



COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF FINANCIAL INSTITUTIONS

Rafael Blanco Latorre, Esq.
Commissioner

February 5, 2014

Mr. Frank J. Serra
President and Chief Executive Officer
Santander Asset Management, LLC
Santander Tower at San Patricio
B7 Calle Tabonuco Ste. 1600
Guaynabo, PR 00968-3028

**RE: REPURCHASE OF SHARES OF COMMON STOCK (THE "SHARES") ISSUED
BY THE FIRST PUERTO RICO FAMILY OF FUNDS, AS DEFINED BELOW.**

Dear Mr. Serra:

We make reference to your letter dated February 4, 2014 (the "Letter"), submitted to the Office of the Commissioner of Financial Institutions (the "Office") on behalf of the following funds in the First Puerto Rico Family of Funds and to which Santander Asset Management, LLC ("SAM") serves as investment adviser:

First Puerto Rico Tax-Exempt Target Maturity Fund II, Inc.;
First Puerto Rico Tax-Exempt Target Maturity Fund III, Inc.;
First Puerto Rico Tax-Exempt Target Maturity Fund IV, Inc.;
First Puerto Rico Tax-Exempt Target Maturity Fund V, Inc.;
First Puerto Rico Tax-Exempt Target Maturity Fund VII, Inc.;
First Puerto Rico Target Maturity Income Opportunities Fund I, Inc.;
First Puerto Rico Target Maturity Income Opportunities Fund II, Inc.;
First Puerto Rico Tax-Advantaged Target Maturity Fund I, Inc.;
First Puerto Rico Tax-Advantaged Target Maturity Fund II, Inc.;
First Puerto Rico AAA Target Maturity Fund I, Inc.; and
First Puerto Rico AAA Target Maturity Fund II, Inc.

(each referred to as a "Fund" and collectively, the "Funds").

RULINGS REQUESTED

On behalf of each of the Funds, in the Letter you request from the Office an administrative determination that authorizes each of the Funds to purchase its shares of common stock in the secondary market as described therein by designating the proposed secondary-



market purchase mechanism as an acceptable open market under Article 25 of the 2013 Investment Company Act.

LEGAL FRAMEWORK

Article 25 of Act 93-2013¹, as amended by Act 137-2013 (the "2013 Investment Company Act" or "Act 93-2013") provides as follows:

Article 25. A closed-end investment company shall not purchase securities of which it is the issuer except:

- A. On a securities exchange or such other open market as the Commissioner may designate by regulation or order, pursuant to the notice period and other rules determined by the Commissioner.
- B. Pursuant to offers to the holders of such securities, as long as all holders of securities of the class to be purchased are given an equal and reasonable opportunity to be purchased.
- C. Under any circumstances as the Commissioner may permit under regulation for the protection of the investors in order to insure that such purchases are made in a manner or on a basis which does not unfairly discriminate against the holders of the classes of securities to be purchased. [Our translation].

FACTUAL REPRESENTATIONS

In the Letter you make reference to Article 25 of Act 93-2013, quoted above, which governs repurchases of shares by closed end funds.

As submitted in the Letter, it is represented that, except in the case of First Puerto Rico Tax-Exempt Target Maturity Fund VII, Inc. ("Tar-San VII"), which was not launched until October 31, 2012 and has not yet experienced demand for a secondary-market purchase program, each Fund has instituted an ongoing purchase program in the secondary market for the common stock of each Fund as authorized by the Board of Directors of the Funds.

¹ The original text in Spanish reads as follows:

Artículo 25.- Una compañía de inversión de fin cerrado no podrá comprar valores mobiliarios de quien es el emisor a menos que:

- A. Sea en una bolsa de valores u otro mercado abierto que el Comisionado designe mediante reglamento u orden, conforme al periodo de notificación y otras reglas que el Comisionado determine.
- B. Sea mediante oferta a los tenedores de dichos valores mobiliarios, siempre que se le dé oportunidad razonable e igual a todos los tenedores de los valores mobiliarios de la clase a ser comprados.
- C. Sea bajo cualquier circunstancia que el Comisionado permita bajo reglamento para la protección de los inversionistas para asegurarse que dichas compras se hacen de una manera o en una base que no discrimine injustamente contra los tenedores de las clases de valores mobiliarios a comprarse.



You specifically represent that on August 18, 2009, the Board of Directors, with the Independent Directors voting separately, approved a secondary-market purchase program that initially authorized each Fund to purchase in the secondary market up to 7% of its shares of common stock outstanding as of August 19, 2009 at the lower of market price and net asset value ("NAV") per share, provided that SAM determines that such price is beneficial to the shareholders of a Fund. You further submit that the Board of Directors subsequently increased the percentage limitation to 10% and, in the case of one of the Funds (First Puerto Rico Tax-Exempt Target Maturity Fund IV, Inc.) to 13%, of its shares of common stock outstanding as of August 19, 2009.

It is further represented that on June 14, 2011, the Board of Directors, with the Independent Directors voting separately, approved a new secondary-market purchase program that authorized each Fund to purchase in the secondary market up to 25% of its shares of common stock outstanding as of June 15, 2011 at the lower of market price and NAV per share, provided that SAM determines that such price is beneficial to the shareholders of a Fund. In connection with this representation you note that the lower of market price and net asset value is the purchase price used for open-market purchases made by mutual funds subject to Section 23(c)(1) of the U.S. Investment Company Act of 1940 as well as by other fund families in Puerto Rico.

It is further represented that under the secondary-market purchase program, each Fund that is contemplating a purchase in the secondary market distributes a document to all broker-dealers that are nominal shareholders of common stock of the Funds (whether on behalf of their clients, or on their own behalf in the case of shares held by their own proprietary trading desks or with respect to shares held as collateral for loans), explaining the secondary-market purchase process and giving the broker-dealers the opportunity to offer shares for sale to the Fund. You represent that the mentioned document sets forth:

1. The name of each participating Fund, the CUSIP number for the shares of common stock, and the most recent NAV for such shares;
2. An explanation that the Fund, if it elects to purchase shares, will give priority to shares offered at larger discounts below NAV, and that each Fund retains the right to accept or reject any offer, in whole or in part, at its sole and absolute discretion, and with no obligation to any broker-dealer or beneficial shareholder;
3. The date and time at which the broker-dealers' offers are due (normally not later than 4:00 p.m. on the second or third business day after the document requesting offers is sent out);
4. The date and time at which shares accepted by the Fund for purchase in the secondary market, if any, must be delivered against payment to the Fund's transfer agent (normally at 4:00 p.m. on the sixth day after the broker-dealers' offers are due);
5. The date on which the Fund will wire payment for the purchased shares to the Fund's transfer agent (normally the day after shares are delivered against payment to the Fund's transfer agent); and

43



6. Blank spaces for the broker-dealer to submit, for each CUSIP number, (i) the price at which the broker-dealer is willing to sell shares to the Fund, expressed as a discount below NAV (or at NAV, but never a price above NAV), (ii) the lowest price at which the broker-dealer is willing to sell shares to the Fund, expressed as a discount below NAV (provided only if the broker-dealer wishes to establish a "floor"), and (iii) the number of shares that the broker-dealer is willing to sell to the Fund.

CURRENT MARKET CONDITIONS

In entertaining your request for an administrative determination pertaining to the above mentioned secondary market repurchase programs we consider it relevant to record, as part of the factual background leading to today's ruling, that starting near the end of the second quarter of 2013, municipal securities in the United States and local municipal securities in Puerto Rico began trading at lower prices and higher yields compared to benchmarks of the past two years. This was due to a combination of factors including but not limited to, the general increase in interest rates, outflows from mutual funds in the United States, the filing of bankruptcy by the City of Detroit, and the negative press coverage in the national and local media regarding Puerto Rico's ability to deliver on the budgetary reform measures recently adopted. Subsequently, on November 15, 2013, Fitch Ratings put Puerto Rico's general obligation debt on watch for a potential downgrade to below investment grade, with Fitch expecting to resolve the rating watch negative by June 2014, taking into account ongoing issues related to Puerto Rico's economy, budget performance, and liquidity needs. On December 11, 2013, Moody's Investors Service also placed on review for downgrade the general obligation rating of the Commonwealth of Puerto Rico as well as ratings that are capped by or linked to the Commonwealth's general obligation rating were also placed on review, including COFINA's senior and junior lien bonds. On January 24, 2014, Standard & Poor's Rating Services placed its Commonwealth of Puerto Rico general obligations ("GO") and appropriation debt ratings on Credit Watch with negative implications, as well as its debt ratings on Puerto Rico's Employee Retirement System, the Puerto Rico Infrastructure Financing Authority, the Puerto Rico Convention Center District Authority, and the Puerto Rico Highways and Transportation Authority. On February 4, 2014, Standard & Poor's Rating Services lowered its ratings on the Commonwealth of Puerto Rico general obligations ("GO") debt to 'BB+' from 'BBB-'. Simultaneously, it downgraded Commonwealth appropriation secured debt and Employee Retirement System ("ERS") debt to 'BB'. It further noted that all of its ratings remain on CreditWatch with negative implications.

MANAGEMENT AND INDEPENDENT DIRECTORS' OPINION

You represent in the Letter that given market conditions, SAM (as well as the Independent Directors for the Funds) understands that, as a general rule, it is in the best interest of Fund shareholders for each Fund to provide for the secondary-market purchase and retirement of shares of common stock at prices at or below NAV per share on the trade date of any such purchase in the secondary market. You submit that SAM's determination



of whether to engage in a purchase of shares in the secondary market, and at what price to accept offers for purchase, is taken on a case-by-case basis, considering each Fund's investment portfolio and leverage structure both before and after effecting any secondary-market purchase of shares, market conditions, price volatility of portfolio securities, each Fund's investment requirements, and SAM's ability to structure sales of assets under economically favorable terms.

You also represent that only after analyzing offers for sale of Fund shares in the secondary market will SAM determine how many shares each Fund will purchase in the secondary market during such period, and at that point SAM will gauge whether any portfolio securities need to be sold in order to generate cash for the secondary-market purchase of Fund shares.

As presented in the Letter, the Funds' secondary-market purchase program, by requiring that a Fund, if it elects to purchase shares, will give priority to shares offered at larger discounts below NAV, ensures that any purchases in the secondary market take place at the lowest possible price for the Fund. In connection with this representation you argue that such restriction benefits shareholders that choose to remain in the Fund, given that secondary-market purchases at lower prices would result in an increase in the Fund's NAV. You further allege that an additional benefit of giving priority to shares offered at larger discounts below NAV is that it eliminates any possibility of a Fund purchasing shares in the secondary market offered by a broker-dealer that is an affiliate of the Fund's investment adviser if there are third-party offers at lower prices available.

ARGUMENTS IN SUPPORT OF THE RULINGS REQUEST

Since the 2013 Investment Company Act requires the Office to regulate the repurchase of Shares by the Funds, you submit the procedures adopted by the Funds' Board of Directors to effect such repurchases of shares. All of this in order to persuade the Office that the proposed repurchases and the procedures to implement the same adequately conform to Article 25 of Act 93-3013 and should therefore be authorized by the Office in the interim period between the effective date of Act 93-2013 and the adoption of a final rule to implement Article 25 mentioned above.

Repurchase procedures

As submitted in the Letter, commencing with the next purchase request, SAM will accept, on behalf of each Fund, offers for purchase starting with the lowest offered price and in the following order of priority for each price:

- (i) offers made on behalf of individual investors, irrespective of the broker-dealer that serves as the nominal shareholder of such shares;
- (ii) offers made, on their own behalf, by broker-dealers not affiliated with SAM or the Fund, whether with respect to shares held by such unaffiliated broker-dealer's own proprietary trading desks or with respect to shares held as collateral for loans; and



(iii) offers made, on their own behalf, by broker-dealers affiliated with SAM or the Fund, whether with respect to shares held by such affiliated broker-dealer's own proprietary trading desks or with respect to shares held as collateral for loans.

In addition, to the extent an affiliated broker dealer elects to make an offer, on its own behalf, of shares for purchase by a Fund in the secondary market, such affiliated broker-dealer would be required to report its offer price to the public as of the close of business on the date on which such Fund distributed to broker-dealers the document requesting offers for shares to be purchased.

In connection with disclosure of the secondary market repurchase program, you represent that the current prospectus of Tar-San VII provides that the Board of Directors may, in its sole discretion, with the approval of a majority of the Independent Directors, from time to time authorize the Fund to purchase shares of common stock in the secondary market at the lower of their market price and their NAV. You argue that while the current prospectuses for the other Funds do not provide such disclosure, neither do such prospectuses foreclose the possibility of a Fund purchasing its shares in the secondary market. You thus propose that prior to the next purchase request in the secondary market, each Fund will send a notice to all of its shareholders disclosing its intention to engage in the purchase of shares in the secondary market, and each Fund will resend such notice periodically, and not less often than once every 12 months, while the secondary-market purchase program is in effect.

RULINGS

The Office issues the following rulings pursuant to the provisions of Article 37 and Article 45 of Act 93-2013², which provide as follows:

Article 37. Regulations and determinations. - The Commissioner shall have the authority to issue administrative determinations, issue amend and repeal such regulations and orders as are necessary for the exercise of the powers granted to the Commissioner in this act. This authority shall include regulations that define technical, accounting and commercial terms used in this act and that establish the manner in which the information required in the applications and reports which must be submitted by investment companies.

Article 45. Waivers. The Commissioner may, by regulation or administrative determination, conditionally or unconditionally, exempt any class of person, security or transaction, from any provision or provisions of this Act or any regulation issued under the authority granted in this Act, to the degree and in the manner he deems prudent, if he understands that such exemption is necessary or appropriate for the public interest, consistent with the protection of investors, with the purposes of this Act and with the statement of public policy of Article 2 of this Act. All determinations or actions

² Articles 37 and 45 of Act 93-2013 were amended by Act 137-2013 to read as quoted above.



performed under the authority that this Article grants to the Commissioner, shall be public, according to the mandate established in Article 39.

We take official notice of the volatile market conditions in the U.S. municipal bond market and more specifically, the Puerto Rico municipal bond market. It should be noted, however, that in issuing these rulings the Office does not necessarily endorse the terms of the proposed repurchases. Thus, our rulings today are strictly limited to the procedure established to effect such repurchases.

Accordingly, the Office hereby AUTHORIZES the Funds to conduct certain repurchases of the Shares pending approval of a definitive rule under Article 25 of Act 93-2013, provided such repurchases of Shares are effected in compliance with the procedures described in the Letter and summarized above, provided that adequate records thereof are maintained for future audit by the Office.

TERMS AND CONDITIONS FOR EFFECTIVENESS OF RULINGS AND WAIVERS:

The effectiveness and validity of the rulings and waivers granted herein are subject to the following terms and conditions:

1. The proposed repurchases of Shares must comply with the procedures described in the Letter and summarized above.
2. The Funds must maintain adequate records of the repurchases of Shares herein authorized for future audit by the Office.
3. The authorization granted today shall only be effective until a final rule under Article 25 of Act 93-2013 is adopted by the Office.
4. The foregoing rulings and waivers are granted based on the particular facts and circumstances represented in the Letter as described herein and, as such, shall not constitute a precedent binding upon this Office.
5. Given our reliance on the representations discussed above, any different fact or condition may require a different conclusion and the reversal of these rulings and waivers.
6. Please note that our ruling today is solely directed to the questions discussed above.

Cordially,