Management Discussion
2019 Audit

Attached hereto are NeighborWorks Capital's ("NC") 2019 audited financial statements which were approved by the Board on April 24, 2020. The statements prepared by Cohn Reznick are presented with an unqualified opinion and present fairly, in all material respects, the financial position of the Organization.

A summary table for the two years covered in the audit is presented below.

	2018	2019	$ Change	% Change
Assets	$ 86,011,852	$ 101,967,537	$ 15,955,685	18.6%
Liabilities	$ 43,147,034	$ 56,265,937	$ 13,118,903	30.4%
Net Assets	$ 42,864,818	$ 45,701,600	$ 2,836,782	6.6%
Revenue	$ 6,772,574	$ 7,724,598	$ 952,024	14.1%
Expenses	$ 4,043,597	$ 4,887,816	$ 844,219	20.9%
Change in Net Assets	$ 2,728,977	$ 2,836,782	$ 107,805	4.0%

NC recorded a $2.8MM increase to net assets, the operating component of this was $1.0MM prior to Management electing to transfer $500K in earnings to lending capital for the second straight year. The growth is consistent with the prior year wherein $2.7MM in net asset growth was recorded of which $965K was from operations prior to Management's decision to reallocate $500K of the surplus to lending capital. Revenue grew year over year by $952K with $500K increased interest income, $231K in additional origination fees, $175K in additional grants and contributions and $46K in interest income earned on investments. Expenses incurred to generate revenue grew 21% or $844K - $300K represented increased interest expense, $346K in additional loan loss reserves, and the balance of the expense increase is attributable to salary and benefits and consulting support.

FY 2019 marks the 10th consecutive year that NC has achieved positive self sufficiency (earned revenue exceeding expenses). The net interest margin achieved in 2019 was 3.3% consistent with NC's internal target of 3%, the weighted average interest rate on current principal outstanding was 5.5%.

The financial position of NC reflects the ongoing strong performance of the Organization. Total assets grew year over year by 18.6% ending at just under $102MM up from $86MM. This growth is driven by the growth in the loan portfolio which ended the year at $97.4MM in gross principal balances outstanding, compared to $78.6MM the prior year. This growth was achieved despite $24.2MM of principal repayments. NC has a weighted average maturity for its loan receivables of 2.8 years (33.3 months). Growth was funded by a combination of additional borrowings under the Organization's credit facilities (net increase in debt of $13MM) and growth in net assets of $2.8MM. At year end, NC had $3.5MM in current portion of notes payable due to Kresge Foundation and a principal curtailment under the Bank of America loan. NC has adequate liquid assets (cash on hand and working capital) and borrowing capacity with loans financed by its own net assets to repay these obligations.

Cash declined year over year in the aggregate. Unrestricted operating cash grew from $2.1MM to $2.7MM, while loan capital declined by $2.9MM in 2019 compared to 2018. The repayment of a loan on December 31, 2018 artificially inflated the loan capital balances at year end, the principal repayment was immediately used to repay notes payable thereby reducing NC's interest expense but that occurred in early January 2019.

The underlying strength of the balance sheet lies in the quality of the loan portfolio. At December 31 2019 the key indicia of portfolio health were consistent with the prior year.

- Delinquency – all performing loans were current, slightly improved over 2018 ($274,137 in 30 day past due).
- Non-accrual – There is $1.8MM in non-accrual which is the same as at year end 2018.
- Charge-offs – there were no charge-offs during 2019 nor any recoveries, consistent with 2018.
- Loan Loss Reserves – NC's internal loan loss reserve calculation was 3.4% but investor requirements mandate a minimum reserve of 3.5%.

There has been a shift in the risk profile of the portfolio as measured by the percentage of loans that are in the higher risk categories. This includes Q (Questionable) loans increasing to $3.6MM or 3.7% of the portfolio from $2.2MM and 2.8% in 2018. The change in risk rating weightings reflected in the table below, accompanies a change in the mix of loan types. An increase in principal outstandings in predevelopment and organizational loans drives the shift in profile. NC's risk rating score methodology automatically rates these loan types "3". Management believes there are sufficient reserves in place to address this profile shift.

Risk Rating	2018	% Total	2019	% Total
1	$ -	0	$ 995,190	1.0%
2	$ 41,245,929	52.5%	$ 44,200,492	45.4%
3	$ 35,173,842	44.7%	$ 48,634,399	49.9%
Q	$ 2,211,775	2.8%	$ 3,569,044	3.7%
	$ 78,631,546	100.0%	$ 97,399,125	100.0%

	2018	% total	2019	% total	$ Change
Predevelopment	$ 4,808,122	6.1%	$ 12,397,541	12.7%	$ 7,589,419
Interim Development	$ 47,014,027	59.8%	$ 44,905,479	46.1%	$ (2,108,548)
Organizational	$ 8,287,500	10.5%	*$ 15,052,500*	15.5%	$ 6,765,000
Mini-permanent	$ 11,653,710	14.8%	$ 18,268,591	18.8%	$ 6,614,881
Permanent	$ 6,868,187	8.7%	$ 6,775,014	7.0%	$ (93,173)
	$ 78,631,546	100.0%	$ 97,399,125	100.0%	$ 18,767,579

Other key ratios tracked by NC and highlights for the year include:

- 10th straight year of demonstrated self sufficiency
- Leverage of 1.23x
- Continued growth in net assets
- 275 days cash on hand to cover all cash expenses, and a current ratio of 12.4x
- Access to $41.6MM in additional capital
- Compliance with all investor covenants
- Strong relationship with key funder – NeighborWorks America