



*Building Healthy Communities
Where Low-Income
People Live and Work*

Charles Clark
Chair of the Board

Elyse D. Cherry
*Chief Executive Officer
Boston Community Capital
President
Boston Community Venture Fund*

DeWitt Jones
*President
BCC Solar Energy Advantage
President
Boston Community Managed Assets*

Rebecca L. Regan
*Chief Operating Officer
Boston Community Capital
President
Boston Community Loan Fund*

Patricia Hanratty
*President
NSP Residential LLC &
Aura Mortgage Advisors LLC*

Affiliates

BOSTON COMMUNITY
LOAN FUND

BOSTON COMMUNITY
VENTURE FUND

BOSTON COMMUNITY
MANAGED ASSETS

56 Warren Street - Palladio Hall
Boston, MA 02119-3236
Phone: 617.427.8600
Fax: 617.427.9300
www.bostoncommunitycapital.org

November 8, 2010

Christa Velasquez
Director of Social Investments
Annie E. Casey Foundation

Via email to cvelasquez@aecf.org

Dear Christa,

Following up on our conversations, it is our pleasure to submit this letter of interest to the Annie E. Casey Foundation for a \$2 million program related investment in Boston Community Capital's Stabilizing Urban Neighborhoods (SUN) Initiative.

As you know, Boston Community Capital (BCC) is a nonprofit community development financial institution (CDFI) with a 25-year track record of working to stabilize low-income neighborhoods, and to build and preserve wealth for low-income people. Since 1985, BCC has invested more than \$550 million in low-income communities, financing more than 10,000 affordable homes and creating or preserving more than 1,400 jobs. BCC has received a rating of AAA+2 from the CDFI Assessment and Ratings System (CARS), the CDFI industry's rating agency.

BCC developed its SUN Initiative to address the ripple effect of foreclosures in low-income communities – stemming the impact on foreclosed homeowners and their families, renters, neighborhoods, and cities – by stabilizing homeowners and tenants facing eviction due to foreclosure before evictions occur. SUN utilizes the decline in real estate prices in low-income areas to purchase foreclosed homes at prices at or below present value, free and clear, from first and second mortgage lenders at a steep discount from the foreclosed mortgage, and resell those homes (with mortgage financing) to their existing occupants – owners and tenants – at prices they can afford, thereby avoiding the high levels of vacancy that encourage neighborhood blight and destabilization.

To date SUN has

- stabilized over 90 units of affordable housing, providing nearly \$11.5 million in fixed-rate mortgages to families facing eviction due to foreclosure;
- created innovative mortgage products that meet the needs of low-income borrowers by providing fixed monthly payments; automatic payment withdrawals to ensure that the mortgage is paid first; built-in financial reserves to cover shortfalls and repairs, and support in home finance and maintenance;

- developed key relationships with community groups, legal aid organizations, public agencies , REO departments and lenders who serve as referral sources; and
- developed and implemented staffing and infrastructure to bring SUN to scale.

Proposed Terms

BCC seeks to capitalize the SUN Initiative with up to \$50 million from investors, in the form of 5-year loans at 4.25% annual interest with a maturity of 5/30/2015. (See attached SUN Initiative Financing LLC Note Purchase Agreement for more information.) This pool is secured by \$3.5 million in first loss reserves, which create a reserve of at least 7% for a \$50 million pool. This initial pool will be used to purchase properties in low-income communities in Boston and Revere.

BCC set a goal of \$50 million because by reaching that number and recapitalizing the fund through a sale of the seasoned income stream on the secondary market, we will be able to refinance a total of 2,000 homes and create a meaningful impact on our target communities. Since launching the SUN Initiative earlier this year, BCC has raised \$35.1 million from investors, including \$3.5 million in first loss reserves, and has provided \$11.5 million in mortgage financing for foreclosed homeowners and tenants.

(Note: In addition to the initial pool for Boston and Revere, BCC has begun to secure funds to expand SUN to other Massachusetts communities that have been hardest hit by the foreclosure crisis. BCC's \$5.5 million Wachovia Wells Fargo NEXT Award in Opportunity Finance will be used for this expansion, for which BCC anticipates raising up to \$30 million. Investment is expected to be on the same terms as SUN.)

Use of Proceeds

As described above, SUN utilizes the decline in real estate prices in low-income areas to purchase foreclosed properties at prices at or below present value and resell them to their existing occupants at prices they can afford. Our goal is to focus on units that are in the foreclosure process, but from which owners and tenants have not yet been evicted, as a way to complement other neighborhood stabilization efforts in Massachusetts, which focus on housing stock that is already vacant. See Section 1.8 of the attached Note Purchase Agreement for a detailed description of Use of Proceeds.

By recapitalizing the fund through secondary market loan sales, BCC anticipates revolving the funds 3-4 times over the five year term of the loan, thereby financing over 2,000 foreclosed homes in Boston and Revere.

Exit/Repayment

The extent to which SUN can go to scale will depend in part on our ability to recapitalize the fund through the sale of seasoned loans on a secondary market. SUN borrowers are, today, not commercially financeable. Our goal is to develop an initial \$10 million portfolio of seasoned mortgages that have been default-free for at least 12 months. (To date, BCC has closed or scheduled for closing \$11.5 million in mortgages.)

BCC is in the early stages of determining the terms of a sale of the income stream, which will depend on market conditions at the time of sale. Secondary market sale strategies include:

- Use of mortgage income to support a tax-exempt bond issue through Mass Development

- Sale to either The Property and Casualty Initiative or The Life Initiative, or directly to an in-state insurance company
- Possible purchase through the State Treasurer's Office
- Recapitalization through the Federal Home Loan Bank.

Expected Impact/Outcomes.

As described above, BCC will seek to stabilize over 2,000 low-income families in distressed neighborhoods in Boston and Revere over the five year term of the PRI. Just as each 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, so will our investment create benefits at the family, community and national level.

- Family level benefits include home security, improved credit scores (as track record of payment improves), and reduced monthly expenses.
- Neighborhood-level benefits include prevention of the vacancies, property value reductions and crime that often result from foreclosure.
- City-level benefits: 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 direct costs to Chicago city government involve more than a dozen agencies and two dozen specific municipal activities, costing approximately \$30,000 per foreclosure (including the reduction of property values and therefore tax revenue). (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.) By preventing evictions and vacancies in Boston and Revere, SUN will create benefit by reducing these costs for taxpayers.
- National benefits: Finally, by bringing the program to scale in Boston and across Massachusetts, BCC seeks to demonstrate that a similar program could be replicated in low-income communities across the country.

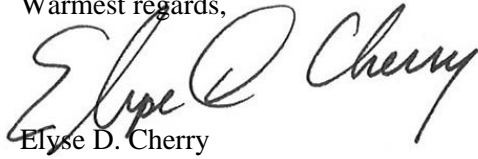
BCC will measure results on a quarterly and annual basis -- tracking information on properties acquired, mortgages financed, and monthly cost savings per family as well as demographic information on clients served. Annually, we will review each file and examine factors such as outstanding debt and credit scores. We will report output and outcome data to the Opportunity Finance Network's CDFI Assessment and Ratings System (CARS) as part of its annual impact performance analysis.

BCC is also exploring collaboration with third-party evaluators (e.g. Harvard University's Joint Center for Housing Studies) to determine how best to evaluate and document SUN's performance.

BCC will use its results and lessons learned to inform our existing program operations and the development of new initiatives. Our work will be disseminated through white papers (e.g. our recent case study presented at the Federal Reserve Bank's REO Summit in September and published online at <http://www.bos.frb.org/commdev/REO-and-vacant-properties/115-Cherry-Hanratty.pdf>); conferences (e.g. our presentation at the Opportunity Finance Network's annual conference this month); and news stories (e.g. The New York Times' recent article, "Finding in Foreclosure a Beginning, Not an End," March 2010 and PBS *NewsHour* story, October 2010.)

Christa, we welcome the opportunity to partner with Annie E. Casey Foundation on this initiative. Please get in touch with Jess Brooks or me if we can provide you with additional information as you review this request. Jess is at jbrooks@bostoncommunitycapital.org or (617) 427-3640; I'm at (617) 427-8600 x 208. We look forward to continuing our conversation.

Warmest regards,

A handwritten signature in black ink, reading "Elyse D. Cherry". The signature is fluid and cursive, with the first name "Elyse" and last name "Cherry" clearly legible. The middle initial "D." is smaller and less distinct.

Elyse D. Cherry

Enclosures:

- Audited financial statements for Boston Community Capital (2007, 2008, 2009) available at <http://www.bostoncommunitycapital.org/who/annual-reports>
- SUN Initiative Financing LLC Note Purchase Agreement