Boston Community Capital – The SUN Initiative

February 22, 2010

"*No part of the financial crisis has received so much attention, with so little to show for it, as the tidal wave of home foreclosures sweeping over America. Government programs have been ineffectual, and private efforts not much better*." *The Economist.*

The Foreclosure Crisis

Over the last two years, nearly four million families have lost their homes to foreclosures, short sales, or deeds in lieu of foreclosure, and today another 15 million homeowners owe their lenders more than their home is worth.[1] It is estimated that at least three million more homes will enter foreclosure in 2010.[2]

Massachusetts is not immune to this national trend. In Greater Boston alone, foreclosure petitions were up from fewer than 700 in the year 2000 to more than 15,000 in 2009. To date, there has been no letup in the number of families falling behind in their mortgage payments and becoming subject to foreclosure initiation.[3] In MA as a whole there were 27,928 foreclosure petitions filed in 2009. The number of initial foreclosure petitions in December of 2009 was up 6.4% from the previous month and 27% from December 2008.[4]

Here, as across the country, the foreclosure crisis is disproportionately hitting low income communities. Between January 2007 and December 2009, six low-income Boston neighborhoods accounted for 11,089, or 83%, of total foreclosures in Boston.[5] In these neighborhoods, units in foreclosure are overwhelmingly multi-family (87%), and property values have dropped by more than 50%.[6]

The causes of foreclosure:

Historically, foreclosures have been precipitated by an event such as a divorce, illness, or job loss that financially derails a family. Today, much of the current foreclosure wave is fueled by widespread use of high-cost, unsuitable loans, a sharp decline in property values, rising unemployment, and a softening housing market.[7]

The question of who is to blame for the rash of foreclosures facing U.S. families is not one that we will attempt to sort out here. Lenders, borrowers, government, and complex economic and social dynamics that go far beyond the scope of this paper all played a role. However, we do offer a few data points to provide some perspective:

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[1] Moody's Economy.com, January 2010.
[2] RealityTrac.
[3] Greater Boston Housing Report Card 2009.
[4] The Warren Group. January 21, 2010.
[5] Warren Group CHAPA Town Foreclosure Statistics.
[6] Warren Group CHAPA Database.
[7] Kingsley & Smith et al, The impacts of foreclosure on families and communities. The Urban Institute. May 2009.

- Nationally over the past two decades, after tax income for the bottom 60% of families climbed .5-1%, while costs for basics like housing, child care and health care rose 53-75%. Meanwhile savings has been negative since mid-2005. A popular lending industry message has been that borrowing against your home is a sensible way to plug holes in your household budget.
- Although the National Mortgage Association does have a code of ethics, mortgage brokers are not required to offer or disclose all their products to a potential borrower (i.e. the lowest cost or most appropriate loan).[8] Brokers can therefore select loans and products that maximize benefit for themselves but may be risky for clients. In 2006, the WSJ reported that 61% of all borrowers receiving subprime mortgages had credit scores high enough to qualify for prime conventional loans.

"I had only ever had fixed mortgages before. But this broker came to me and said, 'There's this new mortgage.' At that time, 1% interest sounded great. [My husband was sick. I was working and caring for him.] But [the interest rate] went up. And I guess I didn't understand it was going to start going up. Now I think – 'What did I let this man talk me into?' Because before that I had had a fixed mortgage for 20 years."

Example from Boston Home Owners Facing Foreclosure (drawn from 2008 focus groups for Boston Community Capital):

The Impact of Rising Home Foreclosures:

There is a family behind every foreclosure, and every foreclosure creates a ripple effect that impacts not only the home owner and her family, but also renters, a neighborhood, a city, and a nation.

- **Family**: Low and moderate income families who lose their homes to foreclosure generally face short-term, and sometimes long-term, housing insecurity. Many low and moderate income families who lose their homes cannot scrape together the cash for first and last months' rent and security deposit to secure a rental home, even if they are able to find a landlord willing to rent to them.[9] The family ends up shuttling between extended family and friends, or in some cases homeless. In an interview with The Urban Institute, one housing advocate noted, "foreclosure can wipe out the homeowners' savings and leave them owing debt on homes they no longer own."[10] Longer term impacts have also been demonstrated – particularly for children. Foreclosure affects an individual's credit score, making it more difficult for a family to borrow for their child's education and unlikely for the family to move back into home ownership for at least a decade.[11] For young children, the negative impacts of housing insecurity can be varied, intense, and long-

[8] National Mortgage Association Code of Ethics 2007.
[9] Minneapolis Family Housing Fund.
[10] Kingsley & Smith et al. The impacts of foreclosure on families and communities. The Urban Institute. May 2009.
[11] Bluestone, Barry. Greater Boston Housing Report Card. 2009.

lasting, ranging from negative influence on behavior, development, academic performance, and ultimately high school graduation relative to children whose housing remains stable.[12]

- **Neighborhood:** A foreclosure sets off a domino effect that can affect an entire neighborhood. After it has been abandoned, a home attracts thieves who "mine" it for copper wire, plumbing, refrigerators, water heaters, and anything else of value – leaving it stripped bare and in far inferior condition. The foreclosed property may then become a haven for drug dealing and other illegal activity. Ultimately, foreclosed properties lead to an increase in violent crime. According to one study, for every 2.8 foreclosures per 100 owner-occupied properties in a neighborhood, violent crime rises by approximately 6.7 percent.[13] The foreclosed home also affects the value of surrounding homes. Nationally, every foreclosure brings down property values within a block of the home by between 0.9 and 1.14%. In low and moderate income neighborhoods, the decline is higher – between 1.44 and 1.8%.[14]

- **City:** The cost of foreclosure for taxpayers is poorly documented, because the costs are spread over myriad agencies and scales of government. The Homeownership Preservation Fund, together with Bill Apgar of Harvard University, undertook a case study of the costs of foreclosed properties in a neighborhood of Chicago on local government. They found that the <u>direct costs to Chicago city government involve more than a dozen agencies and two dozen specific municipal activities, costing approximately $30,000 per foreclosure</u> (including the reduction of property values and therefore tax revenue).[15]

Federal Attempts to address the foreclosure crisis:

The federal government's response to the foreclosure crisis has included general strategies (e.g. bank bailouts and $600 billion allocated by the Federal Reserve for the purchase of mortgage backed securities of entities such as Fannie Ma**e** and Freddie Mac), as well as strategies aimed specifically at stabilizing home owners, most notably the Making Home Affordable plan. This plan, which was launched in March of 2009, provides $200 billion to give four to five million homeowners with loans owned or guaranteed by Fannie Mae or Freddie Mac the opportunity to refinance; it also allocates $75 billion to keep an additional three to four million Americans in their homes by preventing avoidable foreclosures.[16] The approach uses cost sharing and incentives to encourage lenders to reduce homeowner's monthly payments to 31% of their income.

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[12] "The Hidden Costs of the Housing Crisis." Issue Brief #7 (Washington, DC: Partnership for America's Economic Success, July 2008); and Robert Haveman, Barbara Wolfe, and James Spaulding, "Childhood Events and Circumstance Influencing High School Completion," *Demography* 28(1), 1991. Kingsley & Smith et al. *The impacts of foreclosure on families and communities.* The Urban Institute. May 2009.
[13] Immergluck, Dan and Geoff Smith. *The Impact of Single-Family Mortgage Foreclosures on Neighborhood Crime*. Woodstock Institute: Chicago, 2005, page 1.
[14] Dan Immergluck. Woodstock Institute, *There Goes the Neighborhood: The Effect of Single-Family Mortgage Foreclosures on Property Values, 2005.*
[15] Apgar, William, Harvard University. *The Municipal Cost of Foreclosures: A Chicago Case Study.* Homeownership Preservation Foundation. Housing Finance Policy Research Paper Number 2005-1 February 27, 2005.
[16] www.makinghomeaffordable.gov.

Unfortunately, the plan is not working. Against a goal of reaching three to four million homeowners by 2012, the first ten months yielded success with only 66,000 borrowers nationwide, according to January 2010 federal data.

Recent research out of the Boston Fed makes a compelling argument as to why. As it turns out, foreclosure is often more profitable for lenders than renegotiating a loan. There are two reasons for this: First, about thirty per cent of delinquent borrowers “self-cure”—after missing a few payments, they get back on track without any help from the bank. Second, between thirty and forty-five per cent of people who do have their mortgages modified end up defaulting eventually anyway (if you lose your job, or if your payments are not sufficiently reduced, you can’t successfully pay even a modified mortgage). In both cases, modification leaves the bank worse off.[17]

In the early days of the federal loan modification program, most “modifications” did not actually result in a reduction in mortgage payments for home owners. It was therefore not surprising that in December of 2008, the U.S. FDIC reported that more than half of mortgages modified during the first half of 2008 were delinquent again. The impact of loan modifications has improved since that time, but even today the median payment reduction comes to only $500 per month, which typically does not approach the reduction necessary to result in a payment for families that is consistent with traditional underwriting criteria.

Current government efforts are unlikely to yield permanent loan modifications with low default rates unless:

- Lenders are further incentivized or compelled to make permanent modifications;
- Lenders reduce the principal sufficiently to get the loan above water and to a level the family can afford to pay;
- And borrowers have access to trustworthy counsel and support, ideally both at the time of and throughout the life of the loan.

Boston Community Capital:

Into this gap steps Boston Community Capital, a non-profit community development financial institution (CDFI). Across the country, roughly one thousand CDFIs provide billions of dollars in capital for low income communities and individuals who cannot access the services offered by traditional financial institutions such as banks and credit unions. The capital invested by CDFIs comes from socially concerned individuals, banks, foundations, and corporations. Run by accomplished legal and financial professionals, BCC runs a successful business, but is driven by its mission to do the heavy lifting required to make solid loan modifications in low and moderate income neighborhoods.

Boston Community Capital (BCC) was founded in 1984, and works in low-income communities throughout MA, with a concentration in Boston. For the last 12 years, BCC has been led by a member of its original board of directors, Elyse Cherry, a former partner at the law firm of Hale and Dorr whose

[17] Manuel Adelino, Kristopher Gerardi, and Paul S. Willen. *Why Don’t Lenders Renegotiate More Home Mortgages? Redefaults, Self-Cures, and Securitization.* Federal Reserve Bank of Boston. July 2009.

practice focused on commercial real estate finance and development. Over the course of her tenure as CEO, Elyse has grown BCC from a single, debt-based business to a multi-tiered organization that includes two double bottom-line (yielding social and financial returns) venture funds, a national tax credit program, a mortgage brokerage, a mortgage lender aimed at stabilizing urban neighborhoods, a real estate acquisition entity, and an alternative energy initiative focused on controlling utility costs in multi-family affordable housing developments.[18] BCC was recently recognized by the Calvert Foundation as one of five U.S. leaders in promoting affordable housing/responsible lending solutions to help thwart predatory lending and mortgage foreclosures.

To date, BCC has invested more than $430 million in low-income communities, has financed more than 9,700 affordable homes and 765,000 square feet of inner city commercial real estate, has invested in more than twenty companies, and has created or preserved more than 1,400 jobs. The organization values efficiency and productivity and is careful to outsource commodity services when practical. By focusing the organization on high value-added services, Elyse is operating the organization with approximately the same size staff as she did when BCC was 35 times smaller in assets.[19]

Boston Community Capital entered the mortgage business in 2008 when it formed Aura Mortgage. That same year, BCC was joined by Pat Hanratty, a retired financial executive and long-term board member of BCC, who started to see puzzling signs of nonsensical, exploitative loans from a couple of past clients. Bothered by what she had uncovered, Pat returned to Boston to investigate. The Boston-area data made no sense to Pat until she and BCC began to look at it on a census-tract scale. What she found was that while the cost of property in Boston as a whole had declined by only 1-2%, the cost of housing in census tracts in distressed areas housing was in freefall (declining 58-78% since the peak). Pat and BCC hired a firm to run a series of focus groups of families struggling with their mortgages in low-income neighborhoods to connect their stories with the data. Soon afterwards, Pat and Elyse began experimenting with approaches to preventing foreclosure, eventually settling on the SUN Initiative.

Please see Appendix A for bios on Elyse Cherry and Pat Hanratty.

<u>The Stabilizing Urban Neighborhoods (SUN) Initiative:</u>

SUN aims to stop the displacement of families and the neighborhood-destabilizing effects of vacancy and abandonment by acquiring and financing foreclosed properties <u>before evictions occur</u>. It does this by:

- Identifying working families with facing foreclosure who could afford a mortgage that reflects the property's true value.

[18] According to HUD, the generally accepted definition of affordability is for a household to pay no more than 30 percent of its annual income on housing. Families who pay more than 30 percent of their income for housing are considered cost burdened and may have difficulty affording necessities such as food, clothing, transportation and medical care. An estimated 12 million renter and homeowner households now pay more than 50 percent of their annual incomes for housing, and a family with one full-time worker earning the minimum wage cannot afford the local fair-market rent for a two-bedroom apartment anywhere in the United States.
[19] BCC has produced these efficiencies primarily by upgrading staff skill set, infrastructure, and systems.

- Purchasing foreclosed homes at a price at or below present value, free and clear, from first and second mortgage lenders at a steep (average more than 60% to date) discount from the outstanding principal amount of the foreclosed mortgage.

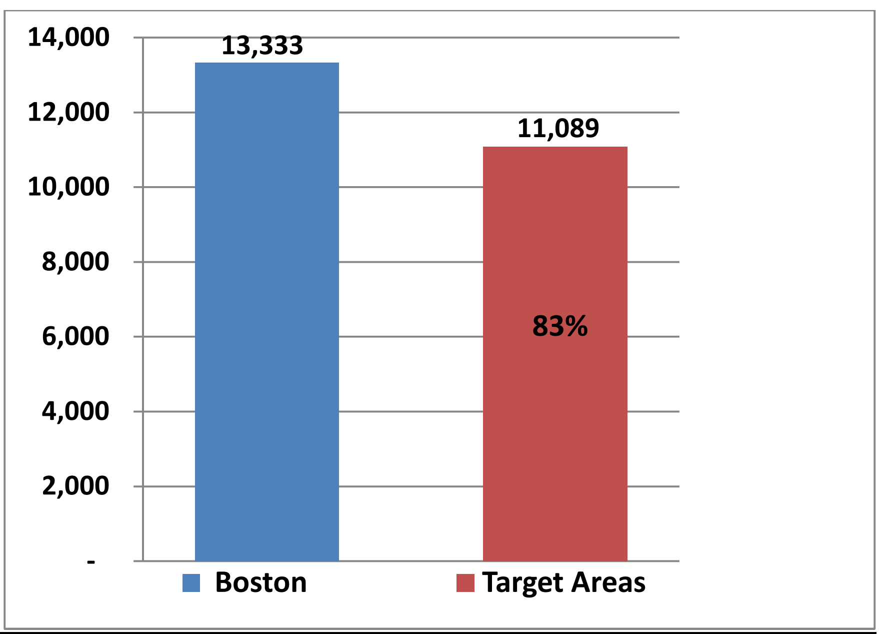
- Reselling those same homes (*with mortgage financing and stipulations to avoid moral hazard*) to their existing occupants – owners and tenants – at a price they can afford.

SUN plans to recapitalize by selling income streams seasoned for at least a year, while continuing to service the loan. In this way, BCC can make additional rounds of loans to new families while continuing its relationship with families over the life of their loans, and responding swiftly when small problems arise. BCC is piloting SUN with $10mm of its own funding, and to date has 45 units either closed or scheduled for closing. **BCC now seeks to raise $40mm of debt capital, which would enable BCC to refinance between 300-500 loans in low-income neighborhoods in Boston and Revere over the next 18-24 months.**

Who SUN serves

SUN serves low-income working families in Boston and Revere who are facing eviction due to foreclosure. SUN works in the six Boston neighborhoods experiencing sharply declining property values **–neighborhoods such as Roxbury and Dorchester that collectively account for 83% of Boston's foreclosures.**

Number and Percentage of Foreclosures[20]



SUN will only serve working families facing eviction due to a demonstrable economic or personal hardship, or a predatory loan; families who can demonstrate they can consistently afford a fixed rate

[20] Warren Group Chapa Town Foreclosure Statistics 1-1-07 thru 11-30-09

mortgage once the payments reflect the market value of the home in that neighborhood. BCC screens out families who repeatedly refinanced but could not demonstrate that they used the resulting funds either to improve their properties, or to cope with family emergencies such as medical or college bills. BCC also turns down people with federal tax liens. Finally, given that lenders generally return partial mortgage payments, BCC turns down families that did not use the available cash to pay down other debt.

BCC works with individual families who meet their screening criteria, reviewing their income and expenses, visiting the property and confirming its worth, while at the same time using data specific to the particular census tract to negotiate with the current lender/s for a sale. BCC does not move forward to purchase a foreclosed property unless the lender is willing to sell at the going rate and the owner has demonstrated an ability to pay the right-sized mortgage based on conservative underwriting criteria.

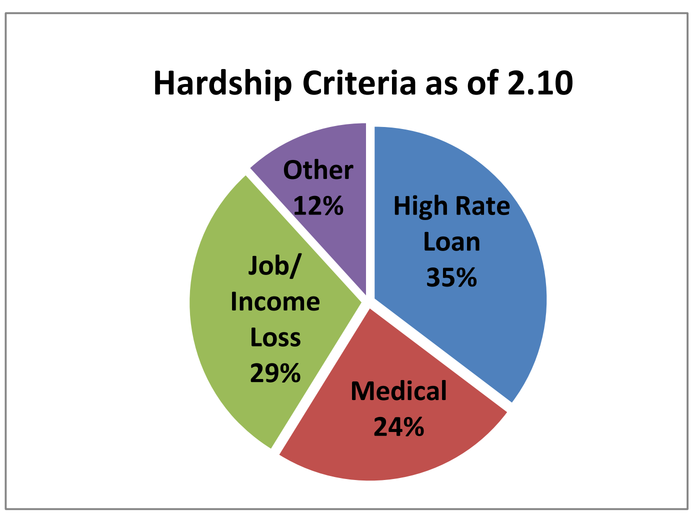
SUN Client Data as of February 1, 2010

	SUN Client Homeowner	**City of Boston[1] Homeowner**
Median Family Income	**$ 57,387**	**$86,827**
Median Property Value	**$199,531**	**$419,500**
Median Monthly Housing Expense Including Mortgages	**$2,728** *(57% of income)* (Pre-SUN)	**$2,352** *(32.5% of income)*
Median Monthly Housing Expense Including Mortgages	**$1,563** *(32.7% of income)* (Post-SUN)	**$2,352** *(32.5% of income)*

The Obvious Questions:

How do we know these people weren't just making irresponsible financial decisions? Do they deserve to be bailed out?

BCC only serves families who are facing foreclosure due to objective hardship criteria or a clear predatory loan. BCC reviews medical bills, pay stubs etc. to evaluate and confirm personal hardship factors. BCC also evaluates the individual's mortgage history to determine whether their loan was predatory (e.g. with an interest rate of 9% or more; a low teaser rate with a dramatic



increase at the end of the teaser period; or was originated based on verifiable fraudulent practices).

How can you reward one person with a bailout when his next door neighbor has scrimped and saved to stay current on his mortgage?
BCC recognizes that reducing borrower debt can cause a sense of inequity 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. While the neighbor may not be able follow all the details, he quickly grasps that the arrangement offers him rough justice – the family next door gets to keep their home, but they don't stand to benefit from its appreciation over time the same way he and his family will. Additionally, with an owner as opposed to a vacant property next door, his house is likely to hold more of its value.

Wouldn't it be more cost effective for individual lenders to modify the principal rather than selling the mortgages to BCC at such deep discounts, and then selling them back to the occupant?
One would think. But if it were sufficiently convenient and cost effective for lenders to modify the loans on their own, and if they were set up to support the borrowers to be successful, they would probably be doing so. They are, for the most part, not choosing to do the modifications on their own. Lenders are, however, willing to sell the properties to BCC when BCC does the legwork.

There are probably a number of reasons for this, all of which can be summarized by the basic argument that BCC is driven by its mission to invest the time required to accurately differentiate viable loans from more risky loans, and to build the relationships necessary for low income borrowers to succeed, where traditional lenders are not.

What makes you think the result is going to be any different this time around?
First and foremost, SUN mortgages are properly underwritten, fixed rate, and are reducing a family's monthly payment by an average of 42%. In addition, the loans are structured to be the first bill a family pays after each pay period (one condition of the loan is that paychecks are deposited directly into a client's checking account and mortgage payments are automatically taken out of the account the day after pay day – usually twice per month). Families are also required to pay into an escrow account that forces emergency savings and provides a cushion should a family lose a job or face major unexpected home repairs. Finally, a modest amount of one-on-one financial coaching is built into BCC's relatively intensive lending process, which includes a review of the family's budget and credit history. The relationship formed through this process endures over the life of the loan and will perhaps hearken back to the relationship our parents or grandparents had with the local bank that held their mortgage loan.

Shouldn't federal dollars be accomplishing this?
Yes. However, the efforts of the federal government to make homes affordable have yielded very little to date. As a result, there is an opportunity for BCC to test a different approach that could be nationally relevant. BCC is rigorously documenting the SUN process and procedures, and has interest in the approach from Fannie Mae, as well as other CDFI's.

How likely is it that BCC will be able to recapitalize SUN and keep going?
BCC is in the early stages of determining the terms of a sale of the income stream which, in any event, will be determined by market conditions at the time. Possible routes identified to date include packaging the revenues from a group of mortgages and using that income to support either a taxable or a tax-exempt bond, depending on pricing at the time. Alternatively, groups like Mercy Housing[21] have purchased seasoned mortgage income streams from Habitat, and such an option may be available to BCC as well.

If the banks/mortgage companies start to do effective mortgage refinancing by lowering the principal and monthly payments, will SUN be relevant and will these dollars be needed?
Today, when it is possible for a family to refinance their home with their current lender, SUN encourages and facilitates that process. It is possible, although unlikely, that the federal government will increase pressure and/or incentives to the point where mortgage companies begin refinancing at scale. If this happens, BCC will shift its entire business into properties that are REO (Real Estate Owned) by banks, and therefore ineligible for refinance (REO properties already comprise the bulk of the business). Given that at the end of 2009 there were more than 3,000 REO properties in BCC's target neighborhoods alone, and that number is growing rapidly, the demand with REO properties alone will be far greater than what BCC could handle with $50mm of debt capital.
Please see Appendix B for greater detail on the program flow.

Objectives of the SUN Initiative

Ultimately, the objective is to prevent low and moderate income families in neighborhoods facing very high foreclosure rates from being evicted, and to keep them current with modified mortgages. The extent to which SUN can go to scale will depend on how successful BCC is at raising debt capital. Therefore, the **<u>first goal is to raise $40mm for Boston and Revere</u>**. If BCC is successful at raising this level of investment, its goals for the SUN initiative will be:

- **Scale up to $3mm in mortgages/ month;**
- **Sell seasoned income streams –while retaining mortgage servicing responsibilities – after approximately 1 year, recapitalize, and redeploy dollars to refinance more loans;**
- **Serve a total of 2,200 families by May of 2015.**

For however many families SUN is able to serve, objectives will be:

- **100% of SUN loans are made based on conservative underwriting criteria (38% for housing and 48% for backend ratios);**
- **No more than 15% of loans are delinquent or in default.**

It is unclear what default rate we would expect to see from these borrowers without BCC as lender. Historically, properly underwritten loans have default rates in the 1-2% range – even among low income populations. Meanwhile among loans that were modified in 2008, the six month default rate was 53%,

[21] Mercy Housing is a national organization that acquires and develops program-enriched housing for a variety of low-income populations, including families, seniors and people with special needs. Mercy Housing's subsidiary, Mercy Portfolio Services, assists communities across the U.S. through foreclosure purchase, redevelopment, lease purchase options, asset management, land banking, and resale at affordable prices.

(although as mentioned above, the vast majority of modifications made in 2008 did not change or, in some instances, actually *increased* monthly payments). National data from the 3rd quarter of 2009 reveals that after 12 months, 34.1% of permanent modifications that decreased monthly payments by 20 percent or more were seriously delinquent.[22] BCC has used a 15% default rate in its projections to reflect risk associated with high unemployment rates, and to build in a cushion. To the extent that SUN Initiative loans do go into default, BCC does not anticipate significant loss, since the purchase price is about 36% of the principal amount of the original mortgage—a price consistent with current market values for distressed properties in target neighborhoods as opposed to the inflated values of 2006-2007. Since BCC is selling currently at about a 25% mark-up, they have some additional room to reduce pricing if values drop further.

BCC's target is based not just on the larger drop in monthly payments, but also on the fact that they are putting borrowers through a rigorous underwriting process, rejecting loans that are outside traditional underwriting guidelines, ensuring a financial safety net for the family, and providing exceptional follow-up over the life of the loan.

- **Pay back investors at 4.25% (on average), and return principal by May 2015 latest.**

<u>How You as an Individual Investor Can Help:</u>

BCC is looking for a five year capital investment– not a grant.

Families have two options for investment: Those with an incorporated family foundation may choose to make a **Program Related Investment** (PRI) in Boston Community Capital (see detail below). Families that do *not* have an incorporated foundation (or those who do not wish to make a PRI) may choose to make a traditional loan to BCC.

Both the PRI and the traditional loan could be made at up to 4.25% annual interest rate. However, individual families willing to make PRIs or loans to BCC below the 4.25% interest rate on the offer will have the potential to leverage additional capital from other investors who want to support BCC's efforts but need a slightly higher return than 4.25%. Based on conversations to date, Elyse estimates that <u>if investors were willing to make no-interest loans, BCC would be able to leverage additional investment at 2:1.</u>

What is a PRI and how do they work?

A PRI is an investment made by a foundation in support of charitable purposes, with the understanding that the investment will earn below-market returns. A PRI is not a grant, but it will count towards a foundation's 5% payout requirement in the year the disbursement is made. When the PRI is repaid, the foundation is required to add that grant amount to its 5% disbursement in that year. If there were losses, those losses would be subtracted from the 5% annual required disbursement.

[22] Office of the Comptroller of the Currency; Office of the Treasury.

How would a family without an incorporated family foundation invest in SUN?
Families that do not have a foundation can make a traditional loan to BCC at an interest rate of up to 4.25%. Like any typical investment, earnings from the loan payback would be taxed, or losses written off. BCC can structure loans such that families who would like to make a lower or no-interest loan can avoid imputed taxes.

How would these investments work?
BCC is seeking to raise $40mm additional dollars. Funds raised will be used as debt capital for the purchase and resale of homes in targeted neighborhoods in Boston and Revere to families that meet SUN criteria as described above.

Families that choose to invest will benefit from the due diligence already conducted, and an attorney experienced in both PRIs and traditional loans will review all documents from BCC and prepare necessary paperwork. In addition, SGP's accountant will review the arrangements. Participating investors will want to run the arrangement by their individual accountants, but need not seek additional legal representation unless they so desire.

SGP will maintain the relationship with BCC and carry out all necessary due diligence on their progress and outcomes, as we would for a typical grantee. In addition, we will conduct an annual review of BCC's audit report – considered best practice review for any PRI.

> ***"Elyse has a stellar track record with BCC's lending activities over the years. She lends to people on the edge of making it, and her payback ratio is outstanding. Her defaulted loans are negligible. She is truly a first class business woman in addition to being a great social entrepreneur. That's the point that sold Amos [Hostetter] and me. Many folks do this sort of thing, but very few do it as well as Elyse. Investors in this initiative should, barring some massive unexpected surprise, expect to get their money back. In the interim, Elyse will have done A LOT of good with that money."***
> Ben Gomez, Managing Partner of Pilot House Associates, which provided the initial equity for the SUN Initiative.

The basic legal arrangement for the SUN Initiative:

- Investors transfer committed funds to BCC within a year's time.
- If participating families choose to receive a return on the investment, BCC pays accrued interest to investors quarterly, beginning at the time the money goes "out the door" in the form of a loan. The interest rate will be up to 4.25% (well below the rate the open market would require for the purchase of distressed properties).
- BCC reports information on SUN to investors on a quarterly basis (e.g. number of properties acquired and sold, number of mortgage closings, and number of mortgages in default).
- After the loans have matured for approximately a year, BCC sells the income streams (retaining loan servicing responsibilities), and recapitalizes with an aim to spend the money several times over before the end of the loan period. When the loan comes due on May 30, 2015, BCC returns the principal directly to investors.
- If BCC defaults on their payments, the interest rate increases (e.g. to 6% if 4.25% is the starting place); if BCC is in default for more than 30 days, all agreements are terminated and SUN initiative investors can declare all funds due immediately.

- As with any loan or PRI, there are tightly specified time periods for payments from lender to borrower. Investors should be aware that they are committing to pay promptly in that pay period or risk default.

Who might other lenders be?
Boston Community Capital has invested $10mm of its own capital and has secured $3.5mm in a first loss reserve fund. In addition, BCC has approached a number of other potential investors, including foundations such as Hyams, Kresge, The Boston Foundation, Highland Foundation, and Calvert Social Investment Fund, as well as Jewish Funds for Justice, Mercy Housing, clients from Reynders McVeigh, Loring Wolcott & Coolidge, and other high net worth individuals. BCC would like to raise the funds by this spring.

How likely am I to be repaid?
This is a pilot program, so it is difficult to set informed expectations. BCC is drawing on its experience serving this population for over 25 years to devise a program and the necessary safeguards to mitigate loan losses. Mortgage payments are affordable to the borrower based on conservative underwriting criteria and their income at the time of sale. Payments are automatically withdrawn from the borrower's account the day after they are paid, twice each month (direct deposit is required), so the mortgage payment gets priority relative to the family's other needs. The schedule includes extra payments and a reserve at closing, both of which go into an escrow that can be drawn on in case a boiler breaks in the home or a job is temporary lost.

> ***"We have been doing PRIs for more than a decade. Our current PRI portfolio is at $20mm, and to date we have experienced no losses whatsoever. In our entire history, only one investment has ever been in danger, and every PRI that has matured has been paid back. Boston Community Capital is at the top of this group. BCC is stellar. Their track record is excellent. Our monitoring for them is pro forma at this point because their performance is always top notch. They are among the easiest PRIs to recommend."***
> Jim Metzinger, Senior Program Officer, Heron Foundation, which plans to re-up its investment in BCC's loan fund.

BCC has incorporated a relatively high loan servicing fee of $29/month to provide high-touch loan officer support to families. BCC will follow up on late payments immediately to help trouble shoot problems. Given the inevitability that some borrowers will lose their jobs and go into default, BCC's financial model anticipates a 15% default rate. If this turns out to be an underestimation, BCC would need to burn through $3.2mm of first loss reserve funding before other investments (e.g. your investments) are impacted. In general, according to Ben Gomez, the Managing Partner of Pilot House Ventures, which has worked with BCC for seven years and fronted the first loss capital, the payback ratio on BCC loans generally is "outstanding." That being said, SUN is a pilot, the outcome is unknown, and there is a certainly a risk that a portion of the investment will become a permanent grant to BCC.

The Opportunity:

The SUN Initiative offers investors an opportunity to help struggling families avoid eviction and stay current on their mortgages in neighborhoods hardest hit by the foreclosure crisis. BCC leadership is exceptionally capable and experienced, and the opportunity gets high marks for financial sustainability, given that the organization needs a low-interest loan as opposed to a grant. Although this opportunity cannot be offered in the form of an SGP grant, we recommend it for your consideration with great enthusiasm.

Elyse Cherry and Pat Hanratty (see bios below) will present on Monday; you will have an opportunity to discuss the opportunity with them, and as a group; and SGP will follow up with families individually to determine your interest.

Note that there is no minimum investment level.

Appendix A – Boston Community Capital Leadership Bios

Elyse D. Cherry

Elyse Cherry is Chief Executive Officer of Boston Community Capital, and the President of Boston Community Venture Fund, an affiliate of Boston Community Capital.

Ms. Cherry helped found Boston Community Capital in 1984 as a member of its original Board of Directors. Since then, Ms. Cherry has been integrally involved in the development and growth of Boston Community Capital from a start-up organization to what is, today, a national model for community investment.

During Ms. Cherry's twelve-year tenure as CEO, she has spearheaded two successful rounds of aggressively implemented strategic planning and has grown assets under management by a factor of more than thirty-five. Under her leadership, Boston Community Capital has grown from a single, debt-based business line to a multi-tiered organization that includes two double bottom-line venture funds, a national tax credit program, a mortgage brokerage, a mortgage lender aimed at stabilizing urban neighborhoods, a real estate acquisition entity, and an alternative energy initiative focused on controlling utility costs in multi-family affordable housing developments. Among other activities, BCC now has invested more than $430 million in low-income communities, has financed more than 9,700 affordable homes and 765,000 square feet of inner city commercial real estate, has invested in more than twenty companies, and has created or preserved more than 1,400 jobs.

Since 1992, Ms. Cherry has served on the boards of directors of more than a dozen privately held companies including Pilgrim Insurance Company, ZipCar, and Acelero Learning. In addition, Ms. Cherry is an active civic leader. She served as a member of Massachusetts Governor Deval Patrick's nineteen-member statewide transition team. She is the current Chair of the Massachusetts Cultural Council and a recent past Chair of Mass Equality, an organization dedicated to the establishment and protection of civil marriage for the GLBT community. She has also served as Vice Chair of Opportunity Finance Network, a national organization of community finance intermediaries. Among other appointments, she is a member of the Boards of Wall Street Without Walls and The Philanthropic Initiative, the Dean's Council of Northeastern University Law School, the Mission Driven Investment Committee of the Kellogg Foundation, and the external Board of the Institute for Global Leadership at Tufts University. Ms. Cherry is a frequent panelist and speaker at national conferences. She is also an avid traveler, particularly in the developing world.

Ms. Cherry is an attorney and a former partner at the law firm of Hale and Dorr, now known as Wilmer Hale, where her transactional practice focused on commercial real estate finance and development. In 1992, Ms. Cherry left Hale and Dorr to become Vice President and Counsel of SRB Corporation, a wholly owned subsidiary of Plymouth Rock Assurance Corporation. She subsequently served as CEO of Earthwide Products Corporation, an investment fund targeting environmental businesses. Early in her career, Ms. Cherry served as a field examiner at the New England region of the National Labor Relations Board and as a VISTA volunteer in rural Tennessee.

Ms. Cherry is a graduate of Wellesley College (1975) and the Northeastern University School of Law where she delivered the student commencement address.

Patricia Hanratty

Patricia Hanratty has had a distinguished career encompassing three sectors of the economy: finance, the public sector and academia. Over the last 25+ years, her work has focused on providing financial services and management consulting to small businesses in the Northeast.

Her current work focuses on helping low to moderate income communities avoid and remediate the problems of foreclosures. She is President of Aura Mortgage Advisors, a licensed mortgage lender and broker providing mortgage loans to individuals facing eviction due to foreclosure. She also heads NSP Residential, LLC, a recently formed real estate acquisition, development and management arm of Boston Community Capital. She has been working with BCC to develop innovative mortgage products for homeowners who have been in foreclosure and to purchase troubled mortgages and bank owned properties.

In addition, Dr. Hanrattty has worked developing automated solutions and systems for the financial services industry. She has been the recipient of several major national and regional awards including: the Boston Chamber of Commerce Pinnacle Award for Distinguished Service in Finance, the New England and Massachusetts Small Business Administration Financial Services Person of the Year and the Ford Foundation Innovations in State and Local Government Award. Products and services developed by Hanratty have been recognized and honored by a wide range of organizations from the Direct Marketing Association of America to the U.S. Departments of Commerce and Labor and Robert Morris Associates. She has lectured extensively on topics ranging from entrepreneurship to small business financial services, including sales and marketing strategies, and developing new commercial credit paradigms for smaller companies.

Consulting Services
In 1999 Dr. Hanratty formed Pamet Ventures, an investment and consulting firm. During a consulting assignment for Bank Rhode Island, she created a new business process for financial management in higher education; a new division, CampusMate, was formed within Bank Rhode Island to market and sell this patent pending, Web based product. Hanratty served as President of the CampusMate Division during its first years, bringing the product to market and acquiring its first 4 clients. In 2004 she returned to her consulting practice, where she continues to work with private companies and individuals, as well as non-profit firms.

Financial Services
Most recently, Hanratty spent nearly 10 years at Fleet Bank building, growing and managing major segments of Fleet's small business division. She served in a wide range of leadership positions directing the development and implementation of innovative new loan products, distribution channels, marketing and sales programs and credit policies. Under her leadership, and reflected in independent polling completed in 1999, Fleet became the regional bank selected most frequently by northeast small businesses.

In addition to holding an Executive Vice President and Director position in the small business division, Hanratty was appointed to the Corporate Credit Policy Committee. In this position she worked with Fleet's senior credit officers and managers in formulating and evaluating credit policy for all lines of business. While at Fleet, Hanratty successfully managed over $400MM in troubled loans and a team of workout officers. Her accomplishments included many successful restructures, negotiations and bifurcations. She was also instrumental in the formation of the Fleet Community Development Corporation and served as a Director of the CDC.

During her career at Fleet, Hanratty's innovative developments included designing and opening 450 Business Solution Centers throughout the Fleet franchise. In their first year of operation the Centers grew small business sales more than 15%. This was accomplished in an environment in which banks had been steadily losing small business customers for over 3 years. She also created and launched the bank's most successful commercial loan product set, Fleet Easy Business Credit. This product introduced new underwriting and credit monitoring paradigms into commercial lending. By leading the development of a proprietary, statistically validated model, Hanratty improved loan performance and profitability, cut processing costs dramatically and improved customer service. Within 40-45 months this product grew to over a billion dollars in sales and added tens of thousands of new small business customers to the Fleet base.

Public Sector Experience
Prior to joining Fleet, Hanratty was the founder and CEO of the Industrial Services Program and the Massachusetts Economic Stabilization Trust. These quasi-public agencies were funded through a combination of public and private monies to address the needs of maturing industries and their workers. The agencies were unique in that they were responsible for business consulting, turnaround financing and worker assistance programs. The Massachusetts Secretaries of Economic Affairs and Labor co-chaired the agency boards. During her tenure over 350 companies and tens of thousands of workers received assistance. Hanratty began her 8 years in public service as Assistant Secretary of Economic Affairs and helped write the legislation that created these two unique entities.

Academic Experience and Training
Patricia Hanratty began her professional career as a professor. After being awarded an Institute Fellowship at M.I.T., she received her Ph.D. in political Science and Public Policy. Hanratty completed her Bachelors Degree, summa cum laude, at the University of Massachusetts at Boston. She remains an active alumna at both institutions.

As an Assistant Professor at the College of the Holy Cross, Hanratty won several research fellowships and presented papers at professional conferences. In 1981, as a junior faculty member, she was appointed Acting Chair of the Department of Political Science. She took leave from Holy Cross to enter the public sector.

Boards and Associations
An active member of the New England business community, Hanratty serves as Director and Past President of the New England Trade Adjustment Assistance Center. She served as a member of the Boston Community Capital Board of Directors from 1998-2007, before leaving the Board to begin work on the Neighborhood Stabilization Program. In addition, she was a founding member of Renaissance Ventures, an angel investment group in Boston focused on women owned and/or managed startups. She is a former Director and Executive Committee Member of the Center for Women and Enterprise, and has served on numerous boards and committees for national and local women's groups.

Appendix B – SUN Initiative Process

1. Families undergoing a foreclosure or eviction process initiate contact with one of SUN's nonprofit referral partners that have been trained by SUN (e.g. Greater Boston Legal Services).
2. These families attend regular meetings with BCC referral partners, who then evaluate clients' eligibility for SUN (*in particular the terms of the loan, the personal and economic hardship faced by the family, and the family's ability to maintain sufficient sustainable income).*
3. Referral partners facilitate the family's completion of the SUN intake form and necessary documentation for submission to SUN (*including financial history, budget, pay stubs, tax returns, assets and liabilities, and an explanation of why they are in foreclosure).*
4. SUN specialists calculate the value of the house based on in-depth census-tract level analysis. They input client financial information, and does initial calculation to determine what mortgage payment the family can afford.
5. A SUN Foreclosure Counselor determines if client meets hardship criteria and whether client can afford market housing expenses at 38% for housing and 48% for backend ratios. Counselor also reviews credit report, identifies problem areas and recommends a course of action for addressing credit issues.
6. Counselor visits property to assess its condition.
7. Meanwhile, SUN Loan Specialist (?) works to negotiate with lender/lenders for the purchase of the property at $.30-$.40 on the dollar *(initially, negotiations with the lender were extremely slow-going and labor intensive. However, the process is becoming increasingly expedient as SUN builds trust with lenders and familiarity with the product).*
8. SUN issues fully underwritten, 30-year mortgages with a fixed payment – including principal, interest, taxes and insurance -- equal to no more than 38% of household income.
9. SUN builds a 25% portfolio level reserve against future loan losses and market decline by, where possible, purchasing from the lender at a price that is sufficiently discounted to allow 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.