

**BOSTON COMMUNITY LOAN FUND, INC.**

**FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
TOGETHER WITH  
INDEPENDENT AUDITOR'S REPORT**

**BOSTON COMMUNITY LOAN FUND, INC.**

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DECEMBER 31, 2012 AND 2011**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Boston Community Loan Fund, Inc.:

We have audited the accompanying financial statements of Boston Community Loan Fund, Inc. (a Massachusetts corporation, not for profit) (the Loan Fund) which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Loan Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Boston Community Loan Fund, Inc. as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors of  
Boston Community Loan Fund, Inc.:  
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***Emphasis of Matter***

As explained in Note 1 to the financial statements, the Loan Fund is part of an affiliated group of companies and has entered into transactions with certain group members. As required under accounting principles generally accepted in the United States of America, the financial statements of the Loan Fund are also consolidated with those of the affiliated group.

Boston, Massachusetts  
April 11, 2013

Alexander Arman Firmig, Esq., P.C.

**BOSTON COMMUNITY LOAN FUND, INC.**

**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2012 AND 2011**

	<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	\$ 22,709,815	\$ 18,744,215	
Short-term investments	-	1,966,867	
Escrow funds	1,277,180	2,841,143	
Current portion of loans and interest receivable, net of allowance for loan losses of \$3,073,293 and \$3,194,818 as of December 31, 2012 and 2011, respectively	24,307,977	30,193,319	
Current portion of affiliate loans and other receivables	2,653,172	4,491,870	
Other current assets	98,298	97,379	
Total current assets	<u>51,046,442</u>	<u>58,334,793</u>	
<b>LOANS AND INTEREST RECEIVABLE, net of current portion and allowance for loan losses of \$1,734,357 and \$1,112,831 as of December 31, 2012 and 2011, respectively</b>			
	44,002,360	44,965,039	
<b>AFFILIATE LOANS AND OTHER RECEIVABLES, net of current portion</b>			
	13,530,040	7,266,336	
<b>REAL ESTATE OWNED</b>			
	<u>1,400,000</u>	<u>1,400,000</u>	
Total assets	<u><u>\$ 109,978,842</u></u>	<u><u>\$ 111,966,168</u></u>	
<b><u>LIABILITIES AND NET ASSETS</u></b>			
<b>CURRENT LIABILITIES:</b>			
Current portion of loans payable	\$ 11,107,908	\$ 11,601,063	
Current portion of permanent loan capital - subordinated loans payable	95,053	93,173	
Interest and accounts payable	395,845	424,476	
Escrow funds	1,277,180	2,841,143	
Total current liabilities	<u>12,875,986</u>	<u>14,959,855</u>	
LOANS PAYABLE, net of current portion	58,530,196	63,082,089	
<b>PERMANENT LOAN CAPITAL - SUBORDINATED LOANS PAYABLE, net of current portion</b>			
	<u>20,226,489</u>	<u>19,321,542</u>	
Total liabilities	<u><u>91,632,671</u></u>	<u><u>97,363,486</u></u>	
<b>NET ASSETS:</b>			
Unrestricted:			
General	11,013,455	9,704,307	
Board designated for permanent loan capital and special programs	1,132,500	1,132,500	
Board designated for loan loss reserves	3,137,124	2,886,839	
Total unrestricted	<u>15,283,079</u>	<u>13,723,646</u>	
Temporarily restricted:			
Financial assistance	2,183,181	-	
Permanent loan capital	879,911	879,036	
Total temporarily restricted	<u>3,063,092</u>	<u>879,036</u>	
Total net assets	<u><u>18,346,171</u></u>	<u><u>14,602,682</u></u>	
Total liabilities and net assets	<u><u>\$ 109,978,842</u></u>	<u><u>\$ 111,966,168</u></u>	

*The accompanying notes are an integral part of these statements.*

**BOSTON COMMUNITY LOAN FUND, INC.**

**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b><u>UNRESTRICTED NET ASSETS:</u></b>		
<b>OPERATING REVENUES:</b>		
Financial and earned revenues:		
Interest on loans, net	\$ 5,252,467	\$ 5,000,793
Loan fees and other	437,089	528,715
Investment income	73,919	84,362
Net loan loss provision	(500,001)	(1,091,315)
Less - interest expense	<u>(3,187,965)</u>	<u>(2,773,393)</u>
Net financial and earned revenues	2,075,509	1,749,162
Grants and contributions	<u>564,625</u>	<u>481,000</u>
Total operating revenues	<u>2,640,134</u>	<u>2,230,162</u>
<b>OPERATING EXPENSES:</b>		
Personnel	1,314,608	1,412,627
Office operations	194,100	194,351
Marketing	29,753	28,440
Legal and consulting	21,270	39,411
Other	<u>20,970</u>	<u>19,896</u>
Total operating expenses	<u>1,580,701</u>	<u>1,694,725</u>
Changes in unrestricted net assets from operations	1,059,433	535,437
<b>OTHER CHANGES IN UNRESTRICTED NET ASSETS:</b>		
Grants from affiliate for support of new initiatives	<u>500,000</u>	<u>-</u>
Total changes in unrestricted net assets	<u>1,559,433</u>	<u>535,437</u>
<b><u>TEMPORARILY RESTRICTED NET ASSETS:</u></b>		
Grants and contributions	<u>2,184,056</u>	<u>945</u>
Changes in temporarily restricted net assets	<u>2,184,056</u>	<u>945</u>
Changes in net assets	<u>\$ 3,743,489</u>	<u>\$ 536,382</u>

*The accompanying notes are an integral part of these statements.*

**BOSTON COMMUNITY LOAN FUND, INC.**

**STATEMENTS OF CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>UNRESTRICTED</u>	<u>UNRESTRICTED -</u> <u>BOARD DESIGNATED</u>		<u>TEMPORARILY RESTRICTED</u>			<u>TOTAL</u>
		<u>PERMANENT</u>	<u>LOAN CAPITAL</u>	<u>PERMANENT</u>	<u>FINANCIAL</u>		
		<u>GENERAL</u>	<u>AND SPECIAL PROGRAMS</u>	<u>LOAN LOSS RESERVES</u>	<u>LOAN CAPITAL</u>	<u>ASSISTANCE</u>	
<b>NET ASSETS, December 31, 2010</b>	\$ 9,168,870	\$ 1,132,500	\$ 2,886,839	\$ 878,091	\$ -	\$ 14,066,300	
Changes in net assets	<u>535,437</u>	<u>-</u>	<u>-</u>	<u>945</u>	<u>-</u>	<u>536,382</u>	
<b>NET ASSETS, December 31, 2011</b>	9,704,307	1,132,500	2,886,839	879,036	-	14,602,682	
Changes in net assets	1,559,433	-	-	875	2,183,181	3,743,489	
Transfers of unrestricted net assets	<u>(250,285)</u>	<u>-</u>	<u>250,285</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET ASSETS, December 31, 2012</b>	<u><u>\$ 11,013,455</u></u>	<u><u>\$ 1,132,500</u></u>	<u><u>\$ 3,137,124</u></u>	<u><u>\$ 879,911</u></u>	<u><u>\$ 2,183,181</u></u>	<u><u>\$ 18,346,171</u></u>	

*The accompanying notes are an integral part of these statements.*

**BOSTON COMMUNITY LOAN FUND, INC.**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u><b>2012</b></u>	<u><b>2011</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 3,743,489	\$ 536,382
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Net loan loss provision	500,001	1,091,315
Grants for capital and investment uses	(2,184,056)	(945)
Changes in operating assets and liabilities:		
Interest receivable	(224,220)	(92,051)
Other current assets	(919)	(12,429)
Interest and accounts payable	(28,631)	54,149
Deferred loan fees	<u>(21,963)</u>	<u>(64,915)</u>
Net cash provided by operating activities	<u>1,783,701</u>	<u>1,511,506</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Issuance of affiliate loans receivable	(12,208,797)	(6,776,435)
Principal payments on affiliate loans receivable	7,783,791	1,130,229
Issuance of loans receivable	(13,182,974)	(12,176,107)
Principal payments of loans receivable	19,777,177	12,609,338
Net investment activity	<u>1,966,867</u>	<u>(84,514)</u>
Net cash provided by (used in) investing activities	<u>4,136,064</u>	<u>(5,297,489)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Grants for capital and investment uses	2,184,056	945
Proceeds from loans payable	1,952,524	35,664,798
Principal payments on loans payable	(6,997,572)	(25,636,389)
Proceeds from subordinated loans payable	1,000,000	4,410,000
Principal payments of subordinated loans payable	<u>(93,173)</u>	<u>(72,587)</u>
Net cash provided by (used in) financing activities	<u>(1,954,165)</u>	<u>14,366,767</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>3,965,600</b>	<b>10,580,784</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b><u>18,744,215</u></b>	<b><u>8,163,431</u></b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b><u>\$ 22,709,815</u></b>	<b><u>\$ 18,744,215</u></b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid for interest	<u>\$ 3,212,920</u>	<u>\$ 2,717,613</u>
Real estate owned acquired by foreclosure	<u>\$ -</u>	<u>\$ 1,400,000</u>

*The accompanying notes are an integral part of these statements.*

## BOSTON COMMUNITY LOAN FUND, INC.

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

#### (1) OPERATIONS

Boston Community Loan Fund, Inc. (the Loan Fund), a Massachusetts nonprofit corporation, was organized in December, 1984, to provide below market rate capital to community-based organizations for the development of affordable housing. During 2011, BCC REO LLC (BCC REO), a Massachusetts limited liability company, was formed to hold real and personal property (see Note 4). The Loan Fund is the sole member of BCC REO and its activities are included in these financial statements.

In 1994, the Loan Fund's Board of Directors voted to expand its corporate purposes to include broader community development lending, which directly or indirectly benefits low-income or disadvantaged people or communities. The Loan Fund formed three affiliated Massachusetts nonprofit corporations:

- **BCLF Managed Assets Corporation** d/b/a Boston Community Managed Assets (Managed Assets) was formed in 1994 to manage, design, implement, and evaluate programs on behalf of third parties that provide loan underwriting, management, servicing, and financial and managerial technical assistance services.
- **BCLF Ventures, Inc.** d/b/a Boston Community Venture Fund (the Venture Fund) was formed in 1994 to assist small community-based businesses and entrepreneurs in starting, growing, and expanding businesses which strengthen the low-income business community.
- **Boston Community Capital, Inc.** (the Holding Company) was formed in 1994 to create and preserve healthy communities where low-income people live and work.

The three affiliated nonprofit corporations are collectively referred to as the Corporation within these notes. To carry out its mission, the Corporation provides capital for sustainable community-based projects. These projects increase or preserve low-income housing or provide jobs or services for low-income or disadvantaged people or communities. The Corporation receives the money it invests in community-based projects from socially concerned investors, which include individuals, religious organizations, banks and other financial intermediaries, foundations, and corporations. A significant portion of the Corporation's projects are in Boston and surrounding areas. Because the affiliated nonprofits are controlled by a common Board of Directors and management, the affiliated nonprofits and other controlled affiliates report their collective financial results and financial position in separately issued consolidating financial statements.

The four affiliated nonprofits also maintain interests in other affiliates, including the following entities with which the Loan Fund conducts substantive business:

- **SUN Initiative Financing, LLC** (SUN Financing), a Massachusetts limited liability company, established to finance the operations of the Stabilizing Urban Neighborhoods Initiative (SUN Initiative). SUN Financing is controlled by the Holding Company by virtue of common management. The goal of SUN Initiative is to stop the displacement of families and the neighborhood destabilizing effects of home vacancies and abandonment by enabling homeowners with overleveraged properties to stay in their homes.
- **BCC Solar Energy Advantage, Inc.** (SEA), a Massachusetts for-profit corporation, owned and controlled by the Holding Company, which facilitates the delivery of solar energy to affordable housing projects and others.

**BOSTON COMMUNITY LOAN FUND, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**  
(Continued)

**(1) OPERATIONS (Continued)**

- **BCC 481 NMTC Investment Fund, LLC** (the Investment Fund), a Maine limited liability company, was activated in January, 2011, for the purpose of making a qualified equity investment (QEI) as defined in Section 45D(b) of the Internal Revenue Code (the Code), in BCC NMTC CDE X, LLC (CDE X). These entities are part of a leveraged new markets tax credit structure to finance certain solar energy projects.

Nonprofit Status

The Loan Fund is exempt from Federal income taxes as an organization formed for charitable purposes under Section 501(c)(3) of the Code. The Loan Fund is also exempt from state income taxes. Donors may deduct contributions made to the Loan Fund within the requirements of the Code. BCC REO has elected to be treated as a disregarded entity of the Loan Fund for tax purposes.

Community Development Financial Institution

The Loan Fund has been granted status as a Community Development Financial Institution (CDFI) by the U.S. Department of the Treasury (the Treasury), qualifying it for certain awards and support from the Treasury. The Loan Fund originally received a \$500,000 permanent loan capital - subordinated loan payable from the Treasury. During 2011, the Loan Fund received an additional \$4,410,000 of permanent loan capital - subordinated loan payable from the Treasury (see Note 6). During 2012, the Loan Fund received a grant from the Treasury totaling \$1,453,806, for financial assistance.

**(2) SIGNIFICANT ACCOUNTING POLICIES**

The Loan Fund prepares its financial statements in accordance with generally accepted accounting standards and principles established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these footnotes are to the FASB Accounting Standards Codification.

Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**BOSTON COMMUNITY LOAN FUND, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**  
(Continued)

**(2) SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fair Value Measurements**

The Loan Fund follows the *Fair Value Measurements and Disclosures* standards. These standards define fair value, establish a framework for measuring fair value under U.S. GAAP, and mandate disclosures about fair value measurements. The criteria establish a fair value framework that prioritizes the inputs and assumptions used to measure fair value. The three levels of the fair value framework are as follows:

- Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical qualifying assets or liabilities at the measurement date.
- Level 2 - Inputs other than quoted prices in active markets that are observable for the qualifying asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 - Inputs that are unobservable.

A qualifying asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

**Cash and Cash Equivalents and Concentration of Risk**

For the purpose of the statements of cash flows, cash and cash equivalents consist of all highly liquid investments purchased with an initial maturity of three months or less.

Cash and cash equivalents are maintained by the Loan Fund in banks in Massachusetts and are insured within the limits of the Federal Deposit Insurance Corporation Fund (FDIC). At times, cash and cash equivalents may exceed the insured limits. Management monitors, on a regular basis, the financial condition of the financial institutions, along with the Loan Fund's balances, to minimize potential risk.

**Escrow Funds**

The Loan Fund holds cash balances of \$1,277,180 and \$2,841,143 in escrow for outside parties as of December 31, 2012 and 2011, respectively. These amounts are escrowed for Loan Fund borrowers for various purposes, including working capital reserves, replacement reserves, and construction fund escrows.

**Short-Term Investments**

Short-term investments consisted of a certificate of deposit held in the name of the Loan Fund at December 31, 2011. The deposit bore interest at 4.4% and matured on March 25, 2012.

BOSTON COMMUNITY LOAN FUND, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
(Continued)

(2) **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Net Assets

**Unrestricted net assets** include those net resources of the Loan Fund that bear no external restrictions. These include the Loan Fund's general net assets and net assets designated by the Board of Directors for permanent loan capital and special programs and loan loss reserves.

The Board of Directors of the Corporation periodically authorizes transfers of the unrestricted general net assets among the related affiliates (see Note 1). Transfers from Managed Assets to the Loan Fund to support lending activities were \$500,000 for 2012 and are shown as grants from affiliate for support of new initiatives in the accompanying statement of activities.

**Temporarily restricted net assets** are unexpended financial resources restricted by donors as to the purpose or timing of expenditure. Temporarily restricted net assets are restricted for the following as of December 31:

	<u>2012</u>	<u>2011</u>
Financial assistance	\$2,183,181	\$ -
Permanent loan capital	<u>879,911</u>	<u>879,036</u>
	<u>\$3,063,092</u>	<u>\$879,036</u>

Permanent loan capital is the term the Loan Fund uses to describe those capital resources which are intended to provide a permanent capital base for lending activities, meet debt covenants and provide for potential loan losses. The Loan Fund has three categories of permanent loan capital: net assets temporarily restricted by donors, net assets designated by the Board of Directors, and subordinated loans payable.

No outside donor has imposed an obligation on the Loan Fund to replenish the principal of any gift of permanent loan capital in the event such funds are needed to offset loan losses. Accordingly, donor-restricted permanent loan capital awards have been classified as temporarily restricted net assets in the accompanying statements of financial position. During 2011, the Loan Fund's Board of Directors designated \$1,000,000, the proceeds of two unrestricted grant awards from the Treasury (see Note 1), as permanent loan capital in unrestricted net assets. The Board of Directors also designated \$132,500 of unrestricted funds for special programs of the Loan Fund.

Uncertainty in Income Taxes

The Loan Fund follows U.S. GAAP standards for *Accounting for Uncertainty in Income Taxes*, which require the Loan Fund to report any uncertain tax positions and to adjust its financial statements for the impact thereof. As of December 31, 2012, the Loan Fund determined that it had no tax positions that did not meet the "more likely than not" threshold of being sustained by the applicable tax authority. The Loan Fund files informational returns in the United States Federal and Massachusetts state jurisdictions. These returns are generally subject to examination by tax authorities for the last three years.

**BOSTON COMMUNITY LOAN FUND, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**  
(Continued)

**(2) SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Revenue Recognition

Revenues from interest on loans and investments and other sources are recognized as unrestricted revenue as earned on an accrual basis. Interest on loans is presented net of interest expense of \$2,648,314 and \$2,800,971 to loan participants (see Note 3) in 2012 and 2011, respectively. The Loan Fund amortizes loan origination fees over the terms of long-term loans. Unamortized deferred loan fees are included as an adjustment to the carrying value of loans receivable in the accompanying statements of financial position (see Note 3).

Grants and contributions with no restrictions or conditions are recognized as unrestricted revenue when received or unconditionally pledged to the Loan Fund. Donor restricted grants and contributions with time or purpose restrictions are recognized as temporarily restricted net assets when received or unconditionally pledged. Temporarily restricted net assets are transferred to unrestricted net assets when they are used in accordance with donor restrictions. Donor restricted gifts received and expended for their intended use in the same year are reflected as unrestricted net assets.

Loan Loss Provision

Provisions are made for estimated loan losses based on management's evaluation of each asset. Loss recoveries are recorded in the year of recovery. The allowance for loan losses (see Note 4) is established through a provision for loan losses charged to operations. The allowance is an amount that management believes will be adequate to absorb expected losses on existing loans that may become uncollectible.

Management evaluates loan collectability through consideration of factors such as previous loss experience, performance of individual loans in accordance with contract terms, financial strength and cash flows of the borrower, realizable values of collateral, and current economic conditions that may affect the borrower's ability to repay.

Expense Allocation

The affiliated companies comprising the Corporation (see Note 1) share various common expenses, including management salaries, benefits, and facility expenses. The accompanying financial statements include the share of these expenses allocable to the Loan Fund.

Subsequent Events

Subsequent events have been evaluated through April 11, 2013, which is the date the financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the financial statements.

## BOSTON COMMUNITY LOAN FUND, INC.

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

(Continued)

#### (3) LOANS AND INTEREST RECEIVABLE

##### Portfolio Lending

The Loan Fund offers a variety of loan products of both short and long-term maturity. The Loan Fund offers term loans, as well as revolving and non-revolving lines of credit, for the following purposes:

**Construction:** for construction or rehabilitation of residential (single family and multi-family) and commercial properties.

**Permanent:** for long-term financing for newly constructed or rehabilitated or existing multi-family housing, community facilities or commercial real estate.

**Site acquisition:** for acquisition of property for development, whether for commercial or housing developments.

**Predevelopment:** for financing the upfront cost of real estate development projects prior to construction, such as for permitting, design and due diligence.

**Organizational:** for organizational capacity building, recapitalization and/or providing operating capital.

Loans receivable bear interest at rates ranging from zero to fourteen percent (0% - 14%) and mature at various dates through 2042. Borrowers generally include nonprofit community organizations, private developers, and businesses which benefit low-income individuals and communities. Loans receivable are generally made in connection with affordable housing and community development projects and are primarily collateralized by first or second mortgages on the property of the borrower.

The Loan Fund also has some loans secured through third mortgages, all assets of the borrower, cash held by the lender, or other forms of collateral. The Loan Fund's five largest outstanding loans receivable were approximately 34% of the portfolio as of December 31, 2012 and 2011.

The Loan Fund's loans, as described above, are as follows at December 31:

<u>Type</u>	<u>2012</u>		<u>2011</u>	
	<u>Number Of Loans</u>	<u>Net Loan Amount</u>	<u>Number Of Loans</u>	<u>Net Loan Amount</u>
Construction	37	\$32,252,433	32	\$21,617,828
Permanent	36	18,736,091	30	21,807,561
Site acquisition	12	15,137,334	23	20,066,268
Predevelopment	9	5,971,236	11	6,911,374
Organizational	9	415,060	10	8,703,326
	<u>103</u>	<u>72,512,154</u>	<u>106</u>	<u>79,106,357</u>
Interest receivable on above loans		<u>783,529</u>		<u>559,309</u>
		<u>\$73,295,683</u>		<u>\$79,665,666</u>

BOSTON COMMUNITY LOAN FUND, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
(Continued)

(3) **LOANS AND INTEREST RECEIVABLE** (Continued)

Portfolio Lending (Continued)

Loans receivable of the Loan Fund are presented net of third party loan participations of \$36,561,673 and \$40,628,030 as of December 31, 2012 and 2011, respectively. All loan participations qualify as loan sales in accordance with the U.S. GAAP criteria for *Accounting for Transfers of Financial Assets and Extinguishments of Liabilities*.

As of December 31, 2012 and 2011, interest receivable was \$783,529 and \$559,309, respectively. Future minimum payments of principal and interest for year ending after December 31, 2012, are as follows:

<u>Year</u>	
2013	\$27,381,270
2014	7,601,969
2015	17,575,416
2016	6,512,965
2017	1,692,432
Thereafter	<u>12,531,631</u>
	<u>73,295,683</u>
Adjustment for deferred loan fees (see Note 2)	(177,696)
Less - allowance for loan losses (see Note 4)	<u>(4,807,650)</u>
	<u><b>\$68,310,337</b></u>

The majority of the Loan Fund's loans receivable is secured by real estate holdings in Massachusetts and could be affected by adverse real estate markets in the state.

Commitments to Lend

The Loan Fund had committed approximately \$24,000,000 and \$23,500,000 of current assets (cash, cash equivalents and short-term investments) for future disbursements on existing loan commitments and lines of credit to unrelated borrowers as of December 31, 2012 and 2011, respectively. The Loan Fund also committed approximately \$1,000,000 and \$10,000,000 for loan and line of credit commitments to SEA and SUN Financing (see Note 1), respectively, to support their programs (see page 13). The Corporation has liquidity management policies and procedures to manage the timing of expected disbursements on these loans. Among the tools available to manage liquidity are lines of credit with financial institutions (see Note 5), as well as the potential to initiate loan sales and loan participation agreements with lending partners.

Guarantee Agreement

The Loan Fund also has a non-expiring loan guarantee agreement with the United States Department of Agriculture (USDA). The guarantee is intended to strengthen the Loan Fund's ability to finance loans to businesses in rural areas and thus stimulate economic growth in these areas. As of December 31, 2012 and 2011, there is a guarantee of \$4,600,000 for one loan receivable under this agreement. During 2012 and 2011, the Loan Fund did not receive any amounts under this agreement.

**BOSTON COMMUNITY LOAN FUND, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**  
(Continued)

**(3) LOANS AND INTEREST RECEIVABLE (Continued)**

**Special Tax-Credit Lending**

As of December 31, 2012 and 2011, the Loan Fund entered into twenty and fifteen arrangements, respectively, to act as the nonprofit intermediary to improve the economic value of Massachusetts historic and state low-income tax credits of several projects in Massachusetts. The Loan Fund received a donation of tax credits from each project's sponsor and made a loan to the respective entity from the proceeds of the Loan Fund's resale of the credits to an outside investor. Each loan is a non-interest bearing note with various maturity dates through December, 2062. As part of the arrangement, the Loan Fund received fees ranging from .20% to 4.41% of the total loan. These fees are included in loan fees and other in the accompanying statements of activities and totaled \$100,994 and \$184,186 for 2012 and 2011, respectively. Total outstanding principal balances are \$157,547,603 and \$129,526,533 as of December 31, 2012 and 2011, respectively. These loans have specific restrictions surrounding their use and due to their long-term deferred nature and likelihood of collectibility, the notes are fully reserved at December 31, 2012 and 2011. The provision associated with these allowances is netted with the value of the tax credit donation.

**Affiliate Loans and Other Receivables**

In December, 2011, the Loan Fund entered into a Note Purchase Agreement and an initial unsecured note under this agreement with SUN Financing (see Note 1). Under this note, the Loan Fund made a commitment to make advances to SUN Financing from time-to-time in the aggregate principal amount of \$10,000,000. Funds advanced are used to acquire and refinance homes at risk of foreclosure. In 2012, SUN Financing drew \$7,000,000 of advances under this agreement and paid \$1,000,000 of principal and \$255,000 of interest to the Loan Fund. This intercompany loan bears interest at 4.25% per annum and is due quarterly. As of December 31, 2012, principal outstanding under this agreement totaled \$6,000,000.

As of December 31, 2012 and 2011, the Loan Fund had loaned \$2,300,000 of the proceeds of the permanent loan capital – subordinated loans payable (see Note 6) to the Venture Fund (see Note 1) to finance a portion of certain investments of the Venture Fund. As of December 31, 2012 and 2011, the Loan Fund also loaned \$3,000,000 of the permanent loan capital – subordinated loans payable to SEA (see Note 1) to finance a portion of certain assets of SEA. These intercompany loans bear interest at 3%, payable quarterly, are unsecured, and mature between 2018 and 2020. Interest on these borrowings totaled \$159,000 in 2012 and 2011, and is included in interest on loans in the accompanying statements of activities.

The Loan Fund originally entered into a \$5,000,000 line of credit agreement with SEA to finance a portion of certain assets of SEA (see Note 1). This intercompany loan bore interest at 6%, payable quarterly, and was secured by first priority pledge and assignment of certain SEA assets and contracts related to these assets. During 2012 and 2011, SEA made principal payments under this agreement totaling \$570,366 and \$1,130,229, respectively. As of December 31, 2011, the outstanding borrowings under this agreement totaled \$570,366. There were no amounts outstanding at December 31, 2012. The loan was originally due to mature in August, 2012, and was amended and extended during 2012 (see page 14).

BOSTON COMMUNITY LOAN FUND, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
(Continued)

(3) **LOANS AND INTEREST RECEIVABLE** (Continued)

Affiliate Loans and Other Receivables (Continued)

During 2012, the Loan Fund and SEA agreed to terminate the \$5,000,000 line of credit and entered into a \$1,000,000 term loan to finance a portion of certain assets of SEA. This intercompany loan bears interest at 6% annually, with principal and interest payments due monthly. During 2012, SEA drew down \$1,000,000 and made principal and interest payments of \$117,742 and \$57,561, respectively. As of December 31, 2012, principal outstanding under this agreement was \$882,258.

In addition, in 2011, the Loan Fund entered into a leverage loan agreement with the Investment Fund in the amount of \$1,472,876, which was used to partially fund a qualified equity investment in CDE X. Interest on this note accrued at 7% through October, 2012. Commencing November 1, 2012, interest on this note accrues at 6%. On October 31<sup>st</sup> of each year, all accrued interest and unpaid principal, to the extent of cash flow as outlined in the agreement, is due. All remaining unpaid principal and interest are due on the maturity date of March 23, 2021. As of December 31, 2012 and 2011, unpaid interest was \$183,373 and \$81,049, respectively. This loan may be prepaid without penalty. The Loan Fund deferred payments during 2012 and 2011.

During 2012 and 2011, the Loan Fund made operating advances for various affiliated organizations that totaled \$4,208,797 and \$4,414,964, respectively. These amounts are expected to be repaid in the near term and are included in current portion of affiliate loans and other receivables in the accompanying statements of financial position. These advances have no terms and are not included in the table below. There was \$2,528,078 and \$4,414,964 remaining outstanding as of December 31, 2012 and 2011, respectively.

Maturities of all affiliate loans receivable as of December 31, 2012, are as follows:

<u>Year</u>	<u>SEA</u>	<u>Venture Fund</u>	<u>Investment Fund</u>	<u>SUN</u>	<u>Total</u>
2013	\$ 125,094	\$ -	\$ -	\$ -	\$ 125,094
2014	132,920	-	-	-	132,920
2015	141,235	-	-	6,000,000	6,141,235
2016	149,988	-	-	-	149,988
2017	159,453	-	-	-	159,453
Thereafter	<u>3,173,568</u>	<u>2,300,000</u>	<u>1,472,876</u>	<u>-</u>	<u>6,946,444</u>
Affiliate loans receivable	<u><b>\$3,882,258</b></u>	<u><b>\$2,300,000</b></u>	<u><b>\$1,472,876</b></u>	<u><b>\$6,000,000</b></u>	<u><b>\$13,655,134</b></u>

**BOSTON COMMUNITY LOAN FUND, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**  
(Continued)

**(4) ALLOWANCE FOR LOAN LOSSES AND LOAN LOSS RESERVES**

Loan loss reserves is the term used by the Loan Fund and certain significant investors to refer to the balance of loan loss allowances plus otherwise unrestricted net assets which have been designated by the Board of Directors as a hedge against potential loan losses. Covenants with certain significant investors require the Loan Fund to maintain loan loss reserves equal to at least 5% of loans receivable of the Loan Fund. The Loan Fund's loan loss reserves consist of the following as of December 31:

	<u>2012</u>	<u>2011</u>
Allowance for loan losses (see below and Note 2)	\$4,807,650	\$4,307,649
Board designated net assets for loan loss reserves (see Note 2)	<u>3,137,124</u>	<u>2,886,839</u>
	<u><b>\$7,944,774</b></u>	<u><b>\$7,194,488</b></u>

An allowance for loan losses is an estimate of expected loan losses expressed as a reduction of the carrying value of loans receivable (see Note 3). The loan loss allowance is based on expected losses as determined under the Loan Fund's risk rating system (see Note 2). In addition, the Loan Fund's Board of Directors designates unrestricted net assets as loan loss reserves so that the sum of the loan loss allowance and designated unrestricted net assets equals at least 5% of total loans receivable of the Loan Fund.

The loan loss allowance, which has been allocated proportionally to the long-term and current portions of the loan portfolio in the accompanying financial statements, consists of the following at December 31, 2012 and 2011:

	<u>Construction</u>	<u>Organizational</u>	<u>Permanent</u>	<u>Pre-development</u>	<u>Site Acquisition</u>	<u>Total</u>
Allowance for loan losses, December 31, 2010	\$ 911,454	\$ -	\$758,041	\$1,474,972	\$ 987,355	\$4,131,822
Charge-offs	-	-	-	-	(915,488)	(915,488)
Recoveries	(92,931)	-	(17,573)	(518,760)	(174,255)	(803,519)
Provision	<u>847,956</u>	<u>-</u>	<u>85,529</u>	<u>-</u>	<u>961,349</u>	<u>1,894,834</u>
Allowance for loan losses, December 31, 2011	<u><b>\$1,666,479</b></u>	<u><b>\$ -</b></u>	<u><b>\$825,997</b></u>	<u><b>\$ 956,212</b></u>	<u><b>\$ 858,961</b></u>	<u><b>\$4,307,649</b></u>
Ending balance: individually evaluated for impairment	<u><b>\$1,541,485</b></u>	<u><b>\$ -</b></u>	<u><b>\$737,387</b></u>	<u><b>\$ 701,341</b></u>	<u><b>\$ 800,000</b></u>	<u><b>\$3,780,213</b></u>

**BOSTON COMMUNITY LOAN FUND, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**  
(Continued)

**(4) ALLOWANCE FOR LOAN LOSSES AND LOAN LOSS RESERVES (Continued)**

	<u>Construction</u>	<u>Organizational</u>	<u>Permanent</u>	<u>Pre-Development</u>	<u>Site Acquisition</u>	<u>Total</u>
Allowance for loan losses, December 31, 2011	\$1,666,479	\$ -	\$ 825,997	\$ 956,212	\$ 858,961	\$4,307,649
Recoveries	-	-	(117,580)	(316,109)	-	(433,689)
Provision	<u>30,311</u>	<u>-</u>	<u>143,977</u>	<u>-</u>	<u>759,402</u>	<u>933,690</u>
Allowance for loan losses, December 31, 2012	<u>\$1,696,790</u>	<u>\$ -</u>	<u>\$ 852,394</u>	<u>\$ 640,103</u>	<u>\$1,618,363</u>	<u>\$4,807,650</u>
Ending balance: individually evaluated for impairment	<u>\$1,541,485</u>	<u>\$ -</u>	<u>\$ 704,525</u>	<u>\$ 395,445</u>	<u>\$1,136,363</u>	<u>\$3,777,818</u>
Trouble Debt Restructuring	<u>\$1,350,000</u>	<u>\$ -</u>	<u>\$ 704,525</u>	<u>\$ -</u>	<u>\$1,136,363</u>	<u>\$3,190,888</u>

**Impaired Loans**

The Loan Fund identifies a loan as impaired when it is probable that interest and/or principal will not be collected according to the contractual terms of the loan agreement. In accordance with guidance provided by the criteria for *Accounting by Creditors for Impairment of a Loan*, management employs one of three methods to determine and measure impairment: the Present Value of Future Cash Flow Method; the Fair Value of Collateral Method; and the Observable Market Price of a Loan Method. To perform an impairment analysis, the Loan Fund reviews a loan's internally assigned risk rating, its outstanding balance, value of the collateral, guarantors, and a current report of the action being implemented. Based on the nature of the specific loan, one of the impairment methods is chosen and any impairment is determined, based on criteria established for impaired loans.

Impaired loans as of December 31, 2012, are set forth in the table below.

<u>Loan Category</u>	<u>Number of Impaired Loans</u>	<u>Amount of Impaired Loans</u>	<u>Related Allowance for Loan Loss</u>
Construction	2	\$4,304,854	\$1,541,485
Site acquisition	1	3,391,363	1,136,363
Predevelopment	1	1,248,207	395,445
Permanent	<u>2</u>	<u>938,691</u>	<u>704,525</u>
Total impaired loans	<u>6</u>	<u>\$9,883,115</u>	<u>\$3,777,818</u>

**BOSTON COMMUNITY LOAN FUND, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**  
(Continued)

**(4) ALLOWANCE FOR LOAN LOSSES AND LOAN LOSS RESERVES** (Continued)

**Troubled Debt Restructuring**

A troubled debt restructuring (TDRs) occurs when a creditor, for economic or legal reasons related to a borrower's financial condition, grants a concession to the borrower that it would not otherwise consider, such as below market interest rates, extending the maturity of a loan, or a combination of both. The Loan Fund considers all loans modified in a TDR to be impaired (see page 16).

At the time a loan is modified in a TDR, the Loan Fund considers several factors in determining whether the loan should accrue interest, including:

- Cash flow necessary to pay the interest
- Whether the customer is current on their interest payments
- Whether the Loan Fund expects that the borrower to perform under the revised terms of the restructuring

As of December 31, 2012, there were four loans that were impaired and classified as TDRs as follows:

<b><u>Troubled Debt Restructuring</u></b>	<b><u>Number of Loans Restructured</u></b>	<b><u>Amount of Restructured Loans</u></b>	<b><u>Related Allowance for Loan Loss</u></b>
Extended under forbearance	1	\$4,181,480	\$1,350,000
Multiple extensions resulting from financial difficulty	3	<u>4,330,054</u>	<u>1,840,888</u>
Total TDRs	<u>4</u>	<u>\$8,511,534</u>	<u>\$3,190,888</u>

The above loans are all on "non-accrual" basis. There was one borrower with two loans above where \$159,994 of accumulated interest in arrears was forgiven by the Loan Fund.

**Real Estate Owned**

During December, 2011, the Loan Fund received a parcel of land as a result of an organization defaulting on a loan receivable that the Loan Fund had secured (see Note 1). The fair market value of the property at the time of the acquisition, as determined by appraisal using significant Level 3 inputs (see Note 2), was \$1,400,000 and has been recorded as real estate owned in the accompanying statements of financial position. The remaining balance of the loan of \$915,488 was recorded as a charge-off in the allowance for loan losses. Management intends to sell this land which is held by BCC REO.

Management uses all information available, including third party valuation reports, to periodically assess an appropriate valuation for real estate owned. The value of the property acquired has not been changed since its acquisition.

**BOSTON COMMUNITY LOAN FUND, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
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**(5) LOANS PAYABLE**

Loans payable of the Loan Fund represent loans by approximately 300 lenders (“investors”) in principal amounts ranging from \$500 to \$10,000,000. Loans payable bear interest at rates ranging from 0% to 4.9%, payable at varying initial maturities of one to ten years through 2022. Loans payable of the Loan Fund are unsecured with recourse to the general assets of the Loan Fund.

The Loan Fund has available three lines of credit with financial institutions. The Loan Fund has an unsecured revolving line of credit for a maximum of \$50,000,000, with \$20,000,000 of this amount being participated out to other financial institutions. The interest rate on this line is a 30-day London InterBank Offered Rate (LIBOR), plus 3% (3.21% and 3.30% at December 31, 2012 and 2011, respectively). As of December 31, 2012 and 2011, no amounts were outstanding under this agreement. The line of credit expires in 2013.

The Loan Fund entered into a \$15,000,000 unsecured non-revolving line of credit with a financial institution, which expires on June 30, 2018. Outstanding advances under this line of credit bear interest at the financial institution’s seven-year cost of funds, plus 125 basis points on the date of the draw. Proceeds from this line of credit are to be used only to finance qualifying New Markets Tax Credit loans in certain states. As of December 31, 2012 and 2011, \$15,000,000 was outstanding on this line of credit and is included in loans payable in the accompanying statements of financial position. Funds advanced under these draws bear interest at rates ranging from 3.24% to 4.26%. The interest rates are locked-in on the specific date of each draw.

The Loan Fund also entered into a \$5,000,000 unsecured revolving line of credit with the same financial institution, which originally expired in December, 2011. During December, 2011, the Loan Fund renewed their revolving line of credit with this financial institution through December, 2013. Outstanding advances under this line of credit bore interest at 4% at December 31, 2011. As of December 31, 2012 and 2011, \$5,000,000 was outstanding on this line of credit and is included in loans payable in the accompanying statements of financial position. Current and future borrowings under this agreement bear interest at 2.27%.

The above loans payable and lines of credit require the Loan Fund to maintain certain financial ratios and other covenants as specified in the agreements. As of December 31, 2012 and 2011, the Loan Fund was in compliance with these covenants.

The balance of loans payable of the Loan Fund were as follows as of December 31:

	<u>2012</u>	<u>2011</u>
Lines of credit	\$20,000,000	\$20,000,000
Other loans payable	<u>49,638,104</u>	<u>54,683,152</u>
	<u>\$69,638,104</u>	<u>\$74,683,152</u>

**BOSTON COMMUNITY LOAN FUND, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
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(Continued)

**(5) LOANS PAYABLE (Continued)**

Maturities of all loans payable as of December 31, 2012, are as follows:

<u>Year</u>	
2013	\$11,107,908
2014	11,033,023
2015	5,749,440
2016	2,100,893
2017	11,056,214
Thereafter	<u>28,590,626</u>
Total loans	<u>\$69,638,104</u>

In the ordinary course of operations, the Loan Fund may negotiate extensions of maturity with many investors. The current maturities as of December 31, 2012 and 2011, include \$1,267,633 and \$920,558, respectively, of loan principal which has matured, but not been paid or formally extended. Management is negotiating extensions of these amounts.

**(6) PERMANENT LOAN CAPITAL - SUBORDINATED LOANS PAYABLE**

Permanent loan capital – subordinated loans payable consist of long-term subordinated loans payable of the Loan Fund (38 and 36 individual loans as of December 31, 2012 and 2011, respectively) from financial and other institutions, bearing simple interest at rates between 2% and 4%. These loans have substantially similar terms including annual interest-only payments until final maturity, occurring between 2019 and 2023. Only two notes are currently amortizing. These loans are subordinate and junior to all other obligations of the Loan Fund.

Each loan was issued with an initial maturity of nine to twenty years. The initial maturity dates automatically extend by one year at the end of each of the first five years of the loans' terms. The final maturity dates may then be extended at their anniversary, indefinitely, based upon specified criteria in the loan terms and agreements of the Corporation and the lenders.

Permanent loan capital - subordinated loans payable include a \$4,410,000 Equity Equivalent Security (EQ2 Security) with the Treasury (see Note 1) which the Loan Fund entered in 2011. Outstanding amounts under this agreement bear interest at 2% through the maturity date in September, 2019. The Loan Fund is required to make quarterly interest payments until maturity. The Loan Fund can elect to extend the maturity date of the EQ2 Security through September, 2021. If the Loan Fund elects to extend the maturity date, any interest payments occurring after September, 2021, will be calculated at 9% of the outstanding principal balance.

Maturity dates of principal over the next five years as of December 31, 2012, are as follows:

2013	\$ 95,053
2014	\$ 96,972
2015	\$ 98,929
2016	\$ 100,926
2017	\$ 102,963
Thereafter	\$19,826,699

BOSTON COMMUNITY LOAN FUND, INC.

NOTES TO FINANCIAL STATEMENTS  
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(6) **PERMANENT LOAN CAPITAL - SUBORDINATED LOANS PAYABLE** (Continued)

The Loan Fund has loaned \$5.3 million of the proceeds of its permanent loan capital – subordinated loans payable to the Venture Fund and SEA (see Note 3). The remaining proceeds of \$15,021,542 and \$14,114,715 as of December 31, 2012 and 2011, respectively, have been held as permanent loan capital of the Loan Fund.

(7) **FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Loan Fund discloses estimated fair values for its significant financial instruments. Because no ready market exists for a significant portion of the financial instruments, some fair values are based on management's estimates using the criteria of fair value measurements (see Note 2). These estimates are subjective in nature and involve uncertainties and matters of significant judgment.

The assumptions used by management assume normal market conditions and do not contemplate the effects of short-term turmoil in the financial markets. Changes in assumptions could significantly affect the estimates.

The following fair value estimates, methods and assumptions were used to estimate the fair value of each class of significant financial instruments for which it is practical to estimate that value.

**Cash and Cash Equivalents:** The carrying amount of cash and cash equivalents is its fair value.

**Short-Term Investments:** The fair value of short-term investments is based upon the contract value of the certificate of deposit.

**Loans and Interest Receivable:** The fair values of loans receivable in the portfolio have been determined by segregating fixed interest rate loans from adjustable interest rate loans. The fair values of fixed rate loans are calculated by discounting future cash flows through their weighted average months to maturity, using a weighted average interest rate for new financings within the Corporation's market. Loans with an adjustable interest rate tied to prime or some other floating rate move within the market and are considered by management to be at fair value.

**Loans Payable:** The fair values of loans payable are calculated by discounting cash flows through their weighted average months to maturity, using rates currently offered for new issuances within the Corporation's market.

**Permanent Loan Capital - Subordinated Loans Payable** - The carrying values of these note obligations are deemed to be a reasonable reflection of their fair values.

**BOSTON COMMUNITY LOAN FUND, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
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**(7) FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

The following table summarizes carrying amounts and fair values for financial instruments at December 31, 2012:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and cash equivalents and short-term investments	\$23,986,995	\$23,986,995
Loans and interest receivable, net	\$68,310,337	\$67,363,009
Loans payable	\$69,638,104	\$68,306,005
Permanent Loan Capital - Subordinated Loans Payable	\$20,321,542	\$20,321,542

**(8) BELOW-MARKET INTEREST RATE LOANS**

Generally accepted accounting principles require not-for-profit organizations to record interest expense and contribution revenue in connection with loans payable that are interest free or that have below-market interest rates. Likewise, funds loaned to borrowers at below-market interest rates should also result in imputed revenue and contribution expense.

Interest rates on loans payable are disclosed in Note 5. Interest rates on loans receivable are disclosed in Note 3. The Loan Fund believes that the benefits derived from below-market rate loans received are passed through to the borrowers via below-market rate loans made, and that there is no material difference between community development finance market rates and the stated rates of loans in their portfolios. Consequently, no adjustments have been made to the accompanying financial statements to reflect rate differentials.