

CHASE NEW MARKETS TAX CREDITS

New Markets Tax Credit Program
October 2014

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Chase New Markets Tax Credit Team

Leadership and Tailored Client Solutions

- Chase's leadership in the NMTC industry is evidenced by its senior team of NMTC bankers that are highly experienced and recognized by industry participants.
- Chase has consistently been among the top investors in the market with approx. 20-25% market share.
- We take a proactive approach to review transaction details and identify financing or structuring concerns early in the process in order to mitigate costly obstacles or structuring issues later.
- The Chase NMTC team is known for its hands-on approach in leading the deal team and driving the transaction forward through the NMTC documentation process.
- In addition to tax credit equity, Chase can provide bridge lending, leverage loans, cash management, construction management, and other banking services to facilitate the project finance and CDE operations.
- We have expertise in leveraging a range of capital sources including grants, tax increment finance (TIF), municipal and state sources, capital campaign pledges, and traditional bank debt through NMTC structures.
- The NMTC team has developed deep and broad relationships in the industry. Through repeat transactions with key industry players, we have created efficiencies that result in more benefit to the project.

OUR COMMITMENT TO COMMUNITY DEVELOPMENT

- **Stable, long-term player in the NMTC market:** Chase has consistently grown its presence and volume of investment in the NMTC program over each of the past five years
- **Flexibility provided by the firm's financial strength:** Chase holds the tax credits for its own account, giving us flexibility on structuring and pricing
- **Hands-on and expert staff:** Members of the Chase NMTC Group will help drive each individual transaction to close with a disciplined approach
- **Firm-wide commitment to community development:** Investments and loans of nearly \$720 billion nationally in the first eight years of a 10-year pledge to invest \$800 billion in low-income communities across the country

NMTC Program Overview

NMTC Program Background

- Enacted by Congress as part of the Community Renewal Tax Relief Act of 2000. Administered by CDFI Fund of US Treasury
- Stimulates new private-sector investments in low-income communities
- How does it stimulate? Offers a 39% credit for every “Qualified Equity Investment” in a “Qualified Active Low-Income Community Business.” Credit is used to offset investor’s tax liability.
- All NMTC funds must be invested for 7 years; if funds are returned early they must be reinvested within 12 months or risk full recapture of all tax credits claimed
- Flexible program can be used for a broad range of eligible projects in low-income communities.
 - However, due to IRS and compliance-related issues, most credits have been used toward real-estate based projects
 - Focus on commercial development, not housing

NMTC Program Overview

NMTC Program Background

How is the NMTC different from other credits?

- The NMTC is not a Project Specific Credit
- Unlike LIHTC or HTC, credit is awarded to CDE applicants, not projects/developers
- CDEs are intermediaries who facilitate the NMTC investment and act as fiduciaries of the credit
- Competition for the credit is national
 - No apportionment by state
- Minimum qualification for project eligibility is rarely enough
 - Unlike HTC or LIHTC, meeting statutory minimums for qualification will rarely attract a credit allocatee
 - Allocatees/investors want impacts far beyond census tract qualification

NMTC Program Overview

NMTC Program Background

How does a project qualify for NMTCs?

- In most cases, geographic qualification based on census tract
- Qualifying census tracts have < 80% of AMI and/or poverty rate > 20%
- About 39% of all census tracts are eligible; about 36% of US population lives in eligible census tracts
- Most allocatees commit to serve areas of higher distress
 - Census tracts with < 60% of AMI and/or poverty rate > 30%
 - Census tracts with unemployment rate at least 1.5 times the national average

Does your project meet the basic NMTC qualification criteria?

- Find out online, using your project address in the mapping tool at:
 - http://www.novoco.com/new_markets/resources/ct
 - <http://www.cohnreznick.com/NMTC-Mapping-Tool>

Note: Must be confirmed by the CDFI Fund Mapping System

Community Impact: Telling the Story

NMTC Program Background

Good data on Community Impact is critical to get investors and CDEs interested

What demonstrates “Community Impact”?

- Jobs (Living wage jobs, employee benefits, job training, career advancement)
- Services to Low-Income Persons (retail, child care, education, fitness, career training, meals, shelter)
- Strong demonstrated support from elected officials, government agencies, community groups
- Letters of support from officials or evidence of financial support
- Any other types of meaningful positive impacts on Low-Income Persons
- Any Green or environmentally friendly aspects of the development

Qualified Businesses

NMTC Program Background

Examples of projects Chase has funded:

- Community facilities (charter schools, community centers, community health clinics, homeless shelters, food banks, soup kitchens, job training centers, etc.)
- Business expansion projects (building factories and/or other facilities for companies providing jobs and economic growth in very low-income communities)
- Community theaters and other arts/education facilities
- Health care clinics and hospitals
- Office space for non-profit, mission-oriented organizations that support communities
- Grocery stores or other food providers located in food deserts

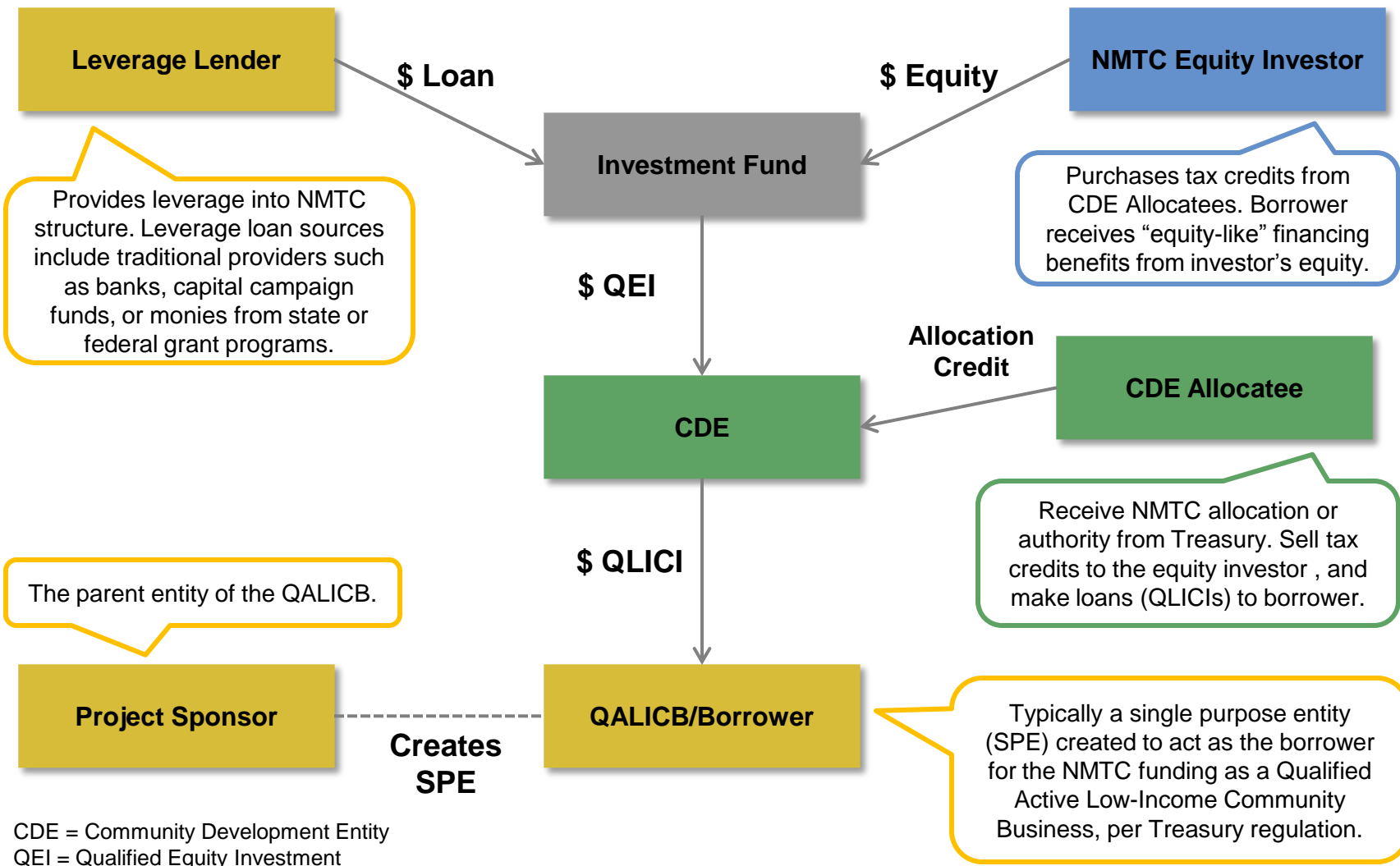
NMTC Product Overview

Working With 3rd Party Allocatees: Leverage Loan Model

- Chase is a major investor in other NMTC allocatees
- Leveraged (also called “A Note / B Note”) Model
 - Most commonly used by allocatees
 - Combines debt and equity proceeds to make a QEI
 - Often bifurcates the underwriting risk into two pieces
 - Leverage loan provided based on the credit worthiness of borrower/project
 - Equity investment based upon expected receipt and potential recapture risk of tax credits
- Key benefits and considerations
 - Provides financing at favorable terms, often with gap financing feature (often considered to be “equity” in the project)
 - Highly flexible structure -- Leverages available sources
 - Can be complex to structure and manage, with significant transaction costs

NMTC Players in a Leverage Model Structure

Working With 3rd Party Allocatees – Leverage Model Structure



CDE = Community Development Entity
 QEI = Qualified Equity Investment
 QLICI = Qualified Low Income Community Investment
 QALICB = Qualified Active Low Income Community Business

NMTC Case Study: \$10MM Project

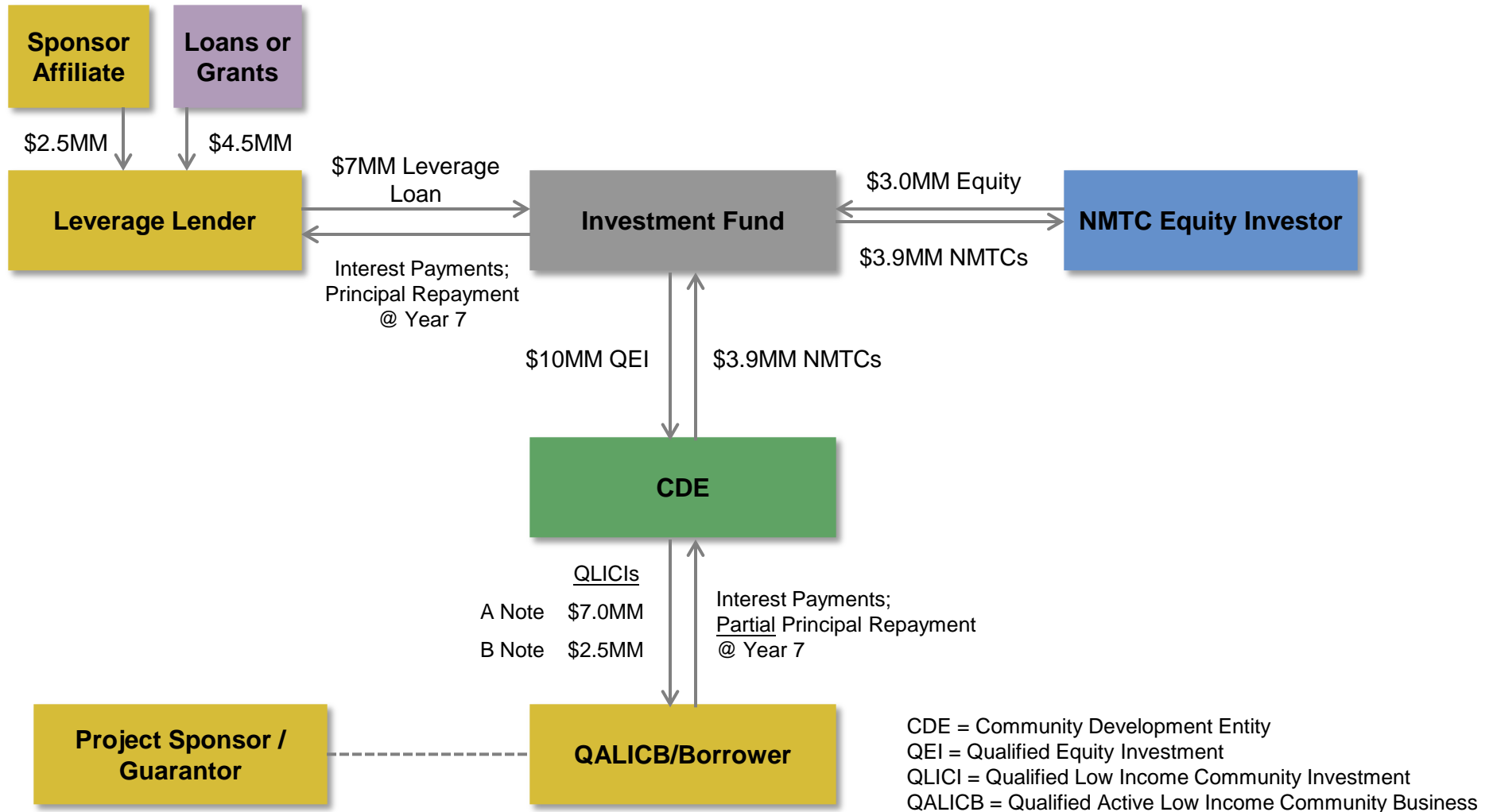
Introduction

- \$10MM TPC – building a new facility or purchasing new equipment
- Meets all the NMTC requirements – low income community, strong community impacts, therefore eligible for NMTC financing

Project Sources		Project Uses	
Sponsor affiliate capital	\$2,500,000	Site Acquisition	\$3,100,000
Loans or Grants	\$4,500,000	Hard Constr. Costs	\$5,200,000
		Soft Costs	\$1,200,000
Total:	\$7,000,000	Total:	\$9,500,000
GAP:	\$2,500,000		

NMTC Case Study: \$10MM Project

Working With 3rd Party Allocatees – Leverage Model Structure



NMTC Product Overview

3rd Party Leverage Transaction

What is the benefit of a NMTC transaction to the borrower?

- An “equity-like” benefit at the end of the 7 year period
- Interest only for 7 years
- Equal to roughly 28% of the project’s total costs, minus any CDE and other fees (net benefit is often ~20% of allocation)
- Importantly: fills a financing gap at closing, allowing project to go forward

What does the borrower give up?

- Time (expect a minimum of 90 days for closing once all the pieces are in place)
- Cost (closing costs often exceed \$250k)
- Taxable income (unwind at year 7 triggers Cancellation of Debt (COD) Income for for-profit sponsors)
- Higher ongoing costs (audit and tax expense at multiple levels of the structure plus ongoing CDE fees for 7 years)

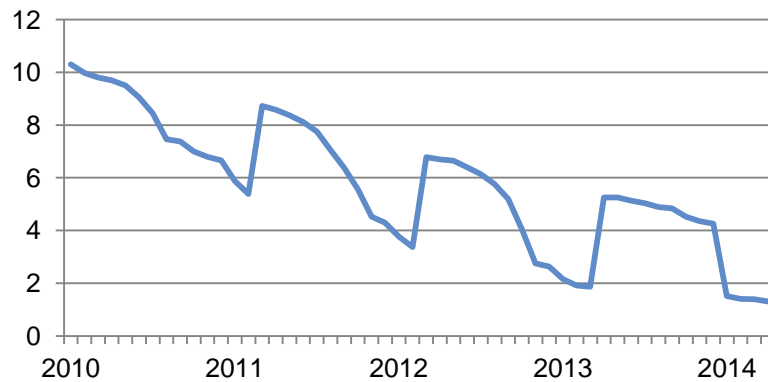
NMTC Market Dynamics 2013-2014

High demand for cyclical allocation availability

Significant allocation absorption over the past several years, causing lower and lower amounts of available allocation:

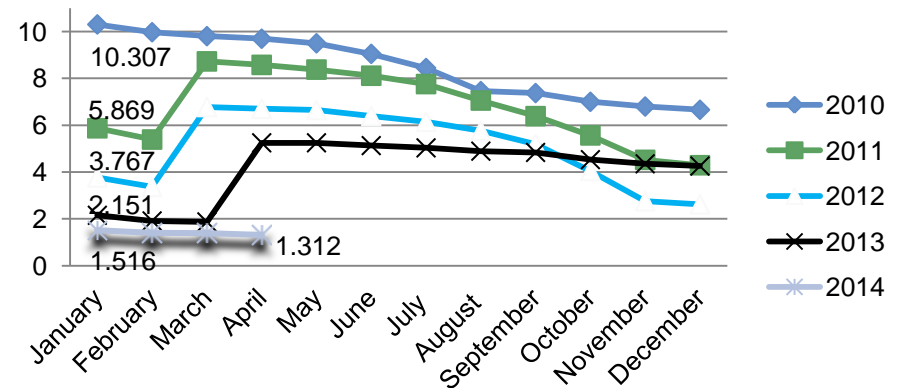
Allocation in Market (BNs)

Per Monthly QEI Issuance Reports



Historical Allocation Remaining in Market

Per Monthly QEI Issuance Reports
Beg of Month Reporting (BNs)



- Peaks are allocation awards to marketplace of \$3.5BN annual award
 - Awards generally in the spring but historically were in February, last year April, in 2014 expected May or June
- Due to extremely high demand and decreasing supply, awards largely committed / reserved for projects within 3 to 4 weeks of the award announcements
- Recent \$3.5BN of allocation was awarded to more awardees causing \$40MM average award
 - CDEs still seeking to spread across more deals causing challenges for large deals to aggregate CDEs
- Transactions still take 2 to 4 months or longer to close; most NMTC closings in the 3rd and 4th quarter

Chase NMTC Contact Information

NEW MARKETS TAX CREDITS

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Geographies

NY, NJ, FL, WV, DE,
DC, Southeast PA

WI, IN, IL MI, KY, MN,
MO

Southern CA, NV, AZ,
CO, NM

LA, TX, OK, MS, AL

CT, GA, MA, OH, TN,
New England area

Northern CA, WA,
OR, ID, MT, UT