1998 Annual Report

Massachusetts
Housing
Investment
Corporation

In memoriam

Charles E. Dahm
1942 - 1998

MHIC lost a dear friend and colleague this year. Chuck Dahm, Senior Vice President at State Street Bank, was a leader in establishing MHIC in 1990. Chuck served on MHIC's Board of Directors and as Chair of MHIC's Investment Committee. As a tribute to Chuck's legacy, MHIC has established the Charles E. Dahm Memorial Fund, which will provide scholarships to family members who reside in housing financed by MHIC.

Contributions may be made to:
The Charles E. Dahm Memorial Fund
Massachusetts Housing Investment Corporation
70 Federal Street
Boston, Massachusetts 02110

Our mission

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:

Private capital from a broad base of investors can prudently finance community development initiatives on an ongoing basis as self-sustaining ventures.

The benefits of expanding community investment should flow to the minority workers and the minority-owned businesses in those communities.

Special effort is required to harness private capital for geographic areas, sponsors and projects that have historically been unable to compete effectively for financing.

The sponsors of community development projects deserve ongoing support in their efforts to build and maintain sustainable communities.

The system of financing community development, which is overly fragmented and cumbersome, must be streamlined and improved.

The communities we serve must see MHIC in a leadership position in advancing these values and not as merely another player.

As an institution established by private corporations in collaboration with community leaders, MHIC's mission depends on a partnership among corporate investors, housing sponsors, and public agencies. Through it all, MHIC is committed to maintaining its industry leadership, on the cutting edge, expanding the envelope, inspiring confidence in what can be done. This role places demands on MHIC, but it also forms the very foundation for the value MHIC creates.

From the Chairman and President

November, 1998

Joseph L. Flatley (left) and Guilliaem Aertsen

In 1998, MHIC once again demonstrated its distinctive ability to identify investment opportunities in, and channel capital to, projects in under-served communities throughout Massachusetts.

1998 was a banner year for both MHIC's loan and equity programs. Total loan commitments were at an all-time high. And, through its equity program, MHIC committed a record total of investments in Low Income Housing Tax Credit projects. MHIC continues to be the equity source of choice among Massachusetts developers – with more equity investment than all other syndicators combined.

In a certain sense, operating in a strong economy has posed a real challenge for MHIC. On the one hand, MHIC has a good deal more competition than it had just a few years ago, as traditional lenders are currently making loans to market segments heretofore served almost exclusively by organizations such as MHIC. On the other hand, a robust lending environment challenges MHIC to do what it does best – that is, identify and finance high quality investments that build sustainable communities – adding value beyond what the conventional marketplace would do on its own.

Over the years, MHIC has broadened its mission to expand beyond affordable housing to other aspects of community development. To this end, we are now investing in the historic rehabilitation of commercial buildings in urban centers in which we have housing investments in place or underway.

As we look to the coming year and the challenges ahead, we will continue to search out credit needs that are not being met and to create ways to prudently and profitably meet those needs. Given our record this year and in years past, we are confident that MHIC will continue to maintain industry leadership and, in a more general way, to inspire confidence in what can be done to build and sustain strong communities in Massachusetts.

Sincerely,

Guilliaem Aertsen
Chairman

Joseph L. Flatley
President and CEO

1998 annual report

Ceylon Field Apartments, Dorchester

This past year represented a milestone for MHIC, as it closed the financing on its 100th housing development. During this year, total loan commitments and equity investments both reached record levels. MHIC made total loan commitments of $31 million and committed $41 million to Low Income Housing Tax Credit project investments. In terms of its history as an organization, MHIC surpassed the $300 million benchmark, with a total of $345 million committed or invested to date, in 112 projects representing 4,893 housing units.

Witnessing increasingly strong demand for our financing. Operating in a robust economy but with more competition than ever before, MHIC has responded by seeking out and servicing many complex transactions and difficult loans – deals which clearly benefit whole communities but which are not necessarily attractive to other private lenders. That MHIC has been able to execute such transactions successfully and profitably is testimony to the corporation's unusual capabilities and valuable specialization.

Adding value by making strong loans. Overall, MHIC's loan program continues to generate significant business for MHIC, while managing credit risks and achieving high marks in terms of customer satisfaction. Over its eight-year life, the loan program has committed a total of $140 million while effectively managing risks so that the loan pool has experienced no loan losses to date.

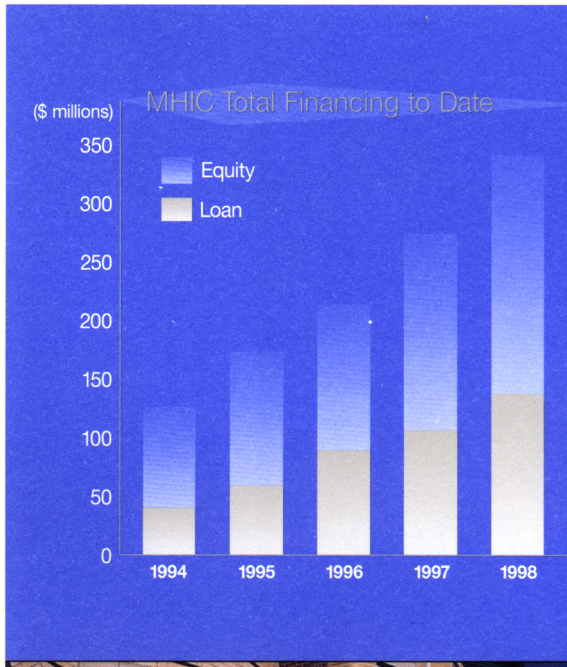
Expanding our product mix to meet changing needs. Responding to the unmet credit needs of apartment owners, MHIC last year implemented a program to originate permanent loans – typically under $1 million – for acquisition and rehabilitation of multi-unit properties. Now that this initiative is operational, MHIC will be concentrating on refining systems for originating, servicing, interest rate risk management, and loan sales.

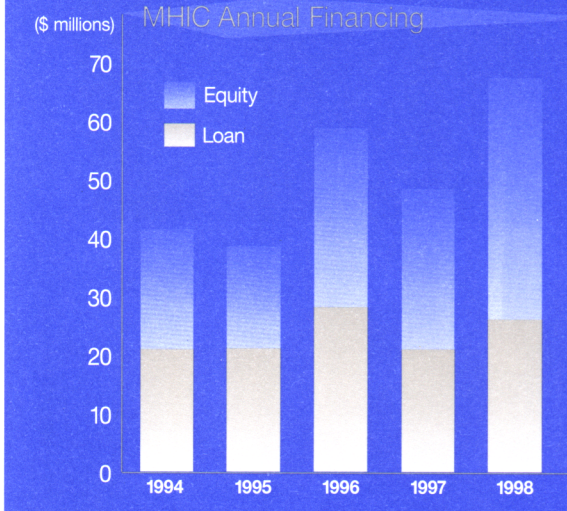
Moving beyond housing to build sustainable communities. In keeping with the concept of building affordable housing in the context of strong, healthy communities, MHIC presently is opening new ways to participate in financing commercial projects in urban neighborhood centers. In its 1998 Equity Fund, MHIC has set aside up to five percent of its investments to purchase historic tax credits in commercial rehabilitation projects. For the first time MHIC will invest in commercial real estate that is not predominantly rental housing.

Expanding the benefits and reaping dividends – minority participation. MHIC's dedication to promoting minority participation in projects that we fund has yielded dramatic results. For projects completed over the last year in Boston, for example, MHIC has been able to achieve 74 percent minority participation in construction employment and 57 percent participation of minority businesses. As we look ahead, MHIC is looking to build on this progress by encouraging expanded minority participation in the early stages of projects' development. In addition, MHIC is working to reward sponsors who do a good job of establishing and meeting ambitious minority participation objectives.

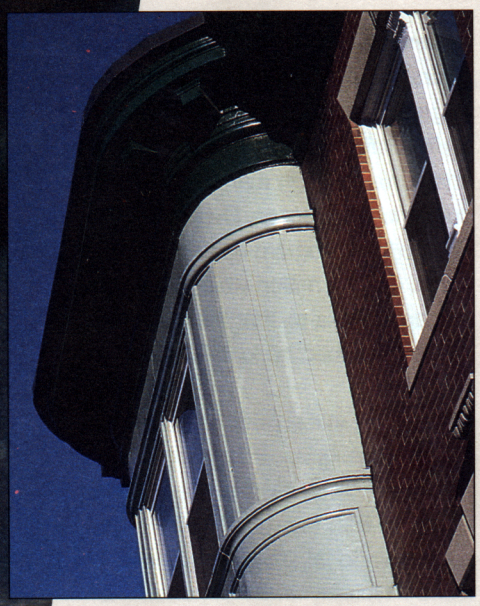
In this Annual Report, you will see and read about affordable housing projects that required MHIC's unique blend of talent, expertise and experience to complete. Many of the projects saw the light of day only after persistent negotiating, creative financial structuring, and scrupulous underwriting – all in the context of cultivating long-term partnerships. Looking ahead, we will be focusing on ways to multiply these successes. We will be asking the question: How can we best leverage our strengths to invest in the future of Massachusetts communities?

Prospect Estates, Webster





loan program



Chestnut-Marlborough-Grove, Chelsea

This past year was a record year for MHIC's loan program, with solid performance despite the increasing competitive credit environment. Total loan commitments of $31 million were at an all time high for the company, and $21 million in loans were closed. Further, the initial permanent loans were closed under a pilot program established to determine whether there was an unserved market for apartment loans.

A solid record of high-impact loans that have demonstrated strong performance. MHIC has built an enviable track record in making loans on affordable housing projects but must continually seek out ways to enhance our products and to spread the word that we are a private company specializing in providing financing for the affordable housing industry. Since inception, the loan program has financed well over 4,000 units of affordable housing in Massachusetts.

Utilizing our pooled loan resources. MHIC continues to utilize the pooled funds from our member banks. As of the end of our fiscal year, loan pool utilization achieved a level of 69%, which included the following:

Project loan balance, as of June 30, 1998	$ 9,403,884
Loan commitments not yet advanced	27,579,540
Total balances and unfunded commitments	$36,983,424

Altogether eighteen banks participate in MHIC's loan pool (see page 21). First Trade Union Bank joined MHIC's loan pool this year, bringing the pool total to $53,475,000.

Garfield Place, Cambridge

Quick response and efficient execution. MHIC prides itself on its ability to respond quickly and effectively to our customers' needs. The current environment tests our ability to meet those standards. One example was when we were requested in the fall of 1997 by Beacon Residential Properties and the residents of the 276-unit Mandela apartment complex in the Lower Roxbury section of Boston to consider an acquisition and construction loan of $6,200,000. Because the previous owner of the property had been in bankruptcy, it was necessary to consummate this transaction quickly to achieve approval of the Bankruptcy Court. MHIC was able to underwrite, obtain approval, and to close financing on this deal by the end of December 1997 to meet the ambitious requirements of the developer.

Rebuilding neighborhoods, one home at a time. In 1992, the Veteran's Benefit Clearinghouse Development Corporation was designated as developer of 36 scattered parcels in the Dudley Triangle area of Roxbury. For various reasons, the development of this project had been delayed for five years. The sponsor approached MHIC last summer for a $3,800,000 loan for the construction of 36 units in 16 multi-family houses together with a community building, which will serve to reinvigorate and enhance an entire neighborhood. MHIC provided a financing package, executed the financing, and the housing is now complete.

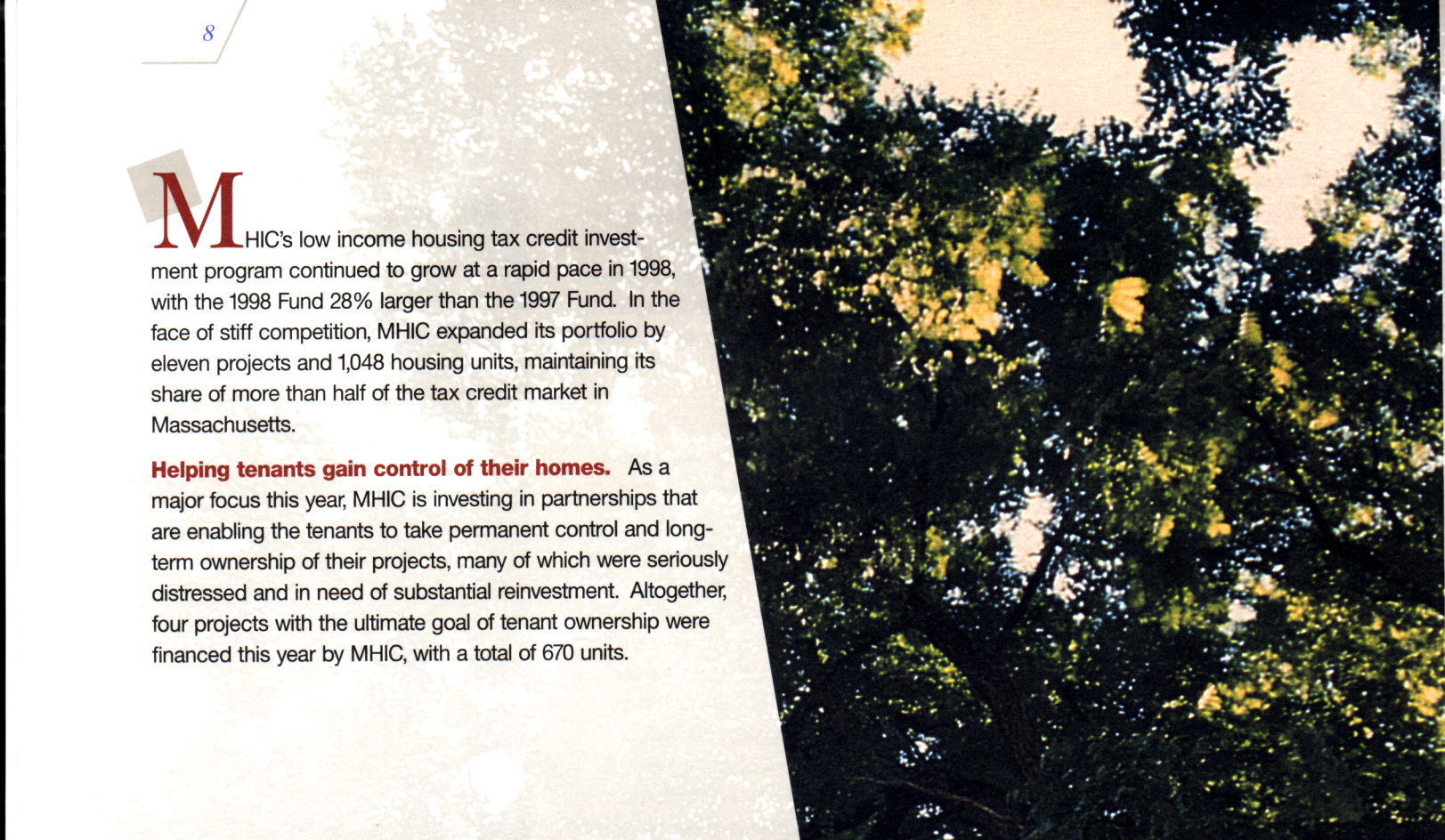
Solving complex challenges to help tenants regain control of their homes. Urban Edge CDC and the residents of Academy Homes approached MHIC for an acquisition loan on an 11 building, 202-unit complex located in Roxbury. This property had an existing HUD mortgage, which had been in default for four years with out-of-state owners. MHIC was able to assist in this acquisition with the ultimate purpose being to stabilize ownership, improve the buildings, ensure long-term affordability, and eventually transfer ownership to the tenants.

Meeting the challenges of evolving markets. As banks compete aggressively for loans and investors bid up equity yields, MHIC will face considerable competition for affordable housing loans. To meet these challenges, we will continue to emphasize our loan processing and servicing strengths and ability to engineer those loans that on the surface appear to be most difficult to pursue. New challenges for 1999 will include marketing our services to targeted communities and property owners. We will strive to develop products which will serve an important niche in the multi-family property marketplace and will work diligently to reach out to owners of apartment properties which may still be under-served in today's credit environment.

Building on our strengths. We have good products, which have been received very well by all of our borrowers. Almost without exception, developers who have done business with us come back and borrow from MHIC again and appreciate our ability to cut through any red tape and get things done expeditiously. Due to the fact that we are a small group with a high degree of expertise, we are able to make decisions quickly and to add much value when closing and monitoring loans. We will continue to focus on emphasizing our strengths: our knowledge of affordable housing, our ability to close complex transactions involving several public agencies, and our ability to handle difficult loans which are not attractive to banks even in the present market.

MHIC's low income housing tax credit investment program continued to grow at a rapid pace in 1998, with the 1998 Fund 28% larger than the 1997 Fund. In the face of stiff competition, MHIC expanded its portfolio by eleven projects and 1,048 housing units, maintaining its share of more than half of the tax credit market in Massachusetts.

Helping tenants gain control of their homes. As a major focus this year, MHIC is investing in partnerships that are enabling the tenants to take permanent control and long-term ownership of their projects, many of which were seriously distressed and in need of substantial reinvestment. Altogether, four projects with the ultimate goal of tenant ownership were financed this year by MHIC, with a total of 670 units.



equity program

Working with our partners to overcome obstacles and to persist in taking control of their homes. Academy Homes in Roxbury was developed in the 1970s with HUD financing. The original developers of such projects have the right, after 20 years, to pay off any outstanding mortgage debt and convert the housing to market-rate units. In order to maintain their homes as affordable, tenants at Academy Homes forged a joint-venture with Urban Edge, a community-based non-profit. MHIC worked with the joint-venture to craft a financing structure to acquire and rehabilitate the housing.

Kent Street, Somerville

Designing creative financial structures to get the deal done. Mandela Apartments, in Lower Roxbury, was another HUD-financed property notoriously mismanaged by a succession of private owners. It was finally forced into receivership. Under federal court direction, a joint venture partnership was created between the Mandela Tenants Association and Beacon Residential Properties, a for-profit developer, owner and manager of both market and affordable housing. Rehabilitation work at Mandela is now under way and is expected to be completed in late 1999.

Adding strength to tenant-controlled initiatives. Grant Manor Apartments, located across the street from Mandela Apartments, is one of twelve "Demonstration Disposition" projects. The Massachusetts Housing Finance Agency acts as developer for the project, and then day-to-day management will shift to a joint-venture between the tenants and a co-general partner. Until that co-general partner is chosen, MHIC is acting as the co-general partner. In that capacity, MHIC is assisting the tenants in the process of selecting both a permanent co-general partner and a property manager.

Helping communities rebuild, one development after another. In Holyoke, Nueva Esperanza, a non-profit involved in three earlier LIHTC rehabilitation projects financed by MHIC, teamed up with the Franklin Tenants Association to acquire a distressed apartment building and some adjacent land. The rehabilitation of 27 existing units and construction of eight new units is now complete.

Supporting tenant control and accountability. In each of these cases, resources have been set aside to provide for ongoing training of the tenants associations' Boards of Directors to prepare them for accepting full control of the properties.

Building a record of tenant partnerships. Tenant-led partnerships, such as those described above, are likely to increase in the future, as both owners and tenants of older subsidized housing turn to the tax credit market for the substantial amounts of new equity needed to revitalize these decaying housing resources.

Moving beyond housing, investing in commercial centers. Another new initiative involves equity investments in commercial properties located in targeted areas. MHIC reserved 5% of its equity funds to purchase historic tax credits associated with the rehabilitation of historically significant commercial properties. MHIC's first such investment of $541,735 will be in the revitalization of the Palladio Building in Dudley Square. Although these investments will be a small part of MHIC's overall portfolio, they are important catalysts for the redevelopment of the neighborhoods where MHIC has invested heavily in housing. Creating jobs and building wealth in such neighborhoods is the key to their long-term viability.

Maintaining a strong portfolio, confronting problems, securing solutions. MHIC now has 47 investment properties in five equity funds, and 23 properties from the Equity Initiative of 1990-1993, under asset management. To date, the portfolio has experienced no foreclosures, and all of the funds have met their projected returns each year. That is not to say that some properties have not experienced difficulties. Over the past year, our staff has worked with MHIC's partners to confront a number of problems, some more significant than others. The focus of MHIC staff has been to identify these problems early on, and to devise constructive solutions that will ensure the properties' long-term success.

Maintaining industry leadership. As MHIC plans its equity investment program for the coming year, we will continue to select those projects in neighborhoods where we feel we can add the greatest value, not just in terms of the dollars paid for tax credits, but also in terms of the deal-structuring expertise we bring to sponsors, and the capacity-building support we add both during underwriting and through our asset management services.

housing financed

Since its founding in 1990, MHIC has committed a total of $345 million to fund the development of 112 housing projects and to create 4,893 units of housing in communities throughout Massachusetts. MHIC's loan program has provided $142 million to finance 83 projects, and the equity program has provided $205 million to finance 75 projects. A table summarizing all of the projects financed by MHIC over this eight-year period is included on page 21.

This past year represented a record level of activity for MHIC — financing a record $72 million — a 24% increase over the year before. In a highly competitive market, MHIC's equity program remains the equity source of choice — over the past year, MHIC financed more tax credit projects in Massachusetts than all other syndicators combined. At the same time, with more lenders than ever active in community development lending, MHIC's loan program approved a record level of loan commitments — $31 million.

The brief project descriptions on the following pages provide a useful overview of the projects approved or underway over the last year. As you will see, the list represents an impressive list in terms of the diversity of projects and locations, and in terms of the creative challenges being undertaken.

Academy Homes, Roxbury

Brook Avenue, Roxbury

Academy Homes I, Roxbury

Acquisition and rehabilitation of 202 units of housing in 11 buildings on an 8.6 acre site in the Jackson Square area of Roxbury and Jamaica Plain. Urban Edge Housing Corporation and Academy Homes Tenants Council are developing this project. Proposed Equity investment: $6,821,946. The sponsors acquired the property with a $2,750,000 loan from MHIC. The equity closing is anticipated for late 1998.

Benjamin Hill Homes, Shirley

This project involves the new construction of nine prefabricated single-family homes for sale to eligible first-time homebuyers in the Town of Shirley and surrounding communities. Rural Housing Improvements, Inc., a regional non-profit corporation founded in 1969, will be the project developer.
Proposed loan amount: $700,000.
Approved, not yet closed.

Brook Avenue, Roxbury

New construction of 36 cooperative homes in sixteen buildings on scattered sites abutting Blue Hill Avenue in the Dudley Street Neighborhood Initiative area. Veterans' Benefits Clearinghouse Development Corporation is developing this project with the assistance of the Gatehouse Group. MHIC's loan was made in collaboration with Boston Private Bank.
Equity investment: $4,641,299.
Loan amount: $3,877,091.
Closed and under construction.

Cabot Street House, Beverly

Acquisition and renovation of 45 units of SRO housing in downtown Beverly. The Beverly Regional YMCA, which owns and operates the 80-year-old building, developed this project.
Loan amount: $1,117,000.
Equity investment: $2,066,106.
Completed and occupied.

Cabotville Common, Chicopee

Acquisition and substantial rehabilitation of two apartment buildings consisting of 36 units of family housing, two of which are handicapped accessible. One property also includes 1,500 square feet of commercial space. Developed by the Valley Opportunity Council from Holyoke.
Loan amount: $1,905,000.
Equity investment: $2,040,340.
Completed and occupied.

Caleb Clapp Properties, Fall River and New Bedford

Acquisition and rehabilitation of five different properties in the Fall River and New Bedford area being developed by Caleb Clapp of Cushing Development Corporation. The group of properties described below has substantial support from the cities of Fall River and New Bedford. The project investments all closed in June of 1998 and are under construction.

Bedford Village, New Bedford

This project involves the rehabilitation of four buildings and the creation of 13 units of affordable housing. This neighborhood has been cited by the City of New Bedford as a top priority for its redevelopment initiatives.
Equity investment: $991,187.

Blackstone/Tecumseh, Fall River

This project involves the substantial rehabilitation of four buildings on two parcels of land to create 11 units of affordable housing.
Equity investment: $1,090,821.

Tecumseh Street, Fall River

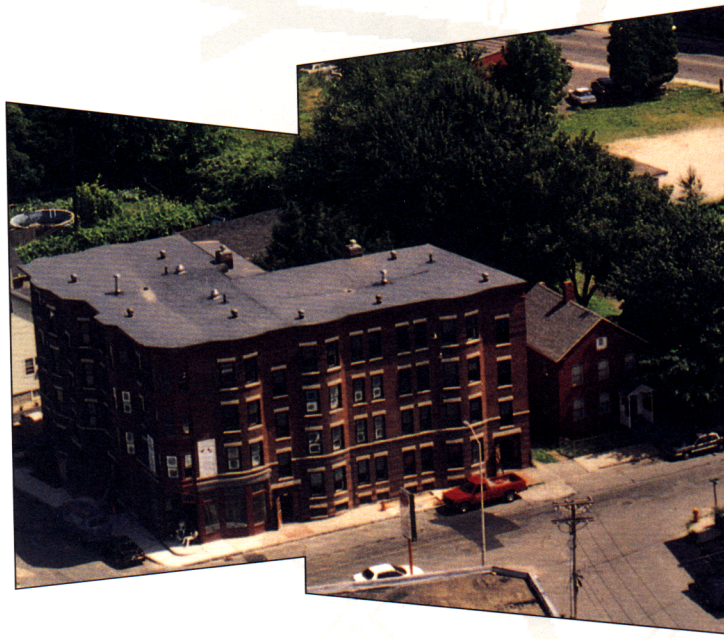
This project is located in the Niagra section of Fall River. It involves the substantial rehabilitation of four buildings on two parcels of land to create 9 units of affordable housing.
Acquisition loan: $115,200.
Equity investment: $963,568.

Third Street Project, Fall River

This project, also in the Niagra section of Fall River, involves the rehabilitation of two buildings on two parcels of land. When completed, the project will create 12 units of affordable housing.
Acquisition loan: $135,000.
Equity investment: $1,173,017.

Wade/John Street, Fall River

This project involves the rehabilitation of three buildings on three parcels of land on Wade and John Streets, in the Niagra section of Fall River to create 13 units of affordable housing. Acquisition loan: $167,400.
Equity investment: $1,326,640.



Cabotville Common, Chicopee

Cambridge Co-Housing, Cambridge

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

Ceylon Field Apartments, Dorchester

Acquisition and rehabilitation of 10 properties comprising 62 units of housing, developed by the Dorchester Bay Economic Development Corporation.
Loan amount: $4,467,894.
Equity investment: $5,378,477.
Completed and occupied.

Chestnut Square, Lowell

Chestnut Square, Lowell

This project involves the acquisition and rehabilitation of 37 apartments in nine existing buildings and the new construction of four duplex apartments to provide 41 units of affordable housing. The project is located in the Chestnut Square neighborhood of Lowell. The Caleb Foundation, Inc. is the project developer.
Loan amount: $2,934,000.
Equity investment: $3,721,940.
Closed and under construction.

Cambridge Co-Housing, Cambridge

Chestnut-Marlborough-Grove, Chelsea

Chestnut Street Residence, Springfield

Acquisition and substantial rehabilitation of an existing YMCA property, to be developed by the Metropolitan Springfield YMCA, that will create 104 SRO units.
Loan amount: $1,080,000.
Equity investment: $1,951,766.
Closed and under construction.

Chestnut-Marlborough-Grove, Chelsea

Acquisition and substantial rehabilitation of four buildings comprising 43 apartments in downtown Chelsea affordable to low-income households. The Commonwealth Land Trust is the project developer, and La Comision de Asuntos Hispanos de Chelsea is co-sponsor.
Loan amount: $1,808,796.
Equity investment: $2,599,546.
Completed and occupied.

Cleaves Court, Roxbury

Cleaves Court, Roxbury

Acquisition and rehabilitation of 36 apartment units in two buildings in Egleston Square. Project developer: Urban Edge Housing Corporation.
Equity investment: $861,509. Completed and occupied.

Cornerstone Village Co-Housing, Cambridge

Acquisition of a 57,000 s.f. parcel of land in North Cambridge for the construction of a 32 unit co-housing community. The developer will be the Cornerstone Co-Housing LLP comprising member households of the co-housing community.
Acquisition loan amount: $1,300,000. Approved, not yet closed.

Grant Manor, Roxbury

Freeland Apartments, Worcester

This project is located in the Main South neighborhood of Worcester. It involves the acquisition and substantial rehabilitation of 21 units of rental housing in four buildings. The Main South Community Development Corporation is developing the project.
Loan amount: $845,843.
Equity investment: $968,511.
Closed and under construction.

Grant Manor, Roxbury

The Grant Manor development is one of twelve projects in the Boston area being undertaken under the auspices of the Demonstration Disposition (also known as "Demo Dispo") Program, a joint HUD-MHFA initiative designed to rehabilitate and sell HUD-foreclosed property to qualified resident-controlled organizations. It is one of two Demo Dispo projects to benefit from equity financing through the low-income housing tax credit program. The property is a 25-year-old development that includes a mix of four townhouses, a mid-rise building, and a high-rise building, and the planned renovations, to provide 179 units of housing, are substantial. An affiliate of the tenants association is the managing general partner for the project.
Equity investment: $7,123,845.
Closed and under construction.

Harbor Light House, Beverly

The project involves the substantial rehabilitation of an existing 27-unit congregate care facility located in Monument Square in Beverly to expand its capacity to provide 35 SRO units of elderly housing and to upgrade to become an assisted living facility. The sponsor is First Baptist Church of Beverly, which will continue to operate the facility when it is completed.
Loan amount: $1,879,046.
Equity investment: $2,309,112.
Closed and under construction.

Hubbard Trust, Cambridge

A permanent first mortgage loan in the amount of $415,000 was used to refinance three buildings on two properties, one in Cambridge and two in Jamaica Plain, containing seven units of housing. David Aposhian is the owner and developer of these properties.

I&R IV, Peabody/Newburyport

MHIC has closed a $380,000 permanent loan to refinance two ranch style homes, each containing four bedrooms and leased to the State Department of Mental Retardation. This housing serves eight mentally retarded adults in Peabody and Newburyport. Michael A. Interbartolo, Jr. and Joseph M. Ricupero are the project sponsors.

Mandela Homes, Roxbury

Kent Street, Somerville

The project consists of the new construction of 40 units of affordable rental housing. The Community Builders, Inc. and Women's Supported Housing and Empowerment, Inc. are the co-sponsors of the project. Founded by a group of highly experienced mental health clinicians, Women's Supported Housing and Empowerment, Inc. is dedicated to providing permanent, affordable supported housing as a long-term solution for helping women and families out of abuse, homelessness, poverty, and emotional distress. The project is designed to address a critical need for service-enriched housing for women who are no longer in crisis, but who still require additional support.
Equity investment: $2,849,434.
Completed and lease-up in progress.

Mandela Homes, Roxbury

Acquisition and renovation of 276 units in 11 low and mid-rise brick buildings located on 5.6 acres of land. Beacon Residential Properties Limited Partnership is developing the property in conjunction with the Mandela Residents Cooperative Association.
Loan amount: $6,246,528.
Equity investment: $11,568,726.
Closed and under construction.

Marian Street Duplexes, Framingham

Acquisition and renovation of 28 units in 14 two-story, townhouse-style buildings. Each duplex will be sold to eligible first-time homebuyers. The project developer is the South Middlesex Non-Profit Housing Corporation.
Loan amount: $1,206,000.
Completed and occupied.

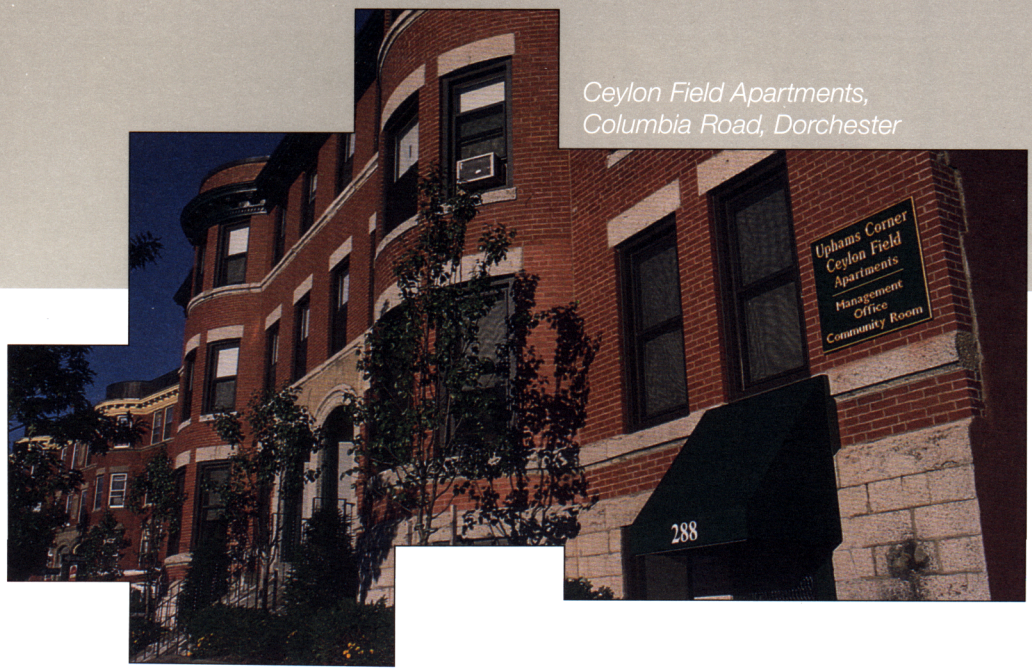
Neighborhood Homes, Springfield

This project involves the rehabilitation of 41 two- and three-family homes in the Upper Hill and Bay neighborhoods of Springfield to provide 102 units of affordable housing. The project developers are Better Homes for Springfield, Inc. and Springfield Neighborhood Housing Services, Inc.
Loan amount: $3,077,000.
Estimated investment: $3,513,037.
Closed and under construction.

New South Street, Northampton

Acquisition and rehabilitation of an historic building, consisting of 18 units. The developer is Valley Community Development Corporation.
Loan amount: $1,085,180.
Equity investment: $1,262,071.
Completed and occupied.

Chestnut Street Residence, Springfield



Ceylon Field Apartments, Columbia Road, Dorchester

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.

Perry Street, Lowell

Prospect Estates, Webster

This project involves the rehabilitation of two buildings of historic and architectural importance and will create 25 units of housing in downtown Webster. The two buildings involved in this project were acquired by the Webster Housing Authority at a foreclosure auction in 1995. The Authority created a subsidiary corporation, Prospect Estates, Inc., to own and rehabilitate the property.
Loan amount: $1,210,000.
Equity investment: $1,383,483.
Closed and under construction.

Rourke Realty, Brighton

This project involves the acquisition and rehabilitation of a four-story apartment building, with commercial space on the first floor. The developers, Martin J. and Martin A. Grealish, are long time residents of Brighton.
Acquisition Loan: $529,000.

Quadrangle Court, Springfield

Substantial rehabilitation of two properties, demolition of one building and partial demolition of another. The project will provide 33 units of affordable rental housing in the Quadrangle-Amory neighborhood of Springfield. The developer is the Hampden Hampshire Housing Partnership.
Equity investment: $3,544,800.
Closed and under construction.

Ceylon Field Apartments, Stanwood Road, Dorchester

Triangle Rental Apartments, Lowell

Warren Avenue, Boston

Wilder Gardens, Dorchester

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 developer.
Loan amount: $2,255,701.
Equity investment: $2,675,322.
Completed and occupied.

Triangle Rental Apartments, Lowell

Acquisition and major rehabilitation of four properties in the Acre Neighborhood of Lowell to create 36 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.
Loan amount: $1,901,512.
Equity investment: $2,414,788.
Completed and occupied.

Voces de Esperanza, Holyoke

This project represents a combination of new construction and substantial rehabilitation of 36 units in the Churchhill neighborhood of Holyoke. The development entity represents a joint venture between the Franklin Chestnut Residents Association and Nueva Esperanza, Inc.
Loan amount: $2,039,619.
Equity investment: $3,053,735.
Completed and occupied.

Warren Avenue, Boston

The project involves the acquisition and moderate rehabilitation of a group of six Victorian bow-front buildings that comprise 30 occupied, one bedroom apartment units in the South End of Boston. The development entity represents a joint venture between the Warren Apartments Corporation, a tenant-controlled, non-profit corporation, and Tent City Corporation, working in collaboration to redevelop the project through the financing made available by the Federal government through the Low Income Housing Preservation and Resident Homeownership Act ("LIHPRHA") program.
Equity investment: $1,869,343.
Completed and occupied.

West Concord Assisted Living, West Concord

Acquisition of 7.8 acres of land in West Concord for the construction of a 78-unit assisted living facility adjacent to the Assabet and Nashoba Rivers. The project will be developed by Volunteers of America, Inc., which is a nonprofit human services agency that designs and operates local and national programs for abused and neglected children, homeless people and families at risk.
Acquisition loan committed: $936,000.

Wilder Gardens, Dorchester

The project involves the rehabilitation and reconfiguration of five apartment buildings to provide 61 units of affordable housing. Dorchester Bay Economic Development Corporation (DBEDC) is the developer of the project. This is the fifth project DBEDC has developed with financing from MHIC.
Construction loan: $4,866,000.
Equity investment: $5,728,035.
Closed and under construction.

MHIC Project Investment and Loan Pipeline, Closed and Committed

Projects	Units	Loan	Equity	Fiscal Year Closed
1734 Washington Street, Boston	31		$1,097,500	1990
Langham Court	84		$4,275,000	1990
Roxbury Corners, Boston	54		$3,575,000	1990
VBC, Boston	30		$3,360,000	1990
Brooks School, Boston	56		$4,030,000	1991
Ridgewood Village, Chicopee	50	$1,177,500		1991
Waterford Place, Boston	40		$2,000,000	1991
604 Massachusetts Avenue, Boston	5	$380,000		1992
800 Main Street, Worcester	5	$175,000		1992
Dorchester Bay Buildable Lots, Boston	12	$730,000		1992
Hyde Square Co-op, Boston	41	$1,200,000	$3,430,000	1992
Jacob's Place, Dorchester	30	$952,000		1992
North Hill Homes, Westborough	23	$1,700,000		1992
Oakwood Senior Estates, Swansea	120	$3,960,000		1992
Parmelee Court, Boston	74		$2,800,000	1992
South City, Holyoke	66		$3,125,000	1992
Stony Brook Gardens, Boston	50	$1,900,000	$4,942,000	1992
123 Crawford Street SRO, Boston	17	$441,000		1993
326 Shawmut Ave. SRO, Boston	11	$301,500		1993
Alexander Magnolia Co-op, Boston	38	$1,000,000	$4,630,500	1993
Beaver Apartments, Worcester	26		$675,000	1993
Cortes Street, Boston	48		$1,300,000	1993
Daly House SRO, Roxbury	19	$450,000		1993
Fr. Walter J. Martin Homes, Boston	34	$1,600,000	$4,335,694	1993
Lopes Buildable Lots, Boston	4	$298,300		1993
Lucerne Gardens, Boston	45		$3,490,000	1993
Parkview SRO, Boston	63	$1,195,000	$1,451,000	1993
Pomeroy Lane, Amherst	25		$1,436,000	1993
Prang Estates, Roxbury	33	$1,199,368	$2,365,000	1993
41 Berkeley Street, Lawrence	38	$287,200		1994
Arch Project, Roxbury	75	$1,930,000		1994
Building 104, Boston	46		$5,330,000	1994
Cherry Hill, Amherst	32	$2,801,405		1994
Depot Crossing, Wareham	32		$903,477	1994
Grinnell Mansion, New Bedford	17		$920,000	1994
JT Housing, Dorchester	12	$405,000		1994
Kendall SRO, Chicopee	44		$781,500	1994
Lawrence YMCA SRO, Lawrence	73	$1,660,000	$1,438,909	1994
Merriam Village, Weston	32	$2,691,204		1994
Oak Terrace, Boston	88	$2,983,700	$6,400,000	1994
Stafford Heights, Roxbury	41	$3,100,000	$4,513,295	1994
Tapley School, Springfield	30	$1,557,850	$3,003,700	1994
Bancroft Apartments, J.P.	45	$1,390,679	$1,979,322	1995
Burbank Street Apartments, Boston	35	$1,946,015	$2,227,597	1995
Cambridge Community Properties	59	$3,150,000	$1,914,976	1995
Fairfield Properties, Boston	30		$1,470,771	1995
Florida Street, Dorchester	7	$290,000		1995
I & R Group Homes II, Peabody, Danvers	12	$610,000		1995
I&R Group Homes III, N. Andover, Peabody	8	$410,500		1995
Kenwyn Apartments, Springfield	27	$940,000	$1,062,259	1995
Nueva Vida Apartments, South Holyoke	24	$900,000	$1,398,288	1995
South Canal Apartments, South Holyoke	127	$1,215,000	$3,196,659	1995
Symphony Apartments, Springfield	24	$1,067,834	$1,929,203	1995
33 Bow Street, Somerville	18	$1,477,376	$1,440,150	1996
Cohen Florence Levine Estates, Chelsea	69	$2,858,032	$3,681,425	1996
Commerce Apartments, Roxbury	60	$3,965,721		1996

MHIC Project Investment and Loan Pipeline, Closed and Committed

(continued)

Projects	Units	Loan	Equity	Fiscal Year Closed
Danube Associates, Roxbury, Dorchester	65	$2,180,000		1996
Gardner Crawford Thane, Roxbury	64	$832,023	$1,197,044	1996
Huntington House, Boston	88	$3,137,105	$5,501,207	1996
Infill 2, Boston	13	$813,083	$1,165,134	1996
Marian Street Duplexes, Framingham	28	$1,206,000		1996
Memorial Parish House, Springfield	23		$1,801,557	1996
Sargent Prince SRO, Roxbury	29	$1,133,575	$1,580,314	1996
Uphams Corner, Dorchester	36	$3,752,015	$3,596,969	1996
Chestnut Square Housing #1, Lowell		$483,200		1996
Winter Gardens, Weston	61	$2,186,667		1996
275 River Street, Cambridge	6	$655,000		1997
Cabot Street House, Beverly	45	$1,117,000	$2,066,106	1997
Cabotville Common, Chicopee	38	$1,905,000	$2,040,340	1997
Cambridge CoHousing, Cambridge	41	$6,551,400		1997
Ceylon Field Apartments, Dorchester	62	$4,467,894	$5,480,000	1997
Chestnut Square, Lowell	41	$2,934,000	$3,721,940	1997
Chestnut-Marlboro-Grove, Chelsea	43	$1,808,796	$2,599,546	1997
Cleaves Court Apartments, Roxbury	36		$861,509	1997
Garfield Place, Cambridge	8	$1,072,000		1997
Chestnut Street Residence, Springfield	104	$1,080,000	$1,951,766	1997
Kent Street, Somerville	40		$2,849,434	1997
Mandela Homes, Roxbury	202	$6,246,528	$8,716,518	1997
New Port Antonio Apartments, Roxbury	227	$5,730,000	$4,054,662	1997
New South St. Apts., Northampton	18	$1,085,180	$1,262,071	1997
Perry Street, Lowell	18		$1,019,984	1997
Quadrangle Court, Springfield	33		$3,544,800	1997
Savin/Creston, Roxbury and Dorchester	26	$2,255,701	$2,675,322	1997
Triangle Rental Apartments, Lowell	36	$1,901,512	$2,414,788	1997
Union Rand SRO, N. Adams	41	$400,000		1997
Voces de Esperanza, Holyoke	36	$2,039,619	$3,053,735	1997
Westminster Court Apartments, Roxbury	70	$871,935	$3,260,731	1997
New Port Antonio Apartments 2, Roxbury	0	$1,862,567		1997
Commerce Apartments 2, Roxbury	0	$638,188		1997
Academy Homes, Roxbury	202	$2,750,000	$6,821,946	1998
Bedford Village, New Bedford	13		$991,187	1998
Benjamin Hill Homes, Shirley	9	$700,000		1998
Blackstone/Tecumseh, Fall River	11		$1,090,821	1998
Brook Avenue, Roxbury	36	$3,877,091	$4,641,299	1998
Caleb Clapp Properties, Fall River/N. Bedford	58	$656,100		1998
Commerce 3, Roxbury	60	$500,000		1998
Cornerstone Village CoHousing, Cambridge	32	$1,300,000		1998
Freeland Apartments, Worcester	21	$845,843	$968,511	1998
Grant Manor, Roxbury	179		$7,123,845	1998
Harbor Light House, Beverly	27	$1,879,046	$2,309,112	1998
Hubbard Trust, Cambridge	7	$415,000		1998
I&R IV, Peabody/Newburyport	8	$380,000		1998
Mandela Homes Phase II, Roxbury	74		$2,852,208	1998
Neighborhood Homes, Springfield	102	$3,077,000	$3,454,753	1998
Prospect Estates, Webster	25	$1,210,000	$1,383,483	1998
Tecumseh Street, Fall River	9		$963,568	1998
Third Street, Fall River	12		$1,173,017	1998
Wade/John Street, Fall River	13		$1,326,640	1998
Warren Avenue Apartments, Boston	30		$1,869,343	1998
West Concord Assisted Living, W. Concord	78	$936,000		1998
Wilder Gardens, Roxbury	61	$4,866,000	$5,728,035	1998
Rourke Realty, Brighton	9	$529,000		1998
Totals	**4,893**	**$140,564,252**	**$205,022,470**	

Summary of Corporate Commitments and Amounts Invested

The member corporations participating in MHIC have collectively committed $334 million to finance affordable housing developments. The current status of these commitments is outlined in the following table.

(Note: all figures are in $1,000's)

	Loan Program		Equity Program		Overall Total	
Member Corporation*	*Capitalized*	*Approved/ Closed*	*Capitalized*	*Approved/ Closed*	*Total Commitment*	*Approved/ Closed*
BankBoston	21,000	55,201	64,049	43,810	85,049	99,011
Fleet National Bank	20,500	53,886	60,550	46,126	81,050	100,012
State Street Bank & Trust Company	4,600	12,092	41,311	29,724	45,911	41,816
Freddie Mac	0	0	39,900	25,327	39,900	25,327
Boston Safe Deposit & Trust Company	0	0	26,136	22,652	26,136	22,652
Fannie Mae	0	0	10,681	8,058	10,681	8,058
PNC Bank, New England	1,500	3,943	6,399	4,216	7,899	8,159
Citizens Bank	500	1,314	7,379	4,709	7,879	6,023
USTrust	1,000	2,629	4,058	2,587	5,058	5,215
First Massachusetts Bank	0	0	2,840	1,909	2,840	1,909
Boston Private Bank	300	789	1,420	978	1,720	1,767
Compass Bank	0	0	1,595	1,129	1,595	1,129
FDIC	1,000	2,629	0	0	1,000	2,629
Wainwright Bank	800	2,103	0	0	800	2,103
Fall River Five Cents Savings Bank	0	0	568	382	568	382
United States Trust Company	225	591	220	118	445	710
Hyde Park Savings Bank	250	657	55	55	305	712
TeleCom Cooperative Bank	300	789	0	0	300	789
SIS Bank	250	657	0	0	250	657
Boston Bank of Commerce	250	657	0	0	250	657
Atlantic Bank & Trust Company	250	657	0	0	250	657
Stoneham Savings Bank	250	657	0	0	250	657
First Trade Union Bank	250	657	0	0	250	618
Grove Bank	250	657	0	0	250	657
Other Banks*	0	0	308	308	308	308
Bell Atlantic*	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	$53,475	$140,564	$280,402	$205,022	$333,877	$345,548

*Includes non-member corporations (indicated by asterisk) who have invested in projects financed through MHIC.

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 eighth year of operation with a record 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 $250,000 for a reserve against potential future loan losses. A Credit Review Committee comprising 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 eight years of operation.

Under the Equity Program, MHIC earns fees by providing services to equity funds (limited partnerships structured for investment in low-income housing projects) that it syndicates through its wholly-owned subsidiary, Massachusetts Housing Equity Fund, Inc. (MHEF). The services that MHIC provides include organization, syndication, underwriting, and long-term asset management and partnership administration, all of which are collectively refereed to as investment services. The fees that the corporation receives for these investment services are determined and paid according to an investment and management agreement established for each equity fund. In addition to fees derived from investment services, the corporation charges the low-income housing projects that comprise the funds for construction monitoring services, and receives investor- servicing fees that relate to contractual agreements established prior to MHEF. As of June 30, 1998, MHIC has capitalized MHEF in the amount of $2,047,044.

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, 1998 and 1997, 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, 1998 and 1997, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying consolidating balance sheet and statement of revenues and expenditures are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Ernst & Young

September 18, 1998

Consolidated Balance Sheets

	Year ended June 30 1998	1997
Assets		
Cash	$ 366,900	$ 71,580
Loan fund:		
Project loans, net of allowance for loan losses of $250,000 in 1998 and $225,000 in 1997	5,883,630	9,260,793
Money market deposits at member banks	47,341,370	43,939,207
Total loan fund	53,225,000	53,200,000
Loan guarantee fund:		
Loan guarantee funds on deposit	30,101	5,193,474
Loan guarantee loans	4,813,611	0
Total loan guarantee fund	4,843,712	5,193,474
Notes receivable	6,911,012	5,731,167
Amounts receivable and other assets	1,015,218	942,861
Furniture, equipment and leasehold improvements, net of accumulated depreciation and amortization of $378,434 in 1998 and $290,489 in 1997	320,300	106,018
Total assets	$ 66,682,142	$ 65,245,100
Liabilities and net assets		
Liabilities:		
Notes payable to member banks	$ 53,475,000	$ 53,425,000
Notes payable — loan guarantee program	4,839,562	5,193,474
Unearned fees	6,531,991	5,667,741
Accrued interest and other liabilities	645,433	453,490
Total liabilities	65,491,986	64,739,705
Net assets	1,190,156	505,395
Total liabilities and net assets	$ 66,682,142	$ 65,245,100

See accompanying notes to consolidated financial statements.

Consolidated Statements of Revenues and Expenditures

	Year ended June 30	
	1998	1997
Revenues		
Interest revenue:		
Interest on bank deposits	$ 1,473,303	$ 1,442,887
Interest on project loans	1,458,405	637,138
Total interest revenue	2,931,708	2,080,025
Interest expense of notes payable to member banks	(2,139,673)	(1,345,342)
Net interest revenue before provision for loan losses	792,035	734,683
Provision for loan losses	(25,000)	(25,000)
Net interest revenue after provision for loan losses	767,035	709,683
Equity program revenue:		
Fees related to MHEF LP's	3,212,152	2,512,454
Other equity program fees	42,979	41,266
Total revenues	4,022,166	3,263,403
Expenditures		
Salaries and employee benefits	1,907,993	1,739,048
Occupancy, equipment and furniture	350,318	270,775
Professional services	483,335	464,569
Other expenses	595,759	404,414
Total expenditures	3,337,405	2,878,806
Excess of revenues over expenditures	684,761	384,597
Net assets at beginning of year	505,395	120,798
Net assets at end of year	$ 1,190,156	$ 505,395

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Year ended June 30 1998	1997
Operating activities		
Excess of revenue over expenditures	$ 684,761	$ 384,597
Adjustments to reconcile excess of revenue over expenditures to net cash provided (used) by operating activities:		
Provision for loan losses	25,000	25,000
Depreciation and amortization expense	87,945	99,057
Increase in amounts receivable	(72,356)	(168,634)
Decrease in unearned fees	(1,336,208)	(788,651)
Increase in accrued interest and other liabilities	191,943	106,339
Total adjustments	(1,103,676)	(726,889)
Net cash used in operating activities	(418,915)	(342,292)
Investing activities		
Project loan advances	(23,892,446)	(18,031,597)
Project loan repayments	27,244,609	14,572,113
Increase (decrease) to loan guarantee funds in short-term investments	5,163,373	(5,193,474)
Increase (decrease) to money market deposits at member banks	(3,402,163)	2,984,484
Loan guarantee and other loan advances	(6,950,615)	
Loan guarantee and other loan repayments	2,137,004	
Payments received on notes receivable	1,020,613	350,556
Purchases of furniture, equipment and leasehold improvements	(302,228)	(33,875)
Net cash used in investing activities	1,018,147	(5,351,793)
Financing activities		
Proceeds from notes payable to member banks	250,000	475,000
Amortization of notes payable to member banks	(200,000)	
Proceeds from notes payable to loan guarantee lenders	1,295,000	5,193,474
Payments of notes payable to loan guarantee lenders	(1,648,912)	
Net cash provided by (used in) financing activities	(303,912)	5,668,474
Net increase (decrease) in cash	295,320	(25,611)
Cash at beginning of year	71,580	97,191
Cash at end of year	$ 366,900	$ 71,580
Supplemental disclosures of cash flow information:		
Non-cash investing activity:		
Unearned fee recorded in exchange for notes	$ 2,200,458	$ 2,483,322
Cash paid during the year for interest on notes payable to member banks	$ 1,624,149	$ 1,225,603

See accompanying notes to consolidated financial statements.

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 five 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 $2,047,044. 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, 1998, the Partnerships have combined total assets and cumulative deficit of approximately $85,127,208 and $15,870,456 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 1998 and 1997, MHIC recognized fees of approximately $3,255,000 and $2,512,000 for services provided and costs incurred in connection with the formation and operation of the Partnerships.

Notes to Consolidated Financial Statements (continued)

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.

Use of Estimates: 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 7.5% at June 30, 1998. 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, 1998, outstanding borrowings under these agreements totaled $53,475,000.

3. Discretionary Revolving Line of Credit

MHIC has obtained a discretionary revolving line of credit of $2,500,000 that it utilizes as a source of fixed-rate funding. A separate note evidences each advance under this line of credit, and accrues interest at a rate of 70 basis points above the 5-year treasury note in effect at the time of the advance. At June 30, 1998, the unused portion of the revolving line totaled $1,704,411. Outstanding borrowing under this agreement is included in loan guarantee borrowings (see note 6, loan guarantee program).

4. Note Receivable and Unearned Fees

The note receivable from MHEF LPs 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, 1998 and 1997, note receivable(s) were $6,911,011 and $5,731,167, respectively. At June 30, 1998 and 1997, note receivable included accrued interest of $1,189,409 and $708,551, 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, 1998 and 1997, unearned equity fees were $5,844,320 and $5,034,534, respectively.

4. Project Loans

MHIC provides loans for the development of affordable housing throughout Massachusetts.

Project loan activity was as follows:	1998	1997
Beginning balance	$ 9,485,793	$ 6,026,309
Loan disbursements	23,892,446	18,031,597
Loan repayments	(27,244,609)	(14,572,113)
Project loans outstanding	6,133,630	9,485,793
Allowance for loan losses	(250,000)	(225,000)
Project loans, net	**$ 5,883,630**	**$ 9,260,793**

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, 1998, MHIC had no delinquent or non-performing project loans and there have been no charge-offs recorded to date.

5. Loan Guarantee Program

Under the loan guarantee program, MHIC utilizes its loan pool as collateral to provide guarantees for loans made by third parties or to obtain fixed-rate funding for loans that it directly originates. 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 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 borrowings to fund such loans are invested in short-term government backed securities until the funds are advanced.

Loan guarantee activity was as follows:

	1998			1997		
	Third Party	Direct	Total	Third Party	Direct	Total
Guarantees / Commitments	$ 0	$4,839,562	$4,839,562	$6,145,721	$5,193,474	$11,339,195
Beginning balance - loans	3,965,721	0	3,965,721	960,567	0	960,567
Loan disbursements	0	6,950,615	6,950,615	5,185,154	0	5,185,154
Loan repayments	(3,965,721)	(2,137,004)	(6,102,725)	(2,180,000)	0	(2,180,000)
Loans outstanding	$ 0	$4,813,611	$4,813,611	$3,965,721	$ 0	$3,965,721

Notes to Consolidated Financial Statements (continued)

6. Commitments

At June 30, 1998, MHIC had unfunded commitments to originate loans of $21,983,842. These commitments have been established pursuant to MHIC's loan policy.

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 non-cancelable operating leases consist of the following at June 30, 1998:

1999	$ 240,364
2000	$ 233,951
2001	$ 232,810
2002	$ 245,763
2003	$ 64,384
Total	**$1,017,272**

MHIC incurred rent expense associated with office space and equipment of approximately $239,722 and $217,900 in 1998 and 1997, 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 $80,000 in 1998 and $71,000 in 1997.

9. Impact of Year 2000 (unaudited)

In general, without particular reference to MHIC, certain older computer programs were written using two digits rather than four to define the applicable year. As a result, those computer programs have time-sensitive functions that recognize a date using "00" instead of the year 2000 (the "Year 2000 Issue"). This could result a system failure or miscalculations that lead to disruption of operations, including, among other things, a temporary inability to process transactions or engage in other normal business activities.

MHIC has completed an initial assessment of the Year 2000 Issue and will modify or replace portions of its software so that its computer systems will function properly with respect to dates in the year 2000 and thereafter. MHIC believes that these modifications to existing software and conversions to new software will be sufficient, and that the Year 2000 Issue will not pose significant operational problems for its computer systems. This assessment is based on MHIC's best estimates, and actual results could differ materially from those anticipated. In addition, there is no guarantee that the systems of other companies on which MHIC's systems rely will be converted timely and would not have an adverse effect on the company.

Other Financial Information

Consolidating Balance Sheet

	Year ended June 30, 1998			
	MHIC	MHEF	Elimination	Consolidated
Assets				
Cash	$ 106,863	$ 260,037	$	$ 366,900
Loan fund:				
Project loans, net of allowance for loan losses of $250,000 in 1998 and $225,000 in 1997	5,883,630			5,883,630
Money market deposits at member banks	47,341,370			47,341,370
Total loan fund	53,225,000			53,225,000
Loan guarantee fund				
Loan guarantee funds on deposit	30,101			30,101
Loan guarantee loans	4,448,611	365,000		4,813,611
Total loan guarantee program	4,478,712	365,000		4,843,712
Investment in MHEF Inc.	2,169,203		(2,169,203)	
Notes receivable	6,911,012			6,911,012
Amounts receivable and other assets	995,933	19,285		1,015,218
Due from parent/sub		1,524,881	(1,524,881)	
Capitalized losses from MHEF LPs		98,768	(98,768)	
Furniture, equipment and leashold improvements, net of accumulated depreciation and amortization of $378,434 in 1998 and $280,489 in 1997	320,300			320,300
Total assets	$ 68,207,023	$ 2,267,971	$(3,792,852)	$ 66,682,142
Liabilities and net assets				
Liabilities:				
Notes payable to member banks	$ 53,475,000			$ 53,475,000
Notes payable — loan guarantee program	4,839,562			4,839,562
Due to sub/parent	1,524,881	100,000	(1,624,881)	
Unearned fees	6,531,991			6,531,991
Accrued interest and other liabilities	645,433			645,433
Total liabilities	67,016,867	100,000	(1,624,881)	65,491,986
Net assets	1,190,156	2,167,971	(2,167,971)	1,190,156
Total liabilities and net assets	$ 68,207,023	$ 2,267,971	$(3,792,852)	$ 66,682,142

See accompanying notes to consolidated financial statements.

Other Financial Information
Consolidating Statement of Revenues and Expenditures

	Year ended June 30, 1998			
	MHIC	MHEF	Elimination	Consolidated
Revenues				
Interest revenue:				
Interest on bank deposits	$ 1,472,422	$ 881		$ 1,473,303
Interest on project loans	1,434,354	24,051		1,458,405
Total interest revenue	2,906,776	24,932		2,931,708
Interest expense on notes payable to member banks	(2,139,673)			(2,139,673)
Net interest revenue before provision for loan losses	767,103	24,932		792,035
Provision for loan losses	(25,000)			(25,000)
Net interest revenue after provision for loan losses	742,103	24,932		767,035
Equity program revenue:				
Fees related to MHEF LP's	3,212,152			3,212,152
Other equity program fees	42,979			42,979
Income from invesment in MHEF	24,277		(24,277)	0
Total revenues	4,021,511	24,932	(24,277)	4,022,166
Expenditures				
Salaries and employee benefits	1,907,993			1,907,993
Occupancy, equipment and furniture	350,318			350,318
Professional services	483,335			483,335
Other expenses	595,104	655		595,759
Total expenditures	3,336,750	655		3,337,405
Excess of revenues over expenditures	684,761	24,277	(24,277)	684,761
Additional investment in MHEF		295,000	(295,000)	
Net assets at beginning of year	505,395	1,848,694	(1,848,694)	505,395
Net assets at end of year	$ 1,190,156	$ 2,167,971	$ (2,167,971)	$ 1,190,156

See accompanying notes to consolidated financial statements.

MHIC Staff

Joseph L. Flatley
President & CEO

Paul K. Chan
Senior Equity Investment Officer

Eugene Clerkin
Senior Lender

Ellen P. Connolly
Finance Officer

Andrea R. Daskalakis
Senior Equity Investment Officer

Deborah Favreau
Senior Lender

Joseph P. Henefield
Director of Equity Investment

Marianne M. Horan
Manager of Administration

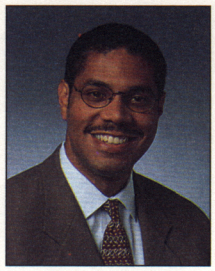
Carolyn M. Jackson
Executive Assistant

Deborah R. Lack
Associate Asset Management Officer

Rosemarie Lynch
Loan Administrative Assistant

Carolyn Anderson Navarro
Investment Officer

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



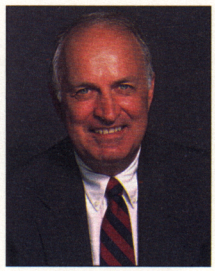
David Perez
Senior Asset Management Officer

Desiree Simonds
Loan Administration Specialist

Garrett R. Spellman
Network Administration Specialist

Henry A. Terrones
Equity Administration Specialist

William A. Thompson
Director of Finance and Administration

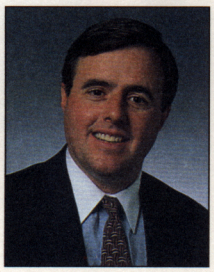


Raymond H. Weaving
Director of Lending

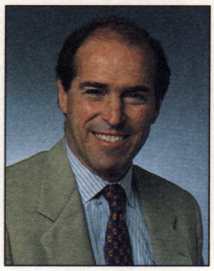
Tracy E. Welch
Office Services Coordinator

MHIC Board

Guilliaem Aertsen
Chairman,
BankBoston

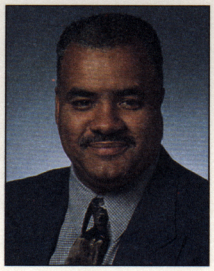


Walter Mercer
Vice Chairman
Spaulding & Slye



Paul Calhoun
Boston Safe Deposit &
Trust Company

Howard E. Cohen
Beacon Residential
Properties



Daniel Cruz, Jr.
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Charles E. Dahm*
State Street Bank and
Trust Company

B. John Dill
The Colebrook
Corporation

Evelyn Friedman
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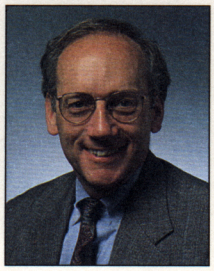
Development Corporation

Charles Grigsby
Department of
Neighborhood
Development



Steven Pierce
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Eleanor G. White
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*deceased

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Nancy Curry, Citizens Bank of Massachusetts
Evelyn Friedman, Nuestra Comunidad
Elizabeth Gruber, BankBoston
Margaret Harrison, Boston Safe Deposit & Trust
Catherine W. Jones, PNC Bank New England
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Warren Smith
John Taylor
John Vogel
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State Street Bank and Trust Company

Boston Safe Deposit and Trust Company

Freddie Mac

Fannie Mae

PNC Bank New England

USTrust

First Massachusetts Bank

Citizens Bank

Wainwright Bank and Trust

Federal Deposit Insurance Corporation

Boston Bank of Commerce

Boston Private Bank & Trust Company

Springfield Institution for Savings

Compass Bank

Fall River Five Cents Savings Bank

Stoneham Savings Bank

Atlantic Bank & Trust

Hyde Park Savings Bank

Grove Bank

TeleCom Cooperative Bank

United States Trust Company

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