

ABOUT FEDERAL NEW MARKETS TAX CREDIT INVESTORS

Investors who make qualified equity investments (QEI) reduce their federal income tax liability by claiming the tax credit. Investors buy the credit at a discount, usually \$0.70-\$0.74 on the dollar, receiving a built in return and more incentive to part with their cash. In order to claim the NMTCs, an investor must make an equity investment into a Community Development Entity (CDE) and provide cash for stock in exchange for the credits. The tax credit value is 39% of the cost of the QEI and is claimed over a seven-year credit allowance period. This is an exciting program that provides tax incentives to investors to make investments in distressed communities and promotes economic improvements through the development of successful business in these communities.

Investor Profile



The number and type of investors still tends to be very concentrated, however, with a large percentage of QEIs coming from banks, and a significant portion of that investment coming from a limited number of large financial institutions. These investors have traditionally had a strong appetite for NMTCs and a high degree of familiarity with the program's complex structures, making these investors an easy first choice for many CDEs.

Impacts to the Communities they serve



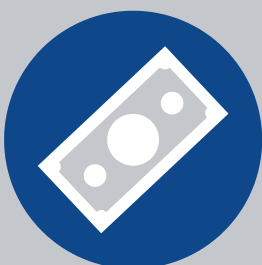
NMTCs can help banks meet their Community Reinvestment Act (CRA) requirements. A bank can receive consideration for its investments in CDEs. The investment in the CDE must benefit a bank's assessment area or a broader state or regional area that includes its assessment area. In the case of leverage structure transactions, the equity investor and the leverage lender each may receive CRA consideration based on the pro rata share of their investment.

Reasonable Returns



The return for investors increases from approximately 5% to 6% in an "interest rate buy down" model to 7% to 10% in the leverage structure, depending in part on how much the equity investor pays for the credits. In addition, the risks for the equity investor are more limited in the leverage structure than they are in the interest rate buy down model because the equity investor in a leverage transaction does not need to recover its initial investment in order to achieve a financial return.

Customer Needs



NMTCs are important in helping meet customer needs. NMTCs provide resources that can help create a satisfactory loan structure for a customer who might otherwise be turned down or offered a loan at a much higher rate. In addition, NMTC loans to qualifying businesses often have flexible terms, including lower origination fees, extended interest-only payment periods, higher loan-to-value (LTV) ratios, lower debt coverage ratios (DCR), and longer amortization periods.