



MANAGEMENT’S DISCUSSION AND ANALYSIS

The Management’s Discussion and Analysis of NeighborWorks® Capital Corporation (“NC”) provides an overall review of the Organization’s financial and business activities for the fiscal year ended December 31, 2014. The intent of this discussion and analysis is to serve as an introduction to NeighborWorks® Capital Corporation’s audited financial statements and to look at NeighborWorks® Capital Corporation’s financial performance in the entirety. Recipients of this document should also review the notes to the audited financial statements.

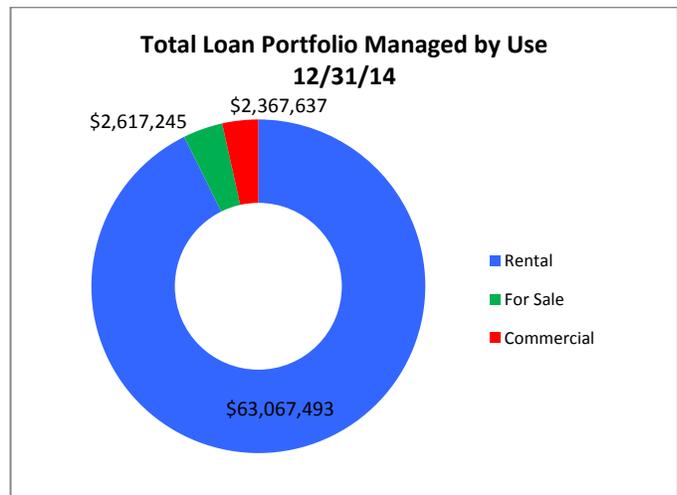
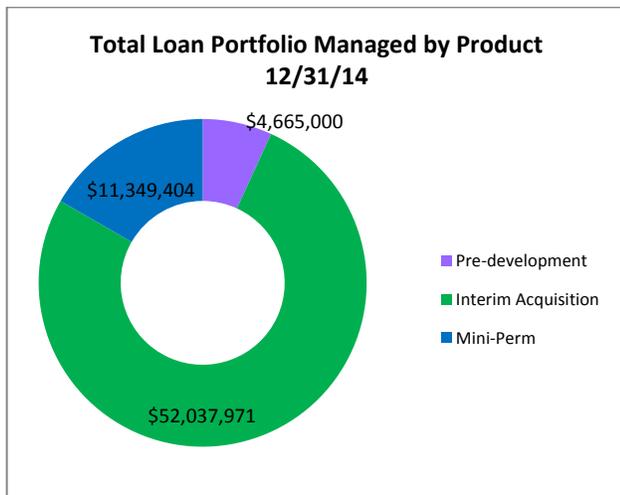
Background

NC is a national community development loan fund based in Silver Spring, MD serving NeighborWorks® America affiliates (“NWOs”) in all 50 states and the District of Columbia and is certified by the U.S. Department of the Treasury as a Community Development Financial Institution (“CDFI”).

NeighborWorks® Capital's customers are NWOs in the real estate development line of business and its products provide flexible and affordable capital to NeighborWorks® America members by financing pre-development costs, acquisition of land and buildings, construction, rehabilitation, and preservation of NWO-owned rental properties that undertake property improvements that include green and energy saving components.

NC maintains a strong and geographically diverse loan portfolio representing 27 states and the District of Columbia and utilizing the various flexible financing products available from the Organization. The majority of its loans are real estate secured for acquisition of land and buildings for development or existing rental housing under renovation with an average maturity date of 29.4 months. The primary real estate type used for NC’s loans is rental followed by for sale and commercial.

As of December 31, 2014, NC managed and serviced a total loan portfolio of \$68 million comprised of \$58.4 million of NC sourced capital and \$9.6 million in capital made available through loan participations with 8 regional or national CDFIs.



NC was able to secure \$20 million in additional lending capital to meet the needs of lending activity during 2014, bringing NC's total available lending capital to \$79 million. The \$20 million in additional lending capital was a combination of \$16.3 million in debt investments, \$2.2 million in an equity capital grant from NeighborWorks® America and a \$1.2 million award from the CDFI Fund in the form of equity grant and debt. The \$16.3 million in new debt was comprised of new investments from Schwab Bank and Deutsche Bank, plus increased and renewed investments on existing credit facilities from Wells Fargo Bank and TD Bank. The \$1.2 million award from the CDFI Fund required matching funds to be provided, which the Organization was able to do appropriately. We greatly appreciate the support of all our new and current investors in assisting our lending activities.

Review of Financial Results for Fiscal Year 2014

NC's Statement of Financial Position for the year ended December 31, 2014 shows continued growth as its loan portfolio increases while new sources of debt financing are added, along with continuing equity capital support from NeighborWorks® America. A net operating surplus of \$819,337 for Fiscal Year 2014 contributes to the increase in net assets for the fiscal year.

For Fiscal Year 2014, total assets increased 47.3% over the prior year, while total liabilities and total net assets increased 93.3% and 12.3%, respectively over the previous fiscal year.

Condensed Statement of Financial Position			
	2014	2013	Total Percentage Change
ASSETS			
Cash, Cash Reserves and Cash Equivalents	\$11,289,611	\$11,028,151	2.37%
Loans Receivable (net of Allowance)	\$56,369,018	\$34,446,208	63.64%
Capital Assets (net)	\$24,164	\$21,505	12.36%
Other Assets	\$855,063	\$1,046,928	-18.33%
Total Assets	\$68,537,856	\$46,542,792	47.26%
LIABILITIES			
Notes Payable	\$37,488,045	\$18,750,000	99.94%
Equity Equivalent Investments	\$1,000,000	\$1,000,000	nc
Other Liabilities	\$345,480	\$334,581	3.26%
Total Liabilities	\$38,833,525	\$20,084,581	93.35%
NET ASSETS			
Unrestricted	\$5,321,540	\$3,439,026	54.74%
Temporarily Restricted	\$2,812,034	\$3,252,650	-13.55%
Permanently Restricted	\$21,570,757	\$19,766,535	9.13%
Total Net Assets	\$29,704,331	\$26,458,211	12.27%

Assets

Cash, Cash Reserves and Cash equivalents

Cash, cash reserves and cash equivalents are comprised of operating cash, operating reserve, restricted cash for grants, loan loss reserve, and loan capital. Cash for operations and reserves increased by \$449,236 (11.3%) for the year ending December 31, 2014 as the result of the net operating surplus for FY 2014 and an increase in the cash for loan loss reserves caused by the growth of the loan portfolio during FY 2014. Loan capital cash decrease slightly by \$187,776 (-2.67%) over 2013 as the result of lending and loan capital activities. NC's working capital ratio at the end of 2014 is 3 to 1 compared to 64 to 1 for FY 2013 year end and reflects the impact of the current portion of debt that will mature in Fiscal Year 2015.

NC's staff is working with those investors to renew and increase the term of the debt that is maturing in FY 2015

Loans Receivable (net)

NC's loans receivable, net of loan loss reserves, increased by 63.6% to \$56.4 million compared to \$34.4 million for 2013. This growth was fueled by \$35 million in disbursements, offset by \$13 million in loan repayments. The \$35 million in disbursements was a 67% increase over the \$21 million in disbursements in 2013. For the year end 2014, NC had \$19.9 million in loan commitments outstanding, compared to \$10.3 million in loan commitments at 2013 year end.

Capital Assets

Capital assets (furniture, hardware, software and tenant improvements) increase by \$2,659 (12.4%) versus 2013, net of disposals, and reflect the net costs of the Organization's office relocation in 2014.

Other Assets

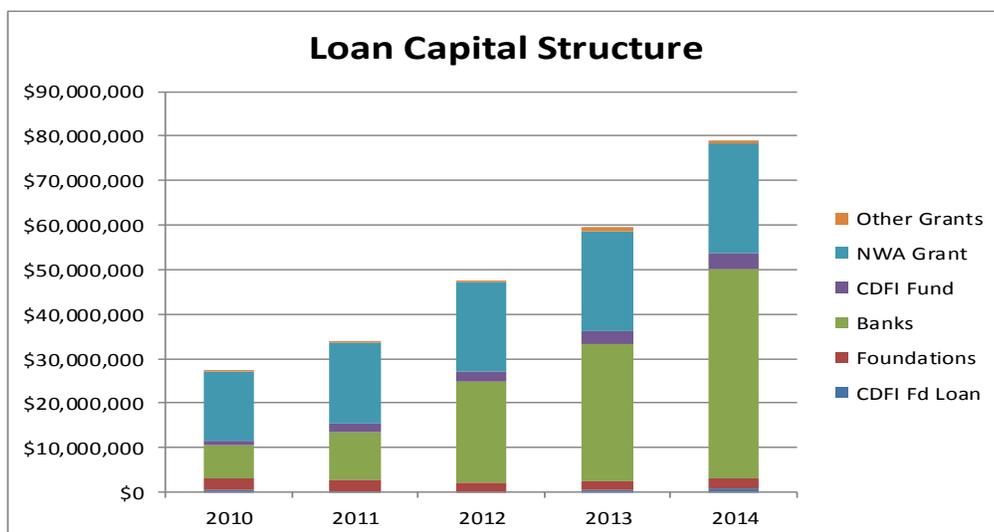
Other assets decreased by \$191,865 (-18.3%) from 2013. The decrease from prior year is primarily related to the change in the grant receivable from the CDFI Fund awards in FY 2014 compared to FY 2013, \$603,577 and \$858,955, respectively.

Liabilities

Notes Payable and Equity Equivalent Investments

In 2014, NC secured \$16.3 million in new debt facilities. As a result of the activity during Fiscal Year 2014, Notes Payable increased by \$18.7 million (94.9%), net of debt draw downs and repayments, to an overall total of \$38.5 million. The current outstanding debt and equity equivalent investment has an average maturity of 3.9 years, with individual maturities ranging from 12 months to 9 years. NC has \$11 million in credit facilities available at year end 2014 for financing, compared to \$13 million in 2013.

NC's overall loan capital consists of debt financing, equity equivalent investments and capital grants from the CDFI Fund, and NeighborWorks® America. Capital from NeighborWorks® America is in the form of permanently restricted net assets granted to the Organization through a Master Investment Agreement. Overall available loan capital is comprised of 37% equity and 63% debt (includes available undrawn credit facilities) and has a combined total of \$79 million from all equity and debt sources at the end of 2014.



Other Liabilities

Other liabilities increased slightly by 3.3% (\$10,899) over the previous year, primarily due to changes in accrued liabilities.

Net Assets

Net assets consist of three different categories; unrestricted, temporary restricted, and permanently restricted. Unrestricted net assets have no external conditions or restrictions. Temporary restricted net assets have restrictive conditions that need to be satisfied before these net assets may be used. Restrictive conditions pertain to purpose and time. Permanently restricted net assets for NC are capital funds contributed by NeighborWorks® America to be used for funding loans or funding loan loss reserves.

Overall, net assets increased \$3.2 million (12.3%) in Fiscal Year 2014, compared to Fiscal Year 2013. Unrestricted net assets increased \$1.9 million, primarily due the 2014 net operating surplus of \$0.8 million, increase in unrestricted lending capital of \$0.9 million and a \$0.2 million decrease in the loan loss reserve portion of unrestricted net assets. Temporary and permanently restricted net assets increased by \$1.4 million as the result of \$2.2 million in permanently restricted capital grant from NeighborWorks® America, offset by \$0.8 million in net assets releases from restriction for lending capital and loan loss reserves.

Fiscal Year 2014 Operations

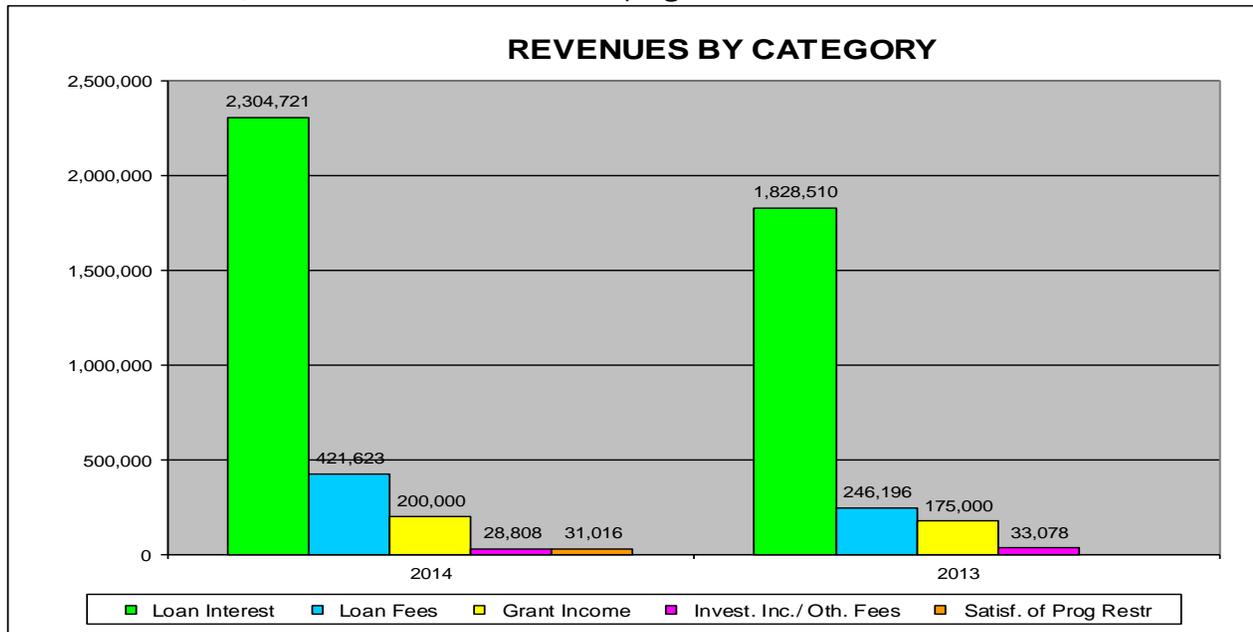
NC recorded a net operating surplus of \$819,337 for 2014, a 103% increase over 2013's net operating surplus of \$403,329.

This is NC's fifth consecutive year of net operating surpluses. The 2014 results yielded a self sustainability percentage of 129%, compared to a self sustainability percentage of 112% for 2013.

FY 2014 and FY 2013 Operating Revenue and Expense Comparison				
				Total
				Percentage
	2014	2013		Change
REVENUE				
Grant Income	200,000	175,000		14.29%
Loan Fees	421,623	246,196		71.26%
Loan Interest	2,304,721	1,828,510		26.04%
Investment Income and Other Fees	28,808	33,078		-12.91%
Satisfaction of Program Restrictions	31,016	0	**	100.00%
Total Revenue	\$2,986,168	\$2,282,784		30.81%
EXPENSE				
Debt Service	743,935	603,253		23.32%
Grant Expense	31,016	0	**	100.00%
Personnel and Benefits	934,105	773,883		20.70%
Consulting/Professional	162,047	155,336		4.32%
Other Operating	295,728	346,983		-14.77%
Total Expenses	\$2,166,831	\$1,879,455		15.29%
Net Operating Surplus (Deficit)	\$819,337	\$403,329		103.14%

Operating Revenues

For Fiscal Year 2014, NC's revenues totaled almost \$3.0 million, an increase (30.8 %) over Fiscal Year 2013. Operating revenues for NC consist of the following: loan interest income, grant income, loan fees, investment income, other fees and satisfaction of program restrictions.



Earned income (comprised of loan interest income, loan fees, investment income and other fees) for 2014 increased by \$647,368 (30.7%) over 2013. As illustrated above, the largest category of revenue in 2014 was loan interest income with \$2.3 million compared to \$1.8 million in 2013, a 26% increase over the previous year and reflects NC's significant loan portfolio growth (net of allowance) of 63.6% over FY 2013. By fiscal year end 2014, NC's portion of the total managed loan portfolio in FY 2014 was \$56.4 million compared \$34.4 million in FY 2013. NC's loan portfolio had an average loan rate of 5.48% at year end, compared to 5.53% at the end of 2013.

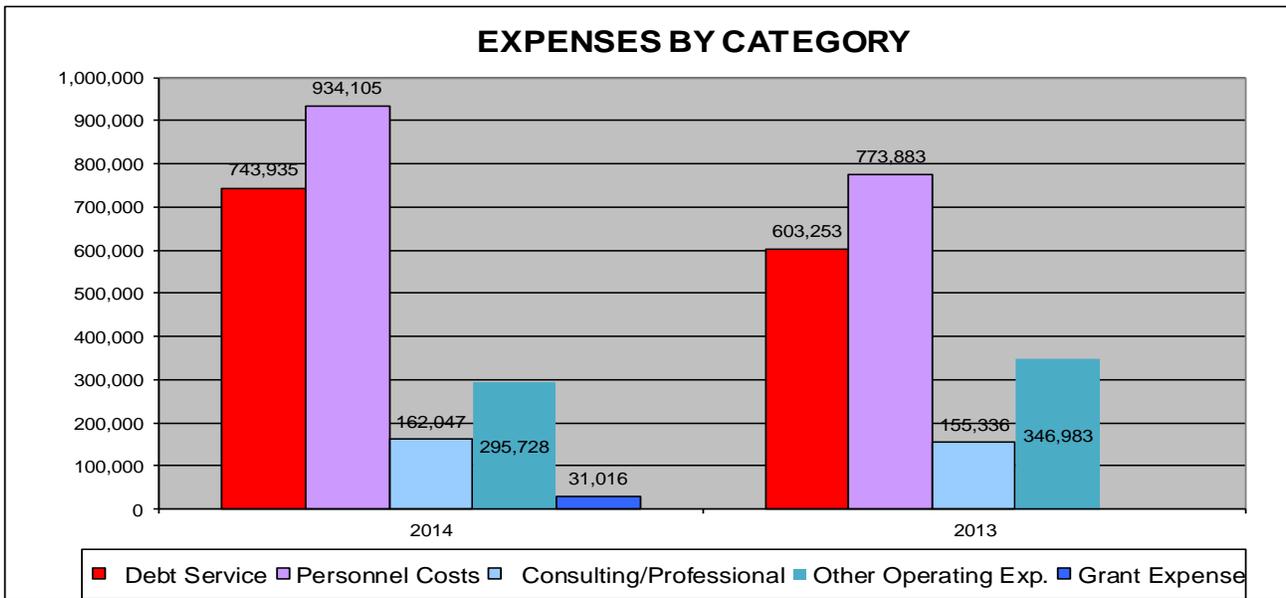
Loan Fees from loan originations was \$421,623 in 2014, an increase of \$175,427 (71.3%) compared to 2013 and reflects the 54% increase in lending volume over FY 2013 lending volume.

Grant Income accounted for \$200,000 in 2014, an increase of \$25,000 (14.3%) from 2013 from NeighborWorks America. This income is excluded in the determination of the Organization's self sustainability percentage, which was 129% for 2014 and 112% for 2013.

Investment Income (interest) provided \$9,436 in revenues in 2014, a decrease of \$4,864 (-34%) over last fiscal year. Other fees consist of loan servicing fees on participation loans, which increased \$594 (219.9%), compared to 2013.

Operating Expenses

For the Fiscal Year 2014 NC's operating expenses increased by \$287,376 (15.3%) to \$2.2 million, compared to \$1.9 million in 2013. NC's operating expenses are comprised of the following major categories: Debt Service, Personnel Costs, Consulting and Professional, Grant Expense and Other Operating Expenses.



Debt service expense increased by \$140,682 (23.3%) to \$743,935 for the fiscal year compared to \$603,253 for 2013. The increase in 2014 is the result of utilization of debt facilities to finance loans compared to 2013 reflecting a 94.8% increase in Notes Payable outstanding at year end, compared to year end 2013. The increase in Notes Payable reflects the growth of the loan portfolio and the increase in lending volume in Fiscal Year 2014. Cost of borrowing at year was 3.07% compared to 3.18% at 2013 year end and reflects the use of flexible line of credit facilities. Debt service expense does not reflect interest paid to loan participants.

Personnel Costs accounted for \$934,105 of NC's operating expenses for 2014, compared to \$773,883 for 2013, an increase of \$160,222 (20.7%). Personnel Costs include the salaries for 7 FTE in 2014 and 6 FTE in 2013, as well as related payroll taxes and benefit plans (disability, health, life and retirement). The Organization added a full-time Accountant in February 2014, replacing part-time consulting expense.

Consulting and Professional expenses were \$162,047 in 2014, compared to \$155,336 in 2013 an increase of \$6,711 (4.32%). These expenses include audit fees, consulting services (business planning, loan underwriting, human resources and information technologies), and legal fees.

Other Operating Expenses decreased (-14.8%) to \$295,728 for 2014, versus \$346,983 in 2013 and are comprised of expenses associated with loan service fees, general office expenses, marketing, corporate insurance, rent and utilities, marketing, and travel for business or organizational purposes. The majority of the decrease is associated with lower expenses for marketing, office operational expenses and amortization/depreciation compared to Fiscal Year 2013.

Portfolio Risk Management

The management of NC is responsible for establishing and maintaining effective compliance and risk management for the NC loan portfolio. NC monitors compliance matters on an ongoing basis for all elements of its business and relations.

NC employs best practices from various areas ranging from the financial service industry, community banking, and community development financial institutions to mitigate risk. These practices include quarterly reporting from borrowers and performing annual reviews on outstanding loans. NC's portfolio risk management process also benefits from NC's collaboration with NeighborWorks® America to share information regarding member organizations. As the result of NC's risk management process, NC has achieved better than industry average results in the areas of interest delinquencies, write-offs and loan loss reserve rates.

As represented in the chart below, NC is required by investor covenant to maintain a loan loss reserve allowance of 3.5% of the outstanding loan portfolio. This level of loan loss reserve allowance was achieved through NC's staff's conversations with its current and new investors. NC is appreciative of the confidence its investors has the Organization. NC's strong underwriting and portfolio management shows improved trends. The actual loan portfolio risk rating compares favorably to investor covenant requirements.

Portfolio Management Information				
	FY 2014	FY 2013	FY 2012	FY 2011
Total Loan Portfolio	\$58,413,490	\$36,644,903	\$30,366,586	\$30,379,907
Interest Delinquencies over 30 days	0%	0%	0%	0%
Loan Loss Reserve Per Risk Rating	3.48%	4.07%	5.02%	4.54%
Loan Loss Reserve Per Investor Covenants	3.50%	6.00%	6.00%	6.00%
Loan Write-offs	\$500,000	\$396,887	\$0	\$51,486
Loan Write-offs Percentage (Total of Loan Port.)	0.86%	1.08%	0.00%	0.20%
Credit Quality – Adequate and Above	99%	96%	92%	96%

Strategic Plan

In 2013, the Board of Directors of NC adopted a 2014-2018 Strategic Plan to provide guidance towards the achievement of long-term organizational goals. The five-year plan establishes five strategic goals.

- *Triple NeighborWorks Capital cumulative lending volume to \$350 million while maintaining strong loan quality.*
- *Double NeighborWorks Capital on-balance sheet capital to \$100 million through leverage and diversification of capital sources, and leverage an additional \$30 million in off-balance sheet capital.*
- *Increase NeighborWorks Capital impact on the communities served by NeighborWorks America organizations*
- *Advocate on behalf of CDFIs and the communities we serve. Further develop thought leadership within NeighborWorks America about the role of capital in improving low- income communities and their residents.*
- *Grow and strengthen the Organization to implement this plan*

FY 2014 Business Goals Results

In 2014 NeighborWorks® Capital achieved the following:

- ✓ Increased NC' s lending volume by 54% compared to 2013
- ✓ Raised \$20 million in new lending capital
- ✓ Renewed \$9.5 million of existing lending capital
- ✓ Increased net assets by 12.3%
- ✓ Increased operating sustainability from 112% to 129%
- ✓ Increased NC's market share by 11 new customers
- ✓ Originated \$43.9 million in loans with \$51.1 million in total commitments, leveraging \$220 million in construction or permanent financing

- ✔ Lending generated the production and preservation of 1,885 rental and for-sale housing units and 32,000 square feet of community space
- ✔ 95% of loans assisted housing projects for individuals and families earning below 80% of area median income

Please read more about our results in our 2014 Annual Report on the Publications page of our website for additional information on 2014 activities and performance.

With these strategic goals providing guidance and direction, NC's staff has outlined the following Business Goals for FY 2015.

Business Goals for Fiscal Year 2015

Looking forward to 2015, NC's business plan includes the following goals:

- ⊙ Originate \$52.5 million in new loans, with \$8.0 million through loan participations, an increase of 18.6% over 2014.
- ⊙ Increase lending capital by \$18.9 million to support the projected increase in lending volume.
- ⊙ Increase NC's market share of NeighborWorks® America organizations by 5% with continued marketing, outreach and expansion of business relationships in the CDFI industry.
- ⊙ Add two full-time positions to increase lending and portfolio management capacity.
- ⊙ Achieve a Self Sustainability Ratio of at least 124%.