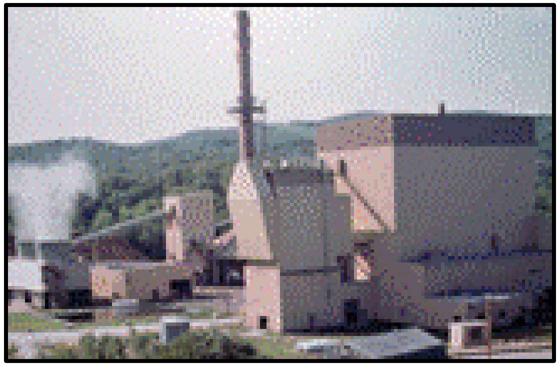
Energy Asset Advisors, LLC

An Overview of Federal & State New Markets Tax Credit Programs



Agenda

- Program Overview
- Eligible Investments
- Financing Structure
- Program Benefits
- Obtaining Qualified Funds
- Q & A / Next Steps
- Contact Info

Program Overview

- **Largest current federal economic development program**
  - Designed to attract capital to low income communities through indirect subsidies (tax credits)
  - Administered by US Treasury Department (CDFI)
  - Over $20B in tax credit allocations to date

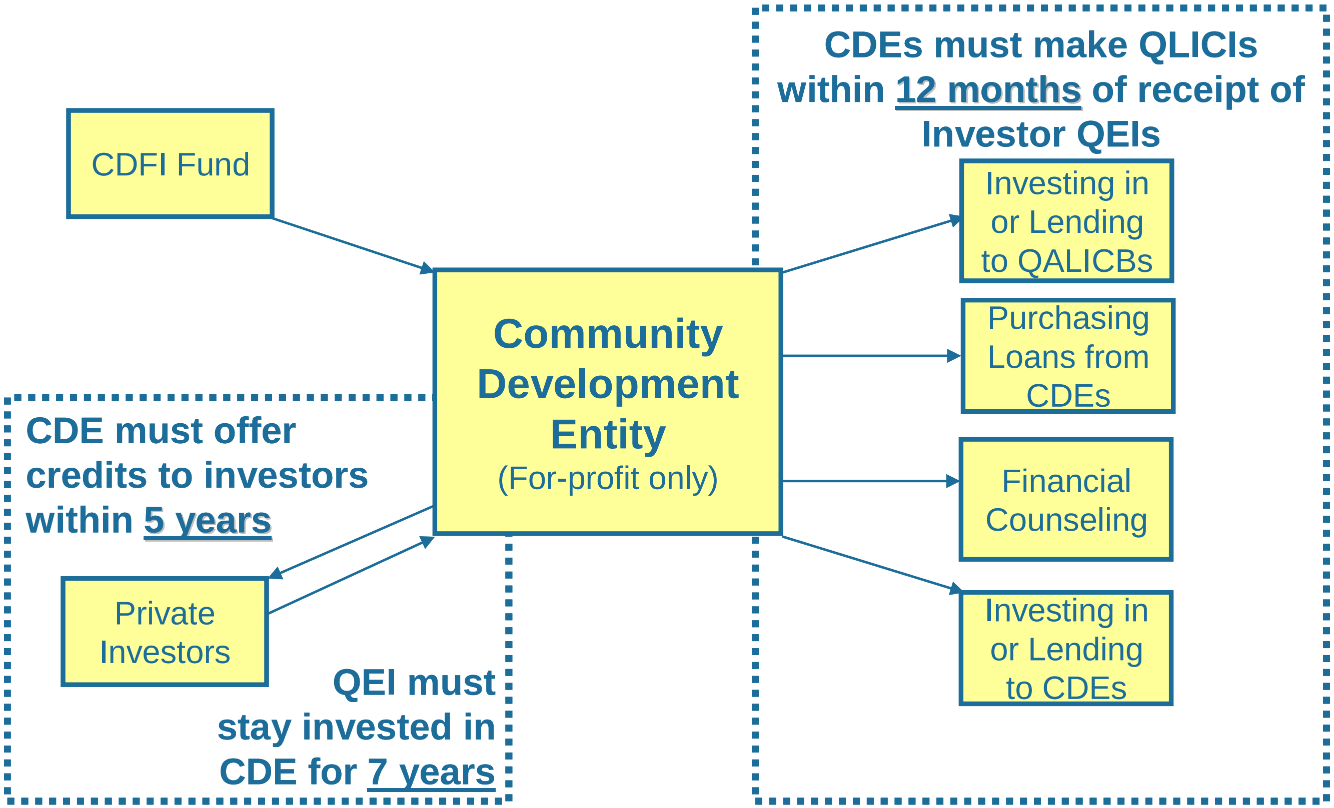
- **Provides Federal Tax Credits of 39% to Investors in Qualified Assets Over a 7-year Investment Term**
  - Years 1 – 3: 5%
  - Years 4 – 7: 6%

- **State Tax Credits Also Available to Investors in Qualified Assets in 6 States**
  - Illinois: 39% credit realized over 7 years
  - Louisiana: 25% credit realized over 3 years
  - Mississippi: 24% credit realized over 3 years
  - Missouri , Ohio & Florida: 39% credit realized over 7 years (beginning in Year 3)

- **Can Combine NMTC Program With:**
  - ITC & PTC
  - Industrial Development Bonds
  - Tax Increment Financing
  - State & Local Credits & Incentives

Eligible Investments

- The program provides tax credit benefits for Qualified Equity Investments (QEI's) in designated Community Development Entities (CDE's) that, in turn, make Qualified Low-Income Community Investments (QLICI's)



Eligible Investments *(con't)*

- **QEI's are equity investments that are:**
  - Made in a CDE (an equity investment is stock in a corporation or any capital interest in a partnership),
  - Acquired by the investor at its original issue solely in exchange for cash,
  - Meet the "substantially-all" investment requirement and
    - *Defined as using 85% (falling to 75% in Year 7) of invested dollars to provide investments in businesses and real estate developments in low-income communities or to serve a "targeted population"*
  - Designated by the CDE
- **CDE's are domestic corporations or partnerships that serve as an intermediary vehicle for the provision of loans, investments, or financial counseling to low-income communities**
  - To qualify as a CDE, an entity must:
    - Have a mission of serving, or providing investment capital for, low-income communities or low-income persons,
    - Maintain accountability to residents of low-income communities through their representation on a governing / advisory board to the entity and
    - Be certified by the CDFI Fund as a CDE.

Eligible Investments *(con't)*

- **QLICI's are investments in businesses and real estate projects in low-income communities and include:**
  - Any capital or equity investment in, or loan to, any "Qualified Active Low-Income Community Business" (QALICB)
  - Purchase of a loan from another CDE if the loan is a QLICI,
  - "Financial Counseling and Other Services" (FCOS) to businesses located in, or residents of, LIC's and
  - Any equity investment in, or loan to, any CDE

- **Typical QALICB's include**
  - An operating business located in a LIC **<u>or</u>** that serves a Targeted Population
  - A business that develops or rehabilitates commercial, industrial, retail and mixed-use real estate projects in a LIC.
  - A business that develops or rehabilitates community facilities, such as charter schools or health care centers, in a LIC.
  - A business that develops or rehabilitates for-sale housing units located in LIC's.

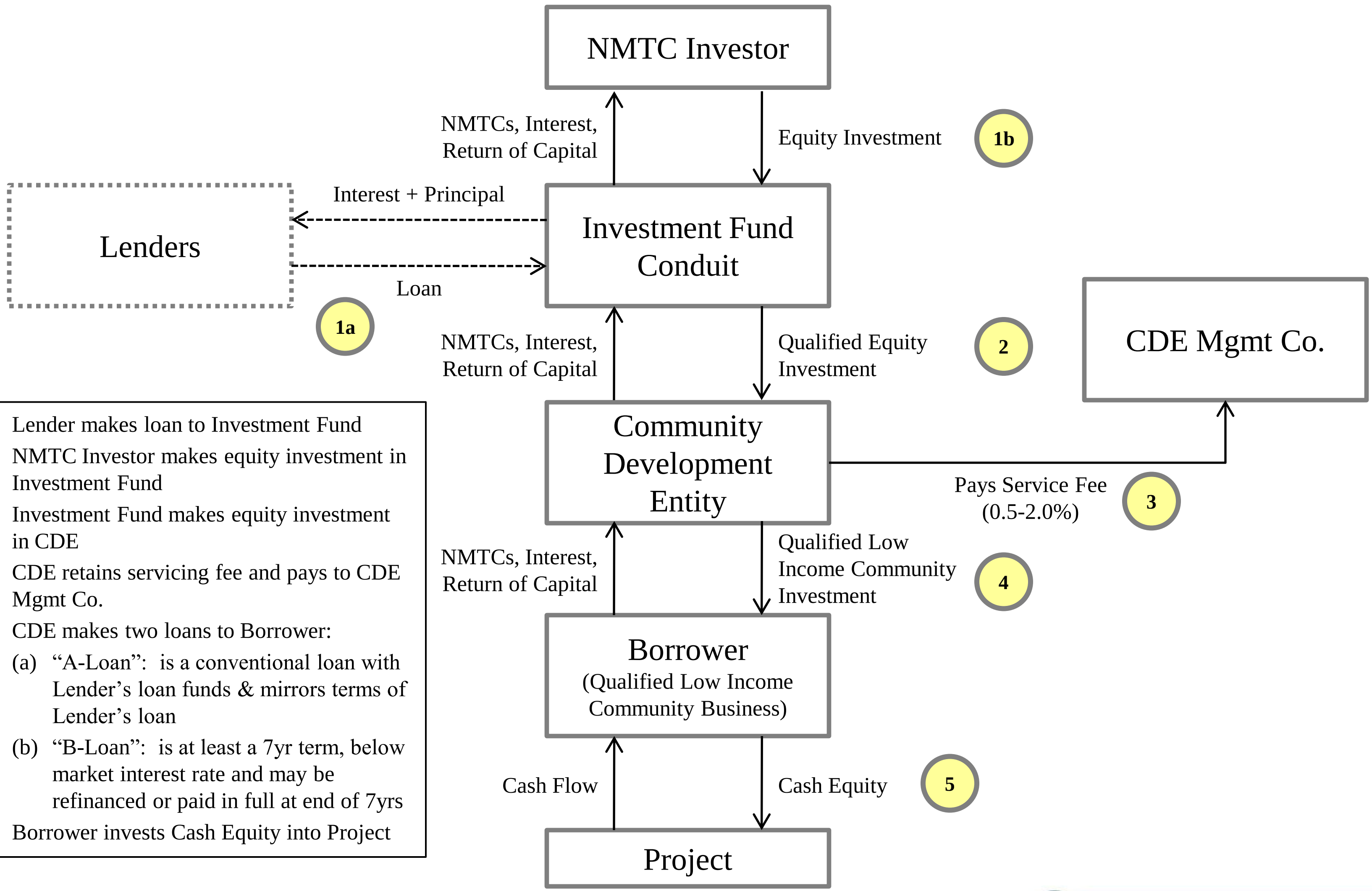
- **Through 2007, qualified investments had helped to develop or rehabilitate 63 million sq ft of real estate, create 240,000 temporary construction jobs & create / maintain 45,000 jobs**

Eligible Investments *(con't)*

- **Lock-up Period**
    - Investors may not redeem their investments prior to the conclusion of the 7-year tax credit period

- **Recapture**
  - NMTC's may be recaptured from investors during the 7-year credit period if:
    - The QEI fails the "substantially all" requirement,
      - 60-day cure period applies and notice to QEI holder required
    - The CDE ceases to qualify as a CDE, or
    - The CDE redeems the investment
  - Recapture is not triggered by a CDE filing for bankruptcy
    - Investors may continue to claim NMTC's

Financing Structure
(Leveraged Investment)



1a. Lender makes loan to Investment Fund
1b. NMTC Investor makes equity investment in Investment Fund
2. Investment Fund makes equity investment in CDE
3. CDE retains servicing fee and pays to CDE Mgmt Co.
4. CDE makes two loans to Borrower:
   (a) "A-Loan": is a conventional loan with Lender's loan funds & mirrors terms of Lender's loan
   (b) "B-Loan": is at least a 7yr term, below market interest rate and may be refinanced or paid in full at end of 7yrs
5. Borrower invests Cash Equity into Project

Financing Structure
(Leveraged Structure Pros & Cons)

- **Pros**
  - NMTC investor receives NMTC's on cash investment plus amount of the QEI financed by debt
    - Compare to direct investment where NMTC's are only generated by cash investment)

- **Cons**
  - Potential complications on multiple-tier funding structure (e.g. limitations on cash distributions)

  - Higher transaction costs
    - Costs typically include:
      - Origination fees (CDE)
      - Asset management fee (CDE)
      - Reserve Requirements of NMTC investor
    - Transaction costs specifically ***excluded*** from investment amount

Financing Structure

(Exit Strategies)

- QALICB can repay or refinance loan(s)
- Put options may be in place (with dedicated reserves) during the initial structuring so the QALICB can buy out the NMTC investor interest
- Debt may be cancelled after investor exits
    - Similar to a partnership flip mechanism

Benefits

- **Bottom Line: Everybody Wins!**
  - Government, Investor & Borrower

- **Government**
  - Better results than other subsidy programs because of competitive nature of the allocation process
    - *"While all awardees are required to invest substantially all of their investments in low-income communities, most applicants commit to making investments in areas characterized by "severe" economic distress. As a result, over 75 % of NMTC transactions financed through 2007 were located in census tracts with a poverty rate of at least 30% a median family income at or below 60% of the applicable area median family income and/or an unemployment rate at least 1.5 times the national average." (from Congressional Testimony of CDFI Program Director)*

- **Investor**
  - Enhanced returns via lucrative, immediate tax benefits (federal & state)
    - But, remember, NMTC's alone do not generate sufficient returns to make investing in CDE's attractive to investors
    - In addition to the tax credits, investors will need substantial cash flow and/or capital appreciation to generate a reasonable return.
  - "Feel Good" program – helping the community through a "hand up" program
  - Pooled interest spreads risk

Benefits *(con't)*

- **Borrowers**
  - **Almost all deals offer preferential rates & terms to the borrowers**
    - CDE's are **required** to provide either lower rates or better terms – some do both!
  - **Most common features are:**
    - Below market interest rates (83% of transactions),
    - Lower origination fees (59% of transactions), and
    - Longer than standard periods of interest-only payments (54% of transactions)
  - **Other common features include:**
    - Subordinated debt,
    - Higher than standard LTV ratio,
    - Longer than standard amort period,
    - More flexible borrower credit standards,
    - Non-traditional forms of collateral,
    - Lower than standard debt service coverage ratio, and
    - Lower than standard loan loss reserve requirements

Obtaining Qualified Funds

(The Borrower's Perspective)

- Make Sure Your Project Meets the Program's Eligibility Requirements
- Make the CDE's Job Easier – Don't Waste Their Time
  - The more pieces in place, the easier it is to attract a CDE
- Create a Succinct Project Summary – KISS
  - Project Description
  - Sources & Uses
  - Community Impact - Job creation, Economic catalyst, etc.
  - Readiness – Sources, Approvals, Due Diligence (especially, RE)
  - Highlight Developer Track Record - show the CDE/Investor ability to perform
  - List of Players - Developer, Lender, CDE, Investor, Accountant, Consultants, Tenants, Government, etc.
  - Financial Model - detailed bank model with all the bells & whistles
- Solicit a Targeted Audience – make sure your project fits their investment profile
- Qualify Bids
- Negotiate Term Sheet(s) – Concentrate on $ and try to avoid too much of the T's & C's
- Select a Finalist
- Negotiate Documentation (focus on T&C's – don't let the deal get retraded)
- Close & Fund – Put the $ to work

Q&A / Next Steps

- Questions / Comments / Concerns

- Next Steps

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