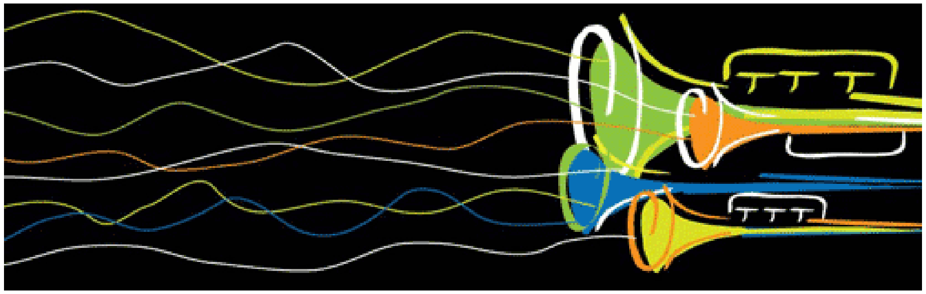


2010 NATIONAL INTERAGENCY COMMUNITY REINVESTMENT CONFERENCE

Building and Managing an Investment Portfolio

Dudley Benoit, SVP
Community Development Banking

March 2010

CHASE

Agenda

Chase Community Development Banking

Low Income Housing Tax Credits

New Market Tax Credits

Historic Tax Credits

Private Equity Funds

Fixed Income Instruments

Chase Community Development Banking (CDB)

CDB's Objectives

- Deliver JPMC's commitment to making a difference in communities – by bringing Chase's financial expertise, leadership, and innovative ability to the Affordable Housing, Community Development Financial Institutions (CDFIs), and New Markets Tax Credit Industries
- Run a disciplined and profitable business – with strong risk management, expense control, marketing, cross-selling, and people development practices
- Coordinate our activities and deploy our resources in ways that support the firm's CRA objectives

—

The CDB Business represents the wholesale lending portion of the firm's community development activities and has been part of JPMC's Commercial Banking Line of Business since the beginning of 2008

We are active in Chase's footprint markets, with 85 people in 15 locations

CDB's Three Primary Businesses

Community Development Real Estate

- Principally a construction lender on affordable housing projects that have received LIHTCs
- #2 bank lender nationally in 2009

Intermediaries Lending

- Provider of tailored financing solutions and banking products to high-performing CDFIs
- Provider of subscription financing and working capital to LIHTC funds and syndicators

New Markets Tax Credits

- Received $310MM in allocations since 2005, one of only 5 applicants to receive five consecutive allocations
- Closed over $500MM in transactions through investing in NMTC allocations of third parties

Low Income Housing Tax Credit

- The **Low-Income Housing Tax Credit** (“LIHTC”) is a federal program designed to encourage private investment in the development of affordable multi-family rental housing. It was created as part of the Tax Reform Act of 1986 and appears in Section 42 of the Internal Revenue Code.
- The LIHTC program is regarded as the nation’s most successful affordable housing program, having produced more than 1.7 million units of affordable housing. Today, it accounts for nearly 90% of current affordable housing development.
- By utilizing equity capital to reduce permanent mortgage debt, property rents can be set and maintained at below-market levels.
- Equity investors receive a return on and return of capital from the tax credit and not directly from the real estate.
- Incidences of foreclosure and credit loss have been very low (less than 0.03%) across the industry.
- Though the LIHTC industry had grown to an estimated $8 billion / year of equity investment by 2007, it has fallen to an estimated $4 billion in 2009 as a result of economic contraction and disruption of financial markets.
- National and regional banks compete in LIHTC lending and investing in each of our markets.

Low Income Housing Tax Credit – Two Types

- "**9% credits**" are allocated by annual competitive round by each state's designated allocating agency.
  - Each state receives $2.10 of LIHTC per capita per annum, minimum $2.43 million per state.
  - Every dollar of credit allocated to a project represents one tenth of the total award (credits are earned equally over a ten year period).
  - Most states award credits on an annual or semi-annual cycle. Applications for credits typically exceed available amounts by a factor of three or more.

- "**4% credits**" are "as-of-right" if **tax-exempt private activity bonds** are used to finance at least 50% of eligible project costs.
  - Sponsors compete for state bond volume cap allocation, but not for a tax credit award
  - 9% and 4% credits cannot be combined
  - The 4% credit raises less equity because of a lower credit rate, but the favorable tax-exempt financing combined with other sources of subsidy are often adequate to bridge the gap.

Mechanics of Low Income Housing Tax Credit Investments

- Credits are earned over a 10-year period, but the project needs to comply with the affordability requirements for a minimum 15-year compliance period.
- Credits are purchased by investors who acquire a limited partnership interest (typically 99.99%) in the entity that owns the project. The remaining 0.01% is held by the developer as general partner.
- Investors are almost exclusively corporate taxpayers. Tax regulations make most individuals ineligible to utilize the credit.
- In return for its equity, the investor receives a pro rata share of the tax credits allocated to the project. The credit produces a dollar-for-dollar reduction of tax liability.
- The developer receives a development fee (up to 15% of total development cost), minimal cash flow from the property, and often a property management contract.
- The total equity investment equals the product of total credits, percentage of ownership, and the price paid per $1.00 of credit.
- The investor's equity contributions are generally funded in stages throughout the construction, leasing and stabilization periods.

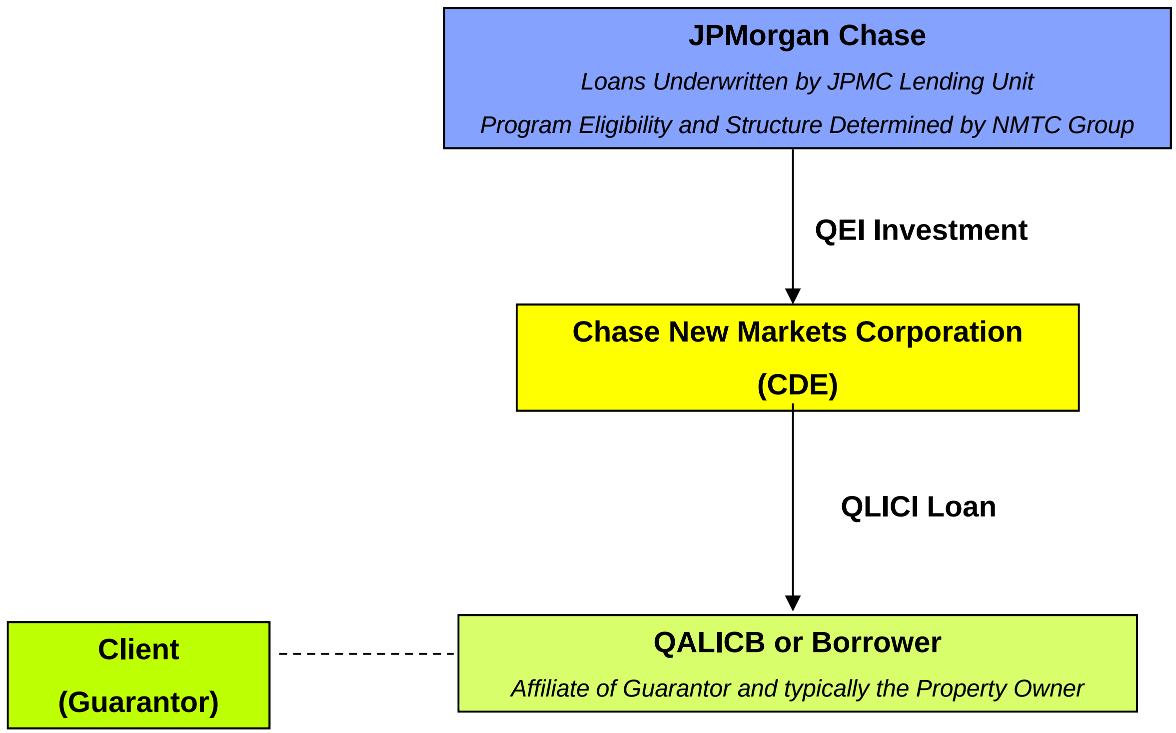
New Markets Tax Credits Background: Program Basics

- The New Markets Tax Credit (NMTC) was created by Congress as part of the Community Renewal and New Markets Act of 2000.
- It is a program of the U.S. Treasury and the CDFI Fund (Community Development Financial Institutions) to generate $19.5 billion in new private-sector investments in low-income communities, which includes a special set-aside for the GO Zone.
- The NMTC provides a 39% tax credit over 7 years (5% each of the first 3 years, 6% each of the remaining 4 years).
- All NMTC funds must be invested for 7 years; if funds are returned early they must be reinvested within 12 months or risk full recapture of all tax credits claimed
- **How NMTCs are Obtained:**
- The CDFI Fund allocates NMTCs to qualified Community Development Entities (CDEs) with a primary mission of providing investment capital to low-income communities
- Allocations are through a competitive process, with applicants being judged on their underlying business strategy, track record and community impact
- Tax credits are generated by equity investments in a CDE, which invests (or makes loans) in qualifying businesses and commercial real estate projects

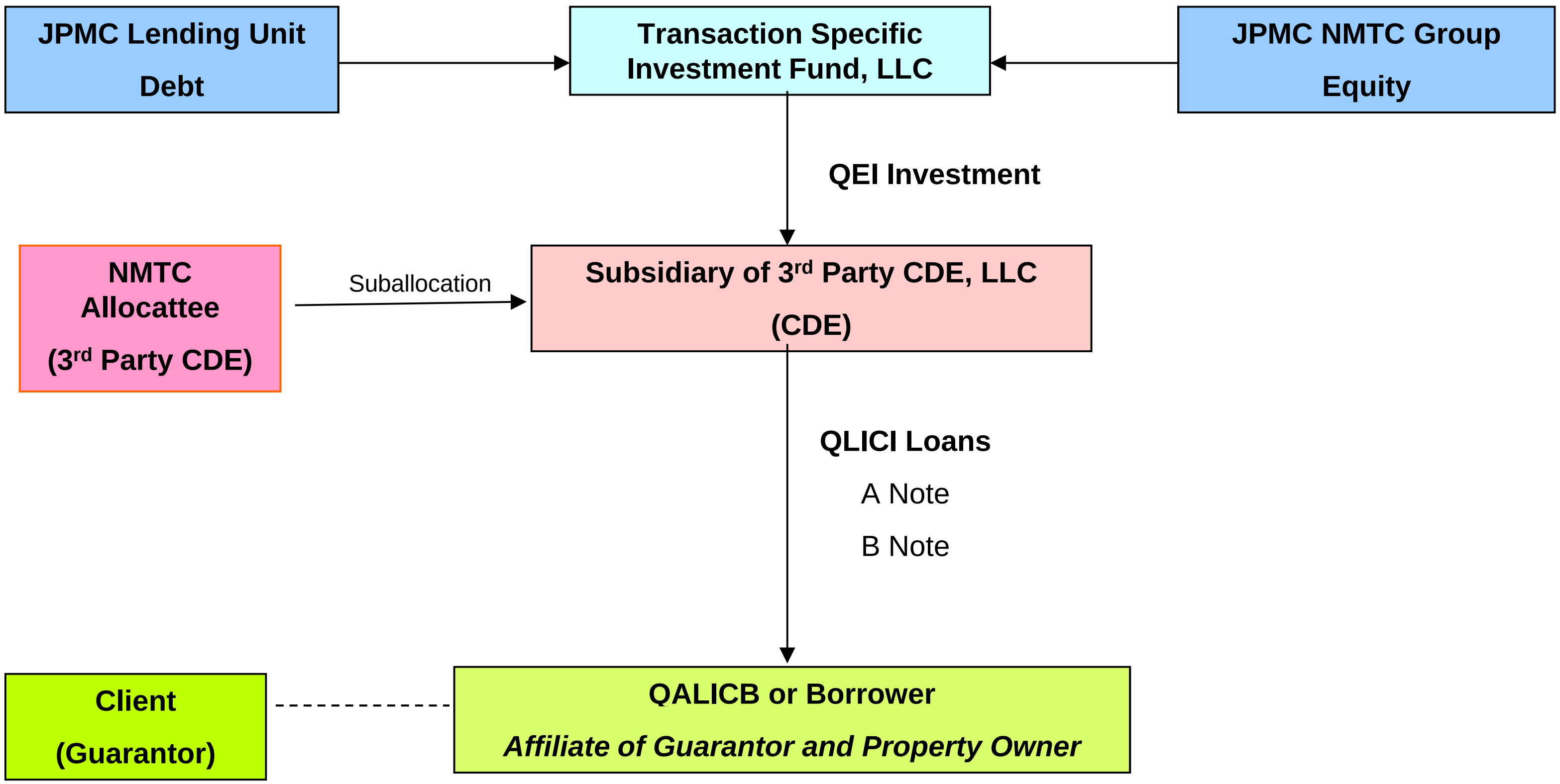
New Markets Tax Credits Background: Program Basics

- The NMTC can be used for a broad range of eligible projects in specified target areas – **but it is focused on commercial development**
- Qualifying census tracts have 80% or less of AMI and/or 20% or greater poverty rate
- Based on the 2000 Census, about 39% of all census tracts are eligible and about 36% of the nation's population live in eligible census tracts
- QALICBs are generally one of the following three asset types:
- Commercial Real Estate Projects
  - Projects located in a qualified census tract that derive at least 20% of its gross income from commercial activities
  - Office, retail, light industrial, mixed-use
- Community Development Financial Institutions
  - Loan pools or community banks that serve low-income persons or communities
- Businesses and Non-Profits
  - Businesses and non-profits that are located in and serve low-income communities

New Markets Tax Credits: Direct Investment



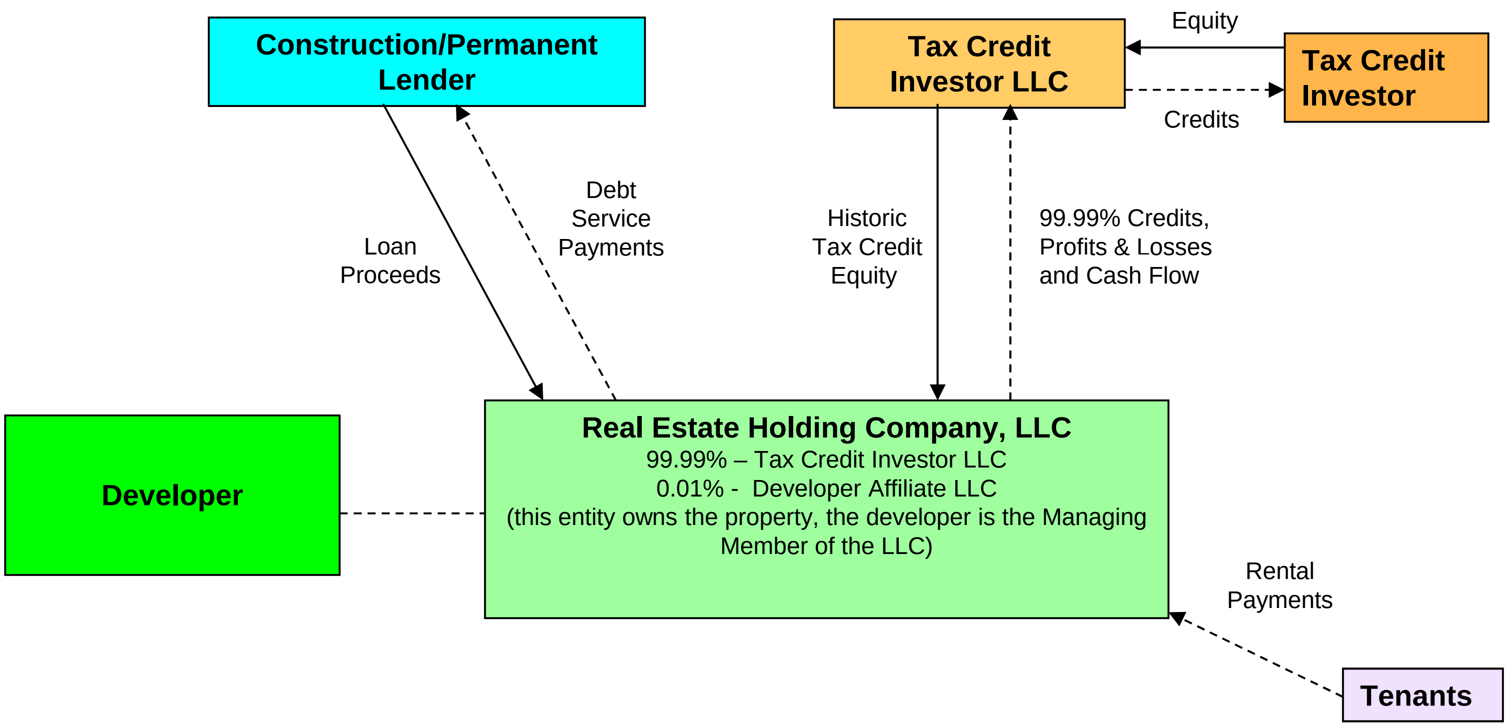
New Markets Tax Credits: Leveraged Investment



Historic Tax Credits

- The Historic Tax Credit (HTC) program was created as part of Real Estate Tax Reform Act of 1986. There is no budget or limit to the amount of program credits available.
- Through the Internal Revenue Code Section 47, the federal government offers rehabilitation tax credits to encourage preservation and adaptive reuse of historic and old buildings.
- Property must be an income producing property (rental residential or commercial), personal residences do not qualify
- The federal tax credit is a dollar-for for-dollar reduction of federal income tax liability.
- Historic Tax Credits are based on 20% of qualified costs as reported by a qualified CPA for historic buildings or 10% of qualified costs for non-historic, non non-residential buildings built before 1936.
- Tax credits earned over 5 years.
- Uses: office, retail, mixed-use, hotels, entertainment/theater, community facilities.
- Unused credits can be “carried back” 1 year and “carried forward” up to 20 years
- The HTC is frequently paired with the LIHTC and NMTC.

Historic Tax Credits – Typical Structure



Private Equity Funds

There are three classes of private equity investment vehicles that qualify for CRA Investment Test credit:

- **Community Development Venture Capital Funds (CDVCs) –** Strategy is to invest in businesses with strong growth potential that promise to provide outstanding financial returns for investors. These funds use a "Double bottom line" investment strategy.

- **Small Business Investment Companies ("SBICs") -** SBICs are private investment companies co-funded or credit enhanced by the Small Business Administration ("SBA"). SBICs provide businesses with debt or equity financing options. SBICs receive up to $2 of leverage for every $1 of private capital raised.

- **Community Development Private Equity Real Estate Funds -** Strategy includes rehabilitating, developing and leasing properties in LMI areas. Typical size of fund is either $15 mm (housing) or $100 mm + (commercial)

Factors to Consider When Investing in Private Equity Funds

- Mission: Funds with a primary mission of community development (investing in LMI communities or benefiting LMI individuals). Many funds are more active in “underserved markets” but not necessarily in community development funds that generate CRA eligible activity

- Management - Private equity/venture capital teams with strong track records:
  - 10+ years of investment experience
  - Realized exits with cash returns to investors
  - Consistency in strategy and execution

- Structure - The typical structure dictates:
  - Funds providing a return of capital beginning within 5 years (final return of capital within 10 years)
  - Financial and legal terms that are consistent with the mainstream market

- Double Bottom Line: Balancing your firm’s need for attractive returns with community development/CRA needs
  - Risk vs. return vs. impact

Fixed Income Instruments

- CRA Double Bottom Line Mutual Funds:
  - Make only CRA qualifying investments
  - Allows investors to target the geography they need with their investment dollars
  - Realized exits with cash returns to investors
  - Consistency in strategy and execution
  - Examples: Access Capital, Calvert Social Investment Foundation, CRAIX
- CRA Double Bottom Line Securities
  - Agency and non-Agency single family mortgage-backed securities (MBS)
  - Municipal Housing Authority homeownership bonds
  - Fannie Mae DUS bonds and Ginnie Mae project loans
  - USDA and SBA loans

Other Qualifying Investments

- Grants to community organizations, CDFIs, or non-profits that work primarily in low-moderate income communities
- Equity Equivalent Investments (EQ2s) to CDFIs
- Deposits in Low-Income Credit Unions or Community Development Banks

Community Development via Federal Tax Credits

Robert J. Wasserman
Senior Vice President – Managing Director of Syndications
U.S. Bancorp Community Development Corporation

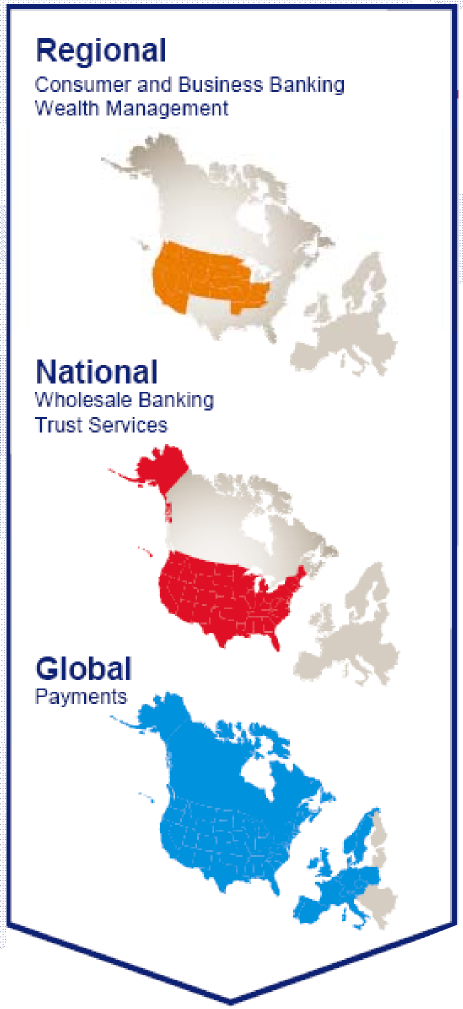
All of us serving you™

Table of Contents

US Bancorp Fact Sheet

3Q 2009 Dimensions

Commercial Bank Size (Assets)	6th
Bank Market Cap Ranking	4th
Bank Company Debt Rating	S&P AA-
Asset Size	$281 billion
Deposits	$183 billion
Loans	$195 million
Customers	$15.8 billion
Market Capitalization *	$49.5 billion
Founded	1863
Bank Branches	3,015



As of February 11, 2010

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What is USBCDC?

- USBCDC is a wholly owned subsidiary of U.S. Bank.
- USBCDC is a business unit headquartered in St. Louis with offices in Los Angeles, Denver, Minneapolis, Kansas City and Washington DC.
- USBCDC makes equity investments in Low-Income Housing, New Markets, Historic, and Renewable/Alternative Energy tax credit projects.
- The State Tax Credit Clearinghouse is a division of USBCDC.

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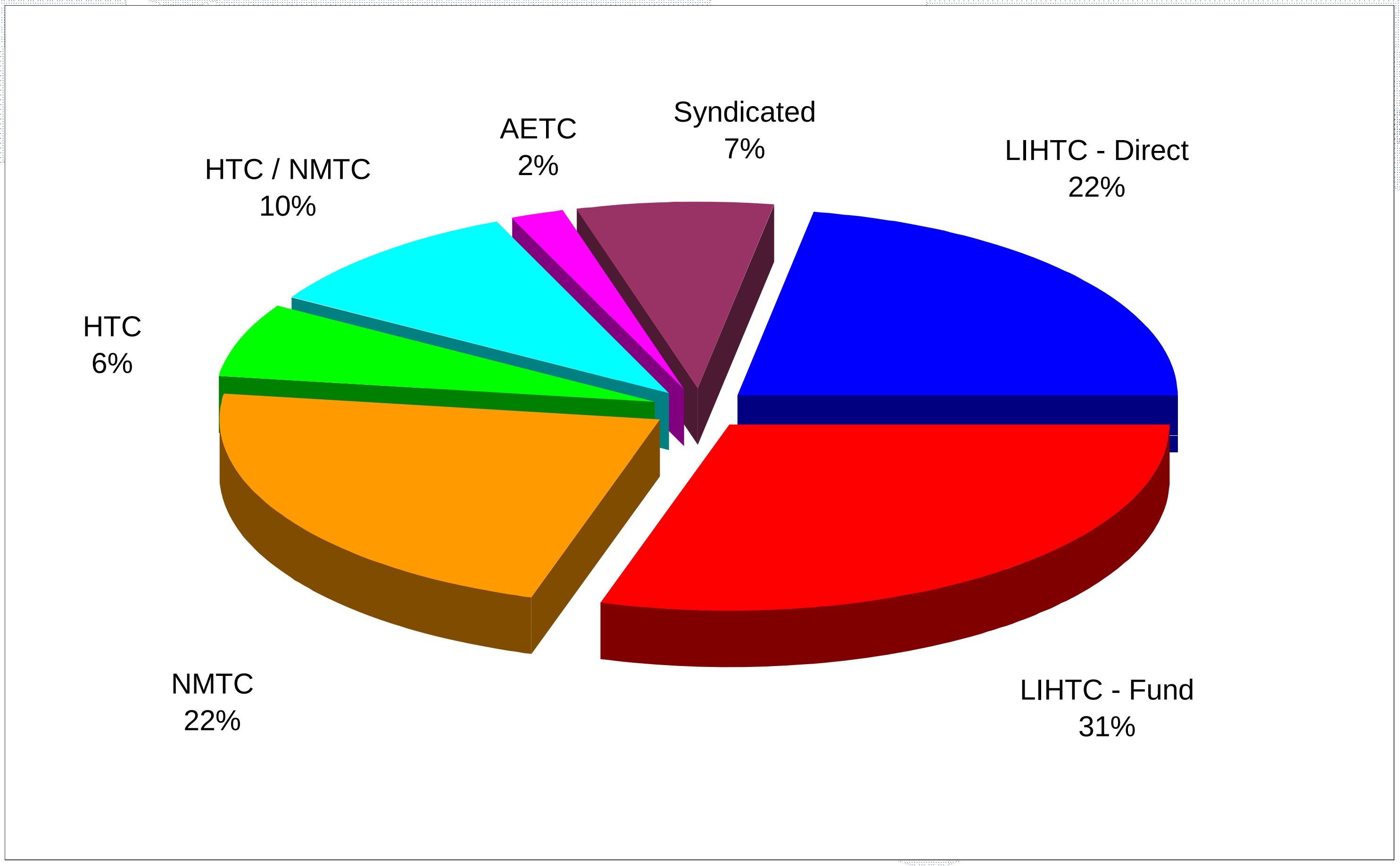
USBCDC Investment Mixed

Exposure by Investment Type % Total



Opportunities: Why invest?

- **Attractive Tax Advantaged Yields**
  - Guaranteed vs. Unguaranteed returns
    - Compare to other investments such as corporate or muni bonds, real estate investments
- **Cash Management Benefits**
  - Liquidity (Leveraged)
  - GAAP earnings (Unleveraged)
- **Tax Liability Management**
  - Manage tax liability
  - Predictable tax credit stream
  - Low risk due to conservatively underwritten portfolio
  - Each credit offers different benefits
- **Community Impact and Public Relations**

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LIHTC Program Background

Background:

- Federal program started in 1986 to create and maintain more affordable housing for low and moderate income families
- Codified in Section 42 of the Internal Revenue Code.
- **Market Size and Returns:**
- Current market size: $4-5 Billion
- Current market (exclusive of secondary transactions): $3-4 Billion
- Yields:
  - Guaranteed and Unguaranteed
- Pay-in Structures
  - Unleveraged/Up-front vs. Leveraged/Pay-Go

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LIHTC Program Basics

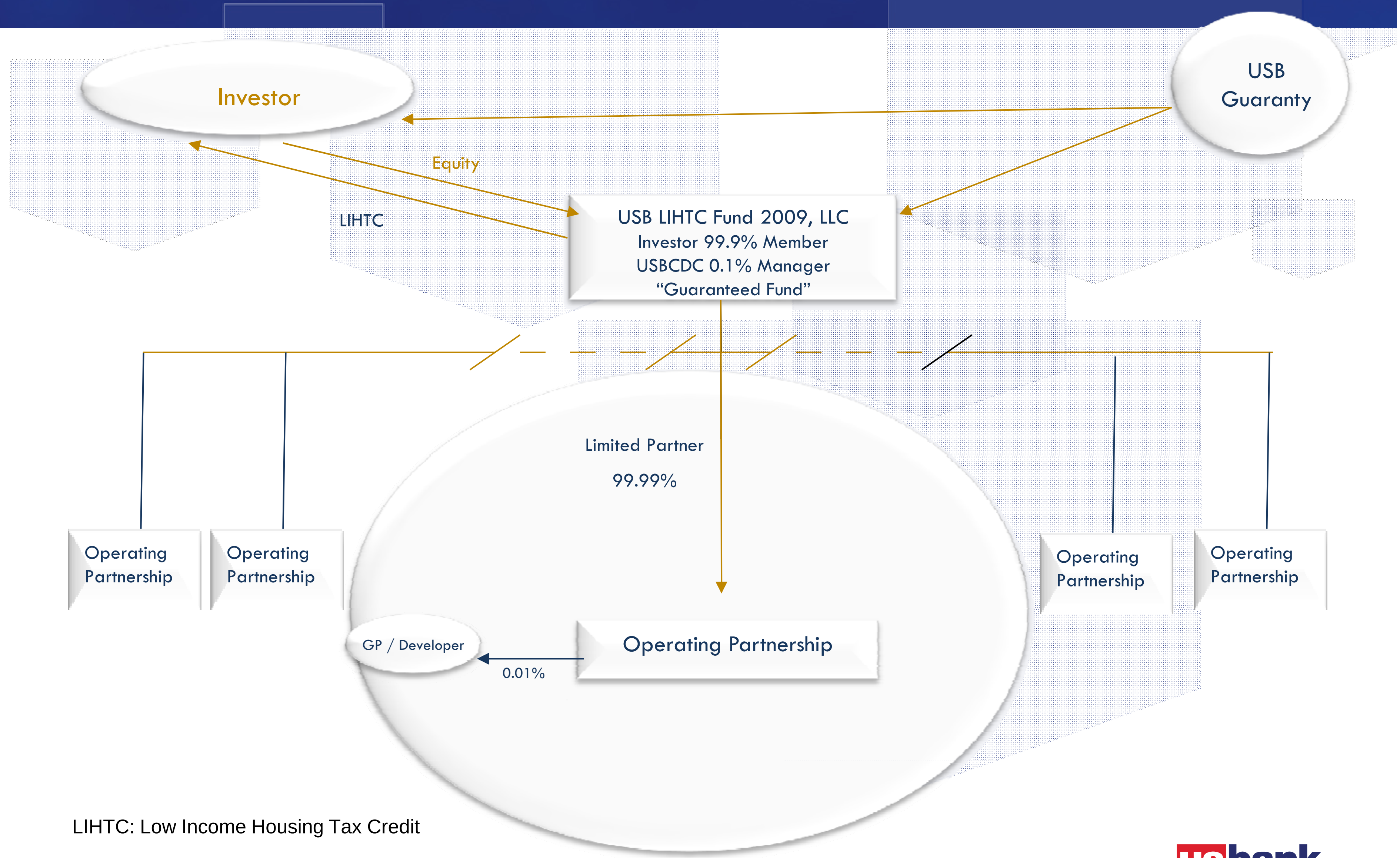
The Credit:

- A ten year Federal tax credit
  - Owners of qualified rental housing projects
  - Tax benefits include tax credit, passive losses and capital losses
  - Assumes no cashflow

The Basics:

- Investment is in the form of an equity investment in a partnership which invests in multi-family real estate
- New construction or rehab
- There is a 15 year compliance (hold) period
- Investor equity from the sale of the tax credits reduces the amount of debt needed to finance the property.
  - Lower debt levels allows for lower rents
  - Lower rent levels ensure higher market demand

LIHTC Syndication Fund Diagram



LIHTC: Low Income Housing Tax Credit

NMTC Program Background

Background:

- Created in 2000 as part of the Community Renewal Tax Relief Act.
- Codified in Section 45D of the Internal Revenue Code.
- Administered through the CDFI Fund, a department of the US Treasury.

Market Size and Yields:

- Capacity of $26 billion of investments for $10 billion credits
- Yields are between 8% and 10% depending on the timing of the investment

NMTC Program Basics

The Credit:

- 39% of investment, claimed over seven years from date of QEI.
  - Ex: $10 million QEI * 39% = $3.9 million in credits
- 5% of QEI in years 1-3 each; and 6% of QEI in years 4-7 each.
- Equity investor's basis is reduced by 100% of NMTCs claimed.

NMTCs are subject to limited events of <u>recapture</u>

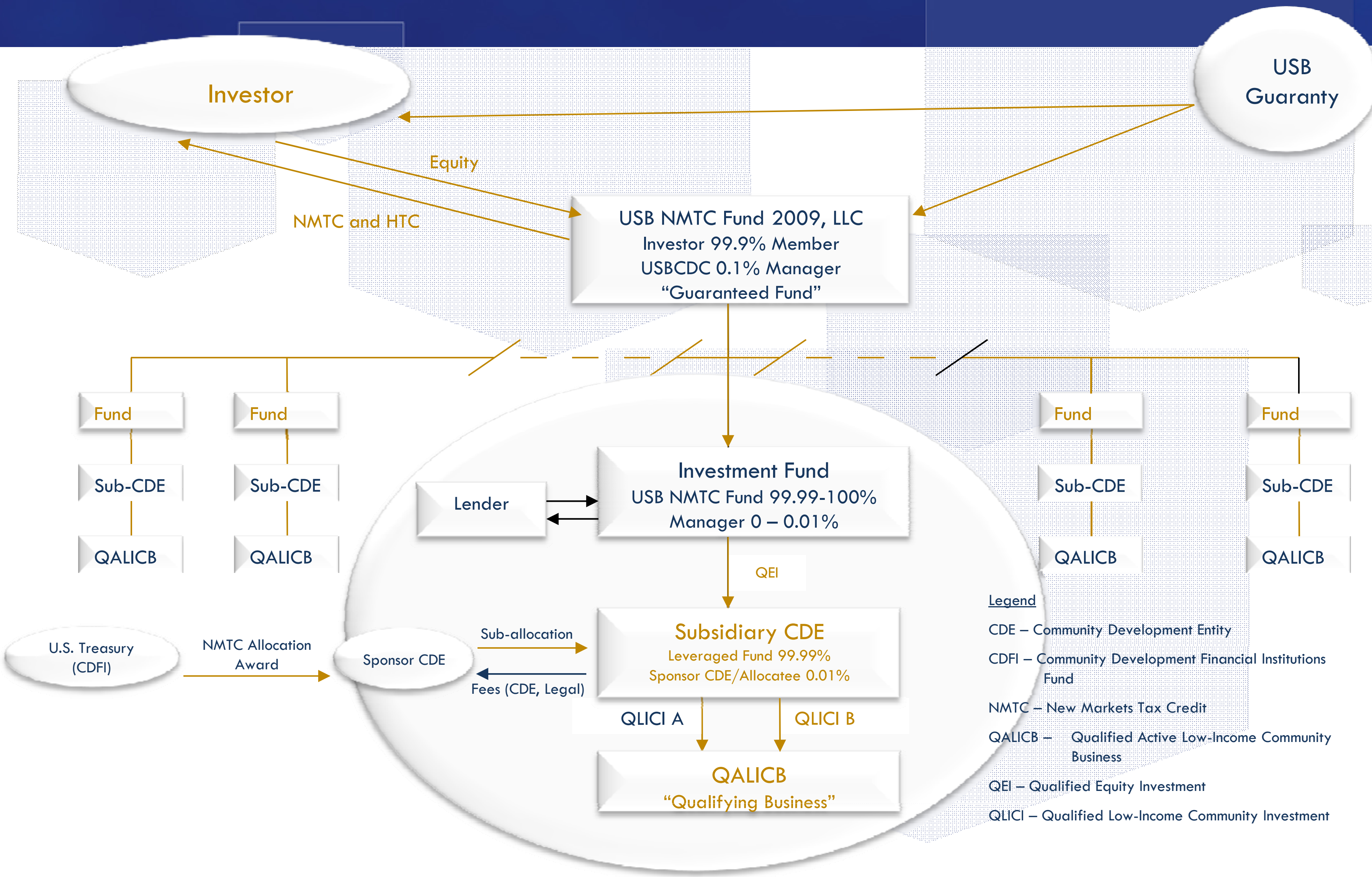
1. The CDE ceases to be a CDFI Fund-certified CDE, or
2. "Substantially all" (85%) of the QEI proceeds are no longer continuously invested in Qualified Low-Income Community Investments (QLICIs), or
3. The CDE redeems the equity investment.

- ***Note: Default by the operating asset does NOT trigger recapture***

The Basics:

<u>Community Development Entities (CDEs)</u> must use <u>Substantially All (85%)</u> of the proceeds from the <u>Qualified Equity Investments (QEIs)</u> to make <u>Qualified-Low Income Community Investments (QLICIs)</u> in <u>Qualified Active Low-Income Community Businesses (QALICBs)</u> located in <u>Low-Income Communities.</u>

NMTC Syndication Fund Diagram



Legend

CDE – Community Development Entity

CDFI – Community Development Financial Institutions Fund

NMTC – New Markets Tax Credit

QALICB – Qualified Active Low-Income Community Business

QEI – Qualified Equity Investment

QLICI – Qualified Low-Income Community Investment

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Renewable Energy Credits Overview

Renewable Energy Program Basics

- Two types of Renewable Energy (RE) credits
  - Investment Tax Credit (ITC) and Production Tax Credit (PTC)
- Primary RE uses are solar and wind facilities
- ITC is 30% of the amount of the qualified investment in the RE system is taken in the year the system is "placed-in-service."
  - Cash grant is an alternative to the credit
- Primary return is a component of the credit, passive losses, and sometimes a capital loss or residual payment.
- Codified in Section 48 of the Internal Revenue Code.
- PTC investment return is based on the operations of the system. It is used in wind investments, not solar.
- Five-year compliance period (similar to HTC).
- Recapture triggered by (a) disposition of the property (b) noncompliance. Amount decreases 20% each year.
- Unlimited amount of credits and no competition.

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Opportunities: Why invest?

- **Attractive Tax Advantaged Yields**
  - Guaranteed vs. Unguaranteed returns
    - Compare to other investments such as corporate or muni bonds, real estate investments
- **Cash Management Benefits**
  - Liquidity (Leveraged)
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- **Tax Liability Management**
  - Manage tax liability
  - Predictable tax credit stream
  - Low risk due to conservatively underwritten portfolio
  - Each credit offers different benefits
- **Community Impact and Public Relations**

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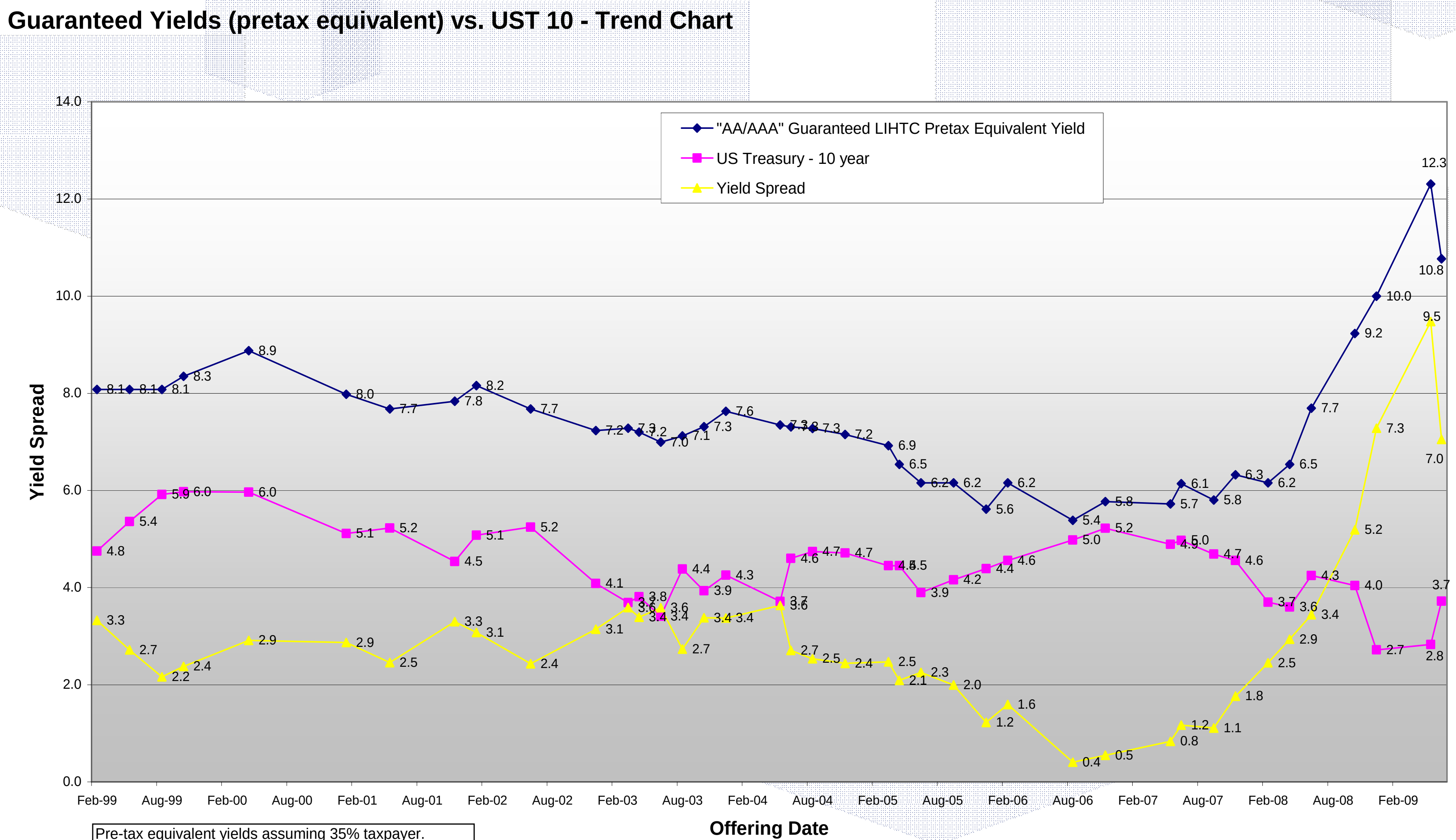
Challenges – Why not invest?

- Complexity – legal and accounting
- Internal champion needed
- Economic return minimums not met
- Reserve requirements
- RISKS: 4 primary risks
  - Economic risk: Will I get my return? Operating Risk of underlying assets/properties?
  - Tax structure risk: Will the IRS find the structure abusive?
  - Utilization risk: Can I use the stream of credits?
  - Change in law risk

Credit-Enhanced Yields – Spread over UST10



Pre-tax equivalent yields assuming 35% taxpayer.
US Treasury yields on various transaction dates.

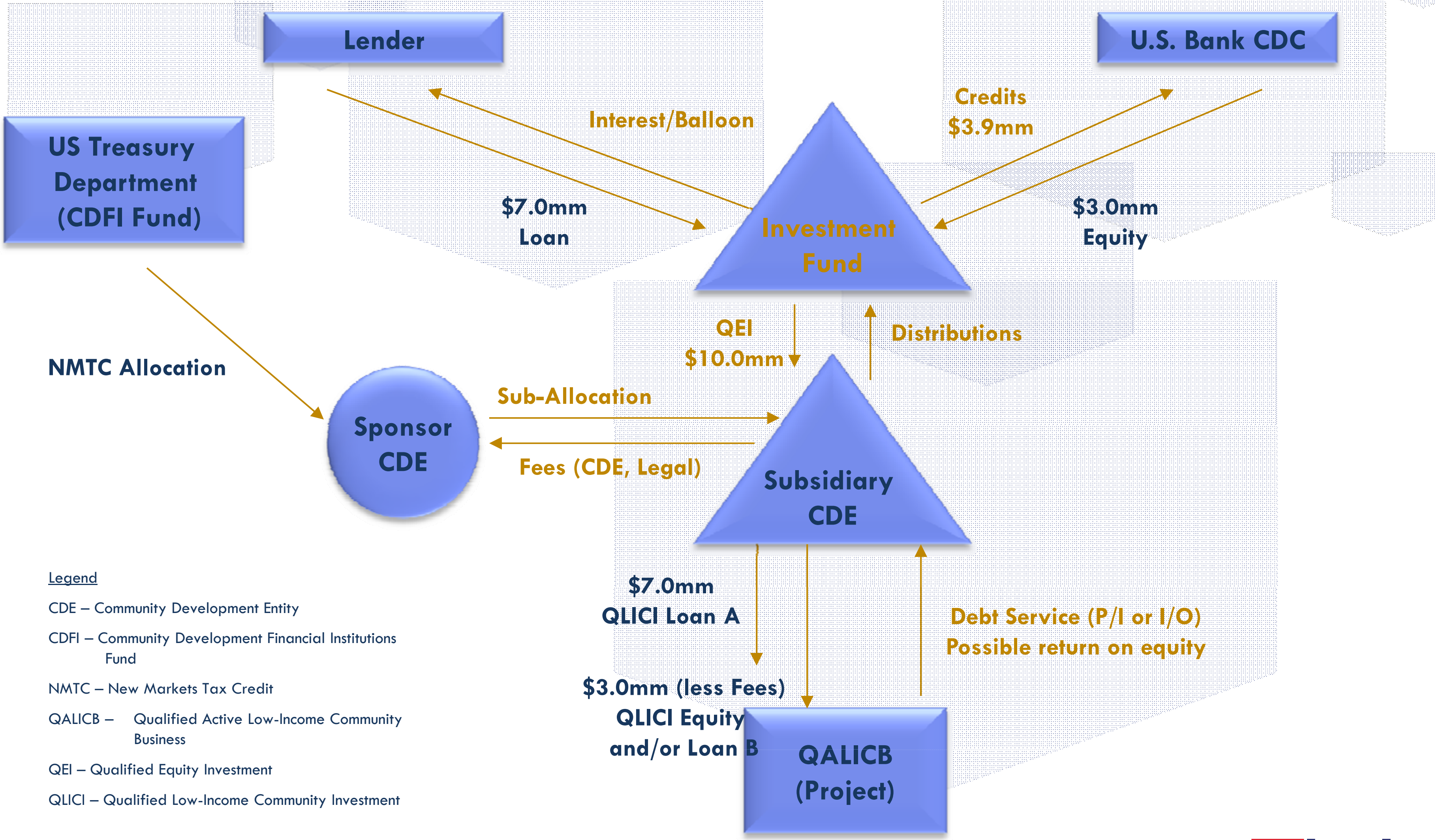
Types of State Tax Credits in which U.S. Bank Invests

- Film Production
- Low-Income Housing
- Historic Rehabilitation
- New Markets
- Brownfield Remediation
- Affordable Housing Assistance

Contact Information

- Rob Wasserman
  Managing Director of Syndications
  (213) 615-6647
  robert.wasserman@usbank.com

NMTC Leveraged Model



<u>Legend</u>

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