BOSTON COMMUNITY CAPITAL

Business and Strategic Summaries

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The SUN Initiative: Addressing Foreclosures before Eviction
Business Summary Update - April 2010

In 2009, after three years of research and product development, Boston Community Capital created the Stabilizing Urban Neighborhoods ("SUN") Initiative to address the foreclosure crisis in Massachusetts. SUN is designed to stop the displacement of families before evictions occur and to prevent the neighborhood destabilization caused by vacant and abandoned properties. These goals are accomplished by purchasing properties in foreclosure directly from the banks or servicers who own or manage the loans and properties, and then re-conveying them to current occupants with fixed rate mortgages they can afford. Mortgage financing is provided by Aura Mortgage Advisors, a BCC subsidiary, which obtained its Massachusetts lending license in 2009. The SUN program is focused on low-income communities with high concentrations of foreclosure, initially targeted in the cities of Boston and Revere. By focusing on occupied properties that are bank owned (REO) or eligible for short sale, SUN has developed a unique niche that complements other neighborhood stabilization efforts focused on vacant and abandoned housing stock.

Boston Community Capital launched SUN in Fall 2009, and is seeking to raise $50 million in loan capital from private investors to support its initial efforts in the cities of Boston and Revere. SUN closed its first financing from investors in December 2009. To date, the SUN Initiative has completed or scheduled for closing the financing for 60 units of housing for a total acquisition or mortgage value of $6.7 million. The transactions on almost all of these units occurred from December 2009 through March 2010.

An important component of the SUN Initiative is working with community partners who screen and refer potential clients to us. These referral sources prequalify clients, allowing SUN to focus on evaluating homeowner financials and properties, and advising them on how to address their credit issues and financial challenges.

Funding and Client Acquisition

The SUN Initiative is funded by loans from foundations and high net worth individuals. As of April 2010, no government grant funds have been utilized to finance either property acquisitions or mortgages. When developing SUN, BCC found that investors would not consider providing loan funds without two protections against default and real estate value risks. Investors wanted to be assured that SUN had both a:

- Secure Capital Base, and
- Significant Loss Reserves on Each Property

Providing a Secure Capital Base

BCC met the Capital Base threshold requirement by obtaining a $3.5 million "first loss pool" from a philanthropic investor. These funds were invested as equity with no mandatory repayment. They are held in a reserve account that can be drawn down if or when a mortgage defaults and there is a loss at resale of the property.

Insuring Significant Loss Reserves

To meet the individual loan loss reserve need, Aura Mortgage requires a 25% loss reserve on each mortgage. This reserve is provided by NSP Residential, the BCC subsidiary that purchases and resells the properties. NSP acquires the properties at significant discounts (average price equal to 47% of the outstanding principal balance through April 2010) and marks them up by 25% when re-selling to the occupants in order to fund the loss reserve (resulting in a purchase price equal to approximately 59% of the prior mortgage).

Obtaining Efficiencies through Referral Networks

SUN acquires customers through an extensive network of community partners working to protect tenant and homeowners rights through the courts and community organization. These partners screen and refer clients to SUN based on our eligibility requirements. Referral sources, such as City Life/Vida Urbana, Greater Boston Legal Services, Harvard Legal Aid Bureau, the Boston Tenants Association, among others, effectively screen potential clients and allow SUN to focus on a smaller, pre-qualified pool. The referral network allows SUN to achieve processing efficiencies and higher approval rates than a traditional "retail" or "direct marketing" strategy would permit.

Background on Development and Start-up of the SUN Initiative

In 2007, BCC released a report on the sub-prime mortgage market and the likely rise in defaults and foreclosures it would produce. In 2008, we embarked on developing a retail property purchase and mortgage financing program that would accomplish our goals of keeping families in place, maintaining stable neighborhoods and minimizing vacant and abandoned property inventories. This program was successfully implemented in 2009 with the receipt of a Mortgage Lending License and initial funding provided by BCC for acquisition and resale of foreclosed properties.

As mentioned above, SUN has completed or is in the process of closing mortgage financing for 60 units of housing for a total acquisition or mortgage value of $6.7 million; an additional 65 units are currently in various stages of underwriting and/or negotiation, including more than 20 "Offers to Purchase" submitted to banks. We are now on track to reach a run rate of $3 million/month (20 mortgages / month) by Q4 2010. None of the families for whom Aura provides a mortgage currently has a credit score sufficient to allow them to obtain mortgages in the commercial market; their credit has been destroyed by the foreclosure process. We are hoping to see improvement in their credit scores as they re-establish their family finances.

Key to the success of the SUN Initiative are strong and appropriate underwriting criteria and a set of mortgage products designed around lower income borrower needs. As the current foreclosure crisis has demonstrated, a single first time homebuyers course is not enough to make a homeowner successful. They need products that help them achieve their goals, realistic standards for assessing the mortgage level they can afford and a continuing relationship with their lender. The products, standards and processes designed and utilized by SUN are vital to the long-term financial success of the homeowners and mortgages.

Financing Products Designed to Meet Low-Income Borrower Needs

During the summer of 2008, BCC conducted three focus groups with low-income families in foreclosure In order to assure that we designed our mortgage products to meet borrower needs. In addition, we reviewed over 700 title histories of residential properties in low-income areas undergoing foreclosure. Based on the information we developed, BCC incorporated loss reserves, borrower escrows and structured payment plans into our closing requirements and developed a set of products and services designed to address the specific needs of low-income home buyers:

• <u>Predictability, Budgeting and an Assurance that the Mortgage is Paid First</u>: All mortgages are 30-year fixed mortgages, without prepayment penalties. Current rates are 6.25 - 6.375%. Our payment plans require automatic deposit of borrower pay checks, automatic deduction of payments from the borrower's bank account, and payments coincident with payday, generally bi-weekly.

• <u>Building Financial Reserves</u>: BCC requires closing escrows equal to 3-6 months of real estate taxes, insurance and condominium fees, so that financial reserves are available immediately in the event a personal crisis (job loss, illness, etc.) compromises the borrower's ability to pay current. Biweekly payment plans provide two additional payments each year that can be used for shortfalls, or home repairs with loan officer approval. If not otherwise needed, bi-weekly payments will reduce the term of the mortgage from 30 years to 24 years.

• <u>Support in Home Finance and Maintenance and Networks to Assist in Financial Decisions</u>: Annual follow up by loan officers, semi-annual peer group meetings, seminars on filing for tax abatements, home maintenance, budgeting, etc. are a part of the SUN program. We will assist with ongoing financial and home-ownership training through group discussions and online borrower forums that will provide both continuing educational and networking opportunities and create a community of borrowers.

BCC has also partnered with local utility-funded energy efficiency programs and contractors to upgrade the building performance of the properties we finance. Next Step Living (NSL), an integrated energy auditing and building performance contractor, will conduct detailed building assessments, including reviewing mechanical systems, appliances, air leakage and insulation, energy use analysis, indoor air quality and health and safety-related capital needs. The new Massachusetts utility-sponsored energy efficiency programs will pay approximately $18,100/unit in rebate and 0% loans for improvement recommended and carried out by certified vendors such as NSL. In our initial properties working with NSL, the utility-funded improvements should reduce utility cost by 20-30%, translating to average annual savings of $1,500. Further, by upgrading and replacing out-of-date mechanical systems, especially hot water heaters, we can help homeowners avoid significant emergency repairs and expenses.

Underwriting Standards

All mortgages provide permanent financing for owner occupants, and are underwritten as full documentation loans using historically standard debt to income ratios, albeit with a non-traditional approach to credit scores damaged by foreclosure. Mortgages are issued only to households in which the fixed monthly mortgage payment – including principal, insurance, taxes and insurance -- equals no more than 38% of the household's income. Mortgages are not issued with teaser rates, adjustable rates, negative amortization or similar features. Our products fully conform to the FDIC's Statement on Subprime Mortgage Lending.
By selling to existing occupants, we assure that our borrowers are familiar with actual operating costs, which reduces the likelihood of unduly optimistic operating cost estimates for the properties.

Avoiding Moral Hazard

We recognize that reducing borrower debt can cause anger among neighbors who are continuing to pay the full cost of their mortgages. It can also encourage owners not in foreclosure to default on their mortgages in order to achieve a "windfall" – an idea often cited by the financial industry as a reason not to restructure mortgage loans.

In order to avoid this "moral hazard," SUN includes a zero percent, zero amortizing, shared appreciation, second mortgage, which limits return to the borrower to a fraction of eventual appreciation equal to: a) the principal balance of the new mortgage, divided by b) the outstanding principal balance of the foreclosed mortgage. For example, if a borrower's original outstanding mortgage balance was $300 K, and her Aura mortgage amount is $150 K, she will be entitled to 50% of the net appreciation upon future sale of her house. In addition, we screen applicants for evidence of hardship and/or predatory mortgages, as well as income eligibility. If the defaulted owner had neither a hardship (loss of income, illness, emergency expenses, death in the family, etc.) nor an inappropriate, predatory loan, we will not finance.

Impact and Business Goals

As mentioned above, BCC's initial goal for SUN is funding a $50 million foreclosure pool to support lending in the cities of Boston and Revere. The pool is a 5-year debt fund, at an average interest rate of 4.25%, supported by $3.5 million in up front first loss reserves and 25% in note reserves. The $3.5 million up-front loan loss reserves and approximately $30 million in debt is currently in hand or committed. SUN will use those funds to develop a portfolio of properly underwritten mortgages that are paid on time each month. Once the loan payments have seasoned for a minimum of twelve months, we intend to sell the resulting seasoned income stream to recapitalize the initial fund. From 2010-2015, we expect to be able to revolve the initial funding three to four times, financing approximately 2,000 units worth $150 – 200 million from the initial $50 million investment. Since this initial pool is restricted to Boston and Revere, it will have a significant impact on the low-income communities targeted. Annual mortgage volume, balance sheet and profit / loss figures are detailed below.

Projected Mortgage Volume, Bulk Sales and Income

Mortgage Sales	2010	2011	2012	2013	2014	2015
Units	20	80	95	95	95	90
Dollars Funded	1,893,634	7,574,538	8,994,764	8,994,764	8,994,764	8,521,355
Mortgage Value	2,367,043	9,468,172	11,243,455	11,243,455	11,243,455	10,651,694
Loss Reserve	473,409	1,893,634	2,248,691	2,248,691	2,248,691	2,130,339

Balance Sheet	2010	2011	2012	2013	2014	2015
Outstanding Mortgages	2,364,392	11,714,239	10,957,694	7,201,149	3,444,603	3,151,694
Bulk Sales	-		12,000,000	15,000,000	15,000,000	7,500,000
Investor Loans	1,893,634	9,468,172	15,000,000	15,000,000	15,000,000	0

Income Statement	2010	2011	2012	2013	2014	2015
Mortgage Interest and Fees	116,355	641,721	609,093	565,546	710,949	402,256
Net Income (1)	-18,513	83,076	1,050,527	950,452	1,069,666	56,354

(1) Net income includes a gain on bulk sales of mortgages need to reuse capital and pay of Investor loans. This gain represents roughly 10% of bulk sales and therefore net income in some periods is greater than mortgage fees.

Summary

Boston Community Capital has developed a highly effective program to help prevent the foreclosure crisis from devastating low-income homeowners in Boston and Revere. We have built on our 25 years as a community financial intermediary to develop, and privately fund, products and programs, referral networks and partnerships that will address the core challenge facing foreclosed homeowners and tenants: staying in their homes. Over the next 5 years, the SUN Initiative will preserve over 2,000 units of housing by making over 1,600 mortgages worth $280 million to foreclosed tenants and homebuyers in Boston and Revere.

The next phase of SUN would expand the program across Massachusetts targeting low-income communities such as Lynn, Lawrence, Brockton, Fall River, New Bedford and Worcester, where how concentrations of foreclosure and 52-63% declines in property values create an environment in which SUN can have significant impact. BCC estimates that $1 million in first loss funds and $15 million in debt would allow us to serve approximately 500 low-income households over the next five years, approximately one quarter of the potential eligible households.

By showing that the SUN model can work across Massachusetts, BCC will demonstrate that a similar program might be replicable in low-income communities across the nation.

SUN Initiative Comprehensive Business Plan Excerpts from Aura Mortgage Advisors' CDFI Fund Application

Submitted November 2009

Executive Summary

Aura Mortgage Advisors LLC ("Aura Mortgage" or "Aura") is pleased to submit this application for a $2 million Financial Assistance (FA) grant from the CDFI Fund to expand the financing activities of our Stabilizing Urban Neighborhoods (SUN) initiative, aimed at addressing the foreclosure crisis in our target market of Massachusetts. The SUN initiative seeks to stop the displacement of low-income families and the neighborhood-destabilizing effects of vacancy and abandonment by acquiring and financing foreclosed properties before evictions occur.

SUN addresses the foreclosure crisis in our target market of low-income areas in Massachusetts by using the decline in real estate prices in these areas to 1) purchase foreclosed homes at prices at or below present value, free and clear from first and second mortgage lenders at a deep (often 40-50%) discount from the outstanding principal amount of the foreclosed mortgage, and 2) resell those same homes (with appropriate mortgage financing) to their existing occupants – owners and tenants – at prices they can afford, thereby avoiding the high levels of vacancy that encourage neighborhood blight and destabilization. We focus on units that are in the foreclosure process, *but from which owners and tenants have not yet been evicted*, as a way to complement other neighborhood stabilization efforts in Massachusetts, which focus on housing stock that is already vacant. Aura will use the FA award to leverage additional debt to finance the initiative.

Applicant Profile: Aura Mortgage is a certifiable CDFI founded in 2006, managed by BCLF Ventures, Inc., a certified CDFI. Aura and BCLF Ventures are affiliates of Boston Community Capital (BCC), a 25-year-old comprehensive CDFI whose mission is to build healthy communities where low income people live and work. We pursue this mission by offering a wide range of financing products and by developing financing mechanisms that create access to capital in low-income communities. Since 1984, BCC has invested more than $435 million in low-income communities (LICs): financing nearly 9,500 affordable homes; financing child care facilities and schools serving nearly 7,200 children; and creating more than 1,400 jobs in LICs.

In 2006, BCC began working with the Federal Reserve Bank of Boston, local and state officials and community organizations to analyze the subprime mortgage lending patterns and problems around the state. In 2007, we released a report on the subprime mortgage market and the likely rise in defaults and foreclosures it would produce. In 2008, BCC embarked on developing a retail property purchase and mortgage financing program that would accomplish our goals of keeping families in place, maintaining stable neighborhood stabilization and minimizing vacant and abandoned property inventories. This program was successfully implemented in 2009 with the receipt of a Mortgage Lending License and funding for acquisition and resale of foreclosed properties. As of November 1, 2009, only four (4) months after Aura Mortgage received its Massachusetts license, it has completed or is in negotiations to purchase, resell, rent or provide mortgage financing for 30 properties with 40 units of housing for a total acquisition or mortgage value of $4.7MM.

Projected Impact: Over the next three years, Aura Mortgage anticipates that the SUN Initiative will help stabilize 179 affordable housing units in Massachusetts.

Market Analysis

Target Market.

Aura Mortgage Advisors ("Aura" or "Aura Mortgage") has designated "low-income people in Massachusetts" as our target market. The communities in which our Low-Income Targeted Population resides share the following characteristics which have informed the development of our Stabilizing Urban Neighborhoods (SUN) initiative:

- Higher rates of foreclosure than vacancy (particularly in targeted census tracts);
- High concentrations of foreclosures in multifamily units;
- Stable to modest population growth;
- Housing markets that rose rapidly from 2003-2006 and have fallen since;
- High rates of predatory lending and sub-prime mortgages;
- Rising unemployment; and
- Incomes that have failed to keep pace with inflation or with housing prices.

Through our affiliate, Boston Community Capital, Aura has 25 years of in-depth market knowledge in our Target Market. In our experience, the communities we serve have the lowest incomes, the highest concentration of non-white populations, and the highest concentration of foreclosures in the zip codes in which they are contained. This street-level experience is confirmed by the Public Use Microdata Area (PUMA) Samples in the Census Bureau's 2007 American Community Survey. For example, within Massachusetts PUMA5 03303 -- which covers substantially all of our targeted population living in the Dorchester, Mattapan and Roxbury neighborhoods of Boston -- the median household income is $27,752, compared to a 2008 median household income of $49,536 for the entire city of Boston. 85% of the PUMA population in these communities is non-white.

Aura Mortgage has analyzed data on low-income communities across Massachusetts to develop the business strategy described in this Comprehensive Business Plan. Consistently, we have seen the following trends, which are each described in greater detail below.

- Foreclosures and sub-prime loans are highly concentrated in low-income communities;
- Rising home prices in these communities from 2003-2006 rapidly outpaced income levels;
- Evictions have lagged behind foreclosures: as a result of the current statutory and judicial climate in Massachusetts, a significant number of foreclosed properties are still occupied by former homeowners and/or tenants; and
- Declining home prices mean many of these homeowners and tenants can afford to purchase homes in these communities, but because they have defaulted on their mortgage loans, they are ineligible for loans through traditional channels.

To keep within application page limits, we will illustrate the challenges facing our Target Market by presenting data on low-income neighborhoods in six Massachusetts cities: Brockton, Fall

River, New Bedford, Revere, Worcester, and the Boston neighborhoods of Dorchester, Hyde Park, Mattapan, and Roxbury. The patterns and trends in these communities - comprising 96 census tracts - are consistent with experiences in low-income urban areas across Massachusetts.

High Concentrations of Foreclosures and Sub-Prime Loans in Low-Income Communities
The communities in our sample, shown in Chart 1 below, represent 11% of Massachusetts' population, but 26% of its foreclosure activity, and 31% of multifamily foreclosures. High-cost (sub-prime) loans made from 2004 to 2006 were a contributing factor to foreclosures in our illustrative communities. Based on Home Mortgage Disclosure Act (HMDA) data provided by HUD, 36% of all purchase and refinance mortgages in these neighborhoods were high cost loans, compared with just 18% statewide.

Chart 1: Summary of Communities with High Foreclosure Rates

Town	2008 Population	2008 Avg Income	Avg Foreclosure Index*	Avg Vacancy Index*	Units in Foreclosure	Total Housing Units	% in Fcl
Boston	600,654	49,536	n/a	n/a	5,997	251,935	2%
Dorchester	94,181	39,947	18.8	17.7	2,674	32,926	8%
Hyde Park	32,366	49,057	18.0	12.0	415	11,877	3%
Mattapan	38,901	44,172	18.7	15.6	549	13,101	4%
Roxbury	58,560	36,308	18.5	16.8	575	21,909	3%
Brockton	95,376	46,215	19.0	13.6	2,096	36,220	6%
Fall River	94,866	34,639	18.5	15.6	939	44,929	2%
New Bedford	92,710	33,373	18.3	16.1	1,246	42,498	3%
Revere	49,235	45,857	18.0	13.0	783	21,392	4%
Worcester	179,355	42,817	18.9	14.7	2,577	75,113	3%
Weighted Tot/Avg	**735,550**	**40,689**	**18.7**	**15.5**	**11,854**	**299,965**	**4%**

Population from Warren Group and City of Boston DND; Income data from Warren Group, City of Boston DND and AOL Real Estate. Housing units from Warren Group. Foreclosure units from CHAPA foreclosure database. * Boston citywide data is for reference only

Like other urban communities in Massachusetts, our sample communities have high concentrations of 2- and 3-family homes, many of which have been converted into condominiums. These condominiums and 2-3-family homes have seen a high incidence of foreclosure.[1] There are 48,237 housing units in the foreclosure process statewide; of these, 58% (28,141) are in multifamily or condo properties.

The effects of the foreclosures in these communities are exacerbated by their density in multifamily buildings. Within our illustrative communities, 11,854 housing units are in the foreclosure process and 8,883, or 75%, are in multifamily or condo properties, 17% more than the statewide average.

Rising Home Prices Outpaced Income Levels

[1] See New York Times, June 19, 2009 "Hard Times for New England's 3-Deckers" and Federal Reserve Research Paper Issue No. 10, July 2008 – December 2008 "Subprime Mortgages, Foreclosures, and Urban Neighborhoods Kristopher S. Gerardi and Paul S. Willen.

As in other Massachusetts communities, the six cities in our example experienced a dramatic housing downturn in the early 1990s. Prices steadily rebounded over the mid-1990s, and by 1998-2000 prices were at the same point as their 1988 values.[2] Starting in 2003, prices rose at double-digit rates for multiple years. The increase started in Boston and followed in outlying areas such as Fall River and Worcester. As shown in Chart 2 below, from 2003 to 2006 each of the communities saw a dramatic increase in sales prices and volume. From the stable averages of 1988-2002, the sales price in these communities increased by 121% to $279,269. Between 2003 and 2006, these cities experienced average sales price increases ranging from 98% in Worcester to 152% in Dorchester. These increases coincided with the expansion of subprime mortgages, with a national interest in investing in housing, and with a local expansion of ownership housing stock from the conversion of triple-decker homes into three condominium units. Sales volume mirrored sale prices in each community, increasing as prices rose, and falling when prices declined. Sales volume also indicates the intensity with which properties were bought and developed during the peak of the market. The annual average number of sales in the target communities during this period increased 34% -- from 7,885 sales between1988-2002 to 11,128 sales between 2003- 2006

Chart 2

Housing Prices and Annual Sales in Illustrative Communities

	House Prices ($)			% Change	
Town	**1988-2002**	**2003-2006**	**YTD 2009**	**1988-2002 to 2003-2006**	**2003-2006 to 2009 YTD**
Dorchester	$145,268	$366,402	$180,000	152%	-51%
Hyde Park	$156,169	$347,355	$232,000	122%	-33%
Mattapan	$134,272	$335,728	$172,250	150%	-49%
Roxbury	$184,281	$385,667	$227,000	109%	-41%
Brockton	$115,284	$265,234	$135,000	130%	-49%
Fall River	$117,318	$243,392	$166,000	107%	-32%
New Bedford	$101,522	$233,368	$150,000	130%	-36%
Revere	$148,060	$330,280	$205,000	123%	-38%
Worcester	$115,050	$227,952	$139,000	98%	-39%
Avg Housing Prices	$126,570	$279,269	$162,496	121%	-42%
Avg Housing Sales/Yr	7,885	11,128	2,713	34%	-78%

Data from The Warren Group. YTD is through May 2009.

While home price rose, income levels remained stagnant. For the illustrative communities in our target market, taken from the 2000 Census, weighted average median income was $32,681, equal to 65% of the Massachusetts median income of $50,502. Incomes in these same communities have not risen appreciably over the past six years, and have not kept pace with inflation. The 2003 estimated median income for the five cities and the Boston neighborhoods was $37,517. The 2008 estimated median income was $40,689 –an increase of just 8.5% over five years.

[2] The use of traditional mortgage products - with fixed interest rates and substantial down payments, usually of 20% -- may have helped maintain the price stability during this period.

During this period, inflation increased by 17.1% and Greater Boston's CPI increased by 15.5% (2003-2008 data, Bureau of Labor Statistics), for a net effective reduction in buying power of 8.6% or $3,227. However, home prices - a burden not captured in the Consumer Price Index -- increased by 121% during this period. Put another way, home prices increased at a rate equal to 7.5 times the aggregate increase in inflation and 15 times faster than the increase in median income in the six cities. The *overvaluation* of housing in our target market is a critical factor contributing to the foreclosure crisis.

Evictions Lag Behind Foreclosures
As of July 1, 2009, in our illustrative communities, there are 11,854 units of housing for which foreclosure petitions have been filed or which have been converted to REO. 83%, or 9,865, of these properties are not yet bank-owned, but there is a large and growing list of properties that are approaching REO status. In our target market communities in Boston alone, only 20% of these properties have reached the bank owned stage, leaving 3,384 units in process of foreclosure; these are largely occupied, affordable units, many of which can be kept from vacancy and/or abandonment by our proposed program. In Revere, 85% of the 783 units in the foreclosure process are not yet in REO. In Worcester, 84% of the 2,577 units in the foreclosure process are not yet in REO. This pattern of higher numbers of units still in the process of foreclosure rather than bank owned holds true for each of the communities described here, and throughout Aura's Target Market.

Declining Home Prices Make Homeownership Affordable for Low-Income Residents
As dramatically and consistently as housing prices in our sample neighborhoods rose during the peak period of 2003-2006, they have now fallen. According to Trulia.com, a real estate valuation site, as of 9/30/09, housing prices in the city of Boston are only 1% below their 2005-2006 peak; in our sample neighborhoods, however, prices have dropped 47%. As noted in Chart 2 above, from 2006-May 2009, average sales prices in our illustrative communities declined 42%, to $162,496. Monthly payment of principal and interest for a mortgage of $162,496 is $1,027. Even taking into account taxes and insurance, a mortgage payment of this amount can be supported with an annual income of $40,000. As noted in Chart 1 above, $40,000 is consistent with average annual income in our target market.

Notwithstanding sufficient annual income levels, potential homeowners in our neighborhoods are unable to get mortgages. There are two reasons: bad credit ratings and a lack of available credit from traditional lenders. Many homeowners who would qualify for mortgages at current prices obtained a mortgage when housing prices were nearly double what they are today. Those mortgagors are currently in foreclosure. As a result, even though their incomes may be sufficient to support a mortgage at existing prices, their credit scores have been ruined by the default on their original mortgage. Meanwhile, banks have tightened credit standards for home mortgage lending: getting approved for a mortgage, even with good credit, is harder than it used to be.

The Need for Credit, Capital and Financial Services in our Target Market
As described above, Aura's SUN initiative seeks to provide fixed-rate affordable mortgages to low-income individuals and families facing foreclosure who have not yet been evicted. These

families are "underwater" on their existing mortgage loans, and, because they have defaulted, they are ineligible for loans from traditional channels. They are also unserved by national loss mitigation programs that focus on interest rate reductions rather than principle reductions. Other neighborhood stabilization efforts in Massachusetts are focused on vacant properties. By focusing on homeowners and tenants facing eviction due to foreclosure, our program complements these efforts -- keeping low-income individuals and families in their homes and preventing vacancy and blight.

Market Analysis of Need for Financial Products and Development Services

Aura Mortgage developed the SUN initiative in response to market demand quantified through:

- detailed analysis of over 1,000 deed histories for foreclosed properties in our target market;
- three formal focus groups with 30 foreclosed homeowners from Boston, Fall River and New Bedford;
- numerous one-on-one conversations with foreclosed homeowners; and
- collaboration with state and local agencies, legal aid organizations, community advocacy groups and affordable housing lenders and developers focused on identifying gaps in efforts to address the foreclosure crisis in Massachusetts.

Through initial outreach to community groups and legal aid organizations, we have identified and worked with over 150 individuals facing foreclosure, and developed a pipeline of an additional 80 foreclosed units that meet our initial screening criteria. Although we are reluctant to actively develop additional pipeline before we have sufficient funds to address the problem, we have identified 9,865 foreclosed properties in our illustrative communities alone that may be eligible for this program.

We have developed effective working relationships with twelve lenders and loan servicers, and purchased or entered negotiations to purchase over 40 units at steeply discounted prices. These lenders and servicers have also served as referral sources -- connecting us directly to foreclosed homeowners and asking us to consider purchasing other properties in their REO portfolios. Finally, falling real estate prices in low-income communities have made homes affordable to neighborhood residents again; this contributes to our success in negotiating with banks for purchase prices that foreclosed homeowners and their tenants can afford.

Target Market Demand

We have quantified demand in our target market through:

- quantitative research and analysis of foreclosure and sub-prime lending trends in low-income communities in Massachusetts; and
- direct contact with homeowners and tenants facing eviction due to foreclosure, both in focus groups and one-on-one conversations or intake interviews during our pilot phase.

Our quantitative research included a detailed analysis of foreclosures in Massachusetts, including mapping foreclosed properties to determine concentrations in low-income communities; and analyzing housing and foreclosure data from The Warren Group, HMDA records, the Citizens

Housing and Planning Association (CHAPA) foreclosure database, and the Department of Housing and Urban Development. We also analyzed over 1,000 title histories for foreclosed residential properties in our target market. As described above, in the cities of Boston, Brockton, Fall River, New Bedford, Revere and Worcester, there are over 11,854 units in foreclosure; 85% of these units are still occupied and potential candidates for Aura's SUN initiative.
In summer 2008, we conducted three formal focus groups with 30 foreclosed homeowners from Boston, Fall River and New Bedford. These individuals provided us with detailed information on the personal circumstances that led to their foreclosures; they also helped us understand the common set of challenges that must be resolved if these borrowers were to succeed at homeownership and mortgage repayment. 95% of focus group participants stated that they wanted to remain in their homes; and 90% expressed interest in a fixed-rate mortgage product offered by a nonprofit organization that provided transparency in the transaction. At the end of the focus groups, we introduced the idea of our mortgage loan program. Focus group participants offered valuable feedback that shaped the development of our mortgage loan instrument (see Question 4). Although our organization was only mentioned in passing during the focus groups, one participant arrived at our offices the following day to see if she could be a "test" candidate for our mortgage product. We were able to help her remain in her home.

While quantitative research and focus groups provide a measure of the market size and potential demand for a product, actual inquiries and applications provide another key indicator of demand. While Aura has not advertised our loan product in any way, we have already received hundreds of inquiries from homeowners facing foreclosure, not only in Massachusetts but across the nation. A May 2009 article in *The Boston Globe*, in which we participated only reluctantly, yielded over four dozen phone inquiries from foreclosed or delinquent borrowers seeking assistance. While most of these would-be borrowers did not meet our lending criteria (see Question 4), several were qualified candidates and are now in our pipeline.

Developing Key Relationships with Lenders and Servicers
In addition to understanding target market demand for our product, it is important to understand that mortgage holders - banks and loan servicers - are willing to work with us. To keep foreclosed homeowners and tenants in their homes with mortgages they can afford, Aura must purchase the properties at deep discounts from the outstanding principal amounts of the foreclosed mortgages. In our pilot, we have developed relationships with 12 banks and loan servicers, and have successfully negotiated purchases at an average discount of 38% off the foreclosed mortgage amount. Banks and servicers who have worked with us once are already asking us to review additional properties and loan portfolios for potential purchase.

Falling Home Prices Lead to Increased Demand; Banks Willing to Negotiate
The current marketplace has a large number of multi-family properties, condominium units and single family properties undergoing foreclosure or in lender ownership. The number of properties on the market and the length of time to complete foreclosure and eviction processes have begun to restore balance in market prices. Multi-family and condominium values have dropped precipitously in neighborhoods with high foreclosure rates, with price declines of 40 – 70% or more. The Multiple Listing Service (MLS), which tracks residential real estate prices, is showing distressed property sales, both foreclosed and "short sales," achieving even deeper

discounts. Bank owned property inventories continue to climb, and based on foreclosure notice activities, will increase for the next 12-24 months. At the same time, legal and political obstacles to homeowner and tenant evictions have increased.

As a result of all these factors, housing values have returned to affordable levels more in line with rental rates. Lenders and mortgage servicers have become more receptive to selling at discounts off previous market values, and they are placing a premium on cash purchases from buyers willing to close quickly. Not surprisingly, in light of the “freeze-up” in the credit markets, they have also become more willing to work with non-profit intermediaries.

Finally, Aura's loan products and services meet a need that is unmet by other lending programs in our market place. As described above, Aura's SUN initiative focuses on homeowners unable to qualify for traditional loans due to bad credit scores due to their default. Because they are "underwater" on their current mortgages, they are unable to take advantage of national loss mitigation programs that do not reduce principal balance. By focusing on occupied homes in foreclosure, Aura works with borrowers unserved by other foreclosure programs in Massachusetts, which focus on vacant properties.

Based on these factors, we believe the timing is right to bring the SUN initiative to scale – increasing its lending to $31.4 million by leveraging the requested $2 million FA award.

Market Challenges

The SUN initiative faces three primary market challenges to be successful. First, can we purchase and re-sell the properties at prices that are affordable in our target markets and for the residents we are trying to serve? To address this, we are using traditional income-based underwriting criteria to set offer prices and inform our purchase negotiations, rather than simply applying a deep discount to the current mortgage payments, interest rate or principal.

Second, since many of our target neighborhoods have multiple distressed properties and units, can we operate at a scale sufficient to help stabilize the neighborhoods, not just individual properties or families? The SUN initiative is a key part of Aura’s and BCC’s larger neighborhood stabilization strategy, for which we seek to raise sufficient capital to underwrite several hundred units of housing. Since we are providing our own mortgages, we can underwrite difficult-to-finance properties, including condominiums in small and distressed condo developments. Through our Loan Fund affiliate, we are also financing local CDC and private develop projects to reclaim distressed and vacant property. Finally, we also work closely with other public and private neighborhood stabilization programs to coordinate efforts in targeted neighborhoods.

Third, can we acquire clear title to the properties? Second mortgages and recent court challenges to foreclosure proceedings, such as the *Ibanez* case in Massachusetts, have made getting clear title difficult. Since we are pricing our purchase, and subsequent mortgage, at a current market price rather than a simple discount, we can factor in the cost of clearing the second mortgage. Since we purchase properties with cash and can move quickly, first mortgage holders often find it cheaper to accept a smaller payoff from us than to take title to the properties and then manage and resell the properties themselves. Since we are simultaneously negotiating a friendly resale and mortgage to the foreclosed homeowner, we can negotiate a deed-in-lieu of foreclosure, clearing the title issues raised by unperfected foreclosure proceedings or documentation.

Business Strategy

Aura's Financial Products and Financial Services.

Aura Mortgage's key product is a fully-underwritten mortgage loan instrument with a fixed payment -- including principal, interest, taxes and insurance -- equal to no more than 38% of household income. The mortgage product -- aimed at low income borrowers and homeowners in foreclosure -- is designed to meet the stated needs of low-income people in foreclosure. Our products and services help address the foreclosure crisis while reducing risk of future default and avoiding "moral hazard" which might encourage neighbors to default on their mortgage loans. By focusing on units that are in the foreclosure process, but from which owners and tenants have not yet been evicted, our lending program complements other neighborhood stabilization efforts in Massachusetts, which focus on housing stock that is already vacant.

Aura provides mortgage loans to homeowners who have lost or are about to lose their homes through foreclosure, and to tenants who are in danger of losing their homes because the owners of their units/buildings have lost or are about to lose their homes through foreclosure. The tenants or foreclosed homeowners purchase the property from BCC's real estate affiliate, NSP Residential, after we have successfully negotiated its purchase from the bank at a significant discount from the foreclosed mortgage. The purchase price that NSP negotiates must be sufficient to allow:

- a 25% price markup to fund a Loan Loss Reserve; and
- Borrowers to qualify for traditionally underwritten and fully documented mortgages with acceptable ratios for housing, debt and living expenses

Rates, Terms and Conditions:
Mortgage amounts for the product range from $25,000 to $400,000. We provide fixed-rate first mortgages with a 30-year term. Current interest rates range from 6.5 to 8%, depending on the term and amount of the loan. We charge an application fee of $450 and a 1.25% origination fee.

In the case of foreclosed homeowners repurchasing their homes, we recognize that reducing borrower debt can cause anger among neighbors who are continuing to pay the full cost of their mortgages. It can also encourage owners not in foreclosure to default on their mortgages in order to achieve a "windfall" – an idea often cited by the financial industry as a reason not to restructure mortgage loans.

To avoid this "moral hazard," Aura includes a zero percent, non-amortizing, shared appreciation second mortgage, which limits the borrower's share of future capital appreciation to a fraction equal to: a) the principal balance of the new mortgage divided by b) the outstanding principal balance of the foreclosed mortgage. For example, if a borrower's prior mortgage was written down by 60%, then they are eligible to receive 40% of future appreciation. Any additional profits are returned to Aura and affiliates for investment in our loan funds and future programs to advance our mission of building healthy communities where low-income people live and work.

In addition, we screen applicants for evidence of hardship and/or predatory mortgages, as well as income eligibility. If the defaulted owner had neither a hardship (loss of income, illness, emergency expenses, death in the family, etc.) nor an inappropriate predatory loan, then they are not eligible for the program.

For loans to borrowers who are purchasing the foreclosed properties in which they are or were tenants, there is no shared appreciation mortgage because no moral hazard exists. For former tenants with low credit scores, we require loss reserve accounts at closing. These funds are returned to borrowers after a successful loan payment history is established.

Underwriting Guidelines
All mortgages provide permanent financing for owner occupants, and are underwritten as full documentation loans using historically standard debt to income ratios, albeit with a non-traditional approach to credit scores damaged by foreclosure.

Mortgages are issued only to households in which the fixed monthly mortgage payment – including principal, insurance, taxes and insurance -- equals no more than 38% of the household's income. Borrowers must meet federal housing program debt-to-income ratios:

- Principle, Interest, Taxes & Insurance $\leq$ 38% of gross;
- Housing and monthly debt payments $\leq$ 48% of gross ; and
- Total monthly expenses $\leq$ 75% of gross expenses.

We require full documentation and verification of income using paystubs, tax returns, W-2s, etc.; expenses using monthly bills; and assets and liabilities using bank statements, loan statements, credit card balances, etc.

Mortgages are not issued with teaser rates, adjustable rates, negative amortization or similar features. Our products fully conform to the FDIC's Statement on Subprime Mortgage Lending.

In addition, we require a Capital and Emergency Reserve Escrow equal to six months of taxes and insurance funded at closing to begin building borrower reserves. Payments are by auto debit and are scheduled to coincide with borrower pay days, but are at least bi-weekly.

Customer Profile: Low-Income Homeowners Facing Foreclosure
Aura Mortgage has developed its mortgage products and services to address the challenges and needs of low-income borrowers facing foreclosure. Through our focus groups and initial research emerged a detailed and coherent picture of borrower circumstance.

Some homeowners refinanced their homes on multiple occasions and in quick succession. At each refinance, the homeowner traded substantial additional costs and fees for a new "teaser" rate that, for a short while, reduced the monthly mortgage payment. After the third or fourth refinance, however, the additional costs and fees encumbered all available equity and eliminated the possibility of yet another refinance. When rates then adjusted upward, the cost of the mortgage debt skyrocketed, the homeowner became unable to pay, and the mortgage went into default. Teaser rates on initial mortgages also caused defaults for first-time homebuyers who had no ability to pay the true, ongoing cost of their mortgage debt. Other homeowners had difficulty paying as early as the first month after a mortgage finance. Still others lost their homes because a relatively short-term personal or family crisis (e.g. a car accident or a spouse's illness) compromised their ability to keep mortgage payments current.

Common Borrower Challenges
Although homeowners reached foreclosure through a variety of routes, low-income borrowers face a common set of challenges that must be resolved if they are to succeed at homeownership and mortgage re-payment. These borrowers are far more likely to succeed in paying a mortgage on-time and over time if they have

- fixed-rate, properly underwritten, mortgages that assure a manageable, predictable monthly payment;
- automatic deposit of paychecks and automatic withdrawal of mortgage payments, timed to assure that the mortgage is the first bill paid, not the last;
- assistance with budgeting;
- up-front reserves to help manage the lack of a financial cushion and to cover unexpected emergencies such as illness, the loss of a job, or emergency household repairs; and
- education regarding to the real costs of a mortgage and of owning and maintaining a home.

Innovative Mortgage Products Designed to Meet Borrower Needs
Accordingly, Aura incorporated loss reserves, borrower escrows and structured payment plans into our closing requirements, and developed a set of products and services designed to address the specific needs of low-income home buyers:

- **Predictability, Budgeting and an Assurance that the Mortgage is Paid First:** All mortgages are fixed rate, fully amortizing loans without prepayment penalties. We require payment of principal, interest, taxes and insurance or homeowners' association fees. Monthly payments are established at closing and vary only by the changes in taxes and insurance or homeowners' association fees. To address concerns about budgeting and reaching the end of the month without enough money to pay the monthly mortgage, Aura schedules mortgage payments based on borrower pay periods. If the borrower is paid weekly, Aura debits their bank account for 1/52 of the annual payment. Similarly, with bi-weekly pay periods, borrowers are debited every other week. All loans are paid at least bi-weekly to allow the development of additional "emergency" reserves.

- **Building Financial Reserves:** Since most of our borrowers have little savings, we help them in developing financial reserves that they can tap in times of financial or life crisis and when major maintenance is required on their property. These "Capital and Emergency Reserve Escrows" are held in the borrower's name, earn interest, and have no fees attached to them. They can be accessed by consulting with the loan officer. If the reserves are not needed and the loan is paid as agreed, the funds are used to pay down the principal balance thus reducing the total interest paid on the mortgage. Escrow accounts equal to six months of real estate taxes, insurance and condominium fees are funded at closing, so that financial reserves are available immediately in the event a personal crisis (e.g. job loss, illness) compromises the borrower's ability to make payments. Biweekly payment plans provide one month's additional payment each year that can be used for shortfalls, or home repairs with loan officer approval. If not otherwise needed, bi-weekly payments will reduce the term of the mortgage from 30 years to 24 years.

- **Support in Home Finance and Maintenance and Networks to Assist in Financial Decisions:** Maintaining a home is a major, and often relatively new, undertaking for our borrowers. Through quarterly follow-up by loan officers, semi-annual peer group meetings, seminars on filing for tax abatements, home maintenance, budgeting, etc., Aura will help clients learn how to monitor their home, maintain their home using licensed contractors, and take advantage of publicly funded energy and home improvement programs. SUN will assist with ongoing financial and home-ownership training through group discussions and online borrower forums that will provide continuing educational and networking opportunities to create a community of borrowers. Financial skills are addressed on both an individual level and through group seminars. Loan officers are responsible for monitoring the progress and performance of their clients, and must complete periodic customer reviews that are placed in credit files.

- **Help in Maintaining Good Credit:** An important component of Aura's mortgage products is their flexibility. If a borrower has difficulty paying for closing costs, Aura will include a portion of them in the mortgage balance. Aura loan officers also evaluate each borrower's financial capacity to determine an appropriate down payment level. The key for Aura is that borrowers contribute a meaningful amount of cash at closing so that they are invested in the mortgage and their own success with it.

Payment flexibility is provided starting with the mortgage, payment schedule and required reserves. By providing a 30-year note and mortgage with bi-weekly payments, Aura provides an automatic grace period for the loan and the opportunity to tap reserves when hardships occur. Depending on payment performance, the additional monthly payment collected through bi-weekly billings can be used to provide relief when times are hard or to shorten the term of the mortgage. In both instances, the borrower benefits from the program design.

Reducing Risk

Aura reduces the risk of future default on these mortgage loans by

- creating close relationships with our community partners – City Life/Vida Urbana, Greater Boston Legal Services, Harvard Legal Aid Bureau, the Boston Tenants Association, Legal Assistance Corporation of Central Massachusetts, and the Worcester Anti-Foreclosure Team, among others – who are both sources of potential borrowers and screeners of potential borrowers;
- purchasing foreclosed homes from lenders at a steep discount so that we can sell to the ultimate owner/borrower at a price that is consistent with neighborhood median income;
- developing new mortgage loan instruments that explicitly meet the stated needs of low-income people;
- issuing fully underwritten, 30-year mortgages with a fixed payment – including principal, interest, taxes and insurance -- equal to no more than 38% of household income;

- selling, primarily, to existing occupants whose knowledge of actual operating costs reduces the likelihood of unduly optimistic operating cost estimates; and
- building a 25% portfolio level reserve against future loan losses and market decline. When possible, Aura purchases from lenders at a discounted price that allows us to resell to existing occupants at a 25% mark-up and still stay within our underwriting guidelines with respect to percentage of household income necessary to service the mortgage and related costs.

Leverage with Other Resources to Achieve Greater Impact
Funds from the CDFI Fund will allow us to leverage approximately $25 million in market rate capital from investors to finance the SUN Initiative. This $25 million will allow us to make approximately 200 mortgage loans to individuals and families living in foreclosed properties. As described above, the individuals we serve are ineligible for mortgages from traditional sources because they have defaulted on their mortgages, and unable to take advantage of national loss mitigation programs because they are "underwater" on their loans, requiring principal, not interest rate reductions.

Aura's Development Services.

For the last 25 years, Boston Community Capital and its affiliates have provided development services that allow borrowers to access and take advantage of our loan products and services.

Development services are an integral part of Aura Mortgage Advisors' business model. Aura staff provides both individualized one-on-one counseling, and group training on personal budgeting, credit and debt management, home buying and ownership responsibilities, and understanding the structure of loans, mortgages and consumer credit.

Individual Financial and Credit Counseling: All potential borrowers must participate in this counseling prior to submission of a mortgage application. Of all those who receive individualized counseling, approximately 25 – 40% eventually are approved for a mortgage. Counseling is critical to the client's understanding of the Financial Products offered by Aura. In addition, Aura continues to provide coaching and financial training post-loan closing on a periodic basis, along with credit monitoring and account management. Once again, this training is crucial in helping borrowers develop and maintain good credit histories.

Group Financial and Credit Counseling: In addition to individual counseling, Aura staff provides group training for community organizations that assist prospective home buyers, including local tenant organizations, foreclosure counseling agencies, and local government agencies involved in first time home buyer education.

These financial counseling and development services help borrowers address delinquencies when they happen, and establish solid credit histories that enable them to "graduate" to more conventional lenders. These services are an integral part of our business, and are critical to understanding our success over time.

Marketing, Outreach, and Delivery strategy

Aura Mortgage, together with our affiliates, seeks to recognize and provide financing for borrowers or projects whose needs are not being met by others in the market. As a result, Aura was the first in the region to offer financial products that provide viable alternatives to foreclosure and eviction. The products emerged out of extensive customer research, surveys and interviews. Our approach to outreach, marketing and delivery is equally rigorous.

Over the past 20 months, Aura has developed an expanding network of referral sources and partners working in the foreclosure mitigation and remediation field. This network includes legal services agencies, foreclosure counseling agencies, tenant organizers, and city and state program officers. We have developed a series of both formal and informal strategies to reach new and potential borrowers, including presentations to neighborhood groups, program and product presentations to network agencies, referral marketing and tracking systems; and regular meetings to review referred client files with agency staff. We speak frequently at conferences and training sessions. Finally, we regularly send out and tailor marketing materials to network referral sources.

Identifying Potential Customers
An important part of Aura's marketing efforts is continuous monitoring of public records and data bases listing properties in various stages of foreclosure. The collection and analysis of Registry of Deeds documents allows us to identify both individual borrowers and properties that have recently entered the foreclosure process. We also identify trends and changes in the concentrations of activity, the prices at which banks are taking properties into their Real Estate Owned portfolios, and the scope of individual bank foreclosure activities. Aura packages this market data into neighborhood canvassing packets that are used by our referral sources to contact prospective clients. The data can also be used for telephone and mass marketing if needed.

Expanding our marketing reach; Partners and Collaborators
Aura also provides press interviews and foreclosure information to a wide range of media outlets, including neighborhood weekly newspapers, national radio and print media and internet media sources. Our work with local, state and national mortgage and community finance organizations also provides valuable entries to new referral sources and potential partners. Organizations and agencies such as the Massachusetts Mortgage Bankers Association, the Massachusetts Mortgage Association, the Massachusetts Housing Partnership, the City of Boston Department of Neighborhood Development, the Citizens' Housing and Planning Association, the Planning Office of Urban Affairs for the Archdiocese of Boston, local community development corporations and others provide exposure for our products and programs.

Sustaining our delivery mechanisms
With respect to our delivery strategy, BCC affiliate NSP Residential works closely with asset managers to insure that property purchases are closed quickly. We also work with attorneys, and housing and district courts to insure that homeowners and tenants are not unnecessarily evicted.

Aura then quickly schedules loans closings, provides funding in a timely manner, and remains available for consultation on issues pertaining to the loans. This "all hands on deck" approach prevents bottleneck situations and is critical to our borrowers, who often lack financial expertise and have been through lengthy and difficult foreclosure and/or eviction proceedings. We are staffed to sustain this delivery mechanism; our fee and income structure supports our model.

Market Challenges

The SUN Initiative depends on two key assumptions:

1. There are a sufficient number of homeowners who 1) have been victimized by the mortgage process, 2) been foreclosed upon, 3) want to stay on as homeowners and 4) are willing to take on a new mortgage to remain in their home and to stabilize the properties and neighborhoods; and
2. Those homeowners will be able to pay their new "right-sized" mortgages and avoid re-default.

Although the SUN Initiative is still young, Aura has done research in the form of focus groups with homeowners facing foreclosure, meetings and discussions with legal services groups and community groups working with individuals in foreclosure, and our pilot program to confirm these assumptions. Our experience to-date indicates that when borrowers are provided with fixed-rate mortgage based on home purchase prices that they can actually afford, and when sufficient reserves are funded upfront, both of these assumptions hold true.

Through our focus groups, we learned that many foreclosed homeowners now see homeownership not as the American Dream, but as the "American nightmare." They deeply distrust the mortgage process and all parties affiliated with the mortgages. Yet over 95% of these homeowners stated that they want to remain in their homes and are looking for ways to be able to do it.

Since most homeowners come to us through counseling and referral partnerships, they have already demonstrated a commitment to staying in their properties as homeowners. Many have lived in the same neighborhoods for many years. However, they recognize that a poor credit score resulting from their foreclosure, they have limited options for finding a new place to live. As described above, with limited marketing to-date, Aura has already received over 100 calls from homeowners in foreclosure who want to remain in their homes. Despite feeling victimized by the mortgage process, these owners are willing to take on new mortgages to stabilize their homes, and they respond positively to Aura's rigorous underwriting and financial counseling that goes along with it.

Aura addresses the second challenge -- avoiding re-default -- by setting mortgage loan amounts that homeowners can afford, and requiring adequate reserves to be funded at closing. With referral partners, Aura and the homeowners develop a detailed understanding of their income and other financial obligations. Aura structures mortgage with features – such as automatic debit and payment schedules tied to pay periods -- that reduce the risk of getting behind on payments. Our ongoing counseling and peer network programs also help ensure the families continue to be able to afford their homes. Finally, through shared appreciation second mortgages, which allow homeowners to share in equity appreciation above the current actual market value of their homes if they keep their mortgages current, Aura has aligned borrowers' short-term obligations to make regular mortgage payments with their long-term incentives to build up equity in their homes.

Community Development Performance

Aura and Boston Community Capital track record in providing Financial Products and Development Services

While Aura Mortgage is a start-up entity, we are a wholly-owned subsidiary of Boston Community Capital, a CDFI with a 25-year track record of providing financing and development services in low-income communities. Charts D and E describe the track record of Boston Community Capital and its affiliates; Aura's historic and projected activities are included in the charts and also described in detail below.

BCC created Aura Mortgage in response to predatory lending in low-income communities in Massachusetts. Aura acted as a mortgage broker in 2007 and 2008. During that time, we saw the impact of sub-prime lending and foreclosures in our target market, and the challenges foreclosed homeowners and low-income tenants faced in accessing credit through traditional channels. In 2009, we obtained our mortgage lender's license and began making loans to support the business strategy described here. As shown in Chart D, since obtaining our mortgage lender's license in July 2009, Aura Mortgage has closed ten mortgages totaling $1.1 million and anticipates closing an additional seven mortgages totaling $1.8 million in 2009. Together with our affiliate NSP Residential, we have completed or are in final negotiations to acquire and/or finance 30 properties with 40 units of housing totaling $4.7 million. These transactions have been done with over a dozen banks and/or servicers around the country. On average, properties have been purchased for **38% of the value of the previous mortgage.** The discounts are commensurate with the real estate value declines in the neighborhoods in which they are located. The discounted purchase prices are also aligned with neighborhood average incomes. The average purchase price per unit for properties financed by Aura and NSP Residential is $112,475. Average prices by property type are as follows: condominiums – $93,813; single family homes - $115,855; and multifamily houses $225,625. With real estate at these levels, families in low income neighborhoods can once again own their homes.

Through 2012, Aura Mortgage projects providing over 179 mortgages, representing approximately $31.4 million in mortgage values. This activity will allow 291 low-income Massachusetts households currently at risk of displacement due to foreclosure to stay in their homes (see Chart E). (Note: Mortgages for 2-3-family houses account for the different between number of mortgages financed and number of units financed.)

Aura Mortgage's projected growth pattern fits within the context of Boston Community Capital and affiliates' prior activity. Since 1985, BCC's loan fund subsidiary, Boston Community Loan Fund (BCLF) has committed over $297 million through more than 460 loans to low-income communities, strengthening over 300 community organizations and financing affordable housing, child care and schools, and community facilities. BCLF, a certified CDFI, shares Aura's Target Market of Massachusetts, and has provided more than $215 million in loans to support the development or preservation of over 9,500 units of affordable housing. As seen in Chart E, our 2006-2008 lending represents over one third of all housing units financed in our 25-year history. Despite the increase in lending, BCLF's loan losses over its history remain less than one twentieth of one percent; and all of our investors have always been repaid on time and in full.

In addition to our housing lending, the Loan Fund has provided almost $80 million in non-housing financing has served over 7,000 low- income students in schools and child care centers, housed almost 5,000 clients in shelters and supportive housing, and developed more than 750,000 square feet of commercial real estate supporting business ventures in low-income communities.

Charts D and E also include Boston Community Capital's New Markets Tax Credit activity. Since 2005, BCC has received and fully committed three NMTC allocations totaling $215 million. In November 2009, we received notification that we have been awarded an additional $85 million allocation. We are in the process of closing our allocation agreement for that award with the CDFI Fund; as shown in Chart D, we project committing this fourth allocation in 2010.

BCC collects and analyzes impact data across our portfolio on a regular basis – including baseline data from our initial credit analysis in our loan management system and updating these metrics during our regular loan monitoring reviews. We use this information to assess the impact of our lending in meeting our mission and to inform future lending decisions.

Aura's projected activities and how progress toward those goals is measured.

Aura Mortgage will utilize the decline in real estate prices in low-income areas to

- purchase foreclosed homes at a price at or below present value, free and clear, from first and second mortgage lenders at a steep (often 40-50%) discount from the outstanding principal amount of the foreclosed mortgage, and
- resell those same homes (with mortgage financing) to their existing occupants – owners and tenants – at a price they can afford,

thereby avoiding the high levels of vacancy that encourage neighborhood blight and destabilization.

During the next three years period, Aura projects that we will generate 179 mortgages for low-income homeowners and tenants in Massachusetts. These mortgages will yield $31.4 million in loans outstanding, while saving the residents from eviction, preserving their properties from vacancy and potential vandalism and helping to stabilize the low income neighborhoods hit hardest by the current foreclosure crisis.

Progress will be measured on a monthly basis and will include tracking of the volume of referrals, mortgage applications, mortgage approval rates, average mortgage size and monthly mortgage outstandings on Aura's balance sheet, as well as loan and portfolio performance (see #16 below for details). Production goals and portfolio performance metrics will be established by mortgage originator and underwriter; volume goals for referral source will also be generated, communicated to them and reported upon monthly. All production volume will be reported formally on a monthly basis, with mid month progress reviewed in biweekly staff meetings.

In order to produce 179 mortgages for $31.4 million, Aura and BCC affiliate NSP Residential expect to review referrals for 600 prospective clients and evaluate financial and property information on approximately 400 families. In some cases, applicants will be pre qualified, but their banks will be unwilling to sell the property at an appropriate market price. We expect this will occur in approximately 100 cases. The remaining 300 clients will complete mortgage applications and be underwritten for a loan. However, we project that approximately 100 clients who begin the mortgage and purchase process will be unable to complete it for personal circumstances or changing finances.

Our loan production and mortgage closing goals for the grant period are as follows:

	2010	**2011**	**2012**	**Total**
Loans	50	63	66	179
Closings	$8,900,000	$11,000,000	$11,500,000	$31,400,000
Balance Sheet	$8,900,000	$19,900,000	$31,400,000	$31,400,000

Impact of Proposed CDFI Fund award

The foreclosure crisis is the single largest crisis facing the low-income communities we serve. Neighborhood destabilization due to foreclosure threatens the financial health and security of low-individuals and families – not only those facing foreclosure themselves, but also their neighbors – as vacancies contribute to falling property values and rising crime rates. In addition to this human impact, the foreclosure crisis threatens public and private dollars already invested in the communities we serve to create affordable housing, child care centers and community facilities. To provide an example that illustrates the magnitude of this investment: from 2001-2006, the City of Boston invested more than $72 million in Dorchester, Mattapan, Hyde Park, Roxbury -- the four neighborhoods now facing the city's highest concentrations of foreclosures -- through its Department of Neighborhood Development. These funds leveraged an additional $90 million in public investment dollars (state and federal funds), which in turn have helped finance over $649,000,000 in projects in these neighborhoods. These projects have created or preserved over 4,500 units of housing.[3] The ongoing success of these projects and their communities is greatly threatened by the implications of the subprime and foreclosure crises.

As described above, Aura's proposed activities will leverage over $31.4 million to help stabilize low-income Massachusetts communities threatened by foreclosure, helping 179 homeowners and tenants facing eviction due to foreclosure to remain in their homes. In order to bring in outside debt to finance this program, Aura needs a strong enough balance sheet to demonstrate that we have the resources to bring this program to scale. A CDFI Fund FA award will strengthen our balance sheet, while providing the flexibility we need to launch this new initiative and ensure its continued success.

This flexibility is a key factor in our ability to use CDFI Fund FA awards to meet our objections. For example, while we have made projections about the volume and type of lending we expect to do with this award, many other funds require us to identify specific individual loans and restrict funds to those loans or neighborhoods. The reality of our market is much more fluid; individual loans, not to mention markets, change regularly as external conditions change. The consequence of inflexible financing – or funds designed to meet the funding parameters of the funder without full account of the market realities – is too often that funds are under-utilized. BCC and its affiliates have consistently resisted soliciting or accepting funds with restrictions that do not recognize the flexibility required in financing community development and affordable housing projects, and low-income borrowers.

A primary role for Aura and other CDFI intermediaries is to make the lending and loan structuring decisions that best match the needs of our low-income community borrowers and sources of capital interested in supporting those borrowers. The CDFI Fund's funding has been critical in allowing us to develop new initiatives with the flexibility to adjust requirements, products or expectations as we learn what works and as market conditions change. As a result, we are both far more likely to develop successful programs and to raise subsequent funds with similar flexibility.

Aura's underwriting policies and procedures.

Underwriting Standards

All mortgages provide permanent financing for owner occupants, and are underwritten as full documentation loans using historically standard debt to income ratios, albeit with a non-traditional approach to credit scores damaged by foreclosure. Aura will only issue mortgages to households for which the fixed monthly mortgage payment – including principal, insurance, taxes and insurance -- equals 38% or less of the household's income and/or have a "backend ratio" which includes housing expense plus debt service of 48% or less. Aura does not offer products with teaser rates, adjustable rates, negative amortization or similar features. Our products fully conform to the FDIC's Statement on Subprime Mortgage Lending.

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[3] Sources: The Warren Group, Boston Redevelopment Authority, Department of Housing and Community Development.

To address the moral hazard of reselling properties to defaulted owners, we screen applicants for evidence of hardship and/or predatory mortgages, as well as income status. If the defaulted owner had neither a hardship (e.g. loss of income, illness, emergency expenses, death in the family, etc.) nor an inappropriate, predatory loan, s/he is not eligible for the program. (For more information on underwriting, please see the sections below on Portfolio Management and Monitoring.)

Lending Activity Review and Monitoring
Timeliness: Loans are reviewed within 90 days from the end of the month in which the loan closed or was rejected.

Frequency, Sample Size and Loan Selection: Quality control reviews are conducted at least bi-monthly and address one month's activity. At a minimum, a 10% random sample of both closed and rejected loans is selected based on the following characteristics: the loan officer, property type; loan value and employment status.

Reports are issued directly to senior management within one month of completion of the loan file review and addresses trends identified in the report and corrective action is documented. Quality Assurance Reports and supporting documentation are retained for at least 5 years.

Early Payment Defaults: In addition to the loans selected for routine quality control reviews, all loans going into default within the first six payments are selected for an in depth quality control review. As defined here, early payment defaults are loans that become 45 days past due.

Reporting: Mortgages are selected for review on a quarterly basis and written feedback from the review will be provided to the loan officer and management within 90 days of the loan closing. If more than 35 loans are closed in a month, the review will be done on a monthly basis. Reports are issued directly to senior management within one month of completion of the loan file review and address trends identified in the report and corrective action is documented. Quality Assurance Reports and supporting documentation are retained for at least 3 years. If any minor discrepancies are discovered that have no effect on loan qualification, the Findings will be reported to management with the appropriate corrective actions taken.

Aura's portfolio management policies and procedures.

Aura Mortgage's portfolio management policies are contained in our "Policies, Procedures and Disclosures Handbook." They include both individual loan and borrower level monitoring and portfolio level performance monitoring of delinquencies, early payment defaults, payment trends, default levels and collateral values. We conduct quarterly portfolio review; semi-annual portfolio credit scoring; quarterly payment and delinquency analysis and annual portfolio collateral valuation.

Aura takes a very active role in loan monitoring and maintains contact with borrowers throughout the year. Each borrower is assigned a loan officer who monitors performance, speaks with the borrower, reviews delinquencies, checks credit reporting and, when any of the above indicate deterioration, perform site visits on the property. Loan officers are supported in this effort by the following portfolio tools:

- Bi-weekly delinquency reports;
- Semi-annual borrower credit score and usage monitoring;
- Semi-annual borrower contact and status update.

All loans which are 90 days past due are placed on nonaccrual and matched with specific reserve pools. Workout discussions are initiated with borrowers at 45 days past due and a recommendation on pursuing foreclosure or accepting a deed in lieu of foreclosure is made at 60 days past due.

As a licensed Mortgage Company in the state of Massachusetts, Aura is required to submit loan origination data, individual credit files and financial reports to the Division of Banks for annual reviews. Division of Banks employees also perform annual site visits to branch locations, and evaluate Aura financial controls, quality control and compliance with state and federal laws and regulations.

Aura's financial management policies and procedures.

Aura Mortgage's financial and risk management policies and procedures are consistent with our parent Boston Community Capital's policies for internal financial management, which are approved by our Board of Directors and reviewed annually by the board Finance Committee and BCC's auditors. These "Policies and Procedures for Internal Financial Management" include policies for handling disbursements, check signing, investments, grants and donations, idle cash and loan loss reserves. BCC's COO and Controller are responsible for establishing and maintaining appropriate internal controls. These controls and procedures are evaluated regularly to ensure that they remain appropriate, and reported to the Board as part of the auditors' management letter. Aura Mortgage has had an unqualified audit every year since it was established. In addition, Aura Mortgage follows its own specific Policies and Procedures, revised in 2009, which support these procedures for financial management.

Management of Financial Accounts, Liquidity and Operating Reserves: Aura Mortgage integrates risk management throughout its lending, investing, and financial management operations. Risk management encompasses the provision of loan loss reserves, the monitoring of the loan portfolio, the selection and diversification of cash investments, asset/liability and liquidity management, the implementation of internal accounting controls, annual independent audits, and the use of appropriate computer technology to perform back-ups, and other business contingencies, disaster recovery systems, and the selection of appropriate insurance policies. BCC (via its loan fund affiliate) has a $15 million unsecured line of credit with our bank which can provide additional operating liquidity for Aura Mortgage.

Cash for Aura Mortgage is segregated from all other BCC cash. Cash and investments are managed pursuant to our “Cash Management and Investment Guidelines” policy. The Finance Committee of the Board meets annually with the investment manager to review performance and reviews the contract at least every three years.

Boston Community Capital, Aura’s parent company, maintains operating reserves consistent with minimum industry standards of at least 25% of our prior year’s operating expenses. Internally, we also maintain an operating “runway” of at least 12 months. This “runway,” calculated by adding operating reserves and other unrestricted cash plus projected net interest earnings (discounted to cover reductions in interest earnings from lower interest rates, loan repayments, and exposure to credit problems), should exceed our operating budget.

Boston Community Capital, Aura’s parent company, determines its liquidity requirements in several ways. First, we ensure that our current assets always exceed our current liabilities. Second, BCC maintains liquid assets, marked to market, equal to 100% of investor loans maturing in the next six months or 10% of total investor loans payable, whichever is higher. Third, as noted above, we have access to a $15 million line of credit from our bank which provides additional liquidity.

System for tracking and reporting on use of funds from public and private sources: As its affiliates have done with prior CDFI Fund awards, Aura Mortgage will use its loan management, accounting, and investor relations MIS to track and report on the use of funds from public and private sources (See Question 18 below). These systems allow us to track the investor or donor type, the use of funds, and payment and reporting schedules.

Process for producing internal and audited Financial Statements: The finance department produces internal monthly financial statements; unaudited quarterly financial statements which are distributed to our investors and supporters; and annual audited financial statements for BCC and Affiliates. Our financial statements are audited by Alexander, Aronson Finning & Company, an audit firm with expertise in nonprofit and community development finance.

Aura’s Management Information Systems

Aura Mortgage has in place Management Information Systems (MIS) designed to facilitate our underwriting, portfolio monitoring, data and impact tracking, development of internal financial statements, and investor reporting. MIS currently in use includes:

- **ENCOMPASS 360°**, a nationally recognized web based mortgage underwriting and documentation system support by Ellie Mae. Regulatory changes are implemented as needed to insure compliance with mortgage lending requirements. Mortgage applications, underwriting ratios, legal and lending disclosures, as well as payment amounts and amortization schedules are provided by the system.

- **Home Counselor Online,** the industry standard for foreclosure and credit counseling. This web based product was developed and is supported by FannieMae. The system allows counselors to develop budgets and housing expense scenarios, detail and combine incomes from family members, provides HUD income category data and generates “affordability estimates” and “rent v. own” models. All program components are available in both English and Spanish.

- **ACCPAC,** the accounting software used by BCC since 1998. BCC is currently running Sage ACCPAC 500 ERP version 5.5A (upgraded Feb 2009), which provides: separate BCC affiliate company financial reporting; automated production of Financial Statements and 1099s; generation of monthly invoices; scheduled recurring payments for rent, equipment leases, utilities, etc.; and bank reconciliation features.

- **The Exceptional Assistant (TEA)**, BCC’s Loan Management Software Package, used to track loans to borrowers and generate amortization/payment schedules; track investor loan maturities, interest payments, and reporting requirements; capture social impact and historical loan data; and create customized reports for internal use. BCC is running version 9.20.0.4, upgraded in Feb 2007.

- **MSAccess**, BCC’s investor, donor and marketing database tracks contacts with BCC’s investor and donor constituents, and offers similar reporting functionality to TEA (but with a broader set of data – including donors and former investors). It is used to generate Promissory Notes, Loan Renewal Forms, and investor/donor reports. BCC is currently running version 5.1.2600, Service Pack 2.

In addition to these systems, Aura Mortgage also uses MSOffice suite – including Excel, Word, and PowerPoint to create customized reports for management, staff, investors and supporters, along with Microsoft Map Point to plot foreclosure activity by street and neighborhood.

Operational Challenges

As a small business, an area in need of continued improvement (and on which we continue to focus) is our business’s potential vulnerability to interruption (e.g. in the event of a pandemic flu, natural catastrophe, etc.) To address this concern, we have put in place a business interruption plan that we revise annually, including off-site back-up, remote access and emergency communications.

The mortgage activities of Aura Mortgage and the SUN initiative, since they involve BCC’s first major consumer lending activities, require a substantial expansion of our consumer protection, privacy and compliance requirements, activities and expenses. To ensure that we have adequately met these needs, we have been active participants in recent regulatory and industry initiatives to strengthen mortgage-related consumer protections and have worked closely with the Massachusetts Banking Commissioner to create a mortgage industry code of ethics. In October, 2009, we adopted an expanded privacy policy to comply with new Massachusetts privacy statutes slated to take effect in 2010.

Financial Health and Viability

BCC and Aura's Financial Position

Aura Mortgage Advisors is a wholly-owned subsidiary of Boston Community Capital (BCC) so its financial statements and audits are consolidated with BCC. We have enclosed audited Financial Statements for BCC and Affiliates for 2006, 2007, and 2008, and unaudited financial statements for the third quarter of 2009. Aura's financial information is included in its own column in the statements. There are no discrepancies between the consolidated financials in Chart F and the audited and unaudited statements provided. BCC has received unqualified audits throughout our history; there were no negative findings from the audits.

In Q4 2009, Aura received commitments of \$13.7 million in debt capital and \$3.5 million in grants and equity. As of the end of the 3rd quarter, BCC's Energy Advantage Program anticipated receiving approximately \$2.7 million in federal renewable energy grants in lieu of the renewable energy tax credit (section 1603 of the ARRA). While those funds have since been received, because the grant in lieu of the tax credit was a new program and still had evolving application requirements as of September 30, 2009, we did not book the grants as receivables. Finally, BCC is scheduled to receive approximately \$4 million in fees from its New Markets Tax Credit allocations in Q4 2009. None of this activity appears on the 3rd quarter statements.

Please note that BCC's subsidiary, "Managed Assets", generally receives fees and cash used to support the development and initial activities of BCC's new initiatives. As necessary, we reconcile our cash positions at the end of the fiscal year. As a result of all this 4th quarter activity, BCC and each of its affiliates will have positive net worth and cash positions at year end. At the end of the 3rd quarter, BCC had undrawn off-balance sheet resources of \$26.7 million in the form of lines of credit, primarily to support our financing initiatives, and BCC's Loan Fund managed \$49.6 million in off-balance sheet participations.

BCC and Aura's Financial Projections and Assumptions

Since Aura has had limited financial activity and at the direction of the CDFI Fund staff, we have completed the Financial Data Input Chart (F1) based on BCC's consolidated actual and projected activity. Key assumptions underlying BCC's overall projections are at the end of this question. Key assumptions underlying Aura's activity include:

Capitalization—Aura anticipates raising at least \$25 million in capital, with at least \$5.5 million as equity or net assets and approximately \$20 million in debt or warehouse lines of credit. To date, Aura has received commitments totaling \$3.5 million in equity and is negotiating for an additional \$2 million. We expect to receive all those funds by the first quarter of 2010. Approximately \$3.5 million is expected to be reserved for a first-loss fund and not directly available for financing. The proposed CDFI Fund award is shown as additional grant income in 2010. Aura has received commitments for \$13.7 million in debt financing. Terms of this financing allow us to draw down funds as needed, as illustrated in the off-balance sheet financing availability. Based on our initial discussions with prospective investors, we project our cost of capital to average 4.25%. We are expecting to raise an additional \$7 million during 2010.

Lending activity—Aura anticipates to make between 50 and 66 mortgages annually at an average of $176,000 and with a fixed rate of 6.75%. As lending activity ramps up in 2012, we expect to sell seasoned loans made in 2009 and 2010. If we are unable to find secondary market buyers at that time, we will seek to raise additional debt.

Equity and Reserves—As noted above, we have raised more than half of our projected equity, capital and reserve requirements. In addition, as discussed in Question 4, where possible the differential between our property purchase price and the value of the mortgage will allow us to build a reserve into the mortgage. Our target is to maintain a reserve ratio of approximately 20%. In addition, we will maintain an equity and first loss fund of 22% of total assets. While these ratios are higher than our traditional requirements, we believe that they are appropriate since virtually all of our borrowers will have very poor credit histories, all properties are located in neighborhoods that have had very volatile market prices, and to allow us to support the securitization of the seasoned and performing loans within two or three year of originating them.

Net income—Aura projects to be self sufficient from its financing activities in 2011. We currently have equity in hand to cover projected operating losses for 2009 and 2010 (excluding the proposed CDFI Fund grant).
As noted above, Chart F1 in the attached exhibits shows the consolidated activity and projects for BCC and its affiliates (including Aura). Key assumptions underlying the consolidated projections include:

Loan Fund activity—assumes BCLF maintains its 2009 level of activity, which is approximately 75% of our 2007 activity as a result of the credit and real estate markets. We currently have sufficient funds to continue the same level of lending activity. BCLF has access to lines of credit, which would allow it to expand its lending if development activity and the economy pick up.

New Markets Tax Credit activity– assumes we collect all contracted NMTC fees, we close on all QLICIs for our $85 million 2008 allocation by the end of 2009 (all QLICIs are firmly committed and scheduled for closing in December 2009, and close on all QLICIs for our $85 million 2009 allocation during 2010. While we anticipate applying for additional NMTC allocation, we have included any new activity in our projections.

Venture Fund activity—our ventures funds are fully invested and we are not projecting any new activity for them. While we are anticipating profitable exits in several companies in the next two years, those have not yet been scheduled and no exit activity is forecast in the projections.

Solar and energy activities—We are projecting expanding our solar third party activity by approximately 700 kilowatts per year, generating development fees and operating income consistent with our 2008 and 2009 experience. Our conservation and energy efficiency financing is projected to flow through the Loan Fund and that activity is included in the Loan Fund's projections.

Financial Ratios

As can be seen in Chart F, BCC and Affiliates meet or exceed all minimum Financial Ratio standards. Since Chart F reflects our status on a consolidated basis, Aura Mortgage activity and ratios do not appear in Chart F but are presented below. To illustrate Aura's activity on a stand alone basis, we have shown its Financial Health and Viability—MPS ratios from Chart F1 below. (Please note that the figures in this table were calculated by the spreadsheet using the formulas from Chart F1.) Aura projects to meet or exceed all MPS, with the exception of an initial loss for 2009, funded from equity capital already raised by Aura. Activity and pricing assumptions are described in Question 21 and are based on Aura's initial lending activity from the first three quarters of 2009. (Please note that the current ratio calculation formula includes cash available to fund new loan commitments but does not have a line for those commitments. Taking potential commitments in place, Aura will maintain a current ratio of at least 2:1.)

Financial Health and Viability - MPS Ratios	2009	2010	2011	2012	3-Year Projected Ratios
Net Asset Ratio	99%	52%	33%	24%	**36%**
Total Financing Capital	$2,221,836	$10,989,885	$19,147,967	$27,834,624	**$19,324,159**
Deployment Ratio	73%	78%	89%	93%	**87%**
Net Income	-$92,408	$1,813,329	$89,476	$257,154	**$719,986**
Self-Sufficiency Ratio	48%	77%	107%	116%	**100%**
Operating Liquidity Ratio	13.27	11.78	6.72	4.99	**7.83**
Current Ratio	2873%	12063%	6925%	4866%	**7951%**

BCC has consistently met and projects to meet all the minimum performance standards. Further, BCC received a AAA2+ rating, one of the highest, from the Opportunity Finance Networks' CARS program in 2006, with that rating confirmed in 2008 and 2009.

Asset-Liability Management-Current Ratio: BCC meets the MPS for the historic and projected Current Ratio. In addition, BCC's $15 million line of credit from Wainwright Bank (revolving, minimum 2-year term) provides additional current liquidity.

Deployment: BCC meets the MPS for the historic and projected Deployment Ratio. BCC's ratio exceeds 100% for several reasons. First, included in the commitments are a number of forward commitments that will close after current loans have been repaid. Second, we have a number of master participation agreements with local banks and lenders and anticipate selling loans and participations for a number of current and committed loans, reducing our liquidity needs. Finally, our $15 million line of credit is available to fund new loans and commitments.

Self-Sufficiency Ratio: BCC has been self sufficient, excluding all grants, since 2005. BCC meets the MPS for historic and projected Self-Sufficiency Ratio.

Operating Liquidity Ratio: BCC meets the MPS for the historic and projected Operating Liquidity Ratio. As described above, BCC has sufficient resources to meet its operating expenses.

Earnings Ratio: BCC meets the MPS for the historic and projected Earnings Ratio. BCC has maintained and expects to maintain positive net revenue for each of the years covered by this application.

Portfolio Management Ratios.

As shown in Chart G, BCC and affiliates have had very low delinquencies or loan losses and meet or exceed all Portfolio Management Ratio standards. BCC's historic loan loss reserves at year end are higher than the MPS because we do not consider 90+ delinquency as the only indicator of potential problem loans. As our credit rating and reserve policy shows, we consider a variety of factors in determining risk ratings and reserves. In many cases, this gives us an early warning system that allows us to work closely with borrowers to avoid delinquencies and defaults and is a key reason behind our historic very low loan losses.

Please note that in order to meet investment covenants with a variety of investors, in addition to expensed loan loss reserves, BCLF also designates a portion of its net assets to be available for loan loss reserves such that the combined total of the reserves and designated funds is no less than 5% of the total loans outstanding.

Aura Mortgage had no lending activities prior to 2009, so no historical averages are available. Aura lending activities in 2009 – 2012 fall under the Consumer & Micro-enterprise Product Grouping. As of 11/15/09, Aura has no delinquent loans. Aura's "Policies, Procedures and Disclosures Handbook" establishes Portfolio at Risk targets of less than 10% and an annual net loan loss ratio of less than 5%. Both metrics are better than the ratios established by the CDFI Fund.

As described above, the program for which we are submitting the request targets the low income areas hardest hit by foreclosures. We have built a $3.5 million "first loss pool" to cushion against the higher losses expected in a mortgage portfolio designed for previously foreclosed upon borrowers. These funds were raised for the sole purpose of funding Loan Loss Reserves for a fully lent pool of $31.4 million and to support subsequent securitization of seasoned and performing loans. As noted above, we will also build a loss reserve into the mortgages through a pricing differential between the amount we purchase the property for and the mortgage amount. While these reserves are significantly higher than our targets, which in turn are higher than our expectations for the portfolio, we believe that they are appropriate for the market we are entering and to leverage debt that is priced low enough to market the mortgages affordable. Furthermore, if the portfolio performs as we hope, we will use the reserves to provide credit support to a securitization strategy, allowing us to greatly expand our lending capacity.

To the extent that Aura has delinquencies or problem loans, it will expense a formal loan loss reserve. We would anticipate that that reserve would be between 50% and 150% of the total portfolio at risk (PAR).

Capitalization Challenges

To achieve the scale we believe necessary to make the SUN initiative and Aura's mortgage financing initiatives successful in combating neighborhood destabilization depends on three financial factors:

Raising sufficient capital to meet the initial financing demand. We are looking to raise at least $25 million, which would allow us to purchase and finance approximately 400 homes over the next two years. We have approximately $17.2 million in hand or committed, of which $13.7 is debt and $3.5 million is grants and equity. We are currently working with both long-time and new BCC investors to raise an additional $6 million in debt capital. The proposed $2 million award from the CDFI Fund would complete our initial capital plan.

Raising and maintaining balance sheet strength to support the lending and initial SUN expenses. Our target is to maintain a capital ratio of between 20% and 25% for Aura. As noted above, we have $3.5 million in commitments of grants and equity to support Aura's balance sheet and the proposed $2 million CDFI Fund award would complete our initial balance sheet requirements. The funds committed are eligible and available to meet CDFI Fund matching funds requirements if necessary.

Developing a secondary market for seasoned and performing loans to expand our lending capacity. We recognize that to truly combat neighborhood destabilization impacts of the subprime and foreclosure crises will require more capital than we can raise initially. As noted in earlier questions, while we will use conventional and conservative underwriting criteria, our borrowers are likely to have very poor credit making them ineligible for conventional mortgage or secondary market financing. As the loans season and perform, we will be looking to sell them and recapitalize our lending pool. We have begun discussions with mission-driven and other potential investors about purchasing a securitized pool of seasoned and performing loans. To compensate for the borrowers' poor credit scores, we are developing a series of credit supports to enhance the value of the pooled loans. We currently have a commitment for a "first loss reserve" that could be used as a credit enhancement for the securitized pools. In addition, as described in question 4, where possible, Aura builds a portfolio reserve of approximately 25% into individual mortgages, which will strengthen the loan-to- value ratios for the mortgages. Finally, we can share with investors a portion of any value generated by the shared appreciation mortgages.

A Platform for Transformation

Boston Community Capital's
5-Year Strategic Plan

Completed Fall 2006

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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BOSTON COMMUNITY CAPITAL
STRATEGIC PLAN FALL 2006

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.

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

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.

"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

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.

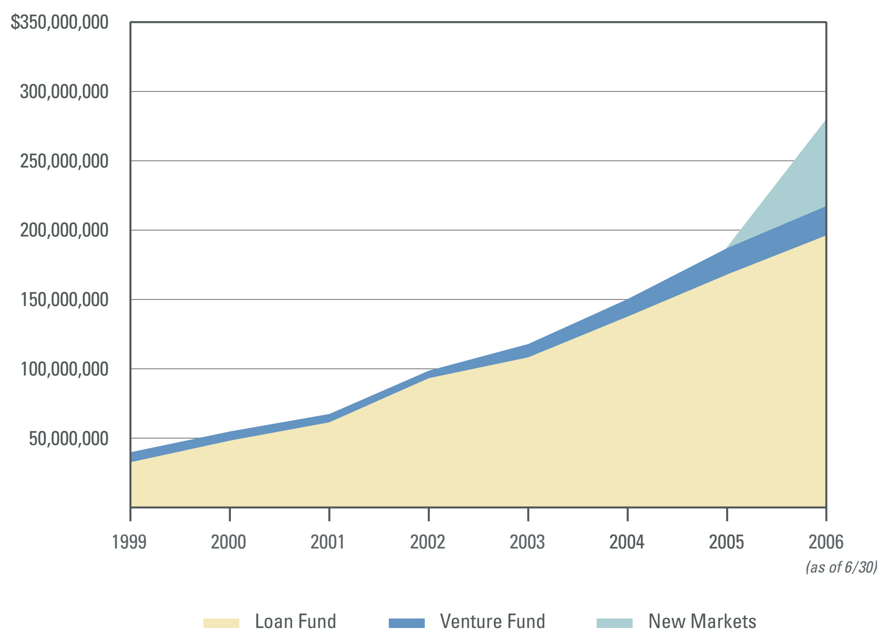
GROWING TO SCALE

1999—2005

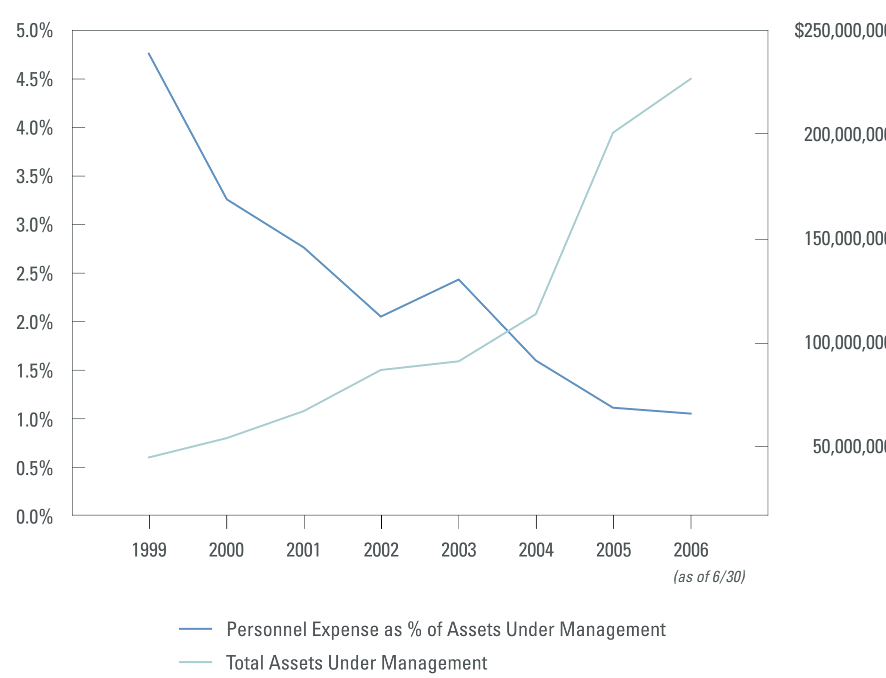
When Boston Community Venture Fund joined a group of angel investors to provide financing for Zipcar Inc., the company had 9 cars and 60 members, and operated exclusively in Cambridge and Boston. Today they boast a fleet of approximately 1,100 cars in 8 major metropolitan areas, both domestic and international, 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.

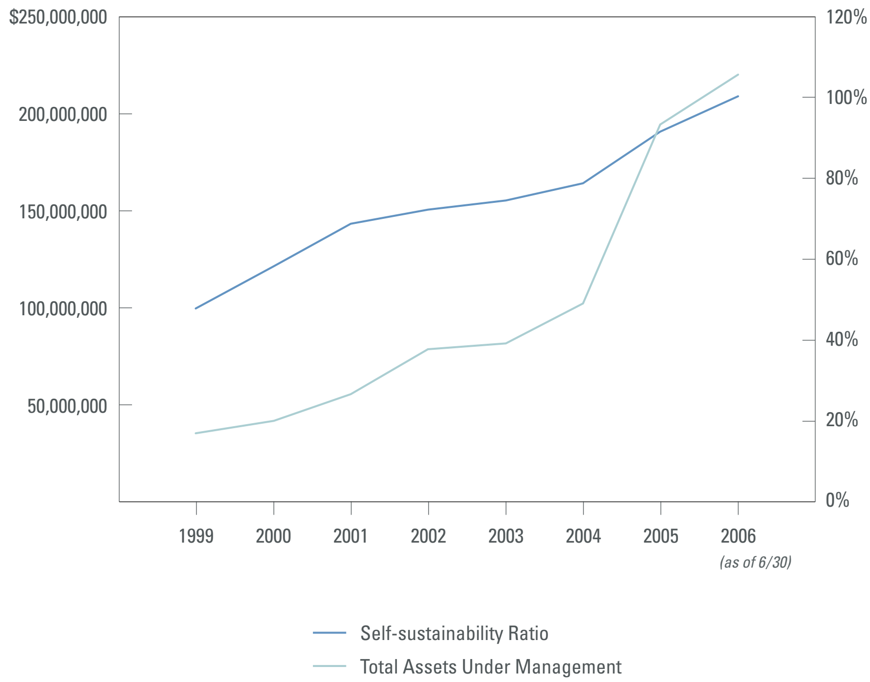
CUMULATIVE DOLLARS INVESTED



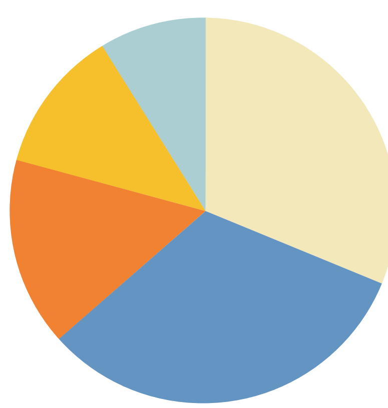
PERSONNEL EXPENSE AS PERCENTAGE OF ASSETS UNDER MANAGEMENT



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.

CLEARLY, WE, AS AN INDUSTRY, MUST RE-THINK HOW WE DO BUSINESS.

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;

- 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;

- 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.

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.

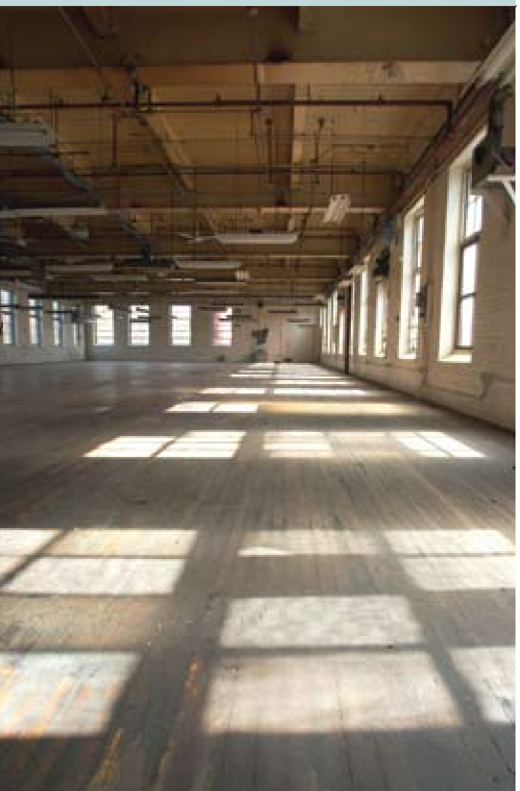
Two examples illustrate the importance of broad measures. First, many CDFIs, because they are flexible and closely tied to their communities, can respond quickly to changing market conditions and needs. For example, in a growing economy with a healthy banking environment and strong public subsidies,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

MEASURES SHOULD CAPTURE AND ENCOURAGE ONE OF THE KEY ROLE'S OF CDFI'S; NAMELY, THE ABILITY TO MOVE FLEXIBLY AND QUICKLY IN RESPONSE TO CHANGING MARKET CONDITIONS.

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.

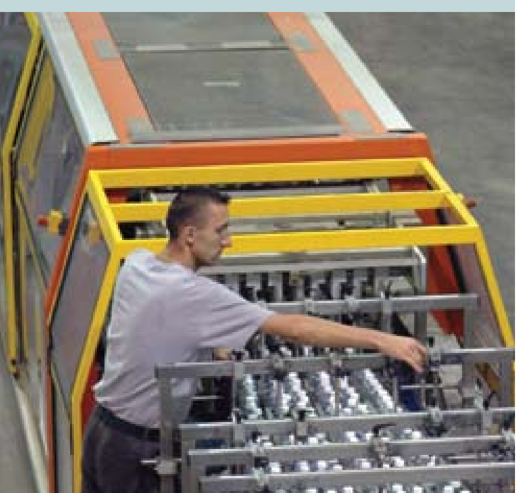
We realize, however, that we rarely include information on the financial system and CDFI levels in our reporting on social impact, so we started exploring ideas for capturing this information. For example, to measure if we are successful in using new or conventional capital for low-income communities, 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

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