NEW MARKETS TAX CREDIT PROGRAM: Subsidized Rate Model

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JPMorgan Chase and the NMTC Program

- JPMorgan Chase is an active leader in the NMTC industry – both as an allocatee, equity investor and provider of leverage debt
- JPMorgan Chase's CDEs have received three consecutive allocation awards totaling $185 million
- In addition JPMorgan Chase is an equity investor and leverage lender NMTC structures that support single projects and blind pools, covering a wide range of asset types and geographies
- JPMorgan Chase is in the fourth year of a ten-year $800 billion commitment to provide capital to low-income communities across the country, which includes a $1 billion commitment to provide financing to CDFIs

JPMC and NMTC

JPMC works with the NMTC in two distinct ways:

1. A JPMC subsidiary has received three allocations of NMTC authority (2005, 2006, 2007) aggregating $185MM, which is used to subsidize below-market rate loans to qualifying borrowers.

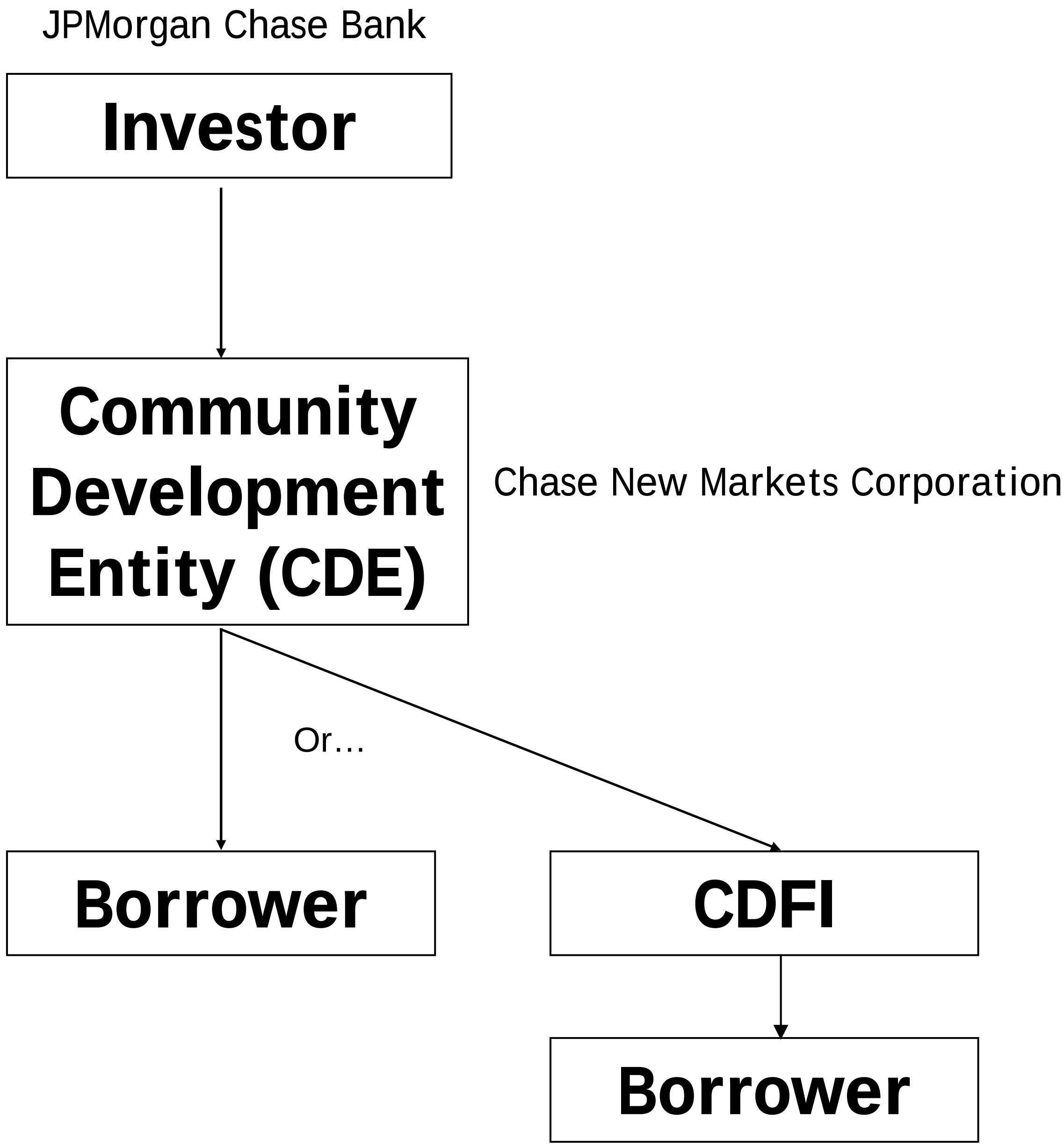
2. JPMC makes strategic equity investments and leverage loans in third-party organization's NMTC allocations, typically using the leveraged structure

Subsidized Rate Model

QEI = Qualified Equity Investments

QLICI =
Qualified Low-Income Community Investment

QALICB = Qualified Active Low-Income Community Business



How the Subsidized Rate Model Works

- Local bankers will originate and underwrite the transaction
- NMTC Group works with the local banker to structure and document deal to allow the NMTC to be applied
- The NMTC subsidy typically allows the rate to be reduced by around 400 bps
- For example, if the ordinary price of a loan is:
  - Treasury + 200 bps , the NMTC subsidized rate would be Treasury – 200 bps
  - The loan will receive a 400 bps subsidy from the tax credit
- Documentation is done by counsel selected by the local borrower, with review by NMTC counsel. This marginally increases legal cost.

Structuring Items

- Loans are fully funded to the QALICB at close
  - If it is a construction loan, the loan is funded into an escrow account owned by the QALICB, but controlled by the CDE. Disbursements are made from that account.
  - That escrow account can be interest bearing, and most of the time no negative arbitrage is created.
- Prefer to structure loans with 7-year terms
- In some instances we require a sinking fund be created to mitigate refinance risk at the end of seven years
  - The sinking fund account is generally held at by the Guarantor, versus the QALICB
  - Again, generally the interest rate paid on that account is high enough to mitigate negative arbitrage

Subsidized Rate Example

Project Costs	$ 5,882,353	
LTV	85%	Generally able to provide higher LTV
Loan Amount	$ 5,000,000	
Market Rate Pricing	5.25%	7-Year Interpolated Treasury Rate + 200 bps
NMTC Subsdiy	4%	
Effective Rate to QALICB	1.25%	
Annual Savings to QALICB	$ 200,000	
7-Year Savings to QALICB	$ 1,400,000	
Total % Subsidy to QALICB	28.0%	

For discussion purposes only

Differences from Leverage Model

- This is a debt product, there is no equity or equity-like financing
- The principal amount of the loan is expected to be entirely repaid at the end of the loan term
- Legal costs are substantially lower than in the leveraged model transactions
- Time from term sheet to loan closing can be in as little as three weeks
- There are no accounting costs associated with the Subsidized Rate Model
- There are no competing interests between the tax credit equity investor and the leverage lender, because there is only a single entity involved
- No fees charged by CDE
- Reduced fixed costs allow for loans smaller than average NMTC transaction to be made
- A large amount of the NMTC subsidy flows through the QALICB given the efficiencies of this model

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