2008 National Interagency Community Reinvestment Conference

San Francisco, CA

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Tax Credit Allocation Flow Chart

US Government

Authorizes
tax credits

State allocating
agency awards
credits

Developer
decides to
build tax
credit housing

Applies to
state for credits

Developer receives
tax credits
from state

Developer & sponsor
negotiate & developer
receives equity
from sponsor

Developer hires
contractor to
build property

Property is completed
management company
selects tenants & property
is occupied

Credits begin to
flow to investors

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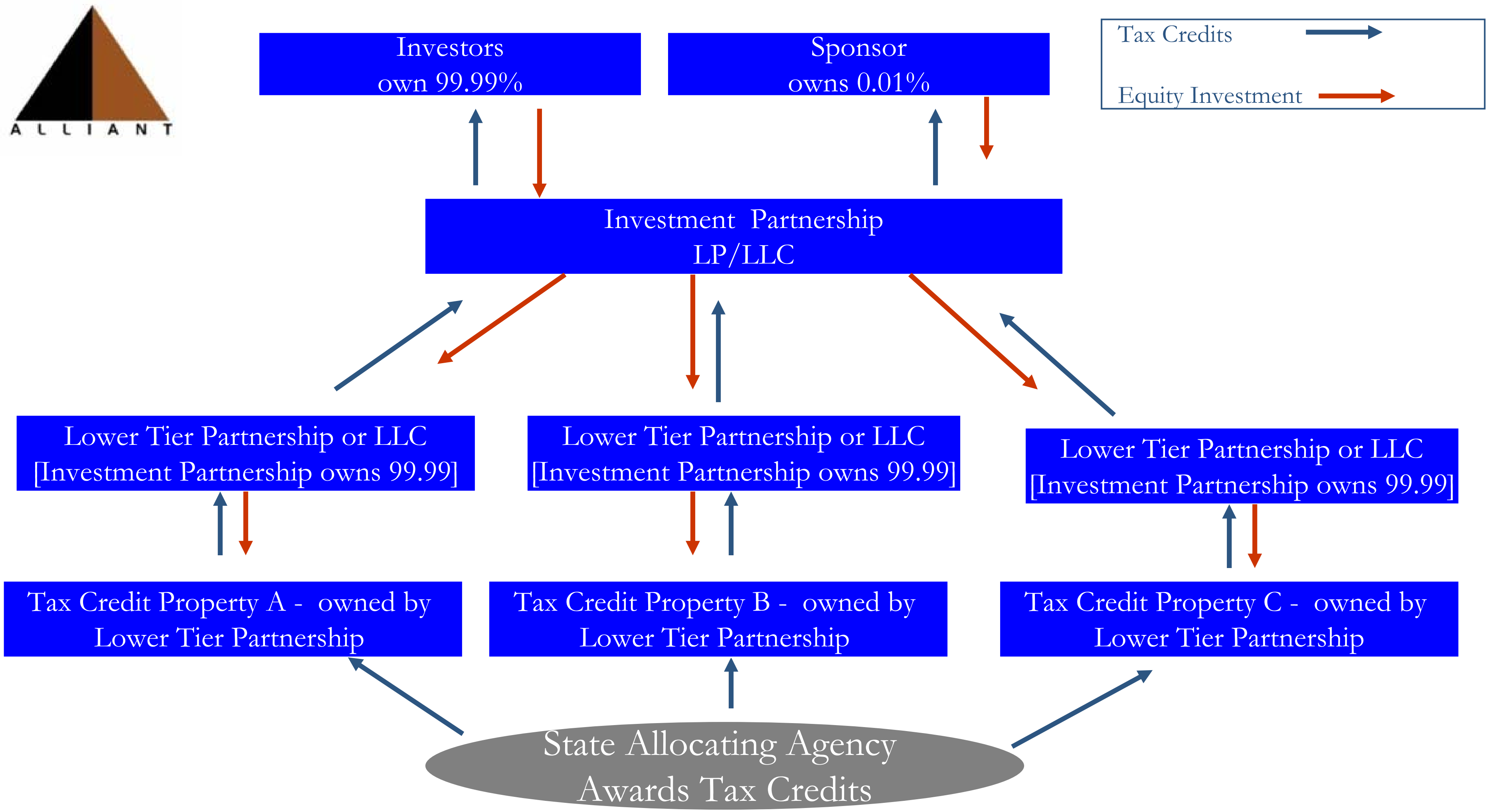

Flow of Tax Credits and Equity

- Each lower tier property receives tax credits from the state allocating agency for the tax credit property.
- Each developer forms a LP or LLC to own the lower tier property. The developer becomes a 0.01% GP or Managing Member in the LP or LLC. The investment partnership becomes a 99.99% limited partner in the lower-tier LP or LLC.
- The credits flow through the lower tier partnership or LLC to the investment partnership
- Investors contribute equity to the investment partnership and own 99.99% of the investment partnership. Investors receive tax credits on a pro rata basis based on their ownership share.

Annual Product Supply

	2007
▪ Total U.S. population	280 million
▪ Per capita credit available	X $1.85
▪ Aggregate annual new tax credits	$518 million
▪ Ten year allocation period	X 10
▪ Stream of tax credits available for sale	$5.18 billion
▪ Gross equity per $1 of credit	$0.98
▪ Annual 9% equity available	$5.08 billion
▪ Volume-cap bonds (4%) credits	$3.20 billion
▪ **Total Annual Market**	$8.28 billion

Note: Measuring aggregate annual credit volume may be slightly imprecise because although the allocated 9% credits can be measured with precision only a fraction of the volume-cap bonds (about 25%) produce affordable housing with tax credits (i.e., 4% credits)

ALLIANT

Affordable Housing Program Benefits

- Reduction in effective tax rate
- Reduction in premium tax liability
- CRA credit for investment
- Increase in after-tax earnings per share
- Increase in cash flow
- Decrease in taxes paid
- Social investment
  - increasing need for affordable housing for families and senior citizens
  - preserving historic structures/existing housing

Section 42 – Risks & Mitigants

RISK

Construction

Developer fails
to complete construction
according to plan,
ultimately delaying the
commencement of
tax benefits

MITIGANTS

- Sponsor construction review & tracking
- Developer credit timing adjuster
- Developer completion guarantee
- Staged equity pay-in/holdbacks
- Developer experience/track record
- General contractor experience/record

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Section 42 – Risks & Mitigants

RISK

Lease Up

Developer fails to lease the credit units according to plan, ultimately delaying the commencement of tax benefits

MITIGANTS

- Sponsor underwriting
- Developer guarantees/ deferred fees
- Staged equity pay-in
- Properties with rent advantage
- Depth of the market/demand for housing
- Property management expertise/experience

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Section 42 – Risks & Mitigants

RISK

MITIGANTS

Operations

Property fails
to operate at break even. Upon
mortgage default lender
can foreclose on property
and end the flow of tax credits
to investors

- Properties with rent advantage
- Pre-funded Operating Reserves
- Developer operating deficit guarantee
- Sponsor underwriting
- Sponsor asset management
- Properties with soft debt
- Low foreclosure experience

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Section 42 – Risks & Mitigants

RISK

Tax Compliance

General partner of the Operating partnership fails to Maintain and/or lease property as required by section 42 rules and regulations

MITIGANTS

- Management company experience
- Di minimus effect of unit non compliance
- Sponsor and state file audits
- Sponsor site and state site visits
- Sponsor and state tenant lease reviews

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