The New York City
Community Preservation Corporation
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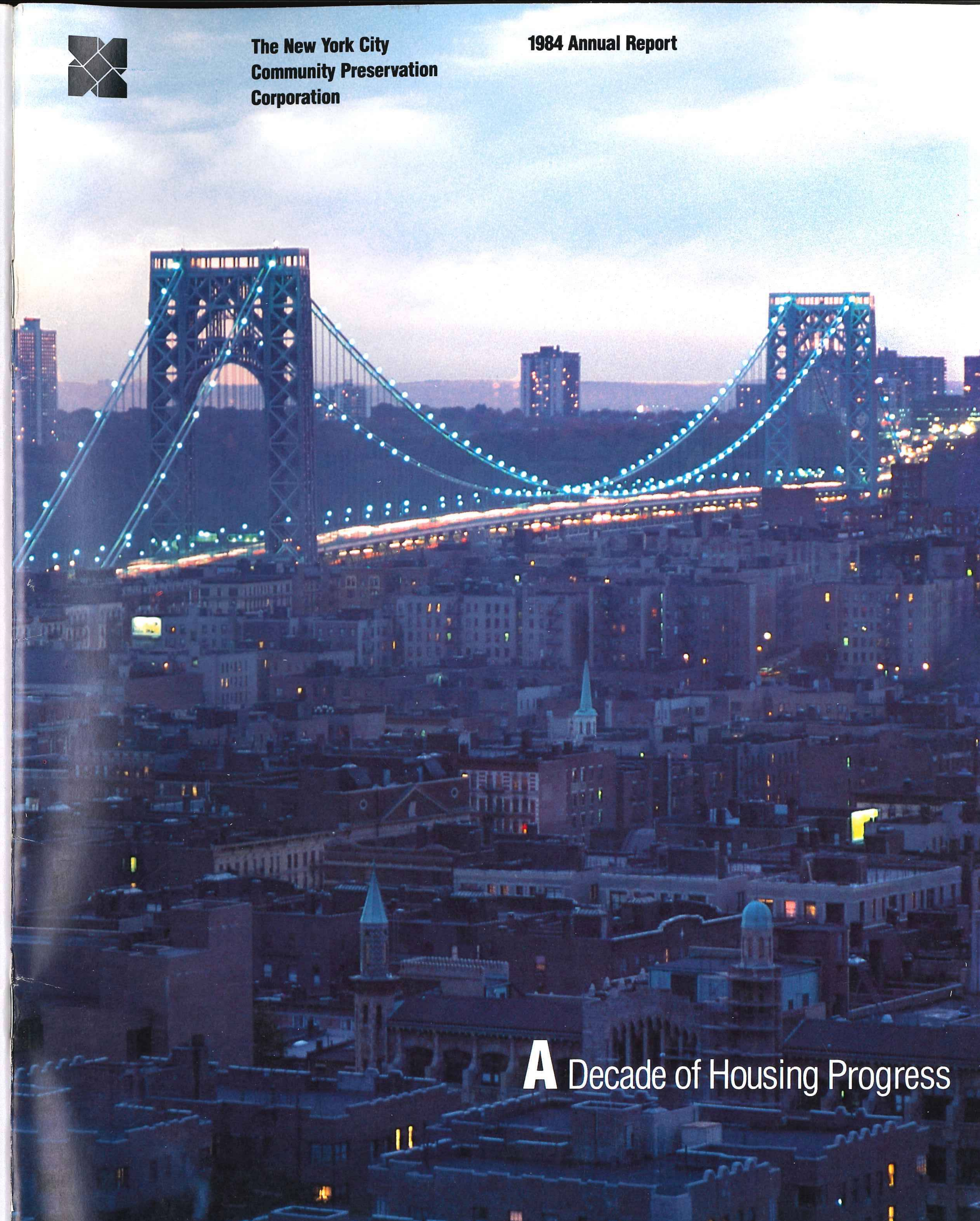
The New York City Community Preservation Corporation

1984 Annual Report



A Decade of Housing Progress

For the past decade, the Community Preservation Corporation has helped to preserve New York City's communities by preserving its housing. This effort has been unique, as housing has been restored without tenant displacement. The result has been the preservation and strengthening of the ethnic and economic diversity of the neighborhoods which are vital to the life of our city.

This important effort has occurred from a strong partnership of the private sector providing financial resources and the public sector shaping its regulations and programs to encourage housing preservation.

CPC enters its second decade encouraged by the progress that has been achieved. We believe that this progress provides a model that can be used for revitalization throughout New York City and in other urban centers throughout the country.

On the front cover, the George Washington Bridge provides the backdrop for CPC's Northern Manhattan lending area.

Highlights

Fiscal Year Performance 1983-84

Loan Commitments Issued	$20,518,500
Closed Construction Loans	
CPC Funds	$ 6,913,812
Pension Funds (For Permanent Loans)	5,199,000
Federal Community Development Funds	12,356,197
Other Private Funds	2,433,000
Total	$26,902,009
Units (Construction Started)	
Manhattan	397
Bronx	336
Brooklyn	446
Queens	624
Total	1,803
Income (Net of Interest Expense)	$ 2,029,000
Expenses (Other than Interest)	$ 1,503,255

Lending Record 1974-84

Closed Loans (277)	$139,015,630
Foreclosures (2)*	$930,870
Apartment Units	13,214

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

To Our Members:

The Community Preservation Corporation was founded a decade ago by New York City's major commercial and savings banks to pursue a goal as vital as it was elusive: to preserve the city's vast but deteriorating stock of housing in a way that would provide decent, affordable housing for New Yorkers of low and moderate incomes.

The concept that emerged involved forging a unique private/public partnership—between the private lending institutions that would finance the rehabilitation of basically sound buildings, and the governmental institutions that establish policies and administer programs which hold the key to the economics of rehabilitation.

That cooperation has indeed been the crucial element in the progress made during CPC's first 10 years. That this partnership has worked is reflected in our accomplishments: more than 13,000 apartments in some 350 buildings have been renovated, extending their useful lives by 30 to 40 years. Equally important is the precedent of government and the private sector working together to create a regulatory environment, supported by public subsidies, which encourages the preservation of the city's existing housing stock.

CPC's unique approach derives from the reality that the city cannot house its low and moderate income families by replacing its present housing stock with new construction. The cost, and the resulting rents, would be prohibitive. In contrast, CPC's approach has been to finance the rehabilitation of properties before they reach the point of disuse. This generally means the replacement of aging mechanical systems while the property is still occupied and structurally sound.

This formula rests on three legs: the private sector's provision of investment capital; government regulations which permit sufficient rents to make these investments economically viable; public subsidies to keep rents at reasonable levels and to help pay for those who cannot afford the price of improved housing.

Important progress has been made in providing investment capital. In the past year, two city pension funds agreed to provide $100 million for long-term mortgages. Already, $11 million of this has been committed to improve more than 1,200 apartments.

This year, in our first involvement with the national credit markets, we worked with the Federal National Mortgage Association (FNMA) on two fronts: to finance directly the rehabilitation of multifamily rental housing and to act as a guarantor of tax exempt bonds issued by the city's Housing Development Corporation. We also expect to be designated soon as a Federal Housing Administration (FHA) co-insurer, permitting us to write FHA insurance on loans we originate and later sell in the secondary mortgage markets.

In the coming year, working with the Housing Partnership, we plan to expand our capacity to fund and originate mortgages by creating a mortgage corporation. This corporation will use investment funds from the insurance industry and other sources to provide long term financing to lenders originating loans for low and moderate income housing.

But availability of capital for housing rehabilitation is only useful when accompanied by provisions for rental income sufficient to pay the cost of debt and the building's other obligations. Thus we must depend on a regulatory climate that permits adequate rent increases to support the cost of upgraded housing.

John D. Kyle (right) is chairman of CPC; Michael D. Lappin is president.

Public subsidies are also needed to make rehabilitated housing affordable. Subsidies to reduce operating costs (such as the city's J51 tax abatement/exemption program) or debt costs (as in the city's Participation Loan Program) greatly expand the range of buildings that can feasibly be renovated. Additionally, individual rent subsidies are needed to assist tenants, principally elderly people on fixed incomes, who cannot afford a renovated building's revised rent levels.

It is important to note that both rent increases and subsidies are needed to make rehabilitation economic and affordable. Denying adequate rent increases is not a means of providing rent subsidies. Doing so would simply destroy the economic feasibility of rehabilitation.

On the state legislature's agenda this year are measures which will affect the adequacy of both the rent increases and the subsidies so necessary to the rehabilitation process. Without appropriate legislative action on these matters, the current expansion of mortgage financing available for moderate rehabilitation will not generate the increased rehabilitation effort needed.

Because the preservation of adequate housing and residential communities is so fundamental to the health and prosperity of our city, we are confident of the outcome of the legislative debate.

A final note: Joseph C. Brennan, our long term director and former chairman, has retired from our Board. His leadership and dedication, which have been so important to our success, will be missed.

John D. Kyle　　Michael D. Lappin

John D. Kyle
Chairman

Michael D. Lappin
President

December 18, 1984

A Decade of Housing Progress

The thousands of New Yorkers whose living conditions have been changed for the better by the work of CPC are proof of the viability of a concept created just 10 years ago. In its first decade, CPC has financed the renovation of more than 13,000 apartments in some 350 buildings in the City of New York. CPC has satisfied the needs of all its participants: building owners have found an affordable financing package while receiving guidance throughout the renovation process; lenders have made an investment that meets high standards of return and safety, and tenants have received major home improvements at the price of modest increases in rent, with subsidies available to those who could not afford the new rents.

Most significantly, neighborhoods have been preserved. Because rehabilitation takes place without tenants having to move out, and because rental subsidies are available to assist low-income tenants after renovation, CPC projects contribute to neighborhood stability and help maintain New York's unique ethnic and economic diversity.

CPC's concept of moderate rehabilitation is the most cost-effective means of renewing the life of an aging residential building. The cost of moderate rehabilitation averages between $10,000 and $15,000 per apartment. By contrast, both new construction and total rehabilitation—the two alternative sources of housing supply—cost well over $80,000 per unit, a price that would push rents out of reach for all but the wealthy.

The CPC concept works because it is in effect a partnership of private financial institutions with government. The vast sums of money needed to preserve the city's aging housing are available primarily in the private sector. Yet government, through its powers of rent control and its provision of various forms of subsidy, holds the key to the feasibility of this private-sector investment in housing.

Low-income tenants—principally the elderly on fixed incomes—need the help of rental subsidies to afford post-rehabilitation rents.

In Northern Manhattan's Washington Heights-Inwood section, CPC has rehabilitated almost 6,000 apartments.

Over the years, a consensus has developed within this partnership:

- The sheer size of the need—an estimated $10-$15 billion to rehabilitate deteriorated housing in New York City's low and moderate income neighborhoods—requires a huge commitment of private capital and a regular mechanism for channeling investment funds from the major credit markets into projects and neighborhoods that would not otherwise have access to those markets.

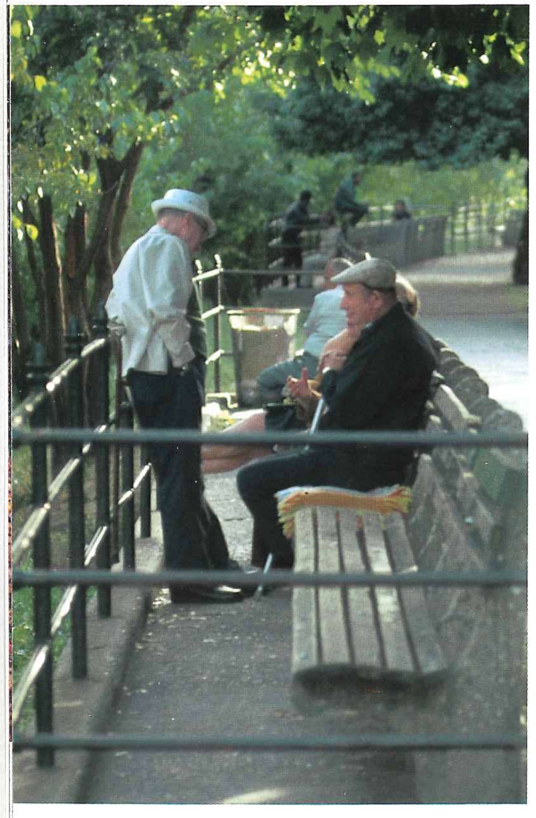
- The vast sums needed cannot be generated by private subsidies or charitable contributions, but must be attracted by solid investment opportunities in properties physically and economically sound enough to support long term mortgage financing. To achieve this requires a regulatory and programmatic framework that provides for the subsidies and rent increases needed to support the economics of building rehabilitation.

- Even with economic and physical renewal of individual buildings or neighborhoods, larger adverse forces can cause overall deterioration and decline, particularly in lower income neighborhoods. The public sector, not just lenders and investors, should bear some of this risk. There must be general recognition, therefore, that government mortgage insurance programs are essential to successful housing preservation.

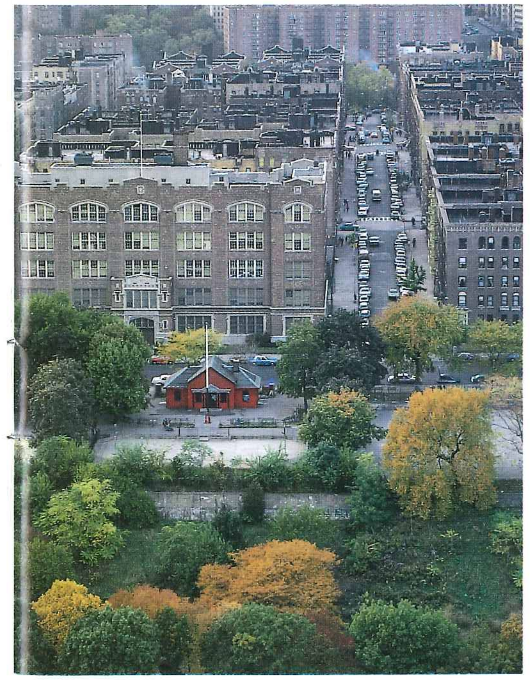
This public/private cooperative relationship has laid the foundation for large scale upgradings in several neighborhoods in which CPC is involved. In Northern Manhattan, for example, almost 6,000 apartments—8 percent of its housing—have been restored to sound condition at affordable rents, without tenant displacement, thereby reversing a long trend of deterioration.

As we contemplate expanding our efforts to other city neighborhoods, we are confident that this record of achievement can be replicated elsewhere.

By preserving housing, CPC preserves the communities of New York.



CPC's earliest rehabilitation projects still promise to provide housing for another generation of New Yorkers.

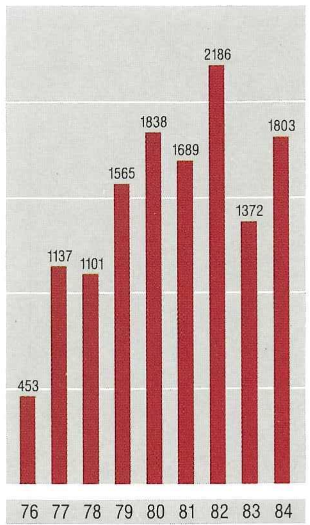


Neighboring owners see a revitalized building as a sign that a stable, solid future will be possible for the community—and often decide to renovate their buildings as well.

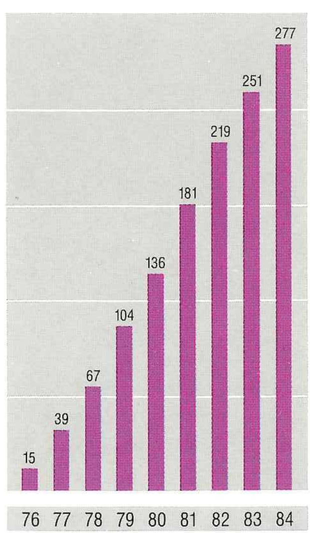
CPC has helped to turn around a long trend of deterioration in New York's viable neighborhoods.

The Revitalization Process

Apartment Units



Loans Serviced



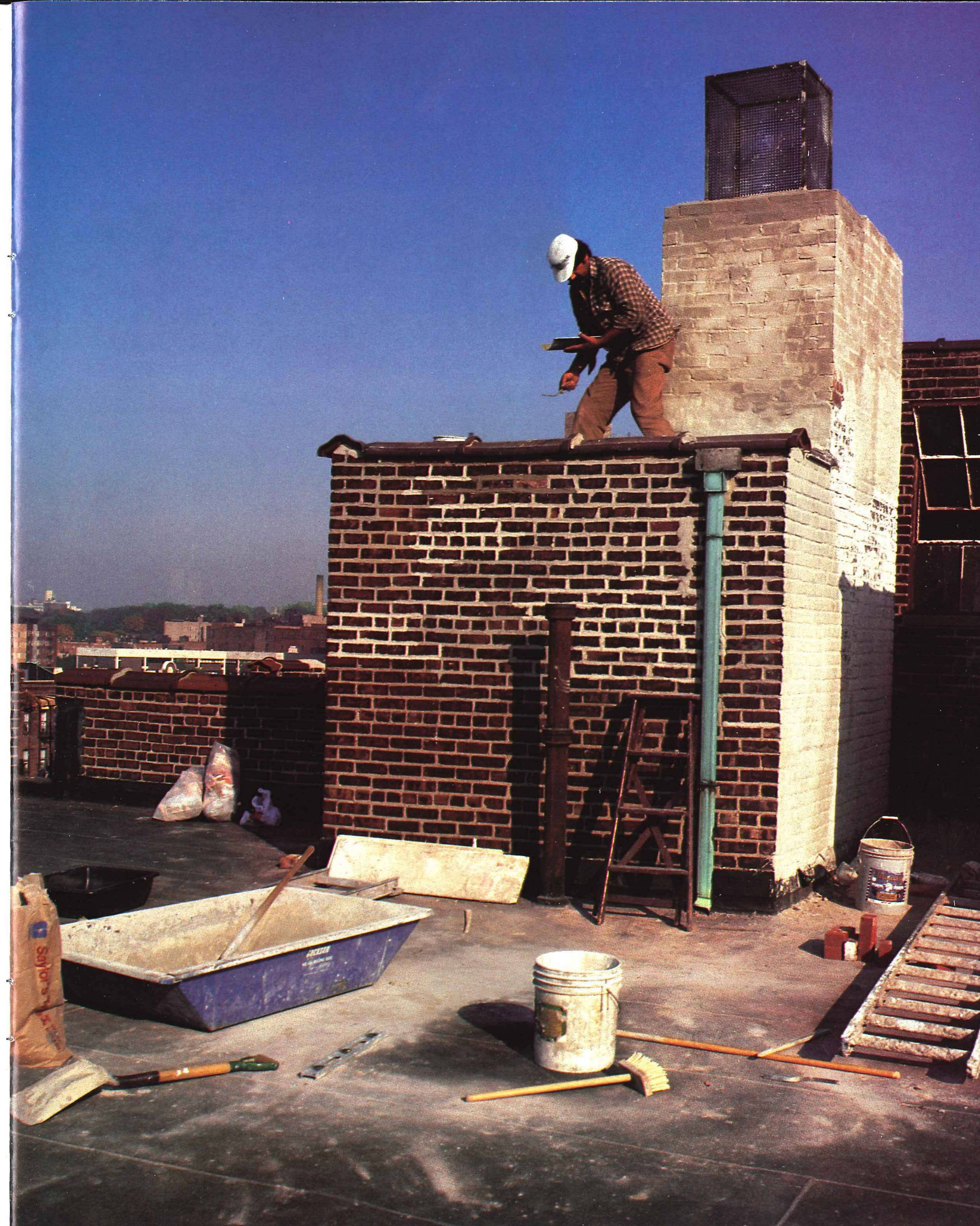
CPC closed its first loans in 1976, its second full year of operations.

A typical CPC building is one that is structurally sound—promising to stand solidly for many more years—but with critical inner workings that have deteriorated to the verge of collapse. It perhaps suffers from a leaking roof, high fuel consumption, inadequate plumbing, broken front entry doors, failing electrical systems and other symptoms of decline. It is 50 years old or older with between 30 and 70 rent-controlled or rent-stabilized apartment units; it is usually fully occupied, or nearly so. Its repair and maintenance are probably more than can be paid for out of rental income.

An owner begins the revitalization process by visiting a CPC neighborhood office. He may have heard of CPC from other owners or perhaps from a banker, lawyer or accountant. He is likely to be a "small owner," not a large and experienced developer. He may own a single building, or several. He has probably never undertaken any rehabilitation project. To him, CPC offers not only financial assistance but experienced guidance in renovation of his building.

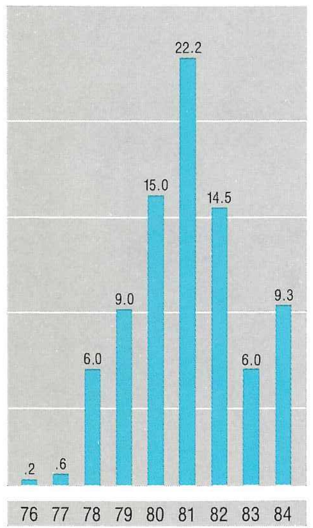
CPC's mortgage staff visits the building to determine the scope of work that will be required. Once it is agreed that the building is in fact structurally sound, a plan for rehabilitation is developed. Such a plan usually includes the replacement of antiquated mechanical systems—plumbing, heating, wiring, roof, windows—and cosmetic improvements. The objective is to extend the physical life of the building another 30 to 40 years. Following this calculation, the process of tailoring a CPC loan package begins.

From the outset, CPC's goal is to make the proposed rehabilitation economically feasible—that is, profitable for the owner while still affordable for tenants. Repayments on a rehabilitation mortgage loan will of course increase the annual expenses of a building, making higher rents necessary to achieve a commensurate increase in the building's income. Some means of reducing the monthly mortgage and building operating costs, in order to hold down the rent increases needed for a project's viability, is thus crucial to keeping rents at levels affordable to existing tenants.

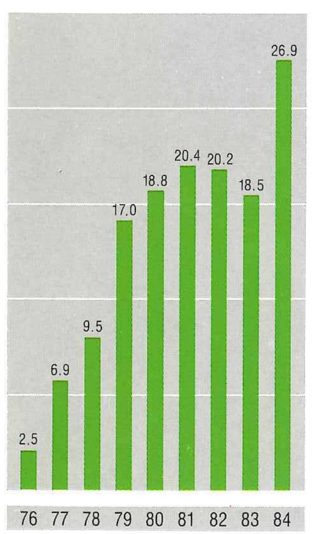


Moderate rehabilitation includes the replacement of plumbing, heating and electrical systems as well as leaky roofs, doors, windows and security systems.

Permanent Loans Closed
(in millions of dollars)



Construction Loans Closed
(in millions of dollars)



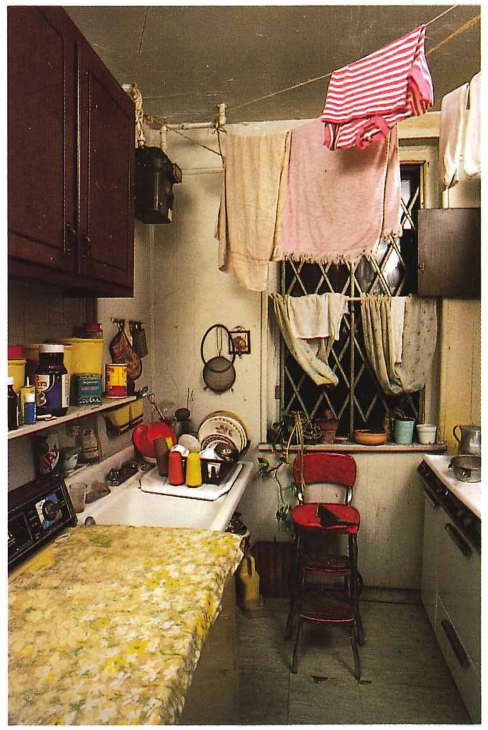
CPC closed its first loans in 1976, its second full year of operations.

To meet these needs, several public programs are available. Interest rate reductions are furnished by the city's Participation Loan Program, for example, which uses federal funds to make loans at an interest rate of 1 percent in combination with private market rate loans to the same project. This combination results in a blended interest rate that is affordable and attractive to owners. Tax reductions are granted by the city's J51 program, which offers both temporary abatements of existing real estate taxes and exemptions from increased taxation on the newly-renovated building. And rent subsidies are available for those tenants who are unable to afford even modest rent increases. Because CPC is thoroughly familiar with these and other programs, it can guide the owner through the entire application process.

The final ''package'' of financing usually includes a short-term construction loan and a long-term permanent loan. After originating and closing its rehabilitation loan, CPC oversees the entire renovation process. Construction work, unavoidably, involves temporary inconveniences for residents, for they continue to occupy their apartments throughout the replacement of plumbing, electrical wiring and other such critical systems. But the fact that they are able to remain in residence is key to the CPC process: renters are not forced to move or find temporary housing, and thus the rehabilitation process does not undermine the neighborhood stability it is intended to fortify.

Once the renovation work is completed, government subsidy programs and rent increases go into effect. CPC then services the long term mortgage loan. It also conducts an annual inspection of the property and requires the owner to pay into a capital reserve fund to be used for unexpected repairs in later years. This helps assure that the building will be maintained in sound condition and will continue to contribute to the economic and social stability of its neighborhood.

Moderate rehabilitation includes cosmetic renovations in kitchens and bathrooms, as shown by the before-and-after photos, below and right.



A CPC Project

In November, 1980, the owner of a 30-unit apartment building in Upper Manhattan's Inwood Section visited a CPC neighborhood office to seek help in rehabilitating his 68-year old building. In the 22 years he had owned it, the building had undergone predictable wear and tear, but now was showing serious deterioration. Plumbing and heating were faulty, as were windows and doors. Tenants complained of a leaky roof.

CPC concluded that the owner could only afford to undertake the rehabilitation project if financing costs were lowered by a partial mortgage interest rate subsidy from the city's Department of Housing Preservation and Development (HPD).

After joint inspections, CPC and HPD engineers recommended replacing the entire heating plant, the roof, all windows and doors. They called for replacing all kitchen cabinets, sinks and floors, and all bathroom sinks, tubs, toilets, vanities, medicine cabinets, plumbing and ceramic tile. Plastering and painting were recommended for all apartments, along with an upgrading of the electrical system. Various other items were targeted for repair or replacement.

The work was estimated at $310,000. To cover part of the cost of refinancing existing mortgages, CPC added a further $30,000 to project cost, providing for a new mortgage of $340,000. The owner would cover the rest of the refinancing, along with other items, bringing his contribution to $41,000, or 11% of the combined cost.

The $340,000 construction loan and mortgage, shared equally by CPC and HPD, was closed in July, 1982. Work began immediately, with tenants remaining in place. During the year-long construction phase, CPC's share carried interest at 2½% above the prime rate, but HPD significantly offset that with a rate of 1¼% on its portion. Similarly, commitments for the permanent loan provided for a 30-year term, with CPC's half at a market rate (adjustable at five-year intervals) and HPD's half at 1%, for a blended interest rate well below market levels.

After the work was completed, rent increases were granted under procedures administered by HPD, reflecting both mortgage payments and the cost of operating the building, including a return to the owner. Rental income was raised from $80,000 to $107,000 a year, with final rents at about $270 a month for a one-bedroom apartment. Eight of the 30 tenants qualified for a Section 8 Existing Housing Certificate, a low income rent subsidy that pays the difference between actual rent and 30% of a tenant's income.

Elimination of real estate taxes under the city's J51 tax abatement/exemption program decreased the building's expenses by $7,500.

CPC's combination of below-market financing, decreased real estate taxes, modestly increased rents and subsidies to qualifying tenants enabled the owner to pay mortgage and operating expenses and to realize a satisfactory return on his investment without undue hardship on the tenants. The project was completed in September, 1983.

Funding Sources

A fundamental goal in the establishment of CPC was to develop credit resources to finance housing preservation. The initial commitments of funds from CPC's 39 founding banks—a revolving construction loan fund of $26 million and a permanent loan capacity of $100 million—were to demonstrate whether rehabilitation projects could be viewed as sound investments.

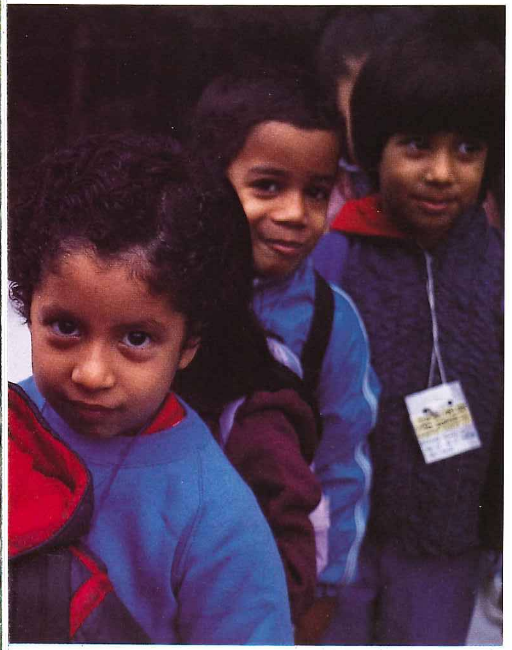
After a decade of operations, there is solid evidence that these investments are feasible. CPC's more than 13,000 rehabilitated units represent $139 million of permanent rehabilitation financing, combining $75 million from the original $100 million and the balance from the combination of other private lenders and city-funded participations in CPC loans. These investments have been made with only two defaults, neither of which resulted in any monetary loss to CPC.

Based on this experience, CPC gained a new and potentially massive source of additional mortgage financing in 1984 when the New York City Police Pension Fund and the New York City Employees' Retirement System agreed to provide a total of $100 million for mortgage loans on newly-renovated CPC buildings.

The significance of this precedent-setting commitment cannot be overstated. If these loans perform as successfully as have CPC's past loans, moderate rehabilitation will be confirmed as an attractive investment by the pension fund community, whose vast resources are commensurate with the enormous financing needs of housing rehabilitation.

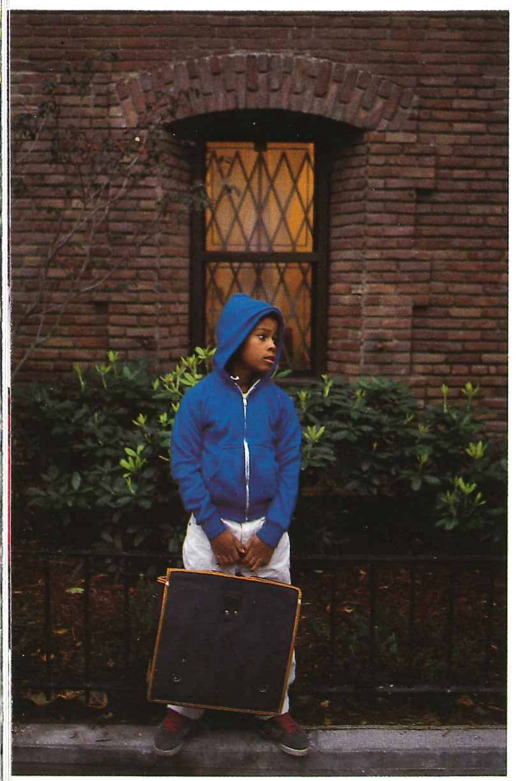
The pension funds' commitment provides solid assurance that CPC will be able to continue its work of preserving New York's residential neighborhoods. It is also a sign of the acceptance CPC and its renewal process have earned during CPC's first decade. Equally significant, it demonstrates a judgment by city and union officials who are trustees of the pension funds that preservation of existing housing, while plainly a vital interest for the city and its employees, is a sound investment, too.

Housing preservation is the first step toward neighborhood preservation.



Most of New York's housing is structurally sound, but very much in need of rehabilitation.

Our society's goal is decent, affordable housing for all.



CPC committed the first loans in the pension fund program in 1984, involving the rehabilitation of over 1,200 apartments and $11 million in mortgage financing.

The State of New York Mortgage Agency (SONYMA), which together with New York City's Rehabilitation Mortgage Insurance Corporation (REMIC) has been an active partner in the CPC effort, strengthened the pension fund program this year by agreeing to reduce its premium on these mortgages. Further, SONYMA insurance, which typically covers 75% of a mortgage loan, now covers a full 100% for the pension fund loans. SONYMA sought and obtained the legislative authority for this increased coverage. This enhances security for pension fund investments and underscores the state's willingness to buttress the process of rehabilitation.

New sources of mortgage financing were ushered in this year when CPC closed and sold to the Federal National Mortgage Association (FNMA) the first loan in FNMA's new multifamily rehabilitation program. We are currently working with FNMA and the city's Housing Development Corporation to develop low-rate tax-exempt financing for rehabilitation.

In the coming year, CPC expects designation as an FHA co-insurer under that agency's 223(f) program. This will enable CPC to write FHA insurance on mortgage loans it originates and to sell such mortgages to the Government National Mortgage Association (GNMA).

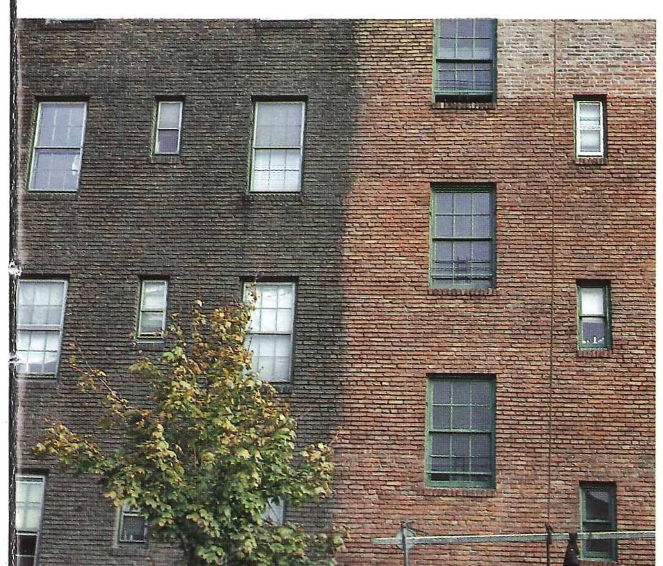
Also in the coming year, in a major initiative with the New York City Housing Partnership, we will create a mortgage corporation. Its goals will be: 1) to expand the number of rehabilitation construction lenders, and 2) to establish new sources of permanent financing, including funds from the insurance industry.

The recent developments in the area of funding sources are both reassuring and promising. However, New York's housing problems are massive. Sixty percent of all residential housing in New York City is more than 45 years old. Although most of these buildings are basically sound, their units are often in need of rejuvenation or repair. Moderate rehabilitation could extend their useful lives by as much as 40 years.

While CPC itself cannot resolve the city's housing problems, the success of the CPC concept shows that private financing, when assisted and not obstructed by government regulation and legislation, can foster the economical moderate rehabilitation needed to supply housing for low and middle income New Yorkers.

When private financing is combined with governmental subsidies and programs, it becomes economically feasible for an owner to rehabilitate a building.

Rehabilitation breathes new life into an aging building.



Dramatic results can be seen following the steam cleaning of a building's exterior.

Legislative Issues

National recognition of CPC's decade of housing progress reinforces the belief that its success can be duplicated in other urban areas.

In its first decade, CPC has succeeded in part because it has worked effectively with government in four areas to reshape housing programs and regulation so as to assist rehabilitation.

- A structure has been established for allowing reasonable rent increases upon completion of rehabilitation;
- Government has furnished subsidies to make housing affordable and prevent tenant displacement;
- Processes have been established to permit expeditious implementation of rent increases and subsidies;
- Mortgage insurance has provided additional security to lenders investing in multifamily properties.

While these initiatives have effectively promoted moderate rehabilitation, government faces new challenges in maintaining its commitment to preserve housing.

Rent regulations must continue to allow for fair rent increases after rehabilitation. While no tenant likes a rent increase, it is a fact that rehabilitation cannot occur without them. Rental income is needed to pay for the mortgage, maintenance, operating costs and real estate taxes. There must also be an allowance for vacancies and collection losses, with sufficient profit to induce equity investment and serve as a cushion for institutional lenders. In the past, the rent stabilization code has allowed owners to attain this income by raising rents on the basis of its "major capital improvement" provisions. This system has worked because of several features: owners are entitled to increases as a matter of right when replacing certain items (such as plumbing and heating) after giving proper notice to tenants; the amounts of increases are known in advance to permit accurate loan underwriting; and allowable increases are sufficient to support the costs of renovated housing. While there are modifications that could be made within this framework, any basic altering of these features would impair the goal of attracting investment to preserve New York City's housing.

Rent subsidies for those unable to meet rent increases must continue. Although post-rehabilitation rents on CPC-financed buildings have been under $100 per room a month—a rent affordable to tenants earning $16,000 a year—20 percent of the tenants still have needed subsidies to meet the new rent.

Government, as a partner in the CPC venture, has shaped the regulation of housing to assist and encourage rehabilitation.

The federal Section 8 program has met this need in the past, but it now faces drastic cuts. In-occupancy rehabilitation depends on this form of assistance.

Financing subsidies—critical to expanding the range of feasible rehabilitation projects—must be continued. At current market rates, CPC can lend about $8,000 to $9,000 per apartment. But this amount permits relatively little rehabilitation, and misses those buildings that are most seriously deteriorated. Financing subsidies, such as those provided by the city's Participation Loan Program, expand the amount of money that can be lent to more than $25,000 per unit, thus greatly expanding the range of buildings that can be rehabilitated.

Processing through government programs must be expeditious. A long and complicated application process adds to the cost of housing, and substantially offsets the benefits of subsidy programs. Cumbersome procedures also discourage participation in rehabilitation programs by lenders and owners. Government programs should aim for simplicity and speed.

Breaking ground for the first CPC rehabilitation project to be funded by public pension funds are, from left, Victor Gotbaum, executive director, AFSCME District Council 37; Harrison J. Goldin, city comptroller; James Gebhardt, president, Lieutenants Benevolent Association; Michael D. Lappin, president of CPC; Carol Bellamy, city council president, and Mayor Edward I. Koch.

Lessons Of A Decade

When CPC was launched a decade ago, it was apparent that long term success would hinge on the answers to such fundamental questions as: Can housing preservation be made economic? Will building owners respond to the rehabilitation opportunity CPC offers? Will there be community and public support for CPC's rehabilitation approach? Answers to these questions have begun to emerge.

Can housing preservation be made economic? The clear answer is yes. Examinations long after completion show CPC projects continue to be economically strong, their rejuvenated systems mechanically sound and functional. In a study of over 90 projects, the ratio of net income to the cost of debt was slightly over 130%, a standard considered healthy in the industry.

Yet a cautionary note is in order. The neighborhoods in which CPC lends are sensitive to adverse economic changes. CPC's efforts, however successful in their own terms, can easily be engulfed by larger forces of economic decline. For the owner, such risk must be fairly rewarded. For the lender, government mortgage insurance programs will continue to be needed.

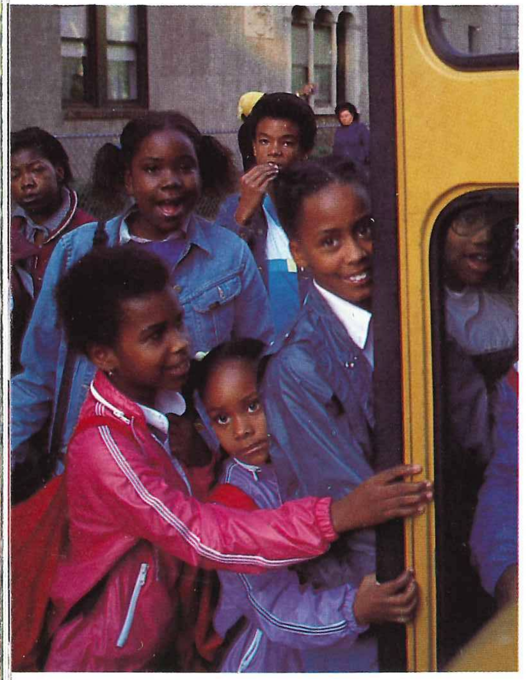
Will building owners respond to the rehabilitation opportunity CPC offers? Again, the answer is yes, provided the system is efficient as well as economic. The majority of CPC's borrowers own fewer than ten buildings, primarily non-luxury. Most are real estate professionals who manage buildings housing moderate income tenants. And until approaching CPC, most had never undertaken an extensive rehabilitation project.

To attract such borrowers, the rehabilitation process itself needed to be speedy and reliable. The effects of efficient processing included lower processing costs, lower construction costs and more affordable rents—and repeat business. Small owners, having neither time nor staff capacity, have avoided complicated government programs. For example, most of CPC's borrowers never participated in the complex government housing programs of the 1970's.

Neighborhood stability is strengthened because residents are not displaced during or following rehabilitation.

Preserving the diversity of New York's neighborhoods is central to the achievement of CPC's goals.

New York's housing stock must be restored to serve another generation.



The lesson here is obvious: To get small owners to upgrade the buildings they manage, the process must be efficient as well as economic.

Will there be community and public support for housing rehabilitation efforts? Here the answer is less clear. Rehabilitation with tenants in place is difficult at best. Water is shut off during plumbing replacement, plaster dust spreads. And afterward, rents increase. Such irritations can easily be exploited by those seeking to block or reduce rental increases, since tenants often have a difficult time equating this short run discomfort with long term benefits to themselves, to their neighbors and to the community as a whole.

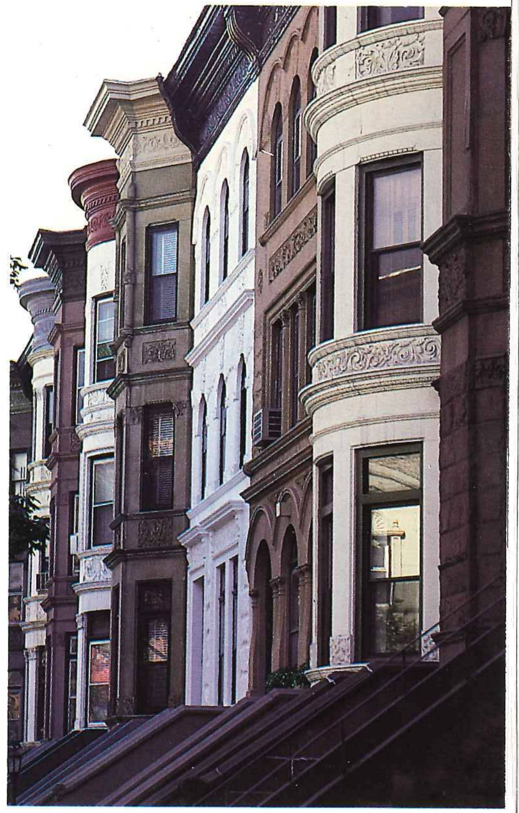
Where CPC efforts have been most successful, as in Washington Heights and Inwood, there have been community leaders of long standing with the vision to articulate the long term benefits of rehabilitation and allay tenants' fears. Where CPC has been unsuccessful, no such strong community leadership existed, and rehabilitation proceeded slowly or not at all.

Thus CPC has learned to undertake rehabilitation projects in neighborhoods whose leaders are supportive and committed to the renewal of their communities. What CPC can promise in return is not trouble-free rehabilitation, but responsiveness in dealing with the problems that arise, and a result that is good for the neighborhood.

In the hope that public awareness will produce an enduring political consensus in favor of the government programs which make rehabilitation affordable for tenants and feasible for owners, CPC seeks to explain its operations to community groups, tenants and the public at large. It also keeps government officials informed of the continuing need for rehabilitation assistance programs. Most persuasive in the long run, however, will be the visible effects of CPC's work: the well-kept exteriors of CPC-financed buildings, the steady functioning of their restored inner systems and the growing numbers of New Yorkers for whom they provide decent, affordable homes.

CPC uses public subsidies only to the extent necessary to make a project economically feasible.

Potential sources of financing are enormous, provided that government continues to create incentives for housing rehabilitation.



Moderate rehabilitation extends a building's useful life by as much as 40 years.

The Organization of CPC

From its establishment in two neighborhoods in 1974, CPC has evolved into an organization that now serves over 20 communities in four boroughs of New York. Our presence has grown rapidly because the city's housing needs are so great. Among the neighborhoods reached by CPC are:

Manhattan
- Hamilton Heights
- Inwood
- Washington Heights

Brooklyn
- Borough Park
- Crown Heights
- Flatbush
- Lefferts Gardens
- Midwood
- Prospect Heights
- Rugby
- Wingate

Bronx
- Bedford Park
- Jerome Park
- Kingsbridge
- Kingsbridge Heights
- Marble Hill
- Norwood-Mosholu
- Pelham

Queens
- Jackson Heights
- Jamaica
- Sunnyside
- Woodside

These communities have been chosen because their buildings, while exhibiting signs of physical deterioration, are structurally sound. Equally as important, government has indicated its willingness to work with the private sector to preserve these neighborhoods. Most of all, the communities themselves have proven to be cohesive and dedicated to their own renewal and continued stability.

Communities are served by two CPC neighborhood offices, one in northern Manhattan and the other in central Brooklyn. A building owner approaches CPC's mortgage staff here and begins the process which culminates in a CPC-rehabilitated building. CPC's central office, located in midtown Manhattan, handles corporate affairs, administration and loan servicing. Staff members in these offices join with active communities and preservation-conscious owners to make real the CPC concept of renewal.

Donna Sisselman, left, is director of CPC's Brooklyn-Queens Neighborhood Lending Office. Working with her are Mortgage Officer Mary Brennan and Neighborhood Mortgage Officer Susan Pollock.

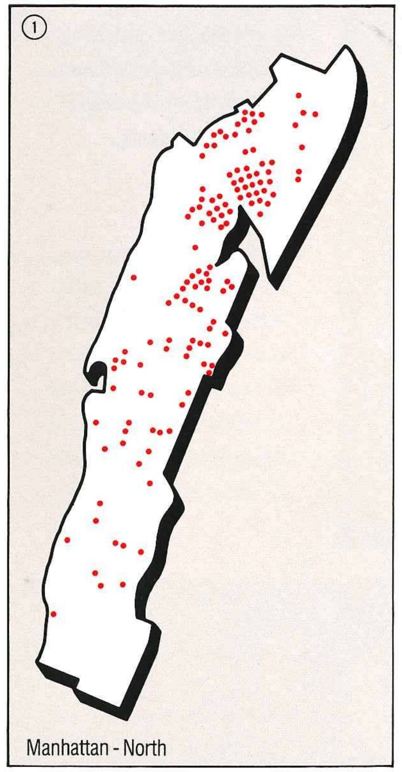
The officers of CPC include, from left: Marvin Goldberg, vice president, who manages mortgage origination; John McCarthy, executive vice president and treasurer, who is the chief operating officer; and Dale McDonald, vice president and head of mortgage servicing.

John P. Greene, center, directs CPC's Manhattan-Bronx Office, where Roger Ho, left and Joseph A. Barberio, right are neighborhood mortgage officers.

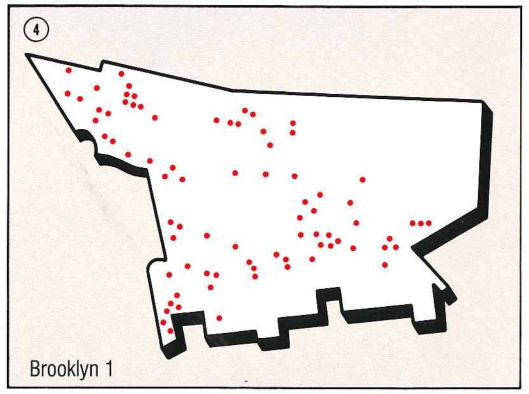
Donna Welensky, secretary of the corporation and Stefan Sebastian, assistant treasurer, have responsibility for loan closings and accounting.

CPC Lending Areas

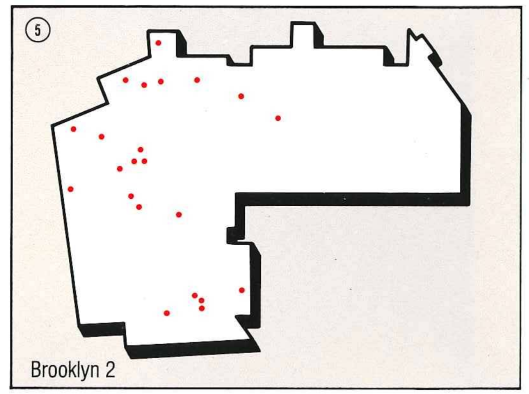
• CPC Rehabilitated Projects



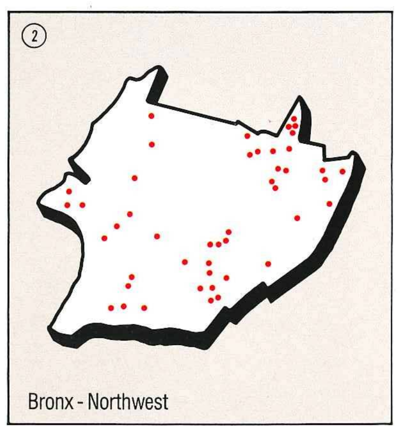
Manhattan - North



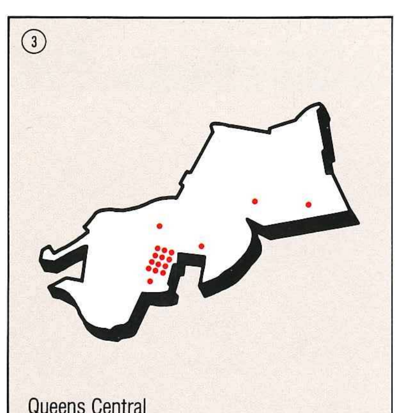
Brooklyn 1



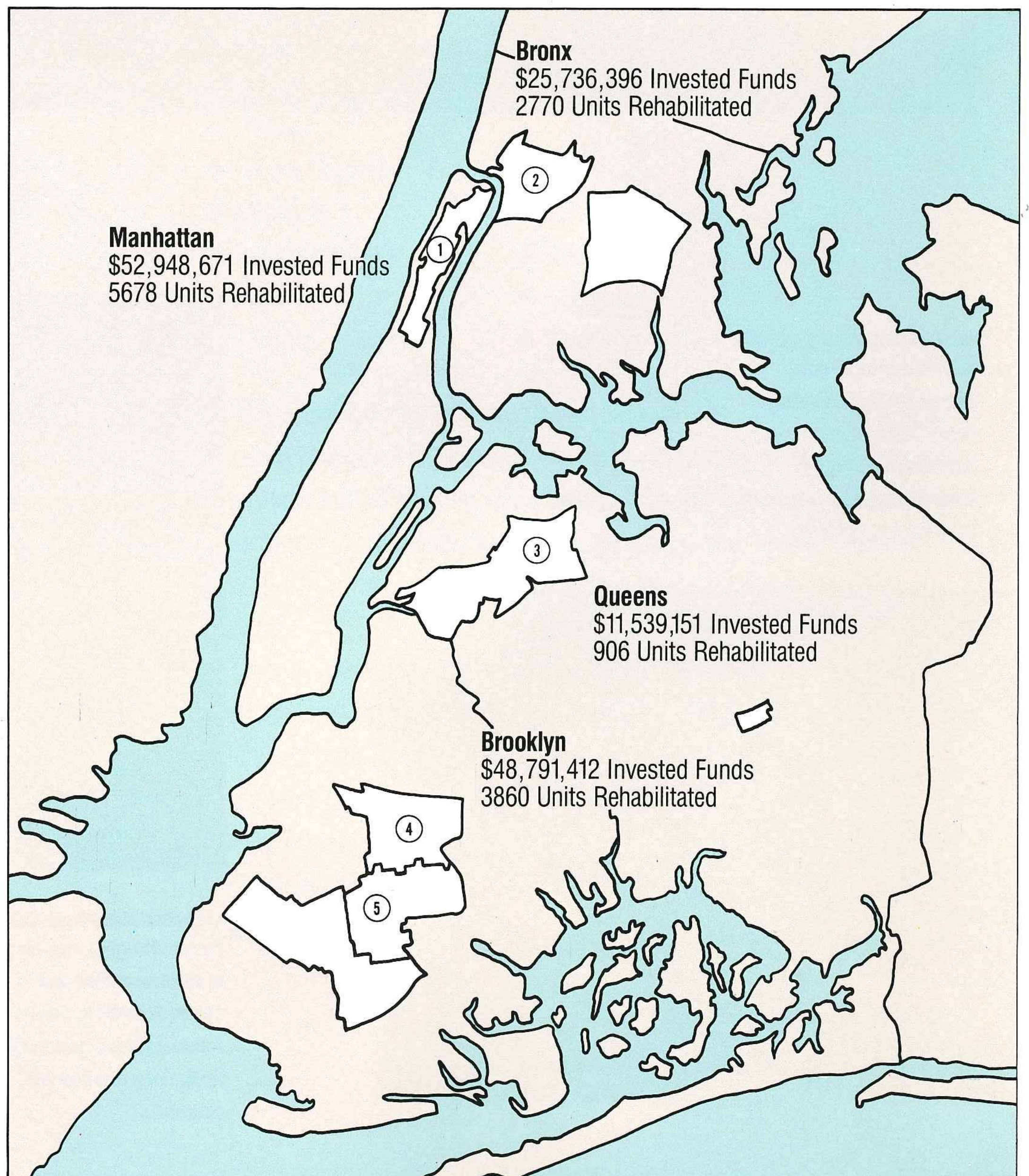
Brooklyn 2



Bronx - Northwest



Queens Central



Financial Overview

In 1984, CPC's income from operations exceeded expenses for the fifth consecutive year. The 1984 surplus was $542,000; accumulated surpluses and reserves for all years now exceed $2.5 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 204 and totalled $51.8 million at fiscal year end. Additional income is obtained from individual banks and the city for CPC's servicing of the 123 loan participations (representing $42.1 million) now held by them.

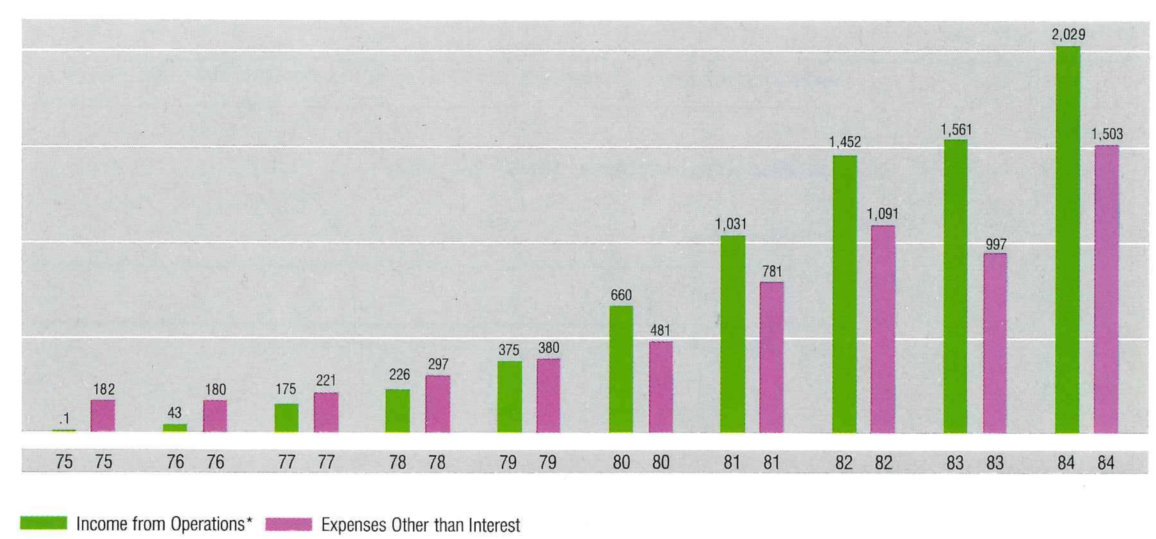
Third, the corporation invests idle cash reserves (such as those for permanent mortgage escrow and building reserve accounts), applying them primarily to its own construction mortgages. By reducing the corporation's expense for borrowed funds, this policy has contributed substantially to revenue in the 1984 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 $500,000 at year end, against possible losses in the $25.1 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. Since 1980, when a surplus was first achieved, the fee has gradually been reduced, reaching a market level of ¼% in 1984.

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 five years have seen generation of surpluses and reserves and a steady growth in demand for CPC financing. As we conclude our first decade of operations, it is 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)



*Net of Interest Expense

Balance Sheets

August 31,

Assets

	1984	1983
Investments in first mortgage loans (Notes 2, 3, 4 and 5):		
Construction loans	$36,141,031	$25,072,804
Less—Allowance for possible investment losses	500,000	410,000
	35,641,031	24,662,804
Permanent loans—		
Pledged	72,801,905	68,284,460
To be pledged	1,333,888	482,000
	109,776,824	93,429,264
Less—Participants' interest in mortgage loans	42,119,255	33,289,297
	67,657,569	60,139,967
Cash and cash equivalents:		
Subject to immediate withdrawal	1,046,647	—
Certificates of deposit (Note 6)	2,501,476	7,001,801
Accrued interest receivable	653,138	518,537
Other assets	309,146	194,761
	$72,167,976	$67,855,066

Liabilities and Fund Balance

	1984	1983
Liabilities:		
Notes payable under revolving credit agreement—unsecured (Note 4)	$ —	$ 2,000,000
Accounts payable and accrued expenses	2,587,410	2,322,640
Participant's deposits (Note 6)	11,943,021	9,045,613
Escrow and other deposits of borrowers	3,721,520	2,736,028
Deferred income—commitment fees	64,418	13,683
	18,316,369	16,117,964
Nonrecourse collateral trust notes (Note 5)	51,772,796	50,184,036
	70,089,165	66,302,000
Commitments and contingencies (Notes 2, 3, 4, and 8)		
Fund balance (Note 11)	2,078,811	1,553,066
	$72,167,976	$67,855,066

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

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

Years Ended August 31,

Public Support and Revenue

	1984	1983
Public Support	$ 5,550	$ 4,725
Revenues—		
Interest on loans (Note 7)	6,978,831	5,944,758
Servicing fee income	249,493	370,030
Commitment fees	570,040	316,486
Interest on short-term investments	383,149	395,898
Other	151,261	88,006
Total revenues	8,332,774	7,115,178
Total public support and revenue	8,338,324	7,119,903

Expenses

	1984	1983
Interest (Note 7)	6,309,324	5,558,865
Employee compensation and benefits	825,650	591,437
Professional fees	252,000	27,905
Office expenses	187,958	138,306
Provision for possible investment losses (Note 3)	90,000	110,000
Other	147,647	130,029
Total expenses	7,812,579	6,556,542
Excess of public support and revenues over expenses	525,745	563,361

Fund Balance

	1984	1983
Fund Balance, beginning of period	1,553,066	989,705
Fund Balance, end of period	$2,078,811	$1,553,066

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 New York City Community Preservation Corporation (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 (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.

2. Mortgage loans and commitments:
The following is a summary of closed mortgage loans as of August 31, 1984 and 1983 (000's omitted except for number of loans):

1984	Construction	Permanent	Total
Number of loans	67	197	264
Funded commitments:			
Total funded balance	$36,141	$74,136	$110,277
Less—Participants' interests	21,090	21,029	42,119
Corporation's portion	15,051	53,107	68,158
Less—Allowance for possible investment losses	500	—	500
	14,551	$53,107	$ 67,658
Corporation's portion of unfunded commitments	9,225		
Total Corporation commitment amount	$23,776		

1983	Construction	Permanent	Total
Number of loans	56	190	246
Funded commitments:			
Total funded balance	$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		

Pending commitments for new mortgage loans (net of portion applicable to participants) as of August 31, 1984 and 1983, 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	
	1984	1983	1984	1983
Number of loans	12	4	3	8
Amount	$3,553	$720	$1,050	$4,753

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, 1984, 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, 1984 and 1983, the Corporation provided $90,000 and $110,000, respectively, for this allowance and no amounts were charged to the allowance in either year. In years prior to the year ended August 31, 1983, $300,000 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, 1987 generally for the purpose of financing construction loans made by the Corporation. Borrowings are evidenced by notes which mature no later than August 31, 1988. The notes bear interest at a maximum of ½% in excess of the prime lending rate of the agent bank. No compensating balances are required to be maintained under the agreement; however, the Corporation is required to, among other things, maintain working capital, as defined, equal to the lesser of $50,000 or 5% of all outstanding sums borrowed pursuant to the agreement.

Borrowings under this agreement during fiscal 1984 and 1983 were at interest rates which ranged from 11% to 13% and 10½% to 13½%, respectively. At August 31, 1984 and 1983, the interest rates on these borrowings were 13% and 11%, respectively. At August 31, 1984, there were no borrowings outstanding under this agreement.

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. In December of 1983, the annual servicing fee was reduced from the previous level of ¾ of 1% to ½ of 1%.

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, 1984, HPD deposits consisted of the following:

Unused HPD funds, partially invested in certificates of deposit	$ 8,029,232
Mortgage interest and principal collections and accumulated interest on short-term investments	3,913,789
	$11,943,021

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

	1984		1983	
	Income	Expense	Income	Expense
Unpledged mortgage loans	$1,733,683	$ —	$1,184,832	$ —
Pledged mortgage loans	5,245,148	5,245,148	4,759,926	4,759,926
Revolving credit agreement	—	33,114	—	15,939
HPD funds and escrow	—	1,031,062	—	783,000
	$6,978,831	$6,309,324	$5,944,758	$5,558,865

Notes to Financial Statements August 31, 1984 and 1983

8. Lease commitments:
The Corporation leases office space in three locations under agreements which expire on three separate dates in 1986, 1987 and 1988.

Annual base rents are subject to escalation and/or decrease as provided for in the lease. Rental expense for 1984 and 1983 was $106,013 and $86,474, respectively, net of sublease income. The minimal annual rentals under noncancelable leases are as follows:

1985	$103,622
1986	103,622
1987	19,943
1988	12,243

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 expense for the years ended August 31, 1984 and 1983, was $24,964 and $13,588, respectively. Net plan assets available for benefits at August 31, 1984 and 1983, were $41,391 and $16,757, respectively.

10. Pension fund commitments:
During the fiscal year ended August 31, 1984, the Corporation entered into buy/sell agreements with the New York City Police Pension Fund and the New York City Employees' Retirement System (the Pension Funds). The agreements provide, among other things, for the Pension Funds to purchase certain mortgages originated by the Corporation in an aggregate amount not to exceed $100 million. Pursuant to the terms of related servicing agreements, the Corporation will receive a servicing fee equal to ¼% per annum of the outstanding principal balance of the mortgages placed with the Pension Funds. As of August 31, 1984 no loans had been placed with the Pension Funds.

11. 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.

Auditors' Report

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

We have examined the balance sheets of The New York City Community Preservation Corporation (a New York not-for-profit corporation) as of August 31, 1984 and 1983, 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, 1984 and 1983, 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 16, 1984

Directors, Officers and Participating Financial Institutions

Board of Directors

John D. Kyle
Chairman of the Board
The New York City Community Preservation Corporation
Executive Vice President
Chemical Bank

James O. Boisi
Past Chairman
The New York City Community Preservation Corporation

Joseph C. Brennan
Past Chairman
The New York City Community Preservation Corporation

Jeffrey R. Grandy
Senior Vice President
Citibank, N.A.

John A. Hooper
Vice Chairman
The Chase Manhattan Bank, N.A.

Pazel G. Jackson, Jr.
Senior Vice President
The Bowery Savings Bank

I.J. Lasurdo
Chairman of the Board
The Green Point Savings Bank

John F. Lee
Executive Vice President
New York Clearing House Association

William G. Lillis
President
American Savings Bank

Vincent J. Quinn
President
Metropolitan Savings Bank

Donald L. Thomas
Chairman of the Board
Anchor Savings Bank

Robert F. Wallace
Vice Chairman
National Westminster Bank USA

Mortgage Committee

Peter C. Underwood
Chairman, Mortgage Committee
Vice President
Goldome Realty Credit Corporation

Michael J. Wechsler
Vice Chairman, Mortgage Committee
Senior Vice President
Chemical Bank

Harry Baierlein, Jr.
Senior Vice President
Metropolitan Savings Bank

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

Murray Mascis
Vice President
Citibank, N.A.

Harold L. Van Varick
First Senior Vice President
American Savings Bank

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

Officers

Michael D. Lappin
President

John M. McCarthy
Executive Vice President and Treasurer

Marvin Goldberg
Vice President

Dale F. McDonald
Vice President

Donna Welensky
Secretary

Stefan Sebastian
Assistant Treasurer

Mortgage Staff

John P. Greene
Mortgage Officer
Director of Manhattan - Bronx Office

Donna Sisselman
Mortgage Officer
Director of Brooklyn - Queens Office

Mary A. Brennan
Mortgage Officer

Joseph A. Barberio
Neighborhood Mortgage Officer

Roger D. Ho
Neighborhood Mortgage Officer

Susan M. Pollock
Neighborhood Mortgage Officer

Consulting Engineers

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

Auditors

Arthur Andersen & Co.

Corporate Counsel

Sullivan & Cromwell

Real Estate Counsel

Rogers & Wells

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(212) 949-1005

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4951 Broadway
New York, New York 10034
(212) 567-5656

Brooklyn - Queens Office
One Hanson Place, Suite 2504
Brooklyn, New York 11243
(718) 783-8400

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
The East New York Savings Bank
Eastern Savings Bank
Emigrant Savings Bank
Flushing Savings Bank
Goldome Federal Savings Bank
The Green Point Savings Bank
Independence Savings Bank
Lincoln Savings Bank
Metropolitan Savings Bank
Ridgewood Savings Bank
Roosevelt Savings Bank
The Seaman's Bank for Savings
The Williamsburgh Savings Bank

Past Directors of CPC 1974-1984

James O. Boisi (1978-1984)
Morgan Guaranty Trust Company of New York
Chairman of CPC, 1978-1980

Robert G. Brandely (1978-1979)
The East New York Savings Bank

Joseph C. Brennan (1975-1984)
Emigrant Savings Bank
Chairman of CPC, 1981-1982

William R. Brennan, Jr. (1974, 1979-1981)
Harlem Savings Bank

Eugene J. Callan (1979-1981)
The New York Bank for Savings

Morris D. Crawford, Jr. (1978)
The Bowery Savings Bank

Edward A. Farley (1982)
Manufacturers Hanover Trust Company

Michael J. Gill (1977-1978)
Bankers Trust Company

Jeffrey R. Grandy (1982-1984)
Citibank, N.A.

William G. Herbster (1974-1976)
First National City Bank

John A. Hooper (1979-1984)
The Chase Manhattan Bank, N.A.

Pazel G. Jackson, Jr. (1982-1984)
The Bowery Savings Bank

John D. Kyle (1981-1984)
Chemical Bank
Chairman of CPC, 1983-1984

Edward M. Lamont (1975-1978)
Morgan Guaranty Trust Company of New York

Edgar A. Lampert (1974, 1980-1981)

I.J. Lasurdo (1982-1984)
The Green Point Savings Bank

John F. Lee (1974-1984)
New York Clearing House Association

William G. Lillis (1982-1984)
American Savings Bank

Warren T. Lindquist (1974, 1980-1981)

Robert I. Lipp (1979-1980)
Chemical Bank

Charles H. Miller (1974)
Dime Savings Bank of New York

Alfred S. Mills (1974-1978)
The New York Bank for Savings
Chairman of CPC, 1974-1978

Francis X. Murphy (1977-1978)
Marine Midland Bank

John M. Nosworthy (1975-1977)
Eastern Savings Bank

William E. Panitz (1976-1978)
Citibank, N.A.

William C. Plog (1974)
TASCO

John R. Price (1974-1975)
Manufacturers Hanover Trust Company

Joseph H. Quinn (1974-1976)
The Chase Manhattan Bank, N.A.

Vincent J. Quinn (1983-1984)
The Metropolitan Savings Bank

John W. Raber (1979-1981)
The Green Point Savings Bank

David Rockefeller (1974-1976)
The Chase Manhattan Bank, N.A.

Frederick H. Schneider (1981-1982)
Roosevelt Savings Bank

Charles C. Smith (1979-1981)
Bankers Trust Company

Donald L. Thomas (1975-1984)
Anchor Savings Bank

George F. Ulich (1978, 1980)
Williamsburgh Savings Bank

John H. Vogel (1979-1981)
National Bank of North America

Robert F. Wallace (1983-1984)
National Westminster Bank USA

Michael J. Wechsler (1974-1978)
Chemical Bank

Design: Susan Shaw Major Photography: Todd Weinstein Additional Photography: Peter Jensen/Richmond Jones/Jim Robinson