and special time deposits, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act shall be secured:

1. By pledge of “eligible securities” with an aggregate “market value” as provided by Section 10 of the General Municipal Law, equal to the aggregate amount of deposits from the categories designated in Exhibit A attached hereto.
2. By an eligible “irrevocable letter of credit” issued by a qualified bank other than the bank with the deposits in favor of the government for a term not to exceed 90 days with an aggregate value equal to 140% of the aggregate amount of deposits and the agreed upon interest, if any. A qualified bank is one whose commercial paper and other unsecured short-term debt obligations are rated in one of the three highest rating categories by at least on nationally recognized statistical rating organization or by a bank that is in compliance with applicable federal minimum risk-based capital requirements.
3. By an eligible surety bond payable to the government for an amount at least equal to 100% of the aggregate amount of deposits and the agreed upon interest, if any, executed by an insurance company authorized to do business in New York State, whose claims-paying ability is rated in the highest rating category by at least two nationally recognized statistical rating organizations. The terms and conditions of any eligible surety shall be approved by the governing board.

Deposits of amounts not in excess of the amount insured under the provisions of the Federal Deposit Insurance Act may be made with any bank where deposits are insured by the Federal Deposit Insurance Corporation.

B. Safekeeping and Collateralization

Eligible securities used for collateralizing deposits shall be held by the depository bank or trust company subject to security and custodial agreements.

The security agreement shall provide that eligible securities are being pledged to secure the Corporation’s government deposits together with agreed upon interest, if any and any costs or expenses arising out of the collection of such deposits upon default. It shall also provide the conditions under which the securities may be sold, presented for payment, substituted or released

and the events, which will enable the Corporation to exercise its rights against the pledged securities. In the event that the securities are not registered or inscribed in the name of the Corporation, such securities shall be delivered in a form suitable for transfer or with an assignment in blank to the Corporation or its custodial bank.

The custodial agreement shall provide that securities held by the bank or trust company, or agent of and custodian for, the Corporation, will be kept separate and apart from the general assets of the custodial bank or trust company and will not, in any circumstances, be commingled with or become part of backing for any other deposit or other liabilities. The agreement should also describe that the custodian shall confirm the receipt, substitution or release of the securities. The agreement shall provide for the frequency of revaluation of eligible securities and for the substitution of securities when a change in the rating of a security may cause ineligibility. Such agreement shall include all provisions necessary to provide the Corporation a perfected interest in the securities.

EXHIBIT A

SCHEDULE OF ELIGIBLE SECURITIES

(1) Obligations issued, or fully insured or guaranteed as to the payment of principal and interest by the United States of America, an Corporation thereof or a United States government sponsored corporation.

(2) Obligations issued or fully guaranteed by the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank and the African Development Bank.

(3) Obligations partially insured or guaranteed by any Corporation of the United States of America, at a proportion of the Market Value of the obligation that represents the amount of the insurance or guaranty.

(4) Obligations issued or fully insured or guaranteed by the State of New York, obligations issued by a municipal corporation, school district or district corporation or such State or obligations of any public benefit corporation which under a specific State statute may be accepted as security for deposit of public moneys.

(5) Obligations issued by states (other than the State of New York) of the United States rated in one of the three highest rating categories by at least one nationally recognized statistical rating organization.

(6) Obligations of Puerto Rico rated in one of the three highest rating categories by at least one nationally recognized statistical rating organization.

(7) Obligations of countries, cities and other governmental entities of a state other than the State of New York having the power to levy taxes that are backed by the full faith and credit of such governmental entity and rated in one of the three highest categories by at least one nationally recognized statistical rating organization.

(8) Obligations of domestic corporations rated one of the two highest rating categories by at least one nationally recognized statistical rating organization.

(9) Any mortgage related securities, as defined in the Securities Exchange Act of 1934, as amended, which may be purchased by banks under the limitations established by bank regulatory agencies.

(10) Commercial paper and bankers' acceptances issued by a bank, other than the Bank, rated in the highest short term category by at least one nationally recognized statistical rating organization and having maturities of not longer than 60 days from the date they are pledged.

(11) Zero Coupon obligations of the United States government marketed as "Treasury strips".