Neighborhood Lending Services, Inc.

Financial Report
March 31, 2021

Contents

Plante & Moran, PLLC
10 South Riverside Plaza
9th floor
Chicago, IL 60606
Tel: 312.207.1040
Fax: 312.207.1066
plantemoran.com

Independent Auditor's Report

To the Board of Directors
Neighborhood Lending Services, Inc.

We have audited the accompanying financial statements of Neighborhood Lending Services, Inc. (the "Organization"), which comprise the statement of financial position as of March 31, 2021 and 2020 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Neighborhood Lending Services, Inc. as of March 31, 2021 and 2020 and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Neighborhood Lending Services, Inc.

Emphasis of Matter

As more completely disclosed in Note 2, as part of its Neighborhood Lending Program contract with the City of Chicago, Illinois, the Organization makes loans to individuals that bear no interest and do not become due and payable until the occurrence of a future event, as defined in the contract. These deferred loans are recorded net of allowance for loan losses and discounted to their present value. The Organization believes its estimates of the allowance for loan losses for these loans is adequate; however, the Organization has limited historical experience to support this estimate, given that few loans have entered repayment status. Accordingly, there is a reasonable possibility of a change in these estimates in the near term, as the Organization continues to accumulate and analyze historical data.

Our opinion is not modified with respect to this matter.

Plante & Moran, PLLC

September 24, 2021

Statement of Financial Position

March 31, 2021 and 2020

	2021	2020
Assets		
Cash and cash equivalents	$ 6,935,730	$ 4,953,178
Nonoperating cash	5,000,000	5,000,000
Restricted cash	611,365	604,359
Contracts receivable	561,202	557,761
Loans held for sale	7,348,637	10,366,041
Loans receivable:		
Loans held for investment - Net	2,492,549	1,490,909
Deferred loans - Net	3,287,634	3,327,634
Servicing advances	620,379	467,714
Advances to affiliates	3,022,110	4,086,844
Prepaid expenses and other assets	36,767	69,854
Total assets	**$ 29,916,373**	**$ 30,924,294**
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 1,600,962	$ 1,829,129
Loss reserve liability	611,365	604,359
Funds held for agency transactions and deferred revenue	5,978,662	6,596,691
Debt - Net	9,227,018	9,862,379
Total liabilities	17,418,007	18,892,558
Net Assets		
Without donor restrictions	8,538,805	7,213,372
With donor restrictions	3,959,561	4,818,364
Total net assets	12,498,366	12,031,736
Total liabilities and net assets	**$ 29,916,373**	**$ 30,924,294**

See notes to financial statements.

Statement of Activities and Changes in Net Assets

Years Ended March 31, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support						
Contract revenue - Net	$ 2,811,537	$ -	$ 2,811,537	$ 2,434,166	$ -	$ 2,434,166
Servicing and lending-related income	1,199,263	-	1,199,263	1,913,909	-	1,913,909
Miscellaneous	275,411	-	275,411	79,697	-	79,697
Contributions and private grants	115,000	240,000	355,000	60,000	290,000	350,000
Satisfaction of donor restrictions	1,098,803	(1,098,803)	-	1,100,635	(1,100,635)	-
Gain on extinguishment of debt	663,575	-	663,575	-	-	-
Total revenue, gains, and other support	6,163,589	(858,803)	5,304,786	5,588,407	(810,635)	4,777,772
Expenses						
Program services - Community lending and mortgage assistance	3,373,393	-	3,373,393	3,485,196	-	3,485,196
Support services - Management and general	1,464,763	-	1,464,763	1,640,086	-	1,640,086
Total expenses	4,838,156	-	4,838,156	5,125,282	-	5,125,282
Change in Net Assets	1,325,433	(858,803)	466,630	463,125	(810,635)	(347,510)
Net Assets - Beginning of year	7,213,372	4,818,364	12,031,736	6,750,247	5,628,999	12,379,246
Net Assets - End of year	**$ 8,538,805**	**$ 3,959,561**	**$ 12,498,366**	**$ 7,213,372**	**$ 4,818,364**	**$ 12,031,736**

See notes to financial statements.

Statement of Functional Expenses

Year Ended March 31, 2021

	Program Services - Community Lending and Mortgage Assistance	Support Services - Management and General	Total
Compensation and benefits	$ 1,437,063	$ 26,072	$ 1,463,135
Occupancy	163,692	2,970	166,662
Professional fees	-	45,720	45,720
Interest	225,195	-	225,195
Management and general expense	-	1,352,700	1,352,700
Marketing	-	8,394	8,394
Loan origination and servicing	381,837	-	381,837
Mortgage assistance	1,052,112	-	1,052,112
Other	113,494	28,907	142,401
Total functional expenses	**$ 3,373,393**	**$ 1,464,763**	**$ 4,838,156**

See notes to financial statements.

Statement of Functional Expenses

Year Ended March 31, 2020

	Program Services - Community Lending	Support Services - Management and General	Total
Compensation and benefits	$ 1,618,810	$ 27,300	$ 1,646,110
Occupancy	145,345	2,363	147,708
Professional fees	-	94,751	94,751
Interest	264,913	-	264,913
Bad debt expense	842,550	-	842,550
Management and general expense	-	1,503,300	1,503,300
Marketing	-	1,380	1,380
Loan origination and servicing	472,737	-	472,737
Other	140,841	10,992	151,833
Total functional expenses	**$ 3,485,196**	**$ 1,640,086**	**$ 5,125,282**

Statement of Cash Flows

Years Ended March 31, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Increase (decrease) in net assets	$ 466,630	$ (347,510)
Adjustments to reconcile increase (decrease) in net assets to net cash, cash equivalents, nonoperating cash, and restricted cash from operating activities:		
Bad debt expense	-	842,550
Loss reserve expense	7,006	17,766
Imputed interest expense	9,522	27,378
Origination and funding of loans held for sale	(2,733,257)	(13,761,707)
Principal collections and sales proceeds received on loans held for sale	4,524,387	14,029,459
Gain of forgiveness of debt	(663,575)	-
Changes in operating assets and liabilities that (used) provided cash, cash equivalents, nonoperating cash, and restricted cash:		
Contracts receivable	(3,441)	496,575
Servicing advances	(152,665)	70,998
Advances to affiliates	1,064,734	(725,620)
Prepaid expenses and other assets	33,087	(62,694)
Accounts payable and accrued expenses	(228,167)	511,010
Deferred revenue	(618,029)	5,242,033
Loan loss reserve	-	(128,022)
Net cash, cash equivalents, nonoperating cash, and restricted cash provided by operating activities	1,706,232	6,212,216
Cash Flows Provided by Investing Activities - Collections received on loans held for investment and deferred loans	264,634	88,756
Cash Flows from Financing Activities		
Borrowings under line of credit	-	3,000,000
Repayments of line of credit	-	(2,000,000)
Borrowings (repayments) of notes payable	-	(261,683)
Return of principal payment	18,692	-
Net cash, cash equivalents, nonoperating cash, and restricted cash provided by financing activities	18,692	738,317
Net Increase in Cash, Cash Equivalents, Nonoperating Cash, and Restricted Cash	1,989,558	7,039,289
Cash, Cash Equivalents, Nonoperating Cash, and Restricted Cash - Beginning of year	10,557,537	3,518,248
Cash, Cash Equivalents, Nonoperating Cash, and Restricted Cash - End of year	**$ 12,547,095**	**$ 10,557,537**
Supplemental Cash Flow Information - Cash paid for interest	$ 240,139	$ 244,935
Significant Noncash Transactions - Loans held for sale reclassified as loans receivable	$ 1,226,274	$ 827,903

See notes to financial statements.

Note 1 - Nature of Operations

Neighborhood Lending Services, Inc. (NLS or the "Organization") was organized in 1987 under the Illinois General Not-for-Profit Corporation Act and is tax exempt under Section 501(c)(3). The Organization was established (i) to make loans to low- or moderate-income individuals and families who reside primarily in focus Chicago neighborhoods for acquisition of and improvements to their residences; (ii) to stem or otherwise prevent the deterioration of housing stock in targeted inner-city neighborhoods; and (iii) to provide improved housing for those persons and families.

NLS is a State of Illinois residential mortgage licensee and a Community Development Financial Institution (CDFI), the latter certified by the United States Department of the Treasury on June 30, 1999. NLS operates a range of loan programs using both public and private resources.

Neighborhood Housing Services of Chicago, Inc. (NHS) is the sole member of NLS, and, thus, the NLS board of directors is accountable to the NHS board of directors.

Note 2 - Significant Accounting Policies

Cash and Cash Equivalents and Nonoperating Cash

The Organization considers all investments with an original maturity of three months or less when purchased to be cash equivalents. The Organization maintains its cash in bank deposit accounts that at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash.

Cash that has been received for future contractual services is classified as nonoperating cash on the accompanying statement of financial position with a corresponding liability included in deferred revenue. Revenue related to nonoperating cash and deferred revenue liabilities will be recognized in future fiscal years as the contractual services are provided. As of March 31, 2021 and 2020, the Organization has $5,000,000 of nonoperating cash that is related to contractual services to be completed in future years.

Restricted Cash and Loss Reserve Liability

Under certain loan sale and servicing agreements, the Organization is required to establish and maintain separate restricted cash accounts to reserve for future losses incurred on loans that have been sold to investors. Since these loans are not held by NLS, a corresponding loss reserve liability of the same amount is established. The loss reserve liability is increased by charges to loss reserve expense and decreased at the time the investors incur a loan loss that is required to be recovered through funding from the respective restricted cash accounts.

The following table provides a reconciliation of cash, cash equivalents, nonoperating cash, and restricted cash reported on the statement of financial position to the amounts reported in the statement of cash flows:

	2021	2020
Cash and cash equivalents	$ 6,935,730	$ 4,953,178
Nonoperating cash	5,000,000	5,000,000
Restricted cash	611,365	604,359
Total cash, cash equivalents, nonoperating cash, and restricted cash presented in the statement of cash flows	$ 12,547,095	$ 10,557,537

Classification of Net Assets

Net assets of the Organization are classified based on donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not restricted by donors or for which the donor-imposed restrictions have expired or been fulfilled.

Note 2 - Significant Accounting Policies (Continued)

Net assets with donor restrictions: Contributed net assets received with donor-imposed restrictions that expire with the passage of time or that can be removed by meeting certain requirements or donor restrictions that are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, donor-restricted net assets are released to net assets without donor restrictions.

Revenue increases net assets without donor restrictions unless the use of the related assets is limited by donor-imposed restrictions. When a donor-imposed restriction expires (typically when the purpose of the restriction is accomplished), donor-restricted net assets are reclassified to net assets without donor restrictions and are reported in the statement of activities and changes in net assets as net assets released from restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

Contracts Receivable

Contracts receivable represent revenue from providing services under government contracts designated for use in specific activities. Contracts receivable are carried at the original granted amount. Receivables are written off when deemed uncollectible. The Organization believes that an allowance for doubtful accounts is not necessary as of March 31, 2021 and 2020.

Loans Held for Sale

Loans held for sale represent individual mortgage notes originated and warehoused by NLS that the Organization plans to offer for sale. These mortgage notes are expected to be sold within one to two years after origination and are carried at the lower of cost or fair value. Management estimates fair value based on the agreed-upon sale price established in loan sale contracts with investors.

Loans are evidenced by promissory notes, which are collateralized generally by a first and/or second mortgage on the underlying residence. Loans are originated under a range of programs using both public and private resources. All of the Organization’s programs are targeted to low-/moderate-income neighborhoods in Chicago.

Loans held for sale are reclassified as loans held for investment, which are discussed below, at the time management determines a loan is not eligible or not likely to become eligible for sale, which is typically when the loan becomes 30 days contractually past due. Loans that have been reclassified are evaluated for impairment in accordance with the allowance for loan loss policy related to loans held for investment, which is also discussed below.

Loans Held for Investment and Allowance for Loan Losses

Loans held for investment primarily consist of first and subordinate mortgages deemed ineligible for sale. These loans bear interest at annual rates ranging from 0.0 to 5.4 percent, with original terms ranging from 10 to 30 years and maturity dates ranging from April 2023 through December 2049. From time to time, the Organization will assist qualified mortgage note holders through a loan modification process. These loan modifications are not material to the financial statements as of and for the years ended March 31, 2021 and 2020 but have the potential to be material in future periods.

An allowance for loan losses has been established to provide for loans that may not be repaid in their entirety. The allowance is increased by provisions for loan losses charged to expense and decreased by charge-offs, net of recoveries. Although a loan is charged off by management when deemed uncollectible, collection efforts continue, and future recoveries may occur.

Note 2 - Significant Accounting Policies (Continued)

The allowance is maintained by management at a level considered adequate to cover incurred losses and is estimated based on past loss experience; general economic conditions; information about specific borrower situations, including personal financial position and collateral values; and other factors and estimates that are subject to change over time. Estimating the risk and amount of loss is necessarily subjective, and ultimate losses may vary from current estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

The allowance consists of both specific and general reserve components. The specific component relates to loans that are classified as nonperforming. The general component covers nonclassified (performing) loans and is based on historical loss experience adjusted for qualitative factors.

Loans receivable are considered for impairment once the borrower is 90 days past due or if management becomes aware of other trends or information indicating deterioration of the borrower’s ability to repay. If management determines it is probable that less than all amounts due will be collected, an allowance is recognized based on the Organization's secured position. When loans are considered for impairment, if the Organization has a first or senior position, an allowance is created for the loans to obtain a net value equal to the loan’s collateral less estimated selling costs. If the Organization has a subordinated position, the loan is fully reserved.

Deferred Loans and Allowance for Loan Losses

As part of its Neighborhood Lending Program (NLP) contract with the City of Chicago, Illinois to promote community development by preserving and expanding affordable home ownership, NLS makes loans to individuals using capital funds from the U.S. Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG), which bear no interest and have no required payments at the inception of the loan. These deferred loans are subordinate loans used to complement private lending products. These dollars can be used as interim funding for income eligible transactions and permanent financing/subsidies for eligible families. Deferred loans become due and payable only upon the occurrence of a future event, such as a refinance or sale or transfer of ownership interest in the property. The CDBG funds are restricted in purpose and were recorded as restricted revenue. Under the NLP contract, borrower repayments can only be used to originate similar loans. As described in the paragraph below, all borrower repayments that have been received and have not been reused to originate additional deferred loans are included in restricted net assets. No deferred loans were originated in fiscal years 2021 or 2020.

Deferred loans are recorded net of an allowance for loan losses, which is estimated at approximately 35 percent of the outstanding loan balance at each year end. Management tracks the performance of the mortgage notes associated with these deferred loans, and, upon discovery of a mortgage note default, the deferred loan is written off in the period in which the default occurred. Management believes its allowance estimate for these loans is adequate; however, the Organization does not have sufficient historical experience to support this estimate, given that few loans have entered repayment status. Accordingly, there is a reasonable possibility of a change in this estimate in the near term, as NLS continues to accumulate and analyze historical data. The activity in the allowance for loan losses related to deferred loans is released from donor-restricted net assets each year. As of March 31, 2021 and 2020, donor-restricted net assets related to deferred loans include the outstanding principal balance, net of the allowance for loan losses, as well as cumulative borrower repayments that have not yet been reused to originate additional deferred loans, as discussed in the paragraph above.

Servicing Advances

The Organization provides advances of taxes and insurance, as well as certain corporate, foreclosure, and liquidation costs on serviced loans, which are to be repaid by borrowers or investors.

Note 2 - Significant Accounting Policies (Continued)

NLS also expenses certain costs and fees incurred to service loans that have been sold to investors. Some amount of these costs may be recoverable in the future, when the loans are ultimately repaid, liquidated, or are transferred to third parties; however, no receivables are recorded until the amounts can be quantified and collection is probable.

Funds Held for Agency Transactions and Deferred Revenue

Funds held for agency transactions consist of cash received related to various government programs, which the Organization will use to administer down payment assistance and lending programs.

Deferred revenue consists of cash received for future contractual services, which will be recognized as revenue as the related services are provided.

Contracts Revenue Recognition

The Organization contracts to provide services to certain governmental and private agencies. Certain contracts are subject to audit by the counterparty and may be adjusted based on negotiation. Contracts revenue is considered a nonexchange transaction and is recognized as the conditions of the contracts have been met.

Contributions

Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue on the date the promise is received and is measured at fair value. Contributions without donor-imposed restrictions are reported as net assets with donor restrictions. Conditional promises are recorded when donor stipulations are substantially met. Contributions are reported as donor-restricted support if they are received with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or a purpose restriction is accomplished, donor-restricted net assets are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. This includes donor-restricted contributions whose restrictions are met within the year in which the contributions were received.

Servicing and Lending-related Income

Interest income is recognized when collected, which is not materially different from the level yield method.

Gains on sales of loans are recognized at the time of sale and are based on the difference between net sales proceeds and the carrying amounts of the loans sold. The sale price is established in loan sale contracts with investors and is typically a percentage of the outstanding principal balance of the loans sold.

The Organization retains servicing rights on the majority of loans that have been sold to investors. Servicing fee income represents monthly fees received from investors to service these loans and typically ranges from 0.25 to 0.30 percent annually of the outstanding principal balance of the serviced loans. NLS outsources its servicing responsibilities to a third-party subservicer.

Functional Allocation of Expenses

Costs are charged to program services and support services on an actual basis when available. In addition, costs may be allocated between the program and support functions based on various allocation methods and estimates. Allocations for personnel expenses are based on estimates of time and effort of personnel involved in each function.

Income Taxes

The Organization is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3).

Note 2 - Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus, COVID-19, a pandemic. First identified in late 2019, the outbreak has impacted millions of individuals worldwide. In response, many countries have implemented measures to combat the outbreak that have impacted global business operations. Certain impacts from the COVID-19 outbreak may continue for an extended period of time and may have an adverse effect on economic and market conditions. The ultimate economic outcome from the pandemic and the long-term effects on economies, markets, industries, and individual organizations are not known. The extent of the impact on the financial performance and operations of NLS will depend on future developments, which are highly uncertain and cannot be predicted.

Upcoming Accounting Pronouncement

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The ASU includes changes to the accounting and measurement of financial assets, including the Organization's loans receivable, by requiring the Organization to recognize an allowance for all expected losses over the life of the financial asset at origination. This is different from the current practice where an allowance is not recognized until the losses are considered probable. The new guidance will be effective for the Organization's year ending March 31, 2024. Upon adoption, the ASU will be applied using a modified retrospective transition method to the beginning of the earliest period presented. Early adoption for all institutions is permitted for fiscal years beginning after December 15, 2018. The Organization has not yet determined the effect that the adoption of the new credit losses standard will have on its financial statements.

Note 3 - Loan Sales and Servicing

NLS originates first and subordinate residential mortgages and sells loans to investors through various channels, as described below. Under the terms of loan sale agreements, the Organization surrenders control over the loans upon transfer to investors, as the loan sales are without recourse and there are no repurchase obligations related to loan performance. Accordingly, loans transferred to investors have been accounted for as sales in the accompanying financial statements in accordance with accounting guidance.

Direct Sales - NLS sells loans directly to financial institutions, such as banks and credit unions, which are negotiated as either single bulk-sale transactions or periodic flow-sale transactions. In direct sale transactions, NLS typically retains servicing rights of the loans sold; however, occasionally, the servicing rights are released to the buyer in one-time bulk sale transactions. On July 24, 2020, NLS became an approved seller/servicer with Freddie Mac.

PSSAs - NLS also packages pools of loans into mortgage loan ownership certificates and sells the certificates to investor groups in accordance with participation, sale, and servicing agreements (PSSAs). Each PSSA has a three-year purchase period wherein investors commit to purchase certificates up to a specific amount. The PSSAs are agreements between NLS, as the seller and loan servicer, and investors, which are financial institutions.

Note 3 - Loan Sales and Servicing (Continued)

During 2021 and 2020, loans were sold to three parties, including the 2017 PSSA and two direct buyers. The Organization received cash proceeds on loan sales of $3,896,508 and $13,404,037 and recognized gains on sale totaling $83,462 and $225,921 during 2021 and 2020, respectively, which are included in servicing and lending-related income in the accompanying statement of activities and changes in net assets.

NLS outsources its servicing responsibilities to a third-party subservicer for all loans serviced on behalf of investors. The following table presents information regarding serviced loans:

Investors	Effective Date	Original Commitment to Purchase	Outstanding Balance at March 31, 2021	Outstanding Balance at March 31, 2020
2009 PSSA	4/24/2009	$ 110,250,000	$ 21,985,647	$ 25,016,708
2009-X PSSA	7/13/2012	30,000,000	17,115,455	18,931,923
2014 PSSA	3/1/2014	40,000,000	28,269,092	32,868,826
2017 PSSA	6/28/2017	39,000,000	30,056,413	31,935,741
Direct sale - Credit union	11/21/2018	15,000,000	4,400,778	3,373,319

As of March 31, 2020, the purchase periods have expired, and no purchase commitments remain for the 2009, 2009-X, and 2014 PSSA series investors. During fiscal year 2021, the purchase period for the 2017 PSSA series expired, which also terminated the purchase commitment for the 2017 PSSA investors.

The initial purchase period for the credit union investor expired on November 21, 2020, with automatic one-year extensions available until the purchase commitment is fulfilled. As of March 31, 2021 and 2020, the remaining purchase commitment available from the credit union investor was approximately $8.8 million and $11.6 million, respectively.

In 2017, the majority of the 2002 and 2006 PSSA loan pools were sold by the investors to a third-party buyer, which also transferred the servicing of these loans to a different servicer during 2018. Certain loans were not sold, as they did not meet the buyer's eligibility criteria (the "unsold loans"). NLS continues to service the unsold loans on behalf of the investors, which includes incurring foreclosure, maintenance, and other costs to see the unsold loans through to final disposition, using funds retained from reserve accounts that were established under the 2002 and 2006 PSSAs (the "reserve funds"). During 2021 and 2020, NLS used approximately $80,000 of reserve funds each year to cover or offset costs associated with servicing the unsold loans. As of March 31, 2021 and 2020, the remaining reserve funds balance was approximately $516,000 and $596,000, respectively, which is reported in accounts payable and accrued expenses on the accompanying statement of financial position. Management expects that the majority of the remaining reserve funds balance will be used to cover future costs incurred to service the unsold loans through final disposition.

Note 4 - Loans Held for Sale

Loans held for sale are carried at the lower of cost or fair value. As of March 31, 2021 and 2020, loans held for sale are carried at cost, with no valuation allowance, as the loans are typically sold at or above par pursuant to loan sale contracts with investors.

At March 31, 2021 and 2020, loans held for sale gross commitments of $7,348,637 and $11,016,093, respectively, are reported net of unfunded construction holdbacks of $0 and $650,052, respectively. The unfunded construction holdbacks are advanced to borrowers as rehabilitation progresses on the respective secured properties.

Note 5 - Loans Receivable - Net

Loans receivable consist of the following as of March 31:

	2021			2020		
	Loans Held for Investment	Deferred Loans	Total Loans Receivable	Loans Held for Investment	Deferred Loans	Total Loans Receivable
Outstanding principal balance	$ 3,274,710	$ 5,117,866	$ 8,392,576	$ 2,160,909	$ 5,208,720	$ 7,369,629
Less allowance for loan losses	(782,161)	(1,830,232)	(2,612,393)	(670,000)	(1,881,086)	(2,551,086)
Loans receivable - Net	$ 2,492,549	$ 3,287,634	$ 5,780,183	$ 1,490,909	$ 3,327,634	$ 4,818,543

Activity in the allowance for loan losses is summarized as follows for the years ended March 31:

	2021			2020		
	Loans Held for Investment	Deferred Loans	Total	Loans Held for Investment	Deferred Loans	Total
Beginning balance	$ 670,000	$ 1,881,086	$ 2,551,086	$ 550,000	$ 1,835,592	$ 2,385,592
Charge-offs	-	(50,854)	(50,854)	-	(9,328)	(9,328)
Recoveries	112,161	-	112,161	-	54,822	54,822
Provision	-	-	-	120,000	-	120,000
Ending balance	$ 782,161	$ 1,830,232	$ 2,612,393	$ 670,000	$ 1,881,086	$ 2,551,086
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 324,000	$ -	$ 324,000	$ 400,000	$ -	$ 400,000
Collectively evaluated for impairment	458,161	1,830,232	2,288,393	270,000	1,881,086	2,151,086
Ending allowance balance	$ 782,161	$ 1,830,232	$ 2,612,393	$ 670,000	$ 1,881,086	$ 2,551,086
Loans:						
Individually evaluated for impairment	$ 1,387,886	$ -	$ 1,387,886	$ 1,127,560	$ -	$ 1,127,560
Collectively evaluated for impairment	1,886,824	5,117,866	7,004,690	1,033,349	5,208,720	6,242,069
Total loans	$ 3,274,710	$ 5,117,866	$ 8,392,576	$ 2,160,909	$ 5,208,720	$ 7,369,629

Credit Risk Grading

The Organization uses one credit quality indicator, days contractually past due, for its systematic methodology of evaluating its projected loan losses. Loans less than 90 days contractually past due are considered performing, whereas loans greater than 90 days contractually past due are considered nonperforming. The following table stratifies loans receivable by class, using the credit quality indicator as of March 31:

	2021			2020		
	Loans Held for Investment	Deferred Loans	Total Loans Receivable	Loans Held for Investment	Deferred Loans	Total Loans Receivable
Performing	$ 1,886,824	$ 5,117,866	$ 7,004,690	$ 1,033,349	$ 5,208,720	$ 6,242,069
Nonperforming	1,387,886	-	1,387,886	1,127,560	-	1,127,560
Total	$ 3,274,710	$ 5,117,866	$ 8,392,576	$ 2,160,909	$ 5,208,720	$ 7,369,629

Note 5 - Loans Receivable - Net (Continued)

Age Analysis of Past-due Loans

Loans held for investment are aged based on the contractual terms of the loan agreements. As discussed in Note 2, deferred loans become due and payable upon the occurrence of a future event, such as a refinance or sale or transfer of ownership interest in the property. The aging of the deferred loans in the table below is based on the days since the occurrence of such a future event. The following table presents the age analysis of the recorded investment in loans receivable as of March 31:

	2021					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 days	Total Past Due	Current	Total
Loans held for investment	$ 422,578	$ -	$ 1,387,886	$ 1,810,464	$ 1,464,246	$ 3,274,710
Deferred loans	-	-	-	-	5,117,866	5,117,866
Total	$ 422,578	$ -	$ 1,387,886	$ 1,810,464	$ 6,582,112	$ 8,392,576

	2020					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 days	Total Past Due	Current	Total
Loans held for investment	$ 301,394	$ -	$ 1,127,560	$ 1,428,954	$ 731,955	$ 2,160,909
Deferred loans	-	-	-	-	5,208,720	5,208,720
Total	$ 301,394	$ -	$ 1,127,560	$ 1,428,954	$ 5,940,675	$ 7,369,629

Impaired Loans

A loan is considered impaired when it is probable that not all principal and interest amounts will be collected according to the loan contract. Individual loans receivable are evaluated for impairment. Impaired loans are written down by the establishment of a specific allowance where necessary. Information regarding impaired loans is as follows as of March 31:

	2021				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment for the Year	Interest Income Recognized for the Year
Loans held for investment:					
With an allowance recorded	$ 936,136	$ 936,136	$ 324,000	$ 939,238	$ -
With no related allowance	451,750	451,750	-	452,802	-
Total	$ 1,387,886	$ 1,387,886	$ 324,000	$ 1,392,040	$ -

	2020				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment for the Year	Interest Income Recognized for the Year
Loans held for investment:					
With an allowance recorded	$ 1,127,560	$ 1,127,560	$ 400,000	$ 1,129,471	$ -
With no related allowance	-	-	-	-	-
Total	$ 1,127,560	$ 1,127,560	$ 400,000	$ 1,129,471	$ -

Note 5 - Loans Receivable - Net (Continued)

COVID-19 Loan Forbearance

Beginning in April 2020, NLS granted loan forbearance plans to eligible borrowers in response to COVID-19, which allow for the deferral of full or partial loan payments for up to 18 months. No interest or fees accrue on the outstanding loan balances during the forbearance periods. Any deferred payments are either reamortized over the remaining loan term or due as a final balloon payment at maturity with no forgiveness of any principal. As of March 31, 2021, the total outstanding principal balance of the 14 loans that are under COVID-19 forbearance plans is approximately $1.3 million. The deferral periods on these loans expire between June and November 2021, at which time borrowers will be required to resume regular payments under their mortgage agreements. A modification of a loan is considered a troubled debt restructuring (TDR) when a borrower is experiencing financial difficulty and the modification constitutes a concession. None of the COVID-19 forbearance loans were considered TDRs because they were modified in accordance with the provisions of the CARES Act.

All significant loans that are under COVID-19 forbearance plans as of March 31, 2021 have been evaluated for impairment in accordance with the Organization's methodology described in the *Loans Held for Investment and Allowance for Loan Losses* paragraphs in Note 2. Management continues to closely monitor these loans and the overall economic situation as a result of the continued uncertainty surrounding regulatory and consumer responses to the pandemic.

Note 6 - Debt

Debt consists of the following as of March 31, 2021 and 2020:

	2021	2020
Line of credit with NeighborWorks Capital Corporation (NWC) with maximum available borrowings of $5,000,000, which are limited to the borrowing base of 75 percent of the eligible loans held for sale, as defined by the agreement. Outstanding borrowings bear interest at an annual rate of 5.75 percent, payable monthly. The agreement matures on September 1, 2022, at which time the entire outstanding principal plus accrued interest are due and payable in full. The line of credit is guaranteed by NHS. A portion of the initial advance received upon closing of the NWC line of credit was used to pay off the entire $2,000,000 outstanding balance of the Fifth Third Bank line of credit, which terminated upon the payoff in August 2019 (1)	$ 3,000,000	$ 3,000,000
Note payable to the Ford Foundation with quarterly principal payments of $18,692, plus interest at 1 percent per annum due through September 30, 2021 and a balloon payment plus accrued interest, due on December 1, 2021. As a condition to entering the NWC line of credit, the Ford Foundation waived the payment, amended the loan agreement, and required an immediate principal payment of $149,533, which was duly paid in fiscal year 2020. Effective May 7, 2020, the Ford Foundation forgave the entire outstanding debt balance	-	644,883
Note payable to the John D. & Catherine T. MacArthur Foundation with quarterly interest-only payments of 1 percent per annum. The agreement matures on January 1, 2023, at which time the entire outstanding principal plus accrued interest are due and payable in full, including quarterly interest payments that were deferred in connection with the amended agreement	3,763,125	3,763,125

Note 6 - Debt (Continued)

	2021	2020
Note payable to the Northern Trust Bank with annual interest-only payments. The agreement matures on May 1, 2022, at which time the entire outstanding principal plus accrued interest are due and payable in full. Effective May 1, 2020, the annual interest rate on this note was reduced from 1.0 percent to 0.01 percent through the remainder of the loan term	$ 2,500,000	$ 2,500,000
Subtotal outstanding debt	9,263,125	9,908,008
Less unamortized discount	36,107	45,629
Total debt - Net	$ 9,227,018	$ 9,862,379

(1) The NeighborWorks Capital Corporation loan agreement contains a minimum liquidity financial covenant. As of March 31, 2021 and 2020, NLS is in compliance with this financial covenant.

Debt is payable in future periods, based upon principal payments determined using the stated, rather than effective, rate of interest as follows:

Years Ending March 31	Amount
2022	$ -
2023	9,263,125
Unamortized discount	(36,107)
Total	$ 9,227,018

The Organization is in discussions with each of the lenders listed above to negotiate the payoff, extension, or forgiveness of the debt that matures during fiscal year 2023.

Note 7 - Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following as of March 31, 2021 and 2020:

	2021	2020
Time and purpose restrictions:		
Public grants - Loan capital	$ 3,683,454	$ 3,667,845
NeighborWorks America Funds (1)	240,000	1,104,890
Imputed interest	36,107	45,629
Total net assets with donor restrictions	$ 3,959,561	$ 4,818,364

(1) NeighborWorks America (NWA) funds classified as donor restricted are to be used for capital purposes, including the funding of loans, rehabilitation of neighborhood properties, or property development initiatives, and can only be released with written approval from NWA. Any earnings from such activities may be used for unrestricted purposes. During 2021, NWA authorized the release of $814,890 of restricted net assets.

Note 8 - Related Party Transactions

In April 2019, certain multifamily properties owned by limited partnerships affiliated with NLS were sold. As a result of the sale, NLS received funds of $492,000 from the affiliated limited partnerships as repayment of the entire outstanding principal balances on notes receivable from those partnerships. In addition, NLS received $524,000 of accumulated interest payments from the affiliated limited partnerships, which is included in servicing and lending-related income for the year ended March 31, 2020, since the notes were on nonaccrual status at the time of payoff.

NHS and its affiliates, including the Organization, have entered into an interagency agreement (the "Agreement") whereby all affiliated entities are entitled to transfer resources among each other in a manner deemed by NHS to be necessary and appropriate in order to further their common mission. The Organization has receivables from affiliates totaling $3,022,110 and $4,086,844, respectively, as of March 31, 2021 and 2020, respectively.

Under the Agreement, NHS makes available office space; allows the use of office administrative equipment and supplies; and provides advisory, administrative, financial and accounting, legal, information security, and human resource services. For the years ended March 31, 2021 and 2020, shared services expenses of $1,352,700 and $1,503,300, respectively, were charged to NLS.

Note 9 - Concentrations and Contingencies

During fiscal years 2021 and 2020, approximately 80 and 89 percent, respectively, of total contract revenue was related to contracts with the City of Chicago, Illinois. All operations are conducted in the Chicago metropolitan area, and the Organization’s overall activity is subject to market conditions in that area.

In the ordinary course of business, the Organization may become involved in legal proceedings related to contracts and other matters. While any proceedings or litigation have an element of uncertainty, management believes the outcome of any pending or threatened actions will not have a material adverse effect on the business or financial condition of the Organization.

Note 10 - Liquidity and Availability of Resources

The Organization had $14,845,569 and $15,876,980 of financial assets available within one year of March 31, 2021 and 2020 to meet cash needs for general expenditures consisting of cash and cash equivalents of $6,935,730 and $4,953,178, contracts receivable of $561,202 and $557,761, and loans held for sale of $7,348,637 and $10,366,041, respectively. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the statement of financial position date. The loans held for sale are subject to requirements of various loan sale agreements with investors but are expected to be sold within one year. Additionally, the Organization is holding $5,000,000 of cash as of March 31, 2021 and 2020 for future contract services to be completed and recognized as revenue in future fiscal years as the services are provided.

The Organization closely monitors its cash balances and has established credit facilities to provide sufficient liquidity to (a) fund operations, (b) fund contract costs prior to collection from units of government, and (c) fund loans during the period from application to completion of the approved property rehabilitation. The Organization receives cash both in advance of providing the services and after providing the services; therefore, the cash receipts can occur in different fiscal years than the revenue recorded.

The Organization only originates loans that it expects to be salable, based on existing or anticipated loan sale contract relationships with investors. Government contract-related costs are only expended for approved contracts within budget parameters. Operational costs are limited to those provided for in the board-approved budget.

Note 10 - Liquidity and Availability of Resources (Continued)

At March 31, 2021 and 2020, the Organization estimates that it has cash on hand to fund operational expenses for at least 12 months, assuming no revenue was collected and further assuming that operational expenses were not reduced in the face of such absence of revenue. This estimate is for disclosure purposes only and does not reflect the strategy that management would adopt in such circumstances.

The Organization further believes that it has sufficient cash and credit facility resources to operate its business during fiscal year 2022 and consistently monitors these items. It may, from time to time, consider increasing credit facilities for greater operational flexibility or to pursue specific business opportunities.

Note 11 - Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including September 24, 2021, which is the date the financial statements were available to be issued.

Note 12 – Additional CDFI Information (Unaudited)

Select CDFI Ratios at March 31, 2021:

Net Asset Ratios					
Total Net assets	$	12,498,366	Net assets without donor restrictions	$	8,538,805
Total assets		29,916,373	Total assets		29,916,373
Ratio		***41.8%***	Ratio		***28.5%***
Loan Loss Ratios					
Valuation allowance on loans held for sale	$	-	Allowance for loan losses on loans held for investment	$	782,161
Loans held for sale		7,348,637	Loans held for investment		3,274,710
Loan loss ratio		***0.0%***	Loan loss ratio		***23.9%***
Past Due Ratios					
Loans greater than 30 days Past Due	$	-	Loans held for investment greater than 30 days past due	$	1,810,464
Loans held for sale		7,348,637	Loans held for investment		3,274,710
Past due ratio		***0.0%***	Past due ratio		***55.3%***
Net Chargeoff Ratios					
Chargeoffs - loans held for sale	$	-	Chargeoffs - loans held for investment	$	-
Loans held for sale		7,348,637	Loans held for investment		3,274,710.00
Past due ratio		***0.0%***			***0.0%***

2021 Self Sufficiency Ratio		
Earned Revenue	$	5,304,786
Expenses		4,838,156
Self sufficiency ratio		***109.6%***
Deployment Ratio		
Loans held for sale	$	7,348,637
Loans held for investment		3,274,710
	$	***10,623,347***
Loan capital	$	14,636,829
Less loan capital attributed to deferred loans		(3,683,454)
Net assets without donor restrictions		8,538,805
	$	***19,492,180***
Deployment ratio		***54.5%***

Note 12 – Additional CDFI Information (Unaudited)

Loan Capital

The term "loan capital" is also used by the CDFI industry as a measure of CDFI relative capital sourcing for its principal lending activity. In general loan capital represents the portion of the CDFI's total capitalization that is meant to be used for its principal lending activity. There is no specific requirement that all loan capital be continuously deployed, but the amount of loan capital is indicative of the general target amount of loan activity.

At March 31, 2021, the Organization's loan capital aggregated $14,636,829, including $9,263,125 of debt, $635,360 of CDFI deferred revenue and $4,738,344 of net assets with donor restriction.