The New York City
Community Preservation Corporation
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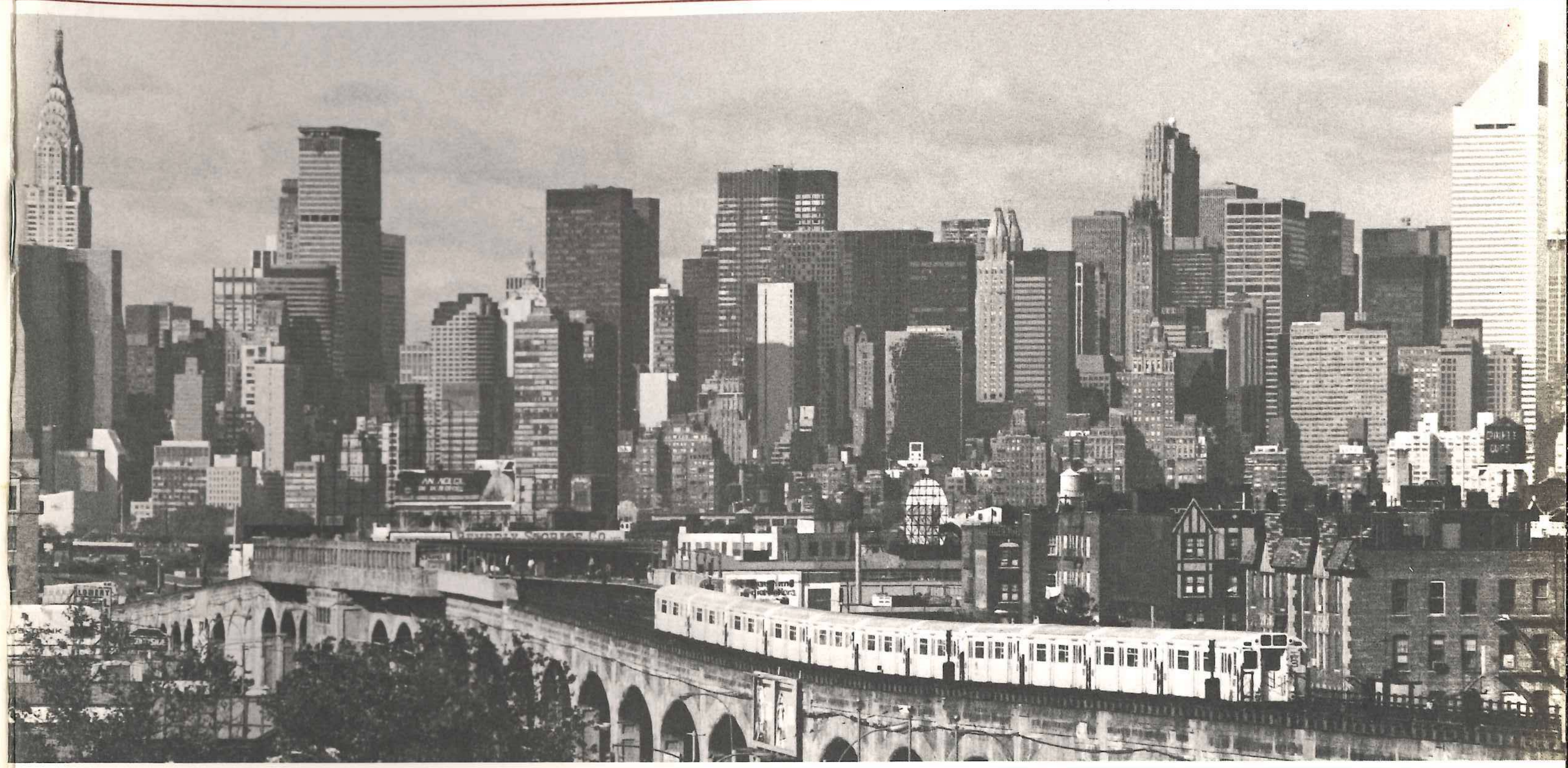


The New York City Community Preservation Corporation

1983 Annual Report

The Community Preservation Corporation, in partnership with government, has pioneered a cost-efficient method of moderate rehabilitation to upgrade existing apartment houses, making them affordable to tenants, profitable to owners, and attractive and secure to institutional investors. Neighborhood stability is reinforced, as improvements take place without displacement of a building's residents. Government subsidies are used, but in smaller amounts than under alternative housing strategies.

For nine years this package was financed solely by the New York City commercial and savings banks which created CPC. Urban housing's mortgage needs are vast and it has been clear that other financing sources were needed. This year, two New York City public pension funds committed to purchase $100 million in rehabilitation mortgages to be originated by CPC. For the first time, housing rehabilitation was recognized as a sound investment by a class of institutions—pension funds—with resources as substantial as the needs of aging city neighborhoods. This investment program sets a precedent for similar public-private partnerships in cities across the nation.

The front cover shows a view of midtown Manhattan from CPC's Queens lending area.

Highlights

Fiscal Year 1982-83 Performance

Loan Commitments Issued	$29,489,000
Closed Construction Loans	
CPC Funds	$7,731,041
Federal Community Development Funds	9,391,666
Other Private Funds	1,371,091
Total	$18,493,798
Units (Construction Started)	
Manhattan	379
Bronx	494
Brooklyn	424
Queens	75
Total	1,372
Income (Net of Interest Expense)	$1,561,038
Expenses	$ 997,677

Lending Record 1974-83

Closed Loans (246)	$111,280,973
Foreclosures (2)*	$930,870
Apartment Units	11,349

**Losses on first foreclosure were fully recovered through a claim to the Rehabilitation Mortgage Insurance Corporation (REMIC). Second foreclosure was recently worked out without loss to CPC.*

John D. Kyle (right) is Chairman of The New York City Community Preservation Corporation and Michael D. Lappin is President. ▶

CPC's ninth year of operation saw fulfillment of a principal goal of our founders: the creation of new capital resources for financing housing preservation. Agreement by the New York City Police Pension Fund and the Employees' Retirement System to provide $100 million of permanent financing through CPC marks, we believe, the first time that public pension money has supported housing rehabilitation in low and moderate income urban neighborhoods. The pension trustees' investment decision signals an acceptance of the soundness of the rehabilitation financing method pioneered by CPC in partnership with city officials.

This investment commitment was structured to meet high investment standards and to be usable in financing the rehabilitation needs of the city's aging housing stock. Mortgages will earn market rates of return and will be insured by the State of New York Mortgage Agency or its equivalent. The pension funds will "forward commit" permanent financing at fixed rates for up to 30 years. This forward commitment provides the certainty of permanent takeout of CPC's construction loans, while fixed rates give buildings long-term financial stability.

Coinciding with the pension funds' announcements, CPC's commercial bank members renewed, for four years, our $26 million construction lending fund. The renewal provides a lower interest rate for future construction financings.

The soundness of CPC's investments and their stabilizing effects on their neighborhoods have provided the basis for attracting these sources of financing. After nine years, we have provided over $111 million to finance the rehabilitation of 298 properties and have done so with only two foreclosures. The resultant in-occupancy improvement of over 11,300 apartments has created stability, as it has occurred without changing either the ethnic or economic composition of the community's residents.

These results and our future efforts rely on public support. Adequate and timely rent increases, rental subsidies and the city's J51 tax abatement/exemption program provide the economic basis for investment in housing improvement. The failure of any of these programs, as evidenced by lenders' suspension of activity while J51 was in doubt, will halt preservation efforts.

With the renewal of J51, our concern now focuses on the availability of rental subsidies. CPC experience has demonstrated that, while modest, rental subsidies are vital both to avoid displacement of poor and elderly tenants and for financing feasibility. The pace of future housing preservation efforts depends on a solution to this problem.

Tempered by the extent of public support, CPC is planning a modest growth in the coming year. We expect to increase lending originations to $30 million annually and explore expansion into new low and moderate income neighborhoods.

We also will continue to encourage other lenders to join the preservation effort. A principal limitation will be sources of long-term funding. Our testing of the FHA 223(f) co-insurance program, with subsequent sales to the secondary market, is directed toward this problem.

We begin our 10th year confident that new financial resources will allow us to broaden our preservation activities. Our success, as always, will depend upon our cooperative efforts with government to design solutions to our urban problems.

John D. Kyle
John D. Kyle
Chairman

Michael D. Lappin
Michael D. Lappin
President

December 14, 1983

The New York police pension fund's decision to put $50 million into rehabilitating deteriorating apartment buildings in the city is good news for landlords and tenants and also a sound investment for the fund.
—New York Daily News

Rehabilitation of New York City's neighborhoods and housing stock received a major boost during 1983. Substantial new sources of long-term financing became available through the city's pension funds, and the availability of tax abatement and exemptions to encourage upgrading was reaffirmed. These developments mean that the moderate rehabilitation concept, developed and proven by the New York City Community Preservation Corporation in cooperation with local government, can be applied more broadly in the city's low and moderate income neighborhoods to help stabilize them and preserve their multifamily housing.

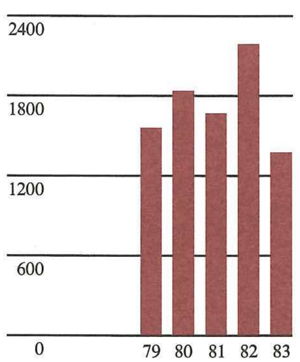
The first breakthrough came when the New York City Police Pension Fund and the Employees' Retirement System agreed to commit $100 million for rehabilitation mortgages to be placed through CPC. This signaled an important recognition of the CPC concept, and provided the company with resources to supplement the initial $100 million commitment of the city's commercial and savings banks, of which about $75 million had been invested. It also meant that the level of rehabilitation, which had been running at about $20 million annually, could be modestly increased within the coming year.

Funding is vital to the success of the CPC concept, yet reduction of real estate taxes under the J51 program has an equally important role. It is essential in making the economics of a rehabilitated building workable. So renewal of the J51 program was a key development in 1983. Its importance can be seen in the fact that CPC was unable to make new commitments for six months while the future of J51 was in doubt. After extensive debate in the State Legislature and City Council, the program was renewed, with its continued workability assured in the city's "neighborhood preservation areas."

These developments during 1983 were solid confirmation of the value of the rehabilitation program created by CPC, and they provided assurance of its continuation on a solid basis.

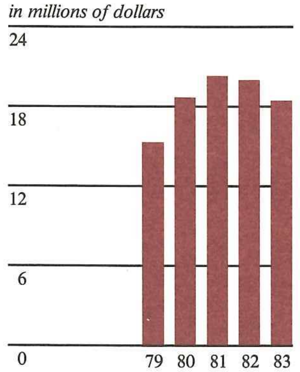
◄ *The tranquility and stability of the city's neighborhoods will be aided at a faster pace as CPC implements plans to increase lending from $20 million to $30 million a year.*

Apartment Units



Construction Loan Amounts

in millions of dollars



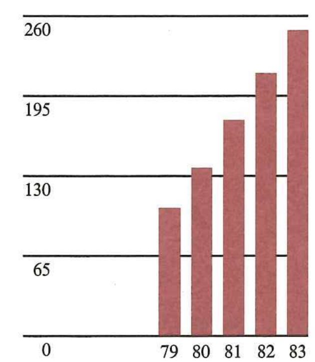
As the Community Preservation Corporation nears completion of its first decade of operations, it continues to demonstrate that moderate rehabilitation is the most sensible, cost-effective way to revitalize New York City's housing stock and neighborhoods. Of the 11,349 housing units rehabilitated so far through CPC, the financing cost per unit has averaged about $10,000, which has been significantly more cost-efficient than similar government rehabilitation programs.

The cost of moderate rehabilitation is in turn far lower than that of the other two means of creating housing: new construction and total rehabilitation. High land prices and high building costs virtually guarantee that any privately funded new construction in the city will be luxury housing. New buildings typically cost more than $90,000 per apartment, and when completed are affordable only by families with incomes over $60,000 a year. Ninety percent of New York City households are thus effectively excluded from the new housing market. Total rehabilitation, in which buildings are completely gutted and refurbished, costs not much less than new construction, and is economically viable only for the same small segment of the population.

In addition to its economic good sense, moderate rehabilitation is particularly appropriate for New York City, where about 60% of all residential housing was built before 1940. Such buildings are still structurally sound, but their systems are often nearing the end of their useful lives. By making investments in new heating, plumbing, and electrical systems before the buildings reach a state of serious deterioration, their useful lives can be extended well into the next century, and the more costly alternatives of new construction or total rehabilitation can be avoided. There are roughly one million apartment units in the city that can benefit from such investments. Given the continued loss of thousands of apartments in the city to fire, demolition and abandonment, the existence of a cost-effective program for renewing housing is more than just a good idea; the need for it is urgent.

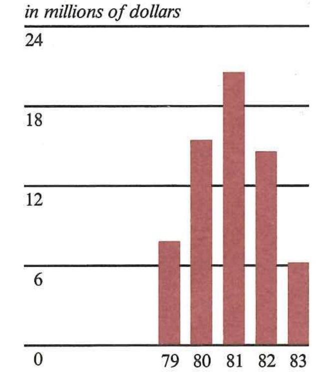
> *. . . The fastest and cheapest way to provide apartments for [middle- and low-income tenants] is to preserve existing buildings that would otherwise slide into disuse.*
>
> *—Newsday*

Loans Serviced



Permanent Loan Amounts

in millions of dollars



CPC's methods permit quality rehabilitation that results in both decent housing at affordable rents and realistic operating economics allowing market-worthy mortgages. Following rehabilitation of CPC-financed buildings, rents today average around $90 to $100 a room or $270 to $300 a month for a one-bedroom apartment and $360 to $400 for a two-bedroom apartment. This is affordable without subsidy for families earning as little as $16,000 a year.

Founded in 1974 as a nonprofit corporation by 39 of New York's commercial and savings banks, CPC is committed to the goal of developing and implementing methods to preserve decent housing for low and moderate income families living in the city's neighborhoods. The corporation:

- Finances rehabilitation projects by combining private funds and public subsidies to yield an investment that meets the standards of institutional mortgage lenders.
- Works to remove regulatory impediments and streamline procedures to encourage other private housing rehabilitation efforts.
- Seeks expansion of the pool of available funds for rehabilitation financing.

Since 1974, CPC has financed the upgrading of approximately 11,300 apartments in 298 buildings, committing $111.3 million (including low-interest Community Development loans provided by the city's Department of Housing Preservation and Development) for 246 loans. While small in comparison with city-wide needs, this effort has financed the preservation of significant portions of the housing stock in target neighborhoods and added greatly to their stability. Washington Heights and Inwood, for example, have had about 5,300 units—7.5% of their housing—rehabilitated with funds provided by CPC. The improved apartments have been a key factor in the renewal of those communities.

The investment by the Police Pension Fund represents only two percent of its assets, yet it will go a long way to help stabilize neighborhoods . . .

—New York Post

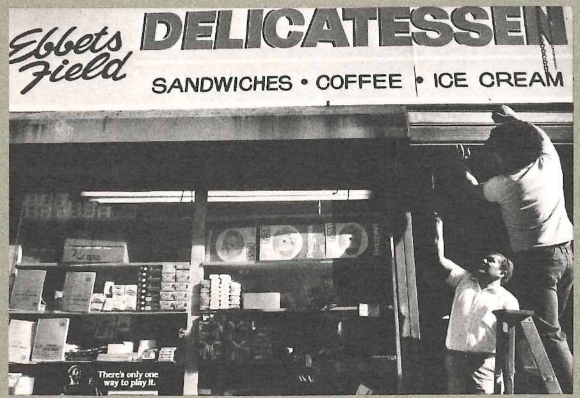
The decision to invest $100 million through CPC marks the first time public pension funds have been committed to financing rehabilitation of multifamily housing in older urban neighborhoods. Upon announcing the program, the funds' trustees noted that "This program is attractive because it will result in the rehabilitation of [many] apartments and will be a superb investment for the pension system. We hope the program will expand to include other pension systems. It is going to benefit New Yorkers across the board: those who live in apartments and neighborhoods needing rehabilitation and those who depend on high quality investments by the pension systems for their retirement income."

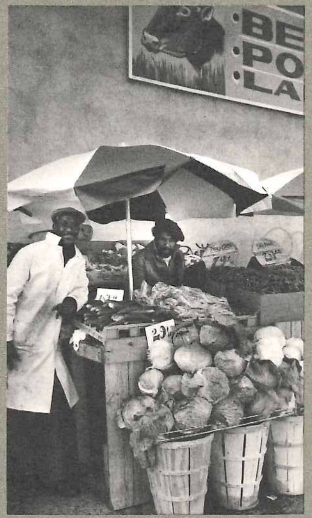
CPC, with its commitment to sound financing, is able to meet a standard combining security and a market rate of return.

The pension fund provides permanent mortgages to take out CPC construction loans at the completion of rehabilitation. The mortgages are insured by the State of New York Mortgage Agency (SONYMA) or another equally sound insurer. The mortgage interest rate, set at the time of commitment, is based on the yield for single-family mortgage-backed securities issued by the Government National Mortgage Association (GNMA). The rate is adjusted for the type of mortgage insurance on the project loan (SONYMA or other) and for the interval between the time the funds are committed, prior to the start of construction, and the time when the pension money is drawn down, at the end of the construction period. The pension fund permanent mortgage provides a fixed rate for a term of up to 30 years.

Under the purchase arrangement, the pension fund mortgages are committed by the CPC mortgage committee at the same time the CPC construction loan is committed. The mortgage committee, composed of CPC's president and six senior lending officers of member banks, will apply the same scrutiny and underwriting standards that have been applied in its past lending activities.

◄ *A significant advantage of the CPC rehabilitation concept is that tenants can remain in their apartments while the work proceeds, even though it involves a major overhaul of the building and its systems.*





◄ *Neighborhoods such as this one in Brooklyn are stabilized and preserved with the help of housing restoration done under the CPC concept. Their economic and ethnic composition remains unchanged.*

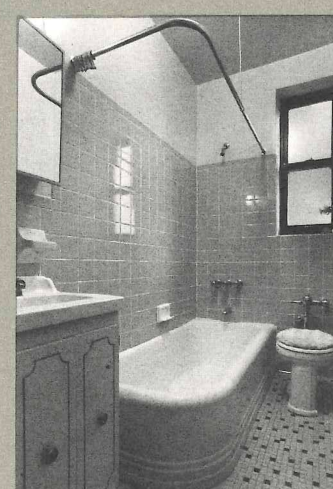
The rehabilitation process begins with a building. Typically, it is a 50-year-old apartment building that is structurally sound but has deteriorating systems. The plumbing, heating and wiring are near the end of their useful lives. Elevators and incinerators are defective. Weather protection is weakening: the roof, windows, and doors need replacing. Security systems have lost their effectiveness.

The building's economic condition also may be weak. A balloon mortgage may be due, and it is likely that maintenance and operating costs cannot be met by the building's income.

The building's owner, who may have had the building for most of its life or may be a new investor, comes to CPC for a loan and for guidance. CPC begins by helping the owner (who need not have prior experience in rehabilitation projects) determine how much work needs to be done and how the building's finances should be restructured.

Next, the corporation guides the owner through the series of required government approvals and indicates which of various public subsidy programs can make the project economically viable (see chart on page 13). CPC's underwriting staff reviews the refinancing/acquisition values, and the potential income and expenses of the building. Its experience in the neighborhood provides standards for refinancing or acquisition values. CPC's engineers then look at the scope and cost of the owner's proposal and review the construction contract. Their understanding of construction costs assists owners in selecting contractors. The result is a project which has not overfinanced construction costs, existing debt or costs of acquisition and which has maximized equity investment.

This process is one of the keys to CPC's cost-effectiveness. If the rehabilitation work and refinancing/acquisition cost is relatively modest in scope (no more than $8,000 per unit), the corporation can lend the entire amount at market rates. As the per-unit cost mounts, subsidy programs are enlisted. Most of the corporation's projects require two types of subsidy: federal Section 8 existing housing rent subsidies for



Cops to Arrest Decay
—New York Daily News

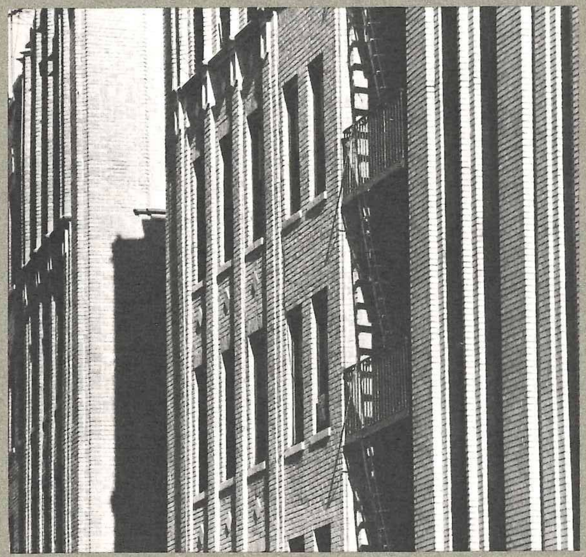
tenants unable to pay the new, higher rents in effect after the project's completion, and real estate tax abatements and exemptions provided by New York's J51 program. Projects requiring major renovation work may need a third form of subsidy: a second mortgage at 1% interest from city-administered Community Development block grant funds. The resulting blended interest rate relieves some of the burden of today's market interest rates. Using this combined form of financing, buildings needing as much as $28,000 per unit can be renovated and still have acceptable market-level rents after the work is done. The cost-effectiveness of this system lies in its ability to adjust the subsidies to the level of need; they are furnished only to the extent necessary to make a project economically viable. The rest is left to private financing.

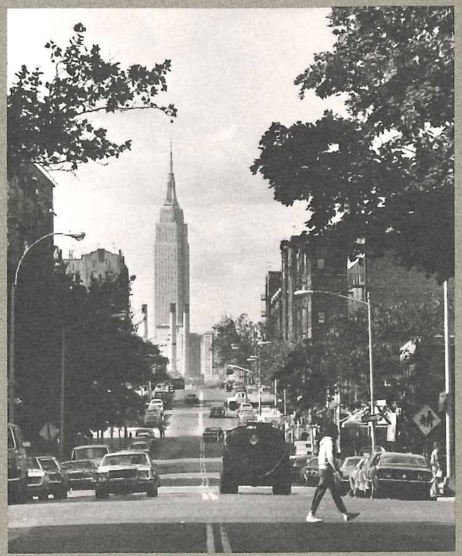
◄ *Kitchens and bathrooms are a major element of apartment rehabilitation, as before-and-after examples at the left illustrate. The work is completed without displacing tenants.*

Government Actions Supporting Investment in Moderate Rehabilitation

Government Action and Agency	*Results of Government Actions*
Rental increases *Conciliation and Appeals Board (CAB)** *Housing Preservation and Development (HPD)**	■ *Rents sufficient to support rehab mortgage* ■ *Rents in place after rehab completed*
Tax abatement/exemption *HPD*	■ *Reduction in real estate taxes and exemption from increased assessment for up to 32 years* ■ *Implemented after rehab completed*
Mortgage insurance *State of New York Mortgage Agency* *Rehabilitation Mortgage Insurance Corporation*	■ *Insure 75% of "top loss" on rehab mortgage* ■ *Commitment available at construction start*
Rental subsidy *Section 8 or successor program of Federal Department of Housing and Urban Development*	■ *Pays difference between 30% of eligible tenant's income and legal rent* ■ *Effective at time of rental increase*
Financing subsidies *HPD Participation Loan Program*	■ *Mix private and below-market public financing for more deteriorated buildings* ■ *Use single underwriting standards and processing for public and private lenders*

**Function to be assumed by State Division of Housing and Community Renewal, pursuant to recent state legislation.*





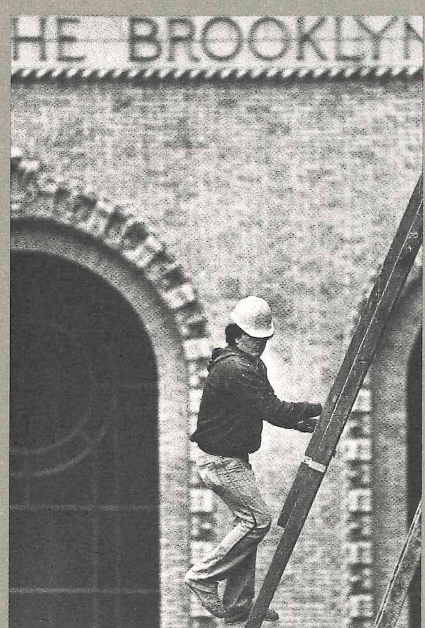
. . . Trustees of the pension fund ought to be congratulated for their decision to put their capital into a project that meets the stringent financial criteria their investment plan demands, but also serves as a much needed source of capital for continuing restoration of the city's decaying housing stock. —*WCBS, New York*

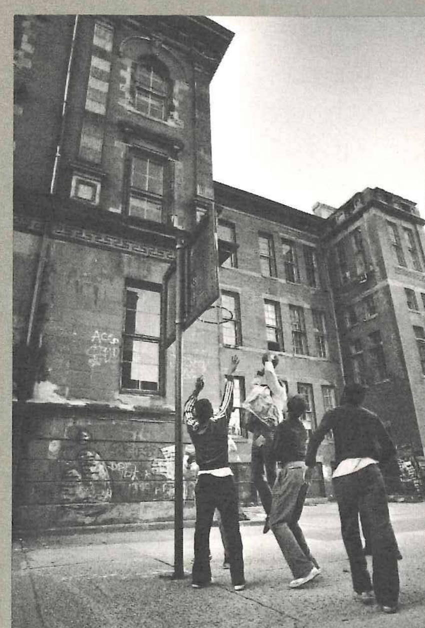
The construction loan iself is made by CPC from its bank-sponsored pool of $26 million. The 12 commercial banks providing this line of credit have recently renewed it for four years. At the completion of construction, the permanent financing is put into place.

The initial emphasis on keeping costs tightly reined redounds to good effect throughout the rest of the process. For example, because financing costs are kept low and rehabilitation goals realistic, fewer tenants require Section 8 subsidies to pay the new post-rehab rent. To date, only 25% of the tenants in CPC-financed buildings (mostly elderly people on fixed incomes) have required "existing housing" rent subsidies, which cost the federal government an average of $1,500 a year. This compares with subsidies of as much as $10,000 per unit annually under a Section 8 program for "total" rehabilitation.

CPC also seeks to be a bridge between the owner, tenants and community leaders. When rehabilitation takes place, tenants ordinarily remain in residence. This is a hardship, as inconveniences and problems inevitably occur. At construction completion, there is a rent increase. While these can be easy situations to exploit, CPC seeks out responsible community leaders—people to whom tenants will turn to solve their problems—who can distinguish the short-term inconveniences occasioned by rehabilitation from the long-term benefits to the community. CPC cannot promise that inconveniences can be avoided, but it promises to act responsibly when they arise, and to quickly seek their resolution. One measure of the effectiveness of this approach is that only two buildings have seen major tenant problems, both of them

◂ *Recognition of CPC's successful partnership with city government came from Washington, in a special award given by President Reagan to Michael D. Lappin. From New York City came the recognition of a major breakthrough in funding through commitments totaling $100 million from municipal pension funds.*





The [pension] funds are expected to strengthen a growing movement toward improving neighborhoods by upgrading existing buildings with tenants left in place, rather than the older process of uprooting residents, razing old structures and building anew.
—The New York Times

short-lived, in our many years of financing. The overwhelming consensus among tenants is that they are prepared to accept the higher rents and short-term inconveniences to gain better living conditions.

In a typical project, mechanical systems are repaired or replaced; the roof, masonry, windows and doors are made weather-tight; dumbwaiter shafts are sealed, fire escapes are repaired, mailboxes and intercom/buzzer systems are replaced and often bathrooms and kitchens are modernized. In addition, some cosmetic work, such as steam cleaning, painting and minor landscaping, may be done.

With the institution of higher rents for those who can afford them (and subsidies for those who cannot), the renovated building generates a positive cash flow. Financial soundness is aided in other ways as well: (1) by exemption from tax on rehab-related increases in assessed value; (2) by keeping debt service low through controlling rehab refinancing/acquisition costs; and (3) through occasional city participation loans at 1% for a portion of project costs.

In addition, mortgage insurance is arranged via New York's Rehabilitation Mortgage Insurance Corporation (REMIC), which insures up to the top 75% of a typical CPC loan, or via the State of New York Mortgage Agency (SONYMA), which, thanks to legislative changes, provides coverage of similar scope. The combination of positive cash flow, loan insurance and a restored physical integrity makes the building mortgage a sound investment by institutional lenders' standards. Proof of this can be found in CPC's foreclosure record: of the more than 246 loans made since the corporation's beginning, there have been only two foreclosures—and only one of those resulted in a claim for loss.

◄ *Rehabilitated buildings are an average of 50 years old. The typical CPC scope of work will prolong their useful lives for another 40 years.*

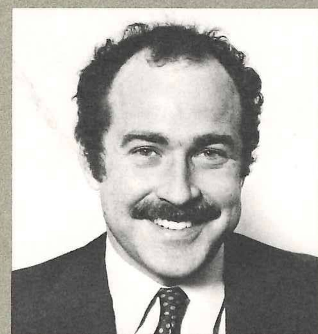
Officers and Mortgage Staff

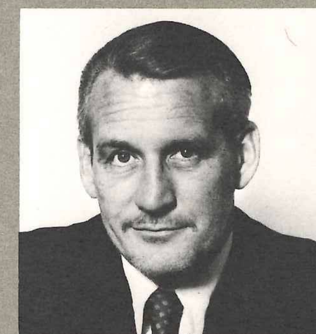
from left to right

John McCarthy
Executive Vice President and Treasurer

Marvin Goldberg
Vice President

Dale McDonald
Vice President

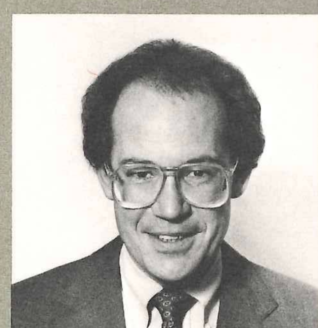




Stephen P. Grathwohl
Mortgage Officer
Director, Brooklyn-Queens Office

Joanne S. Pugh
Neighborhood Mortgage Officer

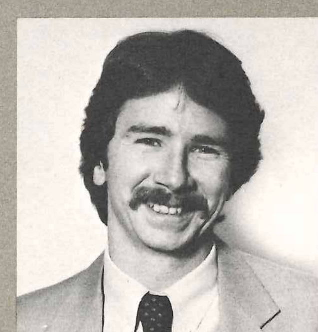
Donna Sisselman
Neighborhood Mortgage Officer



Lynn Wehrli
Neighborhood Mortgage Officer

John P. Green
Neighborhood Mortgage Officer

Mary A. Brennan
Neighborhood Mortgage Officer


Donna Welensky
Corporate Secretary

Stefan Sebastian
Comptroller

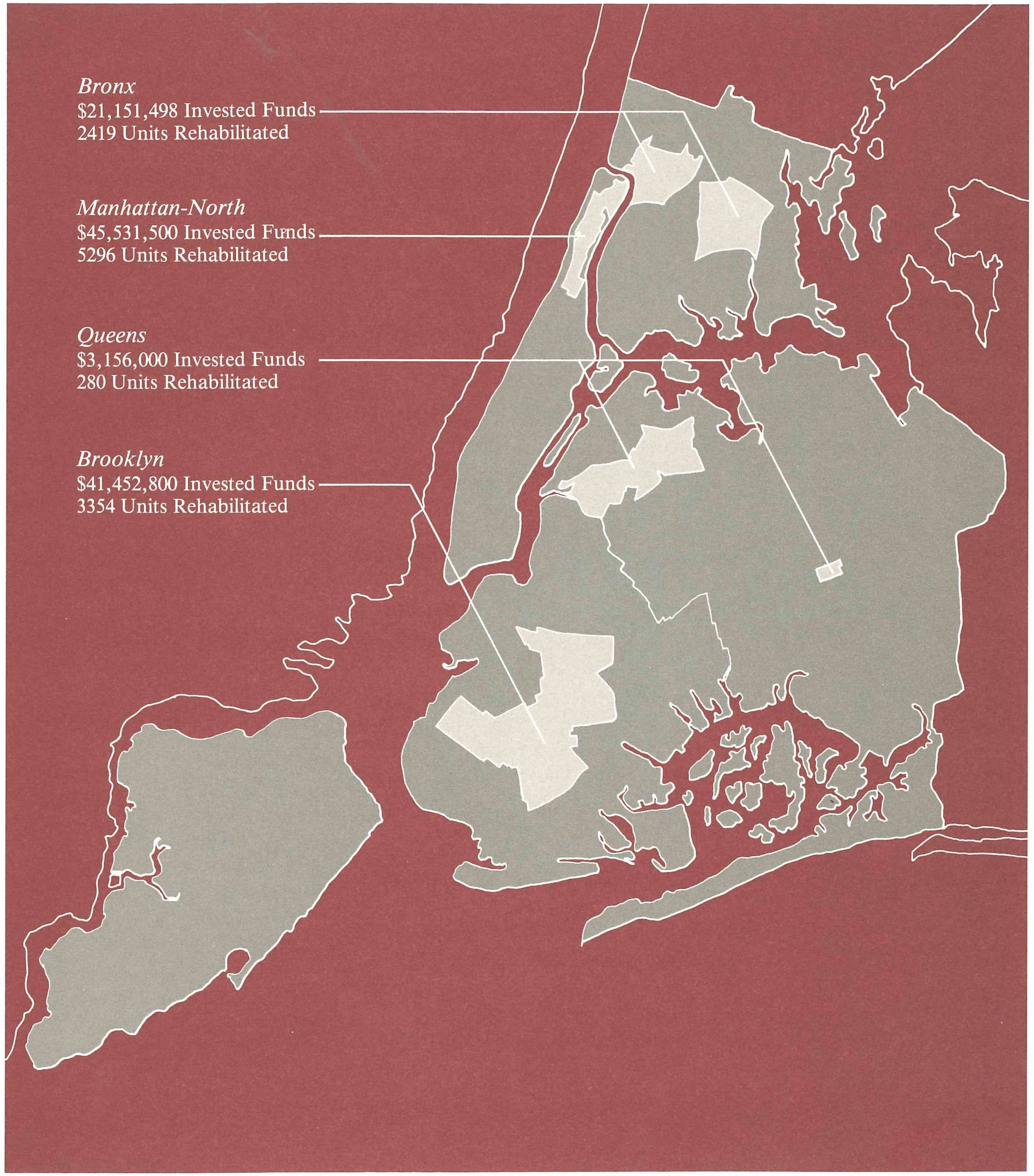

CPC, established as a demonstration, is now seeking to broaden the use of its moderate rehabilitation model, both by encouraging new lenders to enter the business and by working with government to enlarge the source of capital financing. CPC's efforts with respect to the FHA 223(f) co-insurance model may unlock new long-term financing sources. Recently published regulations modify the program as a potential tool for moderate rehabilitation:

- Rehabilitation limits are raised to $16,000 per unit.
- Local building codes rather than FHA minimum property standards prevail.
- The co-insurer may re-insure his risk (in New York City, this may be with REMIC or SONYMA).

Approved mortgage underwriters, instead of the Federal Department of Housing and Urban Development (HUD), can write FHA insurance on multifamily properties. In exchange for this delegated processing, originators must share a part of the long-term mortgage risk. This change should shorten processing through the program by many months. Once the federal insurance is written, the mortgage would be available to secondary mortgage markets, principally through GNMA, and hence open wide resources for moderate rehabilitation.

For the program's potential to be effectively used in low and moderate income neighborhoods, local mortgage insurance agencies must, first, re-insure the long-term risk and, second, insure the timely payments of principal and interest when these are the requirements of the secondary market (GNMA, for example). With the goal of developing such provisions, CPC's Board has directed the company to apply for co-insurer status. Successful testing of the program by CPC can be the prelude for its wider use by other lenders with mortgage origination expertise.

CPC, together with several of its member banks, is trying to develop other permanent lending programs with secondary market institutions to support rehabilitation. A primary need is a forward commitment



◄ CPC lending areas in the Bronx, Manhattan, Queens and Brooklyn are shown on this map. The $100 million committed by New York City pension funds will enable CPC to increase the rate of rehabilitation in these areas and later to explore new areas.

program, so that permanent mortgage terms can be known in advance of construction. Where rental markets are marginal and regulated, certainty of permanent mortgage terms is a necessity for rehabilitation efforts. CPC's arrangement with the pension fund is being advanced as a possible model for this purpose.

Available mortgage financing does not by itself solve the problem of preserving urban housing. New mortgage financing for rehabilitation requires increases in rent to repay the debt. For low income tenants—especially elderly ones on fixed incomes—even modest rent increases may be unaffordable. Some mechanism must exist to shield them. This is the essence of preserving neighborhood housing without displacing neighborhood residents.

In CPC's experience, about 25% of the tenants cannot afford the typical post-rehabilitation rent of $95 per room per month. In the past, a public subsidy costing about $1,500 per year has been available through the Section 8 program's "existing housing" and "moderate rehabilitation" vehicles. Its costs have been a fraction—about one twenty-fifth—of those in the highly expensive "substantial rehab" Section 8 program which has now been virtually terminated. This is because only 25% of the tenants require subsidy (versus 100% in the "substantial rehab" program) and development costs have been significantly lower, resulting in lower rentals and diminished subsidy needs.

The continuation of Section 8 funding for 1983 and beyond has become uncertain. Renewed funding of this or suitable substitute programs is indispensable if privately financed rehabilitation is to continue. The private sector can provide financing, expertise and—equally important—momentum. It cannot furnish tenant subsidies. This must remain a public responsibility and one which must be fulfilled if all neighborhood residents are to be able to afford the improved surroundings that necessary rehabilitation brings.

In 1983, CPC's income from operations exceeded expenses for the fourth consecutive year. The 1983 surplus was $560,000; accumulated surpluses and reserves for all years are now approaching $2 million.

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

Second, CPC earns a "Company Fee" from its member banks for servicing the collateral trust note mortgages, which numbered 190 and totalled $50.1 million at fiscal year end. Additional income is obtained from individual banks and the city for CPC's servicing of the 100 loan participations (representing $33.2 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 the 1983 fiscal 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.

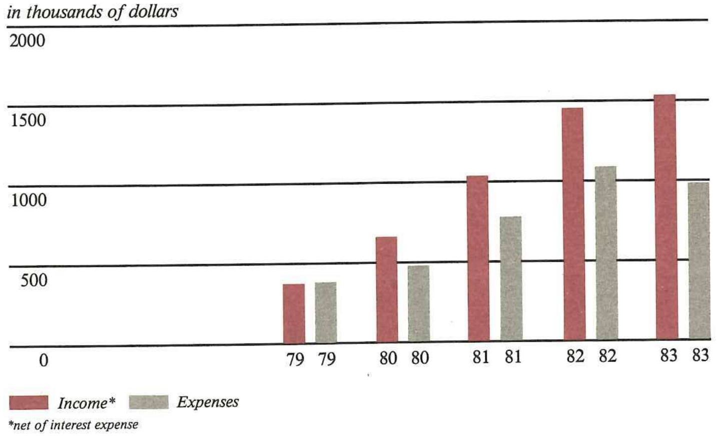
The corporation's surpluses have permitted the creation of a reserve, totalling $410,000 at year end, against possible losses in the $14.6 million portfolio of committed construction loans. They have also permitted reductions in the Company Fee from the above-market rate of 1¼% which was established at CPC's creation in order to furnish working capital in the corporation's early years. The fee was reduced to 1% in 1980, ¾% in 1981, and ½% in 1983.

Finally, the surpluses will enable the corporation to fulfill new responsibilities. The Police Pension Fund and the Employees' Retirement System have together committed to purchase $100 million in mortgages originated by CPC. A slightly higher pace of originations will be called for, entailing additional loan staff and overhead expenses. The surpluses will enhance the company's response to this new financing opportunity.

CPC was created as an experiment in 1974, at a time when some observers doubted the economic viability of mortgage investment in rehabilitation. The early years' deficits were covered by contributions from the founding members: 39 New York City commercial and savings banks. The past four years have seen generation of surpluses and reserves and a steady growth in demand for CPC financing. It is now perhaps safe to say that the company has achieved one goal of its founding banks: its stable establishment as a rehabilitation lender in New York City's older neighborhoods.

CPC Income and Expenses

in thousands of dollars



August 31 **Assets**	1983	1982
Investments in first mortgage loans (Notes 2, 3, 4 and 5):		
Construction loans	$25,072,804	$14,499,851
Less—Allowance for possible investment losses	410,000	300,000
	24,662,804	14,199,851
Permanent loans—		
Pledged	68,284,460	63,848,640
To be pledged	482,000	289,000
	93,429,264	78,337,491
Less—Participants' interest in mortgage loans	33,289,297	24,122,907
	60,139,967	54,214,584
Cash and cash equivalents:		
Subject to immediate withdrawal	—	2,656,035
Certificates of deposit (Note 6)	7,001,801	3,170,567
Accrued interest receivable	518,537	511,238
Other assets	194,761	154,332
	$67,855,066	$60,706,756

Liabilities and Fund Balance		
Liabilities:		
Notes payable under revolving credit agreement—unsecured (Note 4)	2,000,000	1,850,888
Accounts payable and accrued expenses	2,322,640	1,943,662
Participant's deposits (Note 6)	9,045,613	7,160,140
Escrow and other deposits of borrowers	2,736,028	1,718,244
Deferred income—commitment fees	13,683	29,691
	16,117,964	12,702,625
Nonrecourse collateral trust notes (Note 5)	50,184,036	47,014,426
	66,302,000	59,717,051
Commitments and contingencies (Notes 2, 3, 4 and 8)		
Fund balance (Note 10)	1,553,066	989,705
	$67,855,066	$60,706,756

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

Statements of Support, Revenue and Expenses and Changes in Fund Balance

Year Ended August 31	1983	1982
Public Support and Revenue:		
Public support	$ 4,725	$ 4,200
Revenue—		
Interest on loans (Note 7)	5,944,758	5,389,455
Servicing fee income	370,030	293,266
Commitment fees	316,486	186,927
Interest on short-term investments	395,898	20,306
Other	88,006	90,315
Total revenue	7,115,178	5,980,269
Total public support and revenue	7,119,903	5,984,469
Expenses:		
Interest (Note 7)	5,558,865	4,532,297
Employee compensation and benefits	591,437	484,829
Professional fees	27,905	179,125
Office expenses	138,306	145,539
Provision for possible investment losses (Note 3)	110,000	200,000
Other	130,029	82,284
Total expenses	6,556,542	5,624,074
Excess of public support and revenue over expenses	563,361	360,395
Fund Balance, beginning of period	989,705	629,310
Fund Balance, end of period	$1,553,066	$ 989,705

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

Notes to Financial Statements August 31, 1983 and 1982

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 and has been recognized as revenues for financial reporting purposes (see Note 7). 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 for fiscal year 1982 have been reclassified to conform with the presentation reflected in the 1983 financial statements.

2. Mortgage loans and commitments:

The following is a summary of closed mortgage loans as of August 31, 1983 and 1982 (000's omitted except for number of loans):

1983	Construction	Permanent	Total
Number of loans	56	190	246
Funded commitments:			
Funded balance—			
Total	$25,073	$68,766	$93,839
Less—Participants' interests	15,189	18,100	33,289
Corporation's portion	9,884	50,666	60,550
Less—Allowance for possible investment losses	410	—	410
	9,474	$50,666	$60,140
Corporation's portion of unfunded commitments	4,771		
Total corporation commitment amount	$14,245		

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—Allowance 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		

Pending commitments for new mortgage loans (net of portion applicable to participants) as of August 31, 1983 and 1982, were as follows (000's omitted except for number of loans):

	Mortgage Commitments for Loans Not Yet Closed		Mortgage Commitments Not Yet Accepted by Potential Borrowers	
	1983	1982	1983	1982
Number of loans	4	10	8	8
Amount	$720	$3,506	$4,753	$5,778

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, 1983, the Corporation has not incurred any losses on such loans. However, because of the inherent risks in financing of construction in buildings with tenants in occupancy, management determined in 1981 that it would be prudent to establish an allowance for possible investment losses. In the years ended August 31, 1983 and 1982, the Corporation provided $110,000 and $200,000, respectively, for this allowance and no amounts were charged to the allowance in either year. In years prior to the year ended August 31, 1982, $100,000 had been provided and no amounts had been charged to the allowance.

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.

As of August 31, 1983, this agreement was extended to August 31, 1987. Borrowings under the extended agreement will be evidenced by notes maturing no later than August 31, 1988.

Borrowings under this agreement during fiscal 1983 and 1982 were at interest rates which ranged from 10½% to 13½% and 13½% to 19½%, respectively. At August 31, 1983 and 1982, the interest rates on these borrowings were 11% and 13½%, 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.

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 1983 and 1982, such fees were ¾ of 1% 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 investments until the funds are required to fulfill the HPD commitments. The HPD portion of each mortgage bears interest at the rate of 1¼% 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, 1983, the HPD deposit consisted of the following:

Unused HPD funds, principally invested in certificates of deposit	$6,580,519
Mortgage interest and principal collections and accumulated interest on short-term investments	2,465,094
	$9,045,613

7. Interest on loans and interest expense:
Interest on loans and interest expense is composed of the following:

	1983		1982	
	Income	Expense	Income	Expense
Interest on:				
Mortgage loans	$1,184,832	$ —	$1,559,529	$ —
Pledged mortgage loans	4,759,926	4,759,926	3,829,926	3,829,926
Revolving credit agreement	—	15,939	—	587,319
HPD funds	—	783,000	—	115,052
	$5,944,758	$5,558,865	$5,389,455	$4,532,297

8. Lease commitments:
The Corporation leases office space in three locations under agreements which expire on three separate dates in 1985, 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 $86,474, net of sublease income of $18,480. The minimal annual rentals under noncancelable leases are as follows:

1984	$96,879
1985	96,879
1986	91,378
1987	7,700

9. 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 expenses for the year ended August 31, 1983 and 1982, were $13,588 and $4,800, respectively. Net plan assets available for benefits at August 31, 1983 and 1982, were $16,757 and $4,758, respectively.

10. 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, 1983 and 1982, 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, 1983 and 1982, 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.
November 10, 1983

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Executive Vice President
Chemical Bank

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

Joseph C. Brennan
Past Chairman, CPC

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Senior Vice President
Citibank, N.A.

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Vice President
Goldome Realty Credit Corporation

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

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

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

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Executive Vice President and Treasurer

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Vice President

Dale F. McDonald
Vice President

Donna Welensky
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Stefan Sebastian
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Mortgage Staff

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Mortgage Officer
Director of Manhattan-Bronx Office

Stephen P. Grathwohl
Mortgage Officer
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Mary A. Brennan
Neighborhood Mortgage Officer

John P. Green
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Neighborhood Mortgage Officer

Donna Sisselman
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Lynn Wehrli
Neighborhood Mortgage Officer

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

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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 Westminster Bank USA
United States Trust Company of New York

Savings Banks

American Savings Bank
Anchor Savings Bank
Apple Bank for Savings
The Bowery Savings Bank
The Dime Savings Bank of New York
The Dime Savings Bank of Williamsburgh
Dollar Dry Dock Savings Bank
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Eastern Savings Bank
Emigrant Savings Bank
Flushing Savings Bank
Goldome Bank for Savings
The Green Point Savings Bank
Independence Savings Bank
Lincoln Savings Bank
Metropolitan Savings Bank
Ridgewood Savings Bank
Roosevelt Savings Bank
The Seamen's Bank for Savings
The Williamsburgh Savings Bank