

2016

MERCY LOAN FUND





DEAR PARTNER IN HOPE,

Many view 2016 as a particularly divisive year for Americans. An election, perhaps unprecedented in the vitriol of its rhetoric, seemed to split families, end friendships, and pit neighbor against neighbor.

While I understand why this past year has been marked by division and discord, the work of Mercy Loan Fund (MLF) and its partners gave and continues to give me hope for a common, bright future built in solidarity.

Why? Because the work of a Community Development Financial Institution (CDFI) like MLF is the work of community-building, and that work simply does not get done alone. Lending to socially responsible affordable housing developers and others committed to creating essential infrastructure projects requires a high level of collaboration, a lot of trust, and an intense unity of purpose.

This unity of purpose propelled MLF to new heights in 2016 and made it a remarkable, banner year for the organization. Our eight-person team accomplished an impressive array of feats: we received a two-notch upgrade (from A+ to AA) from our third-party rating agency; we reached a historic milestone of \$2 billion leveraged in total development costs since our founding; and our portfolio is the healthiest it's been since the Great Recession, with a 0% delinquency rate.

These and other milestones are all in service to the most important metric of all: how many people we help live to their full potential by means of affordable, decent housing. To date, we have provided 500 loans resulting in 24,090 affordable homes for 61,398 people.

MLF's work has given me such faith in the power of unity and collaboration. We have not housed 61,398 people alone. We have relied on other organizations, our affiliates, and the communities in which we serve. We have worked with countless partners and have had innumerable conversations.

Despite the challenges that lie ahead, I remain optimistic about the future of our country's communities, because every day I see how a unity of purpose can bring people together and transform neighborhoods and lives.

Sincerely,



Jason Battista
President, Mercy Loan Fund



2016 HIGHLIGHTS

- Reached a historic milestone of \$2 billion leveraged in total development costs since MLF's founding.
- Helped provide more than 2,200 homes for over 4,200 residents, resulting in a total annual household savings of \$8,053,752.
- Raised \$6,625,000 in new debt capital.
- Averaged \$50 million in loans outstanding, exceeding our goal of \$45 million and setting a new MLF record.
- Closed 15 loans totaling more than \$22 million, leveraging more than \$270 million in total development costs.
- Received our first Capital Magnet Fund (CMF) award of \$3 million.
- Achieved a delinquency ratio and nonaccrual ratio of 0%, relative to a 5% goal, indicating that the portfolio is the healthiest it has been since the Great Recession.

- Received an impressive two-notch upgrade (from A+ to AA) from a third-party rating agency. This upgrade will greatly increase MLF's ability to raise capital.
- Ended the year with \$17 million in flexible capital (\$7 million more than the previous year). This capital has already transformed MLF by enhancing its approach to cash management and improving its liquidity and profitability.
- Produced more than \$1.4 million in cash flow from operations, relative to its goal of \$867,000. MLF's net asset ratio was 27%, the highest in its history, and its year-end self-sufficiency ratio was 130%, a new MLF record.
- Was one of the first CDFIs to pursue the Small Building Risk Share program through HUD, which will allow MLF to obtain funds from the Federal Financing Bank. MLF became a Federal Housing Administration (FHA) approved lender, the first step in the process; the final step is to be approved by HUD for this specific program.
- In response to its plea letter in honor of the Jubilee Year of Mercy, MLF's very generous religious communities donated \$434,000 in investment principal.





LOAN SPOTLIGHT

In October, 2016, Mercy Loan Fund provided a \$5 million loan to Mercy Housing to refinance existing debt and perform capital improvements to Decatur Place Apartments, a community that provides 106 affordable homes to single parents who want to build a better life for themselves and their children.

Many residents who come to Decatur Place Apartments have experienced homelessness and are unemployed, underemployed, or work in unstable, minimum-wage positions. A large number of applicants lack a high school diploma.

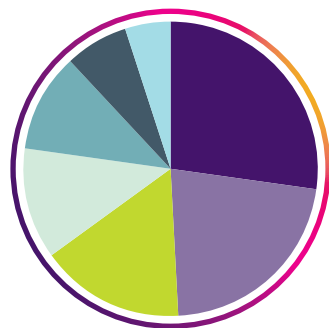
The Decatur Place transitional housing program is designed to give residents with such struggles the tools they need to succeed. When they sign their lease

agreement, residents commit to working full-time, going to school full-time, or a combination of the two. The program also requires that residents meet with Mercy Housing staff on a monthly basis and take onsite, no-cost services, such as job readiness classes, parenting education classes, cooking classes, financial literacy classes, and more.

The loan will help Mercy Housing perform needed capital improvements, including the replacement of the building's exterior insulation finish system with a stucco finish, which will decrease the likelihood of mold issues. The loan will also help preserve much-needed affordable housing in Denver, a city that has experienced some of the steepest year-over-year rent hikes in the country in recent years.

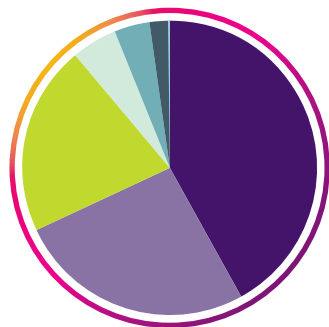


BY THE NUMBERS



LOAN TYPE

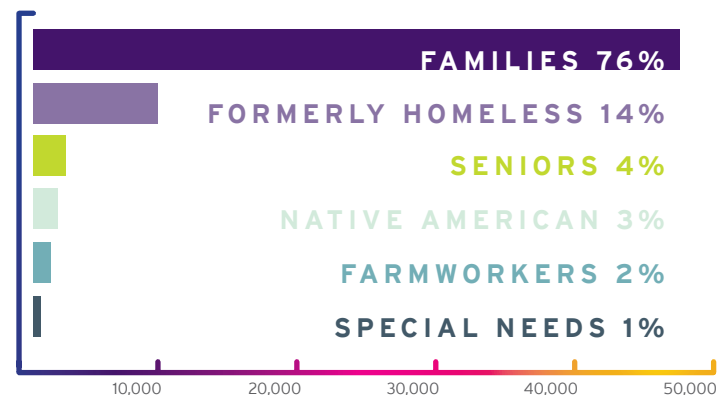
Acquisition	27%
Construction	22%
Bridge	16%
Predevelopment	12%
Line of Credit	11%
Other	7%
Mortgage	5%



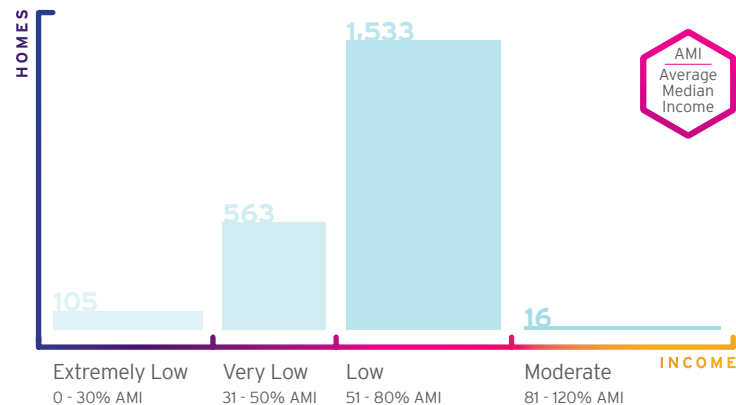
INVESTOR TYPE

Banks	\$18,650,000
Religious Institutions	\$11,609,300
Religious Health Systems	\$9,460,000
Other	\$2,111,015
Government	\$1,633,265
Individuals	\$843,500
Foundations	\$100,000

RESIDENTS SERVED



HOMES FINANCED BY MEDIAN INCOME



Number of Loans:

500 LOANS

Total Amount Loaned:

\$305 MILLION

Total Amount Leveraged:

\$2.24 BILLION

Number of Communities:

200

Total Homes:

24,090

Total Residents:

61,398

2016 Total Household Savings in Rent*:

\$7,688,332

2016 Total Homeownership Savings**:

\$365,420

*The difference between the average annual market rent and the average annual restricted rent. **The difference between the average market sale price and the average affordable sale price.

LOAN TERMS

BORROWERS: Nonprofits, public housing authorities, & mission driven for-profit organizations

RATE: Typically 5.5% - 7%

TERM: Up to 10 years; prefer 3 - 5 years

MAX LTV: 90%

DEBT COVERAGE RATIO:

Prefer minimum 1.20

MAX LOAN AMOUNT: Up to \$5MM

AFFORDABILITY:

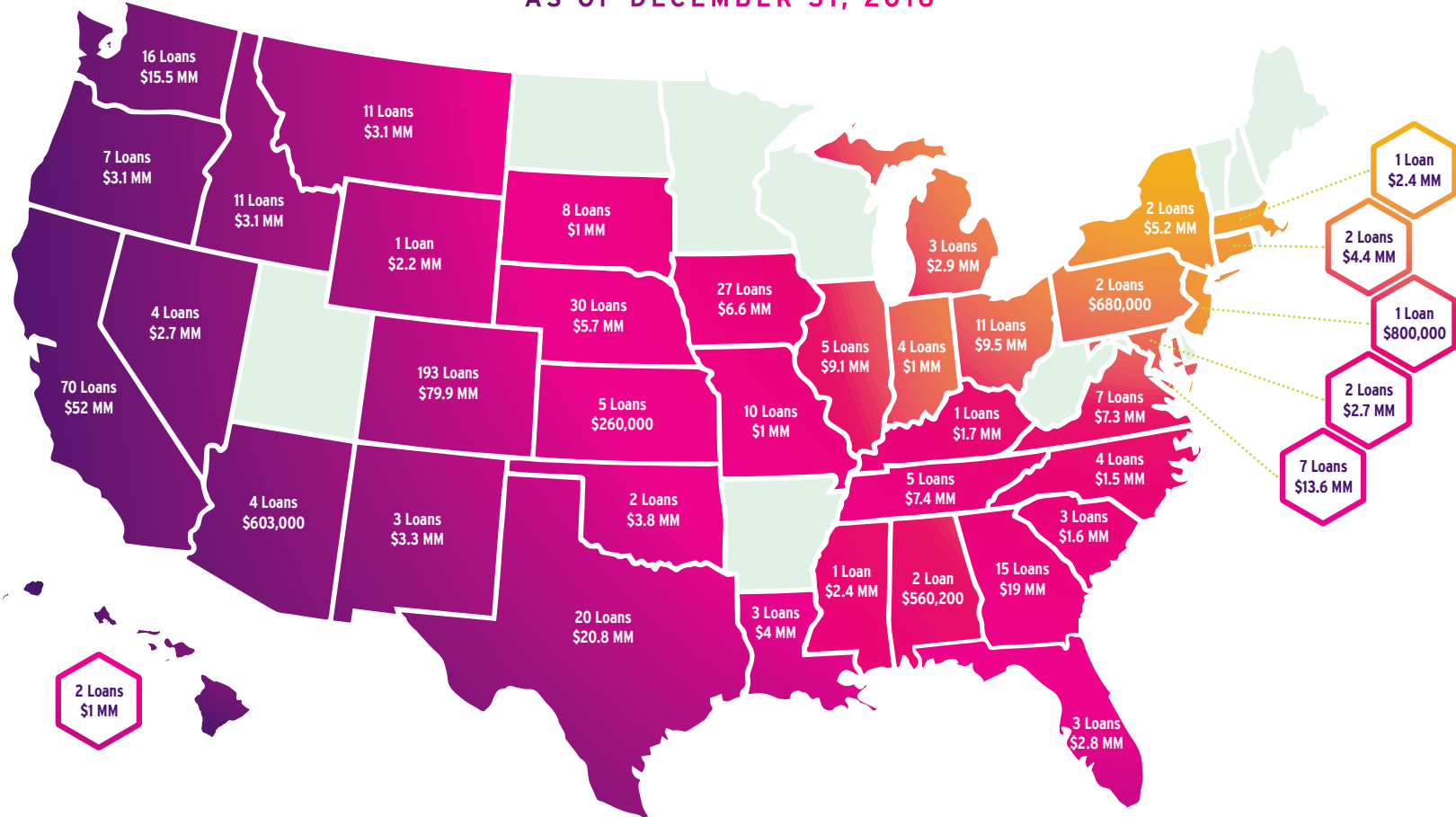
Not to exceed 80% AMI, lower preferred

SECURITY: First or subordinate Deed of Trust/Mortgage lien; other security may be considered

Rates and terms are negotiable and can vary, depending on loan request.



CUMULATIVE CLOSED LOANS BY STATE AS OF DECEMBER 31, 2016





THANK YOU TO OUR SUPPORTERS

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Mercy Loan Fund thanks our 2016 borrowers, partners, donors, and investors for the funds that enable local organizations to develop affordable housing in their communities. We thank those who with these funds, strive to meet our nation's housing challenges.

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AIDS Housing Alliance (CA)
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For more than three decades, **MERCY LOAN FUND (MLF)**, a leading Community Development Financial Institution (CDFI), has focused exclusively on funding affordable housing and essential community infrastructure projects that support affordable housing. By collaborating with socially-responsible developers, MLF has helped finance the development of single and multifamily homes for rental and homeownership. These developments help underserved communities, including people with low-incomes, seniors, farm workers, people who have experienced homelessness, and people with disabilities.

MLF is a subsidiary of the affordable housing nonprofit, Mercy Housing, Inc. (MHI), headquartered in Denver, Colorado. For more information, please visit mercyloanfund.org.

