

FUNDING PARTNERS

2009 HIGHLIGHTS

- **Originated 5 project-based loans representing volume of \$2,020,000, creating 180 rental units and 8 owner-occupied homes within Larimer, Boulder and Morgan counties. 87% of all units are permanently reserved for households at or below 50% area median income, including 3 transitional housing and 10 special needs units.**
- **Originated 149 purchase assistance mortgages representing \$2,901,205 in loan volume across 16 counties. Highest volume was recorded within Eagle County with 63 loans and \$1,553,524 in volume. Households at or below 80% of area median income represented 49% of all mortgage volume.**
- **Across all loan programs, FP originated 154 loans representing \$4,921,205 in volume, up 27.9% from the prior year and 28.3% over the 3-year rolling average.**
- **Third party service agreements were executed with 7 public and private entities with 1 new capital investment agreement.**
- **Aggregate loan capital base decreased 1.1% from the prior year to \$10,977,694, reflecting recognized loan loss expense, primarily within the House to Home Ownership (H2O) program.**
- **Recognized loan loss decreased 26.9% from the prior year to \$140,842.**
- **As of year-end, 79.9% of all loan capital was deployed or committed to qualified projects, representing very healthy capital utilization metric.**

TO OUR VALUED PARTNERS:

This past year presented many significant challenges to the organization in the form of project delays, continued distress in the mortgage markets and reduced charitable support. In other words, many of the same issues experienced across the market landscape. While concerning, these disruptions provided impetus for strengthening internal capital allocations to recognize greater community impacts while lessening dependence on external support. Over the coming months FP will demonstrate its commitment to excel within a highly turbulent environment through implementation of a more sustainable business model. We look forward to your continued partnership and encourage you to elevate your investment in Colorado's future!

The following information provides a snapshot of activity during the year.

Housing Production and Rehabilitation

Through the Mammel Affordable Housing Loan Fund (MAHLF), FP originated 5 project-based loans for a production level of \$2,020,000. Activity highlights include:

- The **Fort Collins Housing Authority** was provided construction gap financing for major rehabilitation of a multi-family rental project in the amount of \$1,300,000 with a 50% participation level from Mile High Community Loan Fund. Located within the city, the 82-unit project was developed under robust green building standards and incorporates on-site energy production. The property will primarily serve families earning less than 40% of the Area Median Income.
- **Sexual Assault Response Advocates** was provided financing to acquire and complete minor rehabilitation for a temporary shelter, evaluation and counseling center in the amount of \$236,000. Located in Fort Morgan, the property can provide accommodation for up to 10 juvenile victims and their infants while providing safe shelter for non-offending family members to complete treatment and crisis counseling programs. The facility will serve a 7-county area covering northeastern Colorado.
- **Thistle Community Housing** received a revolving credit facility in the amount of \$200,000 to implement aspects of its housing development business plan. Under the facility, the organization is able to expedite availability of funds to acquire, evaluate and design owner-occupied and rental projects within its Boulder county service area. To date, Thistle has initiated site design and acquisition of an 8-unit single family development serving low, moderate, and middle-income households within the city of Boulder.
- **Loveland-Berthoud Interfaith Hospitality Network** received construction financing in the amount of \$20,000 to complete the development of a 3-unit transitional housing project. Located within Loveland, the project will provide longer-term housing needs for families with children transitioning from homelessness. The organization provides counseling and life-skill training with considerable participation from area congregations.
- **CARE Housing** was issued a predevelopment loan in the amount of \$500,000 to initiate a multifamily rental project in Fort Collins. This 85-unit project will incorporate both LEED and GreenBuilt Community standards to create family-style housing affordable at 30-50% AMI levels.

During the year, activity under the MAHLF program provided critical financing to create or preserve 180 housing units. Total project costs amounted to \$25,668,729, which means every \$1 of FP financing attracted \$14.02 in equity and commercial financing. Performance measures include:

- 2009 MAHLF production represents a *0.6% decrease* from 2008 activity levels. Yearly production also fell *9.0% below* the rolling 3-year average of \$2,218,964.
- The number of housing units preserved or created in 2009 represents an *increase* of *176.9%* from 2008 and *36.2% decrease* from the 3-year average of 281 units.
- The organization recognized a credit loss in the amount of \$16,788 resulting from a deed in lieu of foreclosure for a single family project in Trinidad, Colorado.
- Since program inception in 1997 through 2009, FP has originated 72 project-based loans representing \$17,977,099 in volume; 2,421 housing units created or preserved;

and, leveraged \$220,622,933 in equity and commercial financing. Cumulative loss recognition under the program is **\$51,459**, or *0.29% of total production*.

Residential Assistance

Through the House to Home Ownership (H2O) Down Payment Assistance Program®, FP originated 54 subordinate mortgage loans to assist first-time buyers with income levels at or below 80% AMI. This resulted in production of \$429,817 for the year. Performance measures include:

- Loans were originated in 11 of the state's 64 counties, with the largest number of originations in Larimer County (15 loans representing \$106,838 in production) and highest volume in Boulder County (9 loans representing \$156,600 in production).
- Production volume in 2009 fell 8.4% from the previous year and 31.3% decrease from the 3-year average production of \$625,651.
- Loss recognition during the year was \$126,134, up 6.1% from 2008, or 3.24% of the outstanding portfolio. Though any loss recognition is detrimental to loan fund position, this level of default compares very favorably to the larger mortgage industry.
- Cumulative activity through year end has resulted in 1,148 loan originations to provide \$8,740,262 in purchase financing for 2,512 Coloradans, including 896 children.
- Full repayment has been received from 549 loans (47.8%) with all principal recycled into new production.
- As of December 31, the outstanding H2O portfolio includes 495 loan files representing \$3,774,563 in outstanding principal.

In recognition of the significant commitment of capital to the program and declining availability of patient capital necessary to support continued expansion of the H2O product, the Board has elected to suspend the program effective December 31, 2009. The program will be reinstated as outstanding loan repayments and/or new capital sources are identified.

Third-Party Services

Under contractual relationships with outside agencies, public authorities and private-sector employers, FP originates loans and services portfolios that are similar in nature to our own programs. In 2009, FP originated 95 subordinate residential mortgages representing \$2,471,388 in production volume.

- The **Town of Vail, Western Eagle Ambulance District, Pitkin County, Roaring Fork Transportation Authority, and Eagle River Water and Sanitation District** each established an Employee Home Ownership Program (EHOP)®¹ during the year. The **City of Steamboat Springs** entered into a loan servicing agreement and **Fraser Valley Foundation** (Grand County) entered into an investment agreement to implement purchase assistance programs for residents in the respective markets.
- Origination volume represents the key metric under contractual relationships based upon fee structure. In 2009, originations *increased 20.3%* from the prior year, though improved *35.7% over* the 3-year average (70).
- As of December 31, combined portfolios of all third-party agreements include 331 loan files representing \$5,648,773 in outstanding principal.
- FP entered into a service agreement with the **Colorado Department of Local Affairs Division of Housing** to facilitate the purchase, rehabilitation and sale of vacant and foreclosed properties under the Neighborhood Stabilization Program. As coordinator between 11 local jurisdictions, their subgrantees and the National Community Stabilization Trust, FP is able to fully utilize both internal capacity and extensive relationships to transition single family properties from distressed collateral to community assets. Under the program, FP does not necessarily provide financing, though does collect a fee based upon transition activity.

¹ Employee Home Ownership Program (EHOP)® is a registered Service Mark of Funding Partners for Housing Solutions, Inc. All rights reserved.

2009 Funding Partners Annual Report

Across all residential assistance programs, FP has originated 1,591 mortgage loans representing \$15,513,474 in production volume within 29 Colorado counties since 1999.

Operations

Across all loan programs during the year, FP originated 154 loans representing \$4,921,205 in aggregate volume, an *increase of 27.9%* from 2008. Compared to the 3-year average, 2009 production *increased 28.3%*, with the number of transactions virtually equal to the average (152).

Unaudited financial performance of the organization reflects general market conditions with greater turbulence and less predictable revenue streams. Under accrual accounting standards, Net Income reflects Change in Net Assets, which in 2009 a *loss* of (\$96,606). Under a cash accounting basis, net income is a *loss* of (\$142,999). The difference between the two accounting methods is largely attributed to a net reduction in loan loss reserves resulting from late-year loan repayments under the MAHLF program. Loan Loss Reserves reduce reported earnings and move in relation to aggregate loan portfolio outstanding.

Related to performance, expense items were well managed with reductions in most operational categories. Of particular note, recognized loan loss is *down sharply* from 2008 (26.9%) which may be attributed in part to extended moratoria on the initiation of foreclosure activity within the mortgage industry. On the revenue side, interest income was also down, as was fee income. Of greatest significance, corporate and philanthropic contributions were well under budget, coupled with a lack of success in attracting new loan fund capital.

At its Annual Retreat, the FP Board crafted a strategy that de-emphasizes external support through greater reliance upon program income. With more robust emphasis and monitoring of capital utilization, return on equity and net interest margin, the organization will focus its current capital base on programs that deliver significant community impacts while driving higher revenue potential. As such, it was determined the H2O program would be suspended until such time new capital sources that match the unique requirements of the program are identified. Off balance sheet activities (e.g. Third Party Services) will also be emphasized for its fee income potential. Project financing under the MAHLF program will undergo a pricing shift to more accurately reflect the value of both its utility and accompanying technical assistance.

Capitalization

As of year-end, FP's aggregate loan capital base (excluding third party contracts) was \$10,977,694, a *decrease of 1.1%* from 2008, which reflects a net loss of capital from lending activities. A breakdown shows 44.8% of capital derived through federal and local governments, 42.4% through regulated financial institutions, 9.8% through corporations and the balance through foundations, associations and retained earnings. Net asset capital remains at healthy levels to absorb heightened loan loss recognition over the past 3 years, though represents some concern if housing conditions deteriorate further and in the absence of capital improvement.

- At year end, 79.9% of total loan capital was either deployed or committed to qualified projects.
- A dedicated Loan Capital Reserve account is funded with \$494,682, representing 4.5% of total capital available for financing activities. That fund will be grown over the next 5 years to reach the optimum level of 10% of total capital.
- An investment agreement was executed with the **Fraser Valley Foundation**, serving western Grand County, to provide purchase assistance financing to qualified households within that market area.

2010 Outlook

As federal stimulus programs begin to wind down, FP has reinvigorated its efforts to strengthen existing relationships while developing new partnerships that leverage capital, technical and capacity resources. The organization understands economic recovery will not fully manifest within the coming year. Very likely, some of our partners, colleagues and housing projects will yet fall victim to the extraordinary upheaval our state and nation have experienced over the past two years. However, the root cause of these unfortunate events has taken place over the past

2009 Funding Partners Annual Report

decade or more, necessitating a protracted and agonizing rebalancing process that will continue into the foreseeable future.

FP is not immune from market corrections, though the organization is extremely confident that robust control systems and diligent underwriting provide an effective shield from severe economic harm. With sufficient liquidity, strong portfolios and a well-defined business plan to navigate the new landscape, FP is positioned to cement its place as a leader in the community development industry within the state.

Core focus areas for the coming year include a reinvigorated focus on capital expansion through bank partnerships, employer assisted housing programs and expanded relationships with public entities. Utilizing an extensive network of industry professionals and internal efficiencies, the organization will seek higher utilization of existing resources with greater appreciation for 'worst case' contingency planning.

Thank you for taking the time to understand how your investment in Funding Partners is changing the economic, physical and social condition of the **5,000** Coloradans FP has directly impacted! We look forward to engaging you and your organization in further discussion of expanding business activities within underserved communities!

Respectfully,

Ron Schneider

Ron Schneider
Board President

Joe Rowan

Joe Rowan
Executive Director