

RATINGS REVISION | COMMENT

JULY 18, 2008

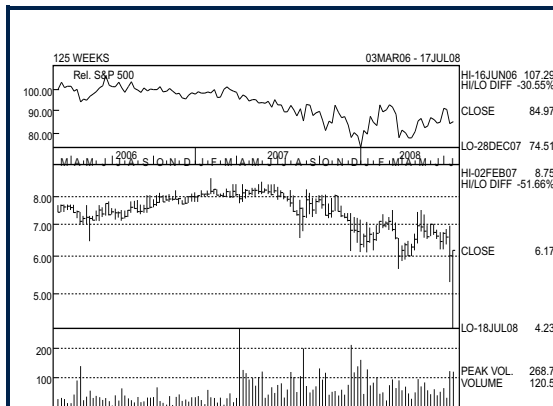
**America First Tax Exempt (NASDAQ: ATAX)
Upgrading to Outperform - New Credit Facility Aids
Outlook**
**Outperform (prev: Sector Perform)
Above Average Risk**

| | | | |
|---------------------------------|------|--------------------------------|-------------|
| Price: | 6.17 | Price Target: | 8.00 ↑ 7.00 |
| Shares O/S (MM): | 13.5 | Implied All-In Return: | 38% |
| Dividend: | 0.54 | Market Cap (MM): | 83 |
| BVPS: | 7.85 | Yield: | 8.8% |
| ROE: | NA | P/BVPS: | 0.8x |
| Float (MM): | 13.5 | Tr. 12 ROE: | 3.56% |
| Institutional Ownership: | 2% | Avg. Daily Volume (MM): | 0.01 |
| | | 3-Yr. Est. EPS Growth: | 10.00% |

Represents forward 12-month estimated dividend distribution

**More Stable/Lower Cost Funding Strengthens Value
Proposition**
Investment Opinion

- Upgrading to Outperform:** ATAX recently disclosed a new financing agreement, which materially improves our outlook for the company. Lower borrowing costs and more stable financing should support earnings growth, relative to our previous expectations for earnings contraction in 2008. While financial market turmoil remains high, we think ATAX's portfolio is relatively well-positioned.
- Credit Facility Replacement a Key Positive:** ATAX recently closed a new financing agreement, alleviating concerns regarding the firm's ability to do so. Additionally, entry into a new credit facility should lead to materially lower borrowing costs for ATAX. Costs are expected to decline from roughly 7.00% near the end of 1Q08 to 3.25% at present, adding materially support to earnings.
- Loan Performance Should be Relatively Stable:** We continue to expect America First to benefit over the long run from housing market dislocation. Challenging conditions in the housing market should lead to increased demand for multi-family housing, which should support occupancy rates and performance of the properties backing ATAX's investments. Further, the generally less overdeveloped geographic locations of properties and lower-income focus should lend relative stability to property performance in the current economic environment.
- Estimate Revisions:** Raising our 2008E core CAD estimate to \$0.49 from \$0.43 p/s, given expectations for lower borrowing costs to benefit earning in 2H08. Initiating our 2009 EPS estimate at \$0.62 p/s, which reflects lower borrowing costs and moderate balance sheet growth.
- Thoughts on the Stock:** Now that our concerns for the company's funding stability have been relieved, we are taking a more positive stance on ATAX. Valuation remains modest at 0.8x book value, so we think shares should offer investors an attractive total return value proposition for the year ahead.


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| FY Dec | 2006A | 2007A | 2008E | 2009E |
|----------------------|-----------|-----------|-----------|-----------|
| EPS (Op) - FD | 0.48 | 0.48 | 0.49 | 0.62 |
| Prev. | | | 0.43 | |
| P/E | 12.9x | 12.9x | 12.6x | 10.0x |
| EPS (Op) - FD | Q1 | Q2 | Q3 | Q4 |
| 2007 | 0.13A | 0.13A | 0.13A | 0.09A |
| 2008 | 0.10A | 0.10E | 0.14E | 0.15E |
| Prev. | | | 0.11E | 0.12E |
| 2009 | 0.15E | 0.15E | 0.16E | 0.16E |

All values in USD unless otherwise noted.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Disclosures, please see Page 5.

Details

Value Case Improved by Debt Refinancing: Through the refinancing of its debt, ATAX resolves concerns for stability of available financing, and also reducing the cost of funds to roughly 3.00-3.50% from nearly 7.00% witnessed near the end of 1Q08. The previous credit facility was at risk as a result of business challenges faced at Merrill Lynch, the provider of the line, which gave rise to concerns for profitability and reliability of credit for ATAX. We note that the company utilizes only very modest amounts of leverage, 0.7x D/E at 1Q08 end, so America First is less at risk if further financial market funding disruptions arise, all else equal.

Estimate Revisions: We anticipate the firm will resume a moderate portfolio growth trajectory following firming up of its financing. Raising our '08 earnings estimates to \$0.49 p/s from \$0.43, largely the result of more favorable funding costs. Initiating an '09 EPS estimate of \$0.62, reflecting lower funding cost expectations along with moderate portfolio growth.

Valuation

ATAXZ trades at 10.0x our 2009 CAD estimate, 0.8x partnership book value per share, and yields 9% on an unadjusted basis (roughly 14% on a tax-adjusted basis) based on our forward 12-month dividend estimate. We think shares should yield roughly 12% on a tax-adjusted basis given current financial system turmoil and should trade at roughly 1.0x book value (previous yield expectation was 10%), implying a 12-month Price Target of roughly \$8 p/s based on our current estimates.

Price Target Impediment

Our price target on ATAXZ shares is based upon earnings and dividend forecasts. A severe economic downturn, a sharp spike in short-term interest rates or a severe and prolonged decline in long-term interest rates could hamper the company's ability to achieve our forecasts, and cause us to revisit our earnings and dividend estimates and our current price target. Stronger than expected asset growth and stable interest rates could lead to higher than expected earnings and potentially render our current earnings estimates and price target too conservative. Further turmoil in the credit markets could lead to funding challenges for the company, which could lead to impairment of the company's earnings capacity or book value.

Company Description

America First Tax Exempt Investors, L.P. engages in acquiring, holding, selling, and dealing with a portfolio of federally tax-exempt mortgage revenue bonds. These bonds are issued by state and local housing authorities to provide construction and/or permanent financing of multifamily residential properties located in Florida, Indiana, Iowa, South Carolina, Texas, Nebraska and Kentucky. America First Capital Associates Limited Partnership serves as the general partner of the partnership. America First Tax Exempt Investors was founded in 1985, took form as a Delaware limited partnership in 1998, and is based in Omaha, Nebraska.



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September 16-17, 2008 | Boston, MA

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We're confident this distinctive event is one you won't want to miss. We look forward to seeing you in Boston in September!

CONFERENCE LOCATION

The Four Seasons Hotel Boston

200 Boylston Street
Boston, MA 02116

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| America First Tax Exempt Investors | | | | | | | | | | | | | | | | ATAX |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| (\$ millions, except per share data and where otherwise noted) | | | | | | | | | | | | | | | | |
| Sources: Company filings and RBCCM estimates | | | | | | | | | | | | | | | | |
| Income Statement*** | 2006A | 1Q07A | 2Q07A | 3Q07A | 4Q07A | 2007A | 1Q08A | 2Q08E | 3Q08E | 4Q08E | 2008E | 1Q09E | 2Q09E | 3Q09E | 4Q09E | 2009E |
| Interest Revenue | 8.4 | 2.1 | 2.6 | 2.7 | 2.8 | 10.1 | 2.7 | 2.6 | 2.5 | 2.8 | 10.6 | 2.8 | 3.0 | 3.2 | 3.3 | 12.3 |
| Interest Expense | 2.1 | 0.5 | 0.5 | 1.1 | 1.4 | 3.5 | 1.5 | 1.3 | 0.6 | 0.7 | 4.1 | 0.7 | 0.7 | 0.8 | 0.9 | 3.0 |
| Net Interest Income | \$6.3 | \$1.6 | \$2.0 | \$1.6 | \$1.4 | \$6.6 | \$1.1 | \$1.2 | \$2.0 | \$2.2 | \$6.5 | \$2.2 | \$2.2 | \$2.4 | \$2.5 | \$9.3 |
| Property Revenue | 0.0 | 0.0 | 0.0 | 1.0 | 1.0 | 2.1 | 1.1 | 1.1 | 1.1 | 1.1 | 4.4 | 1.1 | 1.1 | 1.1 | 1.1 | 4.4 |
| Loan Loss Provision | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Depreciation and Amortization | 0.0 | 0.0 | 0.0 | 0.7 | 0.7 | 1.5 | 0.6 | 0.6 | 0.6 | 0.6 | 2.5 | 0.6 | 0.6 | 0.6 | 0.6 | 2.5 |
| General/Administrative/Other | 1.6 | 0.3 | 0.4 | 0.9 | 1.2 | 2.8 | 0.9 | 0.9 | 1.2 | 1.2 | 4.2 | 1.2 | 1.3 | 1.4 | 1.5 | 5.3 |
| Total Non-Interest Expenses | \$1.6 | \$0.3 | \$0.4 | \$1.6 | \$1.9 | \$4.3 | \$1.6 | \$1.6 | \$1.8 | \$1.8 | \$6.8 | \$1.8 | \$1.9 | \$2.0 | \$2.1 | \$7.9 |
| Net Income | \$4.7 | \$1.3 | \$1.6 | \$1.0 | \$0.5 | \$4.4 | \$0.7 | \$0.8 | \$1.2 | \$1.4 | \$4.1 | \$1.4 | \$1.4 | \$1.5 | \$1.5 | \$5.8 |
| Shares Outstanding | 9.9 | 9.8 | 13.1 | 13.5 | 13.5 | 13.5 | 13.5 | 13.5 | 13.5 | 13.5 | 13.5 | 13.5 | 13.5 | 13.5 | 13.5 | 13.5 |
| Core Cash Available For Distribution | \$0.48 | \$0.13 | \$0.13 | \$0.13 | \$0.09 | \$0.48 | \$0.10 | \$0.10 | \$0.14 | \$0.15 | \$0.49 | \$0.15 | \$0.15 | \$0.16 | \$0.16 | \$0.62 |
| Reported Cash Available For Distribution | \$0.13 | \$0.11 | \$0.14 | \$0.14 | \$0.09 | \$0.48 | \$0.10 | \$0.10 | \$0.14 | \$0.15 | \$0.49 | \$0.15 | \$0.15 | \$0.16 | \$0.16 | \$0.62 |
| Dividends Per Share | \$0.52 | \$0.13 | \$0.14 | \$0.14 | \$0.14 | \$0.54 | \$0.14 | \$0.14 | \$0.14 | \$0.14 | \$0.54 | \$0.15 | \$0.15 | \$0.15 | \$0.15 | \$0.58 |
| Dividend Payout Ratio | 109% | 100% | 104% | 104% | 150% | 111% | 135% | 135% | 96% | 90% | 110% | 97% | 97% | 91% | 91% | 94% |
| Period-End Balance Sheet*** | | | | | | | | | | | | | | | | |
| Revenue Bonds | 108 | 108 | 140 | 140 | 150 | 150 | 159 | 148 | 158 | 168 | 168 | 168 | 175 | 183 | 193 | 193 |
| Cash | 11 | 11 | 14 | 19 | 18 | 18 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 |
| Total Interest Earning Assets | \$119 | \$119 | \$153 | \$158 | \$168 | \$168 | \$167 | \$155 | \$165 | \$175 | \$175 | \$175 | \$183 | \$190 | \$200 | \$200 |
| Interest-Bearing Debt | \$46 | \$46 | \$59 | \$59 | \$71 | \$71 | \$71 | \$65 | \$75 | \$85 | \$85 | \$85 | \$93 | \$100 | \$110 | \$110 |
| Partner's Equity | \$82 | \$86 | \$113 | \$117 | \$113 | \$113 | \$107 | \$106 | \$106 | \$106 | \$106 | \$106 | \$106 | \$107 | \$107 | \$107 |
| Book Value Per Share | \$8.35 | \$8.70 | \$8.65 | \$8.63 | \$8.36 | \$8.36 | \$7.89 | \$7.85 | \$7.86 | \$7.87 | \$7.87 | \$7.88 | \$7.88 | \$7.90 | \$7.91 | \$7.91 |
| Ratios | | | | | | | | | | | | | | | | |
| ROAE | 5.7% | 6.0% | 6.6% | 3.4% | 1.8% | 4.5% | 2.4% | 2.9% | 4.7% | 5.4% | 3.8% | 5.4% | 5.3% | 5.6% | 5.5% | 5.4% |
| G&A/Average Interest Earning Assets | 1.48% | 1.07% | 1.32% | 2.63% | 3.26% | 2.16% | 2.41% | 2.43% | 3.10% | 2.91% | 2.71% | 2.91% | 2.99% | 3.09% | 3.16% | 3.04% |
| Period-End Leverage (Debt/Capitalization) | 36% | 35% | 34% | 34% | 39% | 39% | 40% | 38% | 41% | 44% | 44% | 44% | 46% | 48% | 51% | 51% |
| Leverage (D/E) | | | | 0.5x | 0.6x | 0.6x | 0.7x | 0.6x | 0.7x | 0.8x | 0.8x | 0.8x | 0.9x | 0.9x | 1.0x | 1.0x |
| Net Interest Margin | 1.45% | 1.43% | 1.65% | 1.14% | 0.97% | 1.28% | 0.73% | 0.80% | 1.29% | 1.32% | 1.04% | 1.32% | 1.30% | 1.34% | 1.33% | 1.32% |

***Actual figures and estimates are deconsolidated partnership figures, which are non-GAAP.

***Deconsolidated figures reverse the impact of FIN-46R, which forces ATAXZ to consolidate 10 of its 13 revenue bonds as if the company actually owned the properties, which it does not.

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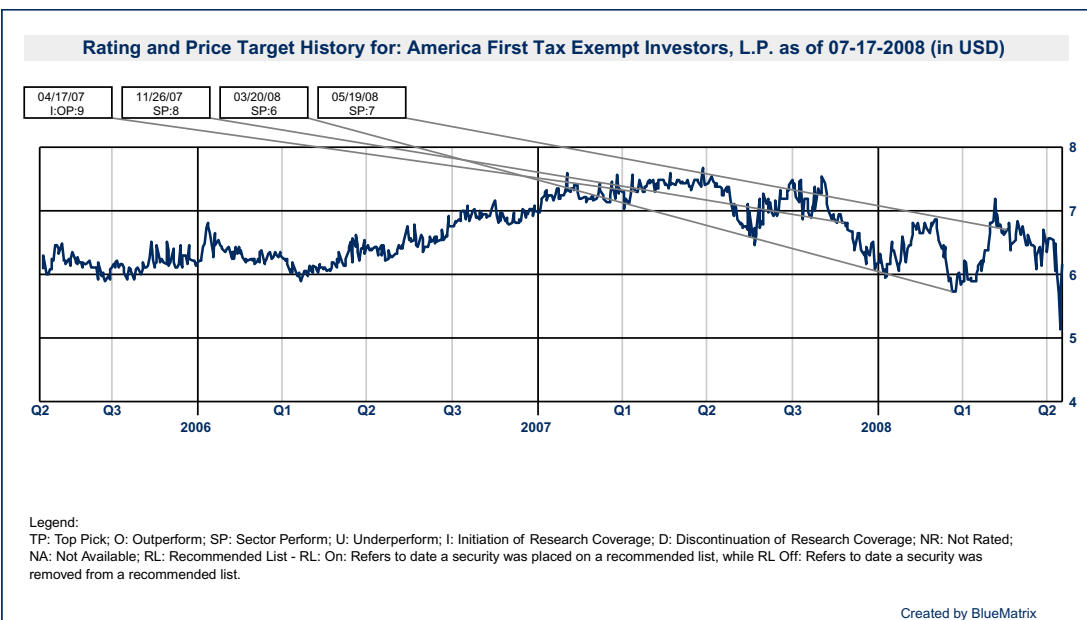
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| | | | Count | Percent |
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| HOLD[SP] | 523 | 45.20 | 118 | 22.56 |
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