

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

**CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

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December 31, 2015 and 2014

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Independent Auditor's Report

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Boston Community Loan Fund, Inc. (a Massachusetts corporation, not for profit) (the Loan Fund) and Affiliate which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activities, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Boston Community Loan Fund, Inc. and Affiliate as of December 31, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As explained in Note 1 to the consolidated financial statements, the Loan Fund 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 consolidated financial statements of the Loan Fund are also consolidated with those of the affiliated group. Our opinion was not modified with respect to these matters.

Alexander, Crossen, Fenning & Co., P.C.

Boston, Massachusetts
March 30, 2016

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATEConsolidated Statements of Financial Position
December 31, 2015 and 2014

Assets	2015	2014
Current Assets:		
Cash and cash equivalents	\$ 11,877,488	\$ 5,587,843
Escrow funds	3,268,280	1,920,464
Grants receivable	-	847,000
Current portion of loans and interest receivable, net of allowance for loan losses of \$1,963,448 and \$4,177,098 as of December 31, 2015 and 2014, respectively	20,638,632	31,792,411
Current portion of affiliate loans, interest and other receivables	149,988	1,610,033
Other accounts receivable	76,885	2,069
Total current assets	<u>36,011,273</u>	<u>41,759,820</u>
Loans and Interest Receivable, net of current portion and allowance for loan losses of \$2,071,233 and \$607,583 as of December 31, 2015 and 2014, respectively	63,518,358	57,106,422
Affiliate Loans, Interest and Other Receivables, net of current portion	18,762,230	19,163,402
Real Estate Owned	-	1,400,000
Financing Fees, net	<u>38,718</u>	<u>57,295</u>
Total assets	<u>\$ 118,330,579</u>	<u>\$ 119,486,939</u>
Liabilities and Net Assets		
Current Liabilities:		
Current portion of loans payable	\$ 6,966,295	\$ 13,803,128
Current portion of permanent loan capital - subordinated loans payable	100,926	98,929
Accounts payable	94,327	80,444
Accrued interest	359,543	371,899
Due to affiliate	156,317	-
Escrow funds	3,268,280	1,920,464
Total current liabilities	<u>10,945,688</u>	<u>16,274,864</u>
Loans Payable, net of current portion	50,970,495	51,303,994
Permanent Loan Capital - Subordinated Loans Payable, net of current portion	<u>23,579,662</u>	<u>22,780,588</u>
Total liabilities	<u>85,495,845</u>	<u>90,359,446</u>
Net Assets:		
Unrestricted:		
General	21,795,918	15,490,189
Board designated for permanent loan capital and special programs	1,132,500	1,132,500
Board designated for loan loss reserves	9,023,870	8,533,177
Total unrestricted	<u>31,952,288</u>	<u>25,155,866</u>
Temporarily restricted:		
Permanent loan capital	882,446	881,396
Financial assistance	-	3,090,231
Total temporarily restricted	<u>882,446</u>	<u>3,971,627</u>
Total net assets	<u>32,834,734</u>	<u>29,127,493</u>
Total liabilities and net assets	<u>\$ 118,330,579</u>	<u>\$ 119,486,939</u>

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATEConsolidated Statements of Activities
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Unrestricted Net Assets:		
Operating revenues:		
Financial and earned revenues:		
Interest on loans, net	\$ 6,574,207	\$ 6,259,559
Net loan loss recovery	750,000	-
Loan fees and other	724,358	524,274
Net realized loss on sale of real estate owned	(209,392)	-
Less - interest expense	<u>(2,550,959)</u>	<u>(2,914,079)</u>
Net financial and earned revenues	<u>5,288,214</u>	<u>3,869,754</u>
Operating expenses:		
Personnel	1,556,465	1,406,480
Office operations	573,606	538,785
Marketing	205,781	122,441
Professional fees	43,919	66,901
Other	33,675	10,309
Amortization	<u>18,577</u>	<u>62,077</u>
Total operating expenses	<u>2,432,023</u>	<u>2,206,993</u>
Changes in unrestricted net assets from operations	2,856,191	1,662,761
Other changes in unrestricted net assets:		
Grants from affiliate for support of new initiatives	850,000	-
Grants for loan capital	-	1,750,000
Net assets released from restrictions for loan capital	<u>3,090,231</u>	<u>1,061,250</u>
Changes in unrestricted net assets	<u>6,796,422</u>	<u>4,474,011</u>
Temporarily Restricted Net Assets:		
Grants and contributions	1,050	2,750,600
Net assets released from restrictions	<u>(3,090,231)</u>	<u>(1,061,250)</u>
Changes in temporarily restricted net assets	<u>(3,089,181)</u>	<u>1,689,350</u>
Changes in net assets	<u>\$ 3,707,241</u>	<u>\$ 6,163,361</u>

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Consolidated Statements of Changes in Net Assets
For the Years Ended December 31, 2015 and 2014

	Unrestricted	Unrestricted - Board Designated		Temporarily Restricted		Total
	General	Permanent Loan Capital and Special Programs	Loan Loss Reserves	Permanent Loan Capital	Financial Assistance	
Net Assets , December 31, 2013	\$ 12,269,521	\$ 1,132,500	\$ 7,279,834	\$ 880,796	\$ 1,401,481	\$ 22,964,132
Changes in net assets	4,474,011	-	-	600	1,688,750	6,163,361
Transfers of unrestricted net assets	<u>(1,253,343)</u>	-	<u>1,253,343</u>	-	-	-
Net Assets , December 31, 2014	15,490,189	1,132,500	8,533,177	881,396	3,090,231	29,127,493
Changes in net assets	6,796,422	-	-	1,050	(3,090,231)	3,707,241
Transfers of unrestricted net assets	<u>(490,693)</u>	-	<u>490,693</u>	-	-	-
Net Assets , December 31, 2015	<u><u>\$ 21,795,918</u></u>	<u><u>\$ 1,132,500</u></u>	<u><u>\$ 9,023,870</u></u>	<u><u>\$ 882,446</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 32,834,734</u></u>

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATEConsolidated Statements of Cash Flows
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 3,707,241	\$ 6,163,361
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Net loan loss recovery	(750,000)	-
Grants for capital and investment uses	(851,050)	(4,500,600)
Amortization	18,577	62,077
Net realized loss on sale of real estate owned	209,392	-
Changes in operating assets and liabilities:		
Interest receivable	(107,577)	(94,224)
Other accounts receivable	(74,816)	44,554
Accounts payable	13,883	(6,367)
Accrued interest	(12,356)	59,605
Due to affiliate	156,317	-
Deferred loan fees	49,853	3,877
	<u>2,359,464</u>	<u>1,732,283</u>
Net cash provided by operating activities		
Cash Flows from Investing Activities:		
Principal payments on affiliate loans receivable and other advances	1,849,155	3,055,197
Issuance of loans receivable	(26,204,063)	(29,758,892)
Principal payments of loans receivable	31,765,692	21,619,967
Net proceeds from sale of real estate owned	1,190,608	-
	<u>8,601,392</u>	<u>(5,083,728)</u>
Net cash provided by (used in) investing activities		
Cash Flows from Financing Activities:		
Grants for capital and investment uses	1,698,050	5,500,600
Proceeds from loans payable	2,584,477	18,826,145
Principal payments on loans payable	(9,754,809)	(23,520,730)
Proceeds from subordinated loans payable	900,000	-
Principal payments of subordinated loans payable	(98,929)	(96,972)
Financing fees	-	(25,000)
	<u>(4,671,211)</u>	<u>684,043</u>
Net cash provided by (used in) financing activities		
Net Change in Cash and Cash Equivalents	6,289,645	(2,667,402)
Cash and Cash Equivalents:		
Beginning of year	<u>5,587,843</u>	<u>8,255,245</u>
End of year	<u>\$ 11,877,488</u>	<u>\$ 5,587,843</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 2,563,315</u>	<u>\$ 2,854,474</u>

The accompanying notes are an integral part of these consolidated statements.

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BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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 consolidated 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:

- **Boston Community Capital, Inc.** (the Holding Company) creates and preserves healthy communities where low-income people live and work.
- **BCLF Managed Assets Corporation d/b/a Boston Community Managed Assets** (Managed Assets) manages, designs, implements, and evaluates 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) assists small community-based businesses and entrepreneurs in starting, growing, and expanding businesses which strengthen the low-income business community.

The Loan Fund and the three affiliated nonprofit corporations operate cooperatively and 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, Massachusetts 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, facilitates the delivery of solar energy to affordable housing projects and others.

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

1. OPERATIONS (Continued)

- **BCC 481 NMTC Investment Fund, LLC** (the Investment Fund), a Maine limited liability company, was activated in January 2011 for the purpose of making a qualified equity investment (QEI) as defined in Section 45D(b) of the Internal Revenue Code (the Code), in BCC NMTC CDE X, LLC (CDE X). This entity is owned by a third-party investor, but is controlled by an affiliate of the Holding Company as a non-member manager. These entities are part of a leveraged new markets tax credit structure to finance certain solar energy projects.
- **BCC Solar USB Investment Fund, LLC** (The USB Investment Fund), a Missouri limited liability company, was formed in October 2013 for the purpose of making a QEI in BCC NMTC CDE XVI, LLC (CDE XVI). This entity is owned by a third-party investor, but is controlled by an affiliate of Holding Company as a non-member manager. These entities are part of a leveraged new markets tax credit structure to finance certain solar energy projects.

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 Code. The Loan Fund is also exempt from state income taxes. Donors may deduct contributions made to the Loan Fund within the requirements of the Code. 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 has received permanent loan capital - subordinated loans payable from the Treasury (see Note 6). During 2014, the Loan Fund received grants from the Treasury totaling \$4,500,000 for financial assistance. The Loan Fund did not receive any grants during 2015.

2. SIGNIFICANT ACCOUNTING POLICIES

The Loan Fund prepares its consolidated 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 notes are to the FASB Accounting Standards Codification (ASC).

Principles of Consolidation

The consolidated financial statements include the accounts of the Loan Fund and BCC REO (see Note 1). All intercompany transactions have been eliminated in the accompanying consolidated financial statements between these entities.

Estimates

The preparation of consolidated 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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

The Loan Fund follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that the Loan Fund would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The Loan Fund uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Loan Fund. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An 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.

Cash and Cash Equivalents and Concentration of Risk

For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of all highly liquid investments purchased with an initial maturity of three months or less.

Cash and cash equivalents are maintained by the Loan Fund 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 holds cash balances of \$3,268,280 and \$1,920,464 in escrow for outside parties as of December 31, 2015 and 2014, respectively. These amounts are escrowed for the Loan Fund's borrowers for various purposes, including working capital reserves, replacement reserves, and construction fund escrows.

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans Receivable and Allowance for Loan Losses

Loans receivable are stated net of unamortized deferred loan origination fees and an allowance for loan losses (see Notes 3 and 4). Interest on loans is calculated by using the simple interest method on monthly balances of the principal amount outstanding.

Provisions are made for estimated loan losses based on management's evaluation of each loan. Loss recoveries are recorded in the year the recovery is known. The allowance for loan losses (see Note 4) is established through the provision for loan losses and is 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. 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.

U.S. GAAP requires nonprofit organizations to record interest expense and contribution revenue in connection with loans payable that are interest free or that have below-market interest rates. Likewise, funds loaned to borrowers at below-market interest rates should also result in imputed revenue and contribution expense. Interest rates on loans payable are disclosed in Note 5. Interest rates on loans receivable are disclosed in Note 3. The Loan Fund believes that the benefits derived from below-market rate loans received are passed through to the borrowers via below-market rate loans made, and that there is no material difference between community development finance market rates and the stated rates of loans in their portfolios. Consequently, no adjustments have been made to the accompanying consolidated financial statements to reflect rate differentials.

Financing Fees

Financing fees represent costs incurred in connection with acquiring certain credit facilities (see Note 5). Financing fees are as follows as of December 31:

	<u>2015</u>	<u>2014</u>
Financing fees	\$ 97,759	\$ 97,759
Less - accumulated amortization	<u>59,041</u>	<u>40,464</u>
	<u>\$ 38,718</u>	<u>\$ 57,295</u>

These fees are amortized over the term of the related credit facility on a straight-line basis. Amortization expense was \$18,577 and \$62,077 for 2015 and 2014, respectively. Amortization expense for the next five years is expected as follows:

2016	\$ 6,426
2017	\$ 5,000
2018	\$ 5,000
2019	\$ 5,000
2020	\$ 5,000

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, special programs and loan loss reserves.

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

Unrestricted net assets (Continued)

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 was \$850,000 for 2015 and is shown as grants from affiliate for support of new initiatives in the accompanying consolidated statement of activities. There were no such transfers during 2014.

Temporarily restricted net assets are unexpended financial resources restricted by donors as to the purpose or timing of expenditure. Temporarily restricted net assets are restricted for the following as of December 31:

	<u>2015</u>	<u>2014</u>
Permanent loan capital	\$ 882,446	\$ 881,396
Financial assistance	<u>-</u>	<u>3,090,231</u>
	<u>\$ 882,446</u>	<u>\$ 3,971,627</u>

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. 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 consolidated statements of financial position.

As of December 31, 2014, financial assistance represented unexpended awards from the Treasury (see Note 1) and was made up of \$340,231 restricted for loan losses and \$2,750,000 for the Healthy Foods Financing Initiative, which are to provide low-income neighborhoods with access to affordable and healthy foods. These amounts were expended in full during 2015, and accordingly, released from restrictions.

Income Taxes

The Loan Fund accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the consolidated financial statements regarding a tax position taken or expected to be taken in a tax return. The Loan Fund has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the consolidated financial statements at December 31, 2015 and 2014. The Loan Fund's information returns are subject to examination by the Federal and state jurisdictions and generally remain open for the most recent three years.

Revenue Recognition

Financial and earned revenues are recognized as unrestricted revenue as earned on an accrual basis. Interest on loans is presented net of interest of \$1,735,057 and \$2,260,021 collected on behalf of and paid to loan participants (see Note 3) in 2015 and 2014, respectively.

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

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 consolidated 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 grants and contributions received and expended for their intended use in the same year are reflected as unrestricted net assets.

Expense Allocation

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

The Loan Fund's total expenses, including interest expense and loan loss provision, as allocated to program services and general and administrative, are as follows for the years ended December 31:

	<u>2015</u>	<u>2014</u>
Program	\$ 4,344,488	\$ 4,464,884
General and Administrative	<u>638,494</u>	<u>656,188</u>
Total	<u>\$ 4,982,982</u>	<u>\$ 5,121,072</u>

Subsequent Events

Subsequent events have been evaluated through March 30, 2016, which is the date the consolidated financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the consolidated 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.

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

3. LOANS AND INTEREST RECEIVABLE (Continued)

Portfolio Lending (Continued)

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

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

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

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 20% and 19% of the portfolio as of December 31, 2015 and 2014, respectively.

Loans receivable of the Loan Fund are presented net of third-party loan participations of \$24,006,772 and \$35,086,509 as of December 31, 2015 and 2014, respectively. All loan participations qualify as loan sales in accordance with the ASC Topic, *Accounting for Transfers and Servicing of Assets and Liabilities*.

The Loan Fund's loans receivable were as follows at December 31:

Type	2015		2014	
	Number of Loans	Net Loan Amount	Number of Loans	Net Loan Amount
Construction	48	\$ 53,887,377	50	\$ 57,751,988
Permanent	28	16,486,506	33	17,932,225
Site acquisition	19	14,862,086	17	15,339,701
Predevelopment	9	2,559,660	9	2,282,728
Organizational	4	96,415	4	147,031
	<u>108</u>	87,892,044	<u>113</u>	93,453,673
Interest receivable on above loans		<u>642,612</u>		<u>522,973</u>
		<u>\$ 88,534,656</u>		<u>\$ 93,976,646</u>

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

3. LOANS AND INTEREST RECEIVABLE (Continued)

Portfolio Lending (Continued)

Future minimum payments of principal (and accrued interest at December 31, 2015) for years ending after December 31, 2015, are as follows:

2016 (including \$642,612 of accrued interest)	\$ 22,602,080
2017	17,643,786
2018	4,832,596
2019	5,025,344
2020	6,924,409
Thereafter	<u>31,506,441</u>
	88,534,656
Adjustment for deferred loan fees (see Note 2)	(342,985)
Less - allowance for loan losses (see Note 4)	<u>(4,034,681)</u>
	<u>\$ 84,156,990</u>

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 region.

All borrowers with loans that are currently amortizing are current with their payments as of December 31, 2015 and 2014.

Commitments to Lend

The Loan Fund had committed approximately \$5,555,000 and \$7,500,000 for future disbursements on existing loan commitments and lines of credit to unrelated borrowers as of December 31, 2015 and 2014, respectively. 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, 2015 and 2014, there was a guarantee of \$4,600,000 for one loan receivable under this agreement. This loan is set to mature on September 1, 2042. During 2015 and 2014, the Loan Fund did not receive any cash payments under this agreement.

Special Tax-Credit Lending

As of December 31, 2015 and 2014, the Loan Fund has entered into fifty-four and thirty-nine 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 has an interest rate ranging from 0% to 1%, which the Loan Fund will receive on the maturity date. These loans have various maturity dates through December 2063. As part of the arrangement, the Loan Fund received fees up to .05% of the total loan. However, the Loan Fund has a minimum fee of \$15,000 if the .05% of loan balance is below their minimum.

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

3. LOANS AND INTEREST RECEIVABLE (Continued)

Special Tax-Credit Lending (Continued)

These fees are included in loan fees and other in the accompanying consolidated statements of activities and totaled \$262,121 and \$97,846 for 2015 and 2014, respectively. Total outstanding principal balances are \$332,492,215 and \$263,574,536 as of December 31, 2015 and 2014, respectively. These loans have specific restrictions surrounding their use, and due to their long-term deferred nature and likelihood of collectability, the notes are fully reserved at December 31, 2015 and 2014. The provision associated with these allowances is netted with the value of the tax credit donation.

Affiliate Loans, Interest and Other Receivables

SUN Financing

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. This intercompany loan bears interest at 4.25% per annum and interest is due quarterly. Interest paid to the Loan Fund was \$430,903 for 2015 and 2014. As of December 31, 2015 and 2014, principal outstanding under this agreement totaled \$10,000,000. During 2015, this loan was extended until December 31, 2020, under the same terms. All remaining unpaid principal and interest are due on the maturity date.

Venture Fund

The Loan Fund had loaned \$2,300,000 of the proceeds of the permanent loan capital - subordinated loans payable to the Venture Fund (see Notes 1 and 6) to finance a portion of certain investments of the Venture Fund. This intercompany loan bears interest at 3%, payable quarterly, is unsecured, and matures in 2018. Interest on this borrowing totaled \$49,500 in 2015 and 2014, and is included in interest on loans in the accompanying consolidated statements of activities. As of December 31, 2015 and 2014, the principal outstanding under this agreement totaled \$1,650,000.

SEA

The Loan Fund also loaned \$3,000,000 of the permanent loan capital - subordinated loans payable to SEA (see Notes 1 and 6) to finance a portion of certain assets of SEA, all of which is outstanding at December 31, 2015 and 2014. This intercompany loan bears interest at 3%, payable quarterly, is unsecured, and matures in 2020. Interest on these borrowings totaled \$90,000 in 2015 and 2014, and is included in interest on loans in the accompanying consolidated statements of activities.

The Loan Fund and SEA entered into a \$1,000,000 term loan to finance a portion of certain assets of SEA. This intercompany loan bears interest at 6% annually, with principal and interest payments due monthly. During 2015 and 2014, SEA made principal payments of \$149,286 and \$261,429, respectively, as well as interest payments of \$26,017 and \$38,873, respectively. As of December 31, 2015 and 2014, principal outstanding under this agreement was \$346,438 and \$495,724, respectively. All remaining unpaid principal and interest are due on the maturity date of December 31, 2018.

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

3. LOANS AND INTEREST RECEIVABLE (Continued)

Affiliate Loans, Interest and Other Receivables (Continued)

Investment Fund

The Loan Fund entered into a leverage loan agreement with the Investment Fund (see Note 1) in the amount of \$1,472,876, which was used in the finance of solar panel installments within a new markets tax credit financing structure. Interest on this note accrues at 6%. On October 31st of each year, all accrued interest and unpaid principal, to the extent of cash flow as outlined in the agreement, are due. All remaining unpaid principal and interest are due on the maturity date of March 23, 2021. This interest is included in current portion of affiliate loans, interest and other receivables in the accompanying consolidated statements of financial position. During 2015 and 2014, the Investment Fund made payments of principal of \$182,782 and \$224,470 and accrued interest of \$81,348 and \$81,531, respectively. As of December 31, 2015 and 2014, the outstanding balance of the loan was \$1,003,623 and \$1,186,405, respectively. Total interest was \$69,286 and \$79,249 for 2015 and 2014, respectively. Unpaid interest was \$12,062 as of December 31, 2014. There was no unpaid interest as of December 31, 2015.

USB Investment Fund

During 2013, the Loan Fund entered into a leverage loan with the USB Investment Fund (see Note 1) in the amount of \$5,224,207, which was used in the financing of solar panel installments within a new markets tax credit financing structure. Interest on this note accrues at 6% per annum, compounded annually. Beginning on December 31, 2013, and thereafter at each succeeding year, all accrued interest and unpaid principal, to the extent of net cash flow as outlined in the agreement, shall be due and payable. All remaining principal and interest are due on the maturity date of November 6, 2023. This loan may be prepaid without penalty. During 2015 and 2014, USB Investment Fund made payments of principal of \$147,000 and \$2,266,624 and interest payments of \$89,671 and \$292,971, respectively. Total interest incurred was \$176,320 and \$260,007 for 2015 and 2014, respectively. As of December 31, 2015 and 2014, remaining unpaid interest of \$86,649 and \$14,925, respectively, was capitalized to the balance of the loan. As of December 31, 2015 and 2014, the principal outstanding under this agreement was \$2,912,157 and \$2,972,508, respectively.

Stated maturities of all affiliate loans receivable, not including net cash flow payments payable from the Investment Fund or USB Investment Fund, as of December 31, 2015, are as follows:

<u>Year</u>	<u>USB</u>					<u>Total</u>
	<u>SEA</u>	<u>Investment Fund</u>	<u>Venture Fund</u>	<u>Investment Fund</u>	<u>SUN Financing</u>	
2016	\$ 149,988	\$ -	\$ -	\$ -	\$ -	\$ 149,988
2017	159,453	-	-	-	-	159,453
2018	36,997	-	1,650,000	-	-	1,686,997
2019	-	-	-	-	-	-
2020	3,000,000	-	-	-	10,000,000	13,000,000
Thereafter	-	<u>2,912,157</u>	-	<u>1,003,623</u>	-	<u>3,915,780</u>
Total	<u>\$ 3,346,438</u>	<u>\$ 2,912,157</u>	<u>\$ 1,650,000</u>	<u>\$ 1,003,623</u>	<u>\$ 10,000,000</u>	<u>\$ 18,912,218</u>

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

3. LOANS AND INTEREST RECEIVABLE (Continued)

Affiliate Loans, Interest and Other Receivables (Continued)

Other Receivables

From time-to-time, the Loan Fund and its affiliates have shared costs that may be paid by one organization on behalf of another. These amounts are expected to be repaid in the near term and are included in current portion of affiliate loans, interest and other receivables in the accompanying consolidated statements of financial position. These advances for shared costs have no defined terms, but are generally expected to be settled in the near term. There was \$1,456,736 owed from the Loan Fund's affiliates outstanding as of December 31, 2014. This amount was paid in full during 2015.

Affiliate loans, interest and other receivables are as follows as of December 31:

	<u>2015</u>	<u>2014</u>
Affiliates loans (see pages 14 - 15)	\$ 18,912,218	\$ 19,304,637
Other receivables (see above)	-	1,456,736
Interest receivable (see page 15)	-	<u>12,062</u>
	<u>\$ 18,912,218</u>	<u>\$ 20,773,435</u>

No allowance for loan losses has been recorded on any of the affiliate loan balances.

The Loan Fund owed the Holding Company \$156,317 as of December 31, 2015, which is included in due to affiliate in the accompanying 2015 consolidated statement of financial position.

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:

	<u>2015</u>	<u>2014</u>
Allowance for loan losses (see pages 17 - 18 and Note 2)	\$ <u>4,034,681</u>	\$ <u>4,784,681</u>
Board designated net assets for loan loss reserves (see Note 2):		
General loan loss reserves	3,422,258	3,612,027
CDFI funds released from restrictions for specified loans	<u>5,601,612</u>	<u>4,921,150</u>
Subtotal - Board designated net assets for loan loss reserves	<u>9,023,870</u>	<u>8,533,177</u>
	<u>\$ 13,058,551</u>	<u>\$ 13,317,858</u>

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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

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 page 18). In addition, the Loan Fund's Board of Directors designates unrestricted net assets for loan loss reserves so that the sum of the loan loss allowance and Board designated general loan loss reserves equals at least 5% of total loans receivable of the Loan Fund.

The Loan Fund also received a CDFI financial assistance grant that requires a matching component. This component requires the Loan Fund to set aside additional reserves that are specific to certain types of loans. The loans that fall under this grant are either for a community facility project where the project has a low collateral value or for predevelopment loans that support early feasibility and planning activities. The CDFI funds were matched with an equivalent amount of unrestricted funds which were also transferred to Board designated net assets. Board designated net assets related to qualifying loan commitments were:

CDFI Board Designated balance as of December 31, 2013	\$ 3,918,650
Additions	<u>1,002,500</u>
CDFI Board Designated balance as of December 31, 2014	4,921,150
Additions	<u>680,462</u>
CDFI Board Designated balance as of December 31, 2015	<u>\$ 5,601,612</u>

The allowance for loan losses consists of the following at December 31:

<u>2015</u>	<u>Construction</u>	<u>Organi- zational</u>	<u>Permanent</u>	<u>Pre- development</u>	<u>Site Acquisition</u>	<u>Total</u>
Allowance for loan losses, December 31, 2014	\$ 1,372,988	\$ 2,755	\$ 1,123,257	\$ 418,742	\$ 1,866,939	\$ 4,784,681
Recoveries Provision	(350,000) <u>297,444</u>	- <u>-</u>	(410,213) <u>756,911</u>	(6,314) <u>-</u>	(1,938,363) <u>900,535</u>	(2,704,890) <u>1,954,890</u>
Allowance for loan losses, December 31, 2015	<u>\$ 1,320,432</u>	<u>\$ 2,755</u>	<u>\$ 1,469,955</u>	<u>\$ 412,428</u>	<u>\$ 829,111</u>	<u>\$ 4,034,681</u>
Ending balance: Individually evaluated for impairment	<u>\$ 1,000,000</u>	<u>\$ -</u>	<u>\$ 1,247,519</u>	<u>\$ -</u>	<u>\$ 1,013,285</u>	<u>\$ 3,260,804</u>
Troubled Debt Restructuring	<u>\$ 1,000,000</u>	<u>\$ -</u>	<u>\$ 1,247,519</u>	<u>\$ -</u>	<u>\$ 1,013,285</u>	<u>\$ 3,260,804</u>

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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

<u>2014</u>	<u>Construction</u>	<u>Organi- zational</u>	<u>Permanent</u>	<u>Pre- development</u>	<u>Site Acquisition</u>	<u>Total</u>
Allowance for loan losses, December 31, 2013	\$ 1,372,988	\$ 2,755	\$ 1,051,833	\$ 418,742	\$ 1,938,363	\$ 4,784,681
Recoveries	-	-	-	-	(71,424)	(71,424)
Provision	-	-	71,424	-	-	71,424
Allowance for loan losses, December 31, 2014	<u>\$ 1,372,988</u>	<u>\$ 2,755</u>	<u>\$ 1,123,257</u>	<u>\$ 418,742</u>	<u>\$ 1,866,939</u>	<u>\$ 4,784,681</u>
Ending balance: Individually evaluated for impairment	<u>\$ 1,350,000</u>	<u>\$ -</u>	<u>\$ 1,123,257</u>	<u>\$ -</u>	<u>\$ 1,456,363</u>	<u>\$ 3,929,620</u>
Troubled Debt Restructuring	<u>\$ 1,350,000</u>	<u>\$ -</u>	<u>\$ 884,968</u>	<u>\$ -</u>	<u>\$ 1,456,363</u>	<u>\$ 3,691,331</u>

The loan loss allowance is allocated between the current and long-term portions of the loan portfolio based upon the maturities of the underlying reserved loan balances.

The Loan Fund uses an eight number-based credit rating system, with "1" representing the highest quality/lowest risk credits and "8" representing the lowest quality/highest credit risk credits. The following table presents the Loan Fund's loans receivable balances and related allowance by risk rating at December 31:

<u>Category</u>	<u>Risk Rating</u>	<u>2015</u>		<u>2014</u>	
		<u>Loan Balance</u>	<u>Loan Loss Allowance</u>	<u>Loan Balance</u>	<u>Loan Loss Allowance</u>
Pass	1 - 4	\$ 75,462,174	\$ -	\$ 78,445,347	\$ -
Special Mention	5 - 6	9,611,558	2,062,589	14,123,358	3,778,859
Substandard	7 - 8	2,818,312	1,858,968	884,968	884,968
General reserve		-	113,124	-	120,854
		<u>\$ 87,892,044</u>	<u>\$ 4,034,681</u>	<u>\$ 93,453,673</u>	<u>\$ 4,784,681</u>

Impaired Loans

The Loan Fund identifies a loan as impaired when it is probable that interest and/or principal will not be collected according to the contractual terms of the loan agreement. In accordance with guidance provided by the ASC Topic, *Impairment (Recoverability) of a Loan*, management employs one of three methods to determine and measure impairment: the Present Value of Future Cash Flow Method; the Fair Value of Collateral Method; and the Observable Market Price of a Loan Method. To perform an impairment analysis, the Loan Fund reviews a loan's internally assigned risk rating, its outstanding balance, value of the collateral, guarantors, and a current report of the action being implemented. Based on the nature of the specific loan, one of the impairment methods is chosen and any impairment is determined, based on criteria established for impaired loans.

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATENotes to Consolidated Financial Statements
December 31, 2015 and 2014**4. ALLOWANCE FOR LOAN LOSSES AND LOAN LOSS RESERVES (Continued)**

Impaired loans are set forth in the table below as of December 31:

<u>Loan Category</u>	<u>Number of Impaired Loans</u>	<u>2015</u>	
		<u>Amount of Impaired Loans</u>	<u>Related Allowance for Loan Loss</u>
Construction	1	\$ 1,959,344	\$ 1,000,000
Site acquisition	2	3,760,535	1,013,285
Permanent	<u>4</u>	<u>3,449,311</u>	<u>1,247,519</u>
Total impaired loans	<u>7</u>	<u>\$ 9,169,190</u>	<u>\$ 3,260,804</u>

<u>Loan Category</u>	<u>Number of Impaired Loans</u>	<u>2014</u>	
		<u>Amount of Impaired Loans</u>	<u>Related Allowance for Loan Loss</u>
Construction	1	\$ 2,902,487	\$ 1,350,000
Site acquisition	1	3,283,093	1,456,363
Permanent	<u>6</u>	<u>1,480,692</u>	<u>1,123,257</u>
Total impaired loans	<u>8</u>	<u>\$ 7,666,272</u>	<u>\$ 3,929,620</u>

Troubled Debt Restructuring

A troubled debt restructuring (TDR) occurs when a creditor, for economic or legal reasons related to a borrower's financial condition, grants a concession to the borrower that it would not otherwise consider, such as below market interest rates, extending the maturity of a loan, or a combination of both. The Loan Fund considers all loans modified in a TDR to be impaired.

At the time a loan is modified in a TDR, the Loan Fund considers several factors in determining whether the loan should accrue interest, including:

- Cash flow necessary to pay the interest
- Whether the customer is current on their interest payments
- Whether the Loan Fund expects the borrower to perform under the revised terms of the restructuring

As of December 31, 2015 and 2014, loans that were impaired and classified as TDRs were as follows:

<u>Troubled Debt Restructuring</u>	<u>Number of Loans Restructured</u>	<u>2015</u>	
		<u>Amount of Restructured Loans</u>	<u>Related Allowance for Loan Loss</u>
Multiple extensions resulting from financial difficulty	6	\$ 7,209,846	\$ 2,260,804
Extended under forbearance	<u>1</u>	<u>1,959,344</u>	<u>1,000,000</u>
Total TDRs	<u>7</u>	<u>\$ 9,169,190</u>	<u>\$ 3,260,804</u>

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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

Troubled Debt Restructuring (Continued)

<u>Troubled Debt Restructuring</u>	<u>2014</u>		
	<u>Number of Loans Restructured</u>	<u>Amount of Restructured Loans</u>	<u>Related Allowance for Loan Loss</u>
Multiple extensions resulting from financial difficulty	3	\$ 4,168,061	\$ 2,341,331
Extended under forbearance	<u>1</u>	<u>2,902,487</u>	<u>1,350,000</u>
Total TDRs	<u>4</u>	<u>\$ 7,070,548</u>	<u>\$ 3,691,331</u>

The above loans are all on “non-accrual” basis. During 2015, the one loan that was extended under forbearance was extended a fifth time through July 1, 2016.

Real Estate Owned

During December 2011, the Loan Fund received a parcel of land as a result of a borrower defaulting on a loan receivable. The Loan Fund transferred the property to BCC REO (see Note 1). The fair value of the property at the time of the acquisition, as determined by appraisal using significant Level 3 inputs (see Note 2), was \$1,400,000 and is recorded as real estate owned in the accompanying consolidated statement of financial position as of December 31, 2014. During 2015, the property was sold for \$1,200,000 and the Loan Fund recognized a loss of \$209,392, inclusive of closing costs.

5. LOANS PAYABLE

Loans payable of the Loan Fund represent loans by approximately 350 lenders (“investors”) in principal amounts ranging from \$500 to \$10,000,000. Loans payable bear interest at rates ranging from 0% to 4.3%, payable at varying initial maturities of one to fifteen and a half years through 2028.

Lines of Credit

The Loan Fund has a \$15,000,000 unsecured revolving line of credit with a financial institution, which expires in September 2017. The interest rate on this line of credit is a thirty-day London Interbank Offered Rate (LIBOR) (0.3584% and 0.1635% as of December 31, 2015 and 2014, respectively), plus 1.5%, with a minimum rate of 1.65%. There was no balance on this line of credit as of December 31, 2015 and 2014.

The Loan Fund has a \$15,000,000 unsecured non-revolving line of credit agreement with a financial institution, which expires on June 30, 2018. 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. During 2015, the Loan Fund made a \$5,000,000 payment on the outstanding balance. As of December 31, 2015 and 2014, \$10,000,000 and \$15,000,000, respectively, was outstanding on this line of credit and is included in loans payable in the accompanying consolidated statements of financial position. Funds advanced under these draws bear interest at rates ranging from 3.24% to 4.12%. The interest rates are locked-in on the specific date of each draw.

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

5. LOANS PAYABLE (Continued)

Lines of Credit (Continued)

The Loan Fund has a \$2,500,000 unsecured revolving line of credit with a financial institution, which expired on July 31, 2015, but was subsequently extended until August 31, 2017. The interest rate on this line of credit is a thirty-day LIBOR (0.3584% and 0.1635% as of December 31, 2015 and 2014, respectively), plus 1.5%. There was no balance on this line of credit as of December 31, 2015 and 2014. The Loan Fund also has an additional \$10,000,000 unsecured non-revolving line of credit with this financial institution, which expires on December 21, 2021. The interest rate on this line of credit is based on the applicable Federal Home Loan Bank of Boston (FHLBB) Rate at the time of the borrowings. The interest rates are locked-in on the specific date of each draw. During 2014, the line of credit was drawn in full at an interest rate of 4%. As of December 31, 2015 and 2014, \$10,000,000 was outstanding on this line of credit.

During 2014, the Loan Fund entered into a \$10,000,000 unsecured revolving line of credit with a financial institution, which originally expired on November 30, 2021. During 2015, this line of credit was extended until November 30, 2022, under the same terms. The interest rate on this line of credit is 1.34% and interest is due in quarterly payments. As of December 31, 2015 and 2014, \$6,300,000 was outstanding on this line of credit and is included in loans payable in the accompanying consolidated statements of financial position.

During 2014, the Loan Fund entered into a \$10,000,000 unsecured non-revolving line of credit with a financial institution, which expires on November 30, 2024. The interest rate on this line of credit is 3.25% and interest is due at the end of each calendar quarter. There was no outstanding balance on this line of credit as of December 31, 2015 and 2014. The available period to draw down on this line of credit ends in June 2016.

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, 2015 and 2014, the Loan Fund was in compliance with these covenants. As of December 31, 2015 and 2014, the Loan Fund had \$31,200,000 available on lines of credit.

Investment Contracts

As of December 31, 2014, the Loan Fund had entered into two investment contracts with two separate organizations. As stated in the investment contracts, the Loan Fund invested these contracts at specific rates of return on which both parties agreed. These investment contracts were secured by an escrow account as defined in the investment contract agreement. As of December 31, 2014, the principal balance of the investment contracts was \$2,437,966, and was invested at a rate of 4.75% for 2014. These investments were paid in full during January 2015.

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

	<u>2015</u>	<u>2014</u>
Other loans payable	\$ 31,636,790	\$ 31,369,156
Lines of credit	26,300,000	31,300,000
Investment contracts	-	2,437,966
	<u>\$ 57,936,790</u>	<u>\$ 65,107,122</u>

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

5. LOANS PAYABLE (Continued)

Maturities of on loans payable over the next five years as of December 31, 2015, are as follows:

<u>Year</u>	
2016	\$ 6,966,295
2017	\$ 3,485,581
2018	\$ 15,954,245
2019	\$ 6,290,242
2020	\$ 4,308,416

In the ordinary course of operations, the Loan Fund may negotiate extensions of maturity with many investors. The current maturities as of December 31, 2015 and 2014, include \$876,206 and \$2,468,876, respectively, of loan principal which has matured, but has not been paid or formally extended. Management is currently in the process of negotiating extensions of these loans.

6. PERMANENT LOAN CAPITAL - SUBORDINATED LOANS PAYABLE

Permanent loan capital - subordinated loans payable consist of long-term subordinated loans payable of the Loan Fund (44 and 42 individual loans as of December 31, 2015 and 2014, respectively) 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 2028. These loans are subordinate and junior to all other obligations of the Loan Fund. Only two notes with original principal of \$500,000 each are currently amortizing.

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 dates, indefinitely, based upon specified criteria in the loan terms and agreements of the Loan Fund and the lenders.

Permanent loan capital - subordinated loans payable also include a \$4,410,000 Equity Equivalent Security (EQ2 Security) with the Treasury (see Note 1), which the Loan Fund entered into 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.

Principal maturities are as follows:

2016	\$ 100,926
2017	102,963
2018	105,042
2019	4,517,162
2020	81,606
Thereafter	<u>18,772,889</u>
Total loans	<u>\$ 23,680,588</u>

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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.

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.

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:

	2015		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 15,145,768	\$ 15,145,768	\$ 7,508,307	\$ 7,508,307
Loans and interest receivable, net	\$ 84,156,990	\$ 83,889,836	\$ 88,898,833	\$ 87,966,601
Loans payable	\$ 57,936,790	\$ 57,259,942	\$ 65,107,122	\$ 63,443,523
Permanent Loan Capital - Subordinated Loans Payable	\$ 23,680,588	\$ 23,680,588	\$ 22,879,517	\$ 22,879,517

8. RECLASSIFICATION

Certain amounts in the 2014 consolidated financial statements have been reclassified to conform with the 2015 presentation.