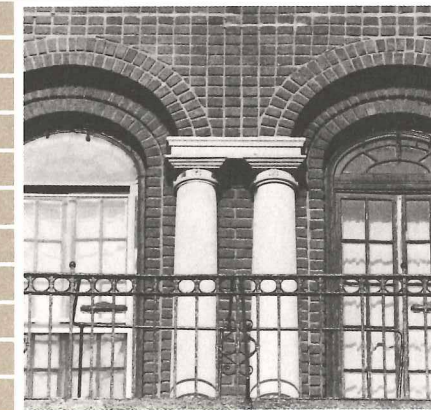
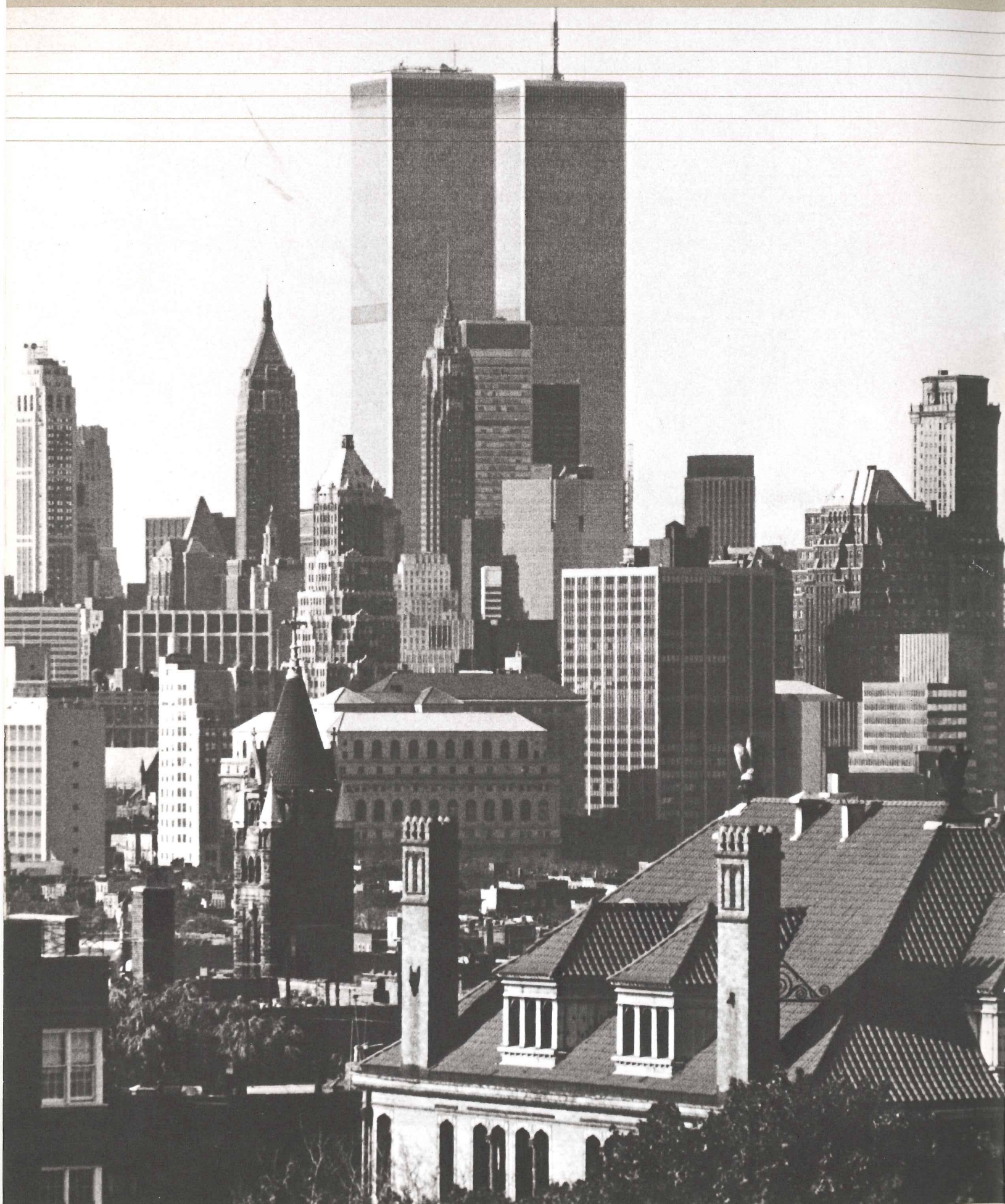


The New York City
Community Preservation Corporation
300 Madison Avenue
New York, New York 10017
(212) 949-1005

The New York City **Community Preservation Corporation**



***CPC has integrated private capital
and public subsidy with landlord
enterprise to demonstrate a
practical method of maintaining
housing capacity for New York
City's tenants at moderate cost...***



The New York City Community Preservation Corporation has developed a new concept for the rehabilitation of urban housing. CPC has integrated private capital and public subsidy with landlord enterprise to demonstrate a practical method of maintaining housing capacity for New York City's tenants at moderate cost. CPC also has shown the way to a vast new market for prudent construction and mortgage lending by financial institutions.

The success of the CPC concept has stimulated efforts both to expand the pool of institutional capital available in New York for housing preservation and to develop a federal framework that could extend its use to urban centers across the nation. This report shows how CPC, or any organization with similar expertise, can use the private-public concept to create sound mortgages for lenders and sound housing for the communities they serve.

Fiscal Year 1981-82 Performance

| | |
|-------------------------------------|--------------|
| Loan Commitments Issued | \$25,664,493 |
| Closed Construction Loans | |
| CPC Funds | \$12,679,037 |
| Federal Community Development Funds | 6,339,671 |
| Other Private Funds | 1,191,000 |
| Total | \$20,209,708 |
| Units (Construction Started) | |
| Manhattan | 742 |
| Bronx | 970 |
| Brooklyn | 482 |
| Total | 2194 |
| Income (Net of Interest Expense) | \$1,452,000 |
| Expenses | \$1,091,000 |

Lending Record 1974-82

| | |
|--------------------|--------------|
| Closed Loans (216) | \$92,798,887 |
| Foreclosures (2)* | \$930,870 |
| Apartment Units | 9977 |

*Losses on first foreclosure were fully recovered through a claim to the Rehabilitation Mortgage Insurance Corporation (REMIC). Claim has not yet been made on second foreclosure.

Progress in a time of economic challenge marked the eighth year of The New York City Community Preservation Corporation. There was progress in the growth of our loan portfolio, as well as in our continuing drive to modify government programs and regulations for more effective support of private investment in housing preservation. High interest rates and economic recession provided the challenge.

Demand for CPC funds reached a new high of \$25 million, despite prevailing high interest rates. This reflected the vast and varied housing needs of the city's neighborhoods. A year ago, our Directors tied CPC's permanent mortgage rate to a market index (adjusted monthly to an average of Government National Mortgage Association security yields); previously, loans had been committed at a fixed rate somewhat below market. The Board's decision was based on the belief that any subsidy is a public responsibility, not one to be borne alone by private investors.

The recession also was a challenge since increased unemployment and reduced economic activity affected tenants' rent paying ability in CPC financed buildings. Nonetheless, our loans showed resilience, indicating a strong demand for quality rehabilitated housing. Indeed, no new foreclosures occurred this past year, and a previous one was worked out at no loss to CPC. Since CPC's inception there have been but two foreclosures. During that period we made 216 loans representing 9,977 units and \$92.8 million.

The efforts of previous years to modify government regulations bore fruit in 1982. Amendments to the rent stabilization code were implemented, permitting a single, combined processing of rent increase and tax abatement-exemption (J-51) applications. This cut six months from the processing time formerly required to implement rehabilitation rent increases, a delay which had impeded otherwise sound loans.

Statutory changes were also enacted in the State of New York Mortgage Agency insurance program, permitting insurance of the first 75% of loss. This move made the program of practical value to CPC and other rehabilitation lenders.

CPC worked with the federal government this past year, advising on program adaptations to meet housing preservation needs. The Target Area Program, for example, was designed to demonstrate the viability of linking FHA mortgage insurance with GNMA-subsidized financing. With the help of Senator D'Amato and

City officials, CPC had its Crown Heights and North Manhattan lending areas included in the demonstration. Through this effort we obtained over half of the \$15 million committed for TAP. This experience is being incorporated into a new federal co-insurance program which will allow lenders to write FHA insurance for multi-family housing with lenders accepting a portion of the loss risk. CPC intends to be active in this program.

The coming year will test our resolve, and that of the public sector, to continue the task of neighborhood preservation. CPC mortgage funds are dwindling, with about \$70 million of our \$100 million limit committed. We have been engaged in negotiations for additional resources, but ultimately a workable FHA mortgage insurance program, promising access to national secondary markets, will be the key to future funds.

Availability of mortgage funds is meaningless without public support. CPC's lending has depended on the City's J-51 tax abatement-exemption program, without which most of our loans would be infeasible. An additional subsidy is needed to pay rent increases for some elderly and poor tenants in rehabilitated buildings.

Both public programs face difficulties. Legislation authorizing the J-51 program has lapsed. Federal rental subsidies have diminished to a trickle. We are emphasizing to public officials the importance of these programs to the preservation effort, and we are helping them reshape the programs to meet current needs and concerns.

Our ability to attract additional funds, matched with appropriate public support, provides the challenge for the coming year. We are confident that the public-private partnership, the backbone of our success, will again provide the energy and support necessary to preserve our urban housing.

Joseph C. Brennan
Chairman

Michael D. Lappin
President

December 14, 1982



Michael D. Lappin
President

Joseph C. Brennan
Chairman

The Community Preservation Corporation has pioneered a concept of integrating private and public resources in a partnership approach to the moderate rehabilitation of multifamily apartment buildings. The success of the CPC concept is based on combining new investment by building owners with mortgage financing by private lenders, and modest public subsidies, within a network of revised public regulations encouraging such investments. This concept has raised housing preservation to rank with radical rehabilitation and new construction as a practical option for maintaining decent housing for the next generation of New York City residents.

The preservation option also has proved the more productive one, for it provides more housing capacity for less money than new construction. And by catching buildings when they need only moderate rehabilitation, the CPC approach offers a means of maintaining housing capacity without the high cost required by gut rehabilitation of badly deteriorated apartment structures.

The origins of the CPC concept trace not only from the need to maintain decent housing capacity adequate for New York City's low and middle income families but also from an understanding of the problem involved. About 60% of the city's housing was built before 1940. Much of it is reaching the end of its useful life, not structurally so much as in terms of basic systems like heating and plumbing. In addition to gradual deterioration, New York is losing 20,000 to 30,000 apartment units a year from such causes as fire, demolition and abandonment.

One answer to the problem is new construction, but land and building costs realistically mean that only luxury apartments will be built. Radical rehabilitation, also known as gut rehabilitation, is another answer; it involves total reconstruction of the interiors of structurally sound buildings. But new buildings cost over \$70,000 per apartment, and gut rehabilitation isn't much cheaper. These approaches produce housing affordable only by residents earning a minimum of \$60,000 a year, which is a very small segment of the populace.

The only practical alternative for providing middle and low income housing is to preserve a million older apartment units that are still serviceable but are at the edge of serious decline. Moderate rehabilitation can save these buildings and keep them in the housing stock for another generation. CPC has perfected a method for accomplishing this at a cost modest enough to keep the resultant rents affordable while keeping the operating economics sound enough to support bankable mortgages.

The viability of the CPC concept has been demonstrated successfully in New York City since CPC was founded by the city's major savings and commercial banks eight years ago. With the technique firmly established, CPC is pushing for further innovation, seeking changes that can greatly expand the pool of capital avail-

able and make rehabilitation investment feasible for a wider variety of financial institutions and property owners. These new directions include:

- Expansion of the investment pool available to support housing preservation in New York.
- Amending the federal regulatory framework, adapting it to support the preservation approach.

Preservation at Low Cost

The preservation alternative aims at conserving the irreplaceable New York City housing asset of tens of thousands of older apartment buildings that are still functional but are nearing the end of their useful lives. Keeping such buildings functional for another generation often can be the key to preserving neighborhoods and even whole sections of the city in a safe, livable con-

The preservation alternative aims at conserving . . . tens of thousands of older apartment buildings that are still functional but are nearing the end of their useful lives.






dition. By forestalling deterioration and eventual abandonment, the CPC program maintains an important segment of the housing stock at very modest cost.

The process is known as moderate rehabilitation. The building typically remains occupied while the work goes on, so it can be reconstructed without forcing tenants to move. Structural repairs are made, if necessary, and obsolete mechanical systems are replaced—plumbing, heating, electrical, elevator, incinerator. Windows and roof are replaced and masonry is pointed, all to make the building weather-tight. Security is improved by sealing dumbwaiter shafts, repairing fire escapes, and replacing doors, mailboxes and bell-buzzer-intercom systems. The final touches are cosmetic, such as steam cleaning, painting and minor landscaping.






The CPC Rehabilitation Process

| Pre-Rehab | CPC Package | Post-Rehab |
|---|---|---|
| Building Condition | | |
| Antiquated mechanical systems: plumbing, heating, wiring. | CPC advice on construction scope and standards. CPC construction loan for: | Preservation of building's useful life for 20-30 years. Building renewed structurally, mechanically and aesthetically. |
| Decay of other systems: roof, windows, doors, security, and appearance. | Replacement of mechanical systems. Weather tightening, security, and cosmetics. | |
| Building Maintenance and Operation | | |
| Chronic repairs and system breakdowns. | CPC provides assistance with governmental programs: | Efficient operations: |
| Energy inefficient. | Real estate tax benefits. | Reduced repair and maintenance problems. Improved services. |
| Declining services. | Rental increases on both rent controlled and rent stabilized apartments. | Increased energy efficiency, averaging 21% fuel savings. |
| Maintenance costs increasing faster than income. | | Adequate cash flows: |
| Poor tenant relations and difficulty in renting. | Rent subsidies for eligible tenants to pay for rent increases. | New rental base adequate to cover new debt costs, building operations, and return to owner. Income includes rent subsidies. |
| | | Reduced real estate taxes, repair and maintenance costs. |
| | | Improved tenant relations. No displacement of tenants. |
| | | Improved marketability of apartments. |
| Building Finances | | |
| Mortgage, often with balloon, with no certainty regarding refinancing. | CPC permanent loan at market rate insured by REMIC or SONYMA Loan within 90% of value to refinance existing debt, with appropriate discounts, plus rehabilitation costs. | Average loan for this fiscal year about \$9,200 per apartment, including about \$2,000 for refinancing and \$7,200 for rehabilitation. |
| Need for new funds to undertake extensive rehabilitation. | Payout and terms to provide long-term financing stability. CPC assistance in obtaining CD 1% long-term mortgage loan to mix with market rate money, reducing debt service cost. CPC servicing of permanent loan with regular inspections. | Loan based on 20-30 year payout, with rate and payment review every five years. CPC maintains tax, insurance and replacement escrows. Over half of CPC multi-family loans this past year involved participation of CD funds. CPC services CD loan. |






Apartment Units

| | | |
|----|---|------|
| 82 |  | 2194 |
| 81 |  | 1689 |
| 80 |  | 1838 |
| 79 |  | 1565 |
| 78 |  | 1100 |






Construction Loan Amounts*in millions of dollars*

| | | |
|----|---|------|
| 82 |  | 20.2 |
| 81 |  | 20.4 |
| 80 |  | 18.8 |
| 79 |  | 15.4 |
| 78 |  | 7.0 |

Permanent Loan Amounts*in millions of dollars*

| | | |
|----|---|------|
| 82 |  | 14.5 |
| 81 |  | 20.5 |
| 80 |  | 15.4 |
| 79 |  | 7.8 |
| 78 |  | 7.1 |

Loans Serviced

| | | |
|----|---|-----|
| 82 |  | 213 |
| 81 |  | 175 |
| 80 |  | 135 |
| 79 |  | 104 |
| 78 |  | 67 |

Moderate rehabilitation will extend the life of a building for 20 to 30 years, preserving it well into the next century. This extension is long enough to qualify the apartment for a long-term mortgage. When refinancing costs are included, the expense of moderate rehabilitation averaged \$9,200 per apartment unit this past year. It calls for monthly rents of about \$85 a room, a level judged affordable by families with annual incomes as low as \$16,500.

If buildings pass the point of moderate rehabilitation, one alternative is gut rehabilitation, which involves gutting the structure and virtually rebuilding it. This approach, under government subsidized programs, costs as much as \$65,000 per apartment unit plus rent subsidies of up to \$10,000 annually for 20 years or more. The third choice is demolition and new construction, which costs about the same and generally results in luxury housing for high income families. Both of these alternatives result in displacement of the old tenants, creating additional pressure on the existing housing supply.

CPC is dedicated to the preservation alternative, but its role has not been confined simply to providing funds. When created in 1974 as a non-profit corporation by 37 savings and commercial banks, CPC was provided with a revolving construction loan fund and a facility for long-term mortgages on completed projects, which eventually grew to \$26 million and \$100 million respectively. But the founders also gave CPC the mandate to be a catalyst—to explore the governmental impediments to private financing of rehabilitation and find ways to lower the barriers. The final mandate was to encourage development of a skilled rehabilitation capability large enough to handle a significant level of activity. CPC has fulfilled these roles, working with the cooperation of government to remove barriers and create incentives for preservation, and providing funds after the way has been cleared.

Creating the Bottom Line

To make a mortgage loan bankable, the rehabilitation project must result in a profitable apartment operation when the work has been done. Without a satisfactory bottom line, investors will not be interested. With that bottom line in mind, CPC, working with the Department of Housing Preservation and Development and other cooperating city agencies, has removed the mystery and streamlined the process for building owners. With the experience gained, CPC can guide landlords through a preservation process (outlined on page 4) that might otherwise be fatally intimidating.

There are three basic elements of government support that make important contributions to a building's bottom line:

- Tax abatements and exemptions.
- Rent increase authorizations.
- Rent subsidies for tenants unable to pay rent increases.

One of the first areas in which rehabilitation was eased has been tax treatment of the projects. Improvements in an apartment building normally would lead to a higher assessment and higher annual real estate taxes, working against the development of a satisfactory bottom line. Similarly, high current tax bills hinder the investment of additional capital for improvements. Through New York's J51 program, tax abatements and exemptions facilitate the preservation concept—first by reducing taxes and replacing their cost with payments for debt that finances improvements, and second by exempting buildings from increased assessments due to improvements.

For rehabilitated buildings, annual real estate taxes have been reduced about \$400 per apartment unit, and assessment increases due to improvements have been exempted for up to 32 years. A building can be restored without raising rents beyond the market. This tax subsidy—furnished by New York City—has been so

crucial to the moderate rehabilitation concept that virtually none of CPC's financing projects would have been feasible without it.

Another important step was rent adjustment. The cost of rehabilitation had to be covered in part by rent increases, which the overwhelming majority of tenants were willing to pay in exchange for the improvements involved. But with New York's rent control and rent stabilization systems, tenant acceptance was not enough. Landlords had to be sure they could legally charge adequate rents in a timely manner upon project completion. One delay in rent stabilized apartments was that an individual rehabilitation had to await official rulings on the allowability of improvements as a basis for rent increases. Another was that detailed cost submissions were required. Both time delays were reduced by amendment of the rent stabilization code to allow cost records filed under the J51 program to be automatically accepted for the rent increase process. This has cut by six months the time required to implement rent increases in rent stabilized apartments.

About 75% of the tenants in CPC projects can afford the higher rents. The remaining 25%, largely elderly persons living on fixed incomes, are eligible for federal Existing Section 8 subsidies for housing. This pays the rent beyond 30% of the tenant's income, and it averages about \$1,500 a year. These subsidies have been crucial to support the cost of rehabilitation, and at the same time, avoid tenant displacement.

Showing the Way

CPC promotes the preservation alternative by guiding building owners, many of them inexperienced in rehabilitation, through the entire process. An early step is to provide rehabilitation property standards that lay out the scope of the work based on experience with previous

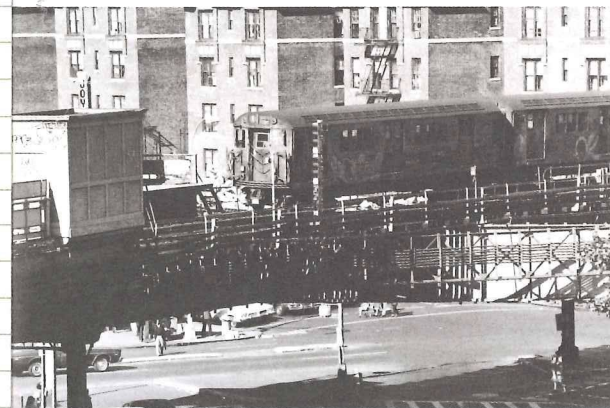
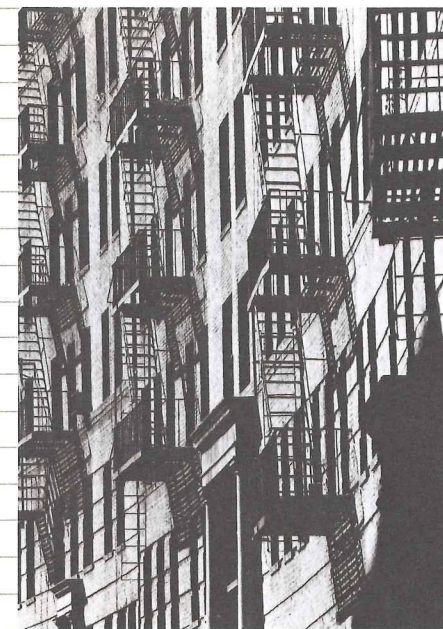
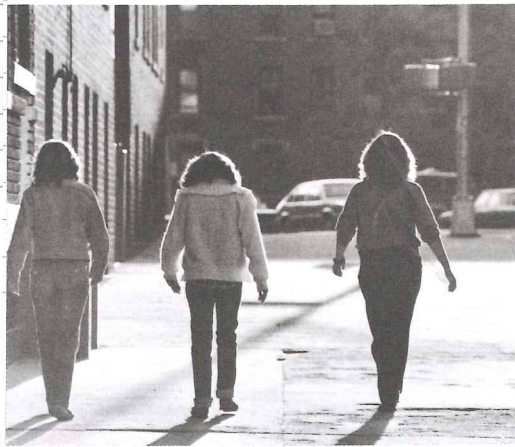
projects. Then the landlord can be guided through the complex of government approvals and made aware of the various public subsidies available to help achieve the profitability vital to obtain the required mortgage loans.

When a rehabilitation job is too expensive for the moderate approach normal for CPC projects, the building owner can be shown how to apply for federal Community Development funds. This money, administered by the City and lent at 1% interest, can be combined with CPC funds at market rates to finance projects costing as much as \$28,000 a unit and still produce finished apartments at affordable rents. With CD funds available to be blended with private funding, there is virtually no preservation project beyond the reach of the preservation concept in the neighborhoods where CPC lends.

In its early years, CPC worked with existing owners of buildings needing rehabilitation to preserve them from decay. They were interested in extending the life of their property on a profitable basis. As the CPC techniques were developed, and became widely known, new investors were drawn to apartment preservation. They bought buildings in poor condition, rehabilitated them and installed strong new management. This kind of investor has become increasingly important, rescuing buildings whose former owners had allowed them to decay.

Securing the Investment

Mortgage insurance is an important element of the current viability of the preservation effort, and it holds the key to significant future expansion. Future economic, social and political trends are beyond lenders' control, so some form of protection against unexpected developments is desired. Loan insurance on new construction, provided by the Federal Housing Administration, has been a staple of housing lending for decades. The challenge has been to develop similar assurances for rehabilitation lenders.



Washington Heights was the first CPC lending area, and eight years later more than 7% of all the apartment units in this section of Manhattan have been rehabilitated. This housing renewal has helped spark improvements in other city services, and has been an important factor in the neighborhood's revival.

The initial recourse was to the city's Rehabilitation Mortgage Insurance Corporation. REMIC insures up to the top 75% of a typical CPC loan, and the experience has been a good one. The sole claim for a loss was fully honored.

There are greater resources available through the State of New York Mortgage Agency, which operates a mortgage insurance program. Through legislative changes worked out in 1981, SONYMA now can insure the top 75% of loans for rehabilitation projects in the city's older neighborhoods.

The greatest potential lies in federal mortgage insurance. The so-called FHA 223(f) program, named for a section of the National Housing Act, can be applied to loans of the type CPC makes for moderate rehabilitation. If this is done, it holds the promise of attracting the lending resources of additional financial institutions, such as pension funds, beyond CPC and its sponsoring banks. FHA insurance also could be the avenue for introducing such loans to the national secondary markets for mortgages. A framework for federal insurance, possibly supplemented by Community Development Act funds, could open the way for extension of the preservation alternative to older urban centers everywhere.

The cost of rehabilitating older housing is estimated to be \$12 billion in New York City alone. When the costs of rehabilitation in other cities are added, the total is enormous and obviously calls for the resources of major national financial markets. It should be possible, however, to do much of the job basically with private capital if there can be a practical partnership developed with the services and subsidies the federal government can make available. The CPC experience in New York encourages this hope.

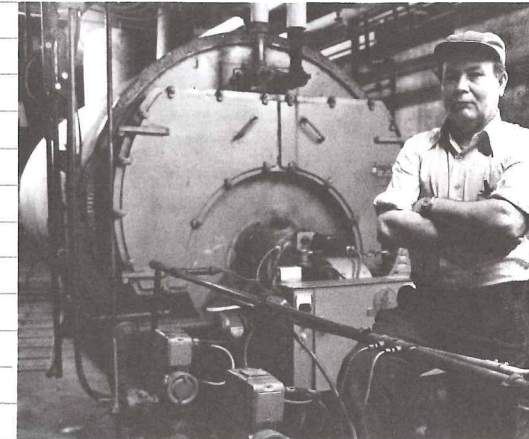
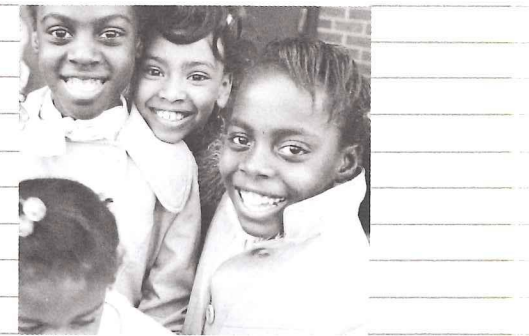
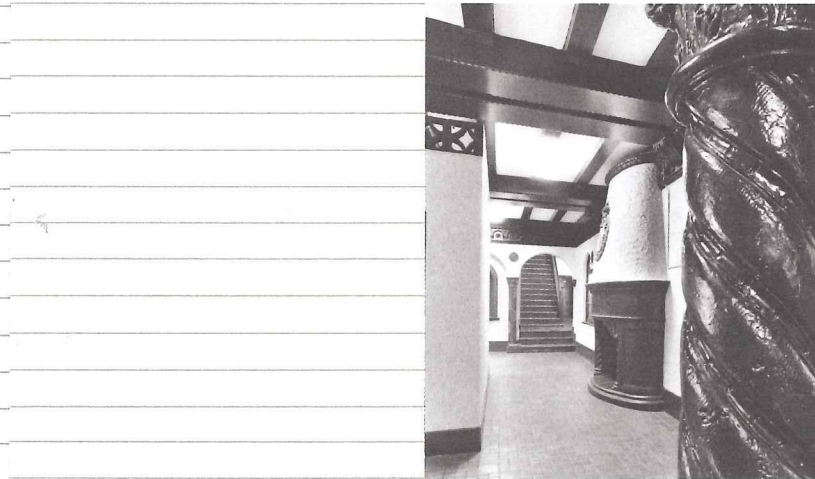
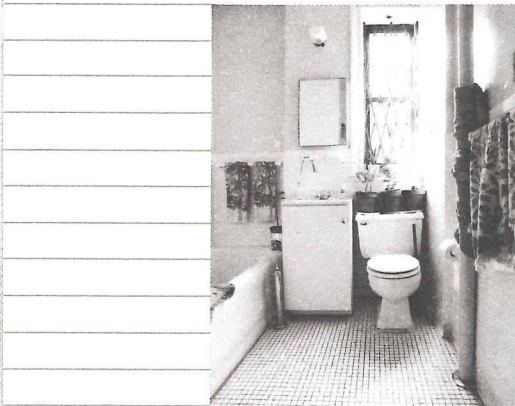
Seeking Broader Change

CPC has been working with the U.S. Department of Housing and Urban Development to

find ways of adapting the FHA 223(f) program to moderate rehabilitation conditions. Changes being sought include the relaxation of rehabilitation requirements that are impractical in many cases. One example is a requirement for elevators in pre-1928 five-story buildings, which city codes do not require and which would drive the cost of rehabilitation beyond reasonable limits.

Another example is the Davis-Bacon requirement to pay "prevailing" wage rates to rehabilitation workers on certain projects. This adds 15-20% to construction costs, inflates the cost of moderate rehabilitation and discourages the

CPC staff for Washington Heights and the Bronx (top photo) includes neighborhood mortgage officers Lynn Wehrli and Joanne Pugh and Marvin Goldberg, vice president for mortgage originations and head of the Manhattan-North office.



Crown Heights was the first CPC lending area in Brooklyn. Many buildings like this one at 150 Crown Street have been brought back to life, in this case by combined financing from CPC, New York City and the Metropolitan Savings Bank.

community of small renovation specialists being developed to handle moderate projects.

Processing time and complexity are still other examples. CPC typically processes rehabilitation loans in three to four months, while government involvement doubles that time. Complexity adds not only to the time but also to the costs involved in a project.

Progress is being made toward the resolution of these and other problems, and an important experiment with these new concepts for federal involvement is under way in several New York City neighborhoods. Flatbush and Crown Heights in Brooklyn, the Grand Concourse-

Northwest Bronx area, and Washington Heights and Inwood in northern Manhattan have been designated by HUD as part of the Target Area Preservation (TAP) Demonstration Program. The TAP projects will be conducted under the approach in which federal insurance and a variety of subsidies, including Government National Mortgage Association support, will be used as incentives to promote moderate rehabilitation.

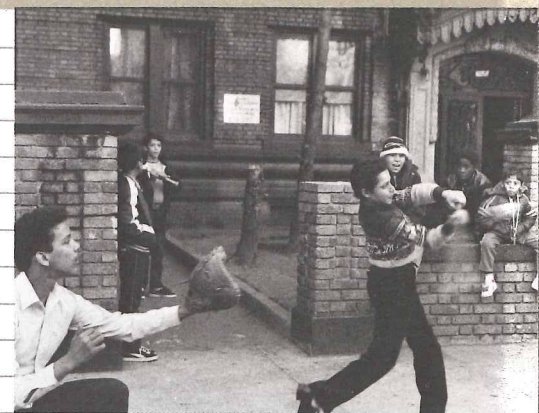
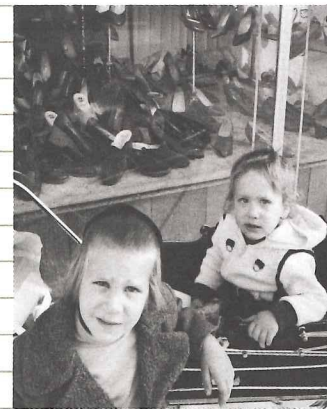
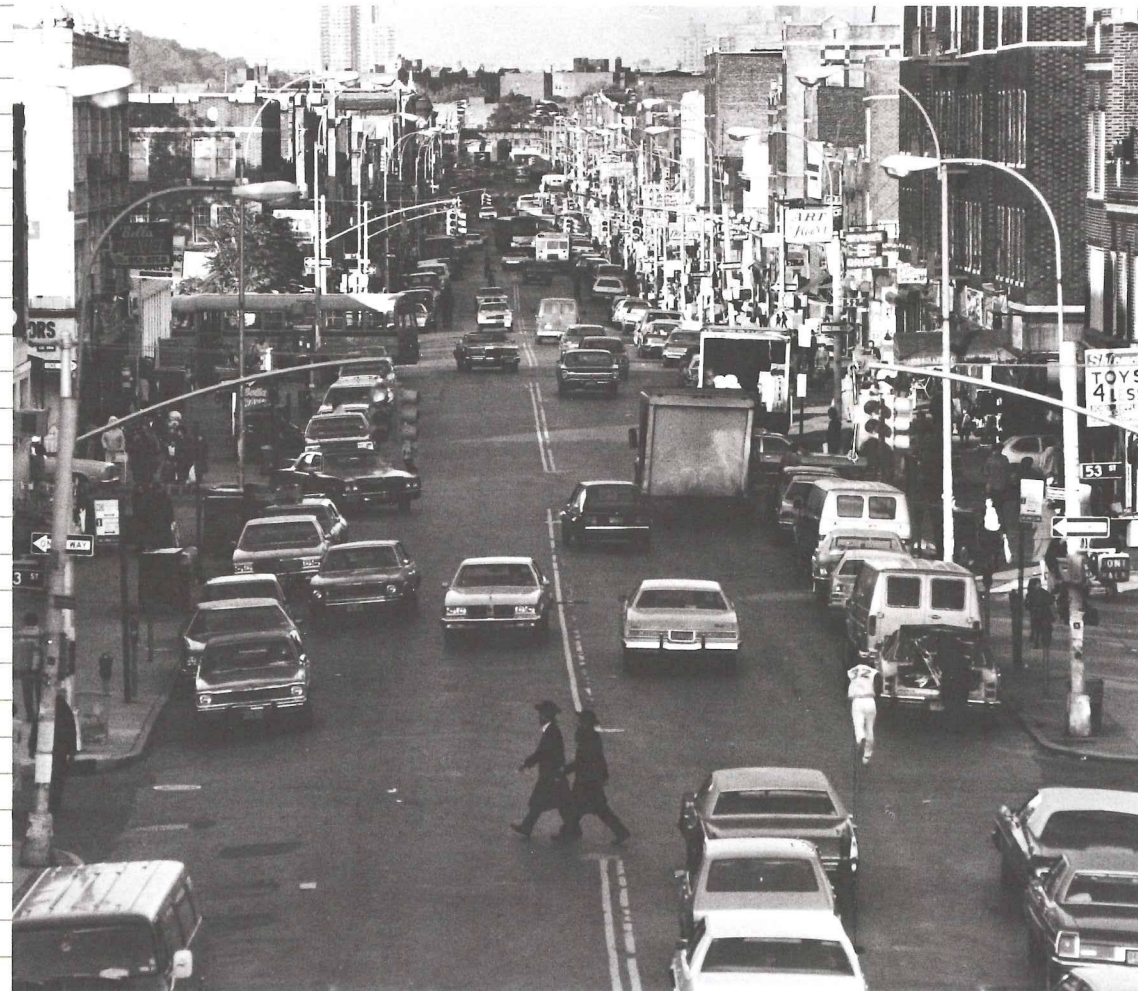
CPC has applied for funds under this program and has received over \$8.8 million in GNMA permanent loan commitments out of the \$15 million allotted to New York.

While this practical trial of a national preservation approach is under way, discussion continues of the ways in which FHA 223(f) insurance could be developed into one element of a coinsurance program. In this case, the processing of insurance would shift from the government to the private lender in exchange for the lender assuming part of the risk. Other important changes would allow the lender to insure up to half the risk not covered by FHA and would permit claims to be paid in cash rather than debentures. Equally vital for making this program work in older neighborhoods is a

proposal to permit repairs costing up to \$15,000 a unit (up from a \$3,000 limit) without triggering any governmental wage regulations.

Federal legislation, introduced by Senator Alphonse D'Amato of New York, embodying many of these proposals is, under consideration. It offers the potential for development of a national framework for the preservation alternative, facilitating moderate rehabilitation in low and moderate income neighborhoods where housing could still be saved with relatively low cost and little disruption. At the Senator's request, CPC testified at Senate hearings last April, analyzing provisions of the proposed program in the light of CPC's own experience in New York.

In Crown Heights and elsewhere, CPC projects often have revived the corner buildings that are important in stabilizing an entire block.



CPC has extended its lending deeper into Brooklyn, to Flatbush and Boro Park, to help neighborhoods like those pictured here to achieve their housing goals. Working with the Southern Brooklyn Community Organization, CPC has pioneered the financing, the rehabilitation and the development of three middle income co-operatives in Boro Park.

Looking at the record

There are many ways to measure the success of the CPC concept. In statistical terms, CPC has originated loans on 216 rehabilitation projects since its first loan was closed in 1975. These projects, including 267 buildings, represent 9,977 apartments secured in the city's housing stock for another generation. By the end of its 1982 fiscal year, CPC had closed over \$92 million in loans, including \$28 million of CD funds administered by the City's Department of Housing Preservation and Development. CPC is now financing the production of rehabilitated housing at the rate of \$20 million annually.

The origination process itself is a mark of success. CPC has developed methods for guiding and supervising the planning and rehab work, informational meetings with tenants, rent restructuring, assisting in dealings with various government agencies and providing a construction loan and then long-term financing when the project is completed. Long experience has enabled CPC to handle this intricate process expeditiously, working with owners and investors who could easily be confused and discouraged if left to their own devices.

The ultimate measure of success can be seen in the rehabilitated buildings that are the basis of future neighborhood stability. It can be seen in

the community groups that support the preservation alternative. Montefiore Hospital, for example, is buying nearby apartment buildings with a view to putting them through the CPC program and preserving the stability of the hospital's immediate neighborhood. Following this example, Beth Abraham Hospital has started construction on a 107-unit apartment project across from its main facility.

In Washington Heights, Jewish Community Council members have just completed their second large renovation using CPC and City CD funds, and they are now gearing up for a third

project. Northern Manhattan as a whole now has received over \$40 million of new housing investment through CPC, making it a prime example of preservation throughout the country.

The first CPC efforts in Queens now are reaching completion, and substantial new projects are planned for Jamaica and Woodside. The first Queens financing project, involving a vacant building in Jamaica, was completed for \$14,200 per unit, using CD money but requiring no rent subsidies. The 59-unit building was fully rented by neighborhood residents within a week.

CPC Brooklyn-Queens office serves the lending areas in those boroughs and is staffed (bottom photo) by neighborhood mortgage officers Donna Sisselman and Stephen P. Grathwohl, who also is head of the office.



Olinville is a section of the North Bronx where Beth Abraham Hospital has rehabilitated adjacent apartment buildings with the assistance of CPC in order to maintain a stable residential neighborhood. CPC's annual lending of \$20,000,000 creates more than 450 jobs throughout the city in construction and real estate services and management.

Renovation projects now dot the map of Brooklyn. There are five rehabilitated buildings, containing over 350 apartments, along Eastern Parkway in the Brooklyn Museum area. Ocean Avenue has become an impressive display of several CPC-financed rehabs as well as many financed by Citibank and a variety of other lenders.

Less obvious but equally important are the satisfactory financial reports of the owners—the bottom lines that sustain the viability of their mortgages. And average fuel consumption has been reduced 21% in CPC-rehabilitated buildings.

CPC also services the construction loans and mortgages it originates. A notable feature of this phase of the program is a Building Reserve Fund that is gradually built with a portion of each monthly payment. Each building has such a reserve to provide for capital improvements that become necessary during the term of the mortgage loan. Through regular inspections and supervision, and aided by the reserve fund, CPC seeks to assure that the integrity of the rehabilitated building will be maintained over the term of its renewed life.

A study of 36 buildings in which renovations had been completed by 1980 showed that the ratio of net income to debt service averaged 1.33. This figure is well within conventional bank lending standards. The payment record has been excellent, and by the end of the 1982 fiscal year, there had been only two foreclosures necessary out of a portfolio of 216 loans.

Expanding the CPC Concept
Since 1979, CPC has made its services and experience available to other private lenders as a means of broadening the base of rehabilitation financing. The CPC staff is used to originate

loans for others, provide the construction financing and deal with the necessary government agencies. The projects are carried through to completion, when the lender whom CPC is representing steps in and takes the permanent mortgage. This service could be used as well by pension funds and other institutions interested in long-term investments.

The CPC capability also could be developed by other lending institutions. Its importance is not as a unique invention of CPC but as a concept that can be applied broadly to implement the preservation alternative for extending the life of the urban housing stock.

CPC Central Office staff (bottom photo) includes from left to right Roseanne Longobardi, Dale McDonald, Barbara Rose, John McCarthy and Donna Welesky.

Bronx
\$15,768,000 Invested Funds
1925 Units Rehabilitated

Manhattan-North
\$40,568,000 Invested Funds
4917 Units Rehabilitated

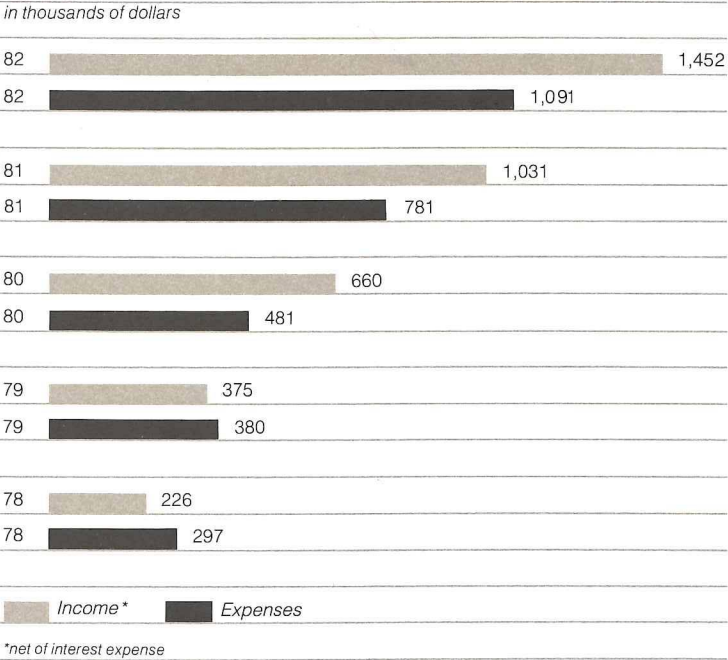
Queens
\$1,940,000 Invested Funds
205 Units Rehabilitated

Brooklyn
\$34,522,000 Invested Funds
2930 Units Rehabilitated



**Favorable financial results
for the 1981-82 fiscal year
confirm the self-supporting
status of CPC operations.**

CPC Income and Expenses



Nineteen eighty two marked the third consecutive year in which the Corporation's income from operations exceeded expenses, showing a surplus of approximately \$360,000. This favorable record 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.

CPC's operations yield income in three ways. First, on each construction loan, an origination fee of 1% of the commitment amount is earned, together with a 2% spread on advances (the difference between our construction lending rate and the cost of funds for borrowings under our revolving credit agreement).

Second, CPC earns a "Company Fee" from its member banks for servicing the collateral trust note mortgages, which numbered 175 and totalled \$47.3 million at fiscal year end. Additional income is obtained from individual banks and the City for CPC's servicing of the 79 loan participations (representing \$24.1 million) now held by them.

Third, the Corporation invests idle cash reserves (such as those for permanent mortgage escrow and building reserve accounts), applying them primarily to its own construction mortgages. By reducing the Corporation's expense for borrowed funds, this policy has contributed substantially to revenue in this year, due to the high prevailing interest rates. Future portfolio growth will increase investable reserves, and a steady flow of revenue from this source is anticipated.

The Corporation's surpluses have permitted the creation of a reserve, totalling \$300,000 at year end, against possible losses in our \$7.2 million construction loan portfolio. They have also permitted reductions in the Company Fee from the above-market rate of 1 1/4% which was established at CPC's creation in order to furnish working capital in the Corporation's early years. The fee was reduced to 1% in 1980 and 3/4% in 1981.

High interest rates in the past fiscal year did not appreciably diminish the continuing strong demand for CPC's rehabilitation financing, and declining rates may be expected to boost the number of originations. The generation of operating surpluses on the past three years' volume of originations indicates that future portfolio growth will establish an even firmer financial basis for the Corporation's contribution to neighborhood renewal.

| August 31 | 1982 | 1981 |
|--|--------------|--------------|
| Assets | | |
| Investments in first mortgage loans (Notes 2, 3, 4 and 5): | | |
| Construction loans, net of allowance for possible investment losses of \$300,000 in 1982 and \$100,000 in 1981 | \$14,199,851 | \$10,775,755 |
| Permanent loans— | | |
| Pledged | 63,848,640 | 51,002,212 |
| To be pledged | 289,000 | 304,140 |
| | 78,337,491 | 62,082,107 |
| Less—Participants' interest in mortgage loans | 24,122,907 | 18,553,859 |
| | 54,214,584 | 43,528,248 |
| Cash and cash equivalents: | | |
| Subject to immediate withdrawal | 2,656,035 | 50,225 |
| Certificates of deposit (Note 6) | 3,170,567 | 3,025,617 |
| Accrued interest receivable | 511,238 | 533,678 |
| Other assets | 154,332 | 41,579 |
| | \$60,706,756 | \$47,179,347 |
| Liabilities and Fund Balance | | |
| Liabilities: | | |
| Notes payable under revolving credit agreement—unsecured (Note 4) | \$ 1,850,888 | \$ 979,782 |
| Bank loan—unsecured | — | 559,394 |
| Accounts payable and accrued expenses | 1,943,662 | 1,718,733 |
| Participant's deposits (Note 6) | 7,160,140 | 4,824,705 |
| Escrow and other deposits of borrowers | 1,718,244 | 1,615,062 |
| Deferred income—commitment fees | 29,691 | 27,598 |
| | 12,702,625 | 9,725,274 |
| Nonrecourse collateral trust notes (Note 5) | 47,014,426 | 36,824,763 |
| | 59,717,051 | 46,550,037 |
| Commitments and contingencies (Notes 2, 3, 4 and 7) | | |
| Fund balance (Note 9) | | |
| | 989,705 | 629,310 |
| | \$60,706,756 | \$47,179,347 |

The accompanying notes to financial statements are an integral part of these balance sheets.

| Year Ended August 31 | 1982 | 1981 |
|--|------------|------------|
| Public Support and Revenue: | | |
| Public support | \$ 4,200 | \$ — |
| Revenue— | | |
| Interest on mortgage loans | 1,559,529 | 1,963,149 |
| Commitment fees | 186,927 | 201,946 |
| Servicing fee income | 293,266 | 313,348 |
| Interest on short-term investments | 20,306 | 8,428 |
| Other | 90,315 | 31,196 |
| Total revenue | 2,150,343 | 2,518,067 |
| Total public support and revenue | 2,154,543 | 2,518,067 |
| Expenses: | | |
| Interest (Note 4) | 702,371 | 1,486,869 |
| Employee compensation and benefits | 484,829 | 417,653 |
| Professional fees | 179,125 | 138,807 |
| Office expenses | 145,539 | 101,325 |
| Provision for possible investment losses (Note 3) | 200,000 | 100,000 |
| Other | 82,284 | 23,223 |
| Total expenses | 1,794,148 | 2,267,877 |
| Excess of public support and revenue over expenses | 360,395 | 250,190 |
| Fund Balance, beginning of period | 629,310 | 379,120 |
| Fund Balance, end of period | \$ 989,705 | \$ 629,310 |

The accompanying notes to financial statements are an integral part of these statements.

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.

Income Recognition —
Interest on construction loans and permanent loans in accumulation is accrued monthly based on the daily outstanding principal balances of such loans. Interest on pledged loans is remitted to the holders of collateral trust notes (see Note 5) and has not been recognized as revenue for financial reporting purposes. 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.

Reclassifications —
Certain balances in fiscal year 1981 have been reclassified to conform with the classifications reflected in the 1982 financial statements.

2. Mortgage loans and commitments:
The following is a summary of closed mortgage loans as of August 31, 1982 and 1981 (dollar amounts in thousands):

| 1982 | Construction | Permanent | Total |
|---|--------------|-----------|----------|
| Number of loans | 37 | 175 | 212 |
| Funded commitments: | | | |
| Funded balance— | | | |
| Total | \$14,500 | \$64,138 | \$78,638 |
| Less—Participants' interests | 7,289 | 16,834 | 24,123 |
| Corporation's portion | 7,211 | 47,304 | 54,515 |
| Less—Allowable for possible investment losses | 300 | — | 300 |
| | 6,911 | \$47,304 | \$54,215 |
| Corporation's portion of unfunded commitments | 4,955 | | |
| Total Corporation commitment amount | \$11,866 | | |

| 1981 | Construction | Permanent | Total |
|---|--------------|-----------|----------|
| Number of loans | 35 | 141 | 176 |
| Funded commitments: | | | |
| Funded balance— | | | |
| Total | \$10,876 | \$51,306 | \$62,182 |
| Less—Participants' interests | 6,555 | 11,999 | 18,554 |
| Corporation's portion | 4,321 | 39,307 | 43,628 |
| Less—Allowance for possible investment losses | 100 | — | 100 |
| | 4,221 | \$39,307 | \$43,528 |
| Corporation's portion of unfunded commitments | 4,966 | | |
| Total Corporation commitment amount | \$ 9,187 | | |

Pending commitments for new mortgage loans (net of portion applicable to participants) as of August 31, 1982 and 1981 were as follows (dollar amounts in thousands):

| | Mortgage Commitments For Loans Not Yet Closed | | Mortgage Commitments Not Yet Accepted By Potential Borrowers | |
|-----------------|---|---------|--|---------|
| | 1982 | 1981 | 1982 | 1981 |
| Number of loans | 10 | 14 | 8 | 3 |
| Amount | \$3,506 | \$4,642 | \$5,778 | \$1,200 |

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. 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. Substantially all pledged and to-be-pledged permanent mortgage loans are insured with

the Rehabilitation Mortgage Insurance Corporation (REMIC) or the State of New York Mortgage Agency (SONYMA). Both programs provide insurance 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 for loans made prior to fiscal 1982 and up to 75% of the principal balance of loans made in fiscal 1982 and thereafter.

Construction loans are not presently eligible for REMIC or SONYMA insurance 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, 1982, 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. In the years ended August 31, 1982 and 1981, the Corporation provided \$200,000 and \$100,000, respectively, for this allowance and no amounts were charged to the allowance in either year. The provision in each year approximates 5% of the Corporation's total public support and revenue plus an estimate of the potential loss to the Corporation upon foreclosure of presently delinquent construction loans.

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 1/2% 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 1982 and 1981 were at interest rates which ranged from 13 1/2% to 19 1/2% and 12% to 22%, respectively. At August 31, 1982 and 1981, the interest rates on these borrowings were 13 1/2% and 21%, respectively.

5. Nonrecourse collateral trust notes:

The Corporation is a party to a note purchase agreement with 32 banks. 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. The interest received on pledged mortgages and the interest paid to the collateral trust note holders, which aggregated approximately \$3,720,000 in 1982 and \$2,770,000 in 1981, are not recognized as revenues or as expenses for financial reporting purposes.

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 1982 and 1981, such fees were 3/4 of 1% and 1%, 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 first mortgage loans, for a period of 30 months from the date that each such loan is converted to a permanent loan, are retained by the Corporation.

At August 31, 1982, the HPD deposit consisted of the following:

| | |
|--|-------------|
| Unused HPD funds, principally invested in certificates of deposit | \$5,239,258 |
| Mortgage interest and principal collections and accumulated interest on short-term investments | 1,920,882 |
| | <hr/> |
| | \$7,160,140 |

7. Commitments and contingencies:

The Corporation leases office space in three locations under agreements which expire on three separate dates in 1983, 1986 and 1987.

Annual base rents are subject to escalation and/or decrease as provided for in the lease. Rental expense for the year was \$82,617, net of sublease income of \$13,188. The minimum annual rentals under noncancelable leases are as follows:

| | |
|------|----------|
| 1983 | \$95,079 |
| 1984 | 90,279 |
| 1985 | 91,378 |
| 1986 | 91,378 |
| 1987 | 7,700 |

The Corporation, its members and certain of its officers and directors have been named as defendants in a lawsuit brought by a mortgagor. The court has granted summary judgment in favor of the Corporation and the other defendants, dismissing the complaint. The plaintiff has filed notice of appeal but has not taken any further action. 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. Pension plan:

In April, 1982, the Corporation established a defined contribution pension plan covering all officers and employees. Each officer or employee is included in the plan after three years of service and benefits are payable upon retirement or earlier as provided for in the plan. The plan, which is administered by The Equitable Life Assurance Society of the United States, provides for the Corporation to contribute annually an amount equal to 7% of the base salary of each eligible officer or employee. Pension expense for the year ended August 31, 1982 was \$960 and net plan assets available for benefits at August 31, 1982 were \$960.

9. 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.

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, 1982 and 1981, 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, 1982 and 1981, 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 25, 1982.

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The New York City Community
Preservation Corporation
Chairman of Executive Committee
Emigrant Savings Bank

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Vice Chairman
Morgan Guaranty Trust Company
of New York

Edward A. Farley
Executive Vice President
Manufacturers Hanover
Trust Company

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Senior Vice President
Citibank, N.A.

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The Chase Manhattan Bank, N.A.

Pazel G. Jackson, Jr.
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Chemical Bank

I. J. Lasurdo
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Greenpoint Savings Bank

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Executive Vice President
New York Clearing House

William G. Lillis
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American Savings Bank

Frederick H. Schneider
President
Roosevelt Savings Bank

Donald L. Thomas
Chairman
Anchor Savings Bank

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*

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Metropolitan Savings Bank

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Vice President
Citibank, N.A.

Michael D. Lappin
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Preservation Corporation

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of New York

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John M. McCarthy
Executive Vice President
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Vice President

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Vice President

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Mortgage Staff

Marvin Goldberg
Mortgage Officer
Director of Manhattan-Bronx Office

Stephen P. Grathwohl
Neighborhood Mortgage Officer
Director of Brooklyn- Queens Office

Joanne S. Pugh
Neighborhood Mortgage Officer

Donna Sisselman
Neighborhood Mortgage Officer

Lynn Wehrli
Neighborhood Mortgage Officer

Consulting Engineers

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

Auditors

Arthur Andersen & Co.

Corporate Counsel

Sullivan & Cromwell

Real Estate Counsel

Carb, Luria, Glassner, Cook & Kufeld
Shea & Gould

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2211 Church Avenue
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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 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
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

*Divisions of the Buffalo Savings Bank