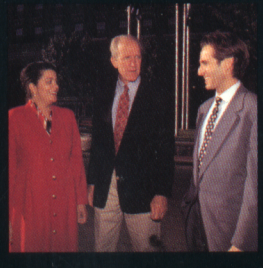
Massachusetts
Housing
Investment
Corporation

1996 Annual Report

WORKING WITH OUR PARTNERS TO BUILD BETTER COMMUNITIES



Mission Statement

The mission of the Massachusetts Housing Investment Corporation (MHIC) can be summarized as follows:

> *To finance quality affordable housing throughout the Commonwealth; to supplement the financing available from banks for affordable housing; to aggregate and coordinate the effective use of public and private resources necessary to finance affordable housing.*

The net result of this mission should be that more and better affordable housing projects are financed, and that they are done so in a more efficient manner. As an institution established by private banks in collaboration with community leaders, MHIC's mission depends on a partnership among banks, housing sponsors, and public agencies.

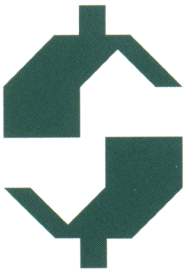
In undertaking this mission, MHIC is founded on four core values:

1. To attract private capital to finance affordable housing on an ongoing basis as a self-sustaining venture.

2. To focus on geographic areas, sponsors, and projects which would not otherwise be able to receive financing.

3. To support the sponsors of affordable housing in their efforts to build and maintain stable, healthy communities.

4. To improve and add value to the system of financing affordable housing, and not merely be one more player.



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Info@mhic.com

Participating Banks and Corporations

Fleet Bank of Massachusetts

Bank of Boston

State Street Bank and Trust

Boston Safe Deposit

BayBank

Freddie Mac

Fannie Mae

PNC Bank New England

USTrust

Citizens Bank

Wainwright Bank & Trust

Federal Deposit Insurance Corporation

Boston Bank of Commerce

Boston Private Bank and Trust

Springfield Institution for Savings

Stoneham Savings Bank

Atlantic Bank and Trust

Hyde Park Savings Bank

New England Telephone Workers Cooperative Bank

From the Chairman and the President

December 1996

This past year has been remarkable for MHIC in significant ways. While vigorously pursuing our mission and achieving growth in our financing programs, we continue to experience major changes in the environment – changes that impact nearly every aspect of how we work and how we achieve our goals.

Over this past year we have witnessed further consolidation of the banking industry, changes in the real estate market, and perhaps most significantly, an overhaul of federal housing policy. One major federal housing program – the Low Income Housing Tax Credit program – has survived government cutbacks, and its future will depend on its ability to maintain a broad base of support.

It is important to note, too, that the transformations now under way are by no means complete. The economic, social and political forces driving all these changes have not yet run their course. The world we are now operating in is a much different place than it was when MHIC was founded in 1990, and it will be a much different place tomorrow. At this juncture, only one thing is clear: the housing needs of too many people are not currently being met through the marketplace.

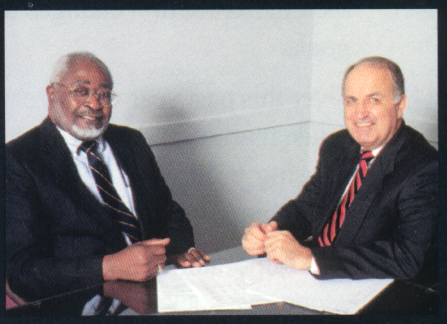
It is in the face of such challenges that MHIC has continued to make progress developing new investment vehicles, forging new alliances, continuing to provide competitive returns to our investors, and getting money into the hands of people committed to building affordable housing and improving communities throughout the Commonwealth.

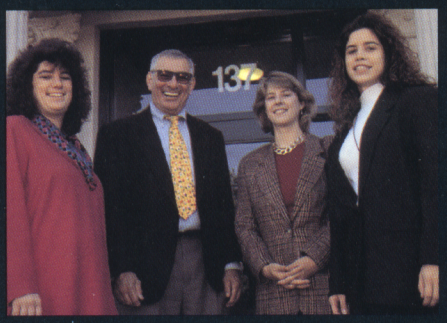
The results we have achieved in helping to finance affordable housing are testimony to the skills, energy, spirit and commitment of the people who work for and with MHIC. Looking to the future, we are committed to building on these strengths and the superior partnerships we have formed so that we can continue to play a unique role in a rapidly changing world.

Sincerely,

GUILLIAEM AERTSEN
Chairman

JOSEPH L. FLATLEY
President and CEO



YMCA

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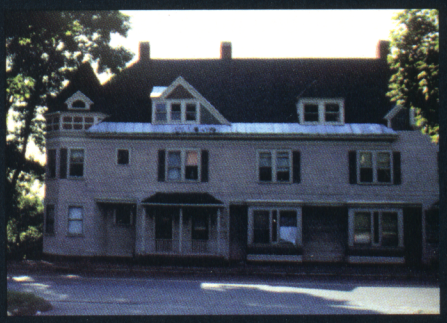

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During its sixth year of operation, the Massachusetts Housing Investment Corporation entered a new phase in its evolution as a central player in financing the development of affordable housing in Massachusetts. MHIC has enhanced its position to capitalize on the strength of its organization, the skills and commitment of its people and the lessons of its experience.

Cambridge Community Properties

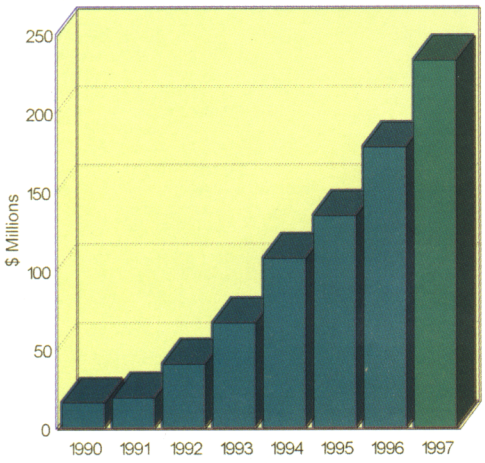
MHIC's mission to finance the development of quality affordable housing has not changed since the corporation was founded in 1990. But the means for achieving that mission have necessarily been altered in response to radical changes in the environment. Since its founding, MHIC has had to craft new solutions and adapt its investment vehicles so that more and better affordable housing is financed in the most efficient manner, and so that investors and project sponsors profit from their investments. But rarely have the challenges been so great.

Notwithstanding these challenges – continued transformation of the banking industry, a changing subsidy environment, regulatory and public policy changes, and increased competition – MHIC this past year achieved the highest level of new loan commitments and closings in any one year since its founding. The average loan amount was nearly doubled, from $1.3 million in previous years to $2.1 million in 1996. Two new banks joined MHIC's Loan Program, bringing the total investment in the Program to $52,950,000. MHIC closed its third and largest equity fund, the *Massachusetts Housing Equity Fund 1996 Limited Partnership*, after raising $43 million in investor subscriptions.

Uphams Corner Apartments, Dorchester

Through its loan and equity programs, MHIC this year invested a total of $85 million for the creation of 1,126 housing units in 21 projects. This brings the total amount invested to date to more than $225 million, for the creation of over 3,100 housing units.

It is important to note that in achieving these impressive results, MHIC completed each of its six years of operation with a surplus over expenses. MHIC has not experienced any loan losses or charge-offs during this six year period.



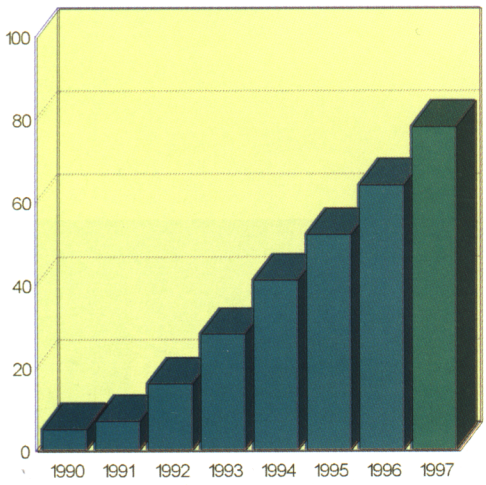
Cumulative Investment by MHIC

Of major significance this year was a change in leadership of the organization. After serving as Chairman of MHIC's 15-member Board of Directors for five years – during which time MHIC established a reputation as a national model– David Spina handed over the reins to Rusty Aertsen. Often described as "a hands-on leader," Mr. Aertsen has been actively involved as Vice-Chairman in all aspects of MHIC business since the organization's inception. His contributions and commitment will continue to be an inspiration to MHIC as it moves into a new era.

Achieving greater geographic diversity in the projects funded has been one of MHIC's major strategic goals. To that end, MHIC this year extended its reach to western and southwestern Massachusetts, funding projects in such communities as North Adams, Northampton, Swansea, and Springfield.

Among the achievements of which MHIC is most proud is the progress it has made in advancing the goal of expanded minority participation. To be sure, this is an increasingly challenging goal, but MHIC is pleased to see the increased levels of opportunities for minority workers and businesses in the projects it finances. Over the past year, MHIC has put in place a solid foundation for establishing and monitoring minority participation objectives for each of the projects it finances. Building on that foundation, MHIC is working to strengthen the participation of minority contractors in the early stages of project development, and to build a growing base of minority businesses which its financing programs can support.

As a new initiative, MHIC will be offering permanent loans, focusing particularly on loans for small multi-family properties. MHIC will concentrate on establishing systems for origination, servicing, interest rate management, and loan sales.



Cumulative Projects Financed by MHIC

While MHIC finances new construction, rehabilitation and/or acquisition, its primary emphasis will continue to be on preservation of existing housing stock and creation of multi-family rental units.

Looking to the future, MHIC must seriously consider the evolving environment in which it operates and adapt accordingly. As capital markets continue to improve, for example, new opportunities and challenges will arise for MHIC. An example is the willingness of some capital sources to provide forward-rate commitments for fixed-rate debt, so long as their funds are advanced during construction and so long as the capital source bears no construction risk. MHIC adapted to take advantage of this opportunity by developing a loan guarantee program.

Other factors which present both challenges and opportunities for MHIC include the slowly (and unevenly) rebounding real estate market; the changing landscape of public support for affordable housing; and continued broad-based political support for the Low Income Housing Tax Credit.

As in the past, what will make MHIC excel as a specialized private lender is its ability to define its role, within the context of what other lenders are offering, as a unique player in the system for financing affordable housing.

Over the past six years, MHIC has made considerable progress in achieving its mission. Clearly, its progress is attributable to the talent and commitment of the people at MHIC and to the quality of the partnerships it has developed with the banking community, developers, community leaders, corporate investors and the community at large. Building on its experience, with the strength of its relationships, MHIC will continue to make a significant and unique contribution to meeting the critical need for affordable housing.

Triangle Apartments, Lowell (expecting to close in early 1997)

Cohen Florence Levine Estates Assisted Living, Chelsea

Robert Karam with Isabel Newman, MHIC Senior Lender, in front of Oakwood Estates in Swansea

Peter Daly, of Homeowners Rehab, with Ray Weaving, MHIC Director of Lending, in front of the Cambridge Community Properties.

Lorenzo Pitts, developer of Gardner/Crawford/Thane, with Ray Weaving, MHIC Director of Lending.

Paul Chan, MHIC Senior Investment Officer, with Charlie Gagnon of the South Middlesex Opportunity Council in front of the Marian Street Duplexes.

Ed Abrams with Lisa Gillis, MHIC Loan Administration Specialist, in front of the Danube Apartments.

Carl Koechlin of the Somerville Community Corp. with Carolyn Anderson Navarro, MHIC Lender, in front of Bow Street Apartments.

Loan Program

MHIC's Loan Program is designed to provide loans to affordable housing projects that would not otherwise be financed. In this way, MHIC fills a critical gap in meeting the credit needs of worthy affordable housing developers and owners.

Florida Street Homes, Dorchester

Over the past year MHIC's Loan Program achieved many important goals, with new challenges ahead. New loan commitments and loan closings represented the highest level achieved by MHIC in any one year since the organization's founding in 1990. New loan commitments increased to $26 million for creation of 498 units of housing in 14 different projects throughout Massachusetts. Loans closed totaled $24.6 million for creation of 518 units of housing in 12 projects, and the average loan nearly doubled, from $1.3 million in previous years to $2.1 million in 1996. In its relatively short history, MHIC has committed an aggregate total of $91.9 million to 56 projects representing 2,206 units of housing.

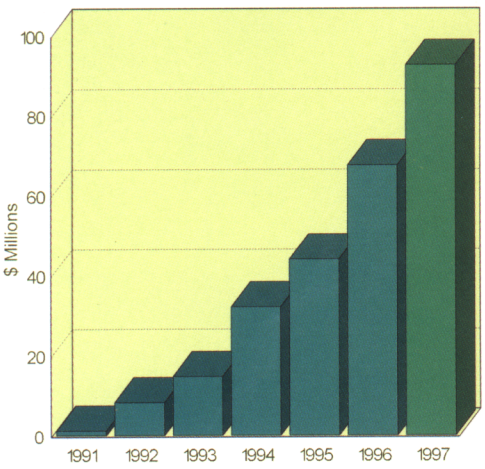
Based on outstanding total loan commitments, both closed and not yet closed, the aggregate utilization of pool funds was 70% at the end of the year.

One of MHIC's marketing goals has been to strive for greater geographic diversity, particularly since there are many areas of the state that are unfamiliar with MHIC and its mission. Over the past year, MHIC was able to extend its reach to new markets including North Adams, Framingham, Chelsea, Swansea, Weston and Northampton.

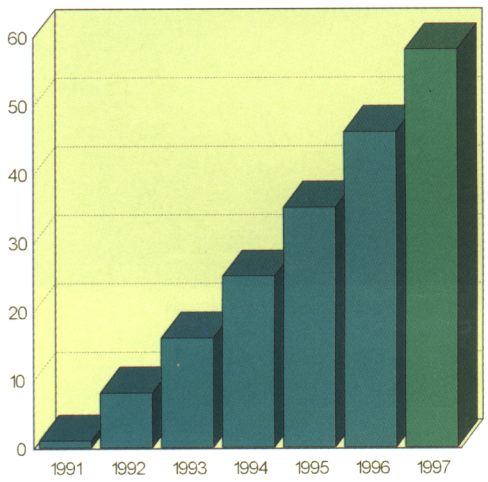
Marian Street Duplexes, Framingham

During the past year, MHIC also made progress in advancing its mission to strongly encourage developers and project sponsors to hire minority general contractors, minority workers, and minority subcontractors. This minority participation initiative begins early in the construction process. At the outset of a project MHIC loan officers work with developers as they determine a target percentage for minority participation to be achieved during the construction period. Each developer's progress towards meeting this target is monitored prior to loan closing and then during construction.

While many construction projects are still under way, and therefore the precise results of these minority participation efforts are not yet known, it is safe to say



Cumulative Loan Volume



Cumulative Loan Projects

that the results so far have exceeded expectations. In aggregate, 37% of construction employment is going to minority individuals and 35% of funds are going to minority businesses.

The results for individual projects are listed below:

	Minority Employment	*Minority Business Utilization*
Bow Street Apartments, Somerville	32%	21%
Commerce Apartments, Roxbury	65%	34%
Cohen Florence Levine Estates, Chelsea	3%	12%
Danube Apartments, Roxbury	65%	18%
Huntington House, Boston	21%	22%
Infill 2, Roxbury	67%	59%
Gardner/Crawford/Thane, Roxbury	73%	64%
Winter Gardens, Weston	18%	7%
Sargent Prince, Roxbury	74%	63%
Upham's Corner, Boston	64%	41%
Oakwood Estates, Swansea	3%	9%
Union Rand, North Adams	1%	0%
Westminster Apartments, Roxbury	47%	43%
Garfield Place, Cambridge	25%*	25%*
Savin/Crestin, Roxbury	50%*	50%*
New Port Antonio Apartments, Roxbury	50%*	70%*
New South Street Apartments, Northampton	10%*	10%*
Cabot Street House, Beverly	15%*	14%*
Triangle Rental, Lowell	20%*	25%*
Cabotville Apartments, Chicopee	15%*	15%*
Chestnut/Marlboro/Grove, Chelsea	15%*	20%*
Ceylon Fields Apartments, Boston	50%*	50%*
Aggregate Average	**37**%	**35**%

*Indicates project goals; actual results not yet available.

In view of the changing climate in banking, with most banks now looking for new loans and several banks expanding their lending for affordable housing, marketing the services of MHIC remains a challenge. Facing this challenge, MHIC continues to search out developers for those projects which are unlikely to be approved for loans by conventional lenders. MHIC works very closely with developers and sponsors who may be infrequent borrowers, who need technical assistance to meet the credit requirements and who may need help in putting together a team which can successfully execute the development plan. This can be a time-consuming process involving multiple applications by the developers for funds from public agencies as well as other private sources. This is where MHIC adds value to the process and makes the critical difference. Through careful review and consideration on the part of its loan officers, MHIC has been able to help numerous projects – which otherwise would not have been completed.

Commerce Apartments, Roxbury

MHIC initiated a customer feedback program this year, sending each borrower a survey form upon repayment of their loan. The purpose of the survey, which will be ongoing, is to obtain objective information to assist MHIC loan officers in working with developers and sponsors on future projects. The results so far have been excellent with over 90% satisfaction indicated by the survey feedback.

The total investment in the Loan Program by member banks was expanded in 1996 with the addition of Hyde Park Savings Bank and the Telephone Workers' Cooperative Bank. This brought the total investment in the program to $52,950,000. Further, after year end, Grove Bank and United States Trust Company joined the program with investments of $250,000 and $225,000 respectively.

Union Rand SRO, North Adams

Investments in the Loan Program by the MHIC member banks, as of June 30, 1996, are listed below:

Fleet Bank	$20,500,000
Bank of Boston	$15,000,000
BayBank	$6,000,000
State Street Bank	$4,600,000
PNC Bank, New England	$1,500,000
Wainwright Bank	$1,000,000
FDIC (Workingmens Coop Bank)	$1,000,000
USTrust Company	$1,000,000
Citizens Bank	$500,000
Boston Private Bank	$300,000
Telephone Workers' Cooperative Bank	$300,000
Springfield Institution for Savings	$250,000
Atlantic Bank & Trust	$250,000
Boston Bank of Commerce	$250,000
Stoneham Savings Bank	$250,000
Hyde Park Savings Bank	$250,000
Total	**$52,950,000**

Danube Apartments, Boston

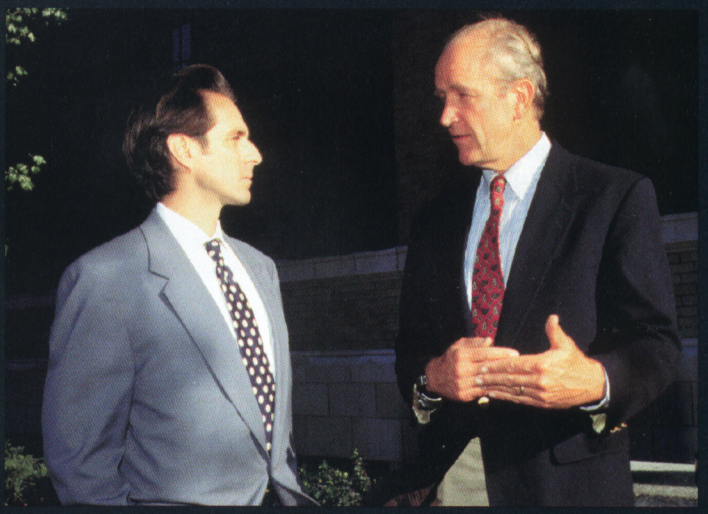
MHIC will continue to seek innovative ways to provide financial assistance to the affordable housing industry. New products planned for the coming year include a permanent loan program to be marketed to small property owners who may find it difficult to obtain financing from traditional sources.

Oakwood Senior Estates, Swansea (under construction)

Joe Henefield, MHIC Director of Equity Investment, with Ray Asselin of the Springfield Housing Authority in front of the Memorial Parish House.

Margaret Harrison of Boston Safe Deposit with Deborah Lack, MHIC Investor Services Coordinator.

Jeanne Pinado, MHIC Senior Investment Officer, with Fran Price of Urban Edge Development Corporation.



Michael Martinez, MHIC Senior Asset Management Officer, with Joe Nogello of the Boston YMCA in front of the Huntington House.

Ken Guscott of Long Bay Management with Andrea Daskalakis, MHIC Senior Investment Officer.

Ellen Connolly, MHIC Finance Officer, with Rick Muraida of Fleet Bank of Massachusetts (who is MHIC's equity bridge lender).

Equity Program

In this era of declining public investment in housing, the federal Low Income Housing Tax Credit program has been the main engine propelling investment in affordable housing since 1986. The program is administered by state housing agencies, which each year distribute the available tax credits to sponsors of eligible housing developments. Sponsors then sell these tax credits to investors, who receive a return on their investment in the form of reduced tax liabilities, $1 off taxes owed for every $1 in tax credit purchased. In addition, investors benefit from long-term tax deferral in the form of annual losses. In exchange for the sale of these tax benefits, developers receive the equity needed to build or rehabilitate apartments which are rented to households earning no more than 60% of the market area's median income.

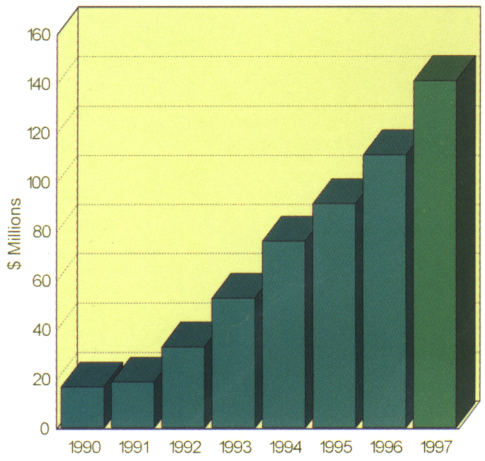
Huntington House, Boston

To facilitate the sale of their tax credits, most developers turn to syndicators. The syndicator raises money from corporate investors through the vehicle of investment limited partnerships, uses that money to invest in project partnerships in exchange for tax benefits, and then passes the tax benefits back to the investors. This is the role MHIC has played beginning with its Equity Initiative in 1990.

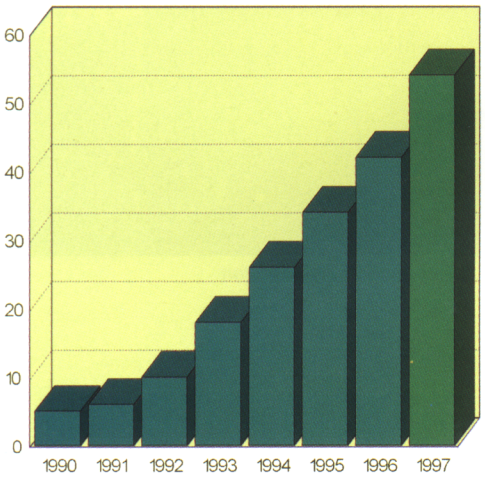
Over the last six years, MHIC has established itself as the leading syndicator of low income housing in Massachusetts. MHIC has raised and invested $180 million in more than 50 partnerships. The Corporation's equity portfolio consists of more than 2,800 units of rental housing in Springfield, Worcester, Holyoke, Chelsea, Lawrence, Lowell, Somerville, New Bedford, Chicopee, Cambridge, Northampton, Amherst, Beverly, Wareham, and in the Boston neighborhoods of Roxbury, Dorchester, Mattapan, Jamaica Plain, South End, Fenway, Chinatown, Charlestown, Dudley, Egleston, and Upham's Corner.

Memorial Parish House, Springfield

MHIC's most visible leadership role is in its commitment to ensuring that the maximum amount of every dollar raised ends up in the projects in which it invests. But what is more important than the simple price MHIC pays for tax credits is the shift in emphasis that MHIC has brought to the role of syndicator. The low income housing tax credit syndication industry has historically been largely focused on the investor side of the equation, which has meant financing the strongest



Cumulative Equity Investment



Cumulative Equity Projects

New Port Antonio Apartments, Roxbury

developers in the strongest housing markets – to minimize the portfolio risk and to ensure the highest returns for investors.

MHIC has chosen to ensure a competitive return to investors and at the same time develop its portfolio in communities with the greatest housing need, with sponsors located in and committed to those communities. This emphasis often requires MHIC to play a central role in structuring a deal, and in identifying and securing other financial resources to ensure development completion and long-term viability. Ensuring the long-term economic stability of affordable housing in distressed neighborhoods takes more than just rebuilding apartments and funding reserve accounts against the inevitable vagaries of real estate and the economy. It also takes an investment in the long-term viability of the project sponsor. MHIC sees its role as providing long-term tax benefits to its investors by providing long-term financial and technical support to its housing partners.

The case of one recent acquisition provides a good example of the role MHIC plays in making complex transactions happen. In 1995, a Boston-based minority development and management firm, Long Bay Management, came to MHIC to finance a 227-unit, scattered-site development in Roxbury and Dorchester, known as Port Antonio Apartments. The properties were fully occupied, but in distressed condition. The properties also were in financial distress, following changes in subsidy income imposed by HUD. MHIC worked with the sponsor to restructure the debt for the project so that it could be essentially paid off, if and when HUD subsidies expire, as is expected. As the underwriting proceeded, it became clear that the rehabilitation work as originally conceived was under-budgeted. MHIC assisted the sponsor in securing additional tax credits from the state, and because the project then called for almost twice the initially contemplated equity investment, an amount which exceeded the amount MHIC could invest in any one project, MHIC took on the responsibility of securing a co-investor for the balance of the equity. The result is a project with sufficient funds to complete the rehabilitation and substantial reserves to ensure the long-term economic viability of the properties. The restructuring also worked to substantially strengthen the developer to ensure that it will be capable of successfully managing the long-term interests of the properties and the partnership. Without MHIC, this important project might never have happened.

In early 1996, MHIC completed the investment activity of its second Low Income Housing Tax Credit fund, the *Massachusetts Housing Equity Fund 1995 Limited Partnership*. This fund raised $33 million and invested it in nine affordable housing partnerships. With two successful funds completed, MHIC then closed its third and largest fund, the *Massachusetts Housing Equity Fund 1996 Limited Partnership*, on June 28, 1996, with $43 million in investor subscriptions. The $43 million raised in the 1996 Fund has been committed to 11 partnerships.

MHIC's Funds continue to be successful in meeting the original goals established in 1993, when MHIC shifted its business model from that of coordinating direct

investment by local banks to become a syndicator of investment limited partnerships and investor. These goals are: (1) to maximize the investment in partnership properties; (2) to identify and support those sponsors who share MHIC's commitment to developing quality affordable housing and helping to rebuild communities; (3) to reduce the transaction costs and the time spent getting from commitment to closing; (4) to maintain high standards of underwriting; and (5) to achieve the level of returns promised to investors.

Sargent Prince SRO, Roxbury

Since its inception, MHIC has led the industry in Massachusetts in maximizing the price paid to partnerships. In 1996, after all fees and syndication costs, MHIC on average paid 69¢ on the tax credit dollar. By comparison the industry average over the past year was in the 58¢ to 63¢ range.

There are other notable goals which MHIC achieved in 1996. First among those is the establishment of minority participation goals for each investment partnership. These include goals for minority business enterprise utilization in the development and construction process, minority employment in construction, and minority business enterprise utilization in the ongoing operations of partnership properties. In addition, MHIC's choice of partnerships demonstrates the corporation's commitment to doing business with organizations which share its goals. MHIC's investments in 1996 also exhibit the same important characteristics of previous investments:

Savin Creston Apartments, Roxbury (expected to close in early 1997)

- ✓ More than 65% of this investment has been used for the rehabilitation of existing occupied housing and the balance for unoccupied abandoned units.
- ✓ 40% of the funds have been invested in properties in Boston, and 60% in other communities in Massachusetts.
- ✓ More than 65% of the units are for families, with two or more bedrooms.

To continue to be successful, MHIC will have to make adjustments in 1997 to contend with changes in the market for tax credit investment. As the tax credit program has matured, many new investors have been drawn into the market, which has resulted in much greater competition for quality investments than ever before. New money in the market has begun to raise prices paid by other syndicators for properties in Massachusetts to the levels MHIC reached in 1995 and 1996, with yields to investors dropping. At the same time, an increase in the number of investors seeking suburban investments has forced a number of national investors into the Massachusetts urban market, which until now MHIC has had largely to itself.

MHIC's challenges in 1997 will be: to maintain its high standards in selecting top quality properties and business partners; to maintain and expand its competitive advantages in terms of price and process; and to continue to build strong relationships with existing partners. As in the past, MHIC is committed to exploring new and innovative ways of doing business.

Symphony Apartments, Springfield

Ed Abrams with Isabel Newman, MHIC Senior Lender, in front of the Danube Apartments.

Joe Henefield, MHIC Director of Equity Investment, with John Dunne of the Valley CDC in front of the New South Street Apartments in Northampton.

Ken Guscott of Long Bay Management with Ray Weaving, MHIC Director of Lending.

Andrea Daskalakis, MHIC Senior Investment Officer, with Barry Berman of the Chelsea Jewish Nursing Home at Cohen Florence Levine Estates.

Jeanne Pinado, MHIC Senior Investment Officer, with Joe Nogello of the Boston YMCA in front of Huntington House.

Robert Karam with Paul Chan, MHIC Senior Investment Officer, in front of Oakwood Estates in Swansea.

Projects

The brief project descriptions below illustrate the type, range and geographic distribution of projects recently financed by MHIC.

Over the past six years, MHIC has committed a total of $226 million under its Loan and Equity Programs to fund 74 affordable housing projects. These figures represent creation of more than 3,100 units of affordable housing for residents throughout the Commonwealth.

To date, 58 of the projects financed by MHIC have been completed and are occupied; 9 are under construction; and 7 projects have been approved and are now scheduled for closing. Thirty-two of the housing projects funded by MHIC received financing from both the Loan and Equity Programs, while 25 projects received only construction financing and 17 projects received equity financing solely.

Bow Street Apartments, Somerville

All proposals for funding are carefully reviewed by MHIC's Loan and Equity Investment Committees using continually updated underwriting guidelines. Projects that will successfully serve a community's unmet housing needs and that will provide a satisfactory return to investors are then recommended to MHIC's Board of Directors for their review and approval.

Recent projects financed or approved by MHIC include:

Bow Street Apartments, Somerville: Acquisition and rehabilitation of 18 units in an historic property. Somerville Community Corporation developed this project. Total loan amount: $1,477,367. Equity investment: $1,440,150. Completed and occupied.

Bancroft Apartments, Roxbury: Moderate rehabilitation of 45 existing low-income units in five buildings in the Egleston Square section of Roxbury. Urban Edge Development Corporation developed this project. Total loan amount: $1,390,679. Equity investment: $1,979,322. Completed and occupied.

Burbank Street Apartments, Boston: Rehabilitation of a 35-unit project in Boston's Fenway neighborhood, developed by the Fenway Community Development Corporation. Total loan amount: $1,946,015. Equity investment: $2,227,597. Completed and occupied.

Bancroft Apartments, Roxbury

Danube Apartments, Jamaica Plain, Dorchester and Roxbury: Rehabilitation of 65 units in four buildings located in Jamaica Plain, Roxbury and Dorchester. The project developer is Edwin Abrams of the Abrams Management Corporation. Total loan amount: $2,180,000. Completed and occupied.

Florida Street, Dorchester: Rehabilitation and reconfiguration of four row-house buildings consisting of seven units of housing sold to lower income first-time home buyers. Michael Stella developed this project. Loan amount: $290,000. Completed and occupied.

Gardner, Crawford, Thane, Roxbury: Rehabilitation of five buildings totaling 64 units of mixed income housing. The developers are Lorenzo Pitts and John Loscocco. MHIC provided equity financing in the amount of $1,197,044 and construction financing in the amount of $832,000. Completed and occupied.

Gardner/Crawford/Thane, Roxbury

Garfield Place, Cambridge: Acquisition of land and new construction of a building, which will contain eight apartments. The developer of this project is The Equity Company, Inc., in collaboration with the Cambridge Housing Authority. Loan amount: $1,072,000. Closed and under construction.

Huntington House, Boston: Acquisition and rehabilitation of the Huntington Avenue YMCA to provide 88 housing units of which 66 are SROs and 22 units are for "families in transition." The project was developed by the Greater Boston YMCA. Total loan amount: $3,137,105. Equity investment: $5,501,207. Completed and occupied.

I&R Group Homes III, West Peabody and North Andover: An SRO project consisting of the rehabilitation of eight units. The project developers are Michael Interbartolo, Jr. and Joseph Ricupero. Loan amount: $410,500. Completed and occupied.

I&R Group Home, West Peabody

Infill Apartments Phase 2, Roxbury: Acquisition and rehabilitation of three abandoned, unfinished shell buildings to provide 13 units of low-income housing. The project was developed by Nuestra Comunidad Development Corporation. Loan amount: $813,000. Equity investment: $1,165,134. Completed and occupied.

Kenwyn Apartments, Springfield: Rehabilitation of a 27-unit historic project, developed by Hampden Hampshire Housing Partnership. Equity financing of $1,062,259 and $940,000 in construction financing. Completed and occupied.

Marian Street Duplexes, Framingham: Acquisition and renovation of 28 units in 14 two-story townhouse-style buildings. Each duplex is being marketed to eligible families under the First-Time Home Buyers Program. Project developer: South Middlesex Non-Profit Housing Corporation. Loan amount: $1,206,000. Completed and currently being offered for sale.

Kenwyn Apartments, Springfield

Memorial Parish House, Springfield: Rehabilitation of an historic building to provide 23 units of housing for low-income families. The project developer is

New South Street Apartments (under construction) in Northampton

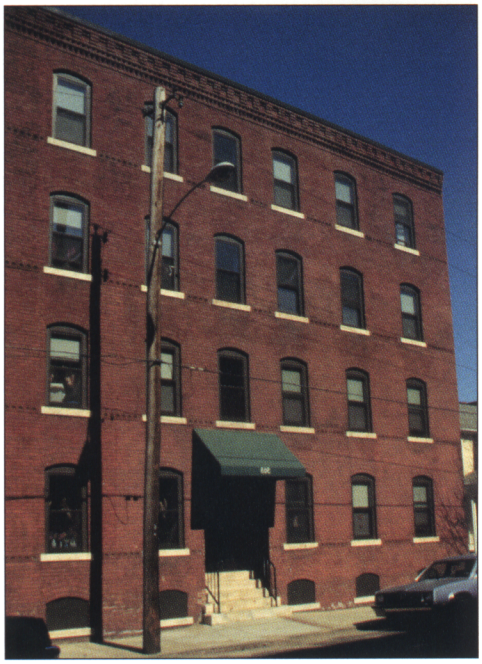
Springfield Housing Associates, an affiliate of the Springfield Housing Authority. Equity investment: $1,801,557. Closed and under construction.

New Port Antonio Apartments, Roxbury: Rehabilitation of 227 units on nine scattered sites, developed by Long Bay Management Company. MHIC has made a loan commitment of $5,700,000 and will provide an equity investment in the amount of $4,054,662. BankBoston has committed an additional $5,776,450 to this project. A January 1997 closing is anticipated.

New South Street, Northampton: Acquisition and rehabilitation of an historic building, consisting of 18 units. The developer is Valley Community Development Corporation. Total loan amount: $1,152,552. Equity investment: $1,262,071. Closed and under construction.

Nueva Vida Apartments, South Holyoke: Substantial rehabilitation of three vacant buildings consisting of 24 units of family housing. The project's developer is Nueva Esperanza, Inc. Equity investment: $1,398,288. Loan amount: $900,000. Completed and occupied.

Oakwood Senior Estates, Swansea: New construction of 120 apartments for elderly residents in four two-story buildings on 6.5 acres. The project is being developed by Robert S. Karam and Michael Biszko. Total loan amount: $3,600,000. Closed and under construction.



Nueva Vida Apartments, South Holyoke

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 commercial space. Total loan amount: $1,133,783. Equity investment: $1,582,026. Completed and currently being leased.

Savin/Creston, Roxbury and Dorchester: Acquisition and rehabilitation of 26 residential units in two buildings, now vacant, that are several blocks apart within the same neighborhood. The Quincy-Geneva Housing Development Corporation is the project's developer. MHIC has approved a construction loan in the amount of $2,214,000 and an equity investment in the amount of $2,667,702. Closing is scheduled for January 1997.

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. Loan amount: $1,215,000. Equity investment: $3,196,659. Completed and occupied.

Stafford Heights, Roxbury: Construction of 17 buildings containing 42 units of affordable cooperative housing, and one building serving as a community center. The developer is Nuestra Comunidad Development Corporation. Loan amount: $3,100,000. Equity Investment: $4,513,295. Completed and occupied.

Symphony Apartments, Springfield: Substantial renovation of 24 units in four vacant buildings which were in a seriously deteriorated condition. Ed Brice

and Richard Anderson are the developers. Total loan amount: $1,067,834. Equity investment: $1,929,203. Completed and occupied.

Triangle Rental Apartments, Lowell: Acquisition and major rehabilitation of four properties in the Acre Neighborhood of Lowell. Twenty-six housing units will be created in four buildings. Four apartments will be made available for Department of Mental Health (DMH) clients, who will live independently with DMH assistance. One building will include approximately 2,000 square feet of commercial space. This project's developer is Coalition for a Better Acre. MHIC expects to provide $1,700,000 in construction financing and $2,380,980 in equity financing. Scheduled to close in early 1997.

South Canal Apartments, South Holyoke

Union Rand SRO, North Adams: The refinancing and rehabilitation of two historic brick buildings. This project will provide 41 single-room-occupancy (SRO) units for rental to low-income individuals. The developers are Charles and Dorothy Ransford. Total loan amount: $400,000. Closed and under construction.

Uphams Corner Apartments, Dorchester: Acquisition and substantial rehabilitation of 36 units in four properties. The project's developer is Dorchester Bay Economic Development Corporation. MHIC provided $3,596,969 in equity financing and a construction loan of $3,752,015. Closed and under construction

Stafford Heights Cooperative, Roxbury

Westminster Court Apartments, Roxbury: Extensive 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. Urban Edge worked closely with the residents of Westminster Court, who several years ago formed the tenants association to purchase and pursue rehabilitation of the property. MHIC provided $3,260,731 in equity financing and a construction loan in the amount of $1,492,000. Closed and under construction.

Winter Gardens, Weston: New construction of 24 single-family homes on nine acres of land structured as a condominium development. The developers are Sotir Papalilo and Mark O'Hagan. Total loan amount: $2,186,667. Closed and under construction.

Winter Gardens, Weston

The table on the following page summarizes all of the project loans and investments approved through MHIC's financing programs. (NOTE: All financing amounts below are in $1,000's.)

Project	Units	Loan	Equity	Status
123 Crawford Street SRO, *Boston*	17	$441		Completed, Occupied
1734 Washington Street, *Boston*	31		$1,098	Completed, Occupied
326 Shawmut Avenue SRO, *Boston*	11	$302		Completed, Occupied
41 Berkeley Street, *Lawrence*	38	$287		Completed, Occupied
604 Massachusetts Avenue, *Boston*	5	$380		Completed, Occupied
800 Main Street, *Worcester*	5	$175		Completed, Occupied
Alexander Magnolia Cooperative, *Boston*	38	$1,000	$4,517	Completed, Occupied
Arch Project, *Roxbury*	75	$1,930		Completed, Occupied
Bancroft Apartments, *Boston*	45	$1,390	$1,979	Completed, Occupied
Beaver Apartments, *Worcester*	26		$675	Completed, Occupied
Bow Street Apartments, *Somerville*	18	$1,477	$1,440	Completed, Occupied
Brooks School, *Boston*	56		$2,730	Completed, Occupied
Building 104, *Boston*	46		$5,330	Completed, Occupied
Burbank Street Apartments, *Boston*	35	$1,946	$2,227	Completed, Occupied
Cabot Street House, *Beverly*	45	$1,180	$1,991	Approved, Not Yet Closed
Cabotville Common, *Chicopee*	36	$1,906	$2,230	Approved, Not Yet Closed
Cambridge Community Properties, *Cambridge*	59	$3,150	$1,914	Completed, Occupied
Ceylon Field Apartments, *Boston*	62	$4,273	$5,344	Approved, Not Yet Closed
Cherry Hill, *Amherst*	32	$2,801		Completed, Occupied
Cohen Florence Levine Estates, *Chelsea*	69	$2,858	$3,681	Completed, Occupied
Commerce Apartments, *Roxbury*	60	$3,966		Completed, Occupied
Cortes Street SRO, *Boston*	48		$1,300	Completed, Occupied
Daly House SRO, *Roxbury*	19	$450		Completed, Occupied
Danube Associates, *Boston*	65	$2,180		Completed, Occupied
Depot Crossing, *Wareham*	32		$903	Completed, Occupied
Dorchester Bay Homes, *Boston*	12	$730		Completed, Occupied
Fairfield Properties, *Boston*	30		$1,471	Completed, Occupied
Florida Street, *Dorchester*	7	$290		Completed, Occupied
Father Walter Martin Homes, *South Boston*	34	$1,600	$4,133	Completed, Occupied
Gardner, Crawford, Thane, *Roxbury*	64	$832	$1,197	Completed, Occupied
Garfield Place, *Cambridge*	8	$1,072		Closed, In Construction
Grinnell Mansion, *New Bedford*	17		$920	Completed, Occupied
Huntington House, *Boston*	88	$3,137	$5,501	Completed, Occupied
Hyde Square Cooperative, *Boston*	41	$1,200	$3,430	Completed, Occupied
Infill 2, *Roxbury*	13	$813	$1,165	Completed, Occupied
I&R Group Homes II, *Peabody, Danvers*	12	$610		Completed, Occupied
I&R Group Homes III, *N. Andover, Peabody*	8	$410		Completed, Occupied
Jacob's Place, *Dorchester*	30	$952		Completed, Occupied
JT Housing, *Dorchester*	12	$405		Completed, Occupied
The Kendall SRO, *Chicopee*	44		$781	Completed, Occupied
Kenwyn Apartments, *Springfield*	27	$940	$1,062	Completed, Occupied
Langham Court, *Boston*	84		$4,275	Completed, Occupied
Lawrence YMCA SRO, *Lawrence*	73	$1,660	$1,439	Completed, Occupied
Lopes Buildable Lots, *Boston*	4	$298		Completed, Occupied
Lucerne Gardens, *Boston*	45		$3,490	Completed, Occupied
Marian Street Duplexes, *Framingham*	28	$1,206		Completed, Occupied
Memorial Parish House, *Springfield*	23		$1,801	Closed, In Construction
Merriam Village II, *Weston*	32	$2,691		Completed, Occupied
New Port Antonio, *Roxbury*	227	$5,700	$4,054	Approved, Not Yet Closed
New South Street Apartments, *Northampton*	18	$1,262	$1,262	Closed, In Construction
North Hill Homes, *Westborough*	23	$1,700		Completed, Occupied
Nueva Vida Apartments, *South Holyoke*	24	$900	$1,398	Completed, Occupied
Oak Terrace, *Boston*	88	$2,984	$6,400	Completed, Occupied
Oakwood Senior Estates, *Swansea*	120	$3,600		Closed, In Construction
Parkview SRO, *Boston*	63	$1,195	$1,451	Completed, Occupied
Parmelee Court, *Boston*	74		$2,800	Completed, Occupied
Pomeroy Lane, *Amherst*	25		$1,436	Completed, Occupied
Prang Estates, *Roxbury*	33	$1,199	$2,365	Completed, Occupied
Ridgewood Village, *Chicopee*	50	$1,177		Completed, Occupied
Roxbury Corners, *Boston*	54		$3,575	Completed, Occupied
Sargent Prince SRO, *Roxbury*	29	$1,134	$1,582	Completed, Occupied
Savin/Creston, *Roxbury and Dorchester*	26	$2,214	$2,667	Approved, Not Yet Closed
South Canal Apartments, *South Holyoke*	127	$1,215	$3,197	Completed, Occupied
South City, *Holyoke*	66		$3,125	Completed, Occupied
Stafford Heights, *Roxbury*	42	$3,100	$4,513	Completed, Occupied
Stony Brook Gardens, *Boston*	50	$1,900	$4,942	Completed, Occupied
Symphony Apartments, *Springfield*	24	$1,068	$1,929	Completed, Occupied
Tapley School, *Springfield*	30	$1,558	$3,003	Completed, Occupied
Triangle Rental Apartments, *Lowell*	26	$1,700	$2,381	Approved, Not Yet Closed
Union Rand SRO, *N. Adams*	41	$400		Closed, In Construction
Uphams Corner, *Dorchester*	36	$3,752	$3,596	Closed, In Construction
VBC, *Boston*	30		$3,360	Completed, Occupied
Westminster Court Apartments, *Roxbury*	70	$1,492	$3,260	Closed, In Construction
Winter Gardens, *Weston*	24	$2,187		Closed, In Construction
Total Closed and Approved	**3,168**	**$92,104**	**$133,944**	

The 18 member banks and participating corporations have collectively committed $232,964,000 to finance affordable housing developments, with net investment in projects of $225,871,000. The current status of these commitments is outlined in the following table.

	Loan Program		*Equity Program*		*Overall Total*	
Banks and Investors	*Capitalized*	*Approved/ Closed*	*Capitalized*	*Approved/ Closed*	*Total Commitment*	*Approved/ Closed*
Fleet Bank	20,500	35,969	40,670	32,454	61,170	68,113
Bank of Boston	15,000	26,092	23,492	13,116	38,492	39,207
State Street Bank	4,600	8,001	27,111	19,856	31,711	27,858
BayBank	6,000	10,437	14,997	11,377	20,997	21,813
Boston Safe Deposit	0	0	22,716	19,812	22,716	19,812
PNC Bank, New England	1,500	2,609	3,559	2,132	5,059	4,741
USTrust	1,000	1,739	2,858	1,575	3,858	3,314
Citizens Bank	500	870	3,119	2,226	3,619	3,095
Wainwright Bank	1,000	1,739	0	0	1,000	1,739
Workingmens Coop Bank	1,000	1,739	0	0	1,000	1,739
Boston Private Bank	300	522	710	318	1,010	840
Telephone Workers' Bank	300	522	0	0	300	522
Hyde Park Savings Bank	250	435	55	55	305	490
Springfield Inst. for Savings	250	435	0	0	250	435
Bank of Commerce	250	435	0	0	250	435
Atlantic Bank	250	435	0	0	250	435
Stoneham Savings	250	435	0	0	250	435
Other Banks	0	0	483	483	483	483
Freddie Mac	0	0	17,180	10,281	17,180	10,281
Fannie Mae	0	0	10,681	7,327	10,681	7,327
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
Total	52,400	92,104	180,564	133,944	233,514	226,047

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

Marianne Horan, MHIC Manager of Administration, with Greg Badger of BankBoston, who serves as MHIC Assistant Treasurer.

Evelyn Friedman of Nuestra Comunidad with Niall O'Farrell, MHIC's Director of Strategic Planning and Information Technology, in front of the Sargent Prince building in Roxbury.

Mike Crawford of USTrust with Carolyn Jackson, MHIC Executive Assistant.

Kaijuana Johnson, MHIC Administrative Assistant, with Lien Tung of Fleet Bank.

Liz Gruber of BankBoston with Tracy Welch, MHIC Office Services Coordinator.

Sarah Schwenzfeier of the City of Boston with Bill Thompson, MHIC Director of Finance and Administration.

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 sixth 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 $200,000 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 six 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 Partnership(s) 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 $1,403,185.

Westminster Court Apartments, Roxbury (under construction)

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, 1996 and 1995, 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, 1996 and 1995, 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 18, 1996

Massachusetts Housing Investment Corporation

Consolidated Balance Sheets

	June 30	
	1996	1995
Assets		
Cash	**$ 97,191**	$ 173,252
Loan fund:		
Project loans, net of allowance for loan losses of $200,000 in 1996 and $175,000 in 1995	**5,826,309**	4,641,715
Money market deposits at member banks	**46,923,691**	47,583,285
Total loan fund	**52,750,000**	52,225,000
Notes receivable	**3,598,401**	881,837
Amounts receivable and other assets	**774,227**	777,379
Furniture, equipment and leasehold improvements, net of accumulated depreciation and amortization of $191,432 in 1996 and $212,695 in 1995	**171,200**	224,237
Total Assets	**$57,391,019**	$54,281,705
Liabilities and Net Assets		
Liabilities:		
Notes payable to member banks	**$52,950,000**	$52,400,000
Unearned fees	**3,973,070**	1,481,452
Accrued interest and other liabilities	**347,151**	305,195
Total Liabilities	**57,270,221**	54,186,647
Net Assets	**120,798**	95,058
Total Liabilities And Net Assets	**$57,391,019**	$54,281,705

See accompanying notes to consolidated financial statements.

Massachusetts Housing Investment Corporation

Consolidated Statements of Revenues and Expenditures

	Year ended June 30	
	1996	1995
Revenue		
Interest revenue and fees:		
Interest on bank deposits	**$ 1,333,371**	$ 1,188,415
Interest on project loans, and loan guarantee fees	**530,954**	562,229
Total interest revenue	**1,864,325**	1,750,644
Interest expense on notes payable to member banks	**(1,205,512)**	(1,143,426)
Net interest revenue before provision for loan losses	**658,813**	607,218
Provision for loan losses	**(25,000)**	(25,000)
Net interest revenue after provision for loan losses	**633,813**	582,218
Equity program revenue:		
Fees related to MHEF limited partnerships	**1,795,117**	1,397,292
Other equity program fees	**51,500**	55,554
Total Revenue	**2,480,430**	2,035,064
Expenditures		
Salaries and employee benefits	**1,406,159**	1,082,299
Professional services	**396,471**	379,376
Occupancy, equipment and furniture	**265,674**	264,064
Other expenses	**386,386**	263,990
Total Expenditures	**2,454,690**	1,989,729
Excess of Revenue over Expenditures	**25,740**	45,335
Net Assets at Beginning of Year	**95,058**	49,723
Net Assets at End of Year	**$ 120,798**	$ 95,058

See accompanying notes to consolidated financial statements.

Massachusetts Housing Investment Corporation
Consolidated Statements of Cash Flows

	Year ended June 30	
	1996	1995
Operating Activities		
Excess of revenue over expenditures	**$ 25,740**	$ 45,335
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	**89,839**	82,744
(Increase) decrease in amounts receivable	**3,152**	(578,693)
Decrease in unearned fees	**(256,937)**	(214,580)
Increase (decrease) in accrued interest and other liabilities	**41,956**	(11,395)
Total adjustments	**(96,990)**	(696,924)
Net cash used by operating activities	**(71,250)**	(651,589)
Investing Activities		
Increase in project loans, net	**(1,209,594)**	(636,173)
Decrease in money market deposits at member banks	**659,594**	486,173
Payments received on notes receivable	**31,991**	747,334
Purchases of furniture, equipment and leasehold improvements	**(36,802)**	(122,367)
Net cash provided (used) by investing activities	**(554,811)**	474,967
Financing Activities		
Proceeds from notes payable to member banks	**550,000**	150,000
Net cash provided by financing activities	**550,000**	150,000
Net decrease in cash	**(76,061)**	(26,622)
Cash at beginning of year	**173,252**	199,874
Cash at end of year	**$ 97,191**	$ 173,252
Supplemental Disclosures of Cash Flow Information:		
Non-cash investing activity:		
Unearned fee recorded in exchange for notes receivable	**$2,748,555**	$ 0
Cash paid during the year for interest on notes payable to member banks	**$1,185,360**	$1,099,863

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 three 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 $1,403,185. 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, 1996, the Partnerships have combined total assets and cumulative deficit of approximately $32,112,133 and $3,700,220 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 deferred loan fees and 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 Limited Partnerships: The Partnerships have contracted with MHIC to provide broad services to the Partnerships that include organization, syndication, underwriting, long-term asset management and partnership administration. Fees for syndicating and organizing the Partnerships are recognized when syndication is substantially complete. Fees for underwriting investments are recognized according to the percentage of work complete. 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 projects in which the Partnerships invest. The fee for this service is paid by the project's sponsor and is recognized over the estimated construction period. During 1996 and 1995, MHIC recognized fees of approximately $1,795,000 and $1,397,000 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 money market 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 prime rate less 1%. 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, 1996, outstanding borrowings under these agreements totaled $52,950,000.

3. Note Receivable and Unearned Fees: The note receivable(s) from MHEF limited partnerships represent the present value (using an 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, 1996 and 1995, note receivable(s) are $3,598,401 and $881,837, respectively. At June 30, 1996 and 1995, note receivable(s) included accrued interest of $347,013 and $188,405, 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(s). 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, 1996 and 1995, unearned equity fees are $3,533,055 and $1,268,421, respectively.

4. Project Loans: MHIC provides loans for the development of affordable housing throughout Massachusetts. Project loan activity is as follows:

	1996	*1995*
Beginning balance	$ 4,816,715	$ 4,180,542
Loan disbursements	12,668,729	13,861,223
Loan repayments	(11,459,135)	(13,225,050)
Project loans outstanding	6,026,309	4,816,715
Allowance for loan losses	(200,000)	(175,000)
Project loans, net	**$ 5,826,309**	**$ 4,641,715**

Project loans earn a variable rate of interest pursuant to MHIC's established loan policy and are secured by the underlying projects. In certain instances, the primary repayment of these loans will be received from the equity syndication payments provided to the project by the MHEF limited partnership tax credit equity investment program. At June 30, 1996, MHIC had no delinquent or non-performing project loans and there have been no charge-offs recorded to date.

5. Commitments: At June 30, 1996, MHIC had unfunded commitments to originate loans of $25,054,747. These commitments have been established pursuant to MHIC's loan policy.

6. Loan Guarantee Commitments: MHIC provides project loan guarantees, whereby it administers construction loans for other parties, assumes the construction period risk, and secures its guarantee with cash collateral. Such transactions are treated as off-balance sheet liabilities and therefore not presented in the body of the financial statements. At June 30, 1996, loan guarantee commitments and amounts outstanding totaled $6,145,721 and $960,567, respectively.

7. Leases: MHIC leases its facilities and certain furniture and equipment under operating leases which expire over the next thirty 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, 1996:

1997	$160,431
1998	$43,639
1999	$1,620
TOTAL	**$205,690**

MHIC incurred rent expense associated with office space and equipment of approximately $183,000 and $175,000 in 1996 and 1995, 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 $58,000 in 1996 and $49,000 in 1995.

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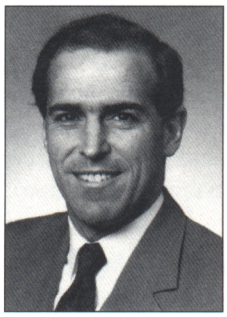

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