

**CLEARINGHOUSE COMMUNITY DEVELOPMENT
FINANCIAL INSTITUTION COMPANIES
CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2014 and 2013
with
Independent Auditors' Report**

**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, 2014 and 2013, 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 controls 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 controls 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 controls. 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.

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, 2014 and 2013, 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 31, 2015

CLEARINGHOUSE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION COMPANIES
CONSOLIDATED BALANCE SHEETS
December 31, 2014 and 2013

ASSETS	2014	2013
Cash and cash equivalents	\$ 39,448,000	\$ 23,345,000
Certificates of deposit	-	1,019,000
Loans receivable, net	137,344,000	122,540,000
Accrued interest receivable	716,000	596,000
Other receivables and prepaid expenses	2,370,000	1,987,000
Due from related parties	416,000	1,818,000
Deferred taxes	4,420,000	3,832,000
Fixed assets, net	207,000	324,000
Investment in distressed single family properties	399,000	1,159,000
Investment in other companies	4,400,000	4,080,000
Deferred financing costs	701,000	-
Restricted cash	1,437,000	773,000
	<u>\$ 191,858,000</u>	<u>\$ 161,473,000</u>
TOTAL ASSETS	<u><u>\$ 191,858,000</u></u>	<u><u>\$ 161,473,000</u></u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Accounts payable and accrued expenses	\$ 2,388,000	\$ 3,082,000
Accrued interest payable	366,000	297,000
Lines of credit	6,500,000	8,100,000
Interest-bearing deposits	550,000	550,000
Non-interest-bearing deposits	1,050,000	1,450,000
Other notes payable	56,559,000	57,328,000
Federal Home Loan Bank of San Francisco advances	35,000,000	25,000,000
Notes payable, Class A stockholders	37,927,000	37,927,000
CDFI Fund Bond Guarantee Program	18,000,000	-
Due to related parties	4,000	149,000
	<u>158,344,000</u>	<u>133,883,000</u>
TOTAL LIABILITIES	<u>158,344,000</u>	<u>133,883,000</u>
 STOCKHOLDERS' EQUITY		
Common stock, no par value		
Class A	10,544,000	7,834,000
Class C	3,580,000	3,580,000
Retained earnings	19,390,000	16,176,000
	<u>33,514,000</u>	<u>27,590,000</u>
TOTAL STOCKHOLDERS' EQUITY	<u>33,514,000</u>	<u>27,590,000</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u><u>\$ 191,858,000</u></u>	<u><u>\$ 161,473,000</u></u>

see accompanying notes

CLEARINGHOUSE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION COMPANIES

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
INTEREST INCOME		
Interest on loans receivable	\$ 9,447,000	\$ 7,619,000
Interest-bearing deposits	90,000	131,000
Total interest income	<u>9,537,000</u>	<u>7,750,000</u>
INTEREST EXPENSE	<u>(3,711,000)</u>	<u>(3,114,000)</u>
Net interest income	5,826,000	4,636,000
PROVISION FOR LOAN LOSSES		
Provision for loan losses	<u>(1,056,000)</u>	<u>(758,000)</u>
Net interest income after provision for loan losses	4,770,000	3,878,000
NON INTEREST INCOME		
Other loan fees	1,156,000	910,000
Grant income	1,347,000	-
Investment income	163,000	74,000
Income from investment in distressed single family properties	118,000	1,008,000
Management fees	2,116,000	2,632,000
Sponsor fees	193,000	1,049,000
Gain on sale of other real estate owned	-	11,000
Flow-through income from investments in other companies	32,000	296,000
Total non interest income	<u>5,125,000</u>	<u>5,980,000</u>
NON INTEREST EXPENSES		
Compensation and related benefits	3,608,000	3,328,000
Insurance	319,000	259,000
Professional fees	298,000	194,000
Depreciation	119,000	99,000
Rent	187,000	169,000
Charitable contributions	132,000	176,000
General and administrative	777,000	710,000
CRA Investment Fund II support	-	159,000
Total non interest expenses	<u>5,440,000</u>	<u>5,094,000</u>
Income before provision for income taxes	4,455,000	4,764,000
Provision for income taxes	<u>(1,135,000)</u>	<u>(1,800,000)</u>
Net income	<u>\$ 3,320,000</u>	<u>\$ 2,964,000</u>

see accompanying notes

CLEARINGHOUSE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION COMPANIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the years ended December 31, 2014 and 2013

	Common Stock		Retained Earnings	Total Stockholders' Equity
	Class A	Class C		
BALANCE, JANUARY 1, 2013	\$ 7,153,000	\$ 3,580,000	\$ 13,291,000	\$ 24,024,000
Issuance of Class A common stock	650,000	-	-	650,000
Net income	-	-	2,964,000	2,964,000
Cash dividend	-	-	(48,000)	(48,000)
Stock dividend	31,000	-	(31,000)	-
BALANCE, DECEMBER 31, 2013	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	<u>\$ 10,544,000</u>	<u>\$ 3,580,000</u>	<u>\$ 19,390,000</u>	<u>\$ 33,514,000</u>

see accompanying notes

CLEARINGHOUSE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2014 and 2013

	2014	2013
CASH FLOW FROM OPERATING ACTIVITIES		
Net income	\$ 3,320,000	\$ 2,964,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	1,056,000	758,000
Flow-through income from investments in other companies	(32,000)	(296,000)
Gain on sale of other real estate owned	-	(11,000)
Depreciation	119,000	99,000
Changes in operating assets and liabilities:		
Increase in accrued interest receivable	(120,000)	(163,000)
Increase in deferred taxes	(588,000)	(297,000)
Increase in other receivables and prepaid expenses	(383,000)	(1,321,000)
Decrease (increase) in due from related parties	1,402,000	(842,000)
Decrease in accounts payable and accrued expenses	(694,000)	(1,485,000)
Increase in accrued interest payable	69,000	29,000
Decrease in due to related parties	(145,000)	(29,000)
Net cash provided by (used in) operating activities	4,004,000	(594,000)
 CASH FLOW FROM INVESTING ACTIVITIES		
Sales (purchases) of certificates of deposit, net	1,019,000	(9,000)
Increase in restricted cash	(664,000)	(29,000)
Increase in loans receivable, net	(15,860,000)	(26,923,000)
Purchases of fixed assets	(2,000)	(153,000)
Sales of other real estate owned	-	62,000
Sales of investment in distressed single family properties	760,000	882,000
Increase in investment in other companies	(288,000)	(1,171,000)
Net cash used in investing activities	(15,035,000)	(27,341,000)
 CASH FLOW FROM FINANCING ACTIVITIES		
Increase in deferred financing costs	(701,000)	-
(Decrease) increase in lines of credit	(1,600,000)	1,650,000
Decrease in non interest-bearing deposits	(400,000)	(600,000)
(Payments of) proceeds from other notes payable	(769,000)	21,488,000
Federal Home Loan Bank of San Francisco advances	10,000,000	-
CDFI Fund Bond Guarantee Program advances	18,000,000	-
Issuance of Class A common stock	2,655,000	650,000
Class A cash dividend	(51,000)	(48,000)
Net cash provided by financing activities	27,134,000	23,140,000
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	16,103,000	(4,795,000)
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	23,345,000	28,140,000
 CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 39,448,000	\$ 23,345,000
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 3,642,000	\$ 3,085,000
Cash paid for income taxes	\$ 1,700,000	\$ 3,069,000
 SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Class A stock dividend	\$ 55,000	\$ 31,000

see accompanying notes

**CLEARINGHOUSE COMMUNITY DEVELOPMENT
FINANCIAL INSTITUTION COMPANIES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

1. Organization and purpose

Clearinghouse Community Development Financial Institution (“CDFI”) and its wholly-owned subsidiaries, CDFI Service Corporation and Clearinghouse NMTC, LLC (“CDFI NMTC LLC”), are headquartered in Lake Forest, California. CDFI is a direct lender for affordable housing, community development and other nontraditional credit needs in California and Nevada. 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. The Affordable Housing Clearinghouse (“AHC”), the holder of CDFI’s Class B stock (see note 13), 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 has several primary lines of business including core lending, new markets tax credits (“NMTC”), and the purchase, rehabilitation, and resale of distressed homes. 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 NMTC LLC is a wholly owned subsidiary of CDFI, whose 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 \$473,000,000 and has deployed \$438,400,000 of federal allocation to qualified active low-income community businesses since its inception.

In November 2013, CDFI was awarded the authority to issue \$8,000,000 in qualified equity investments to the NMTC CDEs pursuant to the Nevada New Markets Job Act Certification between CDFI and the State of Nevada Department of Business and Industry Director’s Office.

CDFI Service Corporation is a wholly owned subsidiary of CDFI, whose sole purpose is to liquidate assets acquired by CDFI. There was limited activity in CDFI Service Corporation in 2014 and 2013.

The consolidated financial statements include the accounts of CDFI and its wholly-owned subsidiaries, CDFI Service Corporation and CDFI NMTC LLC (collectively, the “Company”).

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.

**CLEARINGHOUSE COMMUNITY DEVELOPMENT
FINANCIAL INSTITUTION COMPANIES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

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

Principles of consolidation

The consolidated financial statements include the accounts of CDFI, CDFI Service Corporation, and CDFI NMTC LLC. 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 amounts of cash and cash equivalents approximate its fair value.

Restricted cash is not considered cash and cash equivalents, and includes cash held with financial institutions pledged to BGP, as defined in note 11, 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 and Nevada markets. Future operations could be affected by changes in economic or other conditions in those markets.

Fixed assets and depreciation

Leasehold improvements are recorded at cost, less accumulated depreciation. Depreciation for leasehold improvements is computed on a straight-line basis over the lives of the underlying leases, which are three to five years.

Property and equipment are stated at cost, less accumulated depreciation. 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 three to five years.

Deferred financing costs

Intangible assets include costs spent to obtain financing from the BGP, as described further in note 11. Amounts are recorded at cost and amortized ratably over the weighted average life of the outstanding bond proceeds using the straight-line method. Accumulated amortization as of December 31, 2014 and 2013 was \$18,000 and \$0, respectively.

**CLEARINGHOUSE COMMUNITY DEVELOPMENT
FINANCIAL INSTITUTION COMPANIES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

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

Income taxes

The Company files a consolidated income tax return for both the federal government and the state of California. 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 tax rates that the Company expects to be in effect when the underlying items of income and expense are realized. 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, the timing for the deduction of depreciation, accrued bonuses and vacations, management fees, tax credits and other miscellaneous income resulting in a deferred income tax asset.

The Company's provision for income taxes includes the 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, 2014 and 2013, 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 subject to estimate and 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.

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.

**CLEARINGHOUSE COMMUNITY DEVELOPMENT
FINANCIAL INSTITUTION COMPANIES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

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

Interest and fees on loans (continued)

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.

Investments in other companies

The Company owns interests in other companies, as further discussed in note 6. 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. For the years ended December 31, 2014 and 2013, the Company provided support to the other companies that was not previously contractually required or intended in the amounts of \$0 and \$159,000, respectively.

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.

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, 2014 and 2013, there were no impairment losses.

Investments in real estate projects

Investments in real estate properties are recorded using the cost method with any gain or loss recognized at disposition. See note 5 for further discussion.

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 Company's past loan loss experience, other 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.

**CLEARINGHOUSE COMMUNITY DEVELOPMENT
FINANCIAL INSTITUTION COMPANIES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

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

Loans receivable and allowance for loan losses (continued)

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 claimed bankruptcy or the Company is aware of specific information indicating the loan impairment. The Company reviews delinquent loans to determine impaired accounts. The Company measures impairment on a loan-by-loan basis 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, as a practical expedient, at the loan's observable market price. As of December 31, 2014 and 2013, the amount of the impaired loans were \$1,500,000 and \$0, respectively.

For the years ended December 31, 2014 and 2013, the amounts determined to be uncollectible and written off were \$141,000 and \$13,000, respectively.

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 trade accounts receivable. As of December 31, 2014 and 2013, 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.

**CLEARINGHOUSE COMMUNITY DEVELOPMENT
FINANCIAL INSTITUTION COMPANIES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

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

Real estate acquired by foreclosure

Real estate acquired by foreclosure or other proceedings is initially recorded at fair value less estimated costs of disposal at the date of foreclosure. After foreclosure, valuations are periodically performed by management, and distressed assets held for sale are carried at the lower of cost or fair value less estimated costs of disposal. Any write-down to fair value at the time of transfer to other real estate owned is charged to the provision for loan losses. Other real estate owned is evaluated regularly to ensure the recorded amount is supported by its current fair value, and valuation allowances to reduce the carrying amount to fair value less estimated disposal costs are recorded as necessary. Revenue and expense from the operations of other real estate owned are included in CDFI's non-interest income and expense. Changes in the valuation allowance are included in investment impairment.

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 31, 2015, 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 and Southern Nevada, but includes collateral located in various counties throughout California and Nevada. As of December 31, 2014 and 2013, real estate-secured loans accounted for approximately 100% of total loans. Nearly all of these loans are secured by first trust deeds with an initial loan-to-value ratio of generally not greater than 80%.

**CLEARINGHOUSE COMMUNITY DEVELOPMENT
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

3. Loans receivable (continued)

The Company's loan portfolio consisted of the following at December 31, 2014 and 2013:

	2014	2013
	<u> </u>	<u> </u>
Housing	\$ 51,125,000	\$ 45,718,000
Commercial	84,011,000	67,091,000
Construction	4,763,000	11,599,000
Acquisition	197,000	3,589,000
Other	10,908,000	4,368,000
	<u>151,004,000</u>	<u>132,365,000</u>
Less: Unearned loan fees, net	(1,335,000)	(1,127,000)
Discounts on purchased loans	(3,050,000)	(1,579,000)
Allowance for loan losses	(9,275,000)	(7,119,000)
Total loans receivable, net	<u>\$ 137,344,000</u>	<u>\$ 122,540,000</u>

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, 2014 and 2013, these amounts totaled approximately \$11,697,000 and \$13,324,000, 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 many commitments are expected to expire unused, the total commitment amounts do not necessarily represent future cash requirements.

As of December 31, 2014 and 2013, the Company had loan commitments to extend credit to customers totaling approximately \$7,500,000 and \$11,078,000, respectively. The terms of these commitments are similar to those of other loans in the Company's loan portfolio.

As of December 31, 2014 and 2013, the Company's loan portfolio had a weighted-average coupon of 6.72% and 6.54%, respectively.

4. Allowance for loan losses

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

	2014	2013
	<u> </u>	<u> </u>
Balance, beginning	\$ 7,119,000	\$ 5,592,000
Provision for loan losses	1,056,000	758,000
Provision for loan losses on discounted loans	1,241,000	782,000
Loans written off	(141,000)	(13,000)
Balance, ending	<u>\$ 9,275,000</u>	<u>\$ 7,119,000</u>

**CLEARINGHOUSE COMMUNITY DEVELOPMENT
FINANCIAL INSTITUTION COMPANIES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

4. Allowance for loan losses (continued)

During 2014 and 2013, the Company had average outstanding balances of loans past due over 90 days of approximately \$577,000 and \$1,100,000, respectively. For the years ended December 31, 2014 and 2013, the Company recognized interest income from these loans of approximately \$148,000 and \$264,000, respectively.

5. Investment in distressed single family properties

CDFI operates two programs to purchase, rehabilitate and resell distressed homes in low-income, at-risk communities. In the first program, CDFI independently invests in properties and manages 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 is similar and is achieved through joint venture partnerships with two non-profit organizations, AHC and Mary Erickson Community Housing. As of December 31, 2014 and 2013, the Company had investments of \$399,000 and \$1,159,000, respectively.

6. Investment in other companies

The Company has investments in several other companies. These investments are accounted for under the equity method of accounting, as the Company does not have control of the major operating and financial policies of the investee entities. 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. As of December 31, 2014 and 2013, the Company had stock investments of \$1,645,000 and \$1,175,000, respectively.

Lafayette Tenant, LLC

Pursuant to the Operating Agreement of Lafayette Tenant, LLC ("Lafayette"), dated July 27, 2011, CDFI is the investor member of Lafayette. As of December 31, 2014 and 2013, the Company had made cumulative equity investments of \$1,300,000 in Lafayette. The business purpose of Lafayette is to rehabilitate Hampstead Lafayette Hotel, the rehabilitation of which qualified for historic tax credits under Internal Revenue Code ("IRC") Section 47. The Company generated historic tax credits in the amount of \$1,360,000, which resulted in a dollar for dollar reduction of CDFI's federal income tax liabilities in the year generated. As of December 31, 2014 and 2013, the investment balance was \$41,000 and \$68,000, respectively.

Strand Master Tenant, LLC

Pursuant to the HTC Equity Contribution Agreement of Strand Master Tenant, LLC ("Strand"), dated September 17, 2013, CDFI is the investor member of Strand. As of December 31, 2014 and 2013, the Company had made cumulative equity investments of \$2,440,000. The business purpose of Strand is to rehabilitate the Strand Theater, the rehabilitation of which qualified for historic tax credits under IRC Section 47. As of December 31, 2014, the Strand Theater had not yet been placed in service. December 31, 2014 and 2013, the investment balance was \$2,409,000 and \$2,440,000, respectively.

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6. Investment in other companies (continued)

NMTC CDEs

CDFI NMTC LLC is the managing member of the NMTC CDEs with ownership interests ranging from 0.0100% to 0.9898%. 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, which investments constitute qualified low income community investments under the NMTC provisions of IRC Section 45D. As of December 31, 2014 and 2013, CDFI's aggregate investment balance was \$305,000 and \$397,000, 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, 2014 and 2013 are as follows:

	2014	2013
Total assets	\$ 322,377,000	\$ 358,123,000
Liabilities	4,979,000	6,274,000
Members' equity	317,398,000	351,849,000
Total liabilities and members' equity	\$ 322,377,000	\$ 358,123,000
	2014	2013
Revenues	\$ 8,055,000	\$ 8,890,000
Expenses	(7,499,000)	(4,122,000)
Loan recovery	5,000	2,354,000
Equity in loss from investment in other companies	(112,000)	(35,000)
Net income	\$ 449,000	\$ 7,087,000
Company's share of net income	\$ 32,000	\$ 296,000

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6. Investment in other companies (continued)

CRA Investment Funds

Clearinghouse CDFI is the managing member of the CRA Investment Funds. 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, 2014 and 2013 is as follows:

	2014	2013
	<u> </u>	<u> </u>
Total assets	\$ 25,321,000	\$ 34,041,000
Liabilities	\$ 139,000	\$ 254,000
Members’ equity	25,182,000	33,787,000
Total liabilities and members’ equity	<u>\$ 25,321,000</u>	<u>\$ 34,041,000</u>
Revenues	\$ 2,053,000	\$ 2,334,000
Expenses	(388,000)	(409,000)
Net income	<u>\$ 1,665,000</u>	<u>\$ 1,925,000</u>
Company’s share of net income	<u>\$ -</u>	<u>\$ -</u>

7. Lines of credit

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. This new revolving line of credit replaced the existing revolving line of credit. The proceeds are to be used for business operations. The loan bears an interest rate equal to the Wall Street Journal published Prime Rate (“WSJ Prime Rate”) adjusted daily plus 0.50 percentage points with a floor of 4.75% and matures on August 11, 2015. As of December 31, 2014 and 2013, the interest rate was 4.75%. As of December 31, 2014 and 2013, the outstanding balance on the line of credit was \$6,500,000 and \$7,000,000, respectively.

First Bank

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 and 2013, the interest rate was 3.25%. No principal payments are required until maturity. The loan matures on June 28, 2015. As of December 31, 2014 and 2013, the principal balance was \$0 and \$1,100,000, respectively.

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7. Lines of credit (continued)

First Bank (continued)

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 11. The revolving credit facility bears interest equal to the WSJ Prime Rate, adjusted daily, but in no event less than 3.50% per annum. As of December 31, 2014, the interest rate was 3.50%. The revolving credit facility matures on July 1, 2016. As of December 31, 2014, no amounts were due under the revolving credit facility.

8. 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, 2014 and 2013 was 2.77% and the interest-bearing deposits totaled \$550,000. The interest-bearing deposits mature during 2015.

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, 2014 and 2013, non interest-bearing deposits totaled \$1,050,000 and \$1,450,000, respectively. The deposits mature as follows:

Years ending December 31,	
2015	\$ 200,000
2016	100,000
2017	-
2018	-
2019	750,000
Total	<u><u>\$ 1,050,000</u></u>

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, providing depositors with a pre-tax economic benefit for their non interest-bearing deposit equivalent to a yield of approximately 4.88%.

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9. Notes payable, Class A stockholders

Notes payable, stockholders reflect funded loan commitments resulting from two private placement memoranda (“PPMs”) and from other notes payable, the terms of which are described below.

PPMs: The 1997 PPM related to the initial capitalization of CDFI and 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 Credit Agreement between CDFI and the stockholders, the draws against the commitment can only be used to make loans or investments in the normal course of business. The terms of the second PPM in March 1999 were substantially the same as the first credit agreement. The third PPM was approved in June 2003 and enables investors to select the ratio of lending commitment to new equity based upon certain criteria specified in the PPM.

Under the credit agreements issued in the first two PPMs, 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 first credit agreement was repaid in full in October 2010. Under the second credit agreement, the Board of Directors established a plan for repayment of all principal no later than December 2019. As of December 31, 2014 and 2013, the second agreement had a fixed weighted average interest rate of 3.02%.

Under the third credit agreement, an investor’s return varies based on the equity investment and lending commitment as stated in the PPM. Interest rates are variable on all lending commitments under this third agreement with the initial rate established as of the date of borrowing with the following annual adjustable features: weekly 10 year CMT plus generally 10 basis points with a maximum periodic cap of 100 basis points and a lifetime cap of 500 basis points with no floor. Under the third credit agreement, the Board of Directors established a plan for repayment of all principal no later than December 2024. The third agreement had a weighted average interest rate of 2.57% and 2.42% as of December 31, 2014 and 2013, respectively.

As of December 31, 2014 and 2013, balances outstanding under these notes payable totaled:

	<u>Second Credit Agreement</u>	<u>Third Credit Agreement</u>	<u>Total</u>
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	<u>\$ 17,927,000</u>	<u>\$ 20,000,000</u>	<u>\$ 37,927,000</u>

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.

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10. Other notes payable

Loan	Year-end interest rate	Payment terms	2014	2013
<u>Opportunity Finance Network</u>				
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”). The principal is due and payable on September 15, 2015.	4.60%	Interest only, quarterly in arrears	\$ 2,500,000	\$ 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			\$ 7,818,000	\$ 7,818,000

**CLEARINGHOUSE COMMUNITY DEVELOPMENT
FINANCIAL INSTITUTION COMPANIES**
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December 31, 2014 and 2013

10. Other notes payable (continued)

Loan	Year-end interest rate	Payment terms	2014	2013
<u>Charles Schwab Bank</u>				
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, 2015, 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
On December 31, 2014, CDFI entered into a loan and security agreement with Charles Schwab Bank for a revolving credit facility not to exceed \$15,000,000. The proceeds are to be used to fund construction loans in Western States. Interest accrues at the greater of the 3-month LIBOR plus 2.75% or 3.50%. Principal is due and payable on the earlier of December 31, 2015, or the date of any acceleration of the loan as stated in the loan agreement.	3.50%	Interest only, quarterly	\$ -	\$ -
<u>Bank of America, N.A.</u>				
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.	2.72%	Interest, monthly in arrears Principal, quarterly per amortization schedule	\$ 9,121,000	\$ 9,490,000
<u>Calvert Social Investment Foundation, Inc.</u>				
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 principal is due and payable on January 5, 2017.	4.50%	Interest only, semi-annually in arrears	\$ 1,500,000	\$ 1,500,000

**CLEARINGHOUSE COMMUNITY DEVELOPMENT
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10. Other notes payable (continued)

Loan	Year-end interest rate	Payment terms	2014	2013
<u>Communities at Work, L.P.</u> 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	\$ 13,000,000	\$ 13,000,000
<u>Community Development Financial Institution Fund</u> 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
<u>State Bank of India (California)</u> 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 loans mature.	4.00%	Interest, monthly Principal, \$40,000 quarterly	\$ 4,680,000	\$ 4,840,000
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 14, 2018. All unpaid principal and interest are due when the loans mature.	4.00%	Interest, monthly Principal, \$60,000 quarterly	\$ 6,640,000	\$ 6,880,000
<u>U.S. Bank National Association</u> 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
			<u>\$ 56,559,000</u>	<u>\$ 57,328,000</u>

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11. 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 Company must maintain a collateralization ratio of at least 110%. At the time of each Advance, the Company remits cash equal to 3% of the Advance to the Bank of New York Mellon as additional security for 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 until December 2016, at which time each individual Advance commences full amortization based on its maturity date. Payments to the Bondholder are semi-annual in arrears.

\$50 million must be drawn or committed by the first anniversary of the BGP, 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’s Advances under the BGP are:

<u>Date of Advance</u>	<u>Amount</u>	<u>Rate</u>	<u>Maturity Date</u>
July 30, 2014	\$ 2,000,000	3.032%	December 15, 2034
July 30, 2014	2,000,000	3.132%	December 15, 2037
July 30, 2014	3,000,000	3.191%	December 15, 2039
August 28, 2014	2,500,000	3.132%	December 16, 2041
September 12, 2014	4,500,000	3.347%	December 15, 2043
October 27, 2014	2,000,000	3.076%	December 15, 2042
October 27, 2014	<u>2,000,000</u>	3.102%	December 15, 2043
Outstanding balance	<u>\$ 18,000,000</u>		

At December 31, 2014, the Collateralization ratio on the advances was 119%. Collateralization in excess of 110% can be applied to future advances or returned to the Company.

12. 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, 2014 and 2013 of \$35,000,000 and \$30,000,000, 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, 2014 and 2013, CDFI had made stock investments in FHLB-SF as described in note 6.

As of December 31, 2014 and 2013, CDFI had entered into various fixed rate advances with FHLB-SF in the total amount of \$16,000,000 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.

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12. Federal Home Loan Bank of San Francisco (continued)

As of December 31, 2014 and 2013, CDFI had overnight advances outstanding in the amount of \$19,000,000 and \$9,000,000 at interest rates of 0.27% and 0.06%, respectively. 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, 2014 and 2013, total FHLBSF balances outstanding totaled \$35,000,000 and \$25,000,000, respectively.

13. 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, 2014 and 2013	10,000,000	1,000,000	1,000,000
Issued and outstanding, 2014	106,000	1,000	36,000
Issued and outstanding, 2013	79,000	1,000	36,000

There are no ownership restrictions on the Class A stock. The Class B stockholder is limited to AHC. There are no ownership restrictions on the Class C stock.

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, 2014 and 2013, CDFI issued 26,550 and 6,500 Class A shares at \$100 per share for total proceeds of \$2,655,000 and \$650,000, respectively.

For the years ended December 31, 2014 and 2013, CDFI declared dividends of \$1 per share on 106,000 and 79,000 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, 2014 and 2013, stock and cash dividends were made as follows:

	2014		2013	
	Shares	Amount	Shares	Amount
Stock dividends (conversion of paid dividends at \$1 per share into stock issued at \$100 per share)	551	\$ 55,000	307	\$ 31,000
Cash dividends (\$1 per share)		51,000		48,000
Total		\$ 106,000		\$ 79,000

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14. Fair value measurements

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 data 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).

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.

The carrying values of cash and cash equivalents, certificates of deposit, restricted cash, lines of credit and deposits are reasonable estimates of their fair values due to their short-term nature.

Loans receivable, net

Loans receivable include collateral-dependent impaired loans which includes certain impaired held-for-investment loans for which an allowance for loan losses has been calculated based upon the fair value of the loans. The fair value of collateral for those impaired loans determined to be collateral dependent was determined based on appraisals obtained from real estate brokers or other third-party consultants. In some cases, adjustments were made to the appraised values due to various factors, including age of the appraisal, limited or outdated comparables included in the appraisal, and known changes in the market and in the collateral. As of December 31, 2014 and 2013, loans receivable held by the Company had a carrying value of \$137,344,000 and \$122,540,000, respectively. The carrying value approximates fair value.

Debt

The carrying value of debt as of December 31, 2014 and 2013 was \$155,586,000 and \$130,355,000, respectively, and its fair value approximates \$155,193,000 and \$130,633,000, respectively. However, the Company is liable for the amount of debt reflected in the financial statements.

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15. Income taxes

The provision for income taxes for the years ended December 31, 2014 and 2013 was as follows:

	<u>2014</u>	<u>2013</u>
Current income taxes	\$ 1,723,000	\$ 2,096,000
Deferred income taxes	(588,000)	(296,000)
Total provision for income taxes	<u>\$ 1,135,000</u>	<u>\$ 1,800,000</u>

The tax effects of temporary differences that give rise to significant portions of deferred taxes at December 31, 2014 and 2013, are as follows:

	<u>2014</u>	<u>2013</u>
Deferred tax assets		
Accrued interest receivable	\$ 61,000	\$ 6,000
Accrued vacation and bonuses	521,000	(59,000)
Allowance for loan losses	2,961,000	2,597,000
CDFI grant	251,000	367,000
Deferred sponsor fee	-	29,000
Depreciation	22,000	12,000
Equity investment	568,000	969,000
Deferred state taxes	36,000	(89,000)
Net deferred tax asset	<u>\$ 4,420,000</u>	<u>\$ 3,832,000</u>

The 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, 2014 and 2013, as follows:

	<u>2014</u>	<u>2013</u>
Provision for income taxes	\$ 1,399,000	\$ 1,516,000
State taxes, net of federal benefit	(264,000)	284,000
Total provision for income taxes	<u>\$ 1,135,000</u>	<u>\$ 1,800,000</u>

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

**CLEARINGHOUSE COMMUNITY DEVELOPMENT
FINANCIAL INSTITUTION COMPANIES**
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16. 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:

	2014	2013
Balance at December 31		
Cash and cash equivalents	\$ 35,009,000	\$ 20,645,000
Certificates of deposit	-	1,019,000
Loans receivable	-	126,000
Non interest-bearing deposits	950,000	350,000
Notes payable	40,927,000	40,927,000
Lines of credit	6,500,000	8,100,000
Restricted cash	845,000	773,000
Transactions for the years ended December 31		
Interest earned on cash balances and certificates of deposit	\$ 72,000	\$ 124,000
Interest paid on notes payable	1,201,000	1,046,000
Rent paid	150,000	148,000
Reimbursed expenses from related parties	26,000	23,000
Income from investment in distressed single family properties	-	50,000

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, 2014 and 2013, the outstanding balance was \$277,000 and \$1,564,000, 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, 2014 and 2013, the outstanding balance was \$139,000 and \$254,000, respectively.

During 2013, the Company provided financial support to the CRA Investment Fund II in the amount of \$159,000. The Company does not intend for this amount to be repaid.

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16. Related-party transactions (continued)

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, 2014 and 2013, the NMTC CDEs were owed \$2,000 and \$147,000, respectively.

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, 2014 and 2013, the CRA Investment Funds were owed \$2,000.

Management fee

Pursuant to the operating agreement, the Company is entitled to an annual management fee for services performed in connection with managing the NMTC CDEs and CRA Investment Funds. As of December 31, 2014 and 2013, the management fee earned was \$2,116,000 and \$2,632,000, respectively. As of December 31, 2014 and 2013, the Company was owed \$0 and \$82,000, respectively.

17. Commitments

Leases

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

Years ending December 31,		
2015	\$	200,000
2016		186,000
2017		2,000
Total	\$	<u>388,000</u>

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, 2014 and 2013, lease costs relating to these leases were \$187,000 and \$169,000, respectively, which are included in rent expenses in the accompanying consolidated statements of income.

18. 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.

**CLEARINGHOUSE COMMUNITY DEVELOPMENT
FINANCIAL INSTITUTION COMPANIES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

19. 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 2014 and 2013, CDFI provided grants of \$291,000 and \$236,000, respectively.

20. Litigation

Sub 6 and Sub 7 have filed a lawsuit in the County of Los Angeles, *Clearinghouse NMTC (Sub 6), LLC and Clearinghouse NMTC (Sub 7) LLC v. 915 S. Mateo Properties, LP, Brent Held, Malibu Equity, LLC, Greg Calaya, and Seth Polen*, Case No. BC495472. The defendants cross-complained against the Companies. As of August 30, 2013, a Settlement and Release Agreement was entered into by and between the Companies, 915 S. Mateo Properties, LP, Brent Held, and Malibu Equity, LLP, resolving the claims between the parties. The complaint was dismissed with prejudice as to 915 S. Mateo Properties, LP, Brent Held, and Malibu Equity, LLC on October 21, 2013. The complaint remains pending as to defendants Seth Polen and Greg Calaya, individual guarantors of the subject loans. The Los Angeles Superior Court entered an order dismissing the complaint with prejudice on September 20, 2013. On December 14, 2014, 915 S. Mateo Properties, LP, and Malibu Equity, LLC filed a Complaint the referenced action for Breach of Contract. These plaintiffs amended their complaint first on December 24, 2014, and again on February 17, 2015. The Company will vigorously defend the claims under the cause of action that the plaintiff breached the settlement agreement.

SUPPLEMENTARY INFORMATION

CLEARINGHOUSE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION COMPANIES

SUPPLEMENTARY INFORMATION

Consolidating Balance Sheets

December 31, 2014

	Clearinghouse CDFI	CDFI Service Corporation	Clearinghouse NMTC, LLC	Intercompany Elimination	Clearinghouse CDFI Consolidated
ASSETS					
Cash and cash equivalents	\$ 39,228,000	\$ 219,000	\$ 1,000	\$ -	\$ 39,448,000
Loans receivable, net	137,344,000	-	-	-	137,344,000
Accrued interest receivable	716,000	-	-	-	716,000
Other receivables and prepaid expenses	2,370,000	-	-	-	2,370,000
Due from related parties	1,402,000	-	78,000	(1,064,000)	416,000
Deferred taxes	4,420,000	-	-	-	4,420,000
Fixed assets, net	207,000	-	-	-	207,000
Investment in distressed single family properties	399,000	-	-	-	399,000
Investment in other companies	4,228,000	-	248,000	(76,000)	4,400,000
Deferred financing costs	701,000	-	-	-	701,000
Restricted cash	1,437,000	-	-	-	1,437,000
TOTAL ASSETS	\$ 192,452,000	\$ 219,000	\$ 327,000	\$ (1,140,000)	\$ 191,858,000
LIABILITIES AND STOCKHOLDERS' EQUITY					
LIABILITIES					
Accounts payable and accrued expenses	\$ 2,394,000	\$ -	\$ -	\$ (6,000)	\$ 2,388,000
Accrued interest payable	366,000	-	-	-	366,000
Lines of credit	6,500,000	-	-	-	6,500,000
Interest-bearing deposits	550,000	-	-	-	550,000
Non-interest-bearing deposits	1,050,000	-	-	-	1,050,000
Other notes payable	56,559,000	-	-	-	56,559,000
Federal Home Loan Bank of San Francisco advances	35,000,000	-	-	-	35,000,000
Notes payable, Class A stockholders	37,927,000	-	-	-	37,927,000
CDFI Fund Bond Guarantee Program	18,000,000	-	-	-	18,000,000
Due to related parties	(86,000)	611,000	592,000	(1,113,000)	4,000
TOTAL LIABILITIES	158,260,000	611,000	592,000	(1,119,000)	158,344,000
STOCKHOLDERS' EQUITY					
Common stock, no par value					
Class A	10,544,000	-	-	-	10,544,000
Class C	3,580,000	-	-	-	3,580,000
CDFI Service Corporation	-	20,000	-	(20,000)	-
Retained earnings	20,068,000	(412,000)	(265,000)	(1,000)	19,390,000
TOTAL STOCKHOLDERS' EQUITY	34,192,000	(392,000)	(265,000)	(21,000)	33,514,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 192,452,000	\$ 219,000	\$ 327,000	\$ (1,140,000)	\$ 191,858,000

see independent auditors' report

CLEARINGHOUSE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION COMPANIES

SUPPLEMENTARY INFORMATION

Consolidated Statements of Income

For the year ended December 31, 2014

	Clearinghouse CDFI	CDFI Service Corporation	Clearinghouse NMTC, LLC	Intercompany Elimination	Clearinghouse CDFI Consolidated
INTEREST INCOME					
Interest on loans receivable	\$ 9,447,000	\$ -	\$ -	\$ -	\$ 9,447,000
Interest-bearing deposits	90,000	-	-	-	90,000
Total interest income	9,537,000	-	-	-	9,537,000
INTEREST EXPENSE	(3,711,000)	-	-	-	(3,711,000)
Net interest income	5,826,000	-	-	-	5,826,000
PROVISION FOR LOAN LOSSES					
Provision for loan losses	(1,056,000)	-	-	-	(1,056,000)
Net interest income after provision for loan losses	4,770,000	-	-	-	4,770,000
NON INTEREST INCOME					
Other loan fees	1,156,000	-	-	-	1,156,000
Grant income	1,347,000	-	-	-	1,347,000
Investment income	153,000	10,000	-	-	163,000
Income from investment in distressed single family properties	118,000	-	-	-	118,000
Management fees	2,116,000	-	-	-	2,116,000
Sponsor fees	193,000	-	-	-	193,000
Flow-through income from investments in other companies	32,000	-	-	-	32,000
Total non interest income	5,115,000	10,000	-	-	5,125,000
NON INTEREST EXPENSES					
Compensation and related benefits	3,608,000	-	-	-	3,608,000
Insurance	319,000	-	-	-	319,000
Professional fees	298,000	-	-	-	298,000
Depreciation	119,000	-	-	-	119,000
Rent	187,000	-	-	-	187,000
Charitable contributions	132,000	-	-	-	132,000
General and administrative	776,000	1,000	-	-	777,000
Total non interest expenses	5,439,000	1,000	-	-	5,440,000
Income before provision for income taxes	4,446,000	9,000	-	-	4,455,000
Provision for income taxes	(1,134,000)	-	(1,000)	-	(1,135,000)
Net income (loss)	\$ 3,312,000	\$ 9,000	\$ (1,000)	\$ -	\$ 3,320,000

see independent auditors' report