



Housing Partnership Securities **A Multifamily Affordable Housing Lender** **Class A Preferred Shares**

The Housing Partnership Network proposes to establish a lending facility to support the development of affordable rental housing by its nonprofit members, utilizing tax-exempt private activity and 501(c)(3) bonds. This facility, Housing Partnership Securities (HPS), will be a member-owned and directed venture, which will lend, pool, and enhance permanent first mortgage loans to Network members. The venture will serve the Network's charitable mission of supporting its members in the creation of quality affordable housing nationwide. As a multifamily lender, HPS will provide competitively priced loans in a more expeditious and flexible manner than is generally available in the marketplace. By cooperatively engaging its members in the ownership of this venture, it will reinforce an already exemplary record of performance by these highly productive mission-driven developers and operators of affordable housing. Our goal is to reduce the cost and complexity of creating affordable housing for low-income people.

HPS will provide underwriting, servicing (through a qualified contractor), and asset management services for a portfolio of loans originated at the rate of \$100 million annually. HPS will retain a portion of portfolio ownership through the purchase of subordinate trust certificates, while the majority of the pool is sold as AAA-rated securities (e.g. through a Freddie Mac credit enhancement). To this end, HPS will raise up to \$10 million in capitalization for its first year of operations, beginning in early 2006.

HPS Assets: Ownership of subordinate trust certificates in a pool of tax-exempt multifamily mortgage revenue bonds. These certificates will typically be pledged as collateral for the credit enhancement of senior certificates, but will retain rights to cash flow from the bonds after payment on the senior certificates. The underlying real estate projects backing the bonds will be underwritten to a pool average loan to value ratio of approximately 1.25, and debt coverage ratio of 87%. The pool will be geographically diverse with borrower concentration no greater than 25%. Though unrated, the bond pool, when stabilized, is expected to exhibit characteristics equivalent to BB or BBB-rated securities.

Revenue: In addition to loan revenue, HPS will receive loan origination, underwriting, and asset management fees.

Investment: Up to \$6.5 million in Senior Preferred Equity, in minimum amounts of \$1.5 million, for the first portfolio. \$40 million of preferred equity will be sought over a multi-year period.

Yield: 7% preferred dividend, paid annually. The majority of this payment will be tax-exempt, as HPS derives the bulk of its income from tax exempt bond interest.

Asset Return: First priority on proceeds of remarketing sale of the subordinate trust certificates, expected three years after pool securitization, or five years after initial investment. Prior to remarketing, the Senior Preferred Shares will have a priority on HPS cash flow for retirement of shares.

Subordination: The Senior Preferred Equity will have priority of payment over approximately \$3.5 million of subordinate equity invested by the Housing Partnership Network, its affiliates, and its members.

About the Network

The Housing Partnership Network is a national business cooperative of 84 of the most successful affordable housing nonprofits in the United States. The Network promotes peer exchange and innovation among its members and creates social enterprises that enable the organizations to pool their resources to strengthen their market position and increase their social impact. We have formed and now operate two enterprises--the Housing Partnership Fund and Housing Partnership Insurance --which have broken new ground for the nonprofit housing industry.

The Housing Partnership Fund, a nonprofit lender certified by the federal Community Development Financial Institutions (CDFI) Fund, was established in 2000 to provide our members with equity-like predevelopment and acquisition capital that enables them to compete in the marketplace for properties and land suitable for affordable housing. The \$30 million facility has provided higher-risk loans to preserve or develop more than 11,000 affordable apartments and homes. Investors include the MacArthur and Fannie Mae foundations, the U.S. departments of the Treasury and Housing and Urban Development, Citigroup, Merrill Lynch, Wachovia, Bank of America, Deutsche Bank, HSBC, Key Bank, US Bank and Wells Fargo.

Housing Partnership Insurance (HPI), a captive insurance company owned through a stock corporation by 17 nonprofits and the Network, was launched in April 2004 and now provides property and liability coverage for 35,000 affordable apartments valued at \$2.7 billion. By pooling risk and creating financial structures to partner with international insurance carriers, HPI has significantly improved insurance terms and, just in the first year of operation, has already saved our member organizations more than \$1 million in premiums. Reduced expenses prevent insurance related rent increases for lower-income families and the nonprofits will reinvest savings and future dividends from the company into resident services and property improvements. Key participants in this venture include AIG, Merrill Lynch, and Lloyd's of London.

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