BOSTON COMMUNITY LOAN FUND, INC.

FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT

BOSTON COMMUNITY LOAN FUND, INC.

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DECEMBER 31, 2011 AND 2010

Alexander
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Boston Community Loan Fund, Inc.:

We have audited the accompanying statements of financial position of Boston Community Loan Fund, Inc. (a Massachusetts corporation, not for profit) (the Loan Fund) as of December 31, 2011 and 2010, and the related statements of activities, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Loan Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Boston Community Loan Fund, Inc. as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 1 to the financial statements, Boston Community Loan Fund, Inc. is part of an affiliated group of companies and has entered into transactions with certain group members. As required under accounting principles generally accepted in the United States of America, the financial statements of the Loan Fund are also consolidated with those of the affiliated group.

Alexander Aronson Finning & Co., P.C.

Wellesley, Massachusetts
April 9, 2012

BOSTON COMMUNITY LOAN FUND, INC.

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010

ASSETS	2011	2010
CURRENT ASSETS:		
Cash and cash equivalents	$ 18,744,215	$ 8,163,431
Short-term investments	1,966,867	-
Escrow funds	2,841,143	4,613,788
Current portion of loans and interest receivable, net of allowance for loan losses of $3,194,817 and $1,718,705 as of December 31, 2011 and 2010, respectively	30,193,319	24,126,932
Current portion of affiliate loans and other receivables	4,491,870	-
Real estate owned		
Other current assets	97,379	84,950
Total current assets	58,334,793	36,989,101
INVESTMENTS	-	1,882,353
LOANS AND INTEREST RECEIVABLE, net of current portion and allowance for loan losses of $1,112,832 and $2,413,117 as of December 31, 2011 and 2010, respectively	44,965,039	53,799,006
AFFILIATE LOANS AND OTHER RECEIVABLES, net of current portion	7,266,336	6,112,000
REAL ESTATE OWNED	1,400,000	-
Total assets	$ 111,966,168	$ 98,782,460
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of loans payable	$ 11,601,063	$ 4,944,303
Current portion of permanent loan capital - subordinated loans payable	93,173	46,082
Interest and accounts payable	424,476	370,327
Escrow funds	2,841,143	4,613,788
Total current liabilities	14,959,855	9,974,500
LOANS PAYABLE, net of current portion	63,082,089	59,710,440
PERMANENT LOAN CAPITAL - SUBORDINATED LOANS PAYABLE, net of current portion	19,321,542	15,031,220
Total liabilities	97,363,486	84,716,160
NET ASSETS:		
Unrestricted:		
General	9,704,307	9,168,870
Board designated for permanent loan capital and special programs	1,132,500	1,132,500
Board designated for loan loss reserves	2,886,839	2,886,839
Total unrestricted	13,723,646	13,188,209
Temporarily restricted	879,036	878,091
Total net assets	14,602,682	14,066,300
Total liabilities and net assets	$ 111,966,168	$ 98,782,460

The accompanying notes are an integral part of these statements.

BOSTON COMMUNITY LOAN FUND, INC.

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
UNRESTRICTED NET ASSETS:		
OPERATING REVENUES:		
Financial and earned revenues:		
Interest on loans, net	$ 5,000,793	$ 4,519,651
Loan fees and other	528,715	631,891
Investment income	84,362	78,153
Net loan loss provision	(1,091,315)	(995,742)
Less - interest expense	(2,773,393)	(2,549,333)
Net financial and earned revenues	1,749,162	1,684,620
Grants and contributions	481,000	-
Total operating revenues	2,230,162	1,684,620
OPERATING EXPENSES:		
Personnel	1,412,627	1,232,515
Office operations	194,351	167,814
Legal and consulting	39,411	62,890
Marketing	28,440	37,087
Travel	11,853	14,696
Accounting and investment fees	7,608	46,335
Insurance and other	435	17,245
Total operating expenses	1,694,725	1,578,582
Changes in unrestricted net assets from operations	535,437	106,038
OTHER CHANGES IN UNRESTRICTED NET ASSETS:		
Grants from affiliate for support of new initiatives	-	1,000,000
Changes in unrestricted net assets	535,437	1,106,038
TEMPORARILY RESTRICTED NET ASSETS:		
Grants and contributions	945	1,000
Changes in temporarily restricted net assets	945	1,000
Changes in net assets	$ 536,382	$ 1,107,038

The accompanying notes are an integral part of these statements.

BOSTON COMMUNITY LOAN FUND, INC.

STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	UNRESTRICTED	UNRESTRICTED - BOARD DESIGNATED		TEMPORARILY RESTRICTED	
	GENERAL	PERMANENT LOAN CAPITAL AND SPECIAL PROGRAMS	LOAN LOSS RESERVES	PERMANENT LOAN CAPITAL	TOTAL
NET ASSETS, December 31, 2009	$ 8,617,773	$ 1,132,500	$ 2,331,898	$ 877,091	$ 12,959,262
Changes in net assets	1,106,038	-	-	1,000	1,107,038
Transfers of unrestricted net assets	(554,941)	-	554,941	-	-
NET ASSETS, December 31, 2010	9,168,870	1,132,500	2,886,839	878,091	14,066,300
Changes in net assets	535,437	-	-	945	536,382
NET ASSETS, December 31, 2011	$ 9,704,307	$ 1,132,500	$ 2,886,839	$ 879,036	$ 14,602,682

The accompanying notes are an integral part of these statements.

BOSTON COMMUNITY LOAN FUND, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 536,382	$ 1,107,038
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Net loan loss provision	1,091,315	995,742
Grants for capital and investment uses	(945)	(1,000)
Grants from affiliate for support of new initiatives	-	(1,000,000)
Changes in operating assets and liabilities:		
Interest receivable	(92,051)	277,868
Other current assets	(12,429)	18,250
Interest and accounts payable	54,149	(182,081)
Deferred loan fees	(64,915)	(3,039)
Net cash provided by operating activities	1,511,506	1,212,778
CASH FLOWS FROM INVESTING ACTIVITIES:		
Issuance of affiliate loans receivable	(6,776,435)	(812,000)
Principal payments on affiliate loans receivable	1,130,229	-
Issuance of loans receivable	(12,176,107)	(21,862,483)
Principal payments of loans receivable	12,609,338	7,820,519
Net investment activity	(84,514)	(80,883)
Net cash used in investing activities	(5,297,489)	(14,934,847)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Grants for capital and investment uses	945	1,000
Grants from affiliate for support of new initiatives	-	1,000,000
Proceeds from loans payable	35,664,798	16,449,598
Principal payments on loans payable	(25,636,389)	(5,068,094)
Proceeds from subordinated loans payable	4,410,000	-
Principal payments of subordinated loans payable	(72,587)	(172,698)
Net cash provided by financing activities	14,366,767	12,209,806
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10,580,784	(1,512,263)
CASH AND CASH EQUIVALENTS, beginning of year	8,163,431	9,675,694
CASH AND CASH EQUIVALENTS, end of year	$ 18,744,215	$ 8,163,431
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 2,717,613	$ 2,556,865
Real estate owned acquired by foreclosure	$ 1,400,000	$ -

The accompanying notes are an integral part of these statements.

(1) OPERATIONS

Boston Community Loan Fund, Inc. (the Loan Fund), a Massachusetts nonprofit corporation, was organized in December, 1984, to provide below market rate capital to community-based organizations for the development of affordable housing. During 2011, BCC REO LLC (BCC REO), a Massachusetts limited liability company, was formed to hold real and personal property (see Note 4). The Loan Fund is the sole member of BCC REO and its activities are included in these financial statements.

In 1994, the Loan Fund's Board of Directors voted to expand its corporate purposes to include broader community development lending, which directly or indirectly benefits low-income or disadvantaged people or communities. The Loan Fund formed three affiliated Massachusetts nonprofit corporations:

- **BCLF Managed Assets Corporation** d/b/a Boston Community Managed Assets (Managed Assets) was formed in 1994 to manage, design, implement, and evaluate programs on behalf of third parties that provide loan underwriting, management, servicing, and financial and managerial technical assistance services.
- **BCLF Ventures, Inc.** d/b/a Boston Community Venture Fund (the Venture Fund) was formed in 1994 to assist small community-based businesses and entrepreneurs in starting, growing, and expanding businesses which strengthen the low-income business community.
- **Boston Community Capital, Inc.** (the Holding Company) was formed in 1994 to create and preserve healthy communities where low-income people live and work.

The three affiliated nonprofit corporations are collectively referred to as the Corporation within these notes. To carry out its mission, the Corporation provides capital for sustainable community-based projects. These projects increase or preserve low-income housing or provide jobs or services for low-income or disadvantaged people or communities. The Corporation receives the money it invests in community-based projects from socially concerned investors, which include individuals, religious organizations, banks and other financial intermediaries, foundations, and corporations. A significant portion of the Corporation's projects are in Boston and surrounding areas. Because the affiliated nonprofit corporations are controlled by a common Board of Directors and management, the affiliated nonprofits and other controlled affiliates report their collective financial results and financial position in separately issued consolidating financial statements.

The four affiliated nonprofits also maintain interests in other affiliates, including the following entities with which the Loan Fund conducts substantive business:

- **SUN Initiative Financing, LLC** (SUN Financing), a Massachusetts limited liability company, established to finance the operations of the Stabilizing Urban Neighborhoods Initiative (SUN Initiative). SUN Financing is controlled by the Holding Company by virtue of common management. The goal of SUN Initiative is to stop the displacement of families and the neighborhood destabilizing effects of home vacancies and abandonment by enabling homeowners with overleveraged properties to stay in their homes.
- **BCC Solar Energy Advantage, Inc.** (SEA), a Massachusetts for-profit corporation, owned and controlled by the Holding Company, which facilitates the delivery of solar energy to affordable housing projects and others.

(1) OPERATIONS (Continued)

Nonprofit Status

The Loan Fund is exempt from Federal income taxes as an organization formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Loan Fund is also exempt from state income taxes. Donors may deduct contributions made to the Loan Fund within the requirements of the IRC. BCC REO has elected to be treated as a disregarded entity of the Loan Fund for tax purposes.

Community Development Financial Institution

The Loan Fund has been granted status as a Community Development Financial Institution (CDFI) by the U.S. Department of the Treasury (the Treasury), qualifying it for certain awards and support from the Treasury. The Loan Fund originally received a $500,000 permanent loan capital - subordinated loan payable from the Treasury. During 2011, the Loan Fund received an additional $4,410,000 of permanent loan capital - subordinated loan payable from the Treasury (see Note 6).

(2) SIGNIFICANT ACCOUNTING POLICIES

The Loan Fund prepares its financial statements in accordance with generally accepted accounting standards and principles established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these footnotes are to the FASB Accounting Standards Codification.

Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value

The Loan Fund follows the *Fair Value Measurements and Disclosures* standards. These standards define fair value, establish a framework for measuring fair value under U.S. GAAP, and mandate disclosures about fair value measurements. The criteria establish a fair value framework that prioritizes the inputs and assumptions used to measure fair value. The three levels of the fair value framework are as follows:

- Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical qualifying assets or liabilities at the measurement date.
- Level 2 – Inputs other than quoted prices in active markets that are observable for the qualifying asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 – Inputs that are unobservable.

A qualifying asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

(2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents and Concentration of Risk

For the purpose of the statements of cash flows, cash and cash equivalents consist of all highly liquid investments purchased with an initial maturity of three months or less. The cash and cash equivalents of the Loan Fund are held in accounts in the name of the Holding Company, and the management of the Holding Company manages the cash resources for the affiliated nonprofits jointly. The accompanying financial statements include the allocable portion of cash and cash equivalents for the Loan Fund.

Cash and cash equivalents are maintained by the Holding Company in banks in Massachusetts and are insured within the limits of the Federal Deposit Insurance Corporation Fund (FDIC). At times, cash and cash equivalents may exceed the insured limits. Management monitors, on a regular basis, the financial condition of the financial institutions, along with the Loan Fund's balances, to minimize potential risk.

Escrow Funds

The Loan Fund held cash balances of $2,841,143 and $4,613,788 in escrow for outside parties as of December 31, 2011 and 2010, respectively. These amounts are escrowed for Loan Fund borrowers for various purposes, including working capital reserves, replacement reserves, and construction fund escrows.

Investments

Investments consist of a certificate of deposit held in the name of the Loan Fund. The deposit bears interest at 4.4% and matures on March 25, 2012.

Net Assets

Unrestricted net assets include those net resources of the Loan Fund that bear no external restrictions. These include the Loan Fund's general net assets and net assets designated by the Board of Directors for permanent loan capital and special programs and loan loss reserves. During 2010, the Board of Directors designated $554,941 of the Loan Fund's general unrestricted net assets for loan loss reserves (see Note 4). There were no additional designations during 2011.

The Board of Directors of the Corporation periodically authorizes transfers of the unrestricted general net assets among the related affiliates (see Note 1). Transfers from Managed Assets to the Loan Fund to support lending activities were $1,000,000 for 2010 and is shown as grants from affiliate for support of new initiatives in the accompanying statement of activities. Subsequent to December 31, 2011, Managed Assets transferred $500,000 to the Loan Fund to support lending activities.

Temporarily restricted net assets are unexpended financial resources restricted by donors as to the purpose or timing of expenditure. Temporarily restricted net assets are purpose restricted for permanent loan capital as of December 31, 2011 and 2010.

Permanent loan capital is the term the Loan Fund uses to describe those capital resources which are intended to provide a permanent capital base for lending activities, meet debt covenants and provide for potential loan losses. The Loan Fund has three categories of permanent loan capital: net assets temporarily restricted by donors, net assets designated by the Board of Directors, and subordinated loans payable.

(2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

No outside donor has imposed an obligation on the Loan Fund to replenish the principal of any gift of permanent loan capital in the event such funds are needed to offset loan losses. Accordingly, donor-restricted permanent loan capital awards have been classified as temporarily restricted net assets in the accompanying statements of financial position. The Loan Fund's Board of Directors designated $1,000,000, the proceeds of two unrestricted grant awards from the Treasury (see Note 1), as permanent loan capital in unrestricted net assets. The Holding Company transferred $132,500 of donor-restricted funds for a Special Program Collaborative for use in qualifying activities in the Loan Fund. The Holding Company is a member of a collaborative with other agencies to promote ecologically efficient designs and technical assistance to community development corporations. This amount was considered released from restriction, but was added to Board designated net assets to be held and used for purposes of the Collaborative.

Uncertainty in Income Taxes

The Loan Fund follows U.S. GAAP standards for *Accounting for Uncertainty in Income Taxes,* which require the Loan Fund to report any uncertain tax positions and to adjust its financial statements for the impact thereof. As of December 31, 2011, the Loan Fund determined that it had no tax positions that did not meet the "more likely than not" threshold of being sustained by the applicable tax authority. The Loan Fund files informational returns in the United States Federal and Massachusetts state jurisdictions. These returns are generally subject to examination by tax authorities for the last three years.

Revenue Recognition

Revenues from interest on loans and investments and other sources are recognized as unrestricted revenue as earned on an accrual basis. Interest on loans is presented net of interest expense of $2,800,971 and $2,689,736 to loan participants (see Notes 3 and 5) in 2011 and 2010, respectively. The Loan Fund amortizes loan origination fees over the terms of long-term loans. Unamortized deferred loan fees are included as an adjustment to the carrying value of loans receivable in the accompanying statements of financial position (see Note 3).

Grants and contributions with no restrictions or conditions are recognized as unrestricted revenue when received or unconditionally pledged to the Loan Fund. Donor restricted grants and contributions with time or purpose restrictions are recognized as temporarily restricted net assets when received or unconditionally pledged. Temporarily restricted net assets are transferred to unrestricted net assets when they are used in accordance with donor restrictions. Donor restricted gifts received and expended for their intended use in the same year are reflected as unrestricted net assets.

Loan Loss Provision

Provisions are made for estimated loan losses based on management's evaluation of each asset. Loss recoveries are recorded in the year of recovery. The allowance for loan losses is established through a provision for loan losses charged to operations. The allowance is an amount that management believes will be adequate to absorb expected losses on existing loans that may become uncollectible.

(2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loan Loss Provision (Continued)

Management evaluates loan collectability through consideration of factors such as previous loss experience, performance of individual loans in accordance with contract terms, financial strength and cash flows of the borrower, realizable values of collateral, and current economic conditions that may affect the borrower's ability to repay.

During 2011, the Loan Fund adopted the *Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* standard under U.S. GAAP. This standard requires disclosure on the accounting policies and methodology used to estimate the allowance for loan losses (see Note 4).

Expense Allocation

The affiliated companies comprising the Corporation (see Note 1) share various common expenses, including management salaries, benefits, and facility expenses. The accompanying financial statements include the share of these expenses allocable to the Loan Fund.

Subsequent Events

Subsequent events have been evaluated through April 9, 2012, which is the date the financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the financial statements.

(3) LOANS AND INTEREST RECEIVABLE

Portfolio Lending

The Loan Fund offers a variety of loan products of both short and long-term maturity. The Loan Fund offers term loans, as well as revolving and non-revolving lines of credit, for the following purposes:

Permanent: for long-term financing for newly constructed or rehabilitated or existing multi-family housing, community facilities or commercial real estate.

Construction: for construction or rehabilitation of residential (single family and multi-family) and commercial properties.

Site acquisition: for acquisition of property for development, whether for commercial or housing developments.

Organizational: for organizational capacity building, recapitalization and/or providing operating capital.

Predevelopment: for financing the upfront cost of real estate development projects prior to construction, such as for permitting, design and due diligence.

(3) LOANS AND INTEREST RECEIVABLE (Continued)

Portfolio Lending (Continued)

Loans receivable bear interest at rates ranging from zero to fourteen percent (0% - 14%) and mature at various dates through 2042. Borrowers generally include nonprofit community organizations, private developers, and businesses which benefit low-income individuals and communities. Loans receivable are generally made in connection with affordable housing and community development projects and are primarily collateralized by first or second mortgages on the property of the borrower. The Loan Fund also has some loans secured through third mortgages, all assets of the borrower, cash held by the lender, or other forms of collateral. The Loan Fund's five largest outstanding loans receivable were approximately 34% and 32% of the portfolio as of December 31, 2011 and 2010, respectively.

	2011		2010	
Type	**Number Of Loans**	**Net Loan Amount**	**Number Of Loans**	**Net Loan Amount**
Permanent	30	$21,807,561	25	$19,160,932
Construction	32	21,617,828	35	23,137,474
Site Acquisition	23	20,066,268	25	24,133,138
Organizational	10	8,703,326	11	8,887,085
Predevelopment	11	6,911,374	10	6,536,447
	106	79,106,357	106	81,855,076
Interest receivable on above loans		559,309		467,258
		$79,665,666		$82,322,334

Loans receivable of the Loan Fund are presented net of third party loan participations of $40,628,030 and $42,676,824 as of December 31, 2011 and 2010, respectively. All loan participations qualify as loan sales in accordance with the U.S. GAAP criteria for *Accounting for Transfers of Financial Assets and Extinguishments of Liabilities.*

Scheduled repayments of principal of loans and interest receivable of $559,309 for the years ending after December 31, 2011, are as follows:

Year	
2012	$33,388,136
2013	12,218,266
2014	4,724,872
2015	10,444,239
2016	6,259,269
Thereafter	12,630,884
	79,665,666
Adjustment for deferred loan fees (see Note 2)	(199,659)
Less - allowance for loan losses (see Note 4)	(4,307,649)
	$75,158,358

(3) LOANS AND INTEREST RECEIVABLE (Continued)

Portfolio Lending (Continued)

The majority of the Loan Fund's loans receivable is secured by real estate holdings in Massachusetts and could be affected by adverse real estate markets in the state.

Commitments to Lend

The Loan Fund had committed approximately $23,500,000 and $14,700,000 of current assets (cash, cash equivalents and short-term investments) for future disbursements on existing loan commitments and lines of credit to unrelated borrowers as of December 31, 2011 and 2010, respectively. The Loan Fund also committed approximately $5,000,000 and $10,000,000 for loan and line of credit commitments to SEA and SUN Financing (see Note 1), respectively, to support their programs (see page 13). The Corporation has liquidity management policies and procedures to manage the timing of expected disbursements on these loans. Among the tools available to manage liquidity are lines of credit with financial institutions (see Note 5), as well as the potential to initiate loan sales and loan participation agreements with lending partners.

Guarantee Agreement

The Loan Fund also has a non-expiring loan guarantee agreement with the United States Department of Agriculture (USDA). The guarantee is intended to strengthen the Loan Fund's ability to finance loans to businesses in rural areas and thus stimulate economic growth in these areas. As of December 31, 2011, there is a guarantee of $4,600,000 for one loan receivable under this agreement. During 2011 and 2010, the Loan Fund has not received any amounts under this agreement.

Special Tax-Credit Lending

As of December 31, 2011 and 2010, the Loan Fund entered into fifteen and ten arrangements, respectively, to act as the nonprofit intermediary to improve the economic value of Massachusetts historic and state low-income tax credits of several projects in Massachusetts. The Loan Fund received a donation of tax credits from each project's sponsor and made a loan to the respective entity from the proceeds of the Loan Fund's resale of the credits to an outside investor. Each loan is a non-interest bearing note with various maturity dates through December, 2062. As part of the arrangement, the Loan Fund received fees ranging from .2% to .51% of the total loan. These fees are included in loan fees and other in the accompanying statements of activities and totaled $184,186 and $238,317 for 2011 and 2010, respectively. Total outstanding principal balances are $129,526,533 and $92,169,990 as of December 31, 2011 and 2010, respectively. These loans have specific restrictions surrounding their use and due to their long-term deferred nature and likelihood of collectibility, the notes are fully reserved at December 31, 2011 and 2010. The provision associated with these allowances is netted with the value of the tax credit donation.

Affiliate Loans and Other Receivables

In December, 2011, the Loan Fund entered into a Note Purchase Agreement and an initial unsecured note under this agreement with SUN Financing (see Note 1). Under this note, the Loan Fund made a commitment to make advances to SUN Financing from time-to-time in the aggregate principal amount of $10,000,000. Funds advanced are used to acquire and refinance homes at risk of foreclosure. In 2010, SUN Financing drew, and repaid, $2,582,394 of advances under this agreement and paid $9,146 of interest to the Loan Fund (see page 13). SUN Financing did not draw down any funds related to this agreement in 2011.

(3) LOANS AND INTEREST RECEIVABLE (Continued)

Affiliate Loans and Other Receivables (Continued)

As of December 31, 2011 and 2010, the Loan Fund loaned $2,300,000 of the proceeds of the permanent loan capital – subordinated loans payable (see Note 6) to the Venture Fund (see Note 1) to finance a portion of certain investments of the Venture Fund. As of December 31, 2011 and 2010, the Loan Fund also loaned $3,000,000 of the permanent loan capital – subordinated loans payable to SEA (see Note 1) to finance a portion of certain assets of SEA. These intercompany loans bear interest at 3%, payable quarterly, are unsecured, and mature between 2018 and 2020. Interest on these borrowings totaled $159,000 in 2011 and 2010, and is included in interest on loans in the accompanying statements of activities.

The Loan Fund has entered into a $5,000,000 line of credit agreement with SEA to finance a portion of certain assets of SEA (see Note 1). This intercompany loan bears interest at 6%, payable quarterly, and is secured by first priority pledge and assignment of certain SEA assets and contracts related to these assets. In 2011 and 2010, SEA drew down $888,595 and $812,000, respectively, under the agreement and paid $36,914 and $1,802 of interest to the Loan Fund for the years ended December 31, 2011 and 2010, respectively. During 2011, SEA made principal payments under this agreement totaling $1,130,229. As of December 31, 2011 and 2010, the borrowings under this agreement totaled $570,366 and $812,000, respectively. The loan was originally due to mature in August, 2012. During 2011, the Loan Fund and SEA informally agreed to extend the maturity date of this agreement through March, 2018.

In addition, in 2011, the Loan Fund entered into a leverage loan agreement with BCC 481 NMTC Investment Fund, LLC (the Investment Fund) in the amount of $1,472,876, which was used to partially fund a qualified equity investment in BCC NMTC CDE X, LLC (the CDE). Beginning October 31, 2011, and thereafter at each succeeding year, all accrued interest and unpaid principal, to the extent of cash flow as outlined in the agreement, shall be due. All remaining unpaid principal and interest are due on the maturity date of March 23, 2021. This loan may be prepaid without penalty. This amount is included in affiliate loans and other receivables in the accompanying statements of financial position.

During 2011, the Loan Fund made operating advances for various affiliated organizations that totaled $4,414,964. These amounts are expected to be paid back within the next year and are included in current portion of affiliate loans and other receivables in the accompanying 2011 statement of financial position. These advances have no terms and are excluded from the table below. There were no operating advances in 2010.

Maturities of all affiliate loans receivable as of December 31, 2011, are as follows:

Year	SEA	Venture Fund	Investment Fund	Total
2012	$ 76,906	$ -	$ -	$ 76,906
2013	81,806	-	-	81,806
2014	86,934	-	-	86,934
2015	92,373	-	-	92,373
2016	98,112	-	-	98,112
Thereafter	3,134,235	2,300,000	1,472,876	6,907,111
Affiliate loans receivable	$3,570,366	$2,300,000	$1,472,876	$7,343,242

(4) ALLOWANCE FOR LOAN LOSSES AND LOAN LOSS RESERVES

Loan loss reserves is the term used by the Loan Fund and certain significant investors to refer to the balance of loan loss allowances plus otherwise unrestricted net assets which have been designated by the Board of Directors as a hedge against potential loan losses. Covenants with certain significant investors require the Loan Fund to maintain loan loss reserves equal to at least 5% of loans receivable of the Loan Fund. The Loan Fund's loan loss reserves consist of the following as of December 31:

	2011	2010
Allowance for loan losses (see below)	$4,307,649	$4,131,822
Board designated net assets for loan loss reserves (see Note 2)	2,886,839	2,886,839
	$7,194,488	$7,018,661

An allowance for loan losses is an estimate of expected loan losses expressed as a reduction of the carrying value of loans receivable (see Note 3). The loan loss allowance is based on expected losses as determined under the Loan Fund's risk rating system (see Note 2). In addition, the Loan Fund's Board of Directors designates unrestricted net assets as loan loss reserves so that the sum of the loan loss allowance and designated unrestricted net assets equals at least 5% of total loans receivable of the Loan Fund.

The loan loss allowance, which has been allocated proportionally to the long-term and current portions of the loan portfolio in the accompanying financial statements, consists of the following at December 31, 2011:

	Construction	Organizational	Permanent	Pre-development	Site Acquisition	Total
Allowance for loan losses, December 31, 2010	$ 911,454	$ -	$758,041	$1,474,972	$ 987,355	$4,131,822
Charge-offs	-	-	-	-	(915,488)	(915,488)
Recoveries	(92,931)	-	(17,573)	(518,760)	(174,255)	(803,519)
Provision	847,956	-	85,529	-	961,349	1,894,834
Allowance for loan losses, December 31, 2011	$1,666,479	$ -	$825,997	$ 956,212	$ 858,961	$4,307,649
Ending balance: individually evaluated for impairment	$1,541,485	$ -	$737,387	$ 701,341	$ 800,000	$3,780,213

During December, 2011, the Loan Fund received a parcel of land as a result of an organization defaulting on a loan receivable that the Loan Fund had secured (see Note 1). The fair market value of the property at the time of the acquisition was $1,400,000 and has been recorded as real estate owned in the accompanying statement of financial position as of December 31, 2011. The remaining balance of the loan of $915,488 was recorded as a charge-off in the allowance for loan losses. Management intends to sell this land which is held by BCC REO.

(4) ALLOWANCE FOR LOAN LOSSES AND LOAN LOSS RESERVES (Continued)

The following table presents qualifying assets held at fair market value by level within the fair value valuation measurements framework as of December 31, 2011:

	Level 1	Level 2	Level 3	Total
Real estate owned	$ -	$ -	$1,400,000	$1,400,000

Management uses all information available, including third party valuation reports, to determine an appropriate valuation for real estate owned. Transfers in and out of Level 3 of the fair value framework are recorded on the date of the change in fair value input. The following table represents a reconciliation of activity for qualifying assets classified within Level 3 for 2011:

December 31, 2010	$ -
Addition of real estate owned (see page 14)	1,400,000
December 31, 2011	$1,400,000

(5) LOANS PAYABLE

Loans payable of the Loan Fund represent loans by approximately 300 lenders ("investors") in principal amounts ranging from $500 to $10,000,000. Loans payable bear interest at rates ranging from 0% to 4.85%, payable at varying initial maturities of one to ten years through 2021. Loans payable of the Loan Fund are unsecured with recourse to the general assets of the Loan Fund.

The Loan Fund has available three lines of credit with financial institutions. The Loan Fund has an unsecured revolving line of credit for a maximum of $50,000,000, with $20,000,000 of this amount being participated out to other financial institutions. The interest rate on this line is a 30-day London Inter-Bank Offered Rate (LIBOR), plus 3% (3.30% and 3.26% at December 31, 2011 and 2010, respectively). As of December 31, 2010, $10,650,000 was outstanding under this agreement. No amounts were outstanding as of December 31, 2011. The line of credit expires in 2012.

The Loan Fund entered into a $15,000,000 unsecured non-revolving line of credit with a financial institution, which expires in December, 2016. Outstanding advances under this line of credit bear interest at the financial institution's seven-year cost of funds, plus 125 basis points on the date of the draw. Proceeds from this line of credit are to be used only to finance qualifying New Markets Tax Credit loans in certain states. As of December 31, 2011 and 2010, $15,000,000 and $10,780,000, respectively, was outstanding on this line of credit and is included in loans payable in the accompanying statements of financial position. Funds advanced under these draws bear interest at rates ranging from 3.24% to 4.26%. The interest rates are locked-in on the specific date of each draw.

The Loan Fund also entered into a $5,000,000 unsecured revolving line of credit with the same financial institution, which expired in December, 2011. Outstanding advances under this line of credit bore interest at 4% at December 31, 2011 and 2010. As of December 31, 2011 and 2010, $5,000,000 and $500,000, respectively, was outstanding on this line of credit and is included in loans payable in the accompanying statements of financial position. During December, 2011, the Loan Fund renewed their revolving line of credit with this financial institution through December, 2013. Any future borrowings under this agreement bear interest at 3%.

(5) LOANS PAYABLE (Continued)

The above loans payable and lines of credit require the Loan Fund to maintain certain financial ratios and other covenants as specified in the agreements. As of December 31, 2011 and 2010, the Loan Fund was in compliance with these covenants.

The balance of loans payable of the Loan Fund were as follows as of December 31:

	2011	2010
Lines of credit	$20,000,000	$21,930,000
Other loans payable	54,683,152	42,724,743
	$74,683,152	$64,654,743

Maturities of all loans payable as of December 31, 2011, are as follows:

Year	
2012	$11,601,063
2013	7,484,070
2014	10,855,899
2015	9,922,823
2016	16,261,152
Thereafter	18,558,145
Total loans	$74,683,152

In the ordinary course of operations, the Loan Fund may negotiate extensions of maturity with many investors. The current maturities as of December 31, 2011 and 2010, include $920,558 and $537,983, respectively, of loan principal which has matured, but not been paid or formally extended. Management is negotiating extensions of these amounts.

(6) PERMANENT LOAN CAPITAL - SUBORDINATED LOANS PAYABLE

Permanent loan capital – subordinated loans payable consist of long-term subordinated loans payable of the Loan Fund (36 and 35 individual loans as of December 31, 2011 and 2010) from financial and other institutions, bearing simple interest at rates between 2% and 4%. These loans have substantially similar terms including annual interest-only payments until final maturity, occurring between 2019 and 2021. Only one note is currently amortizing. These loans are subordinate and junior to all other obligations of the Loan Fund.

Each loan was issued with an initial maturity of nine to twenty years. The initial maturity dates automatically extend by one year at the end of each of the first five years of the loans' terms. The final maturity dates may then be extended at their anniversary, indefinitely, based upon specified criteria in the loan terms and agreements of the Corporation and the lenders.

(6) PERMANENT LOAN CAPITAL - SUBORDINATED LOANS PAYABLE (Continued)

Permanent loan capital - subordinated loans payable include a $4,410,000 Equity Equivalent Security Due 2019 (EQ2 Security) with the Treasury (see Note 1) which the Loan Fund entered in 2011. Outstanding amounts under this agreement bear interest at 2% through the maturity date in September, 2019. The Loan Fund is required to make quarterly interest payments until maturity. The Loan Fund can elect to extend the maturity date of the EQ2 Security through September, 2021. If the Loan Fund elects to extend the maturity date, any interest payments occurring after September, 2021, will be calculated at 9% of the outstanding principal balance.

Maturity dates of principal over the next five years as of December 31, 2011, are as follows:

2012	$ 93,173
2013	$ 95,053
2014	$ 96,972
2015	$ 98,929
2016	$ 100,926
Thereafter	$18,929,662

The Loan Fund has loaned $5.3 million of the proceeds of its permanent loan capital – subordinated loans payable to the Venture Fund and SEA (see Note 3). The remaining proceeds of $14,114,715 and $9,777,302 as of December 31, 2011 and 2010, respectively, have been held as permanent loan capital of the Loan Fund.

(7) FAIR VALUE OF FINANCIAL INSTRUMENTS

The Loan Fund discloses estimated fair values for its significant financial instruments. Because no ready market exists for a significant portion of the financial instruments, some fair values are based on management's estimates using the criteria of fair value measurements (see Note 2). These estimates are subjective in nature and involve uncertainties and matters of significant judgment.

The assumptions used by management assume normal market conditions and do not contemplate the effects of short-term turmoil in the financial markets. Changes in assumptions could significantly affect the estimates.

The following fair value estimates, methods and assumptions were used to estimate the fair value of each class of significant financial instruments for which it is practical to estimate that value.

Cash and Cash Equivalents: The carrying amount of cash and cash equivalents is its fair value.

Short-Term Investments: The fair value of short-term investments is based upon the contract value of the certificate of deposit.

Loans and Interest Receivable: The fair values of loans receivable in the portfolio have been determined by segregating fixed interest rate loans from adjustable interest rate loans. The fair values of fixed rate loans are calculated by discounting future cash flows through their weighted average months to maturity, using a weighted average interest rate for new financings within the Corporation's market. Loans with an adjustable interest rate tied to prime or some other floating rate move within the market and are considered by management to be at fair value.

(7) FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Loans Payable: The fair values of loans payable are calculated by discounting cash flows through their weighted average months to maturity, using rates currently offered for new issuances within the Corporation's market.

Permanent Loan Capital - Subordinated Loans Payable - The carrying values of these note obligations are deemed to be a reasonable reflection of their fair values.

The following table summarizes carrying amounts and fair values for financial instruments at December 31, 2011:

	Carrying Amount	Fair Value
Cash and cash equivalents	$21,585,358	$21,585,358
Short-term investments	$ 1,966,867	$ 1,966,867
Loans and interest receivable, net	$75,158,358	$77,022,919
Loans payable	$74,683,152	$73,270,327
Permanent Loan Capital - Subordinated Loans Payable	$19,414,715	$19,414,715