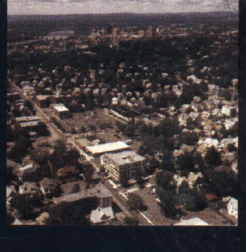
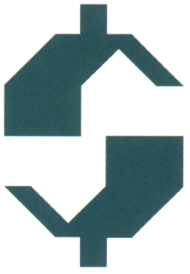
Massachusetts
Housing
Investment
Corporation

1997 Annual Report



Understanding that ...
Everything Happens in Context

About the cover: Four housing developments financed by MHIC, as seen in the context of their neighborhoods and as homes to their residents. The four developments are (clockwise starting in the upper right-hand corner): Sargent Prince SRO in Roxbury, Kenwyn Apartments in Springfield, Academy Homes in Boston, and South Canal Apartments in Holyoke.



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70 Federal Street
Boston, Massachusetts 02110
(617) 338-6886
Info@mhic.com

Mission Statement

MHIC's mission is to be an innovative private financier of affordable housing and community development throughout Massachusetts, providing financing that would not otherwise be available, and extending the impact of that financing to ensure the broadest possible benefit.

In undertaking this mission, MHIC is founded on six core values:

1. Private capital from a broad base of investors can prudently finance community development initiatives on an ongoing basis as self-sustaining ventures.
2. The benefits of expanded community investment should flow to the minority workers and the minority-owned businesses in those communities.
3. Special effort is required to harness private capital for geographic areas, sponsors and projects that have historically been unable to compete effectively for financing.
4. The sponsors of community development projects deserve ongoing support in their efforts to build and maintain sustainable communities.
5. The system of financing community development, which is overly fragmented and cumbersome, must be streamlined and improved.
6. The communities we serve must see MHIC in a leadership position in advancing these values and not as merely another player.

From the Chairman and the President

November 1997

We are pleased to report on another successful year at the Massachusetts Housing Investment Corporation. As we enter our eighth year, we look forward to broadening our mission and focus to integrate affordable housing into the larger context of community development.

As a relatively young but highly specialized and skilled organization, MHIC has leveraged its core values and competencies to create new products and to find new ways to add value to the housing finance system. MHIC has proven that it can adapt and respond to a rapidly changing investment environment. The factors driving these changes are likely to continue, but considering MHIC's record of achievement over the past several years, we are confident that MHIC has both the strength and the flexibility to continue to play a leadership role.

MHIC was created in 1990 by Massachusetts banks and community leaders to finance the development of affordable housing throughout Massachusetts. Our mandate has not changed. What has changed is a broadening of the way we view our purpose and the ways we intend to pursue our mission. We are in the business of financing affordable housing, but we are also in the business of building neighborhoods and investing in communities.

This more comprehensive approach reflects changes at the community level as well as the evolution we are seeing in the affordable housing finance industry. It is a natural and positive outgrowth of market conditions and of the increasing realization that affordable housing alone is not the solution to disintegrating neighborhoods and communities. Strengthening and restoring communities also means stimulating business enterprises and helping to create jobs and new opportunities. We are proud of MHIC's record in helping to make this happen. And we are pleased to renew our commitment to investing in communities throughout Massachusetts.

Sincerely,

GUILLIAEM AERTSEN
Chairman

JOSEPH L. FLATLEY
President and CEO

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As MHIC enters its eighth year of operation, it can point to considerable achievements in all key areas. Perhaps most importantly, MHIC has demonstrated its ability to change and adapt to an evolving environment, to carve out a niche as a unique institution with a distinct role to play in the collaboration between private capital and community-based entrepreneurs.

Everything happens in context. This may be a simple truth – yet it has profound implications. It forms the foundation for much of what we do, and it informs many of our decisions. Housing is important largely because it provides the context for families to thrive. Individual homes, taken together with stores, schools, and other community buildings, comprise neighborhoods – the context within which those homes will either prosper or struggle.

The work MHIC does happens in context as well. The vision and capability of the developers with whom we work provides the context for each project's likely success. And the current financial environment provides the context for the unique role which MHIC can play.

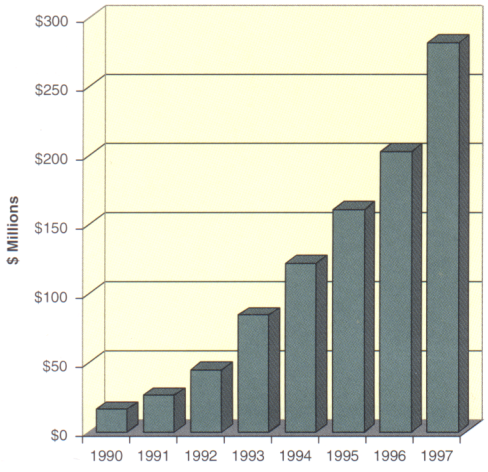
Understanding context is central to our mission. MHIC conducts its business in the context of building sustainable communities. MHIC understands that its loans and investments in individual housing projects can only be successful if the broader community thrives. At the same time, the larger community's revitalization will depend on the fundamental success of individual projects. MHIC's financing decisions are informed by this broader context. MHIC now stands prepared to participate on broader fronts, to ensure the community's success. This broadened focus reflects the organization's maturity, its expanded base

Sargent Prince SRO, Roxbury

Kenwyn Apartments, Springfield

Opposite: The South Canal Apartments in South Holyoke.

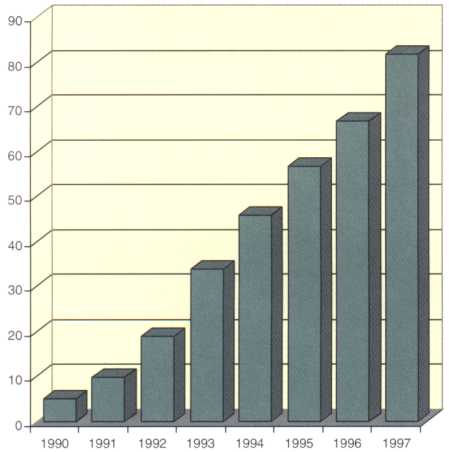
of resources, and its ability to continue to address new challenges in the marketplace.



Cumulative Investment by MHIC

Over the past year, MHIC has invested a total of $71 million for the creation of 798 housing units in 14 projects throughout the state. Over the seven year period since its inception, MHIC's total investment is over $280 million – through its loan and equity programs – for the creation of more than 4,000 housing units. As in past years, MHIC ended fiscal year 1997 with a surplus over expenses, with no loan losses or charge-offs. MHIC takes pride in the positive feedback from its customers, which has enabled MHIC to enjoy a substantial amount of repeat business.

1997 was a record year – in terms of overall amount invested – for MHIC's Loan Program. Through this program, MHIC closed over $33 million in loans, the largest amount in the corporation's history. It also closed the two biggest loans ever. Also this year, Grove Bank and United States Trust Company joined MHIC's Loan Program. This brings MHIC's loan pool to a total of $53,425,000.



Cumulative Projects Financed by MHIC

During this past year, MHIC developed a permanent loan product, geared primarily, though not exclusively, to small property owners. While MHIC is just beginning to market this product, it does have several loans already in its pipeline. Through this initiative, MHIC intends to originate loans – focusing on those not served well by the conventional marketplace – for ultimate sale to third parties.

MHIC's aim is to broaden the customer base served by its Loan Program. While competition for loans has increased, with numerous banks and other conventional lenders re-entering the affordable housing market, MHIC typically can provide loans with more flexible underwriting, terms, and pricing. MHIC can also provide the technical assistance often needed by less sophisticated borrowers. As in previous years, MHIC will provide loans in the most challenging and under-served segments of the market.

MHIC completed its fourth Equity Fund during the 1997 fiscal year, with more than $47 million raised at initial closing. MHIC has strengthened its leadership position in the area, with approximately one-half of the state's overall tax credit equity investment.

While there are other sources of tax credit investment for sponsors to choose from, MHIC continues to be an attractive source in terms of net yield due to its investment structure and lower transaction costs. MHIC's most important competitive advantage, however, is our ability to add value by improving the investment structure, identifying additional resources for project partnerships as necessary, and delivering knowledgeable support to our customers in closing their investment.

Gardner Crawford Thane, Roxbury

Through its Equity Program, MHIC recently began to offer pre-development loans to prospective project sponsors. This program enables MHIC to strengthen relationships with its customers by providing flexible working capital, which facilitates the closing of investments.

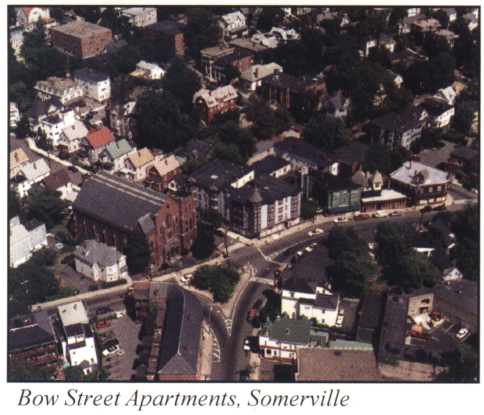
MHIC made considerable progress in 1997 in promoting the hiring of minority individuals and in contracts awarded to minority-owned businesses (contractors, subcontractors, property managers, law firms, architects, and others involved in the process). Overall, projects financed by MHIC achieved participation of 34% for minority businesses and 44% for minority employees. This ability to expand minority participation has played a central role in the value added by MHIC financing. MHIC will work with its customers to establish increasingly ambitious goals for future projects.

Looking ahead, MHIC is in a strong position to continue to deal effectively and profitably with key changes in the marketplace, such as the continuing evolution of capital markets, the currently robust real estate market, and the changing landscape of public support for affordable housing and community development.

By expanding its focus to include the full agenda of community development, MHIC is positioning itself to respond creatively to the broadest possible market for housing, community development, and wealth-creation for residents of the communities we serve.

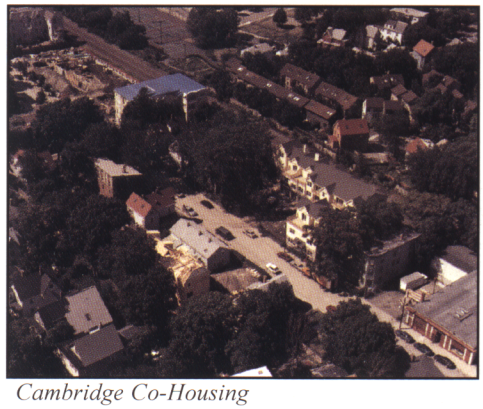
Loan Program

This past year was, in several ways, a banner year for MHIC's Loan Program. In 1997, MHIC closed the largest amount of loans – in excess of $33 million – since the corporation was founded in 1990. MHIC also closed two of its largest loans, one for $5.7 million and another for $6.5 million. In the first instance, the loan was made for moderate rehabilitation of 227 units in 17 buildings in the Roxbury section of Boston. This loan represented a very complex transaction involving multiple lenders and funds from the city, state and federal governments. The second loan provided funds for the construction of a new 41-unit condominium complex in Cambridge, which consists of co-housing ownership and where construction involves modular units. Both of these loans illustrate MHIC's unique ability to handle complex deals and to take on projects that might not otherwise get done. At the same time, it should be noted that the amounts of MHIC's loans are typically under $5 million.



Bow Street Apartments, Somerville

Over the past year, MHIC continued to make progress toward its ongoing goal of extending its geographic reach to communities throughout Massachusetts. This year, MHIC made loans for development of properties in North Adams, Beverly, Springfield, Lowell, Northampton, and Swansea, in addition to the Greater Boston area. MHIC has made a commitment to encourage repeat business, while the organization has pursued the parallel goal of making loans to new customers.

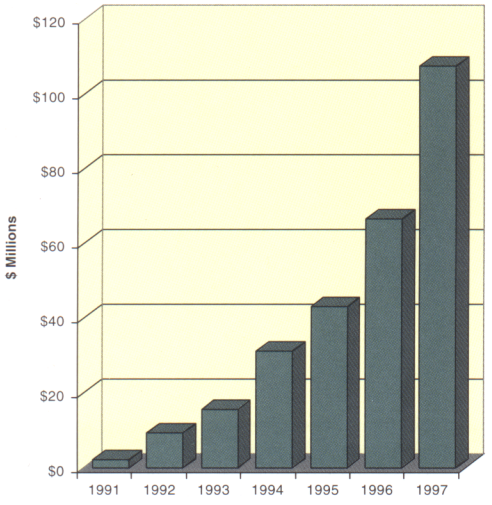


Cambridge Co-Housing

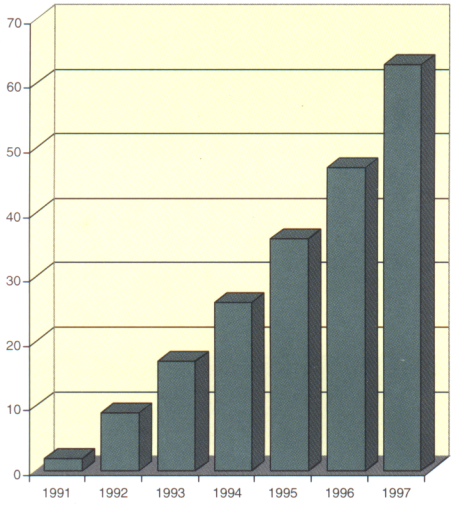
Loan pool utilization has increased dramatically with the increasing level of business. As of June 30, 1997, MHIC was utilizing over 75% of its loan pool, as illustrated below:

Project loan balances outstanding (June 30, 1997)	$ 9,485,793
Loan commitments not yet advanced	21,378,991
Loan guarantee balance	9,376,814
Total balances and commitments	$40,241,598
Total loan pool	$53,425,000
Utilization	75.3%

Opposite: The Sargent Prince SRO in Roxbury.



Cumulative Loan Volume



Cumulative Loan Projects

Minority participation continues to be a central objective of MHIC, and projects are generally meeting or exceeding their goals. For each project financed by MHIC, explicit goals are set for both minority employment during construction and the participation of minority-owned businesses in the development and operation of the housing. The goals for projects in the Boston area were exceeded during 1997 and, as a result, higher goals have been established for the coming year. The results for some projects located outside of the Boston area fell short of their minority participation goals, and we will be working diligently with our borrowers to enhance the level of minority participation.

As the results for individual projects below indicate, most of the projects financed by MHIC have been achieving aggressive targets for minority participation, with many in excess of 50%.

	Minority Employment	*Minority Business Utilization*
Gardner/Crawford/Thane, Roxbury	69%	70%
Sargent Prince, Roxbury	74%	63%
Upham's Corner, Boston	67%	34%
Commerce Apartments, Roxbury	58%	31%
Oakwood Estates, Swansea	2%	9%
Union Rand, North Adams	3%	0%
Westminster Apartments, Roxbury	48%	43%
Garfield Place, Cambridge	28%	32%
Savin/Creston, Roxbury	63%	89%
New Port Antonio Apartments, Roxbury	90%	63%
New South Street Apartments, Northampton	13%	11%
Cabot Street House, Beverly	37%	6%
Triangle Rental, Lowell	42%	15%
Cabotville Apartments, Chicopee	19%	13%
Chestnut/Marlboro/Grove, Chelsea	40%	23%
Ceylon Field Apartments, Boston	66%	53%
Cambridge Co-Housing, Cambridge	21%	0%
Cleaves Court, Roxbury	43%	66%
Voces de Esperanza, Holyoke	15%*	15%*
Kent Street Apartments, Somerville	15%*	20%*
Perry Street Renovation, Lowell	20%*	11%*
Quadrangle Court, Springfield	15%*	15%*
Mandela Apartments, Roxbury	50%*	43%*
Chestnut Street Residences, Springfield	15%*	15%*
Academy Homes I, Boston	50%*	45%*
Warren Avenue Apartments, Boston	40%*	30%*
Brook Avenue Coop, Boston	50%*	50%*
Aggregate Average	44%	34%

*Indicates project goals; actual results not yet available.

Throughout this year, MHIC has been systematically developing and test-marketing a permanent loan product for multi-family housing. The identified market niche for this new product is primarily owners of smaller apartment properties. While there remain some questions about the depth of market demand

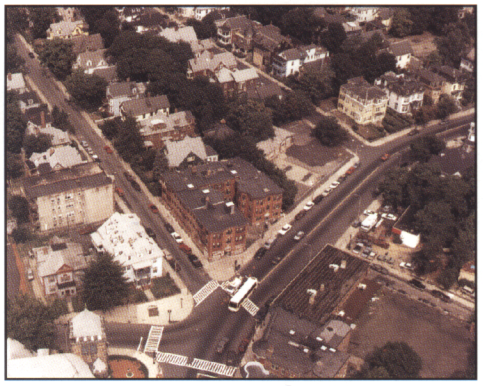
for this product, given the availability of financing from other sources, MHIC remains committed to pursuing this initiative and to exploring the unmet needs of this market segment. Here, as in other areas, MHIC seeks to carve out a niche as a creative private lender that efficiently and profitably serves areas and customers that are traditionally overlooked or under-served by other lenders.

Over the past few years, MHIC has instituted a regular program to solicit quality-control feedback from customers. Specifically, borrowers are asked to complete satisfaction survey forms once their loans are repaid. In this way, MHIC is able to continually monitor the quality of its service and to enhance the delivery of its loan products and services.

Garfield Place, Cambridge

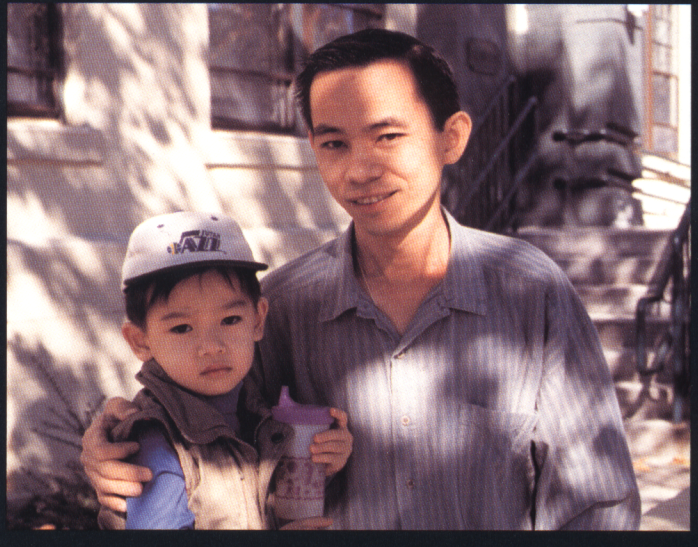
In 1997, total investment in the Loan Program by member banks was increased to $53,425,000, with investments by Grove Bank and United States Trust Company of $250,000 and $225,000 respectively. Investments in the Loan Program made by the member banks are as follows:

	Amount	**Percentage**
BankBoston	$21,000,000	39.3%
Fleet Bank	$20,500,000	38.3%
State Street Bank	$4,600,000	8.6%
PNC Bank New England	$1,500,000	2.8%
Wainwright Bank	$1,000,000	1.9%
FDIC (Workingmen's Coop Bank)	$1,000,000	1.9%
USTrust	$1,000,000	1.9%
Citizens Bank	$500,000	.9%
Boston Private Bank	$300,000	.6%
Telephone Workers' Cooperative Bank	$300,000	.5%
Springfield Institution for Savings	$250,000	.5%
Atlantic Bank & Trust	$250,000	.5%
Boston Bank of Commerce	$250,000	.5%
Stoneham Savings Bank	$250,000	.5%
Hyde Park Savings Bank	$250,000	.5%
Grove Bank	$250,000	.5%
United States Trust Company	$225,000	.4%
Total	**$53,425,000**	**100%**



New Port Antonio Apartments, Roxbury

It is important to note that MHIC's Loan Program has evolved considerably over the past few years. Many conventional lenders have reentered the construction lending business, increasing competition for stronger, more straightforward credits. Over the past year, much of the business for our Loan Program has come from projects that also received equity investment under MHIC's Equity Program. In the coming period, MHIC seeks to enhance growth from financing projects outside of the Equity Fund's pipeline. We will be making a concerted effort to market permanent loans to small property owners, while continuing to provide construction financing for projects throughout Massachusetts. As always, we will continue to look for ways to help customers and potential customers overcome the barriers to securing financing and ensure that our underwriting standards are reasonable and well understood.



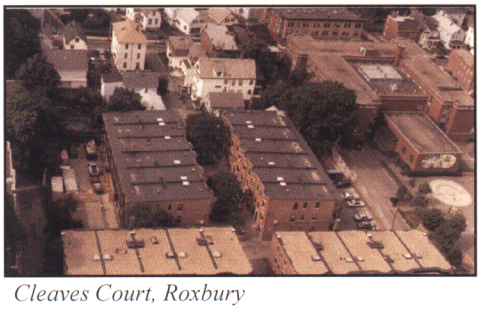
Equity Program

Notwithstanding enormous changes in the tax credit equity marketplace over the past year, MHIC has maintained its leadership position, with about half of the overall tax credit equity investment in Massachusetts.

MHIC has now closed four tax credit investment partnership funds, the most recent being the Massachusetts Housing Equity Fund 1997 Limited Partnership. More than $47 million was raised before the initial closing of this fund, representing an increase of almost 10% over the 1996 Fund, and more than 40% greater than the total raised in the 1993-94 Fund, MHIC's first.

Mandela Apartments, Roxbury

The changes in the Low Income Housing Tax Credit marketplace, which began in 1996, accelerated over the past year. The sponsors of tax credit developments in Massachusetts routinely have several proposals to consider from national for-profit and non-profit syndicators, and from direct corporate investors. The most visible change in the market has been the continual rise in the prices paid for tax credits. MHIC's position as the price leader in Massachusetts was essentially matched in the past year, as competition moved the market to a more uniform pricing structure. It is impossible today for any single tax credit investor to compete on price alone.



Cleaves Court, Roxbury

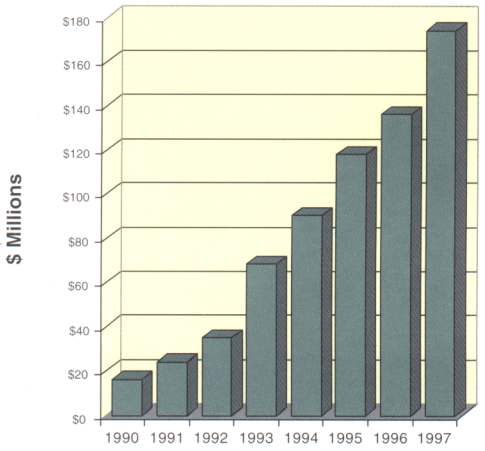
MHIC has successfully made the transition from being the "equity source of choice" because of our purchase price to being the "equity source of choice" because of our commitment to structuring an investment that provides the best overall deal for the developer, and because of our recognized long-term commitment to the success of our general partners and their properties. While doing so, MHIC's Equity Program has continued to meet its goals:

Goal: To maximize the investment in partnership properties.

In 1996, after all fees and syndication costs, MHIC on average paid $.69 on the tax credit dollar. In 1997 prices averaged almost $.80 on the tax credit dollar. In order to maintain price competitiveness, MHIC structured its 1997 Fund so

Opposite: Kenwyn Apartments in Springfield.

that its investors received a return commensurate with returns available from other syndicators. As the tax credit program has matured, those returns have fallen, although they remain attractive relative to other long-term investments.



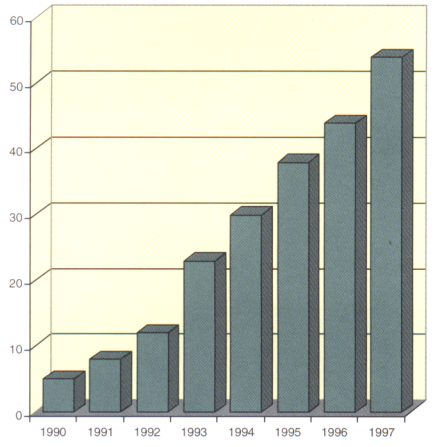
Cumulative Equity Investment

Goal: To identify and support those sponsors who share MHIC's commitment to developing quality affordable housing and helping to rebuild communities.

Half of the 20 project investments MHIC has closed, approved, or is in the process of approving this year, are with sponsors already in the MHIC portfolio, some of whom have more than one other investment. This repeat business is at the core of MHIC's strategy to help build capacity in organizations previously excluded from the capital markets, and to provide capital in neighborhoods and communities struggling with the effects of disinvestment.

Goal: To ensure that the benefits of our investments flow to the minority individuals and businesses in the community in which we invest.

Another measure of the success MHIC is achieving in this regard is the high level of minority business enterprise participation and minority construction worker hours achieved by project developers. For developments within the City of Boston, the percentage of hard and soft cost expenses paid to MBE's has ranged from a low of 43% to a high of more than 80%, and the percentage of minority worker hours has ranged from a low of 48% to a high of 90%. For developments outside of Boston, the percentage of hard and soft cost expenses paid to MBE's has ranged from a low of 11% to a high of 40%, and the percentage of minority worker hours has ranged from a low of 13% to a high of 42%. Not only is MHIC investment providing affordable housing in needy neighborhoods through committed sponsors, but it also is directed toward wealth-creation for minority businesses, and jobs for minority employees.



Cumulative Equity Projects

Goal: To reduce the transaction costs and the time spent getting from commitment to closing.

MHIC has maintained the same low transaction costs since the first Fund in 1993. Its own overhead "load" (as a percentage of equity raised) is among the lowest in the industry, and MHIC maintains the same "cap" amount on its own legal fees that was put in place in 1993.

One important product that MHIC began offering this year is a "pre-development loan" for investments which have been approved but are still in the closing process. These funds, which are essentially an early infusion of equity capital, enable sponsors to proceed with acquisition, architecture, engineering, or other time-critical elements of the overall development process while the financing process proceeds. This also eliminates the need for sponsors to seek yet another small piece of financing, with the associated costs.

The predevelopment and closing process for tax credit investments is complicated and somewhat unpredictable, and will likely remain so. As project sponsors,

development team members, investors, and lenders have become more experienced with the tax credit program, however, the process has become easier to control. MHIC was able to move one investment this year from selection through commitment to closing in less than 60 days. Of course, not every development is as ready to close as this one was, but the example demonstrates that MHIC's equity investment due diligence and closing process itself is not inherently unwieldy.

Ceylon Field Apartments, Dorchester

Goal: To maintain high standards of underwriting.

As noted earlier, MHIC continually reexamines the way in which we conduct our business, as well as in the business terms required in partnership agreements. As MHIC has adapted its practices to the market, however, we have continued to maintain our commitment to rigorous underwriting of both the long-term viability of prospective sponsors and the long-term economic feasibility of each development. One of the fortunate by-products of the higher prices now being paid for tax credit investments is that more cash is available to finance project costs, including reserves, and to provide adequate fees for the work sponsors do as developers.

Memorial Parish House, Springfield

Goal: To achieve the level of returns promised to investors.

MHIC is proud of the fact that its Fund investments and its portfolio of early direct investments by member banks continue to meet or exceed their projected returns. In order to ensure that this will be the case in the future, MHIC continues to broaden and strengthen its asset management capacity and procedures.

As the size of our Funds increase, so has MHIC's ability to take on larger, more challenging investments, as described in the Projects section of this report. With an ever-growing pipeline of worthwhile investments, MHIC is prepared to expand its partnerships with developers and the communities they serve.

Quadrangle Court, Springfield

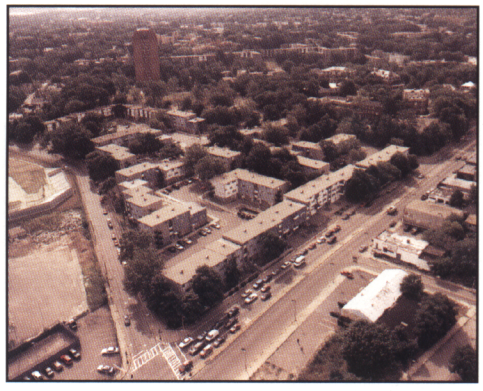
Projects

The brief project descriptions on the following pages illustrate the different types, the range and the geographic distribution of projects financed by MHIC through its loan and equity programs.

Since MHIC was founded in 1990, it has committed a total of $285 million under its Loan and Equity Programs to fund 88 affordable housing projects, and to create over 4,000 units of housing throughout Massachusetts.

The following projects have recently received financing through MHIC:

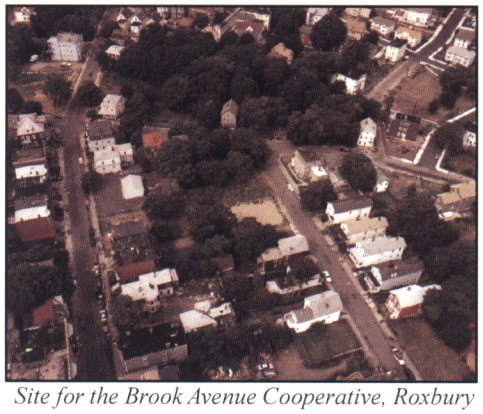
Academy Homes I, Roxbury: Acquisition and rehabilitation of 202 units of housing in 11 buildings on a 8.6 acre site in the Jackson Square area of Roxbury and Jamaica Plain. This project is being developed by Urban Edge Housing Corporation and Academy Homes Tenants Council. Proposed Equity investment: $3,575,000. Closing is expected in February 1998.



Academy Homes I, Roxbury

Bow Street Apartments, Somerville: Acquisition and rehabilitation of 18 units in an historic property in Somerville. Developed by the Somerville Community Corporation. Loan commitment: $1,477,367. Equity investment: $1,440,150. Completed and occupied.

Brook Avenue Cooperative, Roxbury: New construction of 36 two and three family cooperative homes on scattered sites abutting Blue Hill Avenue in the Dudley Street Neighborhood Initiative area. This project will be developed by Veterans Benefits Clearinghouse Development Corporation and The Gatehouse Group, Inc. Proposed equity investment: $4,641,299. Loan commitment: $3,955,000. Closing is expected in late 1997.

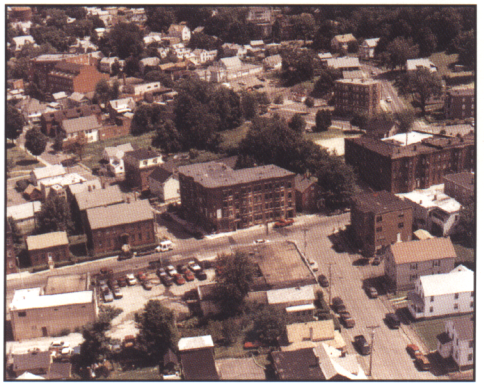


Site for the Brook Avenue Cooperative, Roxbury

Cabot Street House, Beverly: Acquisition and renovation of 45 units of SRO housing in downtown Beverly. This project is being developed by the Beverly Regional YMCA, which owns and operates the 80-year old building. Loan commitment: $1,180,000. Equity investment: $2,066,106. Closed and under construction.

Cabotville Common, Chicopee: Acquisition and substantial rehabilitation of two multi-family properties consisting of 33 units of family housing, two of which will be handicapped accessible. One property also includes 1,500 square feet of commercial space. Developed by the Valley Opportunity Council from

Opposite: Academy Homes in Boston.



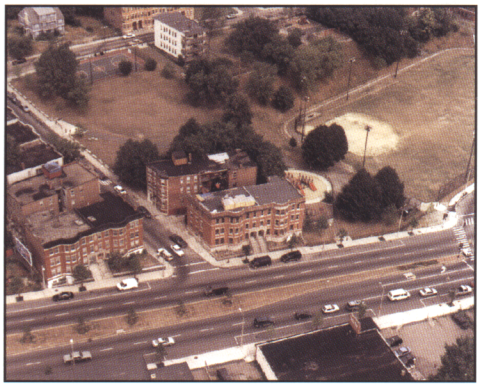
Cabotville Common, Chicopee

Holyoke. Loan commitment: $1,905,000. Equity investment: $2,040,340. Closed and under construction.

Cambridge Co-Housing, Cambridge: New construction of a 41-unit co-housing condominium development to be located in the Porter Square area of Cambridge. Developed by Cambridge Co-Housing LLP. The units will comprise 12 townhouses and 29 flats. Loan commitment: $6,551,400. Closed and under construction.

Ceylon Field Apartments, Dorchester: Acquisition and rehabilitation of 10 properties comprising 62 units of housing, developed by the Dorchester Bay Economic Development Corporation. Loan commitment: $4,467,894. Equity investment: $5,480,482. Closed and under construction.

Chestnut-Marlboro-Grove, Chelsea: Acquisition and substantial rehabilitation of four buildings in downtown Chelsea will create 43 apartment units. Boston Citywide Land Trust is the project developer, in conjunction with the Commission on Hispanic Affairs. Loan commitment: $1,808,796. Equity investment: $2,599,545. Closed and under construction.



Ceylon Field Apartments, Dorchester

Chestnut Street Residences, Springfield: Acquisition and substantial rehabilitation of the residential portion of the Metropolitan Springfield YMCA to create 104 SRO units. Proposed equity investment: $1,543,725; construction loan: $988,550. Closing is expected in early 1998.

Cleaves Court, Roxbury: Acquisition and rehabilitation of 36 apartment units in two buildings in Egleston Square. Project developer: Urban Edge Housing Corporation. Equity investment: $861,508. Closed and under construction.

Cohen Florence Levine Estates, Chelsea: New construction of a 69-unit assisted living facility for the elderly. The developer is the Chelsea Jewish Nursing Home Foundation, Inc. Loan commitment: $2,858,030. Equity investment: $3,681,425. Completed and occupied.

Commerce Apartments, Roxbury: Rehabilitation of 60 units in seven buildings in the Grove Hall section of Roxbury. The project developer is Thomas Welch and Associates. Loan commitment: $3,965,721. Completed and occupied.

Cohen Florence Levine Estates, Chelsea

Gardner, Crawford, Thane, Roxbury: Rehabilitation of five buildings totaling 64 units of mixed income housing. The developers are Lorenzo Pitts and John Loscocco. Equity investment: $1,197,044. Loan commitment: $832,023. Completed and occupied.

Garfield Place, Cambridge: Acquisition and construction of an 8-unit apartment building on Massachusetts Avenue in Cambridge. Upon completion, the Cambridge Housing Authority purchased the building from the developer, Richard Williams. Loan Amount: $1,072,000. Completed and occupied.

Infill Apartments Phase 2, Roxbury: Acquisition and completion of construction of three abandoned, unfinished buildings which provide 13 units of low and very low-income housing. The project was developed by Nuestra Comunidad Development Corporation. Loan commitment: $813,083. Equity investment: $1,165,000. Completed and occupied.

Kent Street, Somerville: New construction of 40 units of affordable rental housing to be constructed on a prime location in Somerville. The General Partner will be Kent Street Housing Inc. Equity investment: $2,408,367. Closing expected late 1997.

Chestnut Street Residence, Springfield

Kenwyn Apartments, Springfield: Rehabilitation of a 27-unit historic project which has 1,879 square feet of commercial space, developed by Hampden Hampshire Housing Partnership. Equity investment: $1,062,259. Loan commitment: $940,000. Completed and occupied.

Mandela Homes, Roxbury: Acquisition and moderate renovation of 276 units in 10 low and mid-rise brick buildings located on an aggregate of 5.6 acres of land. Beacon Residential Properties Limited Partnership will develop the property in conjunction with the Mandela Residents Cooperative Association. Proposed equity investment: $11,057,242. Proposed loan Amount: $7,215,000. Closing expected late 1997.

Infill Apartments II, Roxbury

Marian Street Duplexes, Framingham: Acquisition and renovation of 28 units in 14 two-story townhouse-style buildings. Each duplex will be sold to eligible families under the First-Time Home Buyers Program. The project developer is the South Middlesex Non-Profit Housing Corporation. Loan commitment: $1,206,000. Completed and occupied.

Memorial Parish House, Springfield: Rehabilitation of a historic building to provide 23 units of housing for low-income families. The project developer is the Springfield Housing Associates, an affiliate of the Springfield Housing Authority. Equity investment: $1,801,557. Completed and occupied.

New Port Antonio Apartments, Roxbury: Rehabilitation of 227 units in 33 buildings in Roxbury, developed by Long Bay Management Company. Loan commitment: $5,730,000. Equity investment: $4,170,000. BankBoston committed an additional equity investment of $5,776,450 to this project. Closed and under construction.

New South Street, Northampton: Acquisition and rehabilitation of a historic building, consisting of 18 units. The developer is Valley Community Development Corporation. Loan commitment: $1,085,180. Equity investment: $1,262,000. Closed and under construction.

Nueva Vida Apartments, South Holyoke: Substantial rehabilitation of three vacant buildings consisting of 24 units of family housing. The developer is Nueva Esperanza, Inc. Equity investment: $1,388,571. Loan commitment: $900,000. Completed and occupied.

Chestnut-Marlboro-Grove, Chelsea

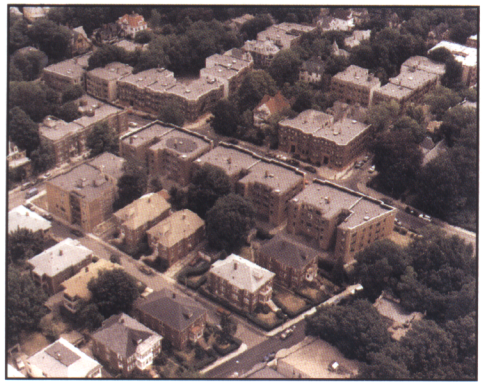
Marian Street Duplexes, Framingham

Oakwood Senior Estates, Swansea: New construction of 120 apartments for elderly residents in four two-story buildings on 6.5 acres. Developed by Robert Karam and Michel Biszko. Loan commitment: $3,600,000. Completed and occupied.

Perry Street, Lowell: Acquisition and moderate rehabilitation of 18 units in three adjacent, three-story walkup buildings, each housing six apartments. TCB Perry Street Limited Partnership is the developer. Equity investment: $1,019,984. Closed and under construction.

Quadrangle Court, Springfield: Substantial rehabilitation of 33 housing units in the Quadrangle-Armory neighborhood of Springfield. The developer is the Hampden Hampshire Housing Partnership. Proposed equity investment: $3,508,599. Closing expected in late 1997.

Sargent-Prince SRO, Roxbury: Acquisition and restoration of a vacant, historic property in the Dudley Square section of Roxbury, developed by Nuestra Comunidad Development Corporation. This project provides 29 SRO units and approximately 3,720 square feet of commercial space. Loan commitment: $1,133,575. Equity investment: $1,580,314. Completed and occupied.



New Port Antonio Apartments, Roxbury

Savin/Creston, Roxbury and Dorchester: Acquisition and rehabilitation of 26 residential units in two buildings and 3,900 square feet of commercial space. The Quincy-Geneva Housing Development Corporation is the project's developer. Loan commitment: $2,255,707. Equity Investment: $2,690,141. Closed and under construction.

South Canal Apartments, South Holyoke: Acquisition and renovation of an existing 127-unit family development. Co-developers of the project are Nueva Esperanza, Inc. and Hampden-Hampshire Housing Partnership. Equity investment: $3,196,659. Loan commitment: $1,215,000. Completed and occupied.

Symphony Apartments, Springfield: This project involved substantial renovation of 24 units in four vacant buildings, which were in a seriously deteriorated condition. Richard Anderson and Ed Brice are the developers. Loan commitment: $1,067,834. Equity investment: $1,929,203. Completed and occupied.

Symphony Apartments, Springfield

Triangle Rental Apartments, Lowell: Acquisition and major rehabilitation of four properties in the Acre Neighborhood of Lowell to create 22 units of family housing and four units for Department of Mental Health (DMH) clients, who will live independently with DMH assistance. The project developer is the Coalition for a Better Acre. Equity investment: $2,414,788. Loan commitment: $1,901,512. Closed and under construction.

Union Rand SRO, North Adams: This project involved refinancing and rehabilitation of two historic brick buildings to provide 41 SRO units for rental to low-income individuals. The developers are Charles and Dorothy Ransford. Loan commitment: $400,000. Completed and occupied.

***Uphams Corner Apartments, Dorchester*:** Acquisition and substantial rehabilitation of 36 units on four properties. The project's developer is Dorchester Bay Economic Development Corporation. Equity investment: $3,596,969. Loan commitment: $3,752,015. Completed and occupied.

Uphams Corner Apartments, Dorchester

Voces de Esperanza, Holyoke: This is a 36-unit rehabilitation project in the Churchill neighborhood of Holyoke. The development entity represents a joint venture between the Franklin Chestnut Residents Association and Nueva Esperanza, Inc. Loan commitment: $2,038,900. Equity investment: $2,729,000. Closed and under construction.

Westminster Court Apartments, Roxbury: Rehabilitation of a 27-year-old subsidized housing development consisting of 70 units of housing in three buildings. The project developer is Urban Edge Housing Corporation. The residents of Westminster Court have played a significant role in the acquisition, rehabilitation and management of the property. Equity investment: $4,911,000. Loan commitment: $872,000. Completed and occupied.

Winter Gardens, Weston: New construction of 24 single-family condominiums on nine acres of land. The developers are Sotir Papalilo and Mark O'Hagan. Total loan commitment: $2,186,667. Project is completed and all homes have been sold.

Winter Gardens, Weston

The following table summarizes all of the projects financed through MHIC since 1990, with the year of project completion.

Projects	*Units*	*Loan*	*Equity*	*Year*
123 Crawford Street SRO, *Boston*	17	$441,000		1993
1734 Washington Street, *Boston*	31		$1,097,500	1990
275 River Street, *Cambridge*	6	$184,800		1997
326 Shawmut Ave. SRO, *Boston*	11	$301,500		1993
41 Berkeley Street, *Lawrence*	38	$287,200		1994
604 Massachusetts Avenue, *Boston*	5	$380,000		1992
800 Main Street, *Worcester*	5	$175,000		1992
Academy Homes I, *Roxbury*	202		$3,757,624	1998
Alexander Magnolia Co-op, *Dorchester*	38	$1,000,000	$4,630,500	1993
Arch Project, *Roxbury*	75	$1,930,000		1994
Bancroft Apartments, *Jamaica Plain*	45	$1,390,679	$1,979,322	1995
Beaver Apartments, *Worcester*	26		$675,000	1993
Bow Street Apartments, *Somerville*	18	$1,477,376	$1,440,150	1996
Brook Avenue Coop, *Roxbury*	38	$3,954,668	$4,641,299	1998
Brooks School, *Roxbury*	56		$4,030,000	1991
Building 104, *Charlestown*	46		$5,330,000	1994
Burbank Street Apartments, *Boston*	35	$1,946,015	$2,227,597	1995
Cabot Street House, *Beverly*	45	$1,180,000	$2,066,106	1997
Cabotville Common, *Chicopee*	36	$1,905,000	$2,040,000	1997
Cambridge Co-Housing, *Cambridge*	41	$6,551,400		1997
Cambridge Community Properties, *Cambridge*	59	$3,150,000	$1,914,976	1995
Ceylon Field Apartments, *Dorchester*	62	$4,467,894	$5,480,000	1997
Cherry Hill, *Amherst*	32	$2,801,405		1994
Chestnut Marlboro Grove, *Chelsea*	49	$1,808,796	$2,599,546	1997
Chestnut Street Residences, *Springfield*	104	$988,550	$1,543,725	1998
Cleaves Court Apartments, *Jamaica Plain*	36		$861,509	1997
Cohen Florence Levine Estates, *Chelsea*	69	$2,858,032	$3,681,425	1996
Commerce Apartments, *Roxbury*	60	$3,965,721		1996
Cortes Street, *Boston*	48		$1,300,000	1993

(continued on following page)

Westminster Court Apartments, Roxbury

Projects (continued)	*Units*	*Loan*	*Equity*	*Year*
Daly House SRO, *Roxbury*	19	$450,000		1993
Danube Associates, *Boston*	65	$2,180,000		1996
Depot Crossing, *Wareham*	32		$903,477	1994
Dorchester Bay Buildable Lots, *Boston*	12	$730,000		1992
Fairfield Properties, *Boston*	30		$1,470,771	1995
Florida Street, *Dorchester*	7	$290,000		1995
Fr. Walter J. Martin Homes, *South Boston*	34	$1,600,000	$4,335,694	1993
Gardner Crawford Thane, *Roxbury*	64	$832,023	$1,197,044	1996
Garfield Place, *Cambridge*	8	$1,072,000		1997
Grinnell Mansion, *New Bedford*	17		$920,000	1994
Huntington House, *Boston*	88	$3,137,105	$5,501,207	1996
Hyde Square Co-op, *Jamaica Plain*	41	$1,200,000	$3,430,000	1992
I & R Group Homes II, *Peabody, Danvers*	12	$610,000		1995
I & R Group Homes III, *N. Andover, Peabody*	8	$410,500		1995
Infill 2, *Roxbury*	13	$813,083	$1,165,134	1996
Jacob's Place, *Dorchester*	30	$952,000		1992
JT Housing, *Dorchester*	12	$405,000		1994
Kendall SRO, *Chicopee*	44		$781,500	1994
Kent Street Apartments, *Somerville*	40		$2,408,368	1998
Kenwyn Apartments, *Springfield*	27	$940,000	$1,062,259	1995
Langham Court, *Boston*	84		$4,275,000	1990
Lawrence YMCA SRO, *Lawrence*	73	$1,660,000	$1,438,909	1994
Lopes Buildable Lots, *Boston*	4	$298,300		1993
Lucerne Gardens, *Boston*	45		$3,490,000	1993
Mandela Apartments, *Boston*	276	$7,215,000	$11,057,242	1998
Marian Street Duplexes, *Framingham*	28	$1,206,000		1996
Memorial Parish House, *Springfield*	23		$1,801,557	1996
Merriam Village, *Weston*	32	$2,691,204		1994
New Port Antonio Apartments, *Roxbury*	227	$5,730,000	$4,170,076	1997
New South Street Apartments., *Northampton*	18	$1,085,180	$1,262,071	1997
North Hill Homes, *Westborough*	23	$1,700,000		1992
Nueva Vida Apartments, *Holyoke*	24	$900,000	$1,398,288	1995
Oak Terrace, *Boston*	88	$2,983,700	$6,400,000	1994
Oakwood Senior Estates, *Swansea*	120	$3,960,000		1997
Parkview SRO, *Boston*	63	$1,195,000	$1,451,000	1993
Parmelee Court, *Boston*	74		$2,800,000	1992
Perry Street, *Lowell*	18		$1,019,984	1998
Pomeroy Lane, *Amherst*	25		$1,436,000	1993
Prang Estates, *Roxbury*	33	$1,199,368	$2,365,000	1993
Quadrangle Court, *Springfield*	33		$3,508,599	1998
Ridgewood Village, *Chicopee*	50	$1,177,500		1991
Roxbury Corners, *Boston*	54		$3,575,000	1990
Sargent Prince SRO, *Roxbury*	29	$1,133,575	$1,580,314	1996
Savin/Crestin, *Roxbury and Dorchester*	26	$2,255,701	$2,675,322	1997
South Canal Apartments, *Holyoke*	127	$1,215,000	$3,196,659	1995
South City, *Holyoke*	66		$3,125,000	1992
Stafford Heights, *Roxbury*	41	$3,100,000	$4,513,295	1994
Stony Brook Gardens, *Jamaica Plain*	50	$1,900,000	$4,942,000	1992
Symphony Apartments, *Springfield*	24	$1,067,834	$1,929,203	1995
Tapley School, *Springfield*	30	$1,557,850	$3,003,700	1994
Triangle Rental Apartments, *Lowell*	26	$1,901,512	$2,414,788	1997
Union Rand SRO, *North Adams*	41	$400,000		1997
Uphams Corner, *Dorchester*	36	$3,752,015	$3,596,969	1996
VBC Apartments, *Boston*	30		$3,360,000	1990
Voces de Esperanza, *Holyoke*	36	$2,039,619	$2,729,267	*1998*
Warren Avenue Apartments, *Boston*	30		$1,498,000	1998
Waterford Place, *Boston*	40		$2,000,000	1991
Westminster Court Apartments, *Roxbury*	70	$871,935	$4,910,644	1997
Winter Gardens, *Weston*	24	$2,186,667		1996
Total Closed and Approved	**4,076**	**$115,149,707**	**$169,851,000**	

The 23 member corporations have collectively committed $281,289,000 to finance affordable housing developments, with net investment in projects of $285 million. (It should be noted that the loan funds are recycled, allowing the total financing amount to exceed the available funds.) The current status of these commitments is outlined in the following table.

	Loan Program		*Equity Program*		*Overall Total*	
Participating Corporations	*Approved/ Capitalized*	*Approved/ Closed*	*Total Capitalized*	*Approved/ Closed*	*Commitment*	*Closed*
BankBoston	21,000	45,262	52,689	35,657	73,689	80,919
Fleet Bank	20,500	44,185	49,190	38,756	69,690	82,941
State Street Bank and Trust	4,600	9,915	32,791	24,332	37,391	34,247
Freddie Mac	0	0	25,700	16,406	25,700	16,406
Boston Safe Deposit & Trust	0	0	24,716	21,628	24,716	21,628
Fannie Mae	0	0	10,681	8,149	10,681	8,149
PNC Bank New England	1,500	3,233	4,979	3,251	6,479	6,484
Citizens Bank	500	1,078	4,539	2,938	5,039	4,016
USTrust	1,000	2,155	2,858	1,981	3,858	4,137
First Massachusetts Bank	0	0	2,840	1,415	2,840	1,415
Boston Private Bank & Trust	300	647	1,420	875	1,720	1,522
Compass Bank	0	0	1,595	882	1,595	882
Wainwright Bank & Trust	1,000	2,155	0	0	1,000	2,155
FDIC (Workingmen's Coop Bank)	1,000	2,155	0	0	1,000	2,155
Fall River Five Cents Savings Bank	0	0	568	283	568	283
Hyde Park Savings Bank	250	539	55	55	305	594
Telephone Workers' Cooperative Bank	300	647	0	0	300	647
Springfield Institution for Savings	250	539	0	0	250	539
Boston Bank of Commerce	250	539	0	0	250	539
Atlantic Bank & Trust	250	539	0	0	250	539
Stoneham Savings Bank	250	539	0	0	250	539
Grove Bank	250	539	0	0	250	539
United States Trust Company	225	485	0	0	225	485
NYNEX *	0	0	3,569	3,569	3,569	3,569
Houghton Mifflin *	0	0	3,133	3,133	3,133	3,133
Prudential *	0	0	2,993	2,993	2,993	2,993
Philip Morris *	0	0	1,500	1,500	1,500	1,500
Gillette *	0	0	910	910	910	910
John Hancock *	0	0	830	830	830	830
Other Corporations *	0	0	308	308	308	308
Total	53,425	115,151	227,864	169,851	281,289	285,003

* *Invested individually in projects financed through MHIC.*

Note: All figures are in $1,000's.

MANDELA

Mandela

Finances of the Corporation

The Corporation is designed to be self-supporting, covering its expenses with revenue from its two main programs. The Corporation completed its seventh year of operation with a surplus of income over expenses. The attached consolidated financial statements provide additional detail of the Corporation's finances.

In February 1993, the Corporation secured approval from the Internal Revenue Service (IRS) of its status as a 501(c)(3) charitable non-profit corporation.

Under the Loan Program, MHIC earns an interest rate spread of 1% to 1.5%. To support the finances of the Corporation, participating banks accept a lower return of interest on invested loan balances.

The Corporation has allocated $225,000 for a reserve against potential future loan losses. A Credit Review Committee comprised of members of the Board reviewed the Corporation's portfolio of loans, affirmed the risk rating of each loan, and concluded that there was no need to establish any reserves for specific credits. MHIC has not experienced any loan losses during its seven years of operation.

Under the Equity Program, MHIC has established a wholly owned subsidiary, Massachusetts Housing Equity Fund, Inc. (MHEF), which acts as general partner of limited partnerships (the Partnerships) structured for investment in low-income housing projects in Massachusetts. MHIC provides syndication, organization, underwriting, construction management, and long-term asset management and partnership administration services to the Partnerships for fees, according to an established investment and management agreement. In addition, MHIC receives investor servicing fees that relate to contractual agreements prior to the establishment of MHEF. MHIC has capitalized MHEF in the amount of $1,752,044.

Opposite: Mandela Apartments in Roxbury.

ERNST & YOUNG LLP

Report of Independent Auditors

Board of Directors
The Massachusetts Housing Investment Corporation

We have audited the accompanying consolidated balance sheets of the Massachusetts Housing Investment Corporation (the Corporation) as of June 30, 1997 and 1996, and the related consolidated statements of revenues and expenditures, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 consolidated financial position of the Massachusetts Housing Investment Corporation at June 30, 1997 and 1996, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

Ernst + Young LLP

August 22, 1997

Massachusetts Housing Investment Corporation

Consolidated Balance Sheets

	June 30	
	1997	1996
Assets		
Cash	**$ 71,580**	$ 97,191
Loan fund:		
Project loans, net of allowance for loan losses of $225,000 in 1997 and $200,000 in 1996	**9,260,793**	5,826,309
Money market deposits at member banks	**43,939,207**	46,923,691
Total loan fund	**53,200,000**	52,750,000
Loan guarantee direct loans:		
Loan guarantee funds on deposit	**5,193,474**	0
Project loans	**0**	0
Total loan guarantee direct loans	**5,193,474**	0
Notes receivable	**5,731,167**	3,598,401
Amounts receivable and other assets	**942,861**	774,227
Furniture, equipment and leasehold improvements, net of accumulated depreciation and amortization of $290,489 in 1997 and $191,432 in 1996	**106,018**	171,200
Total assets	**$65,245,100**	$57,391,019
Liabilities and net assets		
Liabilities:		
Notes payable to member banks	**$53,425,000**	$52,950,000
Notes payable -- loan guarantee program	**5,193,474**	0
Unearned fees	**5,667,741**	3,973,070
Accrued interest and other liabilities	**453,490**	347,151
Total liabilities	**64,739,705**	57,270,221
Net assets	**505,395**	120,798
Total liabilities and net assets	**$65,245,100**	$57,391,019

See accompanying notes to consolidated financial statements.

Massachusetts Housing Investment Corporation

Consolidated Statements of Revenues and Expenditures

	Year ended June 30	
	1997	1996
Revenue		
Interest revenue and fees:		
Interest on bank deposits	**$ 1,442,887**	$ 1,333,371
Interest on project loans, and loan guarantee fees	**637,138**	530,954
Total interest revenue	**2,080,025**	1,864,325
Interest expense on notes payable to member banks	**(1,267,107)**	(1,205,512)
Interest expense on loan guarantee notes payable	**(78,235)**	0
Net interest revenue before provision for loan losses	**734,683**	658,813
Provision for loan losses	**(25,000)**	(25,000)
Net interest revenue after provision for loan losses	**709,683**	633,813
Equity program revenue:		
Fees related to MHEF limited partnerships	**2,512,454**	1,795,117
Other equity program fees	**41,266**	51,500
Total revenue	**3,263,403**	2,480,430
Expenditures		
Salaries and employee benefits	**1,739,048**	1,406,159
Occupancy, equipment and furniture	**270,775**	265,674
Professional services	**464,569**	396,471
Other expenses	**404,414**	386,386
Total expenditures	**2,878,806**	2,454,690
Excess of revenue over expenditures	**384,597**	25,740
Net assets at beginning of year	**120,798**	95,058
Net assets at end of year	**$ 505,395**	$ 120,798

See accompanying notes to consolidated financial statements.

Massachusetts Housing Investment Corporation
Consolidated Statements of Cash Flows

	Year ended June 30	
	1997	1996
Operating activities		
Excess of revenue over expenditures	**$ 384,597**	$ 25,740
Adjustments to reconcile excess of revenue over expenditures to net cash used by operating activities:		
Provision for loan losses	**25,000**	25,000
Depreciation and amortization expense	**99,057**	89,839
(Increase) decrease in amounts receivable and other assets	**(168,634)**	3,152
Decrease in unearned fees	**(788,651)**	(256,937)
Increase in accrued interest and other liabilities	**106,339**	41,956
Total adjustments	**(726,889)**	(96,990)
Net cash used by operating activities	**(342,292)**	(71,250)
Investing activities		
Project loans disbursed	**(18,031,597)**	(12,668,729)
Payments received on project loans	**14,572,113**	11,459,135
Increase in loan guarantee funds in short-term investments	**(5,193,474)**	0
Decrease in money market deposits at member banks	**2,984,484**	659,594
Payments received on notes receivable	**350,556**	31,991
Purchases of furniture, equipment and leasehold improvements	**(33,875)**	(36,802)
Net cash used by investing activities	**(5,351,793)**	(554,811)
Financing activities		
Proceeds from notes payable to member banks	**475,000**	550,000
Proceeds from notes payable to loan guarantee lenders	**5,193,474**	0
Net cash provided by financing activities	**5,668,474**	550,000
Net decrease in cash	**(25,611)**	(76,061)
Cash at beginning of year	**97,191**	173,252
Cash at end of year	**$ 71,580**	$ 97,191
Supplemental disclosures of cash flow information:		
Non-cash investing activity:		
Unearned fee recorded in exchange for notes receivable	**$2,483,322**	$2,748,555
Cash paid during the year for interest on notes payable to member banks	**$1,225,603**	$1,185,360

See accompanying notes to consolidated financial statements.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements

1. Background and Accounting Policies:

Purpose: On July 1, 1990, the Massachusetts Housing Investment Corporation (MHIC) was formally established as a Massachusetts-chartered, Chapter 180, not-for-profit corporation. MHIC's mission is to pool the resources of Massachusetts banks to improve and expand the financing of affordable housing throughout the state. To date, MHIC has established a loan pool which provides loans for affordable housing on a statewide basis to not-for-profit as well as for-profit developers. Prior to January 1994, MHIC managed a program that provided assistance to member banks in underwriting low-income housing tax credit investments. In June 1993, MHIC established a wholly-owned subsidiary, Massachusetts Housing Equity Fund, Inc. (MHEF), which is the General Partner of four limited partnerships (the Partnerships) structured for investment in low-income housing projects in Massachusetts.

Principles of Consolidation: The consolidated financial statements include the accounts of MHIC and its wholly-owned subsidiary, MHEF. All significant inter-company transactions and balances have been eliminated in consolidation.

MHEF: MHIC has capitalized MHEF in the amount of $1,752,044. MHEF, as general partner of the aforementioned Partnerships, has a 1% interest in their respective profits, losses, and distributions. MHEF accounts for its investment in the Partnerships using the equity method. Under the equity method, the investments are carried at cost and adjusted for the Partnership's share of income, losses, additional investments and cash. At June 30, 1997, the Partnerships have combined total assets and a combined cumulative deficit of approximately $58,261,918 and $9,938,534 respectively.

Accrual Basis: The consolidated financial statements of MHIC have been prepared on an accrual basis.

Project Loans and Allowance for Possible Project Loan Losses: Loans are stated at the amount of unpaid principal, net of the allowance for loan losses. Interest on project loans is recognized as income by applying the interest rates to the principal amount outstanding. An allowance for project loan losses is maintained based upon the evaluation of the risks associated with the outstanding loans. Any losses or recoveries subsequently realized are charged or credited to the allowance.

Furniture, Equipment and Leasehold Improvements: Furniture, equipment and leasehold improvements are stated at cost, less accumulated depreciation and amortization. Depreciation is computed by the straight-line method using rates based on estimated useful lives.

Revenue Recognition for Fees Related to MHEF LP's: The Partnerships have contracted with MHIC to provide broad services that include organization, syndication, underwriting, long-term asset management and partnership administration. The fees for syndicating and organizing the Partnerships are recognized when syndication is substantially complete. The fees for underwriting investments are recognized according to the percentage of work complete. The fees for asset management and partnership administration are recognized evenly over the life of the Partnerships (estimated to be approximately 15 years). In addition, MHIC monitors the construction process for the project investments in the various Partnerships. The fee for this service is paid by the project's sponsor and is recognized over the estimated construction period. During 1997 and 1996, MHIC recognized fees of approximately $2,512,000 and $1,795,000 for services provided and costs incurred in connection with the formation and operations of the Partnerships.

Income Tax Status: MHIC has been granted tax-exempt status as a 501(c)(3) corporation under federal tax law. MHEF is a for-profit corporation and therefore is taxable for federal and state income tax purposes.

Risks and Uncertainties: Financial statements prepared in accordance with generally accepted accounting principles require the use of significant management estimates which affect the amounts and disclosures recorded in the financial statements. Actual results may differ from those estimates.

2. Notes Payable to Member Banks: MHIC funds their loan pool through unsecured notes issued to member banks pursuant to a Master Membership Agreement. Under this agreement, all note proceeds not lent are required to be deposited in interest-bearing deposit accounts at the respective lending institutions. The notes accrue interest at 1% less than the annual interest rate earned on the interest-bearing accounts. All lent proceeds bear interest at the prime rate less 1%. The average rate in effect for lent proceeds was 7.25% at June 30, 1997. These notes are renewable annually. If they are not renewed, they require no principal amortization for five years and then amortize over a five-year period at an amount equal to the stated amount of the note less the member's pro rata share of unfunded losses. At June 30, 1997, outstanding borrowings under these agreements totaled $53,425,000.

3. Note Receivable and Unearned Fees: The notes receivable from MHEF LPs represent the present value (using effective interest rates that range from 8% to 9%) of future cash payments that will be received by MHIC for asset management and other services it will provide to the Partnerships, as specified in the partnership agreement. At June 30, 1997 and 1996, notes receivable were $5,731,167 and $3,598,401, respectively. At June 30, 1997 and 1996, notes receivable included accrued interest of $708,551 and $347,013, respectively.

Unearned equity fees reflect the fact that MHIC is obligated to provide future services to the Partnerships as consideration for the aforementioned note receivable. These services include underwriting investments, and long-term asset management and partnership administration. This obligation is reduced as services are provided, according to the revenue recognition methodology associated with the particular service (*see note 1, revenue recognition*). At June 30, 1997 and 1996, unearned equity fees were $5,034,534 and $3,533,055, respectively.

4. Project Loans: MHIC provides loans for the development of affordable housing throughout Massachusetts.

Project loan activity was as follows:	*1997*	*1996*
Beginning balance	$ 6,026,309	$ 4,816,715
Loan disbursements	18,031,597	12,668,729
Loan repayments	(14,572,113)	(11,459,135)
Project loans outstanding	9,485,793	6,026,309
Allowance for loan losses	(225,000)	(200,000)
Project loans, net	$ 9,260,793	$ 5,826,309

Project loans earn a variable rate of interest pursuant to MHIC's established loan policy and are secured by the underlying real estate. In certain instances, the primary repayment of these loans will be received from the equity syndication payments provided to the project by the MHEF LP tax credit equity investment program. At June 30, 1997, MHIC had no delinquent or non-performing project loans and there have been no charge-offs recorded to date.

5. Commitments: At June 30, 1997, MHIC had unfunded commitments to originate loans of $21,378,991. These commitments have been established pursuant to MHIC's loan policy.

6. Loan Guarantee Program: Under the loan guarantee program, MHIC utilizes its loan pool as collateral to provide guarantees for loans made by third parties (Third Party) or to obtain fixed-rate funding for loans that it directly originates (Direct). MHIC offers two products under the program. The first product is a project loan guarantee, whereby MHIC administers construction loans for other parties, and assumes the construction period risk by guaranteeing repayment of the loan. Such transactions are treated as off-balance sheet liabilities and therefore are not presented in the body of the financial statements. The second product consists of direct loans made by MHIC, where its loan pool is used as collateral to secure funding, which is then advanced to borrowers. The corresponding borrowing to fund such loans are invested in short-term government backed securities until the funds are advanced.

Notes to Consolidated Financial Statements *(continued)*

Loan guarantee activity was as follows:

	1997			1996		
	Third Party	*Direct*	*Total*	*Third Party*	*Direct*	*Total*
Guarantees/Commitments	$6,145,721	$5,411,093	$11,556,814	$6,145,721	$ 0	$ 6,145,721
Beginning balance – loans	$ 960,567	0	960,567	0	0	0
Loan disbursements	5,185,154	0	5,185,154	960,567	0	960,567
Loan repayments	(2,180,000)	0	(2,180,000)	0	0	0
Loans outstanding	$3,965,721	0	$ 3,965,721	$ 960,567	0	$ 960,567
Funds at risk	$3,965,721	$5,411,093	$ 9,376,814	$6,145,721	$ 0	$ 6,145,721

7. Leases: MHIC leases its facilities and certain furniture and equipment under operating leases which expire over the next sixty months and require various minimum rental payments. Future minimum payments, by year and in aggregate, under these noncancelable operating leases consist of the following at June 30, 1997:

1998	$231,297
1999	$238,060
2000	$230,027
2001	$238,886
2002	$241,839
TOTAL	**$1,180,109**

MHIC incurred rent expense associated with office space and equipment of approximately $217,900 and $183,000 in 1997 and 1996, respectively.

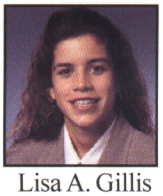
8. Employee Benefit Plan: As a tax-exempt 501(c)(3) corporation, MHIC established a noncontributory, defined contribution plan under Section 401(a) of the Internal Revenue Code covering all full-time employees. The only source of contributions under the Plan is the annual employer contribution. The employer contribution is based upon a percentage of employee salary. MHIC contributed and charged to expense approximately $71,000 in 1997 and $58,000 in 1996.

MHIC Staff

Paul K. Chan
Senior Equity Investment Officer

Ellen P. Connolly
Finance Officer

Andrea R. Daskalakis
Senior Equity Investment Officer



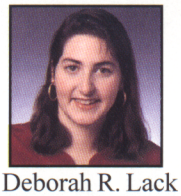
Lisa A. Gillis
Loan Administration Specialist

Joseph P. Henefield
Director of Equity Investment

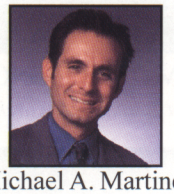
Marianne M. Horan
Manager of Administration

Carolyn M. Jackson
Executive Assistant

Joseph L. Flatley
President and CEO



Deborah R. Lack
Associate Asset Management Officer

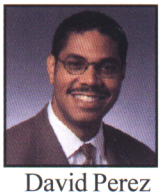


Michael A. Martinez
Senior Asset Management Officer

Carolyn A. Navarro
Loan Officer

Isabel B. Newman
Senior Lender

Niall J. O'Farrell
Director of Corporate Strategy and Information Technology



David Perez
Senior Asset Management Officer

Jeanne M. Pinado
Senior Equity Investment Officer

Desiree Simonds
Loan Administrative Assistant

Garrett R. Spellman
Network Administration Specialist

Henry Terrones
Equity Administrative Specialist

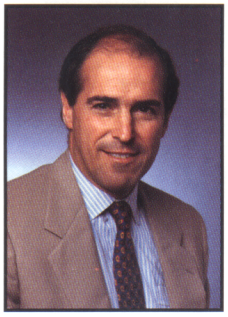
William A. Thompson
Director of Finance and Administration

Raymond H. Weaving
Director of Lending

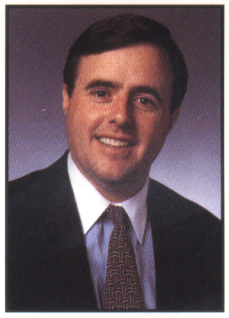
Tracy E. Welch
Office Services Coordinator

MHIC Board of Directors

Guilliaem Aertsen, *Chairman*
BankBoston



Paul Calhoun
Boston Safe Deposit & Trust Co.



Walter Mercer, *Vice Chairman*
Fleet Bank of Massachusetts

Susan Winston Leff *
Fleet Bank of Massachusetts

Daniel Cruz, Jr.
Minority Developers Association

Evelyn Friedman
Nuestra Comunidad

Steven D. Pierce
Massachusetts Housing Finance Agency

Charles Dahm
State Street Bank & Trust Company

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City of Boston

Peter B. Sargent
BankBoston

B. John Dill
Springfield Institution for Savings

Joan Gulley *
PNC Bank New England

Kenneth D. Wade
Neighborhood Reinvestment Corp.

** Resigned from the Board during the year*

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Elizabeth Gruber, BankBoston
Robert Pyne, Massachusetts Housing Finance Agency
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Esther Schlorholtz, Boston Private Bank & Trust Co.
Michael Crawford, USTrust
Robert Fitzpatrick, BankBoston (Springfield)
Joseph L. Flatley, Massachusetts Housing Investment Corp.

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Peter Sargent, *Co-Chair*, BankBoston
Nancy Curry, Citizens Bank of Massachusetts
Evelyn Friedman, Nuestra Comunidad
Elizabeth Gruber, BankBoston
Margaret Harrison, Boston Safe Deposit & Trust
Sarah Schwenzfeier, City of Boston
Lien Tung, Fleet Bank of Massachusetts
Joseph L. Flatley, Massachusetts Housing Investment Corp.

Massachusetts Housing Equity Fund, Inc.

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Walter E. Mercer, *Vice-Chair*, Fleet Bank of Massachusetts
Charles E. Dahm, State Street Bank & Trust
Evelyn Friedman, Nuestra Comunidad
Charles Grigsby, City of Boston
Steven Pierce, Massachusetts Housing Finance Agency
Peter B. Sargent, BankBoston
Joseph L. Flatley, Massachusetts Housing Investment Corp.

Assistant Treasurer: **Gregory Badger**, BankBoston

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Sylvia Watts McKinney
Mary Nee
David Officer
Thomas J. O'Malley
John Shea
Marvin Siflinger
Warren Smith
John Taylor
John Vogel
John Warren

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Fleet Bank of Massachusetts

State Street Bank and Trust

Boston Safe Deposit & Trust

Freddie Mac

Fannie Mae

PNC Bank New England

USTrust

First Massachusetts Bank

Citizens Bank

Wainwright Bank & Trust

Federal Deposit Insurance Corporation

Boston Bank of Commerce

Boston Private Bank & Trust

Springfield Institution for Savings

Compass Bank

Fall River Five Cents Savings Bank

Stoneham Savings Bank

Atlantic Bank & Trust

Hyde Park Savings Bank

Grove Bank

Telephone Workers' Cooperative Bank

United States Trust Company

Massachusetts Housing Investment Corporation
70 Federal Street
Boston, MA 02110
Telephone: (617) 338-6886 Fax: (617) 338-8916 E-mail: Info@mhic.com