BOSTON COMMUNITY CAPITAL

STRATEGIC PLAN

FALL 2006

A PLATFORM FOR TRANSFORMATION

ACKNOWLEDGEMENTS

At Boston Community Capital, we believe that effective institutions are constantly evolving to meet the changing needs of the individuals and communities we serve. The opportunity to step back and reflect on how to increase our impact and build upon our experience depends on the support of many individuals and organizations, primarily foundations. The thinking behind this report was kicked off with support from The Boston Foundation, the Rockefeller Foundation, and the John D. and Catherine T. MacArthur Foundation. Grant support from the F.B. Heron Foundation allowed us to examine our impact and develop our ideas on measuring the effectiveness of community development finance organizations. The Herman and Frieda L. Miller Foundation provided operating support that allowed us to complete this plan and begin work on the new initiatives described here. We are grateful to these organizations—and to all of our partners—for their support.

Elyse D. Cherry; DeWitt Jones; Rebecca Regan
Charles Clark, Board Chair

Fall 2006

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INTRODUCTION

On our cover and above: Palladio Hall, Boston Community Capital's headquarters, in Roxbury's Dudley Square neighborhood. Built in the 1870s, the historic landmark building had fallen into dismal disrepair. In 1999 Nuestra Comunidad, a Roxbury-based CDC, wanted to renovate it; Boston Community Capital's commitment as the anchor tenant for the project was a catalyst for making that renovation a reality. In addition to providing valuable new commercial space, the renovation demonstrated the financial feasibility of upper-floor office spaces in existing buildings and has helped to increase public investment in Dudley Square.

PREFACE

In 1999, Boston Community Capital developed a business plan, entitled *Growing to Scale*, intended to guide our operation through the first five years of the new millennium. The goal of the plan was to expand our ability to help build healthy communities by increasing our assets under management by 500% and by making substantial progress toward self-sustainability. As of the end of the plan period, we had exceeded each of the plan's goals. Moreover, our combination of substantial growth, increased revenue and increased internal efficiency produced not just progress toward self-sustainability, but actual financial self-sufficiency. (Please see Appendix D for an in-depth report on *Growing to Scale*.)

Past success buttresses our thinking about our future. At the same time, transformational shifts in our external environment create new challenges for Boston Community Capital, for the Community Development Financial Institutions (CDFI) industry and, most importantly, for the communities we serve. We keep both ideas firmly in mind as we chart our course for the next five years.

A SHIFTING ENVIRONMENT

Since we originally conceived the 1999 plan, the United States (indeed, the world) has stepped into a post 9/11 era. Commitment to and resources for community economic development are substantially diminished. The war in Iraq, a sluggish economy, a shift from budget surplus to the largest federal budget deficit in our country's history, and rising interest rates create new economic pressures. The guiding political philosophy governing our nation has shifted; and the idea of a global economy has taken on a new reality. On a more prosaic—but equally important—note, oil prices have increased five-fold, from $12.51 in January 1999 to more than $70 a barrel in August 2006.

THE PERTINENT QUESTIONS

In 1985, when Boston Community Capital began, we asked a series of questions:

- Can housing for low-income families and individuals be designed, built, and managed so as to both remain affordable and well-maintained over time, and help strengthen our communities?
- Can distressed inner-city neighborhoods be transformed into thriving and welcoming communities that are home to a diverse population of residents who live there by choice?
- Is debt a useful tool to finance the transformation of inner-city neighborhoods, and can we demonstrate that loan dollars will not only be repaid, but also recycled?

Now, twenty years later, the answer to those questions is a resounding "yes." Together with our partners, we have invested more than $250 million to build and preserve healthy communities, and we have helped finance affordable homes for more than 8,000 families and individuals. Moreover, because the homes we have financed have been carefully maintained and updated, they have helped to transform entire neighborhoods. In addition, our loans have supported the renovation of child care centers, community facilities and commercial real estate in economically distressed areas. Our investments have created quality jobs, goods and services for low-income people. Our historical loan losses continue to be less than one-tenth of one percent, and all of our lenders have been repaid on time and in full.

Yet, many people are still left out—and the divide is expanding. In today's economic and political landscape, and with our expanded capacity, we are beginning to ask a new set of questions:

- How do powerful regional, national and global trends intersect with community development strategies that are intended to create meaningful and wide-scale economic and social opportunities for low-income people?
- Can we (and should we) expand our services and financing from a focus on organizations to a focus on the unmet needs of individuals, particularly those in emerging communities?
- By building new alliances with new partners in commercial finance, organized labor, education, health and environmental services, and with partners across

neighborhood, state and even national boundaries, can we magnify our impact to substantially address the housing, economic development and educational needs of a changing demographic?

We believe that the right questions are a root source of good leadership. We also believe that the right questions can lead to a vision for change that offers real solutions for the future and that can help bridge the gap between our society's wealthiest and poorest members. We use these questions to focus our work for the next five years.

THE NEXT FIVE YEARS

We've set five broad strategic goals for the next five years:

GOAL 1: BRING NEW CAPITAL TO UNDERSERVED COMMUNITIES

- Establish secondary market instruments for CDFI products, thereby increasing liquidity, reducing risk and lowering the product pricing.
- Use programs like the New Markets Tax Credit to create jobs and new development in highly distressed urban and rural areas; build organizational equity; develop secondary markets; and provide equity capital to nonprofits that share our mission of helping to build healthy communities.
- Create partnerships and tools which increase access to cost-effective, market-rate commercial capital, including lines of credit from mainstream financial institutions and investments from public sector pension funds, insurance companies and socially responsible mutual funds.

GOAL 2: EXPAND OUR LEADERSHIP ROLE IN THE EFFORT TO BUILD HEALTHY COMMUNITIES

- Participate in civic and national leadership roles that broaden our networks, allow us to bridge disparate disciplines, and shape public policy around issues that affect underserved communities.
- Build and strengthen alliances between peers and organizations that share our interest in creating healthy communities, including organized labor, public health practitioners, the arts and cultural community, the philanthropic community, supporters of a cleaner environment, and the public education system. Through these alliances, create programs and policies that will strengthen the communities we serve.
- Advocate for impact measurement tools that allow us to capture and maximize the real value created by CDFIs at the financial system, CDFI, project, community and individual levels.

TRANSFORMATIONAL SHIFTS IN OUR EXTERNAL ENVIRONMENT CREATE NEW CHALLENGES.

GOAL 3: EXPAND OUR CORE PROGRAMS TO MEET THE CHANGING NEEDS OF UNDERSERVED MARKETS

- Develop products and strategies that allow us to make loans and investments that other financial institutions are unable or unwilling to provide—and simultaneously create real value for our borrowers and investors.
- Create financing initiatives that bridge gaps between key players in the areas that affect healthy communities—housing, environment, education and employment—and reduce the silos in which these players often operate.
- Expand both the range of services we offer to underserved communities and the audiences to which we provide them.

GOAL 4: BUILD A PLATFORM THAT BOTH ENABLES BCC TO ACHIEVE OUR OBJECTIVES AND CAN BE REPLICATED AT A NATIONAL LEVEL

- Maintain self-sufficiency and sustainability of our core businesses on a permanent basis both through fee income and through growth in volume and size of our activity. Use our strengthened balance sheet to negotiate increased access to market-rate sources of capital.
- Develop industry-wide financial facilities—such as joint liquidity pools, housing trust funds, reinsurance vehicles and credit enhancers—and more effective loan-loss reserve policies.
- Continue to invest in technology, infrastructure, staffing and an internal culture that ensures efficiency and effectiveness.
- Participate in CDFI industry consolidation—assisting in mergers and acquisitions of CDFIs—with attention to the potential benefits and burdens for the merging organizations, the communities they serve and the CDFI industry.

GOAL 5: DEVELOP AN EFFECTIVE MEASUREMENT MATRIX FOR THE SOCIAL AND COMMUNITY IMPACT OF CDFIS

This matrix will:

- Measure what CDFIs do and capture all the value that CDFIs create on five levels.
- Capture innovation—the development of new markets, new networks, new instruments and new ways to connect to resources.
- Serve as a tool for expanding the capital available in low-income communities, not just a method for the re-allocation of capital.
- Serve a wide range of purposes, including evaluation, marketing, capitalization, and policy formation.

- Be consistent with the direction of the industry and avoid creating incentives to meet the measures at the expense of meeting need.
- Be practical, easy to capture without undue expense, easy to understand, cross-culturally sensitive and recognizable to a wide range of constituents, both those in our field and those we hope to attract to it.

In the rest of this report, we share in greater detail the values that underpin our vision; the results of *Growing to Scale*; the insights that inform our strategies; and our plan for the next five years.

VALUES AND IDEAS THAT SHAPE OUR VISION AND STRATEGY

"BOSTON COMMUNITY CAPITAL'S SUCCESS IS ROOTED IN A DEEP AND ABIDING COMMITMENT TO THE VALUES THAT MOLD OUR VISION. THESE VALUES ARE AT THE CORE OF EVERYTHING WE DO."

–Reverend James Walsh, S.J., Esq.
Founding and current Board Member

When BCC considers making new loans to or investments in an organization, we carefully review the financial merits of the business plan—but we also consider the values and philosophy behind it. We seek businesses like Windale Developers, businesses that are making a difference as well as making a living. Windale founders Arnold Johnson and George Chin strive to erect solidly constructed homes that complement the neighborhood architecture. They also offer a technical training program that helps sub-contractors create professional job reports, requisitions and transmittals, thus building careers as well as neighborhoods.

WE MUST BECOME THE CHANGE WE WANT TO SEE IN THE WORLD.
— MAHATMA GANDHI

At the core of any organization lie critical values and ideas. They shape vision and strategy, inform daily actions and long-range planning. At Boston Community Capital the following six concepts are the platform from which we work to create and preserve healthy communities where low-income people live and work.

1. TO BE AN EFFECTIVE ORGANIZATION WE MUST RESPOND TO THE CHANGING NEEDS OF THE INDIVIDUALS AND COMMUNITIES WE SERVE AND ENHANCE THE TRAFFIC OF IDEAS AMONG MANY COMMUNITIES AND CONSTITUENCIES. Our growth and performance have been driven by our ability to recognize and respond to the evolving needs of our constituents and the changing nature of our market.

2. ISOLATION IS THE HALLMARK OF UNHEALTHY COMMUNITIES AND ORGANIZATIONS. We therefore endeavor to stand at the intersection of many communities and constituencies, to reduce silos, and to work with organizations and individuals from all perspectives who can advance our mission.

3. LOW-INCOME COMMUNITIES AND RESIDENTS NEED AND ARE ENTITLED TO THE SAME EXPERTISE AND THE SAME EXPECTATIONS OF EXCELLENCE THAT ARE AVAILABLE TO THEIR WEALTHIER NEIGHBORS. We work to deliver that excellence through staffing, technology, and infrastructure that promote efficiency and innovation.

4. THE CULTURE OF OUR ORGANIZATION SHOULD REFLECT THE VALUES WE BRING TO BEAR ON THE WORK WE DO AND THE COMMUNITIES WE SERVE. As Mahatma Gandhi said, “We must become the change we want to see in the world.”

5. SYSTEMIC CHANGE ENGENDERS POWERFUL, BROAD-REACHING AND LONG-LASTING RESULTS. We seek ways to improve industry results, and to develop solutions that can be replicated on a nationwide basis.

6. ASKING THE RIGHT QUESTIONS IS A ROOT SOURCE OF GOOD LEADERSHIP. As our world evolves, our questions must evolve. We endeavor to increase our awareness of the transformational shifts that affect the environment in which we operate.

Boston Community Capital partners with businesses and organizations that share our values and our vision for building healthy communities through projects like Windale's Washington Commons, pictured during and after construction.

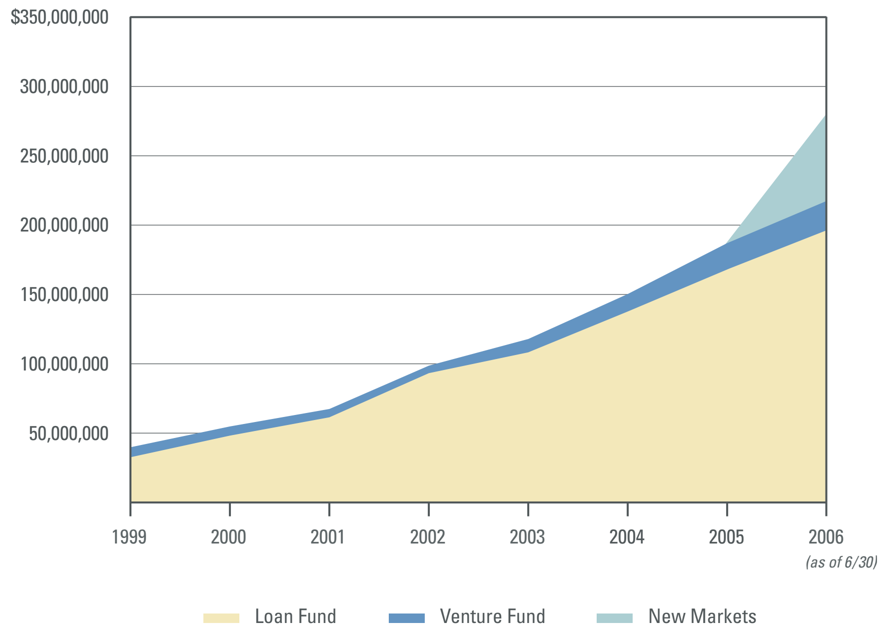
GROWING TO SCALE

1999—2005

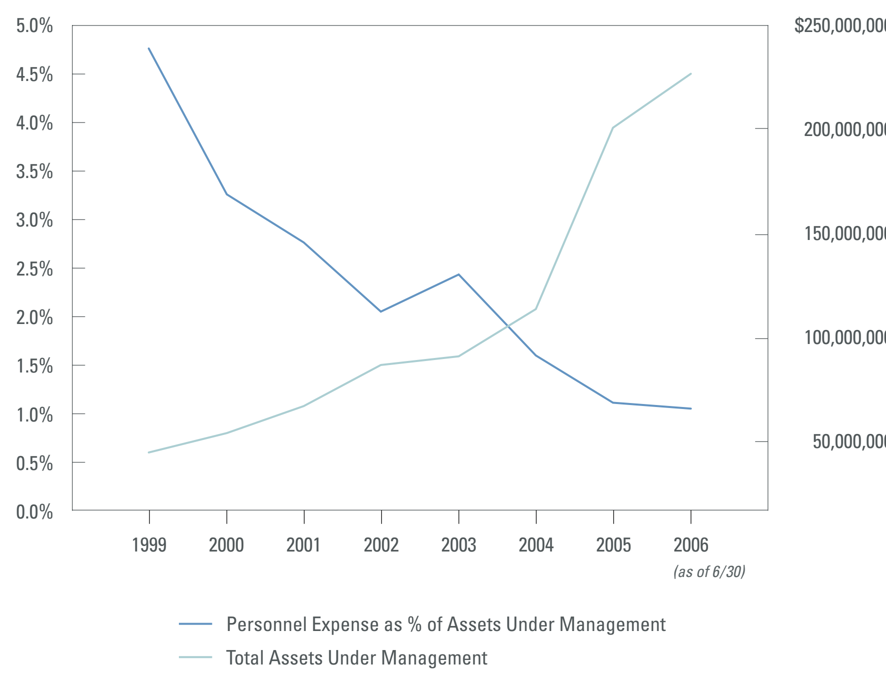
When Boston Community Venture Fund joined a group of angel investors to provide financing for Zipcar Inc., the company had 9 cars and 60 members, and operated exclusively in Cambridge and Boston. Today they boast a fleet of approximately 1,100 cars in 8 major metropolitan areas, both domestic and international, and are poised to expand to 6 new cities. Membership stands at 50,000 with 2,500 new members a month. And their most recent round of financing attracted $10 million from leading venture capital funds, including Benchmark Capital, an investor in such industry-defining technology companies as eBay and America Online. *That* is growing to scale.

In 1999, Boston Community Capital developed a five year business plan, *Growing to Scale: Creating a Comprehensive CDFI that Connects Low-Income Communities to Capital Markets.* The plan proposed a significant expansion of BCC's capital base and core businesses, along with a strengthening of our organizational infrastructure and self-sufficiency ratios. We are pleased to report that BCC accomplished each of these key goals. The highlights of our results are set out in the graphs on the next two pages. For a narrative report on these results, see Exhibit D.

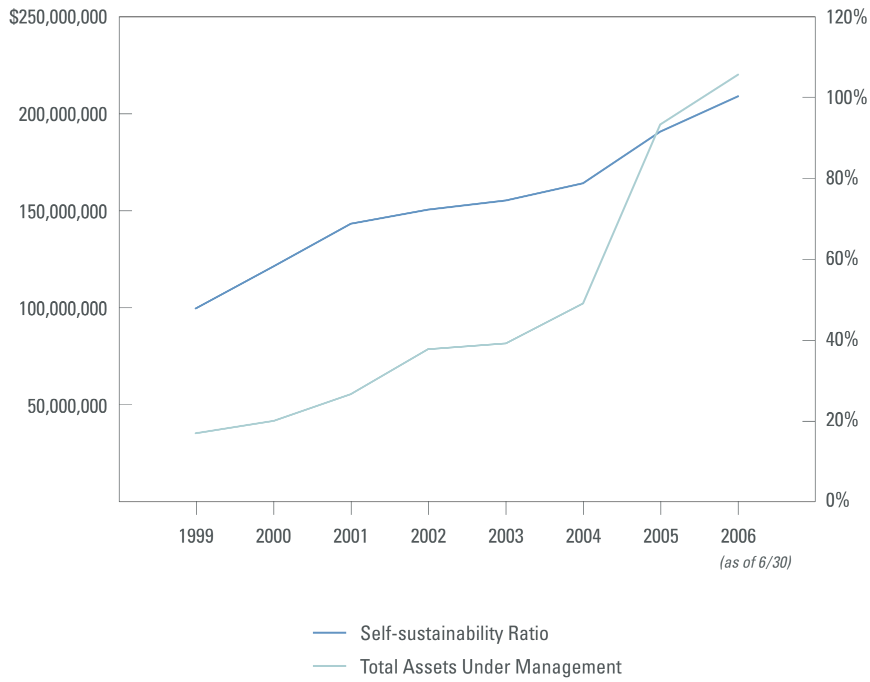
CUMULATIVE DOLLARS INVESTED



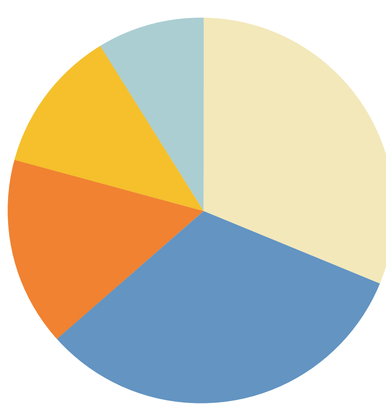
PERSONNEL EXPENSE AS PERCENTAGE OF ASSETS UNDER MANAGEMENT



SELF-SUSTAINABILITY RATIO



BOSTON COMMUNITY LOAN FUND LOANS BY TYPE 1985–2006 CUMULATIVE *(through June 2006)*



Affordable Homeownership	$ 62,526,348	33%
Affordable Rental Housing	$ 61,575,763	33%
Supportive Housing and Shelters	$ 25,307,279	14%
Child Care, Schools and Youth Programs	$ 19,896,870	11%
Community Facilities and Commercial & Industrial Real Estate	$ 16,873,198	9%
TOTAL	**$186,179,458**	**100%**

THE CHANGING WORLD IN WHICH WE OPERATE

BCC takes a comprehensive approach to defining an underserved market—and a holistic approach to building healthy communities. We invest in companies like ESA, Inc., a life sciences business dedicated to addressing public health problems such as lead testing with simple point-of-care tests that facilitate diagnosis and treatment. Our investment in ESA is one of a series of transactions designed to build on synergies in our portfolio of growing life sciences companies through strategic investment and acquisitions.

A strong organization must constantly remain aware of and responsive to shifts in its overall environment.

MAINTAINING A HEALTHY GROWTH-FOCUSED ORGANIZATION THROUGH GOOD TIMES AND BAD

In order to maintain a strong growth trajectory in any economic cycle we must be nimble, reacting to the nuances of and leveraging our relationship to the banking industry.

A COMPLEX RELATIONSHIP WITH BANKS

Traditional banking institutions are important partners both to BCC and to the community finance industry. Not surprisingly, the enthusiasm banks bring to these partnerships fluctuates with the health of the economy. In bad economic times, bank loan rates reflect higher costs of capital and less tolerance for risk, so banks welcome partnerships with community finance intermediaries. Our participation can reduce borrower costs while having an important and positive influence on project cash flow–often enough to make the difference between success and failure. In a growing economy, however, community finance intermediaries must compete with large traditional financial institutions–and are at a disadvantage due to our reliance on fixed-rate capital.

THE IMPORTANCE OF HOLDING OUR GROUND

While banks are significant collaborators, in an economic upswing banks are also powerful competitors. If, in response to bank pressure, we shrink during good times, our ability to finance the communities we serve is substantially reduced during bad times. Effectively, shrinking would mean that low-income communities share the pain in a down economy, but lag behind when the economy recovers; shrinking would also compromise organizational viability and efficacy.

FINANCIAL PRODUCTS THAT SHIFT AS THE ECONOMY SHIFTS

In order to maintain our growth trajectory throughout the economic cycle, we must be able to recognize the nature of the changing economy and quickly shift strategies.

During low-interest-rate periods we must:

- Leverage the balance sheet of our bank partners rather than lend our own less cost-effective capital;
- Play the role of early stage, gap, bridge or subordinate lenders and assist in a large number of financings; and
- Access commercial sources of low-cost capital through lines of credit or other liquidity facilities.

During high-interest-rate periods we must:

- Become a larger (and often more critical) lender for a smaller number of projects; and
- Take advantage of our ability to reduce borrower interest rates by lending our own fixed-rate philanthropic dollars.

We must build upon our knowledge of the impact of the economic cycle on community finance intermediaries, our borrowers and our banking partners to:

- Use the countercyclical nature of our industry to access capital from public market players who are looking for off-cycle investments to balance their portfolios; and
- Create impact measurement tools that assess the true value of our work in both good and bad economies.

THE IMPACT OF SHIFTING INTEREST RATES

We must develop a deeper and more nuanced understanding of the shifting interest rate environment in which we operate, including the impact of various rates of interest, of rate compression, of a flat or reverse-yield curve, of a rising rate environment and a falling rate environment. We must understand the impact of these changes not just on ourselves, but also on our banking partners, our industry, our borrowers and our investors. For example, rate compression this year will cut into margins at our bank partners. What impact will that have on Boston Community Capital and on our

fellow community finance intermediaries? Will it mean that our regional banks are more likely to be acquisition targets? Are there opportunities in that possibility? We must also deepen our understanding of the difference between capital facilities and liquidity facilities and when one works better than the other for us.

THE CURRENT ENVIRONMENT FOR CDFIS: A TIME OF INDUSTRY TRANSFORMATION

Over the past two decades, the community development financial institution (CDFI) industry has become an important player in meeting underserved financing needs in low-income communities. Today, the United States has over 800 CDFIs which collectively manage more than $14 billion; Massachusetts alone has at least 50 CDFIs. Yet a changing economic and political environment demands an industry transformation.

SHIFTING REVENUE STREAMS

CDFIs rely, primarily, on three sources of below-market capital:

- Government funding through agencies like the US Department of Treasury's CDFI Fund;
- Major philanthropic support from foundations; and
- Investments from banks as a result of CRA requirements.

Today, support from all three sources is diminishing.

Governmental support for our work has declined, reflecting a fundamental shift in the role of government, the traumatic consequences of terrorism, and the impact of the war in Iraq. The President's budget proposal for FY2007, for example, leaves only the New Markets Tax Credit with the Treasury Department, and cuts the CDFI Fund appropriation to just $8 million (from $118 million in 2001) to administer the NMTC and its current portfolio. Similarly draconian cuts are proposed for the Department of Housing and Urban Development and other "safety net" programs.

Foundations struggle with reduced assets and income and, in many cases, are re-thinking their support of traditional CDFI activity.

CRA is under attack. The Office of Thrift Supervision (OTS), Office of the Comptroller of Currency (OCC), Federal Reserve Bank (FRB) and the Federal Deposit Insurance Corporation (FDIC) have embarked on a series of initiatives that would begin to dismantle CRA.

In addition, because CDFI revenue is primarily interest-driven rather than fee-driven, the low-interest rate environment reduces the revenue CDFIs earn from lending activities.

Despite this changing economic and political landscape, CDFIs must operate at a level that matches the size and scale of the challenges our communities face. Today, CDFIs confront a major increase in loan demand due to the growing gap between the wealthy and the poor, cutbacks in public funding, and the extremely high cost of housing. BCC, for example, has had a 100% increase in loan applications in just the past year.

Clearly, we, as an industry, must re-think how we do business.

STRATEGIC PLANNING

Over the past three years, BCC has worked with our peers in the National Community Capital Association—now the Opportunity Finance Network (OFN)—to shape a strategic direction for OFN and the industry. That plan—which reflects our own thinking, experience and values—provides part of the foundation for our next stage of growth: We must transform thousands of individual projects and transactions into a system for sustainable change that can attract new sources of capital and permanently link low-income communities to the mainstream economy.

To achieve this goal, we believe that consolidation—which will reduce the overall cost of operations—is both necessary and inevitable. To ensure that the critical work that CDFIs are currently doing is not lost, we believe that strong CDFIs must proactively prepare for and lead this consolidation. Three realities drive our commitment to this process.

The critical resources that CDFIs bring to our communities could be lost. Some CDFIs have already closed their doors, leaving their communities further underserved.

In order to grow and meet increasing demand, we need a strategy that allows us to attract new sources of commercial capital and to become fully sustainable without dependence on philanthropic support. That can only happen if we have an industry of strong, sizeable CDFIs capable of attracting and retaining such new sources of capital.

Because we are linked through many common investors and operate as unregulated institutions, the failure of a large CDFI could have a ripple effect that would cripple many other CDFIs.

Of course, evaluating, structuring and executing any consolidation activity will be complex and new for us. We will need to understand how we can add value and how best to keep resources available to communities. We embrace this challenge.

RISKS AND REWARDS OF INNOVATION

Innovation always contains a measure of risk, and not every new initiative comes—or should come—to fruition.

Both we and our industry peers have dedicated countless hours to considering capital market access—yet no one has been able to develop financing instruments that would allow broad access to pension fund investors. Similarly, although we have engaged in many conversations with mutual fund managers, we have not yet solved the thorny regulatory issues associated with mutual fund investment in un-rated securities, daily pricing requirements and below-market returns. A Real Estate Investment Trust for affordable housing is another potential source of capital market access which—despite substantial effort—is, as yet, unavailable for our use.

New initiatives are key to Boston Community Capital's growth and key to growth in our industry. Whether successful or not, they provide opportunities for:

- Learning, teaching, and new thinking;
- Expanding the potential universe of financial institution partners and of individuals who can assist in our efforts;
- Discovering new capital market access ideas that have the potential to connect low-income communities to capital markets; and
- Understanding the ways in which we and our industry need to change in order to achieve more effective capital market access.

Most importantly, unsuccessful initiatives often lead to ideas that we can move forward. For example, our discussions with potential pension fund investors taught us a great deal about scale and aggregation. We now understand that aggregating interests with our community finance intermediary partners around the country is a prerequisite to achieving a transaction size of interest to pension funds. That, in turn, suggests a direction for our next plan period. Similarly, our discussions with mutual fund managers and with rating agencies informed our understanding of the need for our industry to develop its own rating system, and a methodology for impact measurement that captures the full value created by CDFIs. For more information on our ideas around impact assessment, see Exhibit E.

THE NEXT FIVE YEARS

BCC makes a point of partnering with organizations that are revitalizing their local communities. Urban Edge is such an organization. Since 1974, they have been transforming abandoned buildings and building new community facilities, with an end-goal of bridging the geographic, racial and class barriers between Jamaica Plain and Roxbury. Further, they engage in Smart Growth, creating vibrant neighborhoods around existing amenities such as public transit lines. Since 1986, BCC has made 26 loans to Urban Edge for diverse projects including a wide range of affordable housing, a pilot high school for at-risk students, commercial development, and community parks.

BOSTON COMMUNITY CAPITAL'S FIVE STRATEGIC GOALS

Financial sustainability, an excellent staff, twenty years of experience, and an intentional and productive organizational culture create a sturdy platform from which to launch our work for the next five years. Our overall objective is to continue to develop Boston Community Capital in order to create a more effective and more broadly based effort to build healthy communities, and to continue our work towards the transformation of the community development finance system.

Specifically, our goals are to:

- Bring new capital to underserved communities.
- Expand our leadership role in the effort to build healthy communities.
- Expand our core programs to meet the changing needs of underserved markets.
- Build a platform that both enables BCC to achieve our objectives and can be replicated at a national level.
- Develop an effective measurement matrix for the social and community impact of CDFIs.

These goals are described in more detail on the following pages.

City Fresh Foods is an ethnic-foods business catering to community and corporate clients, schools and the Meals-on-Wheels program. They operate from a facility in the Four Corners area of Dorchester; when City Fresh opened, the neighborhood hadn't seen a new commercial business in 20 years. Employing 32 people, City Fresh hires from the community and promotes from within. Boston Community Venture Fund was an early investor—and City Fresh repaid our initial investment with a 17% annual return. The company continues to grow, reaching record levels in 2005; BCC still retains its common stock shares in the company.

GOAL 1: BRING NEW CAPITAL TO UNDERSERVED COMMUNITIES

We will seek to bring new capital to the communities we serve by:

- Establishing secondary market instruments for CDFI products, thereby increasing liquidity, reducing risk and lowering the product pricing;
- Using programs like the New Markets Tax Credit to create jobs and new development in highly distressed urban and rural areas; build organizational equity; develop secondary markets; and provide equity capital to nonprofits that share our mission of helping to build healthy communities;
- Creating partnerships and tools which increase access to cost-effective, market-rate commercial capital, including lines of credit from mainstream financial institutions and investments from public-sector pension funds, insurance companies and socially responsible mutual funds; and
- Expanding the communities to which we provide financing and services.

ESTABLISHING SECONDARY MARKET INSTRUMENTS

We recognize that the absence of well-established secondary markets for community finance intermediary products reduces liquidity, increases risk and drives up pricing for products intended to serve low-income people. Consequently, we are engaged in several undertakings intended to promote the development of secondary market instruments, including:

- A secondary market for ITIN mortgages, as noted in more detail below;
- A secondary market for New Market Tax Credit (NMTC) loans, as detailed below;
- Sales of our own loans to institutional investors; and
- Additional routes to liquidity under exploration with our peer organizations.

LEVERAGING SPECIALIZED PROGRAMS, INCLUDING NMTC

BCC will expand our use of the New Markets Tax Credit to create jobs and new development in highly distressed urban and rural areas, build organizational equity, develop secondary markets for inner-city loans, and provide additional equity capital to nonprofit organizations that share our mission of helping to build healthy communities.

In 2004, Boston Community Capital received a $70 million New Markets Tax Credit Allocation. Our goal—in addition to increasing investment in highly distressed urban and rural areas across the country—was to earn sufficient fees to build the equity base of BCC, enabling us to substantially expand our lending and become self sufficient. We believed that increased fund reserves would attract commercial capital as an additional source of liquidity for our lending and investing; allow us to invest in innovation and new initiatives; and support one-time investments in infrastructure.

The fee structure we negotiated with General Electric Capital Corporation (GECC), our investor in the NMTC, allows us to meet all of these goals without jeopardizing on-going operations and without the restrictions sometimes associated with other forms of philanthropic or public funding.

In 2006, we received a second NMTC allocation of $60 million. We anticipate negotiating a similar fee arrangement for this allocation award.

In addition, we would like to use our relationships with GECC and the investor market—along with our expertise in the NMTC arena—to manage a third allocation application on behalf of a consortium of organizations that have allied missions but are unable to pursue an independent allocation.

We anticipate four positive outcomes from such an undertaking. It would:

- Promote Boston Community Capital's mission by assisting allied organizations in acquiring fee income;

IN 2006, WE RECEIVED A SECOND NMTC ALLOCATION OF $60 MILLION.

- Strengthen our balance sheet by providing BCC with the opportunity to earn a management fee for our efforts;
- Substantially increase transaction efficiency by allowing BCC to serve as an intermediary between the consortium organizations and the investor market; and
- Increase liquidity, reduce risk and drive down pricing for investments in highly distressed urban and rural areas by allowing us to aggregate the investment income from each of these allocations and then sell interests to other investors as a way to begin a secondary market in NMTC loans. We have opened discussions with GECC on this topic.

ACCESS TO COMMERCIAL CAPITAL

Insufficient liquidity and insufficient capital are potential impediments to growth in the community finance industry. We believe these impediments can be resolved, in part, by access to cost-effective, market-rate commercial capital. Our current initiatives include a recently concluded negotiation leading to a term sheet for a $50 million line of credit at favorable terms from a consortium of financial institutions. Approximately one-quarter of the line is currently committed and closed, and negotiations are underway to close on the remaining availability.

In addition, we continue to collaborate with our peer organizations in discussions with public sector pension funds, with national insurers and with socially responsible mutual funds in an effort to more fully understand the opportunities and challenges of partnering with these substantially larger institutions. What seems clear is that the creation of peer partnerships within the community finance industry is a critical first step in developing financial facilities at a scale necessary to efficiently access pension, insurer or mutual fund investment.

NEW TARGET POPULATIONS

We will expand the audiences to which we provide financing and services, developing new business lines focused on direct-financing products for individuals, particularly those in emerging markets. We are currently examining the financial viability of a mortgage product intended to serve emerging market populations and undocumented residents who are able to obtain Individual Tax Identification Numbers (ITINs). Our goal is to create an origination and distribution network throughout the Northeast and to assist with the development of a secondary market for the eventual packaging and purchase of such loans. We have already identified a partner capable of providing the processing and servicing. We are also considering whether we can play a role in providing more cost-effective financial services for similar populations.

Founded in 1971, the Women's Center in Cambridge is the longest continually operating women's center in this country, serving approximately 700 women a week. In 2005, BCC became involved through the organization's fundraising consultant, who knew BCC CEO Elyse Cherry for her community activism work. Women's Center Board President Martina Bouey, pictured above, became involved with the organization through her work with the Center for Women and Enterprise, an organization where BCC Chief Operating Officer Dick Jones served as treasurer.

GOAL 2: EXPAND OUR LEADERSHIP ROLE IN THE EFFORT TO BUILD HEALTHY COMMUNITIES

BCC will seek to leverage the power of our ideas to promote systemic change in the communities we serve. We plan to:

- Spearhead public policy initiatives;
- Serve as active civic leaders, at a local and national level;
- Continue to play a leadership role in the CDFI industry; and
- Strengthen alliances among community economic development practitioners, organized labor, the arts and culture community, public health practitioners, the philanthropic community, supporters of a cleaner environment and the public education system.

PUBLIC POLICY INITIATIVES

Three examples of initiatives currently underway suffice to illustrate our broad approach to public policy.

- We are working with peers across the country to promote the idea of a national housing trust fund as a key component of any attempt at Government Sponsored Enterprise (GSE) reform. Representative Barney Frank (MA–Fourth Congressional District) is a leader on this effort, and we are in regular communication with his office.

WE NOTE THE AGING OF OUR POPULATION, THE NET OUTFLOW OF 25- TO 34-YEAR OLD WORKERS, AND THE INFLUX OF NEW IMMIGRANTS.

- We have spent substantial time in the last year understanding the trends underlying our regional economy, as well as the shifting regional demographic. Among other things, we note the aging of our population, the net outflow of 25- to 34-year-old workers, and the influx of new immigrants. We have also focused on understanding the relationship of that shift to the need for affordable housing, early childhood education, workforce development, and the like. As a result of this work we have developed and contributed economic development policy ideas for use in the public debate in Massachusetts.
- We have begun a series of discussions with Massachusetts residents who are independently pursuing affordable housing initiatives in their own cities and towns pursuant to the various provisions of Massachusetts General Laws c. 40. Right now, each citizens group proceeds independently; they have no discussion with—or even knowledge of—others who precede them on the learning curve. One of our goals is to work with policy makers to create linkages between these groups, improving efficiencies—and advancing the development of new affordable housing projects. In addition, we are studying ways to coordinate state and federal resources with local citizen efforts, particularly as those efforts relate to the development of affordable housing in wealthy suburban areas and in poorer urban settings.

CIVIC LEADERSHIP

Building healthy communities is not a solo task. It requires commitment and resources from the public, private and non-profit sectors; it also benefits from the contributions of many disciplines. Moreover, a substantial part of Boston Community Capital's value entails erecting bridges across seemingly unrelated disciplines. Thus, the broader our networks, the more effective we can be.

Active participation in civic leadership provides a great opportunity to build those networks. Civic leadership is generally uncompensated and, technically, outside most of our official job responsibilities. However, we intentionally encourage staff participation. Indeed, civic participation is a personal value for many staff members, as a means of furthering BCC's mission within his/her personal life. Civic leadership provides great opportunities for our staff to contribute and to learn, helps us reduce the silos that divide our natural mission allies, and becomes another intentional route to pursuing our core mission.

Thus, membership on the advisory board of Northeastern University's urban-focused School of Education, for example, offers an important window into the challenges facing public schools, pilot schools and charter schools and helps us to better underwrite loans to educational institutions. Similarly, membership on the Board of Directors of the Massachusetts Cultural Council or the Center for Women and Enterprise helps keep us apprised of opportunities to finance artists' live/work

housing or new business initiatives. Involvement in social enterprise and venture philanthropy organizations provides insight into funding trends and gaps in programming for underserved communities. And participation in town government provides an unparalleled appreciation of the benefits and challenges of building, integrating and maintaining affordable housing.

Each of these civic activities gives BCC critical insight into the issues and obstacles facing our organization's work. Each helps us to both anticipate pertinent questions and craft feasible answers. Each helps to further our mission.

LEADERSHIP ROLE IN THE CDFI INDUSTRY

BCC will continue to play a leadership role in the CDFI industry, working to expand access to capital for community development—including commercial capital, funding from GSEs, and expanded equity for nonprofit organizations that serve low-income communities through the New Markets Tax Credit. We will continue to launch new initiatives designed to be replicable across the CDFI industry.

We will continue our active participation in the leadership of the Opportunity Finance Network, as well as collaboration with national peers including the Initiative for a Competitive Inner City, the Financial Innovations Roundtable, and Wall Street Without Walls. We will also continue to represent the CDFI industry, addressing national entities such as the U.S. Conference of Mayors, members of the Federal Reserve Board, and international groups such as the Community Development Finance Association (CDFA).

Our goal is to use these leadership activities to:

- Build the performance, strength and resources of the community finance industry, so as to provide better financial access to low-income people and communities;
- Assist in the development of primary and secondary markets for financial products and services intended to assist low-income people and new immigrant populations;
- Create better access for the community finance industry to market-based, regulatory and philanthropic sources of capital;
- Develop new investment products that can attract a broader range of investors to community development;
- Help develop self-sustaining organizational models for peer organizations;
- Create measurement tools that capture the true value of community finance intermediaries; and
- Incorporate our industry's collective experience into public policy initiatives.

THE BROADER OUR NETWORKS, THE MORE EFFECTIVE WE CAN BE.

STRENGTHENING ALLIANCES

Over the last 20 years, Boston Community Capital has built strong relationships with our peers in community economic development, and with groups that share our interest in building healthy communities—including organized labor, the arts and culture community, public health practitioners, the philanthropic community, supporters of a cleaner environment, and the public education system. Over the next five years, we will seek to strengthen alliances between these constituencies—and through these alliances, to create programs and policies that will strengthen the low-income people and communities we serve.

Demographics are constantly shifting—through immigration, emigration, birthrates, and longevity. Among the changes in Massachusetts is a citizenry that is aging rapidly. Today, 13.5% of the population is over age 65; by 2025 that figure will be 18%—similar to the percentage in Florida today.* That is why BCC supports institutions like the Jewish Community Housing for the Elderly. JCHE provides nonsectarian low-income elderly housing which blends independence and interdependence—and which, above all, focuses on living.

**The Boston Indicators Project, March 2005.*

GOAL 3: EXPAND OUR CORE PROGRAMS TO MEET THE CHANGING NEEDS OF UNDERSERVED MARKETS

BCC will develop products and strategies that provide loans and investments that other financial institutions are unable or unwilling to deliver–and simultaneously create real value for our borrowers and investors. We will create financing initiatives that bridge gaps between key players in the areas that affect healthy communities–housing, environment, education and employment–and reduce the silos in which these players often operate. Concurrently, we will expand both the range of services we provide and the audiences to which we provide them.

BOSTON COMMUNITY LOAN FUND

The Loan Fund will continue the growth trajectory we have established over the last five years by:

- Expanding our geographic focus;
- Developing new, riskier loan products;
- Expanding the breadth of our reach and the depth of our impact;
- Furthering our work in Green and Sustainable Development;
- Playing an increasing role in structuring transactions; and
- Preserving the quality and health of our portfolio through first-rate underwriting, asset monitoring and risk management.

OUR FUNDING CAN CHANGE BEHAVIORS BOTH INSIDE AND OUTSIDE OF CITIES TO ENCOURAGE SUSTAINABLE AND "SMART" DEVELOPMENT.

EXPANDING OUR GEOGRAPHIC FOCUS

While BCLF currently serves all of Massachusetts and considers loans in other states, we will expand our geographic focus in three ways:

- Targeting outer ring cities which have lagged behind the economic growth of Greater Boston;
- Expanding relationships in suburban communities that are addressing affordable housing challenges; and
- Expanding our marketing, including efforts in partnership with sister CDFIs in neighboring states.

In Massachusetts, cities such as Fall River, Brockton, New Bedford, Lowell, Lawrence and Lynn, have lagged behind the economic growth seen in Greater Boston. These areas have mill buildings, dilapidated housing and land which are under-utilized, yet current rents may not support use-conversions or renovations. We will target cities experiencing some economic stimulus which can provide jobs to help support improvements in housing and bring together city and state resources to support projects.

We will develop a suburban affordable housing initiative to address the critical and growing need in affluent communities for affordable housing for community workers. Police officers, librarians, clergy-people, members of the fire department, and town workers cannot afford to live in the towns in which they serve. We have identified a series of towns which have taken some initiative to address affordable housing challenges—initiatives such as passing the Community Preservation Act and Inclusionary Zoning and approving a 40B project(s) which will have required vetting affordable housing issues at Town Meetings. Many of these communities have strong transportation planning and are developing smart growth policies. We will target these communities, bringing financing, expertise and—where needed—connections to strong private and nonprofit developers and consultants. Our funding can change behaviors both inside and outside of cities to encourage sustainable and "smart" development.

While cities in surrounding states, such as Providence, RI, New Haven, CT, Burlington, VT and Portsmouth, NH, have faced a resurgence in their business districts, low-income communities in surrounding cities and less prosperous communities elsewhere in Rhode Island, Connecticut, Vermont, Maine and New Hampshire are facing an increasing affordability gap. We will enter these markets in concert with sister CDFIs or on a pilot basis with known developers or lenders on a "one-off" basis until we understand the marketplace well; we will then grow our presence.

DEVELOPING NEW, RISKIER LOAN PRODUCTS

Throughout our history, the Loan Fund and our sister CDFIs across the country have pioneered new types of lending in low-income communities. Our loans have helped rebuild communities; they have also helped demonstrate that these communities can be attractive markets for more mainstream sources of private capital. We recognize an opportunity in the market to provide capital in a riskier position than commercial banks, and with our higher net asset position today and additional reserves, we can tolerate the additional risk inherent to providing this portion of debt which is critical to closing the transaction. We have found that rate sensitivity declines for this small, "mezzanine" debt and have been able to receive a higher return in exchange for this risk. This brings substantial value to the transaction. Over the next five years we will continue to expand the type and scope of our loans.

EXPANDING THE BREADTH AND DEPTH OF OUR LENDING

Expanding our work toward building healthy communities where low-income people live and work requires that we increase our products to fill the gap left by the commercial banks and foundation funding sources. In that vein, we will expand the breadth of what we do by taking advantage of our non-regulated status to provide loans which banks cannot provide due to their external regulations. The beneficiaries of our work will include not just families in need of housing but also students and child care facility operators.

We will expand the depth of our impact by squeezing out excesses in each of our transactions. By increasing the efficiency of our work and funding, we can deliver projects to the market more quickly and with less dependence on public-subsidy sources. We will measure this impact by evaluating how many transactions we have led which otherwise would not have been done. For example, we will solve timing gaps by bridging subsidy sources for projects which are otherwise well supported and ready to proceed. We will use sub-debt to fill a gap which would otherwise be filled by a commercial bank but for their institutional constraints such as FIDICIA limits (85% LTV). If BCLF provides substantial financial means to a project, the turn-around from the senior underwriter may proceed in a more efficient manner, delivering more value to the customer. BCLF has the flexibility to provide organizational debt to a project's lead sponsor that commercial banks won't. By making funds available via a line of credit, for example, BCC allows a sponsor to be more efficient with its human capital and to gain site control more quickly.

GREEN AND SUSTAINABLE DEVELOPMENT

The challenges around green and sustainable development—the risks associated with new technologies and systems, and the difficulty of finding funding for an unproven concept—get to the heart of CDFIs' role in community development finance

OUR WORK WILL SUPPORT A CONTINUING TREND OF JOINT VENTURE PARTNERSHIPS BETWEEN NON-PROFIT ENTITIES AND FOR-PROFIT ENTITIES.

and our long-term vision for BCLF. Our Sustainable Housing and Communities Initiative is designed to overcome these challenges. By demonstrating that a green and sustainable approach to community development can make communities healthier—from both economic and public health perspectives—this initiative should widen the range of financial products and tools available to finance green and sustainable development.

The particular expertise that we contribute is consistent with our ideas about reducing the barriers among disparate constituencies and areas of knowledge. Specifically, we bring a unique and recognized ability to coordinate the knowledge and activities of affordable housing providers, alternative energy experts, financiers and public policy makers.

Our work will support a continuing trend of joint venture partnerships between non-profit entities and for-profit entities, partnerships which unite the grassroots community-organizing expertise of non-profits and the development expertise and equity of for-profits.

PLAYING AN INCREASING ROLE IN STRUCTURING TRANSACTIONS

The complexity of the transactions in which the Loan Fund participates and the cross-section of borrowers we reach has given us a tremendous understanding of how to evaluate the obvious and the subtle determinants of a project's success. Our role as a debt provider for early-stage acquisitions, a construction lender and a permanent loan provider with very flexible underwriting has given us experience structuring transactions in ways in which commercial lenders are not able. Our experience on one transaction creates value for the next transaction in terms of efficiency and creative structuring which can benefit multiple projects. We bring this expertise to our borrowers, thus reducing both their consulting costs and the time required to put together a creative transaction. This in turn, creates value for our investors, as the "return" on their dollars invested increases with our ability to attract additional transactions.

PRESERVE THE QUALITY AND HEALTH OF OUR PORTFOLIO THROUGH FIRST-RATE UNDERWRITING, ASSET MONITORING AND RISK MANAGEMENT

In recent years, the Loan Fund has taken steps to build our team and strengthen our infrastructure. Our goal is to effectively support growing levels of lending, while maintaining portfolio quality. We plan to continue this trajectory.

BOSTON COMMUNITY VENTURE FUND

The Venture Fund will focus on three primary objectives:

- Maximizing returns from Fund I and Fund II by growing our portfolio companies and managing profitable exits;
- Expanding market knowledge and relationships within the investment industry; and, based on the success of our exits and market conditions,
- Potentially launching a third fund in the $100-250 million range.

MAXIMIZING RETURNS FROM FUND I AND FUND II

BCVF will continue to focus our efforts on growing our portfolio companies and exiting from the companies in both Fund I and Fund II so as to maximize our return to investors. For several of our companies this entails not only achieving profitability but positioning the company as an attractive acquisition target. For others, this requires growing profitability and developing relationships with investment bankers toward a sale or initial public offering. In many cases, we are also focused on developing specific strategic partnerships to significantly enhance the value of the business. Throughout, we will continue to work with our co-investors and our portfolio company CEOs to ensure that the companies have the necessary resources (management and capital) to achieve an attractive exit.

EXPANDING MARKET KNOWLEDGE AND RELATIONSHIPS WITHIN THE INVESTMENT INDUSTRY

Relationships with investment bankers and other venture fund investment partners are important both to the existing portfolio companies and to future funds. Preparing for a third fund, we will seek and develop new relationships with possible new limited partners; deepen our market knowledge of targeted industries and, as appropriate, cultivate high-quality deal flow to support the investment of Fund III capital.

POTENTIALLY LAUNCHING FUND III

Our successes over the next few years with Funds I and II will be a key factor in our decision to launch a third fund in the $100 million–$250 million range. We will continue to monitor the economic environment and its impact both on our portfolio companies and on our fund-raising efforts. This may delay or accelerate the timing of a portfolio company exit and/or the launching of a third fund.

BCC often invests in companies that have the potential to create industry-wide change. Acelero Learning, a Venture Fund portfolio company, is one such business. Providing Head Start program directors and managers with tools and resources to ensure they have the maximum positive impact, Acelero focuses on building effective management systems through long-term, ongoing partnerships that include on-site coaching and feedback, technology and tools, and network support In its first partner program, Acelero improved the students' average performance on child assessment measures by 30%. Those metrics could have a powerful impact nationwide.

GOAL 4: BUILD A PLATFORM THAT BOTH ENABLES BCC TO ACHIEVE OUR OBJECTIVES AND CAN BE REPLICATED AT A NATIONAL LEVEL

Over the next five years, Boston Community Capital will continue to enhance our organizational capacity in order to effectively meet the needs of our changing market. We will:

- Maintain self-sufficiency and sustainability of our core businesses on a permanent basis;
- Develop industry-wide financial facilities;
- Continue to invest in technology, infrastructure and staffing to ensure efficiency and effectiveness;
- Encourage civic leadership among employees;
- Build an organizational culture that reflects the values we bring to bear on our work;
- Expand our corporate structure; and
- Participate in CDFI industry consolidation–assisting in mergers and acquisitions of CDFIs–with attention to the potential benefits and burdens for the merging organizations, the communities they serve and the CDFI industry.

MAINTAIN SELF-SUFFICIENCY AND SUSTAINABILITY OF OUR CORE BUSINESSES

As of 2006, all of BCC's core businesses are self-sufficient. BCC intends to sustain this status permanently, through a combination of fee income and growth in our volume and activity levels. We will use our strengthened balance sheet to negotiate increased access to market-rate sources of capital.

DEVELOP INDUSTRY-WIDE FINANCIAL FACILITIES

New financial instruments—such as joint liquidity pools, housing trust funds, reinsurance vehicles and credit enhancers—can help bolster the entire CDFI industry and bring significant opportunities to low-income communities. Similarly, more effective loan-loss reserve policies can help maintain the financial strength of many of our peer organizations, ensuring their viability and ability to pursue their missions.

INVEST IN TECHNOLOGY, INFRASTRUCTURE AND STAFFING

We will continue to invest in building BCC's technology, infrastructure and staffing, maintaining an organizational culture and structure that is efficient, effective and promotes our mission and values.

- BCC will continue its efforts to improve efficiency through the effective use of technology and regular upgrades to our communication and information systems. In upcoming years, we anticipate that these efforts will include continued improvement of our loan and investor management infrastructure, upgrades to the BCC and BCVF websites, and additional investment in MIS, including hardware, software and IT consulting services.
- We will maintain our commitment to building an excellent staff, and creating policies and programs for hiring, training and compensation that allow us to retain them. While we have been able to accomplish the growth projected in *Growing to Scale* without adding FTEs, we do anticipate substantial staff growth during the next plan period. At the same time, we remain committed to ensuring we have resources in place before we commit to raising long-term expenses. We will continue to seek opportunities to leverage external consultants and to outsource work as needed to increase efficiency and maximize staff resources committed to projects and activities that benefit the low-income communities we serve.
- Boston Community Capital strives to employ and retain highly skilled, highly motivated, productive, mission-driven individuals from diverse backgrounds and income levels. We expect to accomplish that goal by continuing our existing focus on:

  - Providing challenging, mission-driven work, in an organization that values innovation, good business practice, efficiency and good humor;
  - Offering market-rate compensation and benefits;
  - Offering flexibility in hours and in work-at-home arrangements;
  - Creating a collaborative, supportive, collegial environment in which staff are encouraged to share knowledge and information;
  - Investing in hardware in order to maximize the value of human time and effort;
  - Maintaining regularly updated information and communication systems that substantially eliminate the frustration and inefficiency often associated with the operation of small organizations; and
  - Utilizing automation to reduce time spent on rote tasks.
- Because organizations of our size cannot afford redundancy, and because we have a relatively flat management structure, we will continue to regularly update policies and procedures manuals and job descriptions so that, in the event of unanticipated staff transitions due to illness or emergency, tasks can be transferred with little down time and staff transitions can be seamless.

ENCOURAGE CIVIC LEADERSHIP

Because we believe that active participation in civic leadership is an important route to achieving our mission, a key goal of our organizational culture is to support staff members in their civic leadership efforts. We will continue to utilize three existing strategies to accomplish that goal. First, the organization's leadership actively participates in civic undertakings and reports back to staff on the personal benefit, the benefit to the organization and the benefit to the community. Second, we offer flexibility in hours so that staff can attend Board meetings and the like without undue sacrifice. Third, our charitable contribution policy supports organizations in which our staff members actively participate. Moreover, we will continue to accomplish this without adverse impact to our personnel expense ratio.

BUILDING A CULTURE THAT REFLECTS OUR VALUES

At BCC, all staff members are encouraged to consider new and better means to accomplish the tasks at hand; "we've always done it that way" is never an acceptable reason for pursuing outmoded approaches. Each staff member will continue to be responsible both for his/her own specific responsibilities and for contributing to the overall success of the organization; this policy encourages staff members to exercise initiative and offer ideas, criticisms and new approaches, notwithstanding their job descriptions.

We will also continue to promote judicious risk-taking by actively encouraging staff to self-evaluate, and to share mistakes made and lessons learned without fear of reprimand. By contrast, hiding errors, hoarding knowledge and information, and failing to take responsibility will continue to be viewed as serious failings requiring improvement.

We will continue to celebrate with each other at every opportunity, preferably by sharing (and sometimes jointly cooking) good food at the office, at the homes of senior management, at local restaurants and, on occasion, (in an effort to please our more competitive colleagues) at a bowling alley.

CORPORATE STRUCTURE

In order to pursue new initiatives over the next five years, we anticipate creating at least one more non-profit entity and, potentially, several for-profit entities. Our goal remains unchanged: to have mission and function drive structure rather than the reverse.

PARTICIPATE IN CDFI INDUSTRY CONSOLIDATION

We will assist in mergers and acquisitions of CDFIs—with attention to the potential benefits and burdens for the merging organizations, the communities they serve and the CDFI industry.

Over a century ago, health professionals recognized that "unhealthy" housing leads to physical problems for residents; today higher energy and maintenance costs add to the burden for many low-income communities. Through its Sustainable Housing and Communities Initiative, BCC is demonstrating that incorporating renewable energy, energy efficiency and green design into affordable housing creates real economic benefits—benefits that can be measured and shared by funders, developers and residents of affordable housing. This forward-thinking approach to sustainable development was part of what attracted the Architectural Heritage Foundation to work with BCC on projects like Washington Mills in downtown Lawrence.

GOAL 5: DEVELOP AN EFFECTIVE MEASUREMENT MATRIX FOR THE SOCIAL AND COMMUNITY IMPACT OF CDFIs

Our experience in tracking the social impact of our investing and lending illustrates a central challenge facing the CDFI industry and its supporters: how to capture and measure the full value that CDFIs create.

As institutions committed to achieving double-bottom-line returns—financial performance, as well as community impact—CDFIs cannot measure success in financial terms alone. We have been challenged to find social performance measures that capture the full social value we create and to provide easily-understood metrics to serve as bench-marks for performance.

Moreover, the various measures of impact and effectiveness historically relied upon by funders and others do not reflect what we have come to learn about the cyclic nature of our industry. In a high-interest-rate environment, for example, social impact measures tied to number of loans, number of housing units, or even other dollars leveraged would show a significant decrease in impact, despite the fact that CDFIs play a more critical role in community development projects during these times.

As CDFIs increase in number and scale, we have the opportunity to attract new and larger sources of capital to the industry by creating a consistent standard of measurement that helps reduce the transaction costs for investors. At the same time, any standardized system of measurement is likely to shape the industry, rewarding those institutions that most closely meet the standards. Therefore, ensuring that the system of measurement accurately captures the full value of the social impact that CDFIs create—not simply the level of activity—is critical to maintaining the mission of CDFIs.

With our peers Low Income Investment Fund and the Enterprise Corporation of the Delta, and with support from the Heron Foundation, we have developed a framework for expanding social impact accountability for the CDFI industry. Our full report, *Advancing Impact Assessment for CDFIs* is attached as Exhibit E.

Primarily, we believe that CDFIs should be held accountable for what we actually do; there should be a causal connection between the measurement and our work. We think it is equally important that the full scope of what CDFIs do be reflected in what is measured. Social impact measures should:

- Measure what CDFIs do and capture all the value that CDFIs create on five levels.
    - Financial System level: Do low-income communities have better access to capital—either from the CDFI or as a result of the CDFI's partnerships with traditional financial and governmental institutions—at a scale and with a depth and a reach that is sufficient to have a positive impact for those communities? Does the system operate efficiently? Does it leverage subsidies? Does it capture innovation in the mainstream financial system for the benefit for low-income communities?
    - CDFI level: Are CDFIs permanently, effectively, and sustainably able to deliver capital to low-income communities? Are we operating at the appropriate scale? Are we bringing new sources of capital into low-income communities? Do we respond to needs and markets not recognized by conventional institutions?
    - Borrower and Project level: How many loans have been made? What outputs (housing units, jobs, child care slots) are created?
    - Community level: Has poverty decreased? Has safety improved? Are schools getting better?
    - Individual and Family level: Do people have better or cheaper housing? Have their incomes gone up? Have their savings increased? Do they have better skills?
- Capture innovation—the development of new markets, new networks, new instruments and new ways to connect to resources;

AS INSTITUTIONS COMMITTED TO ACHIEVING DOUBLE-BOTTOM-LINE RETURNS—FINANCIAL PERFORMANCE, AS WELL AS COMMUNITY IMPACT—CDIFs CANNOT MEASURE SUCCESS IN FINANCIAL TERMS ALONE.

- Serve as a tool for expanding the capital available in low-income communities, not just a method for the re-allocation of capital;
- Serve a wide range of purposes, including evaluation, marketing, capitalization, policy formation;
- Be consistent with the direction of the industry and avoid creating incentives to meet the measures at the expense of meeting need; and
- Be practical, easy to capture without undue expense, easy to understand, cross-culturally sensitive and recognizable to a wide range of constituents, both those in our field and those we hope to attract to it.

Of course, these principles and conclusions raise as many questions as they answer. Our goal over the next five years is to begin to answer some of the questions. A first step toward that goal is to test the impact measures we identified in the Heron report against the goals that we have set for ourselves.

CONCLUSION

We have always known that to be effective, Boston Community Capital must evolve to respond to the changing needs of our constituencies and to the changing world in which we operate. This plan lays out the values, ideas and top-level strategic goals that will guide us as we move forward over the next five years. As we embark on this journey, we are ever conscious that our ability to achieve these goals is made possible by the strong and constant support of our partners—our investors, our funders, our Board and committee members, our borrowers, and our portfolio companies. Together with these partners, we will continue to pursue the one constant that does not change—our mission: to build healthy communities where low-income people live and work.

EXHIBITS

EXHIBIT A: MISSION STATEMENT

The mission of Boston Community Capital is to build healthy communities where low-income people live and work. Historically, we have fulfilled that mission by:

- Financing affordable housing, child care centers, arts programs, schools, health clinics, youth programs and other community services;
- Investing equity dollars into businesses that create social and financial returns;
- Developing new financial tools that connect low-income communities to mainstream financial markets; and
- Working with our sister community finance intermediaries nationally and, on occasion, internationally to develop scaleable products and approaches to our financing goals.

We serve as an investment vehicle for a wide range of investors, including individuals, institutions and faith-based organizations. Working together, we achieve the cost-effective access to capital that is key to building healthy communities.

EXHIBIT B: HISTORY AND ACCOMPLISHMENTS

Boston Community Capital (BCC) grew out of Boston Community Loan Fund (BCLF), a non-profit organization established in 1985 to make loans to nonprofits developing affordable housing. Founded with $3500 from socially responsible investors, the organization lent to nonprofits and community groups delivering a broad array of vital services in low-income neighborhoods, and served as a vehicle to allow investors to put their investment capital to work in poor communities.

In 1994, BCLF established Boston Community Capital, a new nonprofit holding company, to respond to new credit and capital needs in low-income communities. Boston Community Loan Fund became an affiliate of Boston Community Capital. The combined entity also established two new nonprofit affiliates: Boston Community Venture Fund (BCVF), to make equity investments in both emerging and existing businesses that create jobs or provide services for low-income communities, and Boston Community Managed Assets (BCMA), which develops and manages innovative funding vehicles for low-income individuals and communities.

Originally, the organization focused its efforts on the City of Boston, with particular emphasis on Roxbury and Dorchester. Now, however, Boston Community Loan Fund lends throughout the Commonwealth of Massachusetts and is beginning to extend its reach into surrounding states; Boston Community Venture Fund claims the Northeast as its geography; and our New Markets Tax Credit allocation has a national footprint. Consequently, our deals range from Massachusetts to California and from Florida to Washington's Olympic Peninsula.

IMPACT AND ACCOMPLISHMENTS

Since 1985, Boston Community Capital has committed more than $250 million to low-income communities through more than 400 loans and equity investments, more than 80% of it in the last five years. Our loans and investments have:

- Created or preserved affordable homes for more than 8,000 families and individuals;
- Helped strengthen more than 200 community organizations, supported child care centers and schools providing slots for 1,300 children;
- Renovated over 530,000 square feet of inner-city commercial space; and
- Created more than 1,300 jobs in low-income communities.

Virtually all of the projects we have financed have been well-maintained, continue to provide quality affordable housing and community services, and have had positive impacts on their neighborhoods.

Boston Community Capital has attracted monies from a broad base of investors, including individuals, religious congregations, foundations, financial institutions,

universities and community organizations—and connected these investors' capital with the low-income communities we serve. Our institutional investors include Bank of America, GE Commercial Capital, Wainwright Bank, Sovereign Bank, Citizens Bank, Harvard University, Calvert Social Investment Fund, Brown Brothers Harriman, Metropolitan Life Insurance Company, Fidelity Management Trust Company and Mellon Bank.

BCC was a founding member of the Opportunity Finance Network (formerly the National Community Capital Association), and has played an active role in the development of the CDFI industry. The organization and its affiliates were inaugural recipients of awards from the CDFI Fund of the U.S. Department of Treasury; to date, BCC and its affiliates have received seven financial assistance awards totaling $9.4 million, and two New Markets Tax Credit allocation awards totaling $130 million from the CDFI Fund.

BY 2003, WE HAD INCREASED ASSETS UNDER MANAGEMENT THREE-FOLD, TO $76 MILLION.

EXHIBIT C: ORGANIZATIONAL STRUCTURE

Boston Community Capital is comprised of:

FOUR 501 (C)(3) NON-PROFIT ORGANIZATIONS

- Boston Community Capital (BCC) is the holding company that oversees administration, finance, human resources, and investor relations for the organization and its affiliates.
- Boston Community Loan Fund (BCLF) provides a wide range of debt products to nonprofit community organizations and for-profit developers who share its mission of serving low-income people and communities. Three quarters of our lending is focused on affordable housing; we also provide loans for child care and community facilities, inner-city commercial real estate, organizational working capital, and social services. The Loan Fund has total assets of more than $50 million, with access to additional liquidity from lines of credit and participation agreements with banks and other financial institutions. The Loan Fund is primarily focused on lending in Massachusetts; however, it has made loan commitments outside the state and considers loans from throughout New England.
- Boston Community Venture Fund (BCVF) manages two for-profit venture capital funds (see below) that invest in businesses that can achieve a "double bottom line" of social and financial return. Our first $5 million fund is fully invested in eight Massachusetts companies that create jobs, needed services, and opportunities in low-income communities. Our second fund, capitalized at $16.5 million, invests in growing companies throughout the Northeast and currently holds eight investments in its emerging portfolio.
- Boston Community Managed Assets (BCMA) develops our new business initiatives and innovative funding vehicles for low-income communities.

TWO FOR-PROFIT LIMITED LIABILITY COMMUNITY DEVELOPMENT VENTURE CAPITAL FUNDS, managed by BCVF; and

NINE FOR-PROFIT LIMITED LIABILITY COMPANIES, each of which serves as an equity investment vehicle to support New Markets Tax Credit investing—managed by BCMA.

Boston Community Loan Fund, Boston Community Venture Fund, and our two limited liability venture capital funds are certified as community development financial institutions (CDFIs) by the CDFI Fund of U.S. Department of Treasury. Each member of the BCC organization is certified by the CDFI Fund of the U.S. Department of Treasury as a community development entity (CDE).

EXHIBIT D: GROWING TO SCALE 1999–2005

In 1999, Boston Community Capital developed a five-year business plan *Growing to Scale: Creating a Comprehensive CDFI that Connects Low-Income Communities to Capital Markets* in which we challenged ourselves to accomplish four goals:

- Expand our core businesses
- Establish new initiatives
- Pursue a leadership role in the CDFI industry
- Enhance our organizational capacity

We are pleased to report the following results with respect to the four key goals identified in *Growing to Scale.*

GOAL 1: EXPAND OUR CORE BUSINESSES

Growing to Scale proposed a significant expansion of BCC's core businesses, our Loan Fund and our Venture Fund. We proposed to expand BCC's overall capital base to $60.8 million, to expand the range of products and services we were able to offer, and to expand the Funds' geographic reach. By 2003, we had increased assets under management three-fold, to $76 million. Today BCC and its affiliates have more than $150 million under management (not including our recently awarded $60 million NMTC allocation). In addition, the Loan Fund and Venture Fund both experienced substantive growth in size and breadth.

LOAN FUND

When BCC launched *Growing to Scale* in 1999, the Loan Fund had $14 million under management. Since launching the plan, the Loan Fund has achieved significant growth, expanding assets under management, our range of products, and relationships with capital and secondary markets. Our accomplishments include:

- Expanded capital base: From 1999 to 2003, assets under management grew from $14 million to $41 million. Today, the Loan Fund has $70 million under management. This includes: $40 million in loans from investors, $7 million in equity, $23 million in participation agreements, and $12 million in lines of credit.
- Increased lending: BCLF closed $80 million in new loans from 1999-2003, and $146 million from 1999-2005.
- Developed new loan and investment products: The Loan Fund has expanded its lending products to include early-stage financing and development lines of credit. It has also begun to offer services to new kinds of borrowers including charter schools and for-profit developers.

BCVF PORTFOLIO COMPANIES HAVE CREATED OR PRESERVED QUALITY JOBS FOR MORE THAN 1,300 EMPLOYEES AND CREATED AN ESTIMATED 2,800 JOBS THROUGH OUTSIDE CONTRACTS.

- Expanded geographic reach: In 1999, BCLF lending was focused on the Boston neighborhoods of Roxbury, Dorchester, Jamaica Plain and East Boston. We have expanded our lending activity outside of Metro Boston, lending in western Massachusetts, on Cape Cod and Martha's Vineyard, and in communities such as Lawrence, Lowell, and Gardner. While our lending remains focused in Massachusetts, we have made loan commitments outside the state, and consider loans across the Northeast.
- Developed new sources of capital: BCLF has brought new sources of capital to the low-income communities we serve, and figured out how to use existing sources of capital in new ways. During this period, we attracted "equity equivalent" investments from banks, foundations and universities. We negotiated master participation agreements that increased the Loan Fund's lending capacity by $26 million from 1999–2003. In addition, we used our strengthened balance sheet to negotiate lines of credit totaling $16 million from Wainwright Bank and Fannie Mae.
- Established secondary market relationships with local and national investors, including The Life Initiative, PCI and several banks. We explored relationships with CDT and Community Reinvestment Fund, but determined that the pricing of these deals was not competitive.
- Maintained portfolio performance: Despite a weak economy and substantial cuts to subsidies for affordable housing and community services, BCLF maintained the quality of its loan portfolio. During this period, we have had only one write-off ($12,000), a loan that was subsequently fully repaid by the borrower.

VENTURE FUND

Boston Community Venture Fund also experienced significant growth during this period, launching our second community development venture capital fund, which expanded the Fund's reach beyond Massachusetts to include the Northeast. Among the Venture Fund's accomplishments:

- Expanded size: With the creation and capitalization of BCLF Ventures II, LLC ("Fund II"), BCVF increased assets under management from $5 million to over $21 million, with $16.5 million in Fund II.
- Expanded reach: Fund II considers investment in companies across the Northeast, and has made investments in companies in Connecticut, Vermont, Maine, and New York, as well as Massachusetts.
- Expanded products: In response to our portfolio companies' needs, we created a purchase order financing product that allows companies to better manage production and cash flows.

- Fully committed Fund I: We fully committed Fund I, investing in 8 portfolio companies each of which has the potential to create social as well as financial returns.
- Began investing Fund II: Fund II is now fully committed with investments in 9 portfolio companies.
- Managed the portfolio: BCVF has successfully completed follow-on investments, provided vital technical assistance in the economic downturn, and sought merger and acquisition opportunities for our portfolio companies.
- Created social impact: BCVF portfolio companies have created or preserved quality jobs for more than 1,300 employees; they have also had a "ripple effect," creating an estimated 2,800 jobs through outside contracts. Portfolio companies provide employees with health insurance and benefits; in 2004, they paid employees an average hourly wage of $15.27.
- Exited from investments: Since 1999, we have had six exits from our Fund I and Fund II portfolios.
    - City Fresh, a prepared foods manufacturer that provides African-American and Hispanic meals to community and corporate clients. We redeemed in full $130,000 in Preferred Stock with 18% cumulative dividends while still holding 18.47% of the Company's common stock.
    - TracRac, a manufacturer of rack systems and power-tool workstations. We invested $750,000 and received $939,553 when the company was sold.
    - The following investments returned less than our invested capital: Bari & Gail, Parker Guitar, Cerida Corporations, and Jessica's Wonders. In total, these companies created more than 100 low-to-moderate income jobs. These investments also taught us a number of very valuable lessons including:
        - The risks to a small venture fund of not having sufficient resources to reach an attractive exit, in a recapitalization situation.
        - The value of the quality and abilities of our investment partner, particularly when we are a smaller investor in a large syndicate.
        - The importance of having the right management team and making any necessary changes promptly; we are investing in people.

BCC'S LOAN FUND, VENTURE FUND, AND OVERALL OPERATIONS ARE SELF-SUFFICIENT.

SELF-SUFFICIENCY AND FINANCIAL STRENGTH

BCC's Loan Fund, Venture Fund and overall operations are self-sufficient. Fees from the placement of our NMTC allocation, together with growth in the size and volume of our activity, have largely driven this; in turn, our ability to cover our operating expenses from our operations has generated additional growth, so core operations will not need to be grant-supported.

We have had operating surpluses in 5 of the last 6 years. In 2005 we had an operating surplus of over $150,000, an overall surplus including capital grants and NMTC fees of over $5 million, and a significantly strengthened balance sheet. We increased our line of credit with Wainwright Bank in December 2005 to $12 million (and reduced the interest rate). We have also negotiated a term sheet for a $50 million bank line of credit with Wainwright acting as agent and funding at least $12 million. We are in active negotiations with several other banks to participate in this line.

GOAL 2: ESTABLISH NEW INITIATIVES BY CREATING A BROADER SET OF FINANCIAL INSTRUMENTS AND PRODUCTS TO LINK LOW-INCOME COMMUNITIES AND NATIONAL CAPITAL MARKETS

Growing to Scale argued that in order to link low-income communities with mainstream capital markets, a CDFI should establish new initiatives that create a broader set of financial instruments and products. BCC has launched several new initiatives since 1999:

- We created loan products that allow us to make early stage and higher risk loans in a declining economy, maintain extraordinarily low loan losses, and begin to develop a secondary market to recycle our funds.
- We received major grant support for new initiatives on early stage financing and establishing a strategy for CDFI collaboration and consolidation.
- We led the creation of the Green Building Production Network, a consortium of community development financing, technical assistance and policy advocacy organizations which received a $1.5 million grant to support affordable housing projects that incorporate green, healthy and integrated design.
- With our peers the Low Income Investment Fund and the Enterprise Corporation of the Delta, and funding support from the Heron Foundation, we are co-developing a framework for expanding social impact accountability for the CDFI industry.
- We are making substantial progress on completing the next phase of our Exit Strategy, with our third-round report just completed.

- We are developing an alternative approach to using NMTC that is widely replicable by the CDFI industry. Our strategy was a centerpiece for strategies to increase capital flows into low-income and urban communities for both the US Conference of Mayors and the Inner City Economic Forum (affiliated with ICIC), and we were lead presenters at several conferences hosted by each organization.

GOAL 3: PURSUE A NATIONAL LEADERSHIP ROLE IN THE DEVELOPMENT OF THE CDFI INDUSTRY

- We continued to play a leading role nationally in how CDFIs can link capital markets to low-income communities.
- Elyse Cherry serves as acting board chair and chair of the Scale Committee of the Opportunity Finance Network, formerly the National Community Capital Association; is on the advisory board of Wall Street Without Walls; served on the board of the Community Development Venture Capital Alliance (CDVCA).
- We represented BCC, Opportunity Finance Network and CDFIs in policy presentations before the Federal Reserve Bank's community investment officers, the GSE summit on inner-city investing, and a White House briefing on capital markets and low-income communities.
- Prior to the 2004 presidential election, BCC was asked to prepare a "100 Days Community Development Agenda" to be used in Senator Kerry's transition plan.

GOAL 4: ENHANCE BCC'S ORGANIZATIONAL CAPACITY TO SUPPORT OUR OPERATING UNITS

We are pleased to report the following activity with respect to this goal:

INCREASED PRODUCTIVITY WITH LEVEL STAFFING

Despite an overall growth rate of over 500% since 1999, staffing remained level, through rigorous workflow engineering, investment in MIS and commitment to staff quality.

INCREASED COMPETITIVENESS OF COMPENSATION AND BENEFITS

We have continued to increase the competitiveness of BCC's compensation and benefits package, conducting two comprehensive reviews and adjustments of salaries and compensation ranges.

- We implemented a 401(k) plan, which accepts Roth contributions; it has over $1 million in assets. We also provide life and LTD insurance to all staff.

- We have kept healthcare cost increases well below the national average (19.9% vs. 42.2% from 2001 through 2004). Today, all HR and benefits administration—including payroll, health and dental insurance, life and LTD, and 401(k)—is done via the web, processing requests in minutes.
- We finance State Unemployment Insurance through reimbursement, allowing any unclaimed funds to remain our assets.

IMPROVED INTERNAL SYSTEMS

We published a Procedures Manual, an Employee Handbook, a Business Continuity Plan, and a Records Retention Policy.

UPGRADED FACILITIES AND TECHNOLOGY:

- We became an anchor tenant for the renovation of Palladio Hall, a prominent building in the heart of Boston's African-American community.
- We upgraded our IT infrastructure, network administration, hardware and software for all employees; administration costs have decreased by 13%.
- We installed a Loan Management System that provides loan portfolio and reporting data, exports disbursements and payments to our accounting system, and includes social impact reporting data and an investor servicing module.
- We upgraded our accounting software to provide multi-affiliate accounting.
- We launched websites for BCC and BCVF.
- We switched telephone providers saving approximately $15,000 per year.

IMPROVED BANKING RELATIONSHIP

Through a series of changes we have: increased our line of credit to $12 million; reduced our interest rate by 1.25; lowered investment fees by $13,000/year and bank service fees by $7,000/year; and increased organizational efficiency through electronic banking.

EXHIBIT E: ADVANCING IMPACT ASSESSMENT FOR CDFIS

INTRODUCTION

What follows is a report on the work that Boston Community Capital (BCC), the Low Income Investment Fund (LIIF), and the Enterprise Corporation of the Delta (ECD) prepared in response to discussions with the F. B. Heron Foundation on how to advance impact assessment from the view of a CDFI practitioner team. The work on this report was done by Elyse Cherry and Dick Jones from BCC, Nancy Andrews from LIIF, and Bill Bynum and Ed Sivak from ECD.

We want to point out that we view our conversations and this report as the beginning, not the end, of a discussion. While we include a set of principles and conclusions below, they are more intended to highlight our thinking rather than to represent any final word. In any event, they raise as many questions as they answer. We look forward to continuing this discussion with others in and around the CDFI industry, and we very much hope that our work and thinking on the issue of measurement and impact are useful in moving the industry discussion forward. We want to thank the Heron Foundation, and especially Mary Jo Mullan, the Foundation's Vice President of Programs, for support of this report.

PURPOSE OF MEASUREMENT

A social impact measurement system needs to consider not only what to measure, but how to measure, why we should measure and who should measure; and these questions need to be examined together.

CDFIs regularly collect and analyze information for internal evaluation, to assess opportunities, to determine policy, and to set goals. However, much of the focus of social impact measurement is aimed at:

- holding CDFIs accountable as effective stewards of philanthropic and socially responsible capital, and
- assessing how to allocate social capital.

Since philanthropic and socially responsible funds have been a key source of capitalization, such accountability is appropriate and necessary. However, while we recognize that investors need to be able assess whether their investments into CDFIs are meeting their social and financial goals, we believe that an effective social impact measurement system must reflect a broader purpose.

Two examples illustrate the importance of broad measures. First, many CDFIs, because they are flexible and closely tied to their communities, can respond quickly to changing market conditions and needs. For example, in a growing economy with a healthy banking environment and strong public subsidies, CDFIs often play the

A SOCIAL IMPACT MEASUREMENT SYSTEM NEEDS TO CONSIDER NOT ONLY WHAT TO MEASURE, BUT HOW TO MEASURE, WHY WE SHOULD MEASURE AND WHO SHOULD MEASURE.

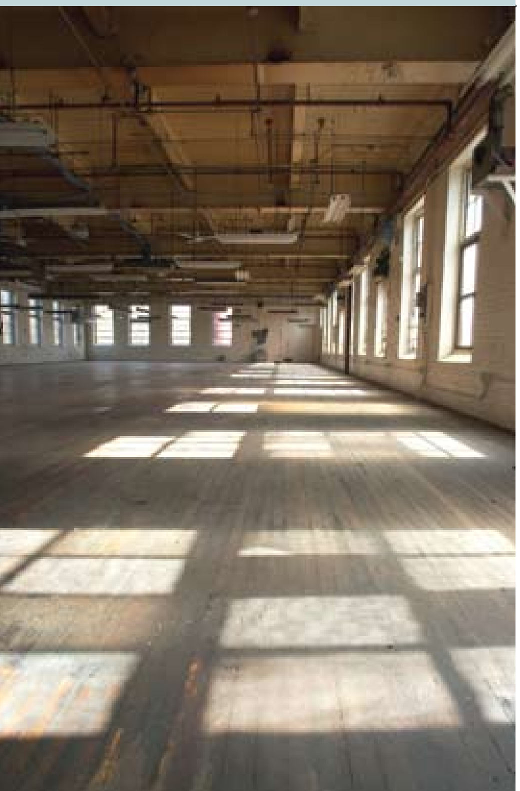
role of early stage, gap, bridge or subordinate lenders and assist in a large number of housing projects financings. However, in an adverse economy, as banks move up market and public subsidies diminish, CDFIs play a different role; namely, as a larger and often more critical lender for a smaller number of projects.

In such a scenario, social impact measures tied to number of loans, number of housing units, or even other dollars leveraged, would show a significant decrease in impact, despite the fact that the CDFI's role is more critical. Thus, social impact measures must recognize that meeting the needs of investors is not always neatly matched with meeting the needs of borrowers. In fact, since social investors are, in effect, hiring CDFIs to make investment decisions about how their funds can be best used in supporting low-income communities, social impact measures must provide accountability to our investors and funders in the context of our markets and the direction of the CDFI industry. Thus, although we are all firmly committed to the accountability that emerges from a focus on measurement, we also think that social impact measurement should avoid incentives to operate solely or primarily to meet measures. Instead, measures should capture and encourage one of the key roles of CDFIs; namely, the ability to move flexibly and quickly in response to changing market conditions.

A second issue offers a different illustration of why we need to recognize broad reasons for measuring social impact. As the CDFI industry has matured and individual CDFIs have developed extensive and impressive track records, the field is increasingly able to tap sources of capital beyond those motivated primarily by social interest or regulatory concerns. In most cases, we believe that some form of social return will be required by these newer investors—public pension funds, socially responsible mutual funds, and the like. However, the nature of what they require will be different.

Many investors may simply require an investment to meet a threshold or certification requirement—a "certified" CDFI, for example. Ironically, since these investors are likely to look at the returns, costs and sustainability of CDFIs, the costs associated with detailed tracking, measuring and reporting of social impact data may be a disincentive for investment. Thus, we need to develop a measurement system that works not only for our oldest and most closely-aligned investors, but also for newer, more commercially focused sources of capital that can help meet far more needs in low-income communities.

We also recognized that *how* we collect data, who collects it, and who pays for the cost is critical to its ultimate usefulness. On one end of the spectrum, a social investor may want to measure impact through driving tours arranged by the CDFI. At the other end of the spectrum, a public pension fund may require a recognizable, and immediately available, third-party rating or, perhaps, a simple certification of eligibility. Our challenge is to neither confuse nor ignore these needs—or the range



in between. Rather, we must organize a system for reporting on our value in a way that is aligned with the needs of constituents and with our own businesses.

We also note that the CDFI industry and our funders must align our language with the value of our work. In one small example, we noted that many industries and activities use public and philanthropic funds to support otherwise economically unsustainable activities. (Sports stadiums, as a prime example.) But such funds are generally described as incentives rather than subsidies. We believe that CDFIs pursue successful economic development strategies and create a powerful impact. Having measures that capture that impact will, in turn, generate resources for expansion. However, the language that we use to report and tell our story must illustrate, not undermine, our work.

MEASURING THE FULL RANGE OF WHAT CDFIS DO

We believe that CDFIs should be held accountable for what we actually do—i.e., there should be a causal connection between the measurement and our work. We think it is equally important that the scope of what CDFIs do be reflected in what is measured. These ideas suggest that a system of measuring social impact should assess our work at five levels:

1) **Financial System level**: Do low-income communities have better access to capital—either from the CDFI or as a result of the CDFI's partnerships with traditional financial and governmental institutions—at a scale and with a depth and a reach that is sufficient to have a positive impact for those communities? Does the system operate efficiently? Does it leverage subsidies? Does it capture innovation in the mainstream financial system for the benefit of low-income communities?

2) **CDFI level**: Are CDFIs permanently, effectively, and sustainably able to deliver capital to low-income communities? Are we operating at the appropriate scale? Are we bringing new sources of capital into low-income communities? Do we respond to needs and markets not recognized by conventional institutions?

3) **Borrower and Project level**: How many loans have been made? What outputs are created, i.e. housing units, jobs created, child care slots, etc?

4) **Community level**: Has poverty decreased? Has safety improved? Are schools getting better?

5) **Individual and Family level**: Do people have better or cheaper housing? Have their incomes gone up? Have their savings increased? Do they have better skills?

Historically, CDFIs have primarily collected and measured data on the borrower and project level, partly because such information is concrete, easy to measure and generally comparable across markets and CDFIs. Increasingly, we ask questions about our impact on individuals, families and communities—although difficulties in collecting this data and difficulties in estimating the causal connection between our activity and the outcome being measured limit the usefulness of such information.

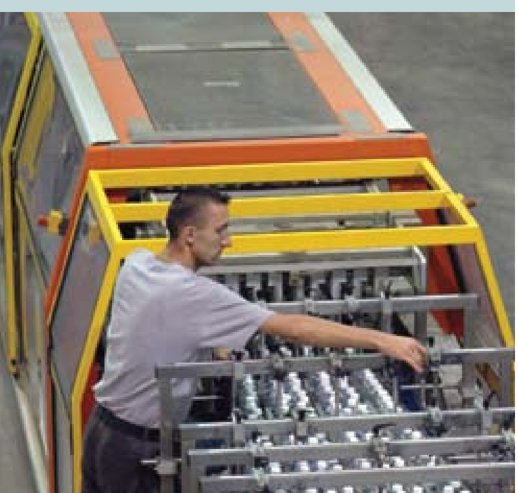
We realize, however, that we rarely include information on the financial system and CDFI levels in our reporting on social impact, so we started exploring ideas for capturing this information. For example, to measure if we are successful in using new or conventional capital for low-income communities, we could measure the percentage of local banks investing in CDFIs over time or look at the range or percentage of capital from different types of investors. To measure the outcome of our activity in organizing markets, we could track the number of first-time borrowers served by CDFIs. To capture our role as early-stage innovators—a role traditionally left to non-profits in many fields, in part, because success doesn't fit a financial return model—we could look at the financial products or services originated by CDFIs and now offered by conventional lenders, either directly or through secondary relationships.

PRINCIPLES OF MEASUREMENT

Since we believe that CDFIs are most effective when we relate appropriately to the context in which we operate, we focused on the context and role that CDFIs play to develop our principles of social measurement. An examination of what we currently track suggests that much of what CDFIs currently measure is unsatisfactory in the context of our current analysis. Many of the measures are of activity not impact. We sometimes measure broad community or even societal outcomes over which we have little control; and the measures frequently ignore the true value that CDFIs create.

While we believe that measuring the efficiency and effectiveness of individual CDFIs is important, we also believe that measurements should emerge from an agreed-upon theory of change or business under which CDFIs operate. We also believe that the set of measurements ultimately created should measure the whole output of the industry for the purpose of increasing the assets available to the industry as a whole rather than for the purpose of setting CDFIs against each other in what effectively becomes a zero sum game.

Because CDFIs are intermediary institutions—linking low-income communities and the broader economy—we play a crucial role in financing community services; but, for the most part, CDFIs do not provide those services directly. Our effectiveness as institutions—accurately reflecting and representing community interests and values; creating a collective strength or market demand to attract better and cheaper goods and services, and making it easier for external resources to identify and meet the needs and opportunities in local markets—is a measure of the health or distress of low-income communities. Social impact measures need to reflect that reality.



The CDFI industry is predicated on a broad, common understanding that the conventional finance system does not serve low-income people and communities well. What this means varies from market to market; in some markets, conventional financing is absent altogether, while in others it may be very expensive, structured inappropriately, or available only on limited terms. And while CDFIs' products, strategies, and structures vary as well, we also share a common theory of business: that low-income communities need and can use capital; that CDFIs are intermediary institutions that can deliver that capital effectively and efficiently; and that collectively we can integrate the capital needs of low-income communities into the mainstream financial system.

Since a key part of our theory of business is that sustainable, effective institutions are part of the definition of a healthy community, CDFIs' long-term impact depends on our ability to become sustainable institutions, so social impact must be integrated with financial performance and sustainability.

In addition to assuring that a system of social measurement is aligned with our theory of business, we must also look more deeply at the impacts of our individual transactions. Outputs of the financial relationships we create may include, for example, loans to build houses for home ownership, loans intended to support the development of subsidized rental housing, or loans intended to support the development of small businesses. While the ability to measure the number of housing units financed through such work (a measure used by many CDFIs) may be important, such a measure ignores:

- the importance of creating a new set of financial relationships,
- the increase in family net worth associated with the increasing value of equity in a home,
- the ability to pass assets on to the next generation as a result of the increase in family net worth,
- the ability of a family to use savings resulting from a subsidized rent to pay for food or schooling or health care, or
- the industry partnerships that prepared and allowed the family to purchase loans.

At the same time, we do not think CDFIs should be measured against societal challenges that are outside the scale and scope of our work. While virtually all CDFIs are aimed at alleviating poverty, the tools we have and the scale at which we operate both suggest that we cannot be held accountable for shifts—up or down—in broad poverty indicators. While we can help individual communities cope with the impact of an adverse economy, for example, we cannot, by ourselves, turn that economy around and should not be held accountable for doing so. Thus, outcome and impact measures traditional to low-income communities—rates of poverty, crime, education, social mobility—measure activities or circumstances several steps removed from the actual work of CDFIs.

Rather than designing a specific set of impact measurements that may fail to take into account the strengths and focus of individual CDFIs, we propose reaching agreement on a set of principles and then requiring each CDFI to develop a set of measures consistent with those principles.

In our view, social impact measures should:

- measure what CDFIs do and capture all the value that CDFIs create;
- capture innovation—the development of new markets, new networks, new instruments and new ways to connect to resources;
- be a tool for expanding the capital available in low-income communities, not just a method for the re-allocation of capital;
- serve a wide range of purposes, including evaluation, marketing, capitalization, policy formation;
- be consistent with the direction of the industry and avoid creating incentives to meet the measures at the expense of meeting need; and
- be practical, easy to capture without undue expense, easy to understand, cross-culturally sensitive and recognizable to a wide range of constituents, both those in our field and those we hope to attract to it.

All of us have been working to create measures that capture some of these outcomes. We all think that measures should focus on the challenges our organizations are trying to address in our respective markets rather than solely focusing on a set of absolute measures. However, we acknowledge that none of us yet knows how to truly measure all of the levels described above or the real value that an intermediary brings to the table; namely the value of enhanced financial relationships.

Sarto Mandeville of Graycer Screw Products Company, a local supplier to TekCel, a company in BCC's Venture Fund portfolio. By investing in TekCel, the Venture Fund is investing in an industry infrastructure—not just creating jobs but building a network that helps support an entire community, while remaining within our traditional investment expertise.

STRATEGIC PLAN

FALL 2006

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