CLEARINGHOUSE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION COMPANIES

CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014
with
Independent Auditors' Report

Novogradac & Company LLP
Certified Public Accountants

NOVOGRADAC
& COMPANY LLP®
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors of
Clearinghouse Community Development Financial Institution Companies:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Clearinghouse Community Development Financial Institution Companies, a California corporation, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Clearinghouse Community Development Financial Institution Companies, a California corporation, as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in the Supplementary Information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of the individual companies, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Novogradac & Company LLP

Long Beach, California
March 24, 2016

CLEARINGHOUSE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION COMPANIES

CONSOLIDATED BALANCE SHEETS

December 31, 2015 and 2014

	2015	2014
ASSETS		
Cash and cash equivalents	$ 41,647,000	$ 39,448,000
Loans receivable, net	203,531,000	137,344,000
Accrued interest receivable	956,000	716,000
Other receivables and prepaid expenses	4,173,000	2,370,000
Operating investments (CREC)	6,776,000	-
Due from related parties	395,000	416,000
Deferred taxes	6,350,000	4,420,000
Fixed assets, net	1,526,000	207,000
Investment in distressed single family properties	-	399,000
Investment in other companies	1,192,000	4,400,000
Deferred financing costs, net	953,000	701,000
Restricted cash	3,498,000	1,437,000
TOTAL ASSETS	$ 270,997,000	$ 191,858,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Accounts payable and accrued expenses	$ 2,779,000	$ 2,388,000
Accrued interest payable	645,000	366,000
Lines of credit	15,300,000	6,500,000
Interest-bearing deposits	250,000	550,000
Non-interest-bearing deposits	1,850,000	1,050,000
Other notes payable	62,276,000	56,559,000
Federal Home Loan Bank of San Francisco advances	41,000,000	35,000,000
Notes payable, Class A stockholders	37,927,000	37,927,000
CDFI Fund Bond Guarantee Program	62,000,000	18,000,000
Due to related parties	2,000	4,000
TOTAL LIABILITIES	224,029,000	158,344,000
STOCKHOLDERS' EQUITY		
Common stock, no par value		
Class A	21,265,000	10,544,000
Class C	3,580,000	3,580,000
Retained earnings	22,123,000	19,390,000
TOTAL STOCKHOLDERS' EQUITY	46,968,000	33,514,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 270,997,000	$ 191,858,000

see accompanying notes

CLEARINGHOUSE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION COMPANIES

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2015 and 2014

	2015	2014
INTEREST INCOME		
Interest on loans receivable	$ 12,462,000	$ 10,093,000
Interest-bearing deposits	144,000	90,000
Total interest income	12,606,000	10,183,000
INTEREST EXPENSE	(4,848,000)	(3,711,000)
Net interest income	7,758,000	6,472,000
PROVISION FOR LOAN LOSSES	(2,113,000)	(1,056,000)
Net interest income after provision for loan losses	5,645,000	5,416,000
NON INTEREST INCOME		
Other loan fees	953,000	510,000
Grant income	-	1,347,000
Investment income	282,000	163,000
Income from investment in distressed single family properties	-	118,000
Management fees	1,893,000	2,116,000
Sponsor fees	1,244,000	193,000
Income from operating investments (CREC)	47,000	-
Total non interest income	4,419,000	4,447,000
NON INTEREST EXPENSES		
Compensation and related benefits	5,009,000	3,608,000
Insurance	331,000	319,000
Professional fees	383,000	298,000
Depreciation	107,000	119,000
Rent	201,000	187,000
Marketing	158,000	130,000
Charitable contributions	140,000	132,000
Flow-through loss (income) from investments in other companies	8,000	(32,000)
General and administrative	872,000	647,000
Historic tax credit investment amortization	2,502,000	-
Total non interest expenses	9,711,000	5,408,000
Income before benefit from (provision for) income taxes	353,000	4,455,000
Benefit from (provision for) income taxes	2,548,000	(1,135,000)
Net income	$ 2,901,000	$ 3,320,000

see accompanying notes

CLEARINGHOUSE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION COMPANIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the years ended December 31, 2015 and 2014

	Common Stock		Retained	Total Stockholders'
	Class A	Class C	Earnings	Equity
BALANCE, JANUARY 1, 2014	$ 7,834,000	$ 3,580,000	$ 16,176,000	$ 27,590,000
Issuance of Class A common stock	2,655,000	-	-	2,655,000
Net income	-	-	3,320,000	3,320,000
Cash dividend	-	-	(51,000)	(51,000)
Stock dividend	55,000	-	(55,000)	-
BALANCE, DECEMBER 31, 2014	10,544,000	3,580,000	19,390,000	33,514,000
Issuance of Class A common stock	10,924,000	-	-	10,924,000
Net income	-	-	2,901,000	2,901,000
Cash dividend	-	-	(119,000)	(119,000)
Stock dividend	49,000	-	(49,000)	-
Issuance costs	(252,000)	-	-	(252,000)
BALANCE, DECEMBER 31, 2015	$ 21,265,000	$ 3,580,000	$ 22,123,000	$ 46,968,000

see accompanying notes

CLEARINGHOUSE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION COMPANIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2015 and 2014

	2015	2014
CASH FLOW FROM OPERATING ACTIVITIES		
Net income	$ 2,901,000	$ 3,320,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,113,000	1,056,000
Flow-through loss (income) from investments in other companies	8,000	(32,000)
Depreciation	107,000	119,000
Deferred financing cost amortization	27,000	18,000
Historic tax credit investment amortization	2,502,000	-
Changes in operating assets and liabilities:		
Increase in accrued interest receivable	(240,000)	(120,000)
Increase in other receivables and prepaid expenses	(1,803,000)	(383,000)
Decrease in due from related parties	21,000	1,402,000
Increase in deferred taxes	(1,930,000)	(588,000)
Increase (decrease) in accounts payable and accrued expenses	391,000	(694,000)
Increase in accrued interest payable	279,000	69,000
Decrease in due to related parties	(2,000)	(145,000)
Net cash provided by operating activities	4,374,000	4,022,000
CASH FLOW FROM INVESTING ACTIVITIES		
Sales of certificates of deposit, net	-	1,019,000
Increase in restricted cash	(2,061,000)	(664,000)
Increase in loans receivable from originations	(127,769,000)	(61,687,000)
Decrease in loans receivable from payoffs and amortization	59,217,000	45,827,000
Increase in operating investments (CREC)	(6,776,000)	-
Purchases of fixed assets	(1,426,000)	(2,000)
Sales of investment in distressed single family properties	399,000	760,000
Decrease (increase) in investments in other companies	698,000	(288,000)
Net cash used in investing activities	(77,718,000)	(15,035,000)
CASH FLOW FROM FINANCING ACTIVITIES		
Increase in deferred financing costs	(279,000)	(719,000)
Increase (decrease) in lines of credit	8,800,000	(1,600,000)
Decrease in interest-bearing deposits	(300,000)	-
Increase (decrease) in non-interest-bearing deposits	800,000	(400,000)
Proceeds from (payments of) other notes payable	5,717,000	(769,000)
Federal Home Loan Bank of San Francisco advances	6,000,000	10,000,000
CDFI Fund Bond Guarantee Program advances	44,000,000	18,000,000
Issuance of Class A common stock	10,924,000	2,655,000
Class A cash dividend	(119,000)	(51,000)
Net cash provided by financing activities	75,543,000	27,116,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,199,000	16,103,000
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	39,448,000	23,345,000
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 41,647,000	$ 39,448,000

see accompanying notes

CLEARINGHOUSE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION COMPANIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2015 and 2014

(continued)

	2015	2014
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest	$ 4,603,000	$ 3,624,000
Cash paid for income taxes	$ 1,563,000	$ 1,700,000
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Class A stock issuance costs	$ 252,000	$ -
Class A stock dividend	$ 49,000	$ 55,000

see accompanying notes

1. <u>Organization and purpose</u>

Clearinghouse Community Development Financial Institution ("CDFI") and its wholly-owned subsidiaries, as listed below (collectively, the "Company"), are headquartered in Lake Forest, California. CDFI is a direct lender for affordable housing, community development and other nontraditional credit needs in California, Arizona, Nevada, and New Mexico. CDFI's mission is to provide economic opportunities and improve the quality of life for lower-income individuals and communities through innovative and affordable financing that is unavailable in the conventional market. The majority of CDFI's loans are to nonprofit organizations and other entities that provide affordable housing to low-income individuals, create jobs in economically disadvantaged areas or otherwise are engaged in community development activities. The U.S. Department of the Treasury ("Treasury") has certified CDFI as a Community Development Financial Institution.

CDFI's bylaws provide for thirteen directors. Affordable Housing Clearinghouse ("AHC"), the holder of CDFI's Class B stock (see note 12), appoints seven directors. CDFI's Class A stockholders elect six directors. This structure is intended to assure accountability to its nonprofit community development partner AHC, the Class B stockholder, and the targeted low-income populations they serve.

CDFI's wholly-owned subsidiaries are as follows:

CDFI Service Corporation
Clearinghouse NMTC, LLC ("CDFI NMTC LLC")
Clearinghouse CREC (Sub 1), LLC ("CREC Sub 1")
Clearinghouse CREC (Sub 2), LLC ("CREC Sub 2")
Clearinghouse CREC (Sub 3), LLC ("CREC Sub 3")
Clearinghouse CREC (Sub 4), LLC ("CREC Sub 4")

CDFI has several primary lines of business including core lending, new markets tax credits ("NMTC") deployment, and the operation of real estate properties. Core lending is primarily real estate-based lending that benefits lower-income individuals and communities unable to obtain credit from banks or other traditional lenders. The majority of CDFI's core lending borrowers are nonprofit organizations and other community development entities.

CDFI Service Corporation's sole purpose is to liquidate assets acquired by CDFI. There was limited activity in CDFI Service Corporation during 2015 and 2014.

CDFI NMTC LLC's sole purpose is to make equity investments in and manage NMTC community development entities ("NMTC CDEs"). CDFI has incorporated the NMTC CDEs for the purpose of facilitating transactions resulting from federal and state of Nevada NMTC allocations awarded to CDFI. CDFI has been awarded and has deployed $473,000,000 of federal allocation and $8,000,000 of Nevada allocation to qualified active low-income community businesses since its inception.

CREC Subs 1 – 4 (collectively, the "CREC Subs") were created for the sole purpose of purchasing and investing in income producing real estate properties. As of December 31, 2015, the CREC Subs had primarily purchased and invested in multi-family housing properties, as further discussed in note 5.

2. Summary of significant accounting policies and nature of operations

Basis of accounting

The Company prepares its consolidated financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Principles of consolidation

The consolidated financial statements include the accounts of CDFI and its wholly-owned subsidiaries, CDFI Service Corporation, CDFI NMTC LLC, and the CREC Subs. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and cash equivalents

Cash and cash equivalents include all cash balances on deposit with financial institutions and highly liquid investments with a maturity of three months or less at the date of acquisition. The majority of cash is deposited with shareholder banks. The carrying amount of cash and cash equivalents approximates its fair value.

Restricted cash is not considered cash and cash equivalents, and includes cash pledged to BGP, as defined in note 11C, or otherwise contractually restricted.

Concentration of credit risk

The Company maintains cash in bank deposit accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company monitors the financial statements and regulatory filings of those institutions for which the amount on deposit exceeds the federal insured limit. The Company believes it is not exposed to any significant credit risk on these bank deposits.

Economic and geographic concentrations

The Company lends in the California, Arizona, Nevada, and New Mexico markets. Future operations could be affected by changes in economic or other conditions in those markets. The Company's concentration in its largest borrowers has increased as a result of a greater average loan size. As of December 31, 2015 and 2014, the largest ten borrowers, on average, have outstanding balances of $6,988,000 and $5,108,000, respectively, and in total comprise 31.6% and 33.8%, respectively, of the Company's loan portfolio.

Fixed assets and depreciation

The Company records all fixed assets at cost, less accumulated depreciation. Depreciation for leasehold improvements is computed on a straight-line basis over the lives of the underlying leases, which range from 3 to 5 years. Depreciation for property and equipment is computed on a straight-line basis over the estimated useful lives of the property and equipment, which range from 3 to 5 years. Depreciation for sitework is computed on a straight-line basis over an estimated useful life of 15 years. Depreciation for buildings and building improvements is computed on a straight-line basis over the estimated useful lives of the buildings and building improvements, which range from 39 to 40 years. Depreciation expense for the years ended December 31, 2015 and 2014 was $107,000 and $119,000, respectively.

2. Summary of significant accounting policies and nature of operations (continued)

Deferred financing costs

Deferred financing costs include loan fees and other costs spent to obtain financing. Deferred financing costs are amortized on a straight-line basis over the life of the respective loan. Amortization of deferred financing costs is treated as a yield adjustment and is included in interest expense. Accumulated amortization as of December 31, 2015 and 2014 was $45,000 and $18,000, respectively.

Future amortization is expected to be as follows:

2016	$	27,000
2017		39,000
2018		39,000
2019		39,000
2020		39,000
Thereafter		770,000
Total	$	953,000

Income taxes

The Company files a consolidated income tax return for both the federal government and the states of California and Arizona. Income taxes in the consolidated financial statements provide for the tax effects of transactions reported and consist of taxes currently due plus deferred taxes arising from differences between the bases of certain assets and liabilities for financial and tax reporting. The deferred taxes represent the future tax return consequences of those differences, which will either be deductible or taxable when the assets and liabilities are recovered or settled.

Deferred tax assets or liabilities for each temporary difference are determined based on the currently enacted tax rates in effect. Temporary differences are differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements that will result in taxable or deductible amounts in future years. The Company's temporary differences result primarily from provision for loan loss deductions, depreciation, accrued bonuses and payroll, impairment losses, and other miscellaneous income and expenses resulting in a net deferred income tax asset.

The Company's provision for income taxes includes current and deferred expense. A valuation allowance is established if, based on the weight of the available evidence, it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The valuation allowance reduces deferred tax assets to the amount the Company expects to realize. As of December 31, 2015 and 2014, there was no valuation allowance.

Due to the inherent complexities arising from the nature of the Company's business, the amount recognized is subject to significant management judgments and estimates with respect to the likely outcome of uncertain tax positions. The Company evaluates its uncertain tax positions. The Company recognizes the consolidated financial statement effect of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. A loss contingency is recognized when it is probable that a liability has been incurred as of the date of the consolidated financial statements and the amount of the loss can be reasonably estimated. The amount recognized is an estimate subject to management judgment with respect to the likely outcome of the uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized.

2. Summary of significant accounting policies and nature of operations (continued)

Income taxes (continued)
Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to the Company are recorded in operating expenses. No interest or penalties from federal or state tax authorities are reflected in the accompanying consolidated financial statements.

Interest and fees on loans
The accrual of interest is discontinued when the loan becomes 90 days delinquent or, in management's opinion, the borrower may be unable to make payments as they become due. When the accrual of interest is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received and the principal balance is believed to be collectible.

Loan origination and commitment fees and certain direct loan origination costs are deferred and the net amount amortized as an adjustment of the related loan's yield. The Company is generally amortizing these amounts over the contractual life of the related loan using the effective interest method.

Other loan fees include loan recoveries, late fees, servicing fees, prepayment fees, and the unamortized portion of loan origination fees, commitment fees, and discounts upon prepayment.

Investments in distressed single family properties
Investments in real estate properties are recorded using the cost method with any gain or loss recognized at disposition. This activity was discontinued during 2015. See note 7 for further discussion.

Investments in other companies and historic tax credits
The Company owns interests in other companies, as further discussed in note 8. The Company has determined that the other companies are variable interest entities and the Company is not the primary beneficiary. As a result, the Company is not required to consolidate its investment in the other companies. This conclusion was based on the determination that the Company does not have the power to direct the activities that most significantly impact the other companies' economic performance. The Company's maximum exposure to loss as a result of its involvement with the investment remains limited to the current investment balance.

The Company accounts for its investments in other companies using the equity method of accounting, which requires that the investments are recorded at cost and adjusted for the Company's allocable share of income or loss, additional investments, and cash distributions from the other companies. Because the Company has no obligation to fund liabilities of the other companies beyond its investment, including loan and advances, investments in the other companies may not be reduced below zero. To the extent that equity losses are incurred when the Company's carrying value of its investment has reached a zero balance, any losses will be suspended to be used against future income.

2. Summary of significant accounting policies and nature of operations (continued)

Investments in other companies and historic tax credits (continued)
The Company invests in the rehabilitation of historic buildings, for which it qualifies for historic tax credits ("HTCs") under Internal Revenue Code Section 47. The HTCs are earned entirely on the placed in service date ("PIS") of the rehabilitated building and result in a dollar for dollar reduction of federal income taxes payable. The HTCs are subject to recapture if the Company disinvests within five years of the PIS. For the years ended December 31, 2015 and 2014, the Company earned HTCs and reduced federal taxes payable in the amounts of $2,675,000 and $0, respectively.

The Company has implemented policies and practices for assessing impairment for its investments. Periodically, the carrying values are evaluated and the Company records a write-down if it is determined that any impairment in value exists. If impairment exists, the carrying value is reduced to the future cash flows and estimated tax benefits to be received. For the years ended December 31, 2015 and 2014, there were impairment losses of $2,502,000 and $0, respectively.

Loans receivable and allowance for loan losses
Loans receivable are stated at unpaid principal balances, less an allowance for loan losses and net of deferred loan origination fees and unearned discounts.

The allowance is increased by a provision for loan losses, which is charged to expense, and reduced by charge-offs, net of recoveries. Management's periodic evaluation of the adequacy of the allowance is based on the risks inherent in the portfolio, specific impaired loans, and adverse situations. Although management uses available information to estimate losses on loans, because of uncertainties associated with local economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that new or updated information could result in a material change in the allowance for loan loss.

The Company considers a loan impaired when based on current information or factors, it is probable that the Company will not collect all principal and interest due according to the loan agreement. Management considers many factors in determining whether a loan is impaired, such as payment history, borrower financial condition, and value of collateral. Loans that are contractually delinquent less than 90 days are generally not considered impaired, unless the borrower has filed bankruptcy or the Company is aware of specific information indicating loan impairment. The Company reviews delinquent loans to determine impaired accounts. When a loan is determined to be specifically impaired, the Company measures impairment by either using the fair value of collateral if the loan is collateral dependent or the present value of expected cash flows discounted at the loan's effective interest rate or, if available, at the loan's observable market price. As of December 31, 2015 and 2014, the allowance for specifically impaired loans was $750,000 and $1,500,000, respectively.

For the years ended December 31, 2015 and 2014, the amounts determined to be uncollectible and written off were $0 and $141,000, respectively.

2. Summary of significant accounting policies and nature of operations (continued)

Other receivables

Other receivables are stated at the amount management expects to collect. Management closely monitors outstanding balances and provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that remain outstanding after management has used reasonable collection efforts are generally written off through a charge to the valuation allowance and a credit to the receivable. As of December 31, 2015 and 2014, there was no allowance for doubtful accounts.

Qualifications for sale treatment of loans

CDFI records a transfer of financial assets (i.e., loans) as a sale when it surrenders control over the financial assets. Control is considered to have been surrendered only when all of the following conditions are met: (a) the transferred assets are isolated from CDFI, put beyond the reach of CDFI and its creditors, even in the event of a bankruptcy or other receivership; (b) either the purchaser or the qualifying variable interest entity (as defined by applicable accounting standards) and the holders of its beneficial interests have the right, free of conditions that constrain such holders from taking advantage of that right, to pledge or exchange the transferred assets; and (c) CDFI does not maintain effective control over the transferred assets through either (1) the agreement that both entitles and obligates CDFI to repurchase or redeem the transferred assets before their maturity or (2) the ability to unilaterally cause CDFI to reacquire specific assets, other than through a cleanup call. There were no loan sales during the years ended December 31, 2015 and 2014.

Use of estimates

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term is the allowance for loan losses provision.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

Subsequent events

Subsequent events have been evaluated through March 24, 2016, which is the date the consolidated financial statements were available to be issued, and there are no subsequent events requiring disclosure.

3. Loans receivable

The Company’s loan portfolio is composed of loans that are primarily secured by real estate and commercial properties. This collateral is concentrated primarily in Southern California, Northern California, and Southern Nevada, but includes collateral located in various counties throughout the aforementioned states. As of December 31, 2015 and 2014, real estate-secured loans accounted for substantially all loans. Nearly all of these loans are secured by first trust deeds with an initial loan-to-value ratio generally not greater than 80% and debt service ratio generally not less than 1.10.

3. Loans receivable (continued)

The Company's loan portfolio consisted of the following at December 31, 2015 and 2014:

	2015	2014
Housing	$ 65,157,000	$ 51,125,000
Commercial	116,009,000	84,011,000
Construction	24,516,000	4,763,000
Acquisition	656,000	197,000
Other	13,389,000	10,908,000
	219,727,000	151,004,000
Less: Unearned loan fees, net	(2,036,000)	(1,335,000)
Discounts on purchased loans	(2,520,000)	(3,050,000)
Allowance for loan losses	(11,640,000)	(9,275,000)
Total loans receivable, net	$ 203,531,000	$ 137,344,000

Loans receivable shown above are net of holdbacks primarily related to available capacity on lines of credit as well as construction and rehabilitation of real estate. As of December 31, 2015 and 2014, these amounts totaled approximately $12,457,000 and $11,697,000, respectively.

Commitments to extend credit are agreements to lend to a borrower as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because occasionally commitments expire unused, the total commitment amounts do not necessarily represent future cash requirements. As of December 31, 2015 and 2014, the Company had loan commitments to extend credit to customers totaling approximately $33,394,000 and $7,500,000, respectively. The terms of these commitments are similar to those of other loans in the Company's loan portfolio.

As of December 31, 2015 and 2014, the Company's loan portfolio had a weighted-average coupon of 6.70% and 6.72%, respectively.

4. Allowance for loan losses

The Company's allowance for loan losses was as follows for the years ended December 31:

	2015	2014
Balance, beginning	$ 9,275,000	$ 7,119,000
Provision for loan losses	2,113,000	1,056,000
Additions to allowance for loan losses from loans purchased at a discount	-	1,241,000
Additions to allowance for loan losses from Arizona MultiBank transaction (see note 19)	252,000	-
Loans written off	-	(141,000)
Balance, ending	$ 11,640,000	$ 9,275,000

4. Allowance for loan losses (continued)

During 2015 and 2014, the Company had average outstanding balances of loans past due over 90 days of approximately $389,000 and $577,000, respectively. For the years ended December 31, 2015 and 2014, the Company recognized interest income from these loans of approximately $264,000 and $148,000, respectively.

5. Operating investments (CREC)

On May 19, 2015, the Board of Directors approved a plan to create the Clearinghouse Real Estate Company, consisting of various individual CREC Subs, to purchase real estate with the intent to stabilize, revitalize and improve communities. The plan approved an investment of up to $20,000,000 funded by a combination of debt and equity for these purchases. The Company expects to hold these properties for the production of income, with future evaluation for sale at a later date.

As of December 31, 2015, the Company had purchased three properties which were producing income. The year ended December 31, 2015 was the first year of activity.

A combined summary of the financial position of the CREC Subs and the results of their operations as of and for the year ended December 31, 2015 is as follows:

		2015
Fixed assets, net	$	6,688,000
Other assets, net		88,000
Operating investments (CREC)		6,776,000
Cash and restricted cash		184,000
Total assets	$	6,960,000
Current liabilities	$	100,000
Other notes payable		3,218,000
Total liabilities		3,318,000
Members' capital		3,642,000
Total liabilities and members' capital	$	6,960,000

		2015
Revenue	$	256,000
Expenses		209,000
Net income from operating investments (CREC)	$	47,000

6. Fixed assets

Fixed assets consisted of the following as of December 31, 2015 and 2014:

	2015	2014
Land	$ 950,000	$ -
Buildings	453,000	-
Leasehold improvements	350,000	350,000
Property and equipment	567,000	544,000
Total fixed assets	2,320,000	894,000
Less: accumulated depreciation	(794,000)	(687,000)
Fixed assets, net	$ 1,526,000	$ 207,000

The additions to fixed assets arise from the acquisition of office space for Arizona MultiBank, a Division of Clearinghouse CDFI (see note 19).

7. Investment in distressed single family properties

CDFI operated two programs to purchase, rehabilitate and resell distressed homes in low-income, at-risk communities. In the first program, CDFI independently invested in properties and managed all stages of the process from the purchase, rehabilitation and eventual resale to low or moderate income families or first time homebuyers. The second program was similar and was achieved through joint venture partnerships with two non-profit organizations, AHC and Mary Erickson Community Housing. This activity was discontinued during 2015. These investments are accounted for as discussed in note 2. As of December 31, 2015 and 2014, the Company had investments of $0 and $399,000, respectively.

8. Investment in other companies

The Company has investments in several other companies. These investments are accounted for as discussed in note 2. The other companies are:

Federal Home Loan Bank of San Francisco
As a condition of membership, the Company is required to purchase stock in Federal Home Loan Bank of San Francisco ("FHLB-SF"). The amount of stock required is generally increased as the amount of borrowings or advances increases and decreased by any redemptions by the FHLB-SF. As of December 31, 2015 and 2014, the Company had stock investments of $1,107,000 and $1,645,000, respectively.

Lafayette Tenant, LLC
Pursuant to the Operating Agreement of Lafayette Tenant, LLC ("Lafayette") dated July 27, 2011, the Company invested $1,300,000 to rehabilitate Hampstead Lafayette Hotel. During 2011, the Hampstead Lafayette Hotel rehabilitation was placed in service and qualified for HTCs (see note 2 for discussion of HTCs) in the amount of $1,360,000. The Company's share of net income from Lafayette for the years ended December 31, 2015 and 2014, was $38,000 and $0, respectively. As of December 31, 2015 and 2014, the investment balance was $54,000 and $41,000, respectively.

8. Investment in other companies (continued)

Strand Master Tenant, LLC

Pursuant to the HTC Equity Contribution Agreement of Strand Master Tenant, LLC ("Strand") dated September 17, 2013, the Company invested $2,440,000 to rehabilitate the Strand Theatre. During 2015, the Strand Theatre rehabilitation was placed in service and qualified for HTCs (see note 2 for discussion of HTCs) in the amount of $2,675,000. The Company's share of net income from Strand for the years ended December 31, 2015 and 2014, was $118,000 and $0, respectively. In connection with recording the income tax benefit from the HTCs, the Company recorded an impairment loss for its investment in Strand in the amount of $2,502,000 for the year ended December 31, 2015. The Company did not record an impairment for its investment in Strand for the year ended December 31, 2014. See note 2 for discussion of the Company's accounting policies regarding impairment. As of December 31, 2015 and 2014, the investment balance was $0 and $2,409,000, respectively.

NMTC CDEs

CDFI NMTC LLC is the managing member of the NMTC CDEs with an ownership interest of approximately 0.0100%. The NMTC CDEs have been organized to encourage and assist qualified individuals, corporations and financial institutions to invest in qualified active low income community businesses located primarily in California and Nevada, which investments constitute qualified low income community investments under the NMTC provisions of IRC Section 45D. As of December 31, 2015 and 2014, CDFI's aggregate investment balance was $31,000 and $305,000, respectively.

A combined summary of the financial position of the NMTC CDEs and the results of their operations as of and for the years ended December 31, 2015 and 2014 is as follows:

	2015	2014
Total assets	$ 314,986,000	$ 322,377,000
Liabilities	$ 4,981,000	$ 4,979,000
Members' equity	310,005,000	317,398,000
Total liabilities and members' equity	$ 314,986,000	$ 322,377,000

	2015	2014
Revenues	$ 7,603,000	$ 8,055,000
Expenses	(1,856,000)	(7,499,000)
Loan recovery	20,000	5,000
Equity in income (loss) from investment in other companies	1,000	(112,000)
Net income	$ 5,768,000	$ 449,000
Company's share of net (loss) income, included in flow through loss (income) from investments in other companies	$ (224,000)	$ 32,000

8. Investment in other companies (continued)

CRA Investment Funds

Clearinghouse CDFI is the managing member of the CRA Investment Funds with an ownership interest of 0.0100%. In 2007 and 2012, the Company established the Clearinghouse CRA Investment Fund, LLC and Clearinghouse CRA Investment Fund II, LLC, respectively (collectively, the "CRA Investment Funds"). The purpose of the CRA Investment Funds is to enable qualified investments in community development projects throughout California.

A combined summary of the financial position of the CRA Investment Funds and the results of their operations as of and for the years ended December 31, 2015 and 2014 is as follows:

	2015	2014
Total assets	$ 14,131,000	$ 25,321,000
Liabilities	$ 96,000	$ 139,000
Members' equity	14,035,000	25,182,000
Total liabilities and members' equity	$ 14,131,000	$ 25,321,000

	2015	2014
Revenues	$ 1,619,000	$ 2,053,000
Expenses	(314,000)	(388,000)
Net income	$ 1,305,000	$ 1,665,000
Company's share of net income, included in flow through loss (income) from investments in other companies	$ 60,000	$ -

Clearinghouse CRA Investment Fund II, LLC was wound up in December 2015 and final distributions were made to its members.

9. Lines of credit

First Bank

On July 3, 2014, CDFI entered into a credit agreement with First Bank for a revolving credit facility in the maximum amount of $10,000,000. The proceeds are to be used for initial funding of qualified loans eligible to be pledged to BGP, as further discussed in note 11C. The revolving credit facility bears interest equal to the Wall Street Journal published Prime Rate (the "WSJ Prime Rate"), adjusted daily, but in no event less than 3.50% per annum. As of December 31, 2015 and 2014, the interest rate was 3.50%. The revolving credit facility matures on July 1, 2016. As of December 31, 2015 and 2014, the outstanding balance on the line of credit was $3,800,000 and $0, respectively.

9. Lines of credit (continued)

First Bank (continued)
On July 29, 2014, CDFI entered into an extension and modification agreement with First Bank for a line of credit in the maximum amount of $2,500,000. The line of credit bears interest equal to the WSJ Prime Rate, adjusted daily. This new revolving line of credit replaced the existing revolving line of credit. The previous line of credit had a maximum amount of $3,500,000, and bore interest equal to the WSJ Prime Rate, adjusted daily. As of December 31, 2014, the interest rate was 3.25%. No principal payments are required until maturity. The loan matured on June 28, 2015. As of December 31, 2014, no amounts were due under the revolving credit facility.

Charles Schwab Bank
On December 31, 2014, CDFI entered into a loan and security agreement with Charles Schwab Bank for a revolving credit facility in the maximum amount of $15,000,000. The proceeds are to be used to fund construction loans in certain western states. Interest accrues at the greater of the 3-month LIBOR plus 2.75 percentage points, or 3.50%. As of December 31, 2015 and 2014, the interest rate was 3.50%. The revolving credit facility matures on December 31, 2016. As of December 31, 2015 and 2014, the outstanding balance on the line of credit was $11,500,000 and $0, respectively.

Sunwest Bank
On December 20, 2013, CDFI entered into a business loan agreement with Sunwest Bank for a revolving line of credit in the maximum amount of $7,000,000. The proceeds are to be used for business operations. The loan bears an interest rate equal to the WSJ Prime Rate, adjusted daily, plus 0.50 percentage points with a floor of 4.75% and matures on January 31, 2016. As of December 31, 2015 and 2014, the interest rate was 4.75%. As of December 31, 2015 and 2014, the outstanding balance on the line of credit was $0 and $6,500,000, respectively.

10. Interest-bearing and non interest-bearing deposits

Interest-bearing deposits
The purpose of these deposits is to provide credit and other financial services to help revitalize low-income communities by financing affordable housing developments, small businesses, community facilities and similar projects. The weighted average interest rate as of December 31, 2015 and 2014 was 2.5% and 2.77%, respectively, and the interest-bearing deposits totaled $250,000 and $550,000, respectively. The remaining interest-bearing deposit matures during 2020.

Non interest-bearing deposits
CDFI accepted non interest-bearing deposits from several of its stockholders and other investors. These deposits mature in three to five years from the date of the deposit. As of December 31, 2015 and 2014, non interest-bearing deposits totaled $1,850,000 and $1,050,000, respectively. The deposits mature as follows:

Years ending December 31,	
2016	$ 100,000
2017	-
2018	-
2019	750,000
2020	1,000,000
Total	$ 1,850,000

10. Interest-bearing and non interest-bearing deposits (continued)

The State of California Department of Insurance has a program entitled California Organized Investment Network ("COIN"). CDFI is certified under the COIN program. This certification allows the owners of the non interest-bearing deposits to apply for a 20% state income tax credit.

11. Notes payable

A. Notes payable, Class A stockholders

Notes payable, Class A stockholders reflect payable commitments resulting from the remaining balances of two private placement memoranda, ("Second PPM" and "Third PPM" respectively, or collectively, "PPMs"), and from their respective Credit Agreements, the terms of which are described below.

The Second PPM, approved in 1999, offered units consisting of equity and unsecured lending commitments (equal to 10 times the Class A common stock investment amount), for sale to certain accredited investors. In accordance with the Second PPM's credit agreement ("Second Credit Agreement") between CDFI and the investors, the draws against the commitment can only be used to make loans or investments in the normal course of business. The Third PPM was approved in 2003 and enabled investors to select the ratio of lending commitment to new equity based upon certain criteria specified in that PPM.

Under the Second Credit Agreement, the unsecured borrowings bear interest at a fixed rate determined by the one-year U.S. Treasury rate (as reported in the Wall Street Journal) plus 1% at the date of each borrowing. Interest on the borrowings is payable quarterly. The Second Credit Agreement was partially prepaid in 2011 and the Board of Directors established a plan for repayment of all principal no later than December 2019. As of December 31, 2015 and 2014, the Second Credit Agreement had a fixed weighted average interest rate of 3.02%.

Under the Third PPM, there was a credit agreement ("Third Credit Agreement") which provides for variable interest rates. The rate adjusts annually based upon the weekly 10 year CMT plus 10 basis points, generally, with a maximum periodic cap of 100 basis points, a lifetime cap of 500 basis points and no floor. The Third Credit Agreement was partially prepaid in 2008 and 2009 and the Board of Directors established a plan for repayment of all principal no later than December 2024. As of December 31, 2015 and 2014, The Third Credit Agreement had a weighted average interest rate of 2.29% and 2.57% respectively.

As of December 31, 2015 and 2014, balances outstanding under these notes payable totaled:

	Second Credit Agreement	Third Credit Agreement	Total
Original Borrowing	$ 26,900,000	$ 28,000,000	$ 54,900,000
Prepayment 2008	-	(5,000,000)	(5,000,000)
Prepayment 2009	-	(3,000,000)	(3,000,000)
Prepayment 2011	(8,973,000)	-	(8,973,000)
Outstanding balance	$ 17,927,000	$ 20,000,000	$ 37,927,000

In connection with these agreements, CDFI has agreed to, among other things, maintain certain financial ratios, restrict the payment of dividends, limit expenses and restrict the use of proceeds from the borrowings.

11. Notes payable (continued)

B. Other notes payable

Loan	Year-end interest rate	Payment terms	2015	2014
Opportunity Finance Network Under the terms of all agreements, CDFI is required to use the proceeds of the loans for community development projects in economically distressed areas.				
In May 2006, CDFI entered into an unsecured loan agreement with Opportunity Finance Corporation ("OFN"). In December 2015, CDFI renewed and extended the existing loan agreement. The principal is due and payable on December 31, 2023.	4.60%	Interest only, quarterly in arrears	$ 4,000,000	$ 2,500,000
On March 26, 2010, CDFI entered into an unsecured loan agreement with OFN. The principal is due and payable on March 31, 2017.	4.55%	Interest only, quarterly in arrears	$ 1,450,000	$ 1,450,000
On March 26, 2010, CDFI entered into an unsecured loan agreement with OFN. The principal is due and payable on March 31, 2019.	5.00%	Interest only, quarterly in arrears	$ 1,050,000	$ 1,050,000
On August 20, 2012, CDFI entered into an unsecured loan agreement with OFN. The principal is due and payable on August 31, 2019.	4.55%	Interest only, quarterly in arrears	$ 1,000,000	$ 1,000,000
On October 11, 2012, the CDFI entered into an unsecured loan agreement with OFN. The principal is due and payable in four equal annual installments with the first payment due October 31, 2019 and the last payment due October 31, 2022.	3.00%	Interest only, quarterly in arrears	$ 1,818,000	$ 1,818,000
Opportunity Finance Network subtotal			$ 9,318,000	$ 7,818,000

11. Notes payable (continued)

B. Other notes payable (continued)

Loan	Year-end interest rate	Payment terms	2015	2014
Charles Schwab Bank On September 27, 2012, CDFI entered into an unsecured loan agreement with Charles Schwab Bank. The proceeds are to be used to fund loans for community development projects in economically distressed areas in Nevada and Northern California. Interest accrues at the greater of the 3-month LIBOR plus 2.75% or 3.50%. The loan was extended and principal is due and payable on the earlier of December 31, 2016, or the date of any acceleration of the loan as stated in the loan agreement.	3.50%	Interest only, quarterly	$ 10,000,000	$ 10,000,000
Bank of America, N.A. On March 30, 2012, CDFI entered into a loan and security agreement with Bank of America, N.A. for a revolving credit facility. The proceeds are to be used to fund loans for community development projects in economically distressed areas. Interest accrues at the 10-year treasury rate plus 1% per annum at the time of the making of each revolving line of credit. Principal is due and payable on the earlier of March 29, 2023 or the date of the repayment of the underlying secured loan.	2.75%	Interest, monthly in arrears Principal, quarterly per amortization schedule	$ 5,421,000	$ 9,121,000
Calvert Social Investment Foundation, Inc. On January 13, 2012, CDFI entered into an unsecured loan agreement with Calvert Social Investment Foundation, Inc. The proceeds are to be used to fund loans for community development projects in economically distressed areas. The loan agreement was amended in November 2015. The principal is due and payable on January 5, 2017.	4.50%	Interest only, semi-annually in arrears	$ 6,500,000	$ 1,500,000
Communities at Work, L.P. On November 2, 2010, CDFI entered into an unsecured loan agreement with Communities at Work Fund, L.P. The proceeds are to be used to fund loans for community development projects in economically distressed areas. Principal in the amount of $5,000,000 and $8,000,000 is due and payable on November 2, 2015 and February 9, 2019, respectively.	4.30%	Interest only, monthly	$ 8,000,000	$ 13,000,000

11. Notes payable (continued)

B. Other notes payable (continued)

Loan	Year-end interest rate	Payment terms	2015	2014
Community Development Financial Institution Fund In May 2003, CDFI received an award from the U.S. Department of Treasury, Community Development Financial Institution Fund ("CDFI Fund"). As a part of this award, CDFI executed a note payable to the CDFI Fund. The note matures in May 2023.	2.045%	Interest only, quarterly	$ 800,000	$ 800,000
State Bank of India (California) On February 6, 2013, CDFI entered into an unsecured loan agreement with State Bank of India (California) ("SB India"). The proceeds are to be used to help fund CRA eligible loans. The note matures on December 31, 2017. All unpaid principal and interest are due when the loan matures.	4.00%	Interest, monthly Principal, $40,000 quarterly	$ 4,520,000	$ 4,680,000
On August 12, 2013, CDFI entered in a second loan agreement with SB India. The proceeds are to be used to help fund CRA eligible loans. The loan bears interest at the WSJ Prime plus 0.75%, with a floor of 4% and a cap of 7%. The note matures on August 12, 2018. All unpaid principal and interest are due when the loan matures.	4.00%	Interest, monthly Principal, $60,000 quarterly	$ 6,400,000	$ 6,640,000
U.S. Bank National Association On July 23, 2013, CDFI entered into a loan agreement with U.S. Bank National Association. The note matures on July 22, 2018. No principal payments are due until maturity, when all unpaid principal and accrued interest become due.	3.00%	Interest only, quarterly	$ 3,000,000	$ 3,000,000
Pacific Mercantile Bank On October 5, 2015, CDFI entered into an unsecured loan agreement with Pacific Mercantile Bank. The proceeds are to be used to provide loans to entities that provide affordable housing to low-income individuals, create jobs in economically disadvantaged areas, or otherwise engage in community development activities. The note matures on October 5, 2018. All unpaid principal and interest are due when the loan matures.	3.00%	Interest only, quarterly	$ 1,500,000	$ -

11. Notes payable (continued)

B. Other notes payable (continued)

Loan	Year-end interest rate	Payment terms	2015	2014
Pacific Western Bank On December 15, 2015, CDFI entered into an unsecured loan agreement with Pacific Western Bank. The proceeds are to be used to fund CRA eligible loans. The note matures on June 1, 2017. All unpaid principal and interest are due when the loan matures.	4.50%	Interest only, monthly	$ 2,100,000	$ -
Toyota Financial Savings Bank On June 19, 2015, CDFI entered into a loan agreement with Toyota Financial Savings Bank. The note matures on June 30, 2020. All unpaid principal and interest are due when the loan matures.	3.00%	Interest only, quarterly	$ 1,500,000	$ -
Umpqua Bank On June 15, 2015, CREC Sub 1 entered into a loan agreement with Umpqua Bank. The note matures on June 15, 2025. All unpaid principal and interest are due when the loan matures. The note is secured by a deed of trust.	4.00%	Principal and interest, monthly per amortization schedule	$ 1,608,000	$ -
On July 8, 2015, CREC Sub 1 entered into a loan agreement with Umpqua Bank. The note matures on July 10, 2025. All unpaid principal and interest are due when the loan matures. The note is secured by a deed of trust.	4.00%	Principal and interest, monthly per amortization schedule	$ 1,609,000	$ -
Other notes payable total			$ 62,276,000	$ 56,559,000

11. Notes payable (continued)

C. CDFI Fund Bond Guarantee Program

On July 24, 2014, the Company became the first participant in the CDFI Fund Bond Guarantee Program ("BGP"), becoming eligible to draw up to $100 million in borrowings ("Advances") secured by an assignment of loans to the Trustee (the "1st BGP Facility"). On August 24, 2015, the Company became eligible to draw up to $100 million in additional Advances secured by an assignment of loans to the Trustee (the "2nd BGP Facility") (the 1st BGP Facility and the 2nd BGP Facility are collectively, the "BGP Facilities").

The Company must collateralize the BGP Facilities at a ratio of 110% with qualifying loans. Prior to each Advance, the Company deposits 3% of the Advance in cash to the Bank of New York Mellon (the "Master Service Trustee") as additional security for Federal Financing Bank (the "Bondholder"). The cash held in trust is included in restricted cash on the balance sheet.

Each Advance is priced at the time of the Advance based on the then current Federal Financing Bank rate and the maturity date selected by the Company. The Advances are interest only through December 2016 and December 2017 for the 1st and 2nd BGP Facilities, respectively, at which time each individual Advance commences full amortization based on its maturity date. Payments to the Bondholder are semi-annual in arrears.

For each BGP Facility, $50 million must be drawn or committed by the first anniversary of the BGP Facility, and $100 million by the second anniversary. If either minimum is not achieved, the shortfall is deducted from the total $100 million facility available to the Company. The Company expects to fully draw or commit all BGP Advances before their respective deadlines.

As of December 31, 2015, the Company's Advances under the 1st BGP Facility totaled $62,000,000, at interest rates between 2.063% and 3.347%, with a weighted average of 2.868%, and with maturity dates ranging from June 15, 2027 through December 15, 2043. As of December 31, 2014, the Company's Advances under the 1st BGP Facility totaled $18,000,000, at interest rates between 3.032% and 3.347%, with a weighted average of 3.175%, and with maturity dates ranging from December 15, 2034 through December 15, 2043.

As of December 31, 2015, the Company had not received any Advances under the 2nd BGP Facility.

As of December 31, 2015 and 2014, the collateralization ratio on the Advances was 113% and 119%, respectively. Collateralization in excess of 110% can be applied to future advances or returned to the Company.

D. Federal Home Loan Bank of San Francisco

In February 2011, the Company was admitted as a member of the FHLB-SF. This membership allowed the Company a borrowing capacity at December 31, 2015 and 2014 of $44,000,000 and $35,000,000, respectively. CDFI was required to make a stock investment and to pledge certain specific loans as collateral sufficient to support the borrowing capacity. The Company may borrow against this available line, at its discretion, in maturities ranging from overnight to five years. As of December 31, 2015 and 2014, CDFI had made stock investments in FHLB-SF as described in note 8.

11. Notes payable (continued)

D. Federal Home Loan Bank of San Francisco (continued)
As of December 31, 2015 and 2014, CDFI had entered into various fixed rate advances with FHLB-SF in the total amount of $16,000,000, for both years, with various maturity dates from August 29, 2016 to June 2, 2017, at various annual rates from 0.95% to 1.43%. Interest is payable on the last calendar day of each month.

As of December 31, 2015 and 2014, CDFI had overnight advances outstanding in the amount of $25,000,000 and $19,000,000 at interest rates of 0.27%, for both years. Rate resets daily and interest is payable on the last calendar day of each month. These advances automatically renew each day. The Company may repay them at management's discretion with twenty four hours advance notice.

As of December 31, 2015 and 2014, total FHLB-SF balances outstanding totaled $41,000,000 and $35,000,000, respectively.

E. Future minimum principal payments
Future minimum principal payment requirements for all notes payable over the next five years are as follows:

Year ending December 31,

	Note 11A Notes payable, stockholders	Note 11B Other notes payable	Note 11C BGP	Note 11D FHLB-SF*	Total
2016	-	10,568,000	-	35,000,000	45,568,000
2017	-	10,630,000	2,219,000	6,000,000	18,849,000
2018	-	14,810,000	2,270,000	-	17,080,000
2019	17,927,000	10,706,000	2,345,000	-	30,978,000
2020	-	2,166,000	2,403,000	-	4,569,000
Thereafter	20,000,000	13,396,000	52,763,000	-	86,159,000
Total	37,927,000	62,276,000	62,000,000	41,000,000	203,203,000

*$25,000,000 of the FHLB-SF advances are overnight deposits which renew automatically each day, as further discussed above in note 11D.

12. Common stock

CDFI is authorized to issue three classes of common stock, Classes A, B and C, which have the following authorized, issued and outstanding shares at December 31:

	Class A	Class B	Class C
Authorized, 2015 and 2014	10,000,000	1,000,000	1,000,000
Issued and outstanding, 2015	168,919	1,000	35,800
Issued and outstanding, 2014	106,722	1,000	35,800

There are no ownership restrictions on the Class A stock. Only AHC may own Class B shares. There are no ownership restrictions on the Class C stock.

12. Common stock (continued)

Shares of Class A and Class B common stock have equal rights except for the right to vote for the election of certain directors. Class A stockholders are entitled to elect six Class A directors and the Class B stockholder is entitled to appoint seven Class B directors. Class C stockholders have rights equal to Class A and Class B except for the right to vote for directors or upon any other matters.

For the years ended December 31, 2015 and 2014, CDFI issued 39,493 and 26,550 Class A shares at $100 per share for proceeds of $3,949,000 and $2,655,000, respectively. Additionally, for the year ended December 31, 2015, CDFI issued 22,212 Class A shares in exchange for the retirement of the Capital Debt Certificates, which were assumed in connection with the Arizona MultiBank transaction, as further discussed in note 19.

For the years ended December 31, 2015 and 2014, CDFI declared dividends of $1 per share on 168,427 and 106,171 shares, respectively. Dividends are payable in cash or Class A common stock at the option of the stockholder. Stock dividends are issued for each $100 of dividends, rounded down. For the years ended December 31, 2015 and 2014, stock and cash dividends were made as follows:

	2015		2014	
	Shares	Amount	Shares	Amount
Stock dividends (conversion of paid dividends at $1 per share into stock issued at $100 per share)	492	$ 49,000	551	$ 55,000
Cash dividends ($1 per share)		119,000		51,000
Total		$ 168,000		$ 106,000

CDFI is certified under the COIN program. This certification allows for the purchasers of Class A stock to apply for a 20% state income tax credit.

13. Fair value of financial instruments

The Company reports balances that are required or permitted to be measured at fair market value in accordance with existing accounting pronouncements. Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based upon the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, a fair value hierarchy is used that distinguishes between market participant assumptions based on market date obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

13. Fair value of financial instruments (continued)

Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three levels of the fair value hierarchy: (1) the fair value is based on quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date; (2) the fair value is based on significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data; and (3) the fair value is based on significant unobservable inputs that reflect the Company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Short-term financial instruments include any financial asset or liability with a maturity of less than one year, or financial instruments with a variable interest rate. This includes cash and cash equivalents, restricted cash, other receivables and prepaid expenses, accounts payable and accrued expenses, deposits, lines of credit, and short-term or variable-interest debt. The carrying values of these financial instruments are reasonable estimates of their fair values due to their short-term nature.

Loans receivable comprise all outstanding loans at gross value, reduced by undisbursed funds, holdbacks, unearned loan fees, discounts on purchased loans, allowance for loan losses, and allowance for specifically impaired loans. The fair value is the amount at which the Company could sell the net loan portfolio in an orderly market transaction. The fair value includes evaluation of underlying interest rates, maturities, collateral, restrictions and contingencies associated with the loans. As of December 31, 2015 and 2014, loans receivable held by the Company had a carrying value of $203,531,000 and $137,344,000, respectively. The carrying value is a reasonable estimate of fair value.

Long-term debt comprises any debt instrument with a maturity of greater than one year, such as interest-bearing deposits; non interest-bearing deposits; notes payable, Class A stockholders; other notes payable; BGP Advances; and FHLB-SF advances. The fair value is the amount required to retire the long-term debt, accounting for the various interest rates, maturities, restrictions and covenants associated with each of the constituent debt instruments. As of December 31, 2015 and 2014, the carrying value of long-term debt was $160,303,000 and $120,085,000, respectively, and the fair value approximated $160,423,000 and $119,867,000, respectively. The Company is liable for the amount of long-term debt reflected in the financial statements.

14. Income taxes

The provision for income taxes for the years ended December 31, 2015 and 2014 was as follows:

	2015	2014
Current income tax benefit (provision)	$ 618,000	$ (1,723,000)
Deferred income tax benefit (provision)	1,930,000	588,000
Total benefit from (provision for) income taxes	$ 2,548,000	$ (1,135,000)

14. Income taxes (continued)

The tax effects of temporary differences that give rise to significant portions of deferred taxes at December 31, 2015 and 2014, are as follows:

	2015	2014
Deferred tax assets (liabilities)		
Accrued interest receivable	$ -	$ 23,000
Other receivables	38,000	38,000
Accrued bonuses and payroll	768,000	521,000
Allowance for loan losses	3,916,000	2,961,000
CDFI grant	-	251,000
Deferred income	1,000	-
Depreciation	(18,000)	22,000
Investment in other companies	1,644,000	568,000
Deferred state taxes	1,000	36,000
Net deferred tax asset	$ 6,350,000	$ 4,420,000

The total benefit from (provision for) income taxes differs from the amount of income tax determined by applying the U.S. federal income tax rate of 34% to pretax income for the years ended December 31, 2015 and 2014, as follows:

	2015	2014
Provision for federal income taxes	$ (120,000)	$ (1,515,000)
Historic tax credits (see note 8)	2,675,000	-
Permanent differences	13,000	116,000
Estimated state taxes, net of federal benefit	(20,000)	264,000
Total benefit from (provision for) income taxes	$ 2,548,000	$ (1,135,000)

Management believes that the Company has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities.

15. Related-party transactions

The Company has transactions with many of its stockholders in the normal course of business because most of the Company's stockholders are banks with offices in or around the Company's principal market area. The Company had the following balances and transactions with certain of its stockholders:

	2015	2014
Balance at December 31		
Cash and cash equivalents	$ 38,522,000	$ 35,009,000
Non interest-bearing deposits	1,350,000	950,000
Notes payable	63,947,000	40,927,000
Lines of credit	15,300,000	6,500,000
Restricted cash	1,432,000	845,000
Transactions for the years ended December 31		
Interest earned on cash balances and certificates of deposit	$ 120,000	$ 72,000
Interest paid on notes payable	1,973,000	1,201,000
Rent paid	155,000	150,000
Reimbursed expenses from related parties	21,000	26,000

CDFI and subsidiaries share costs with AHC (sole holder of CDFI's Class B common stock), a nonprofit entity that sponsored the formation of CDFI and has two common Board members with CDFI. The shared costs include phone, rent, utilities, and supplies.

Due from NMTC CDEs
Pursuant to the operating agreements, the Company earns management fees and may make advances to the NMTC CDEs. The advances do not bear interest and are payable upon the availability of sufficient cash flows from the NMTC CDEs. As of December 31, 2015 and 2014, the outstanding balance was $299,000 and $277,000, respectively.

Due from CRA Investment Funds
Pursuant to the operating agreements, the Company earns management fees and may make advances to the CRA Investment Funds. The advances do not bear interest and are payable upon the availability of sufficient cash flows from the CRA Investment Funds. As of December 31, 2015 and 2014, the outstanding balance was $96,000 and $139,000, respectively.

Due to NMTC CDEs
Pursuant to the operating agreement, NMTC CDEs may make advances to the Company. The advances do not bear interest and are payable upon the availability of sufficient cash flows from the Company. As of December 31, 2015 and 2014, the NMTC CDEs were owed $2,000.

15. Related-party transactions (continued)

Due to CRA Investment Funds
Pursuant to the operating agreement, CRA Investment Funds may make advances to the Company. The advances do not bear interest and are payable upon the availability of sufficient cash flows from the Company. As of December 31, 2015 and 2014, the CRA Investment Funds were owed $0 and $2,000, respectively.

Management fees
Pursuant to the operating agreements, the Company is entitled to annual management fees for services performed in connection with managing the NMTC CDEs and CRA Investment Funds. As of December 31, 2015 and 2014, the management fees earned were $1,893,000 and $2,116,000, respectively. Management fees owed to the Company by the NMTC CDEs and CRA Investments Funds are included in the Due from NMTC CDEs and Due from CRA Investment Funds sections above.

16. Commitments

Leases
The Company leases its office space in several cities in which it is operating, under various lease agreements. Minimum future rental payments are as follows:

Years ending December 31,		
2016	$	185,000
2017		2,000
Total	$	187,000

The Company subleases part of the facilities to its affiliate, AHC, and receives sublease rental income of $11,000 per year. This amount is included as an offset in rent expense in the accompanying consolidated statements of income.

For the years ended December 31, 2015 and 2014, lease costs relating to these leases were $201,000 and $187,000, respectively, which are included in rent expenses in the accompanying consolidated statements of income.

17. Grant income

CDFI received and recognized grant income of $1,347,000 in 2014 from the CDFI Fund to assist CDFI in providing loans to businesses operating in underserved communities in California and Nevada.

18. Pass-through grant

CDFI received a grant of $1,454,000 in 2012 from the CDFI Fund to assist CDFI in providing grants to businesses receiving loans for operating in underserved communities. During 2015 and 2014, CDFI provided grants of $627,000 and $291,000, respectively. As of December 31, 2015, the grant had been fully disbursed.

19. Arizona MultiBank

On June 4, 2015, Clearinghouse CDFI consummated a transaction to acquire assets consisting of loans and cash and the assumption of certain liabilities ("Capital Debt Certificates") of Arizona MultiBank Community Development Corporation, an Arizona nonprofit corporation ("AZMB").

AZMB was a nonprofit CDFI providing financing and access to technical assistance for the advancement of small business, affordable housing, nonprofit organizations and economic development in the state of Arizona. AZMB was funded by $10,571,000 of Capital Debt Certificates held by 16 banks and the FDIC as receiver for a failed bank. AZMB negotiated an agreement with its Capital Debt Certificate holders and Clearinghouse as follows:

- AZMB paid its Capital Debt Certificate holders 1/3 of the balance owed them of $3,317,000 in cash.
- Clearinghouse acquired the AZMB loan portfolio of $4,589,000 and cash of $2,389,000 and assumed the remaining liability of $6,975,000 due to the Capital Debt Certificate holders.
- Clearinghouse issued Class A shares in satisfaction of the Capital Debt Certificates as had been agreed to by all of the AZMB Capital Debt Certificate holders.
- Eight of the Capital Debt Certificate holders elected to reinvest their 1/3 cash payment totaling $171,000 in additional Clearinghouse Class A shares.
- AZMB purchased 10,000 Class A shares for $1,000,000 – these shares were donated to the Arizona Community Foundation.

As a result of this transaction, Clearinghouse acquired a performing loan portfolio of approximately $4.6 million, cash of approximately $3.4 million, and issued 33,925 Class A shares to increase shareholders' equity by approximately $8 million.

SUPPLEMENTARY INFORMATION

CLEARINGHOUSE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION COMPANIES

SUPPLEMENTARY INFORMATION

Consolidating Balance Sheets

December 31, 2015

	Clearinghouse CDFI	CDFI Service Corporation	Clearinghouse NMTC, LLC	CREC Combined	Intercompany Elimination	Clearinghouse CDFI Consolidated
ASSETS						
Cash and cash equivalents	$ 41,280,000	$ 229,000	$ 1,000	$ 137,000	$ -	$ 41,647,000
Loans receivable, net	203,531,000	-	-	-	-	203,531,000
Accrued interest receivable	956,000	-	-	-	-	956,000
Other receivables and prepaid expenses	4,173,000	-	-	41,000	(41,000)	4,173,000
Operating investments (CREC)	-	-	-	-	6,776,000	6,776,000
Due from related parties	1,379,000	-	78,000	-	(1,062,000)	395,000
Deferred taxes	6,350,000	-	-	-	-	6,350,000
Fixed assets, net	1,526,000	-	-	6,688,000	(6,688,000)	1,526,000
Investment in other companies	4,711,000	-	199,000	-	(3,718,000)	1,192,000
Deferred financing costs, net	953,000	-	-	47,000	(47,000)	953,000
Restricted cash	3,451,000	-	-	47,000	-	3,498,000
TOTAL ASSETS	$ 268,310,000	$ 229,000	$ 278,000	$ 6,960,000	$ (4,780,000)	$ 270,997,000
LIABILITIES AND STOCKHOLDERS' EQUITY						
LIABILITIES						
Accounts payable and accrued expenses	$ 2,734,000	$ -	$ -	$ 51,000	$ (6,000)	$ 2,779,000
Accrued interest payable	640,000	-	-	5,000	-	645,000
Lines of credit	15,300,000	-	-	-	-	15,300,000
Interest-bearing deposits	250,000	-	-	-	-	250,000
Non-interest-bearing deposits	1,850,000	-	-	-	-	1,850,000
Other notes payable	59,058,000	-	-	3,218,000	-	62,276,000
Federal Home Loan Bank of San Francisco advances	41,000,000	-	-	-	-	41,000,000
Notes payable, Class A stockholders	37,927,000	-	-	-	-	37,927,000
CDFI Fund Bond Guarantee Program	62,000,000	-	-	-	-	62,000,000
Due to related parties	(88,000)	611,000	544,000	44,000	(1,109,000)	2,000
TOTAL LIABILITIES	220,671,000	611,000	544,000	3,318,000	(1,115,000)	224,029,000
STOCKHOLDERS' EQUITY						
Common stock, no par value						
Class A	21,265,000	-	-	-	-	21,265,000
Class C	3,580,000	-	-	-	-	3,580,000
Members' capital within consolidated group	-	20,000	1,000	3,595,000	(3,616,000)	-
Retained earnings	22,794,000	(402,000)	(267,000)	47,000	(49,000)	22,123,000
TOTAL STOCKHOLDERS' EQUITY	47,639,000	(382,000)	(266,000)	3,642,000	(3,665,000)	46,968,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 268,310,000	$ 229,000	$ 278,000	$ 6,960,000	$ (4,780,000)	$ 270,997,000

CLEARINGHOUSE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION COMPANIES

SUPPLEMENTARY INFORMATION

Consolidating Statements of Income

For the year ended December 31, 2015

	Clearinghouse CDFI	CDFI Service Corporation	Clearinghouse NMTC, LLC	CREC Combined	Intercompany Elimination	Clearinghouse CDFI Consolidated
INTEREST INCOME						
Interest on loans receivable	$ 12,462,000	$ -	$ -	$ -	$ -	$ 12,462,000
Interest-bearing deposits	144,000	-	-	-	-	144,000
Total interest income	12,606,000	-	-	-	-	12,606,000
INTEREST EXPENSE	(4,848,000)	-	-	(64,000)	64,000	(4,848,000)
Net interest income (expense)	7,758,000	-	-	(64,000)	64,000	7,758,000
PROVISION FOR LOAN LOSSES	(2,113,000)	-	-	-	-	(2,113,000)
Net interest income (expense) after provision for loan losses	5,645,000	-	-	(64,000)	64,000	5,645,000
NON INTEREST INCOME						
Other loan fees	952,000	1,000	-	-	-	953,000
Investment income	272,000	10,000	-	-	-	282,000
Management fees	1,893,000	-	-	-	-	1,893,000
Sponsor fees	1,244,000	-	-	-	-	1,244,000
Rental revenue	48,000	-	-	256,000	(304,000)	-
Income from operating investments (CREC)	-	-	-	-	47,000	47,000
Total non interest income	4,409,000	11,000	-	256,000	(257,000)	4,419,000
NON INTEREST EXPENSES						
Compensation and related benefits	5,009,000	-	-	-	-	5,009,000
Insurance	331,000	-	-	5,000	(5,000)	331,000
Professional fees	383,000	-	-	1,000	(1,000)	383,000
Depreciation	107,000	-	-	51,000	(51,000)	107,000
Rent	201,000	-	-	-	-	201,000
Marketing	158,000	-	-	-	-	158,000
Real estate operating expenses	2,000	-	-	44,000	(46,000)	-
Charitable contributions	140,000	-	-	-	-	140,000
Flow-through loss from investments in other companies	8,000	-	-	-	-	8,000
General and administrative	868,000	1,000	-	44,000	(41,000)	872,000
Historic tax credit investment amortization	2,502,000	-	-	-	-	2,502,000
Total non interest expenses	9,709,000	1,000	-	145,000	(144,000)	9,711,000
Income (loss) before benefit from (provision for) income taxes	345,000	10,000	-	47,000	(49,000)	353,000
Benefit from (provision for) income taxes	2,549,000	-	(1,000)	-	-	2,548,000
Net income (loss)	$ 2,894,000	$ 10,000	$ (1,000)	$ 47,000	$ (49,000)	$ 2,901,000

CLEARINGHOUSE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION COMPANIES

SUPPLEMENTARY INFORMATION

CREC Combined Balance Sheets

December 31, 2015

	Clearinghouse CREC (Sub 1), LLC	Clearinghouse CREC (Sub 2), LLC	Clearinghouse CREC (Sub 3), LLC	Clearinghouse CREC (Sub 4), LLC	CREC Combined
ASSETS					
Cash and cash equivalents	$ 135,000	$ 2,000	$ -	$ -	$ 137,000
Other receivables and prepaid expenses	14,000	-	12,000	15,000	41,000
Fixed assets, net	4,598,000	377,000	1,713,000	-	6,688,000
Deferred financing costs, net	47,000	-	-	-	47,000
Restricted cash	47,000	-	-	-	47,000
TOTAL ASSETS	$ 4,841,000	$ 379,000	$ 1,725,000	$ 15,000	$ 6,960,000
LIABILITIES AND MEMBERS' CAPITAL					
LIABILITIES					
Accounts payable and accrued expenses	$ 30,000	$ 7,000	$ 14,000	$ -	$ 51,000
Accrued interest payable	5,000	-	-	-	5,000
Other notes payable	3,218,000	-	-	-	3,218,000
Due to related parties	17,000	4,000	17,000	6,000	44,000
TOTAL LIABILITIES	3,270,000	11,000	31,000	6,000	3,318,000
MEMBERS' CAPITAL					
Members' capital within consolidated group	1,496,000	376,000	1,708,000	15,000	3,595,000
Retained earnings	75,000	(8,000)	(14,000)	(6,000)	47,000
TOTAL MEMBERS' CAPITAL	1,571,000	368,000	1,694,000	9,000	3,642,000
TOTAL LIABILITIES AND MEMBERS' CAPITAL	$ 4,841,000	$ 379,000	$ 1,725,000	$ 15,000	$ 6,960,000

CLEARINGHOUSE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION COMPANIES
SUPPLEMENTARY INFORMATION
CREC Combined Statements of Income
For the year ended December 31, 2015

	Clearinghouse CREC (Sub 1), LLC	Clearinghouse CREC (Sub 2), LLC	Clearinghouse CREC (Sub 3), LLC	Clearinghouse CREC (Sub 4), LLC	CREC Combined
REVENUE					
Rental revenue	$ 216,000	$ 13,000	$ 27,000	$ -	$ 256,000
Total revenue	216,000	13,000	27,000	-	256,000
EXPENSES					
Interest expense	64,000	-	-	-	64,000
Insurance	5,000	-	-	-	5,000
Professional fees	-	1,000	-	-	1,000
Depreciation	43,000	2,000	6,000	-	51,000
Real estate operating expenses	7,000	12,000	25,000	-	44,000
General and administrative	22,000	6,000	10,000	6,000	44,000
Total expenses	141,000	21,000	41,000	6,000	209,000
Net income (loss)	$ 75,000	$ (8,000)	$ (14,000)	$ (6,000)	$ 47,000

see independent auditors' report