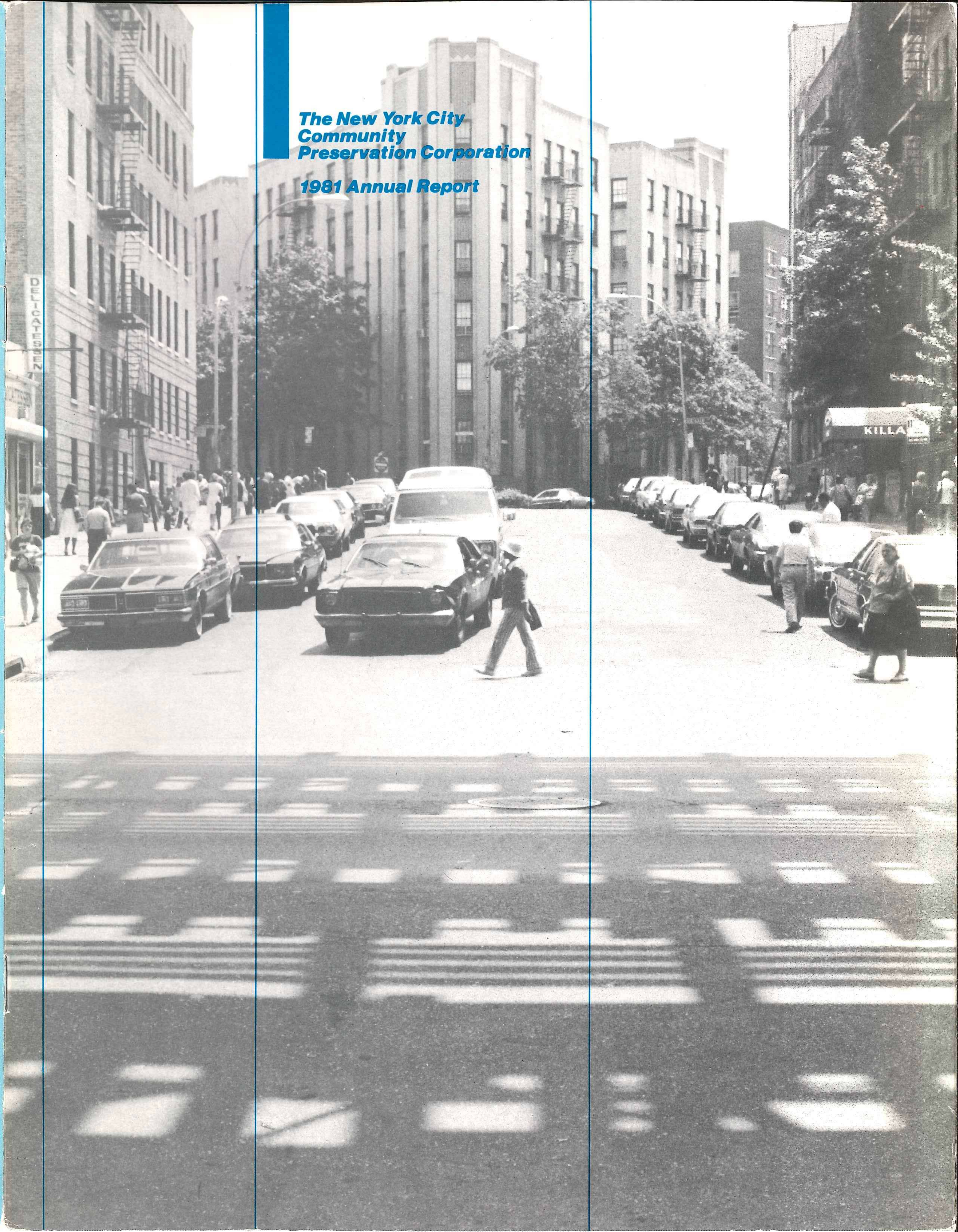
The New York City
Community Preservation Corporation
300 Madison Avenue
New York, New York 10017

The New York City Community Preservation Corporation

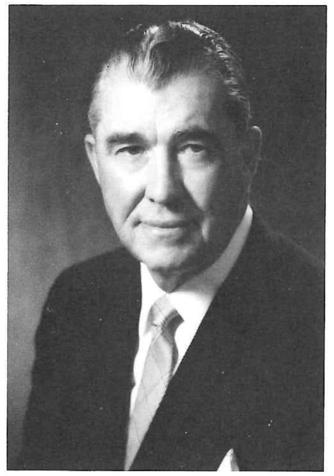
1981 Annual Report



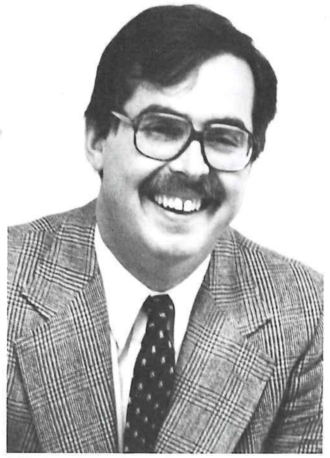
Contents

On the cover: Neighborhood scene from CPC's Bronx lending area

To Our Members



Joseph C. Brennan
Chairman



Michael D. Lappin
President

The New York City Community Preservation Corporation's (CPC) seventh year was marked by the continued growth and strengthening of its mortgage lending activities. We continue to demonstrate an effective model for the efficient investment of private mortgage capital in upgrading our City's older multifamily housing stock.

This past fiscal year, CPC made new mortgage commitments for the moderate rehabilitation of more than 2,000 apartments. This brings CPC's financing commitments to a total of $80 million (including $25 million in participation shares from the City) for the rehabilitation of 239 buildings containing 8,896 apartments. Of these, 225 buildings with about 7,900 apartments were either in construction or completed by the end of September 1981.

CPC has financed its rehabilitation efficiently. The 1,700 apartments that began construction this past year required financing of about $11,500 a unit. The rentals required to support this financing were $80 a room per month, a cost affordable to families earning $15,000 a year.

CPC has also demonstrated how to interweave scarce but crucial public subsidies with private capital. By keeping a tight rein on costs, and thereby minimizing the rents needed to support these costs, only twenty percent of the tenants in CPC-financed buildings (chiefly elderly tenants) have required a Section 8 Existing Housing Subsidy. These subsidies cost the federal government about $1,200 a year for each unit subsidized.

Where the scope of rehabilitation is too extensive and/or where required rent increases are beyond present tenants' capacity, CPC has worked with the City by using its low-rate Federal Community Development monies for up to sixty percent of the mortgage to lower financing costs. Where this has been done, we have financed apartments for up to $28,000 each and kept within market rents. This cooperative effort with the City has extended the economic feasibility of rehabilitation to virtually the entire range of deteriorated buildings in CPC's target neighborhoods.

CPC's experience indicates that reasonably secure mortgage investments for housing rehabilitation in the City's older neighborhoods are possible. After six years of financing 184 rehabilitation mortgages, we have experienced only three foreclosures. Since these mortgages are insured by the Rehabilitation Mortgage Insurance Corporation (REMIC), no losses are expected. Encouraged as we are by this record, we remain aware that the long-run security of our portfolio lies in factors beyond the economics of our particular buildings. The continuance of stable neighborhoods and the ability of tenants to withstand the pressures of inflation and the problems of unemployment will be crucial determinants of our buildings' future.

If we are gratified by the demonstration of our investments' security, we are less sanguine about making those investments at today's market rates. CPC's neighborhoods, populated by lower and middle-income residents, are no more able to afford the costs resulting from increases in mortgage rates than is any other sector of our society. Hence, the likelihood of continued high interest rates over the near term—which will be reflected in CPC's rates—presages a slowdown of our lending activities.

In this period of reexamination of the public and private sectors' roles in low and moderate-income housing, we are confident that CPC's model of rehabilitation investment, reflecting security, low cost and minimal public subsidies, will merit close scrutiny. We look forward to being a participant in this reexamination, and are confident of our future role in confronting our urban housing problems.

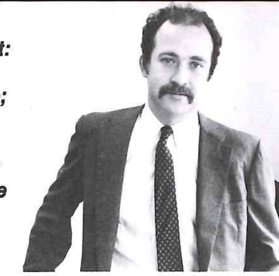
J.C. Brennan

Joseph C. Brennan
Chairman

Michael Lappin

Michael D. Lappin
President

December 8, 1981



CPC staff from left to right: John McCarthy; Jack Freeman, Jonathan Poole; Patricia Young, Marvin Goldberg, Stephen Grathwohl, Joanne Pugh; Dale McDonald; Roseanne Longobardi, Christine Allen; Donna Welensky, Jeanne Clemens.

apartment. Tenants have overwhelmingly chosen to pay these rents in exchange for improved housing. This has resulted partly from the availability of Existing Section 8 rental subsidies whereby a tenant pays no more than twenty-five percent of his income toward rent. Approximately twenty percent of CPC tenants qualify for this subsidy. In large part, however—for the eighty percent of tenants not receiving rental subsidies—this willingness stems from the fact that post-rehabilitation rents are comparable to rents for unrenovated buildings in similar neighborhoods.

Changing judgements of this "work versus rent" balance in future years will in large part determine the rate of our growth and the type of projects that we complete. Possible amendments in the Existing Section 8 program may require larger portions of tenant income to go to rent increases. Higher interest rates and rising construction costs may also impose stricter limits on the scope of renovation. These occurrences may narrow CPC's focus to those structures requiring less work or those in which tenants' incomes are higher. While these developments are just beginning to be felt, their ultimate effect may be to shift us from our original lending areas into more affluent neighborhoods.

Borrowers' Role

The CPC loan must be attractive to owners investing time and money. The incentives for such investments combine possibilities of modest cash returns and equity appreciation with opportunities for sheltering income through the accelerated depreciation of construction costs.

CPC's first borrowers were long-term owners needing capital for major building improvements. Their main concern was to preserve their aging real estate. As CPC's efforts became more widely known, investors seeking tax shelter and income opportunities became our predominant borrowers. Distressed properties were purchased, renovated, and placed under new management. This combination has transformed the worst buildings in a neighborhood to among the best.

CPC has sought to encourage new owners/developers by working to streamline both its own and related governmental processing. Our goal is to create certainty and speed in loan application procedures, thereby reducing borrowers' overhead costs and, hence, the cost of development. We also assist owners in government processing, as well as aid them in the problems found in in-occupancy rehabilitation.

Lenders' Role

A rehabilitation loan must be consistent with sound lending standards. In its mortgage investments, CPC has sought security that would meet the lending standards of any of its 37 member banks. The creation and continuance of this security has depended on the coordinated functioning of public programs which regulate the economics of residential buildings.

Sufficient and prompt rental increases after rehabilitation are an essential element of mortgage security. New York City has two distinct rent regulation systems, "rent stabilization" and "rent control", each with its own rules and procedures. Each system permits sufficient rent increases. Satisfactory implementation has long been provided for rent-controlled apartments. This year, with Rent Stabilization Code amendments, we believe that efficiency has been established for rent stabilized apartments as well. These amendments, by eliminating duplication, will reduce delays that previously hampered projects.

Not all tenants who remain in a building during construction can afford the post-rehabilitation rent increases. For them, and the security of the loan, the directing and prompt processing of an Existing Section 8 rent subsidy remains crucial.

Public programs also have a significant impact on a building's expenses. The City's program of real estate tax reduction, tied to the amount and type of rehabilitation performed, has been a basic determinant of the feasibility of most of CPC's loans. By reducing taxes, added income is built into a building's cash flow to help pay for the cost of the rehabilitation mortgage. Without this program, loan feasibility would require either rent increases of an additional $5-10 per month per room or a reduced construction plan.

These public programs taken together—rent adjustments, Existing Section 8 subsidies, real

estate tax exemption/abatement—form the governmental underpinnings for rehabilitation lending. Their effective functioning provides a reasonable basis for investing in New York's older housing. An examination of 36 CPC financed rehabilitated buildings completed by January 1, 1980 reveals sufficient debt service coverage to meet bankable standards of real estate investment.

The programmatic and regulatory changes noted above have allowed CPC to structure sound mortgage loans. Their continued viability, however, will depend on factors beyond our control or the control of our mortgagors, namely:

- continued stability in our neighborhoods;

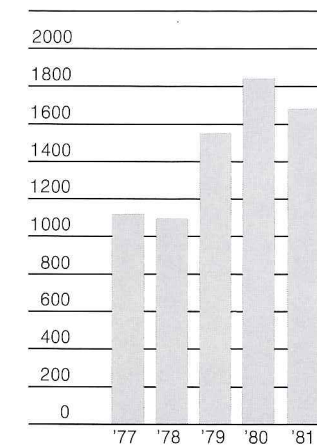
- tenants' ability to absorb, through rent, operating cost increases, during periods of inflation and unemployment.

Given these long-run uncertainties, CPC has sought to share their attendant risks with broadly based programs of mortgage insurance. Initially, we relied on the Rehabilitation Mortgage Insurance Corporation (REMIC) which insures the top 50% of a typical CPC loan. This program has worked well: CPC's only claim for loss was fully honored. REMIC, however, has limited capitalization and is fast approaching its insuring limits. Accordingly, CPC is working to adapt the programs of other mortgage insurers to the needs of moderate rehabilitation.

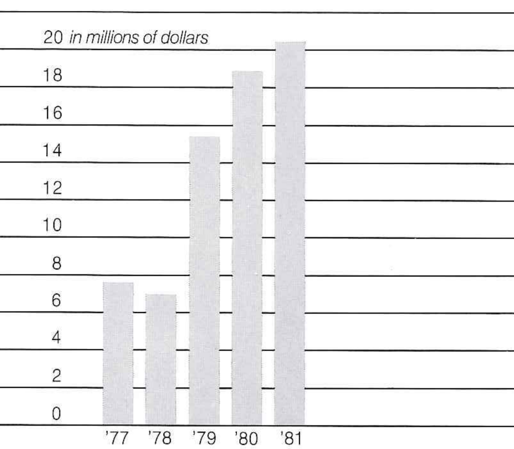
The state, through the State of New York Mortgage Agency (SONYMA), has developed a well-capitalized insuring program. Recent legislation enables SONYMA to insure the top 75% of rehabilitation loans in the City's older neighborhoods.

Finally, the Federal government has committed FHA's 223 (f) program to insure mortgages financing moderate rehabilitation on a demonstration basis. The federal presence in these mortgages holds out the promise of the sale of these loans on the national secondary markets. The tapping of such markets—with their access to the large sources of institutional funds—offers a practical hope of tapping financing sources large enough to tackle the rebuilding of our older urban areas.

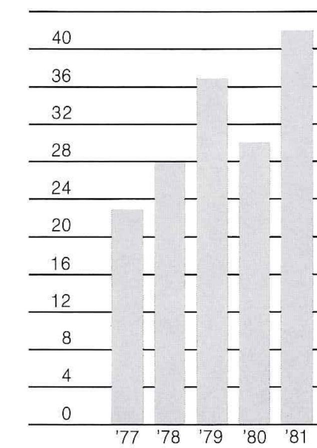
Apartment Units



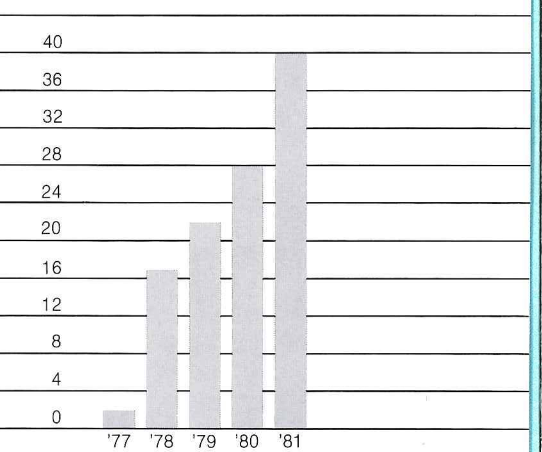
Mortgage Loan Amounts



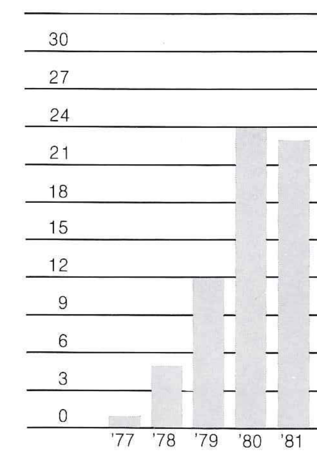
Construction Loans Closed



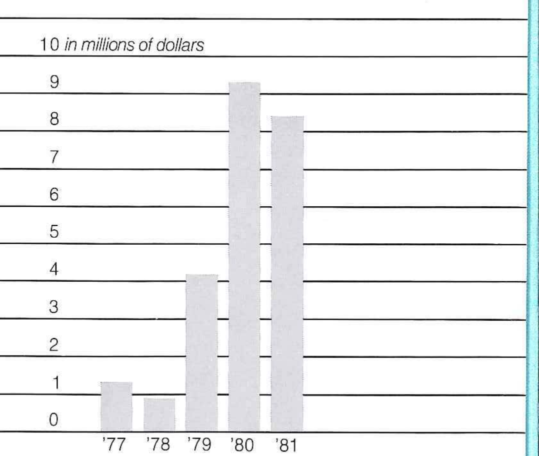
Permanent Loans Closed



Number of Mortgage Participations



Amounts Invested by Participants



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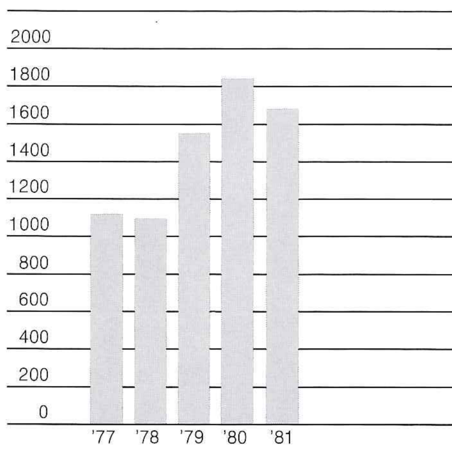
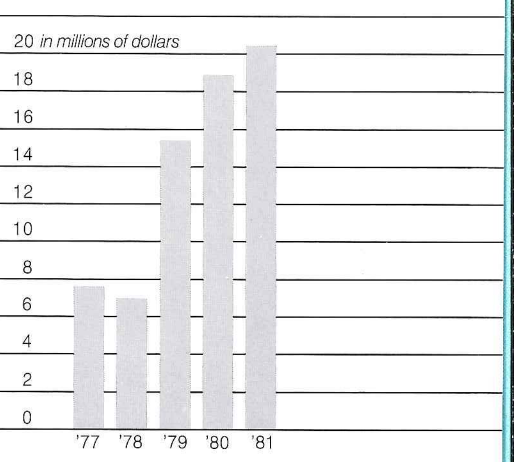
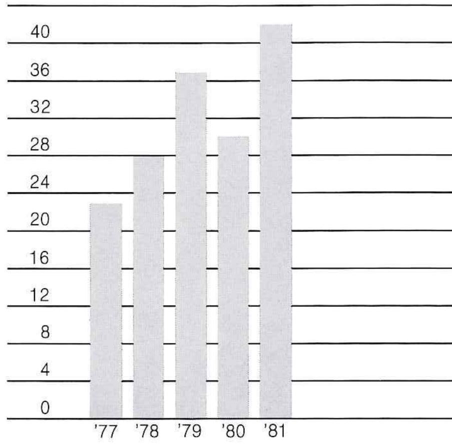


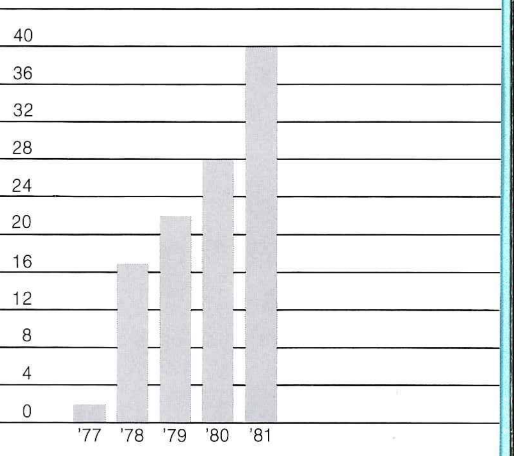
Mortgage Loan Amounts



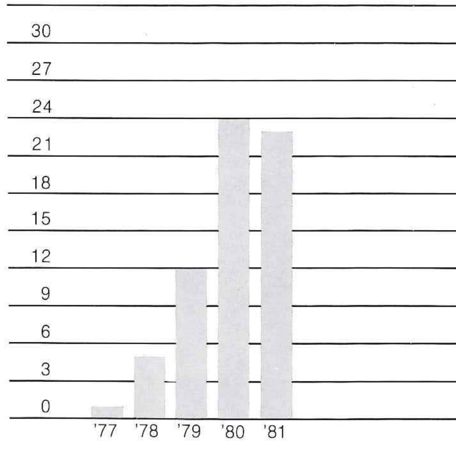
Construction Loans Closed



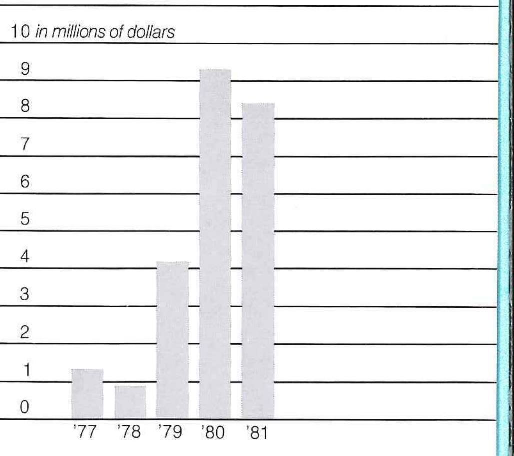
Permanent Loans Closed



Number of Mortgage Participations



Amounts Invested by Participants



How one neighborhood has fared— Washington Heights-Inwood

In 1975, the Washington Heights-Inwood area in upper Manhattan was termed a "transitional neighborhood". Physical deterioration was evident and feared to be increasing. Housing rehabilitation—both public and private—was virtually nonexistent. In 1975, CPC made its first loan in the area: a $765,000 rehabilitation of an 87-unit apartment house. Since then, we have invested more than $34 million to renovate over 4,100 apartments in the area. This activity has markedly altered the attitudes of all with a stake in the neighborhood.

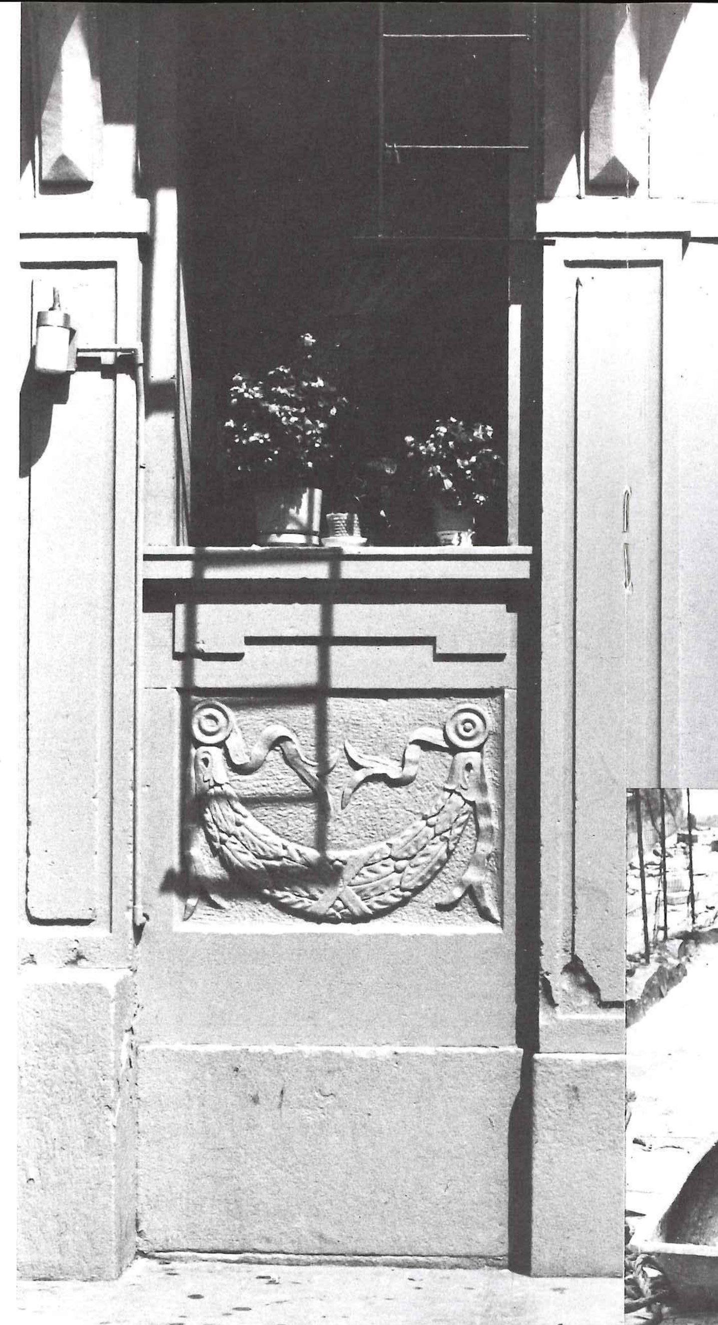
Building owners have come to see rehabilitation as a proven means of restoring physical and economic viability to their properties. Improved prospects in neighborhoods have also encouraged new owners to invest, bringing in new money and managerial talent to upgrade some of the most distressed properties.

Tenants have seen improvements in neighboring buildings requiring only modest rent increases. In several instances, tenant groups have informed landlords of their willingness to pay higher rents in return for rehabilitation.

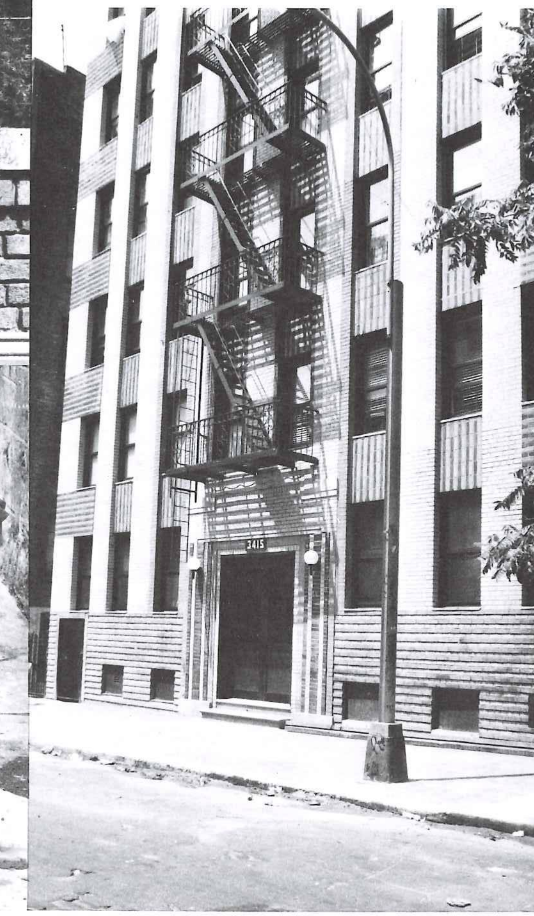
Public officials and community groups have from the early days seen correctly that rehabilitation involves a choice between, on the one hand, neighborhood renewal, involving the inconvenience of construction followed by rent increases and, on the other hand, the continuation of decay. They have chosen renewal, and assisted it by counseling tenants and encouraging government and private investment.

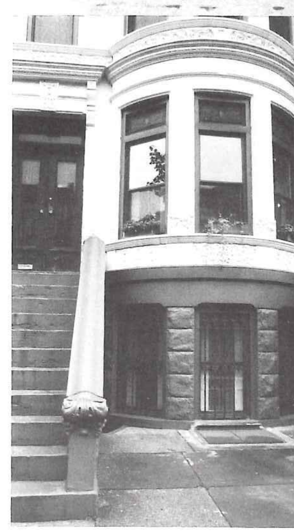
Private lenders' mortgage portfolios have increased in value as a result of renewal efforts. This has encouraged them to undertake several new mortgage investments. Lenders also have worked with CPC to secure new owners in several deteriorated buildings, transforming these into examples of neighborhood renewal.

These changing attitudes, and the continued growth of CPC's investment, have been crucial to maintaining the viability of this Manhattan neighborhood. Young professionals are beginning to move in, seeking a stable neighborhood without luxury-area rents. Current residents, seeing this renewed neighborhood strength, are electing to remain in the area. Our efforts will continue to assist these trends in the coming year.



CPC's rehabilitation efforts have sparked renewed neighborhood pride.





The New York City Community Preservation Corporation's Urban Housing Agenda

It is our contention that given the costly economies of building new housing, the preservation of existing housing must be at the center of urban housing policy. The realization of that policy must come to terms with several requirements.

The Capital Requirement.
New York City has approximately 1.1 million pre-war apartments in non-luxury neighborhoods. Most of these require renovation of basic systems. CPC's experience indicates that over $12 billion in mortgage financing will be needed for this job. Housing must compete for these funds in the private capital markets; it will not be able to do so without the support of the national housing finance agencies. In particular, FHA mortgage insurance must be better adapted to moderate rehabilitation projects. Such insurance will permit mortgage sales in the secondary markets. Through these markets, the preservation strategy may reach entities—the Federal National Mortgage Association (FNMA) the Federal Home Loan Mortgage Corporation (FHLMC) and other financial institutions—with resources proportionately adequate to New York's and the nation's urban housing needs.

The Subsidy Requirement.
Even if all the needed credit were available, its effective utilization for moderate rehabilitation imposes two subsidy requirements. First, building-wide subsidies are needed. CPC experience indicates that subsidies are needed to create bankable loans where the financing is in excess of $9,000 a unit, a threshold that can be raised or lowered depending on tenant income, building condition and long-term interest rates. Such subsidies have been accomplished by both low-rate mortgage participations of Community Development funds with market rate funds, and/or below market Government National Mortgage Association (GNMA) funds. By varying the amounts of these subsidies, financing can be provided to almost the entire range of deteriorated buildings in New York City's moderate-income neighborhoods.

Second, in-occupancy rehabilitation requires that individual subsidies be directed toward tenants who could not, even in the best of times, pay the rent increases that result from rehabilitation. The Section 8 Existing Housing Subsidy now fills this income gap for these tenants, principally the elderly on fixed income. Its features have confidently allowed the rehabilitation lender to take account of the subsidy payments in its loan underwriting. The subsidy's continued effectiveness depends on its being:

- preferentially available for rehabilitation projects and the low-income residents;
- paid directly to owners.

Lacking such provisions, the subsidy will lose its ability to support rehabilitation lending.

Moderate rehabilitation maximizes the impact of the limited subsidies which are available. For example, the Existing Section 8 subsidy employed by CPC is used by about one-fifth of moderate rehabilitation units and costs $1,200 per year per unit. The Section 8 program covering new construction and "gut" rehabilitation, on the other hand, is used by all units in a project and costs $10,000 per year for each. Thus, moderate rehabilitation obtains more than 40 times the impact of the costly alternative.

The Production Vehicle.
The utilization of new credit and subsidy programs for housing preservation requires the growth of a moderate rehabilitation industry. At the focus of such an industry can be a CPC-type vehicle—a bank-sponsored program bridging credit and governmental programs with private developers and contractors through its loan origination and servicing functions. In the tradition of many FHA programs, government can rely on a CPC vehicle to package mortgage loans swiftly for such functions as FHA insurance and/or for mortgage sales to FNMA, FHLMC, GNMA or private financial institutions. Such reliance has the advantage of cutting down governmental processing time, thus reducing developers' overhead expenses. This, in turn, will encourage smaller and less expensive developers to become part of the productive capacity for neighborhood preservation.

Financial Review

CPC's income from operations stems from three sources. First, from construction loan operations, CPC earns an origination fee of one percent of the amount committed for each construction loan. We also receive the difference between the rate billed on construction loan advances (prime plus two-and-one-half percent) and our cost of funds (prime plus one-half percent) when the funds for such advances are borrowed under our revolving credit agreement.

Second, CPC derives servicing fee income from its permanent portfolio, which held 141 loans at year's end. This portfolio includes 34 participation interests of individual banks and the City in certain projects (on which a one-quarter percent fee is earned). It also includes the collateral trust note mortgages assigned to our member banks, on which we earn the "Company Fee", currently set at one percent. At present, 139 mortgages are serviced under the collateral trust note vehicle.

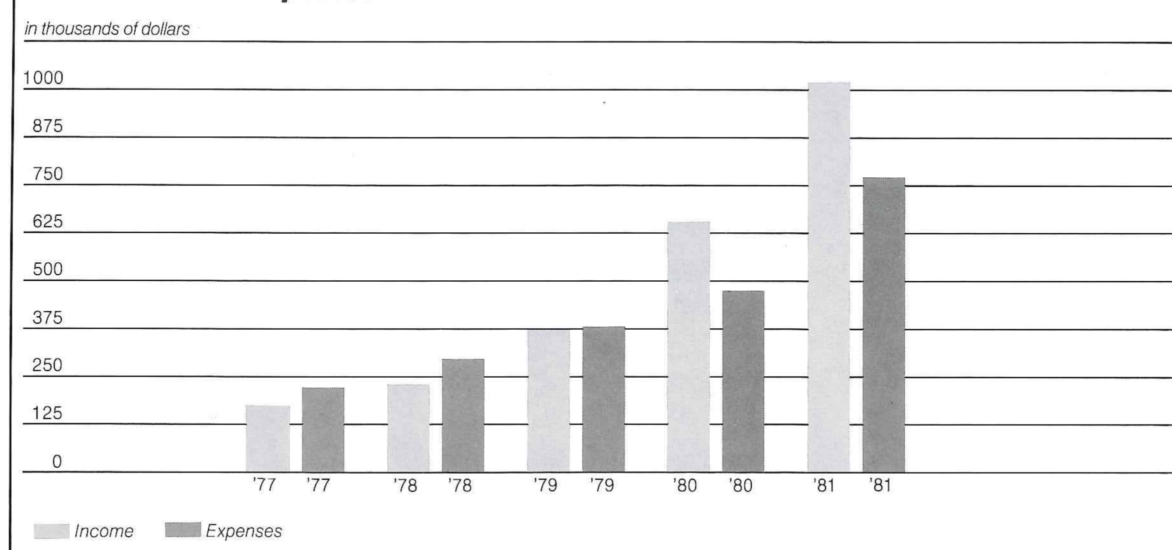
Third, the Corporation realizes income from the investment of idle cash reserves (such as those for permanent mortgage escrow and building reserve accounts). These reserves have been applied in large part to investment in our own construction mortgages. Investment income from this source has become substantial in the last year due to the prevailing interest rate levels.

With income from these sources, 1981 marked the second consecutive year in which the Corporation's income from operations exceeded expenses, showing a surplus of approximately $250,000. This financial performance moves the Corporation closer to a goal set at CPC's creation: its progress from experimental status to that of an established lender, supporting itself from normal fees on mortgage services.

When CPC was created, working capital was derived largely from contributions of member banks and the "Company Fee" referred to above. At that time, this fee was set at an above-market level (one and one quarter percent), with reductions expected in later years as income from operations rose. Favorable results in each of our last two fiscal years have permitted such reductions. In 1980 the Fee was lowered to one percent, and this year will see a further drop to three-quarters of one percent.

Although slower growth is expected as long as interest rates remain at their current levels, we are confident that the strength of New York's neighborhoods—and our continued assistance in their renewal—will permit further progress towards CPC's self-sufficiency.

CPC Income and Expenses



Notes to Financial Statements August 31, 1981 and 1980

1. *Summary of significant accounting policies:*
The significant accounting policies of the Corporation are as follows:

Federal income taxes—
The Internal Revenue Service has determined that the Corporation is exempt from Federal income tax under Section 501(c) (3) of the Internal Revenue Code.

Capital contributions pledged—
It is the Corporation's policy to record capital contributions pledged as receivables and deferred credits, respectively, in the balance sheet until received by the Corporation.

Income recognition—
Interest on construction loans and permanent loans in accumulation is accrued monthly based on the daily outstanding principal balances of such loans. Fee income from loans serviced by the Corporation is accrued based on the outstanding principal balances of such loans.

Commitment fees—
For financial statement purposes, commitment fees are recorded in income over the commitment period, provided that the period is reasonably determinable. Where such period is not determinable, commitment fees are recognized as income upon the closing of the mortgage loan.

Donations—
Donated furniture and equipment are reflected as contributions in the accompanying statements at their estimated fair values at date of receipt. Such amounts would be reflected in the accompanying statements for donated services where, in the opinion of management, an objective basis is available to measure the value of such services.

2. *Mortgage loans and commitments:*
The following is a summary of closed mortgage loans (net of interests of participating lenders) as of August 31, 1981 and 1980:

		Permanent		
1981	Construction	To be Pledged	Pledged	Total
Number of loans	35	2	139	176
Amount (in thousands):				
Funded balance (net of repayments)	$ 5,861	$ 304	$37,463	$43,628
Allowance for possible investment losses	(100)	—	—	(100)
Unfunded commitments	4,966	—	—	4,966
Total	$10,727	$ 304	$37,463	$48,494
1980				
Number of loans	31	7	97	135
Amount (in thousands):				
Funded balance (net of repayments)	$ 8,467	$2,278	$23,817	$34,562
Unfunded commitments	8,248	—	—	8,248
Total	$16,715	$2,278	$23,817	$42,810

Pending new mortgage commitments (net of participations) as of August 31, 1981 and 1980 were as follows:

	Mortgage Commitments For Loans Not Yet Closed		Mortgage Commitments Not Yet Accepted By Potential Borrowers	
	1981	1980	1981	1980
Number of loans	14	7	3	5
Amount (in thousands)	$4,642	$3,250	$1,200	$2,770

3. *Provision for possible investment losses:*
The Corporation's purpose is to make mortgage loans for the rehabilitation and preservation of residential properties in certain areas of New York City. These lending areas have been designated by the Corporation as preservation areas, areas whose housing stock is experiencing physical deterioration and which might be preserved through the combined effort and resources of government and the private sector.

The soundness of the Corporation's multifamily mortgage loans is dependent upon, among other things, rent increases to be approved by the City's rent regulatory bodies upon completion of the planned rehabilitation. Many of these loans are also dependent upon the granting by the City of real property tax abatements and/or exemptions. Before closing such loans, the Corporation has obtained advisory opinions from the Department of Housing Preservation and Development with respect to permissible rent increases for rent controlled apartments. It is the opinion of the management of the Corporation that, when and if such governmental measures are implemented, the rental income authorized for each of the properties will be adequate to maintain the viability of each of the Corporation's loans on these properties.

Directors, Officers and Participating Financial Institutions

Board of Directors

Joseph C. Brennan
Chairman of the Board
The New York City Community Preservation Corporation
Chairman of Executive Committee
Emigrant Savings Bank

James O. Boisi
Vice Chairman
Morgan Guaranty Trust Company of New York

William R. Brennan, Jr.
President
Harlem Savings Bank

Eugene J. Callan
Chairman
The New York Bank for Savings

John A. Hooper
Executive Vice President
The Chase Manhattan Bank, N.A.

John D. Kyle
Executive Vice President
Chemical Bank

Edgar A. Lampert
Former President of CPC

John F. Lee
Executive Vice President
New York Clearing House

Warren T. Lindquist
Former President of CPC

John W. Raber
Chairman
The Green Point Savings Bank

Frederick H. Schneider
President
Roosevelt Savings Bank

Charles C. Smith
Executive Vice President
Bankers Trust Company

Donald L. Thomas
Chairman
Anchor Savings Bank

John H. Vogel
Chairman of the Board
National Bank of North America

Mortgage Committee

Michael J. Wechsler
Chairman, Mortgage Committee
The New York City Community Preservation Corporation
Senior Vice President
Chemical Bank

Peter C. Underwood
Vice Chairman, Mortgage Committee
The New York City Community Preservation Corporation
Senior Vice President
The New York Bank for Savings

Harry A. Baierlein, Jr.
Senior Vice President
The Brooklyn Savings Bank

Charles E. Forsberg
Vice President
Citibank, N.A.

Michael D. Lappin
President
The New York City Community Preservation Corporation

Harold L. Van Varick
Senior Vice President
American Savings Bank

William R. Wright
Vice President
Morgan Guaranty Trust Company of New York

Officers

Michael D. Lappin
President

John M. McCarthy
Executive Vice President and Treasurer

Donna Welensky
Secretary

Dale F. McDonald
Assistant Secretary

Mortgage Staff

Marvin Goldberg
Mortgage Officer

Jack Freeman
Mortgage Officer

Jonathan Poole
Mortgage Officer

Joanne S. Pugh
Neighborhood Mortgage Officer

Stephen P. Grathwohl
Neighborhood Mortgage Officer

Consulting Engineers

Daniel Frankfurt, P.C.
Peter Franzese, P.E.

Auditors

Arthur Andersen & Co.

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Brooklyn-Queens
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Brooklyn, New York 11226
Telephone (212) 287-2515

Commercial Banks

The Bank of New York
Bankers Trust Company
The Chase Manhattan Bank, N.A.
Chemical Bank
Citibank, N.A.
European-American Bank & Trust Company
Irving Trust Company
Manufacturers Hanover Trust Company
Marine Midland Bank
Morgan Guaranty Trust Company of New York
National Bank of North America
United States Trust Company of New York

Savings Banks

American Savings Bank
Anchor Savings Bank
The Bowery Savings Bank
The Brooklyn Savings Bank
Central Savings Bank
The Dime Savings Bank of New York
The Dime Savings Bank of Williamsburgh
Dry Dock Savings Bank
The East New York Savings Bank
Eastern Savings Bank
Emigrant Savings Bank
Flushing Savings Bank
The Green Point Savings Bank
The Greenwich Savings Bank
Harlem Savings Bank
Independence Savings Bank
Lincoln Savings Bank
Metropolitan Savings Bank
The New York Bank for Savings
Ridgewood Savings Bank
Roosevelt Savings Bank
The Seamen's Bank for Savings
Union Dime Savings Bank
United Mutual Savings Bank
The Williamsburgh Savings Bank

Design: Susan Shaw
Photography: Barbara Pohl

Notes to Financial Statements August 31, 1981 and 1980

All pledged and to be pledged permanent mortgage loans are insured with the Real Estate Mortgage Insurance Corporation (REMIC). The REMIC insurance provides coverage against any losses resulting from, among other things, foreclosure and sale of the real property, which is the security for the loan, in an amount of up to 50% of the principal balance of the loan.

Construction loans are not eligible to be insured by REMIC and, accordingly, the Corporation's exposure to a possible loss as a consequence of defaults by borrowers is substantially greater than is the case for permanent loans. The Corporation investigates all potential borrowers and analyzes the financial feasibility of the proposed rehabilitation program before approving a construction loan. As of August 31, 1981, the Corporation has not incurred any losses on such loans. As a result of sustained high levels of interest rates and inflation it has become progressively more difficult for borrowers to meet their commitments to the Corporation. Accordingly, during 1981, management determined that it would be prudent to establish an allowance for possible investment losses on construction loans in view of the risks inherent in construction lending in the current economic climate. For the year ended August 31, 1981, the Corporation has provided $100,000 for this allowance. Future provisions will be based on management's assessment of the inherent risks.

4. Revolving credit agreement:
The Corporation is a party to a revolving credit agreement with certain banks whereby the banks have agreed to lend the Corporation up to $26,000,000 through August 31, 1983, generally for the purpose of financing construction loans made by the Corporation. Borrowings are evidenced by notes which mature no later than August 31, 1984. The notes bear interest at a maximum of ½% in excess of the prime lending rate of the agent bank. No compensating balances are required to be maintained under the agreement; however, the Corporation is required to, among other things, maintain working capital, as defined, equal to the lesser of $50,000 or 5% of all outstanding sums borrowed pursuant to the agreement.

Borrowings under this agreement during fiscal 1981 and 1980 were at interest rates which ranged from 12% to 22% and 11½% to 20½%, respectively. At August 31, 1981 and 1980, the interest rates on these borrowings were 21% and 12%, respectively.

5. Nonrecourse collateral trust notes:
The Corporation is a party to a note purchase agreement with 37 banks, 36 of which are also parties to subscription agreements with the Corporation (see Note 8). Under this agreement the banks have agreed to purchase up to $100,000,000 of nonrecourse collateral trust notes issued by the Corporation, subject to certain conditions. Notes issued pursuant to this agreement are secured entirely by the pledge of permanent mortgage loans made by the Corporation. The agreement, as amended, permits the Corporation to issue both permanent and interim notes. Interim notes are issued periodically and, when an amount sufficient to warrant the issue of a permanent note has been accumulated, are replaced by permanent notes. The principal and interest received by the Corporation on mortgages pledged on a permanent basis, net of allowable fees and expenses, are remitted to noteholders quarterly. The principal and interest received on mortgages pledged on an interim basis, also net of allowable fees and expenses, are remitted to the noteholders at the time that the mortgages are pledged on a permanent basis.

Pursuant to the terms of a servicing agreement dated January 10, 1978, the Corporation services the mortgages pledged as collateral for the notes. The Corporation receives an annual servicing fee based on the aggregate outstanding principal balances of the pledged mortgages. During fiscal 1981 and 1980, such fees were 1% and 1¼%, respectively, of the balances.

6. Participant's deposits:
The Corporation has entered into agreements with the New York City Department of Housing Preservation and Development (HPD) whereby HPD has agreed to participate in certain of the Corporation's mortgage loans. In connection with these agreements, HPD has deposited funds with the Corporation to be used to fund the HPD commitment to participate in such loans. The Corporation is required to invest any temporarily unused funds in short-term money market instruments until the funds are required to fulfill the HPD commitments. The HPD portion of each mortgage bears interest at the rate of 1% per annum.

The interest earned on the unused portion of HPD deposits and HPD's share of the interest and principal collections on the mortgage loans are retained by the Corporation for a period of 30 months from the date that each such loan is converted to a permanent loan.

At August 31, 1981, the HPD deposit consisted of the following:

Unused HPD funds, principally invested in certificates of deposit	$3,393,193
Mortgage interest and principal collections and accumulated interest on short-term investments	1,275,042
	$4,668,235

7. Commitments and contingencies:
The Corporation leases office space in three locations under agreements which expire on various dates through August 31, 1983. The combined annual base rents of $26,700 are subject to escalation and/or decrease as provided for in the leases. During fiscal 1981, the Corporation entered into a new lease commit-

ment effective September 1, 1981, and expiring August 31, 1986, at an annual base rent of $82,980.

The Corporation, its members and certain of its officers and directors have been named as defendants in a lawsuit brought by a mortgagor. Management, after consultation with legal counsel, believes that the possibility of any result which would have a material adverse effect on the Corporation's financial condition is remote.

8. Organization:
The New York City Community Preservation Corporation was incorporated on July 10, 1974, under the Not-For-Profit Corporation Law of the State of New York for the purpose of making mortgage financing available in neighborhoods which are currently experiencing deterioration or disinvestment.

Membership in the Corporation is achieved by obtaining a majority vote of the existing members in a particular class, or by action of the Board of Directors, if there are no members in such class, and through making a capital contribution to the Corporation. Capital contributions are evidenced by nontransferable capital certificates which are not redeemable. The Corporation is prohibited from distributing any assets or property to any individual or member of the Corporation.

The Corporation has entered into agreements with the New York Clearing House and its member banks and the Savings Banks Association of New York State and certain of its member banks whereby the banks have agreed, subject to certain limitations, to make funds available to their respective associations for the purpose of making capital contributions to the Corporation. Both of these agreements have expired during fiscal year 1981, with any unfunded balances to the N.Y.C.P.C. forfeited for future collection.

At August 31, 1981, the status of these commitments was as follows:

	Capital Contributions			
Member	Total Capital Pledged	Collected Through August 31, 1981	Expired as of August 31, 1981	Designated for Future Periods as of August 31, 1981
New York Clearing House	$513,000	$350,000	$163,000	$ —
Savings Banks Association of New York State	413,000	258,877	154,123	—
Total	$926,000	$608,877	$317,123	$ —

Auditors' Report

To the Board of Directors of The New York City Community Preservation Corporation:

We have examined the balance sheets of The New York City Community Preservation Corporation (a New York not-for-profit corporation) as of August 31, 1981 and 1980, and the related statements of support, revenue and expenses and changes in fund balance for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of The New York City Community Preservation Corporation as of August 31, 1981 and 1980, and the results of its operations and the changes in its fund balance for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

New York, N.Y.,
October 12, 1981