

Rebuilding Alabama
Under The
Gulf Opportunity Zone Act

About Morgan Keegan & Company Inc.

Morgan Keegan & Company Inc., one of the nation's largest regional full-service brokerage and investment banking firms, is the securities brokerage and asset management arm of Regions Financial Corporation. Headquartered in Memphis, Tenn., Morgan Keegan has some 280 brokerage offices across an 18 state footprint, including seven offices in Alabama.

The firm's Fixed Income Capital Markets division provides underwriting through 19 investment banking offices in 12 states. Morgan Keegan ended 2005 as the eleventh largest underwriter of tax-exempt bonds in the nation. For the past 12 years, Morgan Keegan has been the leading underwriter of tax-free bonds in the South Central United States, and in 2005 was the leading underwriter of bond issues in Alabama (source Thomson Financial).

The banking division is active in a wide variety of financings, including higher and secondary education, state and local government, multi- and single-family housing, military housing, health care, airports, taxable banking issues, and credit tenant leases.

About Regions Financial Corporation

Regions Financial Corporation (NYSE: RF), headquartered in Birmingham, Ala., is a full-service provider of retail and commercial banking, trust, securities brokerage, mortgage and insurance products and services. Regions had \$84.8 billion in assets as of Dec. 31, 2005, making it one of the nation's top 15 banks. Regions' banking subsidiary, Regions Bank, operates some 1,300 offices and a 1,600-ATM network across a 16-state geographic footprint in the South, Midwest and Texas. Regions is a member of both the Forbes and Fortune 500 and is the ninth largest bond trustee in the nation.

GULF OPPORTUNITY ZONE PRIVATE ACTIVITY BONDS

On December 21, 2005, President Bush signed the Gulf Zone Opportunity Zone Act of 2005 (the "Act") into law. The Act establishes tax incentives and bond provisions to rebuild the local and regional economies devastated by the hurricanes of 2005. **The Act will provide private businesses and corporations in Alabama with the opportunity to finance construction and reconstruction of projects through the issuance of tax-exempt bonds** by creating a new category of tax-exempt private activity bonds just for the Gulf Opportunity Zone (as described below).

The Act permits the State, local Alabama political subdivisions and statewide issuers to issue additional private activity bonds above the current volume limits imposed under the Internal Revenue Code. The Act provides for approximately **\$2.1 billion** in additional authority for Alabama and its political subdivisions. The bonds would be particularly attractive to investors because they would not be subject to alternative minimum tax.

This means that private business owners and corporations may borrow tax-exempt money to cover the costs of acquiring, constructing and renovating nonresidential real property located in those areas determined to warrant individual and public assistance relief from the Federal Emergency Management Agency (the "Zone"). The Zone comprises eleven counties in western Alabama, being Tuscaloosa, Pickens, Sumter, Greene, Hale, Marengo, Choctaw, Clarke, Washington, Mobile and Baldwin counties. The bonds would be tax-exempt if 1.) 95 percent or more of the net proceeds are used for "qualified project costs" in the Zone, 2.) Governor Riley would designate the bonds as qualified for the purposes stated in the bill, and 3.) the bonds are issued prior to January 1, 2011.

WHO MAY QUALIFY FOR TAX-EXEMPT FINANCING

Generally, any public or private company or corporation seeking to finance the cost of acquiring, constructing and renovating nonresidential projects located in the Zone qualifies for funding. Issuance of any bonds authorized under this provision must also be approved by the Governor.

WHAT TYPES OF PROJECTS QUALIFY FOR TAX-EXEMPT FINANCING

Gulf Opportunity Zone Bonds are treated as exempt facility bonds if 95 percent or more of the net proceeds of such bonds are to be used for qualified project costs located in the Zone. Qualified project costs include the cost of acquisition, construction, reconstruction, and renovation of nonresidential real property (including buildings and their structural components and fixed improvements associated with such property), qualified residential rental projects (multi-family housing, which requires a 20% affordable housing component), qualified mortgage issue projects (single-family housing, which requires that certain income tests be met), and public utility property. For purposes of the

provision, costs associated with improving a facility (e.g., installing equipment that enhances the pollution control of a manufacturing facility) may be permitted project costs if such costs are chargeable to the capital account of the facility.

Eligible projects may include, *but are not limited to*: retail stores, warehouses, manufacturing facilities, industrial plants, office buildings, bank branches, hotels and motels, restaurants, physician office buildings, medical hospitals and clinics.

No portion of the proceeds of the Gulf Zone bonds may be used for any private or commercial golf course, country club, massage parlor, hot tub facility, suntan facility, racetrack or other facility used for gambling, or any store the principal purpose of which is the sale alcoholic beverages for consumption off premises. Bond proceeds may not be used to finance movable fixtures and equipment. The purpose of this limitation is to ensure that property financed with bonds remain in the impacted Zone area.

Gulf Zone bonds are subject to numerous other tax-exempt bond rules generally applicable to tax-exempt bonds (for example, the arbitrage rules and the TEFRA hearing rules).

THE BENEFITS OF GULF ZONE OPPORTUNITY BOND PROJECT FINANCING

In its simplest form, financing through a Gulf Opportunity Zone Bond (the “GOZB”) can be compared to the tax-exempt funding normally available only to governmental borrowers and not-for-profit corporations. Interest on GOZBs is exempt from federal and State of Alabama income taxes; therefore the interest rate is lower than through conventional financing, historically saving a borrower 1.50% to 2.00%. Also, the borrower is typically accessing the debt capital markets at the short end of the yield curve where interest rates are usually at their lowest. Even after adding the annual credit enhancement fee to the short-term rates, the borrower’s cost of funds is usually well below those associated with a conventional loan. For an example of the attractive rates available through the GOZB, compare:

3.00% current variable rate available in the tax-exempt municipal market

Vs.

7.50% current New York Prime rate

4.57% current 1-month LIBOR rate of

Unlike the typical industrial development or other private activity bond issues, Congress has also excluded the interest on the GOZB from Alternative Minimum Taxation.

STRUCTURING A GULF ZONE OPPORTUNITY BOND TRANSACTION

We expect most borrowers using GOZB financing to utilize variable rate debt secured by third-party credit enhancement, which is usually in the form of a bank letter of credit (“LOC”) or a guaranty from an insurance company or other entity. The LOC or guaranty results in the bonds’ obtaining an investment grade rating from either Moody’s or Standard & Poor’s. This credit enhancement insures that the investor will receive par plus accrued interest in the event it tenders its bonds for redemption or a scheduled debt service payment is due. For issuers with a credit rating of A or better, no letter of credit or third-party liquidity facility may be needed.

Morgan Keegan’s bond professionals have extensive experience in the structuring, negotiation and remarketing of tax-exempt securities for our municipal, not-for-profit and corporate clients. The cost, details and economic advantages of this limited time opportunity can be provided by your Morgan Keegan investment banker.

With over \$ 10 billion in capital and strong financial ratings, Regions Bank has both the capacity and financial strength to provide clients access to capital markets through the support of a Regions letter of credit. Regions Bank has provided letter of credit support for bond issues financing a wide variety of applications including municipal government, infrastructure, commercial, industrial, not-for-profit organizations, health care and educational institutions, among others.

Regions’ letter of credit provides two important strengths, security and liquidity, sought by investors in these bonds. That support translates to favorable market acceptance and competitive interest rates for clients seeking long-term financing. Additional commercial capabilities include a comprehensive array of corporate finance solutions, including interest rate risk management, treasury services, leasing, and asset-based financing, as well as corporate trust services.

Regions Morgan Keegan Trust is ranked as the nation's 33rd largest trust company with more than \$21 billion in assets. Drawing on the strength of Regions Bank and the expertise of Morgan Keegan & Company, Regions Morgan Keegan Trust has the knowledge and experience to serve in the capacity of trustee under GO Zone transactions.

DETAILS ON GULF ZONE OPPORTUNITY BOND TRANSACTIONS

Subject to the following exceptions and modifications, issuance of GOZB is subject to the general rules that are applicable to issuance of qualified private activity bonds:

- (1) The first and foremost qualification is that the capital investment be made within the Zone;

- (2) In the case of industrial projects, under the Act, the normal industrial revenue bond restrictions do not apply;
- (2) Issuance of the bonds is not subject to the aggregate annual State private activity bond volume limits;
- 3) The restriction on acquisition of existing property is applied using a minimum requirement of 50 percent of the cost of acquiring the building being devoted to rehabilitation;
- (4) The special arbitrage expenditure rules for certain construction bond proceeds apply to available construction proceeds of GOZB issued to finance qualified project costs, treating such bonds as a construction issue;
- (5) Interest on the bonds is not a preference item for purposes of the alternative minimum tax preference for private activity bond interest; and
- (6) No portion of the proceeds of the bonds may be used to provide any property such as any private or commercial golf course, country club, massage parlor, hot tub facility, suntan facility, racetrack or other facility used for gambling, or any store the principal purpose of which is the sale alcoholic beverages for consumption off premises.

SPECIAL DEPRECIATION ELECTION BENEFIT

The Act permits businesses to claim an additional first year depreciation deduction equal to 50 percent of the cost of new capital investments made in the Zone. The depreciation deduction would be exempt from AMT and applies to property placed in service prior to January 1, 2008, or January 1, 2009 for real property. Businesses or individuals that elect to claim the accelerated depreciation deduction under the Act will **NOT** be able to benefit from the tax-exempt financing outlined above – this is an either/or proposition.

Property that qualifies for the special GO Zone depreciation allowance includes the following:

1. Tangible property depreciated under the modified accelerated cost recovery system (MACRS) with a recovery period of 20 years or less;
2. Water utility property;
3. Computer software that is readily available for purchase by the general public, is subject to a nonexclusive license, and has not been substantially modified;
4. Qualified leasehold improvement property; and
5. Nonresidential real property and residential rental property.

In electing the depreciation benefit, neither application to nor approval by the State is necessary and we recommend consultation with your certified public accountant regarding qualification and treatment of this benefit.

ADDITIONAL ADVANCE REFUNDING BENEFIT FOR MUNICIPAL DEBT

The Act provides for an approximate \$1.125 billion of funds to permit an additional advance refunding opportunity for municipal debt. Through this, the State, counties, municipalities, etc. may apply to the Governor's office for an allocation of the proceeds in the event a refunding is desired. This opportunity is NOT restricted solely to the Zone; it applies to ALL Alabama counties.

The Act prohibits prior generations of refunding bonds from being outstanding while these advance refunding bonds are outstanding.

FOR FURTHER INFORMATION CONTACT:

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