



2014 ANNUAL REPORT

Director's Message



As we reflect on 2014 the Board of Directors and staff of NeighborWorks Capital want to thank our customers, partners, investors and committee volunteers who have supported NC in our mission to provide flexible capital to communities across the NeighborWorks network. The first year of our 2014-2018 Strategic Plan is complete and we are pleased to have met or exceeded our goals!

Our Lending team, led by John Maneval, gained 11 new customers this year. As we continue to see increased demand for flexible financing solutions we are focused on providing excellent value and customer service. NC has been able to serve more customers in 2014 – dramatically increasing the number of loans we closed to 40 loans totaling \$44 million, an increase from 23 loans totaling \$28.2 million in 2013, 74% and 56% increases in number and dollars! We thank you for your partnership!

And investors are confident in our growth and value to the NeighborWorks network by committing \$30 million in new capital to our CDFI. I want to recognize some current and new investors including Wells Fargo Bank, TD Bank, Deutsche Bank and Charles Schwab Bank for their recent investments. In addition NeighborWorks America has provided equity of \$2.15 million and U.S. Treasury's CDFI Fund awarded NC \$1.2 million.

NC continues to grow financially stronger, concluding 2014 with \$68.5 million in total assets, a \$22.5 million (47%) increase over 2013 with a sustainability ratio of 128%. We are pleased to have received an upgrade in our AERIS™ rating which rates our impact and financial strength. Our lending impact, strong capital deployment, and low loan delinquencies has allowed NC to expand our capacity to assist more NWO projects with more loans and products.

We are proud to have a committed and passionate Board of Directors that understands community development at the grass roots level and the financing needed to achieve that. NeighborWorks Capital continues to be a flexible source of financing in a constantly changing affordable housing finance sector. We remain committed to being flexible, creative and a partner to the NeighborWorks network as it addresses local community development needs.



Jeanne Pinado
Board Chair



Jim Ferris
Chief Executive Officer

Our Impact

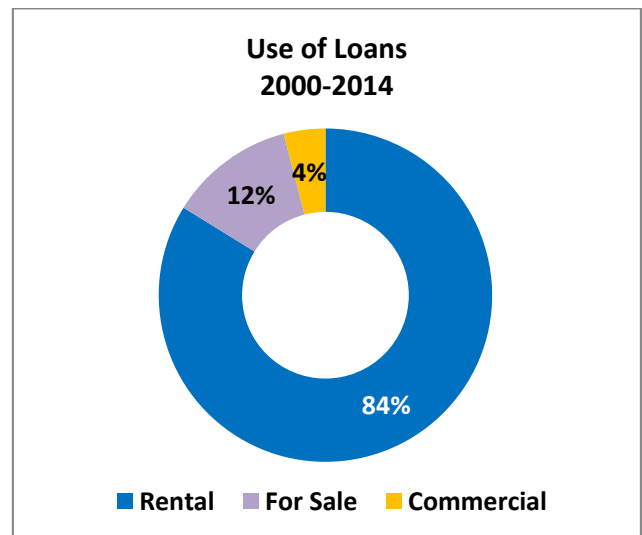
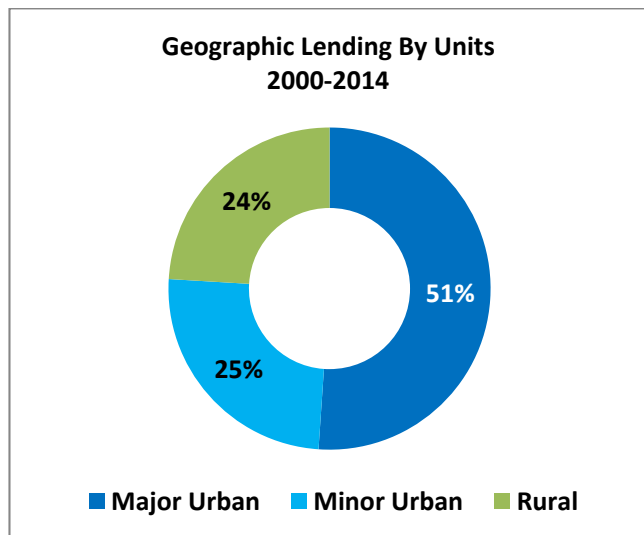
NeighborWorks Capital enjoyed its most successful year by meeting and exceeding its business plan goals by providing flexible loans that made a critical difference to the communities that NeighborWorks affiliates serve. NeighborWorks Capital measures its lending impact by several criteria: Number of Customers, Housing Units/Commercial Square Feet, Leverage of Financing, Housing Affordability and Geographic Diversity.

In 2014, NC increased its community development impact as follows:

- ◆ \$51 million in loans closed and committed
- ◆ 47 loans for affordable rental, for-sale and mixed-use projects
- ◆ 1,885 units of affordable rental and for-sale homes
- ◆ 32,000 square feet of community space
- ◆ 11 new NeighborWorks customers
- ◆ \$220 million in construction and permanent financing leveraged
- ◆ 95% of loans assisted housing projects at 80% AMI or below






Since 2000

- ◆ 14 Years serving the NeighborWorks Network
- ◆ 100 customers
- ◆ 275 loans for affordable rental and for-sale homes
- ◆ 40 States and District of Columbia
- ◆ \$175 million in loans, leveraging \$2 billion in permanent financing (11.4:1 leverage)
- ◆ 13,000 units of affordable rental and for-sale housing created or preserved
- ◆ 600,000 square feet of commercial space
- ◆ 84% rental, 12% for-sale, 4% commercial
- ◆ 93% of housing affordable below 80% AMI



Sample Projects Financed

NeighborWorks Capital focused its financing for affordable rental and for-sale projects. NC also is able to finance non-housing projects such as nonprofit offices, retail, community facilities, mixed-use, and energy equipment. In 2014 there was a broad array of both preservation and new construction projects for new homebuyers and for renters. Here is a sample of the projects NC financed in 2014.

	<p>Project: Better Homes AHEAD Borrower: AHEAD</p> <p>This was NC's second loan to a project sponsored by Affordable Housing, Education & Development, Inc. This \$700,000 development line of credit will be used to provide high-quality, energy efficient factory-built homes for sale to low- and moderate-income households in partnership with NEXTSTEP US. Over the first 3 years, it is anticipated that a total of 25 homes will be sold to qualified home-buyers in New Hampshire, Maine and Vermont</p>
	<p>Project: 501 North Lamb Borrower: Nevada HAND, Inc.</p> <p>This is NC's 3rd loan with Nevada HAND, Inc. This \$1,560,000 Interim Development Loan was used to finance the acquisition of 501 N. Lamb Boulevard in Las Vegas, Nevada. The site is intended to be developed into a 250 to 300-unit multifamily affordable housing complex built in phases using Low Income Housing Tax Credits and tax-exempt bonds. The project will benefit low-income families, primarily those with incomes below 50% of AMI.</p>
	<p>Project: 4618 West Market Borrower: Housing Partnership Inc.</p> <p>This is NC's first loan to a project sponsored by Housing Partnership, Inc. located in Louisville, Kentucky. This \$550,000 mini-permanent loan enabled HPI to acquire West Market Apartments, an 11-unit rental apartment complex built in 2008. The property is located in downtown Louisville and was acquired from a local bank.</p>
	<p>Project: El Camino Real Apartments Borrower: Tierra Del Sol Housing Corporation</p> <p>This is NC's 2nd loan with Tierra del Sol Housing Corporation. This \$400,000 predevelopment loan was used for land acquisition and predevelopment expenses associated with the development of El Camino Real Apartments, a proposed 40-unit affordable rental development in Hatch, New Mexico to be financed primarily with Low Income Housing Tax Credits. All units will be restricted to 50% of AMI or less and will benefit from rental assistance from the USDA.</p>
	<p>Project: Glen Rock Commercial Borrower: Mountain Housing Opportunities</p> <p>This is NC's 4th loan to Mountain Housing Opportunities. This \$1,158,000 mini-permanent loan was used to refinance maturing debt on the commercial component of the Glen Rock Depot, a mixed use project located in Asheville, NC. The property includes 60 affordable apartments. NC's loan supports the 9,100 square feet of commercial space in seven separate retail units located on the street level of this 4-story structure.</p>

Investors and CDFI Partners

With the strong performance of our loan portfolio NeighborWorks Capital was successful in gaining several new investors and the renewal and increased support from three existing investors. Total loan capital available increased 50% in 2014 to \$78.8 million. NC thanks the new and renewing investor partners and their commitment to the NeighborWorks organizations we finance:



NeighborWorks America – Our key strategic partner since 2000, NeighborWorks America provided \$2.15 million in equity capital bringing its total capital investment to over \$25 million.



CDFI Fund – The U.S. Department of the Treasury’s CDFI provided NeighborWorks Capital with its third Financial Assistance Award of \$1.2 million. This permanent, unrestricted equity capital will be used to further capitalize the loan fund and provide important leverage to raise debt capital.



Deutsche Bank - Deutsche Bank is a leading global bank and CDFI investor focused on community development, affordable housing and community revitalization. The bank recently closed a \$5 million line of credit for our interim and mini-perm lending program.



Charles Schwab Bank - Charles Schwab Bank is a subsidiary of the Charles Schwab Corporation, which provides a full range of securities, brokerage, banking, money management and financial advisory services. NC is pleased to have them as our first bank investor affiliated with a leading national investment firm and has committed \$7.5 million in lending capital.

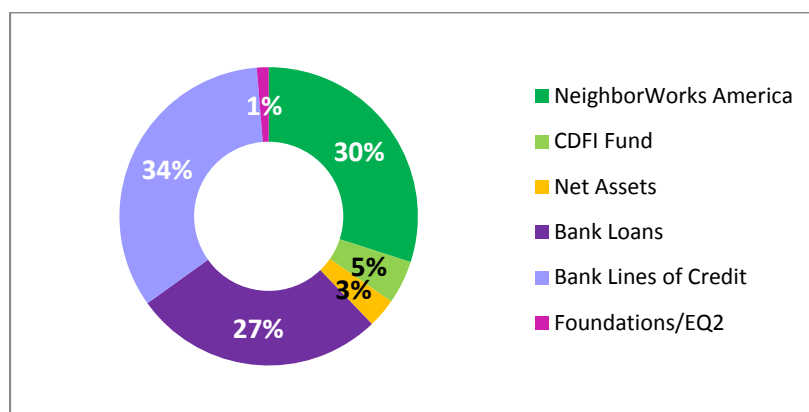


Wells Fargo Bank - Wells Fargo has a long history supporting affordable for-sale and multifamily housing. The bank is an innovator and leader in investing in CDFIs through its “NEXT Awards” in partnership with Opportunity Finance Network. The bank provided a \$1 million EQ2 investment for ten years and a \$7 million line of credit for our interim and mini-perm lending program.



TD Bank – An investor since 2009 TD Bank has a strong commitment to community development and recently increased its investment to \$2.25 million in support of NC’s lending in their market areas in the northeast, mid-atlantic and south.

CDFI Loan Participants - In 2014 NC assembled \$3 million in capital from four CDFIs to assist two large rental acquisition and preservation projects. These CDFIs are Rural Community Assistance Corporation, New Hampshire Community Loan Fund, National Housing Trust, and Partners For The Common Good.



Organizational Activities

Board Expansion

The Board of Directors adopted revisions to the By-laws to expand the board from nine to eleven. At its April meeting the NC board elected a new external director, Michael Carroll, the Loan Fund Director of Rural Communities Assistance Corporation (RCAC), one of the nations' largest training, technical assistance and financing organizations serving rural and Native American communities. His expertise in community development lending also includes senior level positions at Fannie Mae and Bank of America. In April the Board also approved the nomination of four directors to three-year terms as officers. Many of these directors have served on the board for multiple terms and are CEOs of their respective NeighborWorks organization. We are very pleased for their continued leadership at NeighborWorks Capital.

 <p>Jeanne Pinado <i>President</i> CEO Madison Park Development</p>	 <p>Rick Goodemann <i>Vice President</i> Executive Director Southwest Minnesota Housing Partnership</p>	 <p>Kristin Faust <i>Treasurer</i> President NHS of Chicago</p>	 <p>Rosa Rios Valdez <i>Secretary</i> Executive Director BCL of Texas</p>	 <p>Peter Daly Executive Director Cambridge Neighborhood & Apartment Housing</p>
 <p>Chris Kui Executive Director Asian Americans For Equality</p>	 <p>Jim Moorefield Executive Director Willamette NHS</p>	 <p>Jeff Reed Chief Financial Officer Community Housing Partners</p>	 <p>Megan Teare Senior Vice President Wells Fargo Bank</p>	 <p>Michael Carroll Loan Fund Director Rural Community Assistance Corp.</p>

Exploring New Capital

The Kresge Foundation invited NeighborWorks Capital and NeighborWorks America to submit a proposal for an implementation grant and Program Related Investment of \$5 million. The foundation funds will support business planning and capital for a below-market enterprise level loan product. NC and NWA are developing program guidelines for a Spring 2015 launch.

AERIS Rating

In 2014 NC had its second organizational review from AERIS™ (www.aerisinsight.com), the CDFI rating system. We are pleased to have received an increase in our rating to AA2. AERIS rates our Impact (AA) and Financial Strength (2).

Recent Customers

MIDWEST REGION

Homeport
Southwest Minnesota Housing Partnership
CHWC of Kansas ★
NeighborWorks Home Solutions ★

CommonBond Communities ★
Mennonite Housing ★
St. Mary Development

NORTHEAST REGION

Codman Square Neighborhood Development
Avesta Housing ★
NeighborWorks New Horizons
Mutual Housing of Greater Hartford
NOAH
Asian Americans For Equality ★
New Kensington CDC ★
New Jersey Community Capital/CAPC ★

Nuestra Comunidad
AHEAD ★
Madison Park Development
West Elmwood Housing
PathStone ★
Lawrence CommunityWorks
Mutual Housing of SW Connecticut
TRIP ★

PACIFIC REGION

Community HousingWorks
NeighborWorks Umpqua
Cabrillo EDC
Mutual Housing of Hawaii

HomeSight ★
South County Housing
A Community of Friends ★

ROCKY MOUNTAIN REGION

Alamo Community Group
Primavera Foundation ★
NeighborWorks Waco
NeighborWorks Provo ★

Tierra del Sol ★
NeighborWorks Montana
Nevada HAND ★
Thistle Communities

SOUTHERN REGION

Community Housing Partners
Mountain Housing ★
Community Preservation & Development ★
FAHE ★
Hope Enterprise ★

Charlotte Mecklenburg Housing Partnership
Southern Mutual Help Association ★
DHIC ★
The Housing Partnership, Inc. ★
United Housing

★ *New Customer 2013-2014*

FINANCIALS

Statement of Financial Condition

	2014 (Unaudited)	2013 (Audited)
ASSETS		
Cash – Operating & Reserves	3,356,669	3,070,076
Cash – Lending & Loss Reserves	7,932,942	7,958,075
Grants, Interest and Accounts Receivable	729,481	943,208
Loans Receivable (Net)	56,369,018	34,446,208
Property/Equipment (Net)	24,164	21,504
Other Assets	<u>29,676</u>	<u>21,856</u>
TOTAL ASSETS	<u>\$68,537,854</u>	<u>\$46,542,789</u>
LIABILITIES		
Accounts Payable and Accrued Liabilities	217,757	181,823
Accrued Interest and Reserves	127,723	152,758
Notes Payable	<u>38,488,045</u>	<u>19,750,000</u>
Total Liabilities	<u>\$38,833,524</u>	<u>\$20,084,581</u>
NET ASSETS		
Unrestricted	5,321,541	3,439,025
Temporarily Restricted	2,812,033	3,252,649
Permanently Restricted	<u>21,570,756</u>	<u>19,766,534</u>
Total Net Assets	<u>\$29,704,330</u>	<u>\$26,458,208</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$68,537,854</u>	<u>\$46,542,789</u>

Statement of Activities

REVENUES		
Interest & Fee Income	2,755,152	2,107,784
Grants & Miscellaneous	200,000	175,000
Program Satisfaction	<u>31,016</u>	<u>-0-</u>
Total Revenues	<u>\$2,986,168</u>	<u>\$2,282,784</u>
EXPENSES		
Interest Expense	780,063	658,374
Salary and Benefits	924,155	773,844
Professional/Occupancy/Office	431,595	447,198
Program Satisfaction	<u>31,016</u>	<u>-0-</u>
Total Expenses	<u>\$2,166,829</u>	<u>\$1,879,456</u>
Net Operating Surplus	<u>\$ 819,339</u>	<u>\$ 403,328</u>

MISSION STATEMENT

NeighborWorks Capital delivers the flexible capital needed by NeighborWorks America affiliates to provide affordable homes and strengthen communities.