

## NAHEFFA CONFERENCE - TAX REFORM ISSUES

Robert Muller - Managing Director

October 3, 2011

STRICTLY PRIVATE AND CONFIDENTIAL



J.P.Morgan

This presentation was prepared exclusively for the benefit and internal use of the J.P. Morgan customer to whom it is directly addressed and delivered (including such customer's affiliates, the "Customer"). The materials have been provided to the Customer for informational purposes only and is incomplete without reference to, and should be viewed solely in conjunction with, the oral briefing provided by J.P. Morgan. Neither this presentation nor any of its contents may be disclosed or used for any other purpose without the prior written consent of J.P. Morgan.

Information has been obtained from sources believed to be reliable but J.P. Morgan does not warrant its completeness or accuracy. Opinions and statements constitute our judgment as of the date of this material and are subject to change without notice.

This presentation does not constitute a commitment by any J.P. Morgan entity to underwrite, subscribe for or place any securities or to extend or arrange credit or to provide any other services.

This material is not a product of the Research Departments of J.P. Morgan Securities LLC ("JPMS") and is not a research report. Unless otherwise specifically stated, any views or opinions expressed herein are solely those of the authors listed, and may differ from the views and opinions expressed by JPMS's Research Departments or other departments or divisions of JPMS and its affiliates. Research reports and notes produced by the Research Departments of JPMS are available from your Registered Representative or at <http://www.morganmarkets.com>. JPMS's policies prohibit employees from offering, directly or indirectly, a favorable research rating or specific price target, or offering to change a rating or price target, to a subject Customer as consideration or inducement for the receipt of business or for compensation. JPMS also prohibits its research analysts from being compensated for involvement in investment banking transactions except to the extent that such participation is intended to benefit investors.

**IRS Circular 230 Disclosure: JPMorgan Chase & Co. and its affiliates do not provide tax advice. Accordingly, any discussion of U.S. tax matters included herein (including any attachments) is not intended or written to be used, and cannot be used, in connection with the promotion, marketing or recommendation by anyone not affiliated with JPMorgan Chase & Co. of any of the matters addressed herein or for the purpose of avoiding U.S. tax-related penalties.**

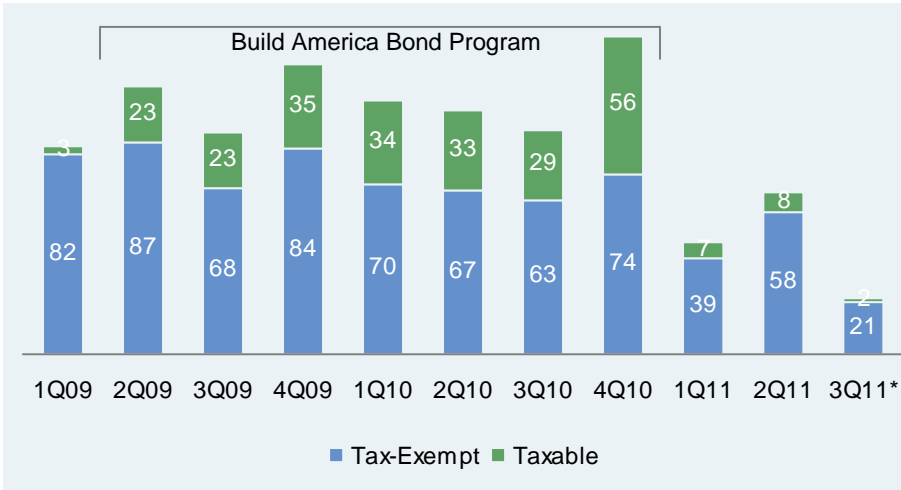
This presentation does not carry any right of publication or disclosure, in whole or in part, to any other party, without the prior consent of J.P. Morgan. Additional information is available upon request.

J.P. Morgan is the marketing name for the investment banking activities of JP Morgan Chase Bank, N.A., J.P. Morgan Securities LLC (member, NYSE), J.P. Morgan Securities Ltd. (authorized by the FSA and member, LSE) and their investment banking affiliates.

This presentation and the information contained herein are not a product of the J.P. Morgan Research Department.

# Taxable Municipal Market Overview

## Taxable and tax-exempt supply



\*3Q11 as of Sept 26, 2011

Source: Securities Data Corporation, Long Term Negotiated & Competitive Deals

## 5-day average BABs Spread\* to UST vs. JULI HG Spread to UST\*\* (bps)

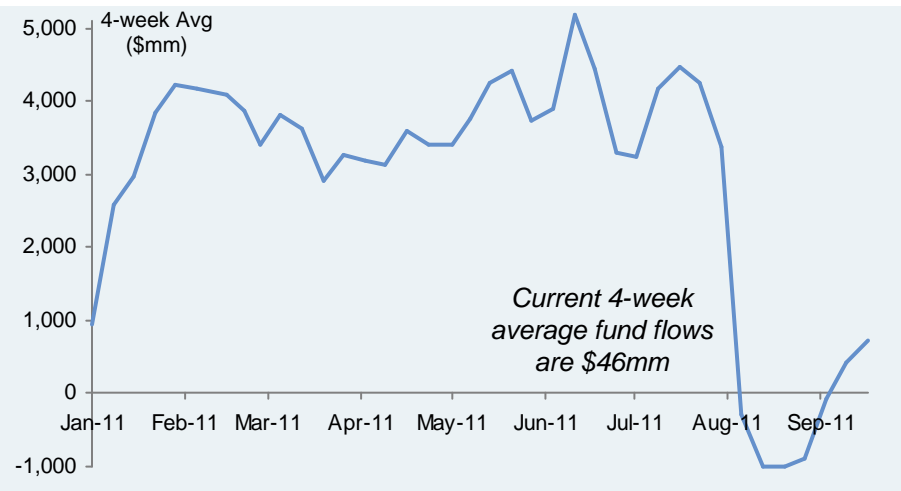


Source: Bloomberg, JJ Kenny and J.P. Morgan

\*Index of 68 benchmark Build America Bond issues

\*\*JULI All Main Sectors, Benchmark Spread to Treasury

## Taxable fixed income fund flows



Source: AMG Data

## 5-day average BABs Spread to Corporates (bps)

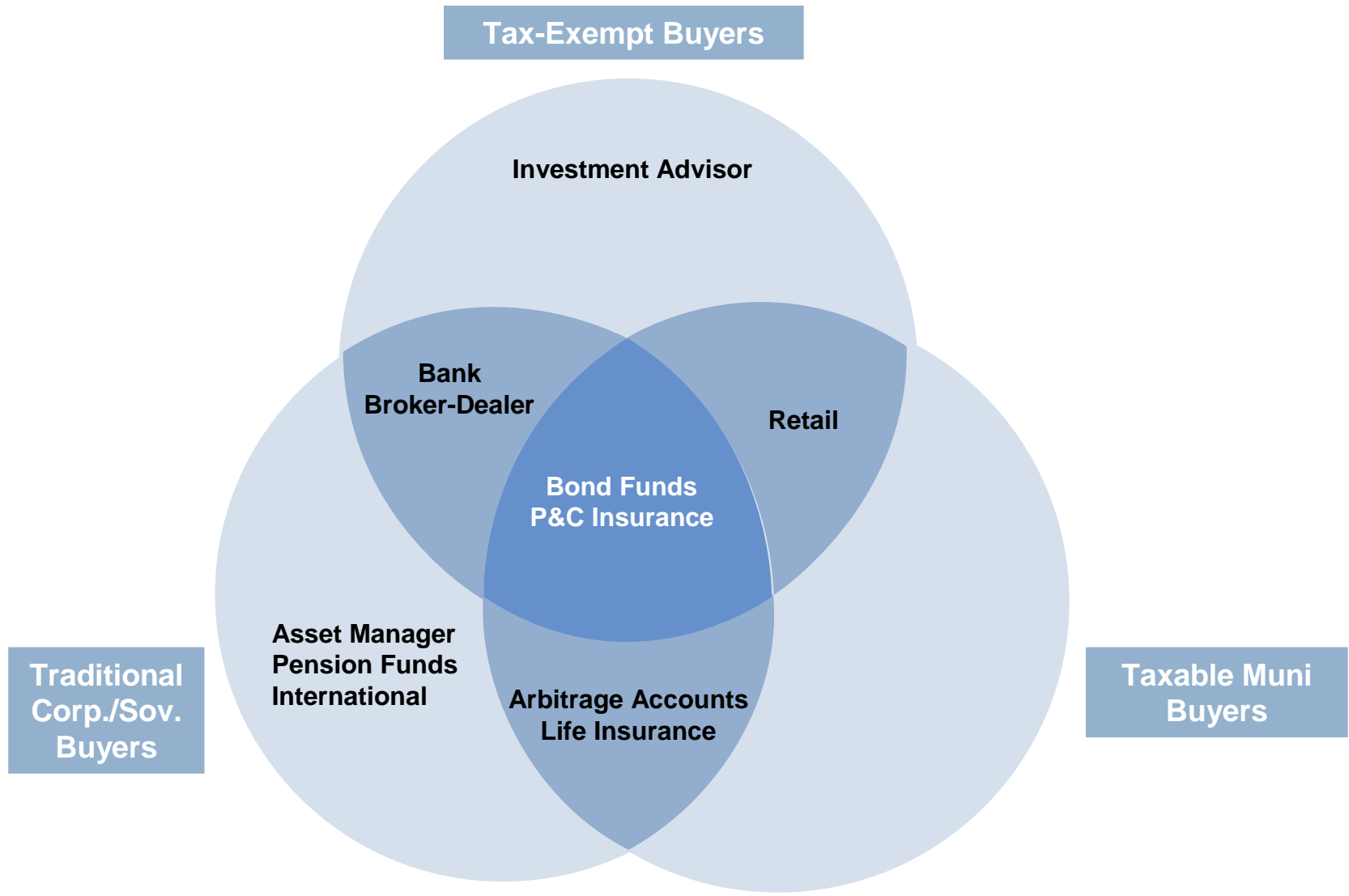


\*BAB benchmark spreads vs. JULI All Main Sector Benchmark Spread to Treasury

Source: Bloomberg and J.P. Morgan

J.P.Morgan

# Overlap of Fixed Income Buyer Types



# Comparison of Fixed Income Buyer Types

## Traditional Municipal versus Traditional Corporate/Sovereign Buyer Types

	Traditional Municipal		Traditional Corporate/Sovereign	
	Tax-Exempt Buyers	Taxable Municipal Buyers	Cross Over Taxable Buyers	International Buyers
<b>Main Buyer Types</b>	Bond funds, retail	Bond funds, insurance	Bond funds, insurance, arbitrage accounts	Sovereign wealth funds, central banks, pension funds
<b>Additional Buyer Types</b>	Investment advisor, bank/broker, property and casualty insurance	Retail, arbitrage account	Pension funds, bank/broker	Insurance, asset managers, banks
<b>Retail Participation</b>	Substantial driver of demand, especially short and intermediate serials	Limited, not a substantial driver of demand	Little to no participation	No participation
<b>Structures</b>	Serials, term bonds	Serials, term bonds, bullets	Term bonds, bullets	Term bonds, bullets
<b>Index Eligibility</b>	N/A	Not necessary	Strongly preferred	Strongly preferred
<b>Investment Factors</b>	Yield and tax-exempt income	Yield and income	Performance relative to corporates and liquidity	Liquidity and exposure to U.S. markets
<b>Opportunity for Growth</b>	Well established market, some use of leverage through TOBs	Limited to tax-exempt buyer base	Extensive; cross-over buyers gaining familiarity, but are resistant to 10-yr. par calls and serial bonds	Opportunity for growth; requires more investor education but limited by duration requirements

# The Largest Corporate Issuers Have Issued Substantially More Debt than the Largest Municipal Issuers

## Top Taxable Muni Debt Issuers (2009 – Present)

Rank	Issuer	Volume (\$mm)
1	California	17,288
2	Illinois	10,422
3	New York City G.O.s	5,665
4	University of California	4,102
5	NYC Transitional Finance Auth	3,885
6	Metropolitan Transport Auth (MTA)	3,790
7	Texas Transportation Commission	3,524
8	NYC Municipal Water Finance Auth	3,458
9	Bay Area Toll Authority	3,275
10	American Municipal Power Inc	3,267

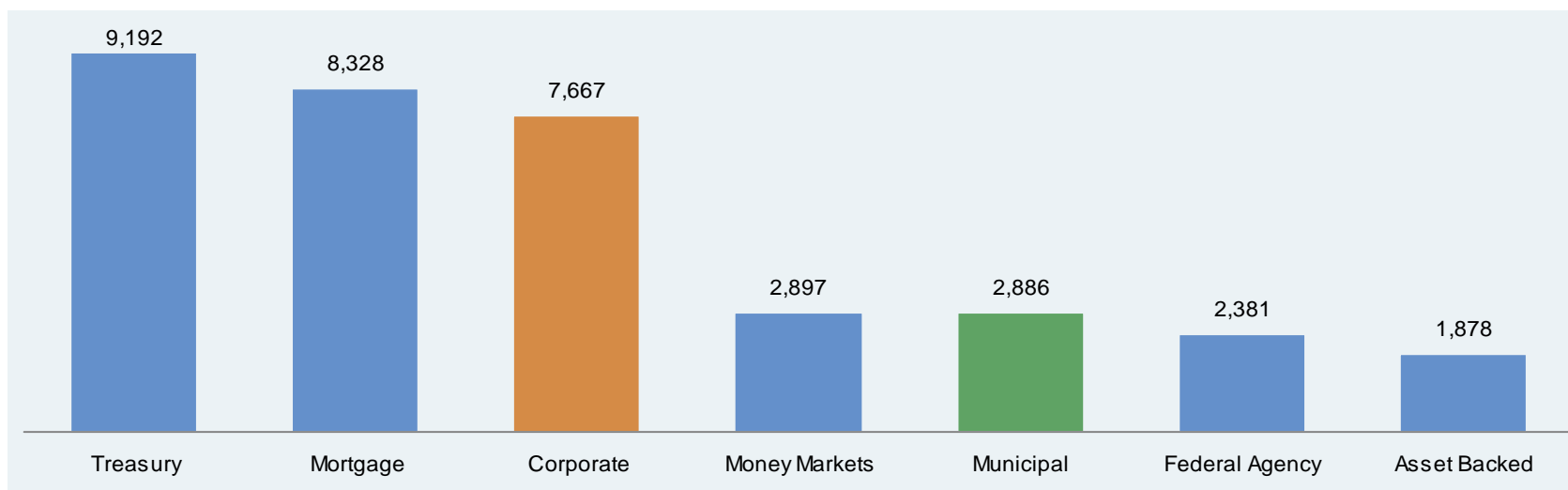
Source: Securities Data Corporation, as of Sept 26, 2011

## Top Corporate Debt Issuers (2009 – Present)

Rank	Issuer	Volume (\$mm)
1	GE	107,399
2	Citigroup Inc	101,477
3	JPMorgan Chase & Co	76,275
4	Morgan Stanley Group Inc	72,363
5	Bank of America Corp	63,926
6	Goldman Sachs Group Inc	48,943
7	Pfizer Inc	24,451
8	Caterpillar Tractor Inc	24,077
9	Wal-Mart Stores Inc	22,611
10	Hewlett-Packard Co	19,375

Source: Securities Data Corporation, as of Sept 26, 2011

## U.S. Bond Markets Outstanding (\$Billions)



Source: SIFMA as of 2Q11

## Top Higher-Ed and Healthcare Taxable Issuers

- Deals issued from January 1, 2010 to September 26, 2011

### Higher-Ed

Sale Date	Issuer	State	Par (\$mm)
07/15/10	Los Angeles Comm College Dt	CA	900
05/11/11	Massachusetts Institute of Technology	MA	750
11/09/10	Regents of the Univ of California	CA	700
09/15/10	Ohio State University	OH	655
09/14/10	Univ of Texas Sys Bd of Regents	TX	604
07/19/11	Regents of the Univ of California	CA	550
10/05/10	State University of New York	NY	549
06/22/10	Univ of Texas Sys Bd of Regents	TX	516
09/21/10	Regents of the Univ of California	CA	486
10/21/10	Univ of Massachusetts Bldg Au	MA	430
07/19/11	Regents of the Univ of California	CA	400
11/03/10	Rutgers State University	NJ	391
11/23/10	Ohio Public Fac Commission	OH	295
12/08/10	University of Missouri Curators	MO	252
09/21/10	Univ of Hawaii Board of Regents	HI	239
10/28/10	University of Michigan Regents	MI	212
03/17/10	California State Univ Trustees	CA	205
04/21/10	Michigan St Univ Board of Trust	MI	205
12/13/10	Regents of the Univ of California	CA	200

Source: Securities Data Corporation

### Healthcare

Sale Date	Issuer	State	Par (\$mm)
08/15/2010	Bexar County Hospital District	TX	205
12/1/2010	Washington Biomedical Research Fac	WA	165
12/2/2010	Rowan University, Cooper Med School	NJ	94
1/7/2010	MetroHealth	OH	75
11/17/2010	Forrest County General Hospital Proj	MS	70
12/9/2010	Westchester County Healthcare Corp	NY	68
9/14/2011	Mason General Hospital	WA	57
8/11/2010	Medical Center Hospital	GA	45
4/21/2010	Lee Memorial Health System	FL	42

Source: Securities Data Corporation

## Index Eligible Taxable Data

- Index Eligible maturities include those that are \$250 million or greater in size
- Since January 2009, Index Eligible taxable bond maturities total \$104.3 billion across approximately 237 deal maturities
  - Non-Index Eligible taxable bond maturities total \$189.3 billion across 6,205 deal maturities

Index Eligible Issuance by Rating		
Rating	Amount (\$mm)	Total (%)
AAA	6,927	6.7
AA	50,218	48.1
A	44,473	42.6
BBB	2,719	4.6
<b>Total</b>	<b>104,337</b>	<b>100.0%</b>

Index Eligible Issuance by Call Structure		
Rating	Amount (\$mm)	Total (%)
Make-whole Call	95,263	91.3
Par Call	9,074	8.7
<b>Total</b>	<b>104,337</b>	<b>100.0%</b>

Index Eligible Issuance by Industry		
All Issuance	Amount (\$mm)	Total (%)
Ad Valorem Property Tax	30,019	28.8
Highway Revenue Tolls	10,568	10.1
Elec. Pwr. & Lt. Revs.	8,822	8.5
General Fund	8,110	7.8
Miscellaneous Revenue	8,002	7.7
Water Revenue	6,731	6.5
College & Univ. Rev.	5,490	5.3
Transit Revenue	5,435	5.2
Sales Tax Revenue	5,386	5.2
Income Tax Revenue	4,493	4.3
Other	11,281	10.8
<b>Total</b>	<b>104,337</b>	<b>100.0%</b>

Index Eligible Issuance by State		
State	Amount (\$mm)	Total (%)
California	34,712	33.3
New York	14,487	13.9
Illinois	12,002	11.5
Texas	9,730	9.3
New Jersey	6,050	5.8
Ohio	3,834	3.7
Massachusetts	3,118	3.0
Georgia	2,917	2.8
Pennsylvania	2,530	2.4
Washington	1,750	1.7
Other	13,207	12.7
<b>Total</b>	<b>104,337</b>	<b>100.0%</b>

Source: Bloomberg. Data above reflects deals issued between Jan 1, 2009 and Sept 26, 2011.

### Advantages of larger, less frequent issuances

- Improves investor focus and avoids risk of subsequent deal “cheapening”
- Index-eligible tranches attract more investors due to enhanced liquidity
- Smaller, more frequent issuers remain appropriate for tax-exempt

## The stratification of taxable market participants gives issuers some structuring flexibility

### ■ **Traditional Corporate Buyers**

- Largest investor base with the deepest pockets
- More familiar with municipal credits due to the BAB program
- Prefer index eligible taxable Issuances
- Willing to entertain some “structure” (term bonds, etc.), but are less inclined to buy callable bonds
  - Currently, minimal yield premium for term bonds relative to bullet maturities

### ■ **Traditional Municipal Buyers**

- Know municipal credit and understand structuring constraints
- Good bid for taxables, including deals with term bonds and call options
- Buying activity from this area drove mid-sized BAB transaction credit spreads lower

Investor Structural Preferences		
	Traditional Municipal Buyers	Traditional Corporate Buyers
Index-eligible	x	✓
Par call	✓	x
Serial maturities	✓	x
Sinking funds	✓	✓

### ■ **Retail Investors**

- These investors may buy the bonds for IRAs or College funds where they can limit tax liability
- Retail participation has increased recently, but is still not a driver in taxable transactions