



*Kanai is my whole life now.  
Having a safe and loving home is the  
most important gift I can give him.*



Massachusetts  
Housing  
Investment  
Corporation

ANNUAL REPORT 2002

## MISSION STATEMENT

Our mission at MHIC 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.

### ON THE COVER:

Grace Kahuko  
Middlesex Street Apartments  
Lowell

## ANNUAL REPORT 2002



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## LETTER FROM THE CHAIRMAN AND PRESIDENT



For MHIC, 2002 was a year of notable achievements and challenges. Once again we had record high levels of loans and investments and maintained our position as the state's leading tax credit investor. We financed a good mix of new and older affordable housing, rental and homeownership projects, and mixed-use and commercial developments. We expanded our geographic reach to include several new urban and suburban communities in Massachusetts.

Like others in the affordable housing industry we have been operating over the past year in a shifting environment, marked by a shaky regional economy, an uncertain real estate market, resistance to new housing production, dwindling public resources and, of course, the growing need for affordable housing.

MHIC faced those challenges by carving out niches, like creative acquisition and mini-perm loans, by crafting innovative financing structures, and by securing new funding sources. Looking ahead we intend to develop other unique products to complement those of traditional lenders and to aggressively pursue new opportunities through new programs and partnerships.

This Annual Report highlights the year's achievements and demonstrates how MHIC, now in its thirteenth year, is helping to build strong communities in Massachusetts.

Guillaem Aertsen  
*Chairman*

Joseph L. Flatley  
*President and CEO*

## The Year 2002

- To date \$594 million has been invested or committed by MHIC to finance over 9,000 housing units in 208 projects.
- In FY 2002 MHIC invested \$103 million and committed \$90 million to finance 33 projects, with \$47 million closed and \$50 million committed under the Loan Program, and \$56 million invested and \$40 million committed under the Equity Program. These figures are all-time highs.
- MHIC expanded its geographic reach to include new communities like Manchester, Franklin, Gloucester, Haverhill, Brookline, Abington and Westfield, while continuing to make investments in Roxbury, Dorchester, Holyoke, Cambridge, New Bedford and other communities previously served.
- For the twelfth straight year MHIC operated with a surplus of revenue over costs and no loan losses. MHIC's portfolio performed well and its loan balances are the highest in the history of the company.
- MHIC again captured more than 50% of the tax credit market in Massachusetts. The ninth Equity Fund, which was rolled out at the beginning of FY 2003, reinstated the option to invest on a cash needs or deferred pay-in schedule.
- MHIC continued to strengthen its asset management capabilities with new staff that concentrates on providing active, "hands-on" management, and information systems designed to collect and distribute project information to investors quickly and accurately.
- Acquisition lending to prevent the loss of affordable housing properties was a major goal for MHIC this year; we have successfully established this area as a niche because of our ability to handle complex deals and to close them quickly. We have now provided more than \$26 million in acquisition loans to finance 114 projects.

Crocker & Cutlery, Turners Falls



# Adaptive Reuse



Katherine MacGregor and family  
Squirrel Brand Apartments, Cambridge

*It's the simplest things we love the most...  
family game night, cooking, and being together  
at home.*



## LePage Glue Factory, Gloucester

This former glue factory will be transformed into affordable rental and homeownership units by Cape Ann Housing Opportunities, Inc., working closely with the City of Gloucester.



### Sister Clara Muhammed Housing Cooperative, Dorchester

A burned out school built in 1911 is being renovated, and an adjacent property is being improved with the addition of five new townhouses, to create affordable rental housing in this Uphams Corner neighborhood. The Dorchester Bay Economic Development Corporation is the sponsor.



### Squirrel Brand Apartments, Cambridge

Formerly a popular candy factory between Inman and Central Squares, this building is now a 20-unit affordable rental housing project. It was developed by Just-a-Start Corporation.



### Crocker & Cutlery Buildings, Turners Falls

Two historically-significant buildings—a bank and row houses used by mill workers in the 19th century—were recently rehabilitated into affordable housing and commercial space by the Franklin County Regional Housing and Development Authority.

# From the Ground Up



Chandra Pierce with Josue and Imari Morales  
Crocker Building, Turners Falls

*We are really happy with our new home.  
Now we can concentrate more on work,  
school, and providing for our baby.*



## Abington Commons, Abington

A large, mixed-income rental apartment complex, complete with a pool, tennis court, nature trails and other amenities, is being constructed on a 35-acre site in this small suburban community by Beacon Residential Properties.



## Windfield Family Apartments, Hadley

A new, mixed-income rental apartment project was built on a 33-acre site on the Amherst/Hadley town line by Amhad Development Corporation.



### Hensche Lane, Provincetown

On a quiet street in this Cape Cod town, developer Ted Malone built for-sale homes for low, moderate, and market-rate buyers. The project includes work spaces for artists.



Kimball Court  
Woburn



### Walkover Commons, Brockton

A former industrial site near the Brockton commuter rail station was used by Beacon Residential Properties for new construction of a mixed-income rental apartment complex.



Fort Avenue Condominiums  
Roxbury



Provincetown  
Community Housing  
Provincetown

# Housing for the Elderly



Esther Berlandi  
Traditions of Dedham

*I really like having my own apartment,  
one I can keep up by myself. But it's great  
to know that help is there when I need it.*



## Traditions of Dedham, Dedham

This new assisted living facility, built by McNeil Elder Services, accommodates some Alzheimer's residents; services include adult day care, a media room, a barber shop, and a beauty salon.



### JFK Apartments, Cambridge

Built in 1963 with federal funds to house low income seniors near Central Square, this building will undergo extensive rehabilitation and addition of an assisted living facility by the Cambridge Housing Authority. This investment represents MHIC's first investment in a HOPE VI project.



### Florence Chafetz Home for Specialized Care, Chelsea

Seniors with specialized needs, like frailty and dementia, will live in this new facility, perched on top of Admiral's Hill. It was developed by the Chelsea Jewish Nursing Home Foundation.



### Susan S. Bailis Assisted Living, Boston

A new mixed-income assisted living facility, with a range of amenities, is being developed by the Fenway Community Development Corporation on a vacant site in the Fenway/South End neighborhood of Boston.

# Preservation of Existing Housing



Jacqueline Rivera and family  
Victoria Apartments, Boston

*We like this community and have lived here for some time...now we have enough rooms for our children and a nice, new, and safe back yard for them to play in.*



## Hano Homes

This distressed property, built 100 years ago in Union Square, was recently acquired and substantially renovated, inside and out, by Allston Brighton Community Development Corporation.



### State Street Apartments, New Bedford

Three vacant, adjacent mill buildings that housed mill workers in the 1880s have been rehabilitated by HallKeen to create affordable housing. This was MHIC's first investment in a project with state low income housing tax credits.



### Victoria Apartments, Boston

Built in 1980 with a HUD-backed mortgage that was eligible for prepayment, this large rental apartment complex—which occupies a city block in Boston's South End—was rescued and rehabilitated by ETC Development Corporation.



### Puerta de la Esperanza, Holyoke

This project involved substantial historic renovation of two buildings and new construction of two more to create LIHTC-eligible housing and storefront commercial space. Nueva Esperanza is the sponsor.

# Preservation of Existing Housing



**Melbourne Street, Roxbury**

This is a mixed-use commercial-residential property in the Mission Hill section of Roxbury. It contains seven residential and two commercial spaces and is being developed by Harold Raymond, Warren Fields and Carl Hyman.



**Harvard Hill, Dorchester and Mattapan**

MHIC financing enabled Urban Edge Housing Corporation to acquire two properties—one in Dorchester and one in Mattapan—and preserve them as affordable.



Dominique Foster and family

*When I used to hear the phrase "turn your life around" I always thought it sounded like going backwards. But now I see it's like I've just picked my feet up and put them back down on higher ground.*



**Pittsfield YMCA, Pittsfield**

An outdated SRO section of the Pittsfield YMCA was substantially renovated to create studio apartments. It was sponsored by the Pittsfield Y, with assistance from the Berkshire Housing Development Corporation.



**Austin Street, Worcester**

Two 120-year-old, adjacent buildings—one of which was vacant—were renovated to create rental apartments by Worcester Common Ground.



Middlesex Street  
Apartments  
Lowell



South End  
Apartments  
Boston

## RECENTLY FINANCED OR APPROVED PROJECTS

PROJECTS	UNITS	LOAN	EQUITY
133 Chandler Street, Worcester	5	\$115,000	
Austin Street, Worcester	9	\$255,000	
Abington Commons, Abington	192		\$5,548,200
Amory Terrace, Jamaica Plain		\$1,350,000	
Auburn Apartments, Haverhill	30	\$2,100,000	
Beacon Street SRO, Brookline	15	\$1,200,000	
Beaver Brook, Dracut	50	\$950,000	
CAST Apartments, Cambridge	42		\$3,637,811
Crocker & Cutlery Buildings, Turners Falls	48	\$3,700,000	\$5,250,803
Darrell Drive, Randolph	5	\$292,000	
Dartmouth Hotel, Roxbury	37	\$850,000	
Dighton Homeownership, Dighton	60	\$175,000	
Dorchester Bay EDC Line of Credit, Dorchester		\$350,000	
Dudley Street SRO, Roxbury	67	\$1,900,000	
Dudley Village Court, Roxbury		\$973,000	
Edgewinn Apartments, Westfield	84	\$2,350,000	
Egleston Crossing, Roxbury	44	\$990,000	
Florence Chafetz Home for Specialized Care, Chelsea	36		\$2,809,058
Fort Avenue Condominiums, Roxbury	4	\$850,000	
Franklin Commons, Franklin	96	\$8,180,000	
Hano Homes, Allston/Brighton	20	\$715,000	\$1,610,290
Harvard Hill Apartments, Dorchester and Mattapan	37	\$3,365,000	
Hensche Lane, Provincetown	18	\$1,350,000	
Howard Dacia Homes, Dorchester	26	\$1,200,000	\$2,709,596
JFK Apartments, Cambridge	69		\$8,472,202
Kimball Court, Woburn	174	\$12,600,000	
Lawton's Corner, New Bedford	18	\$300,000	
LePage Factory Site, Gloucester		\$1,525,000	
Melbourne Street, Roxbury	9	\$1,050,000	

PROJECTS	UNITS	LOAN	EQUITY
Middlesex Street Apartments, Lowell	24		\$3,126,895
Millbank Place II, Northampton	24	\$300,000	
Mishawum Park Apartments, Charlestown	337	\$8,755,890	
Moody Street, Lowell			\$581,218
Nuestra Comunidad Line of Credit, Roxbury		\$400,000	
Pittsfield YMCA, Pittsfield	44		\$1,976,620
Pondview Apartments, Jamaica Plain	60	\$2,050,000	\$4,459,604
Provincetown Community Housing, Provincetown	18	\$2,150,000	\$1,885,017
Puerta de la Esperanza, Holyoke	33		\$4,373,678
Rainforest, Boston		\$365,000	
Reviviendo Family Housing, Lawrence	17		\$1,408,609
Richards Apartments, Webster	54	\$1,977,800	
Shepard Street, Lynn	18	\$975,000	
Sister Clara Muhammed Housing Cooperative, Dorchester	25	\$1,100,000	\$3,555,447
South End Apartments, Boston	28		\$2,160,533
Spear Street SRO, Quincy	22	\$810,000	
Squirrel Brand Apartments, Cambridge	20		\$2,180,050
State Street Apartments, New Bedford	18	\$1,618,750	\$2,277,958
Summer Street Redevelopment, Manchester	46	\$2,200,000	
Susan S. Bailis Assisted Living, Boston	82		\$2,844,135
The Community Builders, Lawrence, Methuen, Fall River	86	\$1,097,401	
Traditions of Dedham, Dedham	95	\$8,290,000	
Victoria Apartments, Boston	190		\$11,616,671
Viviendas Apartments, Boston	181		\$7,801,527
Walkover Commons, Brockton	80	\$5,600,000	
Wardman Apartments, Roxbury	88	\$313,500	\$3,748,351
Webb Building, Boston		\$3,570,000	
Westminster Avenue, Roxbury	4	\$550,800	
Windfield Family Apartments, Hadley	80	\$5,500,000	\$3,371,666
<b>Totals</b>	<b>2869</b>	<b>\$96,309,141</b>	<b>\$87,405,939</b>

## MEMBER CORPORATION PARTICIPATION IN MHIC PROGRAMS

The member banks and corporate investors participating in MHIC have collectively committed \$466 million to finance affordable housing developments. The current status of these commitments is outlined in the following table.

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

MEMBER CORPORATION	LOAN PROGRAM	EQUITY PROGRAM	TOTAL
FleetBoston Financial	\$ 20,750	\$181,171	\$201,921
Freddie Mac		\$ 69,930	\$ 69,930
State Street Bank and Trust Company	\$ 4,600	\$ 62,463	\$ 67,063
Mellon New England		\$ 28,793	\$ 28,793
Citizens Bank	\$ 4,000	\$ 22,037	\$ 26,037
Fannie Mae		\$ 25,981	\$ 25,981
Banknorth	\$ 1,750	\$ 15,880	\$ 17,630
Eastern Bank	\$ 750	\$ 9,760	\$ 10,510
PNC Bank	\$ 1,500	\$ 6,399	\$ 7,899
Compass Bank		\$ 2,615	\$ 2,615
Boston Private Bank & Trust Company	\$ 300	\$ 2,130	\$ 2,430
Peoples Savings Bank of Holyoke		\$ 1,420	\$ 1,420
Fall River Five Cents Savings Bank		\$ 568	\$ 568
Flagship Bank		\$ 510	\$ 510
Bank of Western Massachusetts		\$ 510	\$ 510
The Life Initiative	\$ 500		\$ 500
First Trade Union Bank	\$ 500		\$ 500
Hyde Park Savings Bank	\$ 350	\$ 55	\$ 405
TeleCom Cooperative Bank	\$ 300		\$ 300
Capital Crossing Bank and Trust	\$ 250		\$ 250
OneUnited Bank	\$ 250		\$ 250
Stoneham Savings Bank	\$ 250		\$ 250
Investors Bank & Trust	\$ 250		\$ 250
Wainwright Bank	\$ 200		\$ 200
<b>Total</b>	<b>\$36,500</b>	<b>\$430,222</b>	<b>\$466,722</b>

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

Under the Loan Program, the Corporation earns advisory fees for managing the LLC. The fees are generally based upon loan volume and outstanding balances, and in aggregate will typically range from 1% to 4% of the LLC's total assets. In addition, the Corporation earns origination fees that are paid by borrowers to the LLC and subsequently passed-through to the Corporation. As of June 30, 2002, the LLC had contributed member capital of \$36,050,000, total assets of \$46,575,371, and a loan loss reserve of \$445,092. The Corporation's loan program has not experienced any loan losses during its twelve years of operation.

Under the Equity Program, the Corporation earns investment and management fees by providing services to limited partnerships structured for investment in low-income housing projects. These limited partnerships are syndicated through the Corporation's wholly-owned subsidiary, Massachusetts Housing Equity Fund, Inc. (MHEF). The services that the Corporation provides include organization, syndication, underwriting, long-term asset management, and partnership administration. The investment and management fees are determined and paid according to an investment and management agreement established for each limited partnership. In addition, the corporation earns development monitoring fees paid by sponsors and investor-servicing fees that relate to contractual agreements established prior to MHEF. As of June 30, 2002, MHIC has capitalized MHEF in the amount of \$2,883,900.

## REPORT OF INDEPENDENT AUDITORS

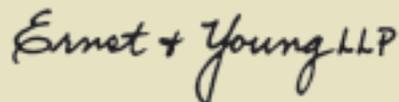
### Board of Directors The Massachusetts Housing Investment Corporation

We have audited the accompanying consolidated balance sheets of the Massachusetts Housing Investment Corporation (the Corporation) as of June 30, 2002 and 2001, 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 auditing standards generally accepted in the United States. 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, 2002 and 2001, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying consolidating balance sheets and statements 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 consolidated 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 LLP  
October 3, 2002

## CONSOLIDATED BALANCE SHEETS

### ASSETS

	JUNE 30, 2002	JUNE 30, 2001
Cash	\$ 209,041	\$ 1,237,254
Money market deposits at member corporations—loan fund	250,000	252,123
Notes receivable—MHEF Partnerships	12,893,218	7,841,644
Notes receivable—MHIC, LLC	790,000	2,698,023
Amounts receivable and other assets	879,686	1,035,193
Furniture, equipment and leasehold improvements, net of accumulated depreciation and amortization of \$874,987 and \$774,023 in 2002 and 2001, respectively	157,824	128,055
<b>Total assets</b>	<b>\$15,179,769</b>	<b>\$13,192,292</b>

### LIABILITIES AND NET ASSETS

#### Liabilities:

Notes payable to member corporations	\$ 250,000	\$ 250,000
Notes payable—loan guarantee program	—	2,698,023
Unearned fees	10,755,119	6,554,066
Accrued interest and other liabilities	1,123,467	704,253
<b>Total liabilities</b>	<b>12,128,586</b>	<b>10,206,342</b>
<b>Net assets—unrestricted</b>	<b>3,051,183</b>	<b>2,985,950</b>
<b>Total liabilities and net assets</b>	<b>\$15,179,769</b>	<b>\$13,192,292</b>

See accompanying notes.

## CONSOLIDATED STATEMENTS OF REVENUES AND EXPENDITURES

### REVENUES

	JUNE 30, 2002	JUNE 30, 2001
Interest revenue:		
Interest on deposits	\$ 221,373	\$ 812,464
Interest on project loans	73,619	1,203,502
Total interest revenue	294,992	2,015,966
Interest expense on notes payable	(77,268)	(1,333,810)
Net interest revenue before provision for loan losses	217,724	682,156
Provision for loan losses	—	(145,092)
Net interest revenue after provision for loan losses	217,724	537,064
Loan program fee revenue:		
Management and advisory fees	261,811	113,359
Portfolio and servicing fees	548,758	147,867
Financing commitment fees	384,366	169,462
Origination fees	363,226	97,704
Available earnings fee	11,372	6,950
CDFI grant award	—	684,761
Equity program revenue:		
Fees related to MHEF Partnerships	3,994,745	3,497,133
Other equity program fees	50,733	48,650
<b>Total revenues</b>	5,832,735	5,302,950

### EXPENDITURES

Salaries and employee benefits	3,393,734	2,885,478
Occupancy, equipment and furniture	409,334	419,202
Professional services	1,129,383	581,866
Other expenditures	835,051	661,637
<b>Total expenditures</b>	5,767,502	4,548,183
Excess of revenues over expenditures	65,233	754,767
Net assets at beginning of year	2,985,950	2,231,183
<b>Net assets at end of year</b>	\$3,051,183	\$2,985,950

See accompanying notes.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

### OPERATING ACTIVITIES

	JUNE 30, 2002	JUNE 30, 2001
Excess of revenues over expenditures	\$ 65,233	\$ 754,767
Adjustments to reconcile excess of revenues over expenditures to net cash used in operating activities:		
Increase to provision for loan losses	—	145,092
Depreciation and amortization expense	100,964	123,777
Decrease/ (increase) in amounts receivable and other assets	155,507	(315,086)
Decrease in unearned fees	(3,539,730)	(2,138,009)
Increase (decrease) in accrued interest and other liabilities	419,214	(158,401)
<b>Net cash used in operating activities</b>	<u>(2,798,812)</u>	<u>(1,587,860)</u>

### INVESTING ACTIVITIES

Project loan advances	—	(16,118,528)
Project loan repayments	—	7,524,530
Payments received on notes receivable—MHIC, LLC	2,689,209	1,983,613
Funds advanced under notes receivable—MHIC, LLC	(790,000)	—
Decrease to loan guarantee funds on deposit	—	63,510
Decrease in money market deposits at member corporations	2,123	8,791,875
Loan guarantee advances	—	(130,065)
Loan guarantee repayments	—	2,699,539
Purchases of furniture, equipment and leasehold improvements	(130,733)	(74,266)
<b>Net cash provided by investing activities</b>	<u>1,770,599</u>	<u>4,740,208</u>

### FINANCING ACTIVITIES

Payments of notes payable to member corporations	—	(200,000)
Payments of notes payable to loan guarantee lenders	—	(2,220,430)
<b>Net cash used in financing activities</b>	<u>—</u>	<u>(2,420,430)</u>
<b>Net (decrease) increase in cash</b>	(1,028,213)	731,918
Cash at beginning of year	1,237,254	505,336
<b>Cash at end of year</b>	<u>\$ 209,041</u>	<u>\$ 1,237,254</u>

### SUPPLEMENTAL INFORMATION:

Unearned fees recorded in exchange for notes receivable	<u>\$7,195,711</u>	<u>\$ 668,703</u>
Cash paid for interest on notes payable to member corporations	<u>\$ 77,267</u>	<u>\$ 1,266,997</u>
Effect of Contribution and Participation Agreement ( <i>Note 1</i> ), net:		
Cash	\$ —	\$(11,413,245)
Project loans	—	(22,159,773)
Notes receivable—MHIC, LLC	—	2,698,098
Contributed members' capital	<u>\$ —</u>	<u>\$(30,875,000)</u>

See accompanying notes.

## 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' lenders and investors to improve and expand the financing of affordable housing throughout the state. MHIC has established two main financing programs to carry out its mission:

### Loan Program

The loan program focuses on providing debt financing to developers of affordable housing. From its inception in 1990 through December 2000, MHIC utilized a loan pool structure to extend this financing. The loan-pool was funded with the proceeds from below market rate loans (member loans) made to MHIC from participating member corporations. In January 2001, MHIC converted the loan pool to a limited liability company structure. As a result, the member loans were converted to equity interests in a new entity, MHIC, LLC (the LLC). In addition, the various project loans, deposit accounts and reserves owned by MHIC were transferred to the LLC in exchange for extinguishing the member loans. MHIC is the manager of the LLC (See Note 2, Loan Program Conversion).

### Equity Program

The equity program provides tax credit equity financing to developers of affordable housing. The initial role of the program was to assist member corporations in underwriting low-income housing tax credit investments. The program, through its wholly-owned subsidiary Massachusetts Housing Equity Fund, Inc. (MHEF), is now a full-service syndicator of limited partnerships (the Partnerships) structured for

investment in low-income housing projects (Operating Partnerships) in Massachusetts. MHEF was formed in June 1993 and is currently the General Partner of eight Operating Partnerships.

### Basis of Presentation

Net assets and revenues, gains and losses are classified based on the existence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

- Permanently restricted net assets—Net assets subject to donor-imposed stipulations that they be maintained in perpetuity by MHIC.
- Temporarily restricted net assets—Net assets subject to donor-imposed stipulations that may or will be met by actions of MHIC and/or the passage of time.
- Unrestricted net assets—Net assets not subject to donor-imposed stipulations.

Contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

At June 30, 2002 and 2001, all of MHIC's net assets were classified as unrestricted.

### Reclassification

Certain reclassifications have been made to 2001 amounts to conform to the 2002 presentation.

### Principles of Consolidation

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

### 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

Loan program fee revenue reflects fees earned on a contractual basis for services provided to the LLC (see Note 2).

Equity program revenue reflects fees for 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 completed. 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.

Grants are recognized as revenue in the period in which the conditions, if any, of the grant are satisfied.

### Income Tax Status

In February 1993, MHIC was granted tax-exempt status as a 501(c)(3) corporation under federal tax law. MHEF is a for-profit corporation and therefore is subject to federal and state income taxes.

### Use of Estimates

Financial statements prepared in accordance with accounting principles generally accepted in the United States require the use of significant management estimates that affect the amounts and disclosures recorded in the consolidated financial statements. Actual results may differ from those estimates.

## 2. LOAN PROGRAM CONVERSION

In January 2001, MHIC converted its loan-pool to an LLC structure. The initial capitalization of the LLC was effected by a Contribution Agreement whereby member corporations contributed loans made to MHIC under the former loan pool structure (member loans) to the LLC in exchange for LLC membership interests. In addition, MHIC and the LLC entered into a Participation Agreement that provided for the LLC to purchase an undivided 100% interest in the project loans, bank accounts and reserves owned by MHIC (associated with the former loan pool) in exchange for the discharge of the member loans.

The proceeds of member loans for member corporations that have elected to remain in the loan pool (and not convert to the LLC structure) are held in deposit accounts at those institutions. The terms of the member loans are pursuant to a Master Member Agreement and accrue interest at 1% less than the annual interest rate earned on the interest-bearing deposit accounts (see Note 4).

MHIC earns advisory fees for managing the affairs of the LLC pursuant to the term of an Advisory Agreement. The scope of services under the Advisory Agreement includes managing the orderly underwriting, approval and origination of loans and acquisition of investments, servicing loans and investments, establishing loan and investment policies, supervising and managing the requisition and disbursement of funds for loans, investing idle funds, business development and various other services that may be required by the Company in the ordinary course of its business.

Under the terms of the Advisory Agreement, fees to MHIC are provided for as follows:

- A management and advisory fee equal to an annual percentage rate of 0.75% of the average value of the aggregate

capital commitments of all Investor Members of the LLC during such payment period;

- A portfolio and servicing fee equal to an annual percentage rate of 1.50% of the average amount of Real Estate Investments outstanding during a given payment period;
- A financing commitment fee equal to an annual percentage rate of 0.50% of the average amount of funded and unfunded commitments for Real Estate Investments existing during a given payment period.

In addition, MHIC is entitled to an available earnings fee, based upon the degree to which the LLC achieves certain performance hurdles. MHIC shall receive the amounts described below in the following priority.

- First, after payment of a 4% return to the members of the LLC, MHIC shall receive 10% of all remaining available earnings until the members have received a return equal to the federal funds rate.
- Second, MHIC shall receive 40% of all remaining available earnings until members have received a return equal to the federal funds rate plus 2%.
- Third, MHIC shall receive 60% of all remaining available earnings until members have received a return equal to the federal funds rate plus 4%.
- Fourth, MHIC shall receive 75% of all remaining available earnings.

Under the terms of the Advisory Agreement, MHIC earned available earnings fees of \$45,488. For the year ended June 30, 2002, the Board of Directors ratified a one-time modification to the available earnings fee by calculating the available earnings fee at the first performance hurdle rate of 10% instead of the second performance hurdle rate of 40%.

### 3. MASSACHUSETTS HOUSING EQUITY FUND, INC. (MHEF)

As of June 30, 2002, MHIC's investment in MHEF amounted to \$2,883,900. MHEF, as general partner of the aforementioned Partnerships, has a .01% 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 MHEF's share of income or loss from the Partnerships, additional investments and cash distributions.

The Partnerships, as limited partners in the various Operating Partnerships, are subject to risks inherent in the ownership of property which is beyond their control, such as fluctuations in occupancy rates and operating expenses, vari-

ations in rental schedules, proper maintenance of facilities and continued eligibility of tax credits. If the cost of operating a property exceeds the rental income earned thereon, the Partnership, or MHEF acting independently as an investor, may deem it in its best interest to voluntarily provide funds in order to protect its investment.

At June 30, 2002 and 2001, the Partnerships have combined total assets of \$192 million and \$166 million, respectively, and combined cumulative deficits of approximately \$96 million and \$72 million, respectively.

### 4. NOTES PAYABLE TO MEMBER CORPORATIONS

Prior to the conversion, MHIC funded a loan pool through unsecured notes issued to member corporations pursuant to a Master Membership Agreement. Under this agreement, all note proceeds not currently used to fund projects are deposited in interest-bearing deposit accounts at their respective lending institutions. Note proceeds that are not used to fund projects accrue interest at 1% less than the annual interest rate earned on the interest-bearing deposit accounts. All proceeds that are lent to projects earn interest at the prime rate less 1%. For the years ended June 30, 2002 and 2001, interest expense paid to member corporations totaled

approximately \$1,810 and \$1,109,000, respectively, and is reflected in interest expense in the accompanying statements of revenues and expenditures. These notes are renewable annually (applicable only to members that elected not to convert to the LLC). If the notes are not renewed, they require no principal amortization for five years and then amortize over a subsequent 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, 2002 and 2001, outstanding borrowings under these agreements totaled \$250,000.

5. NOTES PAYABLE—LOAN GUARANTEE PROGRAM

MHIC obtained a discretionary revolving line of credit of \$2,500,000 that was utilized as a source of fixed-rate funding for its loan guarantee program. 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, 2001,

borrowings under the line totaled \$2,451,813. In addition, MHIC has borrowed amounts under another facility that totaled \$246,210 at June 30, 2001. Both of these credit facilities have been fully repaid, with no principal or interest amounts outstanding at June 30, 2002.

6. MHEF NOTES RECEIVABLE AND UNEARNED FEES

Notes receivable represent the present value (using effective interest rates that range from 8% to 9%) of future cash payments that will be received by MHIC from the MHEF Partnerships for asset management and other services it will provide to the Partnerships, as specified in the Partnership Agreements. At June 30, 2002 and 2001, notes receivable included accrued interest of \$544,871 and \$668,703, respectively.

Unearned equity fees reflect MHIC's obligation to provide future services to the Partnerships as consideration for the

forementioned notes receivable. These services include underwriting investments, 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, 2002 and 2001, unearned fees were \$10,755,119 and \$6,554,066, respectively. Other unearned fees include development monitoring and loan commitment fees.

7. LEASES

MHIC leases its facilities and certain furniture and equipment under operating leases that expire over future periods 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, 2002:

2003	\$ 319,409
2004	337,877
2005	336,260
2006	331,409
2007	331,409
Total	<u>\$1,656,364</u>

MHIC incurred lease expenses associated with office space and equipment of \$280,001 and \$273,173 in 2002 and 2001, 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 employer contribution is based upon a percentage of employee salary. In July 1999, MHIC amended the Plan to include a 100% match of employee contributions

up to 3% of a given employee's salary. MHIC contributed and charged to expense approximately \$148,000 and \$134,000 in 2002 and 2001, respectively, and these amounts are reflected in salaries and employee benefits in the accompanying statements of revenues and expenditures.

## 9. CDFI GRANT AWARD

In 1999, MHIC applied for and received designation as a Community Development Finance Institution (CDFI). MHIC also applied for and received a grant award of \$1,000,000 from the CDFI Fund. The purpose of the grant is to add to MHIC's capacity to pursue its mission and grow. The proceeds from the grant can be used to expand existing programs, develop new ones or support its operations. To date, \$684,761 of that grant has been received; the remainder will only be received if MHIC can secure matching funds. The funded portion of the grant was recorded as

income upon receipt of the proceeds in April 2001. As a condition to the funding of the grant, MHIC and the CDFI Fund executed an Assistance Agreement, which established target goals for MHIC to achieve and specific measurement criteria to be used in evaluating progress. The goals are merely guidelines to evaluate progress and achieving specific results are not a condition to retaining the grant award. The grant is revocable if MHIC substantially changes its mission or ceases to be a CDFI prior to June 30, 2004.

## OTHER FINANCIAL INFORMATION

### Consolidating Balance Sheets JUNE 30, 2002

ASSETS	MHIC	MHEF	ELIMINATION	CONSOLIDATED
Cash	\$ 164,911	\$ 44,130		\$ 209,041
Money market deposits at member corporations— loan fund	250,000			250,000
Investment in MHEF Partnerships	2,883,900		\$(2,883,900)	
Notes receivable—MHEF Partnerships	12,893,218			12,893,218
Notes receivable—MHIC, LLC	790,000			790,000
Amounts receivable and other assets	820,957	58,729		879,686
Due from parent		2,794,881	(2,794,881)	
Furniture, equipment and leasehold improvements, net of accumulated depreciation and amortization of \$874,987	157,824			157,824
<b>Total assets</b>	<b>\$17,960,810</b>	<b>\$2,897,740</b>	<b>\$(5,678,781)</b>	<b>\$15,179,769</b>

### LIABILITIES AND NET ASSETS

#### Liabilities:

Notes payable to member corporations	\$ 250,000	\$		\$ 250,000
Due to subsidiary	2,794,881		\$(2,794,881)	
Unearned fees	10,755,119			10,755,119
Accrued interest and other liabilities	1,109,627	13,840		1,123,467
<b>Total liabilities</b>	<b>14,909,627</b>	<b>13,840</b>	<b>(2,794,881)</b>	<b>12,128,586</b>
Net assets—unrestricted	3,051,183	2,883,900	(2,883,900)	3,051,183
<b>Total liabilities and net assets</b>	<b>\$17,960,810</b>	<b>\$2,897,740</b>	<b>\$(5,678,781)</b>	<b>\$15,179,769</b>

See accompanying notes.

## Consolidating Statements of Revenues and Expenditures FOR THE YEAR ENDED JUNE 30, 2002

### REVENUES

	MHC	MHEF	ELIMINATION	CONSOLIDATED
Interest revenue:				
Interest on bank deposits	\$ 219,763	\$ 1,610	\$	\$ 221,373
Interest on project loans	73,619			73,619
Total interest revenue	293,382	1,610		294,992
Interest expense on notes payable	(77,268)			(77,268)
Net interest revenue	216,114	1,610		217,724
Loan program fee revenue:				
Management and advisory fees	261,811			261,811
Portfolio and servicing fees	548,758			548,758
Financing commitment fees	384,366			384,366
Origination fees	363,226			363,226
Available earnings fee	11,372			11,372
Equity program revenue:				
Fees related to MHEF Partnerships	3,994,745			3,994,745
Other equity program fees	50,733			50,733
Income from investment in MHEF	(12,284)		12,284	
<b>Total revenues</b>	<b>5,818,841</b>	<b>1,610</b>	<b>12,284</b>	<b>5,832,735</b>

### EXPENDITURES

Salaries and employee benefits	3,393,734			3,393,734
Occupancy, equipment and furniture	409,334			409,334
Professional services	1,129,383			1,129,383
Other expenditures	821,157	13,894		835,051
<b>Total expenditures</b>	<b>5,753,608</b>	<b>13,894</b>		<b>5,767,502</b>
Excess of revenues over expenditures	65,233	(12,284)	12,284	65,233
Net assets at beginning of year	2,985,950	2,896,184	(2,896,184)	2,985,950
<b>Net assets at end of year</b>	<b>\$3,051,183</b>	<b>\$2,883,900</b>	<b>\$(2,883,900)</b>	<b>\$3,051,183</b>

See accompanying notes.

## MHIC BOARD OF DIRECTORS

30  
MHIC



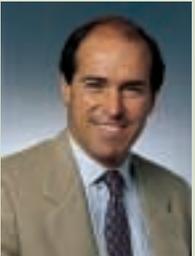
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Michael Lee  
Sovereign Bank



Walter Mercer



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Trust Company



Eleanor G. White  
Housing Partners, Inc.



Susan M. Wolkoff  
FleetBoston Financial



Joseph L. Flatley

## MASSACHUSETTS HOUSING INVESTMENT CORPORATION

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Doug MacLean, Banknorth  
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Robert Pyne, MassHousing  
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Sheila Dillon, Dept. of Neighborhood Development  
Bob DeChristofaro, Mellon New England  
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Susan Feig, State Street Bank and Trust Company  
Evelyn Friedman, Nuestra Comunidad  
Diane Johansen, State Street Bank and Trust Company  
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Richard Muraida, Eastern Bank  
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Martin Rogosa, State Street Bank and Trust Company  
Mark Coryea, Eastern Bank

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Eleanor White, Housing Partners, Inc.  
Charles Grigsby, The Life Initiative

### COMPENSATION COMMITTEE

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Howard Cohen, Beacon Residential Properties  
Christopher Bramley, Banknorth  
Walter Mercer

### CREDIT REVIEW COMMITTEE

Walter Mercer, *Chair*  
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Gary Leach, Eastern Bank

## MASSACHUSETTS HOUSING EQUITY FUND, INC.

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Charlotte Golar Richie, Dept. of Neighborhood Development  
Sandra Henriquez, Boston Housing Authority  
Martin Rogosa, State Street Bank and Trust Company  
Susan Wolkoff, FleetBoston Financial  
Joseph L. Flatley

### PARTICIPATING BANKS AND CORPORATIONS

FleetBoston Financial  
Freddie Mac  
State Street Bank and Trust Company  
Mellon New England  
Citizens Bank  
Fannie Mae  
Banknorth  
Eastern Bank  
PNC Bank  
Compass Bank  
Boston Private Bank & Trust Company  
Peoples Savings Bank of Holyoke  
Fall River Five Cents Savings Bank  
Flagship Bank  
Bank of Western Massachusetts  
The Life Initiative  
First Trade Union Bank  
Hyde Park Savings Bank  
TeleCom Cooperative Bank  
Capital Crossing Bank and Trust  
OneUnited Bank  
Stoneham Savings Bank  
Investors Bank & Trust  
Wainwright Bank

## MHIC STAFF



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*Investment Officer*



Scott Backman  
*Asset Management Officer*



Richard G. Becker  
*Director of Asset Management*



Jacklyn Berry  
*Office Assistant*



Sandra Blackman  
*Asset Management Officer*



Ellen Caracciolo  
*Asset Management Officer*



Paul K. Chan  
*Senior Investment Officer*



Eugene Clerkin  
*Senior Lender*



Desirée A. Coleman  
*Senior Loan Administration Specialist*



Ellen P. Connolly  
*Finance Officer*



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*Senior Equity Investment Officer*



Charles Edwards  
*Finance Officer*



Deborah Favreau  
*Senior Lender*



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*President & CEO*



Eunice Harps  
*Senior Lender*



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Carolyn M. Jackson  
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Shalini Konduri  
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Yinghua Tian  
*Administrative Assistant*



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Michelle Witham  
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