

Effective organizations ask the right questions—questions that anticipate demand, questions that help us peer beyond the boundaries of the present, questions that are rooted in, but not limited by, long-standing experience. The right questions function as a periscope—a way to transcend the limitations of line-of-sight vision. **And so we ask.**

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WHY ASK / ASK WHY

To Our Partners

In August 2006 when we wrote *A Platform for Transformation*, our most recent strategic plan, we noted that oil prices had then reached the unimaginable price of \$70 per barrel. We were concerned about how the communities we serve would manage. Today, in Spring 2008, the price of a barrel of crude oil has risen above \$100, a 43% increase over 18 short months; and our concern about the communities we serve continues to deepen.

Rising oil prices pose a challenge for low-income families, whose wages have not kept pace with rising home heating costs. Individual homeowners may face a wrenching choice between paying for heat and paying for food. Escalating utility costs also threaten the stability of existing multi-family affordable housing projects because their budgets cannot absorb the extra expense.

Other economic indicators suggest equally deep-seated challenges for low-income people and communities. In 2007, repercussions of foreclosure filings reverberated across our communities. National foreclosure filings rose to 2.2 million, a 75% increase over 2006. At the end of 2007, 14% of subprime mortgages were in foreclosure and more than 1.8 million subprime mortgages are due to reset to higher rates this year and next. In Roxbury, North Dorchester, Mattapan and East Boston, neighborhoods in which we have worked for more than two decades, foreclosure petitions increased by 77% in 2007. Homeowners and renters alike are being evicted from their homes. Boarded up houses once again blight the urban landscape; and we stand on the verge of another cycle of urban disinvestment and disintegration.

Foreclosure is a financial and personal catastrophe for the borrower, for the borrower's family, and for the borrower's tenants. Multiple foreclosures are

also a financial and social catastrophe for neighborhoods, communities, and local government. When lenders foreclose and evict tenants and homeowners, vacant properties become magnets for arson and drug-related crime. Neighborhoods destabilize. Reduced real estate tax collections mean fewer dollars available to support public services including police, fire departments and schools. Home values fall, threatening the equity that low-income homeowners have struggled to build through years of investment.

As we witness these difficult times, we ask ourselves what response we can most effectively make. What, in our experience, our skills and our vision can we bring to bear to minimize the adverse impact on our neighborhoods? This is not our first time through. Because Boston Community Capital's organizational history now spans over 23 years, we have been through difficult times before. In the early 1990s, when we faced the last major real estate crash, we set two goals for the organization: we would lose neither a single unit of affordable housing nor a single investor dollar. With your help, we achieved those goals. Today, with your help, Boston Community Capital has become substantially larger and substantially more sustainable as an organization. As a result, this time around, we can pledge ourselves not only to the goals we set last time, but also to developing more systemic solutions to the inevitable economic cycles which have deep effects on the neighborhoods in which we work.

We continue our core work of lending and investing in low-income communities, helping to secure and stabilize neighborhoods threatened by the economic downturn. We have launched Aura Mortgage Advisors, a mortgage brokerage company aimed at developing affordable mortgages with an application

process focused on transparency and consumer education. Through the Green Building Production Network and the Energy Advantage Program, which we created with Mass Housing Partnership and the Massachusetts Technology Collaborative, we are increasing the energy-efficiency of new and existing affordable housing—using financing tools designed to shape actions and create positive impact on a building's environment and energy outcome. You will read about these initiatives in this report; as the year goes forward, we expect to report on additional initiatives as well.

While we can't predict the future, we do have over two decades of experience and observation to guide our work. We know that when the economy is weak, low-income neighborhoods are disproportionately and adversely impacted. We also know that looking around the corner, thinking strategically, and planning ahead remain the best ways to find solutions for the communities we serve. Our goal is to use every tool at our disposal to continue to help build healthy communities where low-income people live and work.

We know that our success depends on the strong and constant support of our investors, our funders, our partners, our board and committee members, and our borrowers. We thank you for that support and look forward to continuing our partnership in years to come.



Elyse D. Cherry

DeWitt Jones

Rebecca L. Regan

Three handwritten signatures in black ink, corresponding to the individuals above. The first signature is 'Elyse D. Cherry', the second is 'DeWitt Jones', and the third is 'Rebecca L. Regan'.

“Some people see things as they are and say, ‘why?’ I dream things that never were and say, ‘why not?’”

ROBERT F. KENNEDY March 18, 1968 *(paraphrasing George Bernard Shaw)*



BCC invests in organizations that are making a difference in their communities. Staff and volunteers at Community Servings prepare and deliver 1,300 meals daily for chronically ill and homebound individuals and their families. Our loan allowed the organization to move to a new location, tripling its workspace and capacity.



COMMUNITY
SERVINGS
DELIVERING MEALS
DELIVERING HOPE

**DO LOW-INCOME COMMUNITIES NEED TO CHOOSE BETWEEN
SAVING MONEY AND SAVING THE ENVIRONMENT?**

“Green” building methods are becoming more widespread: renewable energy sources and energy-efficient construction can cut long-term costs and increase the healthiness of a home. Unfortunately, these options often come with higher up-front costs, and low-income communities have historically been priced out.

The economics are stark. Heating a typical affordable-housing project uses three to five times the energy of a more efficiently designed building, translating into thousands of dollars in annual energy costs. In low-income neighborhoods, unpredictable utility bills can threaten an otherwise balanced budget, forcing homeowners, renters, and property managers to choose between paying for heat, performing necessary maintenance, and making a mortgage payment.

Three years ago, BCC began building an economic case for green building in low-income communities. We created new financing tools to encourage non-profit developers to consider energy-efficient, sustainable alternatives. And we engaged with policy makers and private companies to break down barriers—including project scale, available expertise, funding restrictions, and red tape—and promote innovation and collaboration.

Today, we are at the forefront of community-based initiatives like the Green Building Production Network and the Green Affordable Housing Initiative. We have partnered with the Massachusetts Office of Energy and Environmental Affairs and the Massachusetts Technology Collaborative to promote policy that supports green and sustainable design, focusing on the importance of green affordable housing. We believe this work will have crucial and stabilizing financial effects for low-income families and communities.

Putting the sun to work

PROJECT NAME: Energy Advantage Program

LOCATION: Throughout Massachusetts

SUMMARY: Stabilize and reduce energy and utility costs of existing affordable housing by improving their energy efficiency, conservation, and renewable energy use.

IMPACT: Reduce utility usage by up to 33% in 28 affordable housing projects—creating savings for 3,500 individuals and families



BCC's sustainability initiatives finance renewable energy systems and alternative building materials that create health and economic benefits for affordable housing residents. Photovoltaic cells (above) and bamboo flooring (right) are two "green" elements that may be incorporated into affordable housing financed by BCC.



Tight windows. Energy-efficient heating systems. Good insulation. A few simple changes can create substantial savings for apartment dwellers, assisted living establishments, and tenant associations.

Yet implementing those changes takes capital investment and technological savvy. For many low-income groups, neither is easily accessed; the Energy Advantage Program (EAP) is designed to provide both.

The program, designed by BCC and the Massachusetts Housing Partnership with funding from the Massachusetts Technology Collaborative, harnesses the technological insight of some of the area's brightest energy engineers using innovative financing structures that are economically viable for both the lender and the project. By aggregating projects, the program achieves efficiencies of scale that ensure contractor engagement and bulk purchasing power. In short, it places green transformation within the reach of low-income communities.

Our first step was to put a financing structure in place. Once that was accomplished, the EAP solicited interest from existing affordable housing projects with high utility costs. It commissioned in-depth engineering assessments of each site and selected 28 developments—representing over 3,500 units of housing—that appeared to be good candidates for conservation and energy-efficiency investments.

On-site solar surveys identified seven projects—collectively housing more than 1,100 individuals and families— with strong potential for photovoltaic renewable energy investments. If photovoltaic (PV) systems are installed at these sites, they will be the largest economically significant installation of PV in affordable housing in Massachusetts. If all seven sites move forward with PV installation, they will also represent a 20% increase in the current installed PV capacity of the entire Commonwealth of Massachusetts.

“When we face cost escalation—such as double digit increases in electricity and gas every single year—we end up paying our utilities bills with funds that would otherwise go for building maintenance. Worse, we spend funds we need for food and nurses to take care of our residents.”

Linda Cornell, President/CEO, Visiting Nurse Assisted Living Community

The goals of the Energy Advantage Program translate into significant energy conservation and cost savings for residents, including

- a 33% reduction of electricity usage through efficiency and conservation
- 20% of electricity needs generated by on-site renewable sources
- a 33% reduction in water usage through conservation and efficiency
- a 25% reduction in heat usage through efficiency, system, and building envelope improvements

By combining conservation and renewable energy, the EAP believes it can reduce or stabilize at least 50% of the projects' current utility costs, improving each building's finances now and in the future.

A conversation with Linda Cornell, President/CEO, Visiting Nurse Assisted Living Community, shows just how needed this program is. The VNA has

a residential facility for low-income elders, the first of its kind in the nation. The structure, which BCC helped finance, has solid environmental credentials. “We were the first EPA Brownfield reclamation project in Somerville. The ground was heavily contaminated with oil, coal, arsenic, lead...and no one would touch the property. BCC gave us the resources and confidence to clean up the site and build this beautiful facility.” The challenge now is maintaining it.

“When we were building 10 years ago we explored cogeneration, but there was no financial support structure for it. Since we opened, our energy costs have gone from \$7,000 a year to over \$50,000 a year, and there is no end in sight. We belong to an energy co-op. We are extremely cautious about temperature

control and lights being left on. We have had three energy audits and we follow the recommendations. Unfortunately, that’s not enough,” Cornell explains. “We need something that is cost-effective, not just novel.”

“The main problem with affordable housing is that there is no real surplus cash at the end of the year. We work on a very lean budget. When we face cost escalation—such as double digit increases in electricity and gas every single year—we end up paying our utilities bills with funds that would otherwise go for building maintenance. Worse, we spend funds we need for food and nurses to take care of our residents.”

She adds, “We could never entertain the thought of using renewables for this project without BCC.”

Ed Connelly, president of New Ecology and a consultant to the VNA seconds this statement. “BCC is absolutely making this possible. We looked at this technology a few years ago and decided it was too expensive. BCC brings a combination of technical expertise in how to install photovoltaic panels, and financial expertise in how to make it economic.”

Today, EAP is moving forward, gathering proposals from conservation and solar providers for these properties, and preparing to begin work by the end of 2008.

**“BCC is absolutely making this possible...
[by bringing] a combination of technical
expertise in how to install photovoltaic
panels, and financial expertise in how
to make it economic.”**

Ed Connelly, president of New Ecology

WHAT DOES A HEALTHY COMMUNITY EAT FOR DINNER?

It is an irony of modern life that fresh foods are often less available than heavily processed alternatives. Teaching people to make healthier choices can help. But for many in low-income communities, the choices are limited by time, cost and availability. And for those who are already suffering from chronic illness—who are often homebound and unemployed—choice may be nonexistent.

USDA studies show that Food Stamps recipients have diets with significantly more saturated fat, cholesterol, and sodium than their higher-income peers. Though they are likely to consume only two meals a day, they have a higher caloric intake, and are more likely to rely on fast food and nutrition-poor fried and sugary foods. These consumption patterns take a toll on health. Low-income communities suffer from escalating rates of chronic diseases linked to poor nutrition, including cancer, cardiovascular disease, and diabetes. These diseases, in turn, can have a serious impact on a family's economic position.

BCC has partnered with many organizations that have good food at their core—from prepared foods businesses like City Fresh Foods to *Eating Well* magazine to Community Servings, a nonprofit that prepares and delivers healthy meals to the chronically ill. We have made loans to community gardens and supported employee participation in Community Supported Agriculture (CSA) programs.

Good food choices are central to our vision of healthy communities. **In truly healthy communities, all residents have access to truly healthy diets.**



Community Servings prepares 40 different medically tailored meals for people homebound with acute life-threatening illnesses who are unable to shop or cook for themselves—and works hard to make sure each and every meal is delicious. A loan from BCC helped the organization move into new facilities in Jamaica Plain that include a 13,500 square foot industrial kitchen.

Nourishing the body, the soul and the community

PROJECT NAME: Community Servings

LOCATION: Jamaica Plain, Massachusetts

SUMMARY: Tripling the organization's physical space allows the number of people and communities served to grow commensurately.

IMPACT: Serves 1,300 meals a day to approximately 675 people in 16 communities around eastern Massachusetts; this figure will grow.



Being sick is hard enough. Being in a true health crisis, isolated, and hungry can be desperate. In 1989, over 70 local organizations joined forces to create a program that would address this issue, initially delivering meals to 30 people homebound with AIDS. That program became Community Servings and gradually expanded its model and mission. Today, the organization provides two meals a day for 675 people, people with a range of life-threatening illnesses who are unable to shop and cook for themselves; it also feeds their dependents.

"If a single mother is undergoing chemotherapy for breast cancer, and is too sick to take care of her family, DSS might be forced to take her children away. Our meals can help keep that from happening," explains Executive Director David Waters. "Our meals also can allow a person who is alone at the end of their life to stay at home, and perhaps pass with some dignity."

The impact of these meals goes beyond nourishing bodies. And that, says Waters, is exactly the point.

"We provide 40 different medically tailored diets every day—food for renal patients, people with diabetes, vegetarians, even a menu for little kids," he continues. The food is not only healthy, it's tempting. "If we bring a meal that looks institutional, our clients—who may be nauseated and depressed—won't eat it. So we work hard on color and texture and taste. We try to serve food that reminds our clients of their childhoods, of what their mother made when they were sick. That not only motivates people to eat, it makes them feel safe, which is an incredible gift."

This Fall, Community Servings' capacity grew exponentially when the organization moved into new, expanded headquarters that nearly tripled its space. This relocation was made possible in part by a loan from BCC which enabled Community Servings to renovate the building and fit it with a new catering facility kitchen, food storage space and office areas. As a result,

"We try to serve food that reminds our clients of their childhoods...That not only motivates people to eat, it makes them feel safe, which is an incredible gift."

David Waters, Executive Director of Community Servings

the organization has the physical capacity to serve up to 3,000 meals per day—which means they can expand to serve new communities, other 'meals on wheels' programs and charter schools as resources allow. "We will also host nutrition classes at night, and plan to start a food-service job-training program," Waters says. Such a program will allow Community Servings to nourish a whole new aspect of its community.

CAN A PLACE TO LIVE HELP YOU FIND A WAY TO LIVE?

BCC was founded to meet a need for affordable housing. We started with traditional housing units, lending money to renovate or build apartment buildings and single family homes in low-income communities. We still do that. But needs shift, and we have widened our focus to include other less traditional housing projects and financing mechanisms as well.

Today, we proactively search for gaps in the marketplace, targeting underserved populations and formulating strategies to address their needs. We've helped a local supermarket owner draft blueprints for a loan program to allow low-income employees to become first-time homebuyers; worked with a Brockton entrepreneur to explore issues around developing affordable, energy-efficient housing for low-wage workers; and partnered with the principal of a Boston public charter school to look at creating a residential program for homeless students. At a time when high housing costs and interest rates together with reduced subsidy are creating barriers to home-ownership and affordability, BCC is in a unique position to break these barriers and develop new models for the future.

We are also looking into new ways to provide housing for other populations, from low-wage seasonal workers on Cape Cod and Martha's Vineyard to recovering addicts in Roxbury and New Bedford to elderly immigrants in Framingham and Brighton to struggling artists in Marlborough, Fort Point and Jamaica Plain. Finding a solution for each of these groups is critical to the health of low-income communities. **Because everyone needs a place to call home.**

Life Skills 101

PROJECT NAME: DIAL/SELF Teen Services

LOCATION: Greenfield, Massachusetts

SUMMARY: Combat homelessness and teen exploitation by housing 16- to 21-year-olds who have no home or family and teaching them how to live independent lives.

IMPACT: Assisted more than 15,000 youth since 1977



↑↓ David Voegle, Director of DIAL/SELF, and Kate Allen, Director of the Step Program, pose outside the future site of five new apartment units for homeless youth.

→ Teens participating in the Step Program receive housing, support services and life skills training to prepare them to lead independent lives.



When you are 17, homeless, and without family, who teaches you how to use the Laundromat? Open a bank account? Be a desirable tenant? If you are in Massachusetts, DIAL/SELF's Step Program does.

The Step Program provides housing and intensive support for 14 teens at a time. Some, referred by the Department of Social Services, have aged out of the foster care program and have nowhere to go. Others have left abusive homes and families, and find themselves "couch surfing" from friend to friend. The goal for both groups is to reduce their risk of homelessness and exploitation.

"Our role is to help prepare these youth for living independently," explains David Voegle, Director of DIAL/SELF. "We provide them with safe housing and vigorous support services, including training in money management, decision making, and emotional management. But we also teach them life skills—like how to shop and not get taken advantage of. Most people learn these things from family—but these kids don't have families."

Last spring, Boston Community Capital provided DIAL/SELF with a bridge loan to begin renovations on five housing units. "We had funding from the Department of Housing and Community Development, but the closing was delayed due to a backlog of attorney assignments. Meanwhile, the contractors were ready to start work. We were in a real bind," Voegle says. "BCC stepped in quickly and was very supportive. Their lenders were super."

What about life after the Step Program? "We consider it a positive outcome if kids are entering a safe housing situation or there is a family reconciliation," comments Voegle. "Even when kids go through our

"These are skills we take for granted, things that most people learn from someone in their family—but these kids don't have families. They don't have anyone."

David Voegle, Director of DIAL/SELF

program successfully, there is a real problem as to where they go next. Not many people want teenaged tenants. So we are thinking of developing efficiency apartment units for our graduates." That is a new frontier in affordable housing.

Rising to meet expectations

PROJECT NAME: Hope House

LOCATION: Roxbury, Massachusetts

SUMMARY: Enhance and expand services for recovering substance abusers by building a comprehensive residential treatment center.

IMPACT: Serves 330 men a year



- ↑ During its 21-day program, Hope House provides its clients with a range of services—including meals—so they can focus on their job search efforts and counseling.
- Hope House's counselors provide extensive services to its clients; in the organization's new building they will have more space to involve the men's families in their work.



It is tough to stay sober—much less become a contributing member of society—when you are living on the streets. Recognizing this, 50 years ago Jack Donahue invited three of his fellow Alcoholics Anonymous members to share his apartment. It was the beginning of Hope House, the region's oldest substance-abuse recovery home.

Today the program spans five separate spaces scattered throughout Boston's South End, offering 80 beds and a structured 21-day program of intensive counseling, training and housing. Participants are required to get jobs, and graduates move to a nearby facility to live more independently while continuing treatment. The program's success rate is impressive.

"The treatment works," states Executive Director Tom Duffy. Graduates agree. As one says, "To be treated like a man, you have to act like a man. I don't know what I was before I walked in here, but I walked out a man."

Yet as the face of addiction gets younger and younger, Hope House needs to adapt its services. "It used to be that alcoholics drank for years before seeking help. Recently, I overheard two of our residents arguing about which one was old enough to buy a pack of cigarettes," muses Duffy. For Hope House, that change in demographics means the men's families are increasingly involved. And that takes meeting space Hope House just doesn't have. So they plan to build.

The organization's new 35,000 square foot facility in Lower Roxbury will still house 80 men. But it will have a modern kitchen, counseling rooms and staff offices, a library and computer lab, and an adjoining rooming house with 22 single occupancy apartments for program graduates. Most importantly, the new dining and meeting facilities will actually accommodate the entire Hope House population.

"To be treated like a man, you have to act like a man. I don't know what I was before I walked in here, but I walked out a man."

Hope House graduate

There is only one problem: Hope House needs to sell its existing property to pay for the new building. But the organization can't do that until the new building is ready. Cue BCC. "Other groups only look at our financials. For BCC, that's just the starting point," says Bob Goldstein, director of development. "They really got to know us, underwriting the strength of our programs, our community relationships, the marketplace in which we operate. They've worked with us; and have been integral to making this dream possible."

All new construction minutes from mass transit. 100% affordable.

PROJECT NAME: Holcroft Park Homes

LOCATION: Beverly, Massachusetts

SUMMARY: Transform a distressed neighborhood while preventing its gentrification by constructing 68 units of new affordable housing.

IMPACT: Stabilizing a low-income community



↑ ↓ → Mickey Northcutt, David Bresnahan, and Donald Preston of Beverly Affordable Housing Coalition display plans for Holcroft Park Homes. The new development will replace substandard housing with affordable rental apartments for 68 individuals and families.



Founded in 1626, Beverly is one of the oldest communities in the Commonwealth of Massachusetts. A seaside resort, it is known for exclusive neighborhoods like Beverly Farms and Prides Crossing. But a robust working class neighborhood used to sit here as well, built up around a thriving shoe factory. In the 1980s the factory closed and the neighborhood quickly devolved. Today, it is a picture of disinvestment. Absentee landlords have allowed buildings to fall into disrepair. Abandoned cars dot empty lots. Unsurprisingly, crime has followed.

Enter the Beverly Affordable Housing Coalition (BAHC). In partnership with the YMCA of the North Shore, they have purchased 11 contiguous properties with a plan to develop 68 units of rental housing. All of the housing will be brand new. It will all be affordable. And it will do more than shelter people—a YMCA-sponsored program provides support services long missing in this community.

As Mickey Northcutt, Executive Director of BAHC, explains, “We think this project will change the mindset of the neighborhood.”

“As we began to analyze the buildings, we found there was nothing that could be preserved. People were living in buildings that could collapse any minute. So we are doing 100% new construction.” Noting that the area’s second generation was growing up amidst poverty and crime, he explains that the degree of disrepair had a silver lining. “When people do move back in, it will be to a fundamentally different aesthetic.”

Over the two year construction process, current residents will be relocated. They then have priority to move back in. “We anticipate that we will have a waiting list to get in these buildings. The neighborhood is within walking distance of both downtown Beverly and the commuter rail into Boston.

“We think this project will change the mindset of the neighborhood.”

Mickey Northcutt, Executive Director of BAHC

There is a beautiful, well-maintained park at its core. It was primed for gentrification. We are going to bring in high-quality housing but preserve the neighborhood economically.”

Fortunately, BCC was able to arrange financing throughout the long lead period this project requires. “Honestly, this project would not have been possible without BCC,” Northcutt explains. “They have been extremely supportive and creative in working to make the deal happen.”

LOOKING TO THE FUTURE, HOW FAR AHEAD IS JUST RIGHT?

In investing, as in life, timing is everything. Double bottom line investing—demanding both social and financial returns—requires careful titration. At Boston Community Venture Fund, we take the long view. We look for companies whose merits are not yet appreciated by the mainstream markets and that are led by individuals who can read and adjust to the market needs. We conduct rigorous due diligence on potential financial, social and environmental returns. Then we work with the management team and our co-investors to grow the business and to achieve its objectives.

Our investment success relies on our ability to exit from our investments, whether through a sale, merger, or IPO. Although the economic climate is a key factor in exit timing and valuation, we have found that if we build solid businesses that meet market needs, successful exits are possible. Our strategy: Invest in companies with talented management teams at the cusp of commercial marketability and work with them to grow. We position our companies to meet a specific demand and become strategic players in their communities. Before we exit, we ensure that the social return is firmly embedded in the company's core operations. This approach has enabled us to work successfully with a range of companies—from manufacturing to food service—creating social and environmental benefits.

For example, as a seed investor in Zipcar, we helped the company grow from a start-up with a prototype VW Beetle in 2000 into the world's leading car-sharing service. In 2007, Zipcar merged with its closest competitor, FlexCar, creating a combined company with the potential to make car sharing a mainstream form of transportation in cities across the U.S., Canada and Europe. That dynamic social return mirrors our expected financial returns.

By timing our investments carefully and creating exit strategies that align the interests of investors, communities and entrepreneurs, BCC is helping to define double bottom line investing.

Helping a company use what it's got

PROJECT NAME: CASTion Corporation

LOCATION: Worcester, Massachusetts

SUMMARY: Repositioning the company to broaden its target customers and maximize the impact of its technology led to a profitable corporate merger.

IMPACT: The Venture Fund enjoys a return on investment that includes our original investment plus a profit based on the performance of the acquiring company, while retaining and perhaps even increasing CASTion's social return.



↑ ↓ → Alan Womer, a CASTion engineer, maintaining one of the company's unique closed-loop water treatment systems, which pump tainted water used in industrial processes through a series of filters, separating the waste and producing clean, reusable water.



Every industry that uses water creates waste water which cannot simply be dumped into the nearest river. CASTion Corporation has a unique closed-loop treatment system that distills the toxic components from an industrial waste stream and then returns the bulk of the water to the industrial process.

In 1998, when CASTion wanted to recapitalize, BCC was interested in the company's plan to target a broad selection of industries with its excellent and widely applicable technology. Up to that point, CASTion's customers were primarily the small electroplating companies that dot western Massachusetts. BCC had been interested in CASTion's environmental impact and job-creation for some time, but was cautious about the limitations of this market: it's hard to build a \$5–10 million dollar business on \$50,000 deals. BCC helped CASTion's management reposition the company to target larger contracts in fields from electronics to beverage to aerospace. According to CASTion CEO Jeff Powell, "BCC provided the capital we needed to expand our business and product offering; ultimately, that led to the purchase of the company."

BCC and CASTion began actively looking for partners to help the business grow. In the end, the right match was one of CASTion's customers. ThermoEnergy Corporation, a development-stage public company, had just signed a major contract with the city of New York to remove ammonia from the municipal waste stream. In the project's pilot stage, ThermoEnergy realized its technology wouldn't work—but CASTion's would. After exploring the possibilities, it became clear that merging the companies made sense. ThermoEnergy brings research and development and a sales staff; CASTion brings technology and a support staff. Together, they can pitch their technology to other municipalities to create "a very stable income stream."

"We are chasing projects now that are five times larger than those we had as a stand-alone company."

Jeff Powell, CEO of CASTion Corporation

"BCC representatives on the CASTion board were instrumental in negotiating the sale," notes Powell. As a wholly-owned subsidiary, CASTion retains its management team, staff, and autonomy.

"Being acquired by ThermoEnergy strengthens our financial position and opens market opportunities for us both locally and internationally," Powell says. "We are chasing projects now that are five times larger than those we had as a stand-alone company." That in turn expands CASTion's environmental remediation and the number of jobs it provides, while helping assure that BCC's timely investment will earn a venture capital rate of return.

CAN LOOKING BACK HELP YOU TO SEE AHEAD?

History is threatening to repeat itself. In the late 1960s, a group of Boston bankers, politicians, and philanthropists made funds available for minority families to buy homes with no down-payment in specific neighborhoods. While there were good intentions behind the plan, 100% federally guaranteed lending and racially motivated block-busting tactics led to displacement and foreclosures that destroyed many thriving inner-city neighborhoods.

Today, low-income communities face a similar challenge. Sub-prime mortgages, a potentially beneficial new product, have been packaged on the financial markets in such a way that every participant—from investment banks to mortgage brokers—has the incentive to create more loans whether or not they are appropriate for the borrower. The result: in 2007, millions of adjustable rate mortgages reset to higher rates and many homeowners who could not afford their payments faced foreclosure. These foreclosures threaten entire communities. Neighboring homeowners see their own property values drop, tax receipts decline as houses stand empty, and hundreds of millions of dollars of public investment—in many cases placed in response to the last housing crisis—are lost as crime and arson rise.

At BCC, we want to be part of the solution. Our multi-level response has included policy work with municipal, state, and federal officials and the Massachusetts Community & Banking Council as well as founding our own mortgage brokerage, Aura Mortgage Advisors, dedicated to serving the interests of the borrower. **With the right products and alliances, we are working to make sure that low-income communities can look towards the future, not relive the past.**

In most real estate transactions there are four parties: the buyer, the seller, the realtor, and the mortgage broker. Few buyers realize that realtors and brokers are commission-based salespeople with a focus on getting the deal done, and done at the rate most favorable to themselves, not necessarily to the buyer. Although mortgage brokers offer a variety of mortgage products, each with its own fee structure, they are not required to offer or even disclose all of their products to a potential borrower. In particular, they are not required to offer a borrower the lowest cost or the most appropriate mortgage loan. In fact, the fees that a mortgage broker earns on a transaction depend on the product sold, and neither the actual fees earned nor the fees that could be generated by competing mortgage loan products are ever disclosed to the prospective borrower. So, a borrower may be offered and even encouraged to enter into a higher-priced, riskier loan because that particular loan product generates higher fees for the broker rather than because it is the right loan for the borrower.

Typically, these lending practices disproportionately target women, minorities, immigrants. When the loans fail, it is not only the borrowers who suffer. Whole neighborhoods, including homeowners savvy or lucky enough to have made responsible financial decisions, feel the effects of these foreclosures in decreased property values, increased crime, and declining tax revenues.

BCC believes the growing sub-prime lending crisis requires a multi-faceted approach. We are working closely with agencies at all levels of government to examine regulations and other public responses. Last spring, we participated in the Massachusetts Division of Bank's Mortgage Summit task force, which put together a series of recommendations for how the industry and public agencies can help reduce foreclosures.

“Aura walked me through the whole mortgage process...explaining things in away that was very clear. That gave me a high level of comfort.”

Eduardo, one of Aura's first borrowers

As we work with partners on how to handle the current crisis, however, we also want to avoid the next sub-prime meltdown. So, in June 2007, after conducting two years of in-depth research, we opened our own mortgage brokerage: Aura Mortgage Advisors. Our goal: to disrupt the marketplace by providing low- and moderate-income people with a trusted mortgage advisor. We are eager to close deals, but adamant that they be the right deals. We put people in homes they can afford, homes they can keep.

Since the primary population growth in Massachusetts is within the immigrant community, Aura has opened with offices serving Boston, Framingham, Lawrence, and Lowell. These areas combine dense immigrant and Spanish- and Portuguese-speaking populations with affordable housing stock, enabling us to help our customers find the right loan and

the right home. We increase our grassroots outreach by placing our offices in community centers, where immigrants often turn for both education and fellowship.

Our code of ethics dictates that we walk every potential borrower through the entire mortgage process, detailing all the options and all the issues. We disclose our fee for every loan. We point out instances where, with a slightly larger down payment, a borrower would qualify for a prime-rate mortgage. And we explain that, legally, we do not represent either the borrower or the lender, we simply match the two. Our goal is to educate potential borrowers to the point where they can ask the right questions—both of us and of our competitors.



"I have worked with other mortgage companies," says Eduardo, one of Aura's first clients. "It is so hard to know who is on your side. Aura walked me through the whole mortgage process. They explained which papers I would need, and what they could do for me. They didn't promise me anything, but every time there was a step they kept me informed, explaining things in a way that was very clear. That gave me a high level of comfort."

Aura hopes that with Eduardo, and all our borrowers, this initial transaction becomes the start of a life-long relationship that will help ensure that the conditions that contributed to today's crisis in low-income communities is not repeated in years to come.

WITH THE RIGHT PARTNERS, IS THE SUM GREATER THAN THE PARTS?

Every deal we do, every issue we address, every organization with which we partner enhances our experience and our expertise. Consequently, a steady undercurrent runs through our daily operations: how to leverage our partners, experience and capital to increase our impact.

Over twenty-three years ago, mission-focused investors founded BCC with two goals: to build and preserve affordable housing, and to demonstrate that inner-city neighborhoods could be sound investments. Their faith in these communities—and in the strong business practices that guide our work—allowed us to create new market opportunities for low-income people and businesses. Our shared success has allowed us to expand our capital base and create even greater impact.

Today, BCC has expanded our relationships with long-standing partners and welcomed new national and international banking partners. These partnerships have enabled us to access substantially larger pools of funding, exponentially expanding the work we can do. Each institution has chosen to invest with us because of our past successes—and their belief in our future vision. Yet each has slightly different parameters around their funding, allowing us to expand the ways in which our work will have impact.

New funding partnerships unlock doors as we create new tools and products that benefit community-based organizations. We have harnessed programs like the New Markets Tax Credit to create jobs and new development in highly distressed urban and rural areas; build organizational equity; and provide equity capital to nonprofits that share our mission of helping to build healthy communities. And we have launched new funding initiatives that level the playing field for nonprofit and community-based borrowers, allowing them to compete successfully with private developers to reclaim and preserve affordable housing and community resources. New partnerships allow us to leverage substantial new capital for significant impact.

WITH THE RIGHT PARTNERS, IS THE SUM GREATER THAN THE PARTS?

Creative capital unlocks doors and creates opportunities for impact

PROJECT NAME: Presentation School

LOCATION: Brighton, MA

SUMMARY: Effective partnerships create opportunities for investors, nonprofit borrowers and the communities we serve.

IMPACT: \$45 million in new capital allows us to expand geographically—and play a role in the redevelopment of closed church properties across Massachusetts.

↑ BCC worked with community activists to help them purchase the former site of the Presentation School from the Archdiocese of Boston.

↓ “BCC’s loan allows us to move into the future,” says Jennifer Doyle, the Foundation’s President.

→ The doors of the school will soon reopen on space refurbished for community groups.



The equation is simple: The more money BCC has in our Loan Fund, the greater our potential impact. In 2007, new investors added \$45 million dollars to our balance sheet. Some are long-standing partners, such as Wainwright Bank and Metropolitan Life Insurance Company. Others, such as Bank of America, have been steady supporters even as their corporate identities have evolved. Still others, Merrill Lynch and HSBC, for instance, are new investors. Together they have dramatically enhanced BCC's opportunity for future growth.

While each organization places slightly different parameters around their funding, each has partnered with BCC based on our past performance and their belief in our vision for the next wave of community investing.

Dan Letendre, Director, Merrill Lynch Community Development Company, explains, "You can't be in the CDFI business and not know BCC. The people are talented; they know their borrowers; they know their markets." When Merrill Lynch considered where to place a \$10 million New Markets Tax Credit allocation, "we evaluated CDFIs across the country. BCC was a clear winner for us."

Queried about BCC's value to Merrill Lynch, Letendre states plainly, "The NMTC award allows Merrill Lynch to expand what we are doing in the CDFI area: Providing low-cost capital and more of it. BCC knows how to deploy that kind of capital."

Long-time partner Dennis White, Vice President of Social Investments at MetLife, concurs. "We made our first loan to BCC in 1996, and have made several follow-on investments. We have seen them expand from an organization that focused on affordable housing to one that encompasses many forms of community development." MetLife recently more than

"BCC's investment gives Allston-Brighton the opportunity to take a closed church property and create a vitally needed center that will strengthen and stabilize this community."

Jennifer Doyle, President, The Presentation School Foundation

doubled its investment in the Loan Fund. "By increasing the size of our investment, we can enable BCC to have a greater community impact and to continue to grow."

Across the board, the new Loan Fund monies both further BCC's core activities and challenge us to think and act more broadly. HSBC, for instance, sees an opportunity for partnerships far beyond our traditional New England footprint.

"HSBC is primarily a New York state bank," says Becky Koch, Vice President, Community Development Finance, HSBC. "But we have branches across the country."

"Because BCC was expanding its own footprint outside the Northeast, we saw an opportunity to partner. They are moving south, we are moving north, so there is some convergence in markets. In the future, BCC might find a deal for us in Chicago, and we might find one for them in California."

While our expanded capital base makes it possible for BCC to reach new markets, it also allows us to have deeper impact at home. When the Boston Archdiocese announced it would be selling off closed church properties in one of the largest land dispositions in the history of Massachusetts, BCC stepped in to help nonprofit developers preserve these properties for community use. Our loans have helped level the playing field, allowing community groups to compete with private developers and obtain church

properties in Jamaica Plain (Blessed Sacrament), Dorchester (St. Williams) and Brighton (Presentation School). We are also working with nonprofit groups to acquire additional church-related properties in Lawrence and Somerville, MA.

Our 2007 loan to the Presentation School Foundation provides a good example of the power of sufficient, cost-effective capital. The Presentation School made headlines when the Archdiocese closed its doors the day before kindergarten graduation to prevent a sit-in by parents and other community activists. With support from BCC, the Foundation will reopen the doors to the beloved school and create new space for Allston-Brighton neighborhood groups.

"In our efforts to acquire the property, it became clear that we were fighting not just for a school, but for a community anchor," says Jennifer Doyle, President of the Presentation School Foundation. "BCC's loan allows us to put the school's closing in the past, and move into the future."

Becky Koch of HSBC is also looking ahead. "When we look for partners, we seek strong organizations that are innovative and forward thinking; BCC is a great example," says Koch. "Their technical expertise and their market and industry knowledge are really impressive. It has been wonderful to hear their insights about where the industry is going and where they want to take their organization. They are visionaries and thinkers."

That sentiment is echoed by many investors. Considering BCC's growth over the past five years, Letendre opines, "The organization has the same commitment and the same focus. A stronger balance sheet lets them do more and do it better. We're proud to be their partner."



The Presentation School continue to serve as a community anchor for the Allston-Brighton community.

PARTNERS IN OUR MISSION

BCC and its affiliates provide a wide range of debt and equity products for low-income communities and for emerging businesses and entrepreneurs. Boston Community Loan Fund lends money to community projects such as affordable housing and community facilities that might not otherwise be able to be financed. Boston Community Venture Fund makes equity investments in emerging and existing businesses that create jobs or provide services for low-income communities. Boston Community Managed Assets develops new business initiatives and innovative funding vehicles for low-income individuals and communities. Aura Mortgage Advisors is a mortgage brokerage business dedicated to helping people understand the mortgage process and own a home they can afford.

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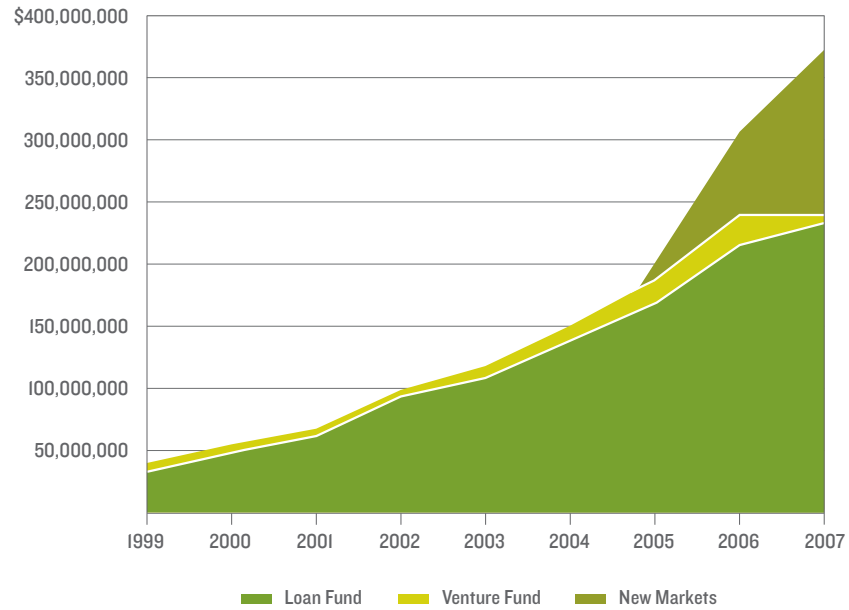
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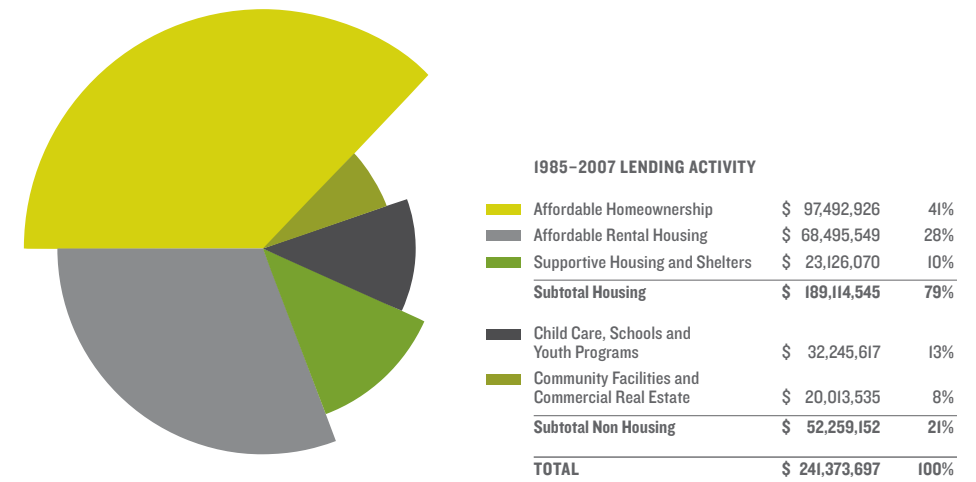
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CUMULATIVE DOLLARS INVESTED (as of 12/31/2007)

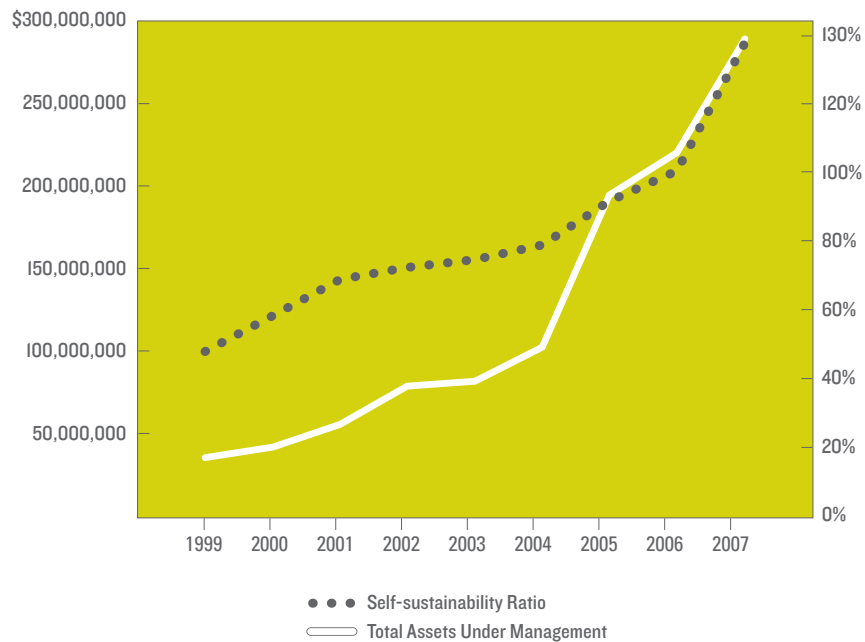


BOSTON COMMUNITY LOAN FUND LOANS BY TYPE 1985–2007 CUMULATIVE

(through December 2007)

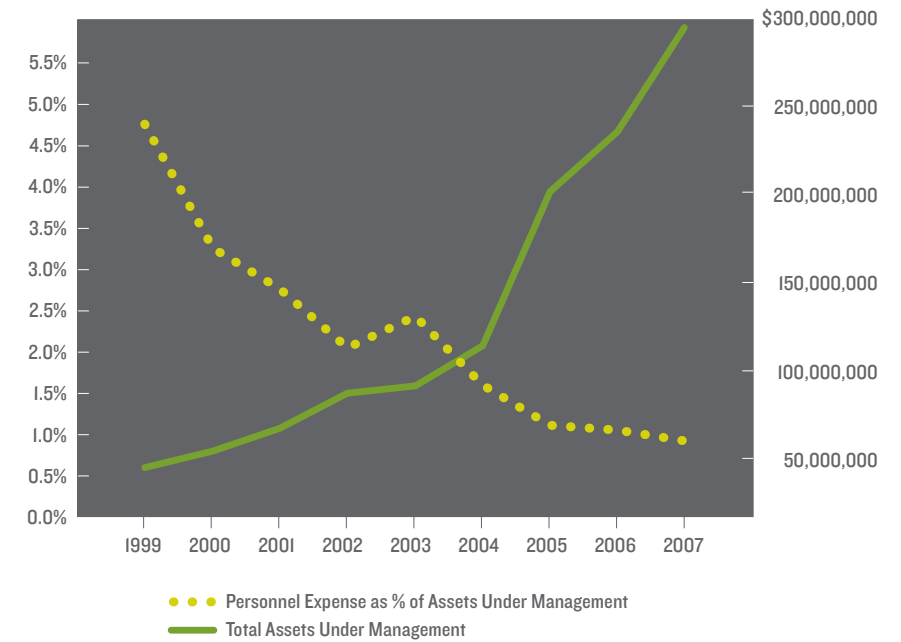


SELF-SUSTAINABILITY RATIO (as of 12/31/2007)



PERSONNEL EXPENSE AS PERCENTAGE OF ASSETS UNDER MANAGEMENT

(as of 12/31/2007)



This annual report was printed on Mohawk Options paper, which is made with 100% postconsumer recycled fiber and wind-generated electricity. Printing of this report used 12,191 lbs of paper.

Savings from the use of 100% postconsumer recycled fiber instead of virgin fiber:



117.03 trees preserved for the future



337.95 lbs waterborne waste not created



49,713 gallons wastewater flow saved



5,501 lbs solid waste not generated



10,830 lbs net greenhouse gases prevented



82,898,800 BTUs energy not consumed

Savings from the use of emission-free wind-generated electricity:



5,627 lbs air emissions not generated



2 barrels crude oil unused

In other words, the savings from the use of wind-generated electricity are equivalent to:



not driving 6,096 miles

or



planting 380 trees

Primary values were derived from information publicly available at:

<http://www.epa.gov/cleanrgy/egrid/index.htm>

http://www.environmentaldefense.org/documents/1687_figures.pdf



MOHAWK windpower

BETTER IN THE BOX.
CASTion, a former Venture Fund portfolio company, uses its closed-loop wastewater treatment and chemistry recovery system to isolate and treat substances like mercury, ammonia, boron, arsenic, heavy metals, and acids—helping businesses minimize their environmental impact.



MISSION STATEMENT Boston Community Capital's mission is to build healthy communities where low-income people live and work. To this end, we finance affordable housing, child care facilities, arts programs, schools, health clinics, youth programs and other community services; invest equity dollars into businesses that create social and financial returns; and develop new financial tools that connect low-income communities to mainstream financial markets. We serve as a 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 a key to building healthy communities.

For more information, contact us at:

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