The New York City
Community Preservation Corporation
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New York, New York 10017
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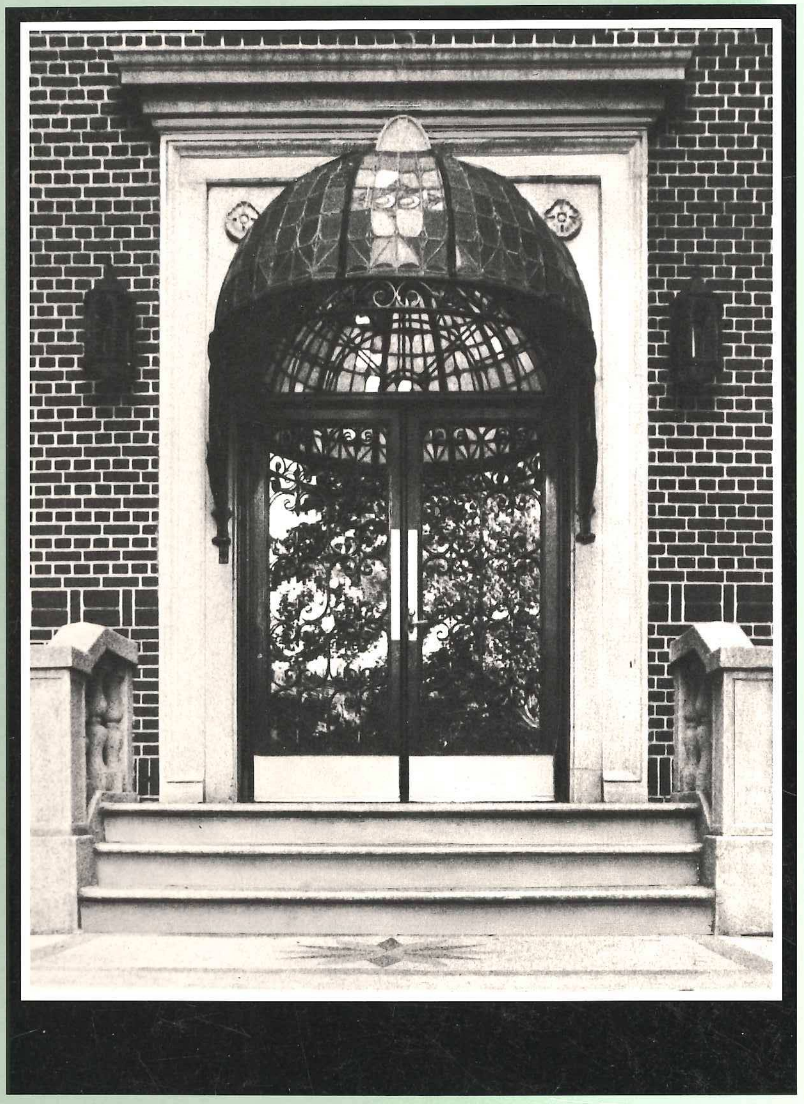


Annual Report 1985

Progress and New Directions in Housing

The New York City Community Preservation Corporation is dedicated to preserving existing housing, one of the city's great assets, as the principal means of providing decent housing that New Yorkers of all income levels can afford.

In its 11 years in operation, CPC has built a successful working partnership of private financing and public programs in confronting New York City's persistent housing problem.

CPC's pioneering programs have set an example for housing efforts in New York and other cities, and focused public and government attention on the need for imaginative but realistic programs in support of better housing.

On the front cover, a Bronx apartment building, one of the finest in New York when built in 1925, has been rehabilitated with CPC funds to house moderate income families.

Highlights

Fiscal Year Performance 1984-85	
Closed Construction Loans	
CPC Funds	$ 3,329,099
Pension Funds (For Permanent Loans)	11,943,415
Federal Community Development Funds	11,043,104
Other Private Funds	1,804,866
Total	$ 28,120,484
Units (Construction Started)	
Manhattan	522
Bronx	160
Brooklyn	605
Queens	468
Total	1,755
Income (Net of Interest Expense)	$ 2,138,438
Expenses (Other than Interest)	$ 1,550,056

Lending Record 1974-85	
Closed Loans (303)	$167,136,114
Foreclosures (2)*	$ 930,870
Apartment Units	14,969

*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.

A year of progress and new directions in the cause of affordable housing

To Our Members:

Against a background of seemingly intractable housing problems, The New York City Community Preservation Corporation has moved aggressively toward the goal that guided its formation: the creation of investment capital to provide sound and affordable housing for the city's low and moderate income families.

This past year saw our financing activities grow significantly. We provided new financing totaling $28 million for the rehabilitation of 1,755 apartments. These units will rent for about $100 per room per month, making them affordable to families earning as little as $16,000 a year. This modest level of rent avoids displacing existing tenants, and buildings are renewed for another generation of use.

During the 11 years since our founding we have financed the rehabilitation of nearly 15,000 apartments, representing private and public investments of over $167 million.

Our 1984-85 fiscal year was marked by progress in other respects:

We sold our first mortgage loans to two New York City pension funds, which have pledged $100 million in financing.

The Federal Housing Administration gave CPC access to another important funding source by approving our application to become a co-insurer, thereby allowing us to originate FHA-insured mortgages for resale in the secondary mortgage markets.

Seven New York-based insurance companies agreed to provide $50 million in financing through a subsidiary that we will establish in cooperation with the New York City Housing Partnership.

We also expanded our lending areas to include most of the city's designated Neighborhood Preservation Areas, along with neighborhoods adjacent to the Housing Partnership's new home sites.

In an important departure, we made our first commitments to finance the development of moderately priced condominiums in vacant, long-abandoned properties. Working with the State of New York Mortgage Agency to provide low-rate financing to qualifying purchasers, we will be able to make two-bedroom homes available to families with annual incomes of $27,000 or more.

We may be able to develop units affordable to even lower income groups if buildings can be acquired at low cost from the City's inventory of tax-foreclosed properties. We are working with the City's Department of Housing Preservation and Development on this effort. This condominium program will not only offer the opportunity for home ownership to income groups previously unable to afford it, but will breathe new life into communities devastated by abandonment.

While we look forward to these new directions, we are concerned about the continued viability of moderate rehabilitation of rental housing. Confusion about rent increases allowed for capital improvements and delays in their implementation, combined with the virtual cutoff of federal rent subsidies, threaten to curtail the flow of private investment in rehabilitation in moderate income neighborhoods. Without private investment, housing that could be preserved now at modest cost may be left to deteriorate, requiring a much higher public investment later.

Attracting investment in housing preservation requires adequate rent increases to support project costs, along with subsidies to make the housing affordable. Subsidies cannot, however, be provided by denying adequate rent increases. To attempt to do so undermines the whole effort to attract private capital into housing preservation.

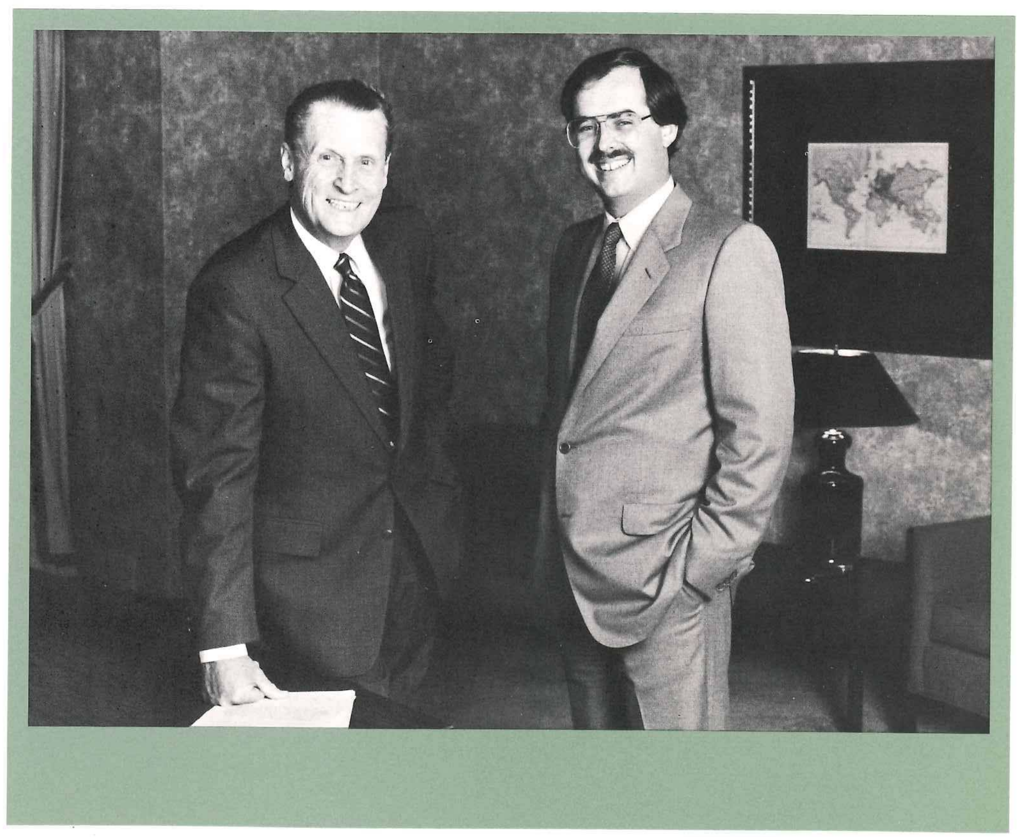
In 1986, the State Legislature will consider bills crucial to the rehabilitation of the existing housing stock: rental increases and real estate tax abatements and exemptions tied to capital improvements. It may also consider widening the Senior Citizen Rent Increase Exemption to exempt low income residents from rent increases resulting from rehabilitation. Constructive action on these issues can insure and enlarge private investment in housing preservation.

We look forward with optimism to the expansion of our work, and to the continued support and cooperation of government, which has been so fundamental to our success.

Donald L. Thomas
Chairman

Michael D. Lappin
President

December 16, 1985



Donald L. Thomas (left) is chairman of CPC. Michael D. Lappin is president.

The economics of private, older buildings – the key to a housing strategy

The homeless poor are the most extreme and visible victims of New York City's vast housing problem. Far less visible, but just as real, is the plight of the hundreds of thousands of low and moderate income families who live in older housing that no longer – or barely – provides adequate shelter.

For lower income New Yorkers, new construction, which produces too few units and at too high a price, is only a small part of the solution to the problem of obtaining decent, affordable housing. Far more important is preventing the further deterioration and outright abandonment of the aging housing stock that traditionally has sheltered New York's lower income residents. Indeed, the 15,000 apartments lost each year to fire or abandonment greatly exceed the newly built units affordable to these New Yorkers.

CPC has pioneered in developing sound methods of preserving the existing housing stock. Its efforts over 11 years have led to the investment of more than $167 million of private and public funds in the preservation of nearly 15,000 apartments in moderate income neighborhoods.

CPC's experience is suggestive of a broad strategy for preventing the loss of existing housing. This strategy must be built on an awareness of basic facts:

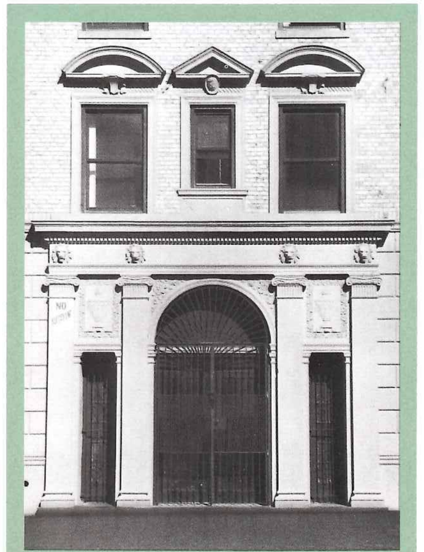
- The great majority of New York City's low and moderate income residents are housed in older, multifamily buildings.
- Most of the housing for lower income groups – except for approximately 220,000 New York City Housing Authority units and some 50,000 apartments in tax foreclosed buildings – is privately owned, typically by someone with limited resources and little experience or capacity to deal with government programs and regulations.
- This housing is generally the city's oldest, most of it built before World War II. Deterioration is likely to be most pronounced among these buildings, with many still having their original mechanical systems – plumbing, heating and wiring.

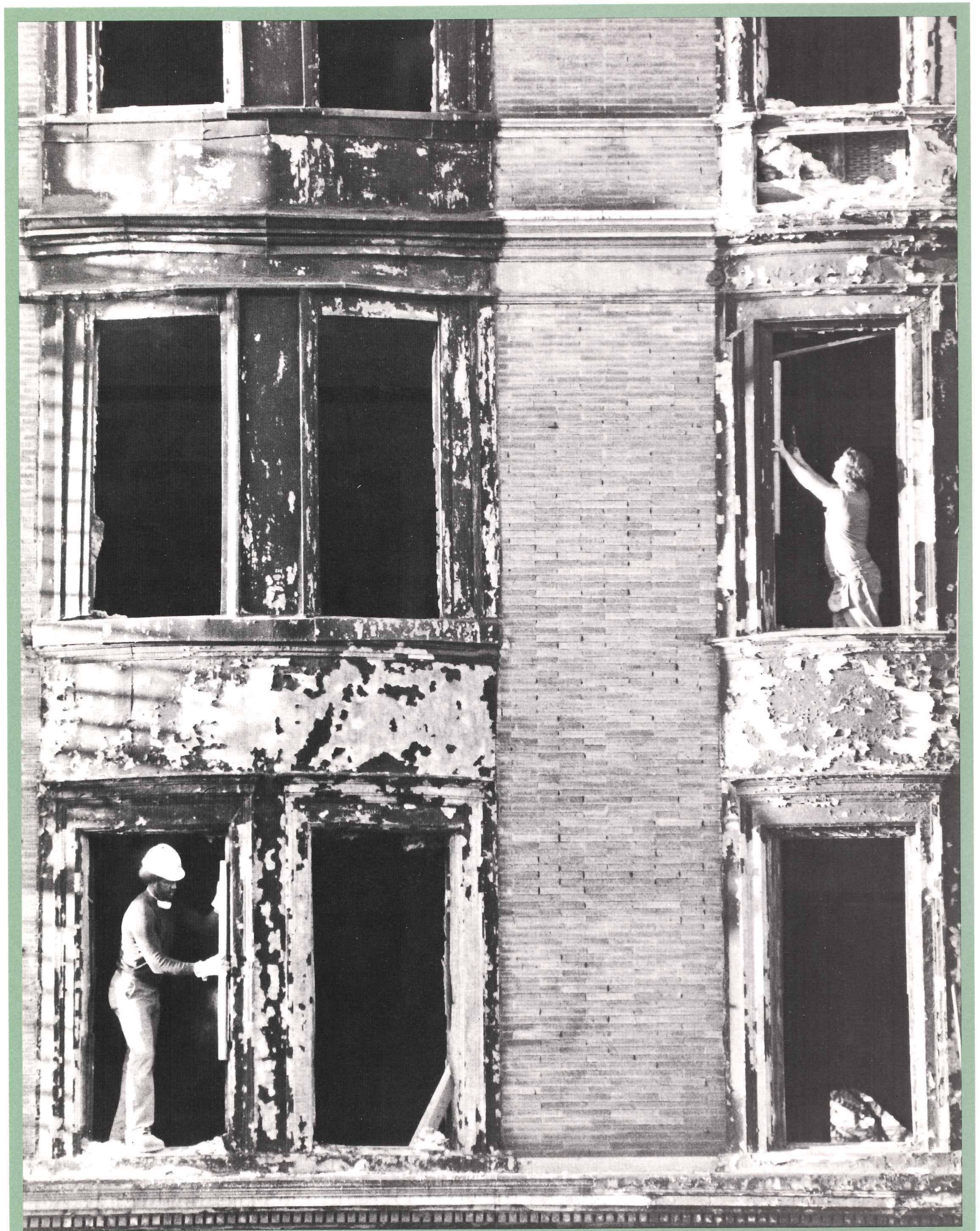
As a building's systems begin to wear out, the cost of major repairs for the small owner may far outweigh the revenue resources of the building. Rental income is low, and the ability of the tenants to pay the higher rents needed to support capital investment is limited.

The path of deterioration can easily lead to tax foreclosure and abandonment, the major cause of housing losses that primarily affect lower income groups.

The ability to intervene effectively before the process of decay goes too far can do much to reduce the cost of preserving this housing. Moderate rehabilitation while a building is still habitable costs

CPC financed the modernization of this privately owned building in the Fort Greene section of Brooklyn. At right, workmen install new windows on another CPC-funded building in the same neighborhood.





$12,000 to $15,000 a unit, and promotes neighborhood stability, since tenants can remain in their homes rather than being forced to leave by worsening conditions. Restoring buildings after abandonment is three to four times as expensive.

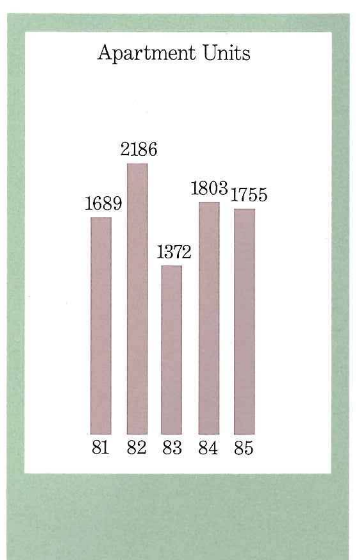
CPC's principal preservation approach has been to provide private owners with financing for rehabilitation of their buildings, weaving in various government programs that can lower financing or operating costs. While rents must basically support the cost of the renovation, public subsidies such as property tax abatements, low-interest financing and rent subsidies for individual low income tenants contribute to such projects' economic feasibility.

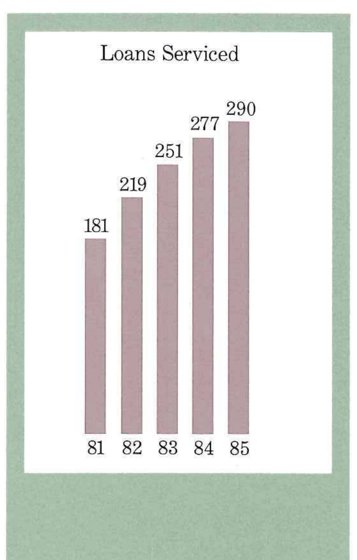
The typical result: a modernized, efficient building serviceable for an additional 30 or 40 years; rents averaging about $400 a month for a two-bedroom apartment (affordable to a family earning about $16,000 a year), and a building that is a sound investment for its owner, with sufficient income to assure its continued maintenance and care.

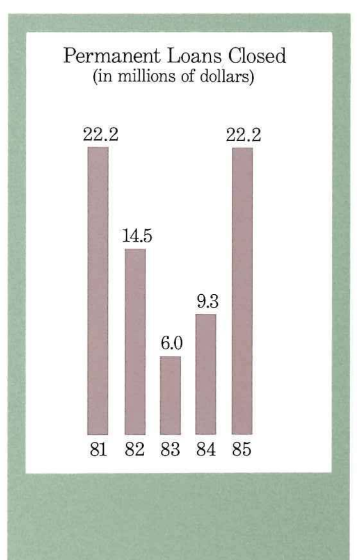
Despite rehabilitation efforts, many neighborhoods have been blighted by abandoned buildings. However, because of shifts in the city's economy and its housing patterns, many of these long abandoned areas now offer new opportunities for large scale economic restoration. Taking advantage of large assemblages of these properties under City ownership and using low rate end loan financing of the State of New York Mortgage Agency, CPC plans to finance the renovation of many of these apartments to produce condominiums for families with incomes in the $25,000 to $35,000 range. These "new neighborhoods" can be an important step in meeting the housing needs of this income group.

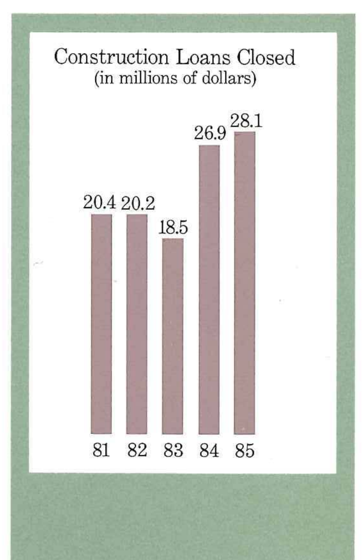
Such economically realistic approaches can help to relieve the city's chronic housing shortage by encouraging both public and private investment in preserving an irreplaceable asset, New York's stock of existing housing.

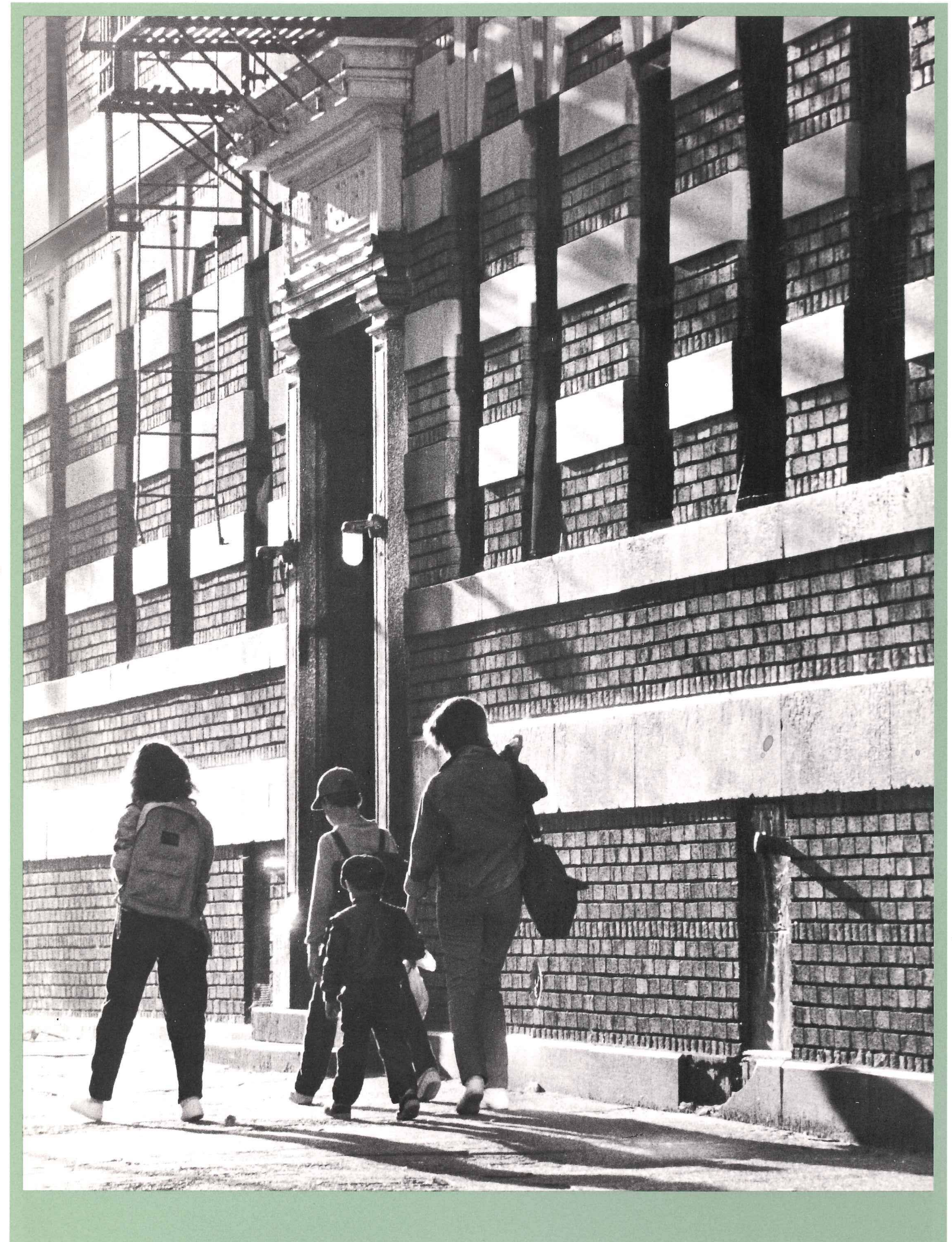
Children head for school in Manhattan's Washington Heights, a community where CPC's rehabilitation projects have had significant impact.











Expanding housing opportunities in aging neighborhoods

The New York City Community Preservation Corporation was established in 1974 as a not-for-profit enterprise by the city's major commercial and savings banks. It was created in recognition of the need for substantial and continuing investment in order to preserve the aging housing stock in the city's low and moderate income neighborhoods.

CPC's sponsors currently consist of 12 commercial banks and 20 savings banks, which elect the members of CPC's board of directors. The board, meeting quarterly and comprising chief executives and other senior banking officers, establishes corporate policies, which CPC's management carries out.

CPC's board has also established a mortgage committee, responsible for authorizing the corporation to make both construction and long-term mortgage loans through its various credit agreements. The committee, meeting monthly, reviews each loan recommendation made by CPC's mortgage staff.

Loans are originated at CPC's neighborhood offices. The Brooklyn office serves CPC's specified lending areas in Brooklyn and Queens. The upper Manhattan office covers the Manhattan and Bronx lending areas.

Construction loans are funded through a $26 million revolving line of credit provided by CPC's commercial bank sponsors.

Long term mortgage financing is drawn from several sources:

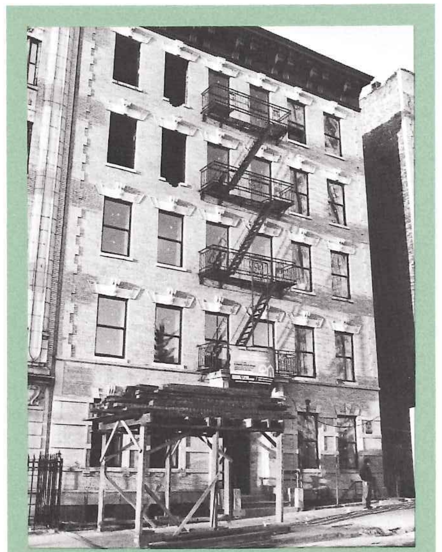
- $100 million from a financing line established by CPC member banks, of which $79.5 million has already been committed;
- $50 million from the New York City Police Pension Fund and an additional $50 million from the New York City Employees Retirement System, of which a total of $24.3 million has been committed;
- Loan participations by other private lenders, including CPC's individual sponsoring banks, amounting to $15.1 million through the 1985 fiscal year;
- City Participation Loan Program mortgages at 1 percent interest, with commitments currently totaling $67.5 million.

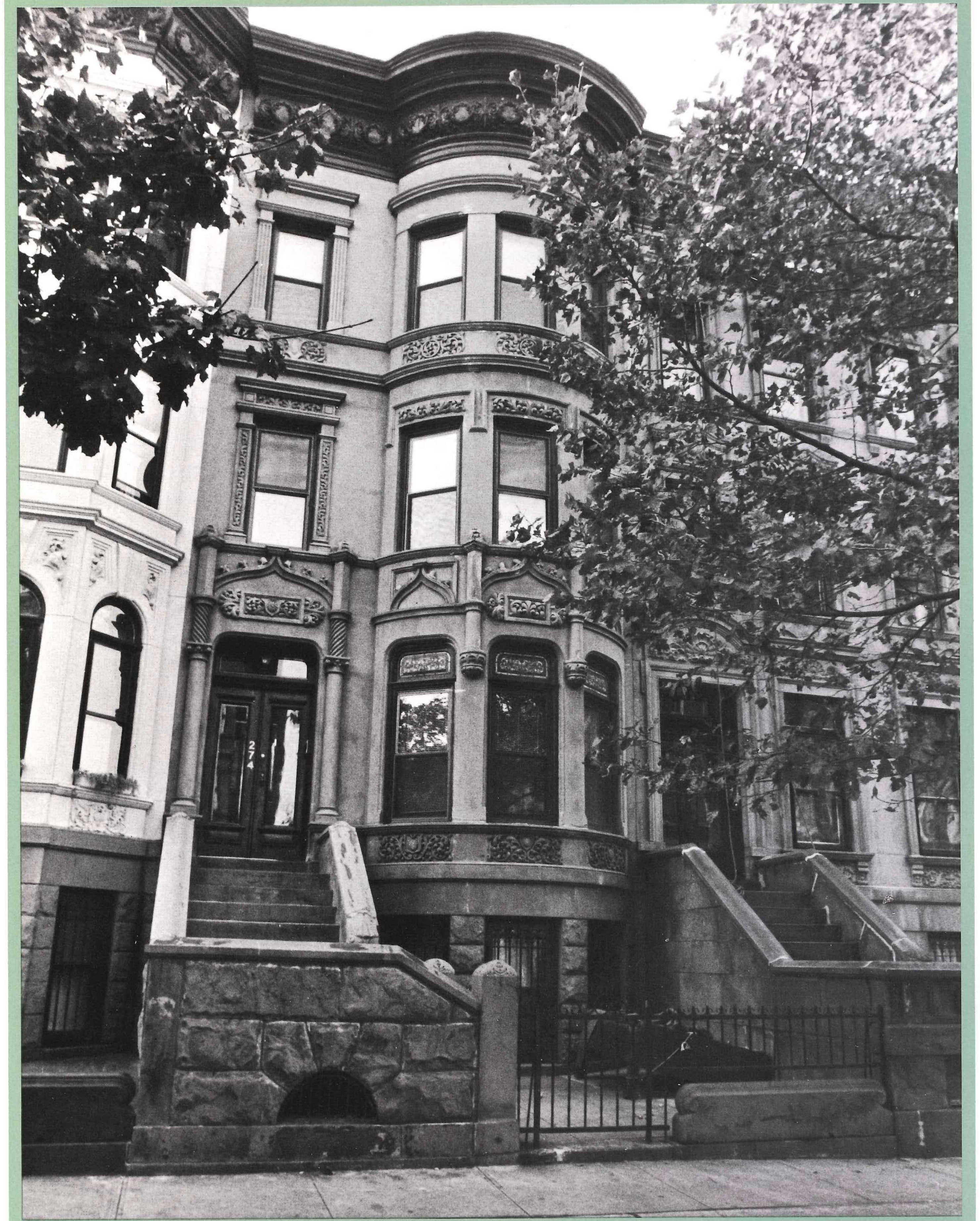
CPC is also a Federal Housing Administration approved mortgagee, a co-insuring lender under the FHA's 223(f) program, and a Multi-family Seller/Servicer designated by the Federal National Mortgage Association (FNMA). Approval of CPC's application for designation by FNMA as a 1-4 Family Seller/Servicer for mortgage-backed securities is pending.

The FHA co-insurer designation and the FNMA designations vastly increase CPC's financing capacity by enabling CPC to sell in the secondary mortgage markets the loans it originates under those programs. The proceeds can then be used to make new loans.

CPC also services all the loans it originates. Currently, $41.9 million in construction loans and $90.5 million in mortgage loans are being serviced.

This upper Manhattan building (below) will provide comfortable housing for the homeless. The Brooklyn brownstone at right has been renewed for another generation of use.





Linking the public and private sectors to preserve and develop housing

To promote effectively the preservation of low and moderate income housing, The Community Preservation Corporation has had to expand its role beyond merely providing construction and mortgage financing.

CPC has had to become the essential intermediary between building owners and government.

This has been necessary for two basic reasons:

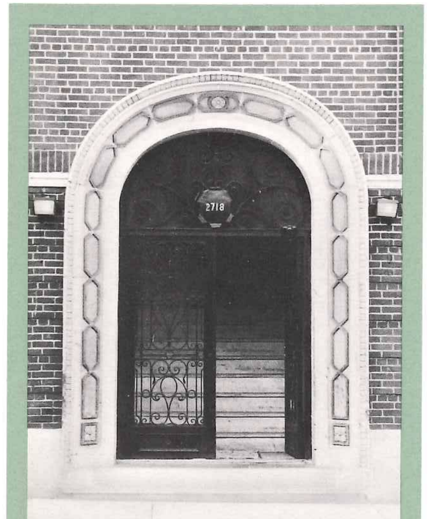
First, redevelopment of housing for lower income groups requires subsidies and government involvement under a complex array of programs and regulations whose standards continually change and whose operation is uncertain.

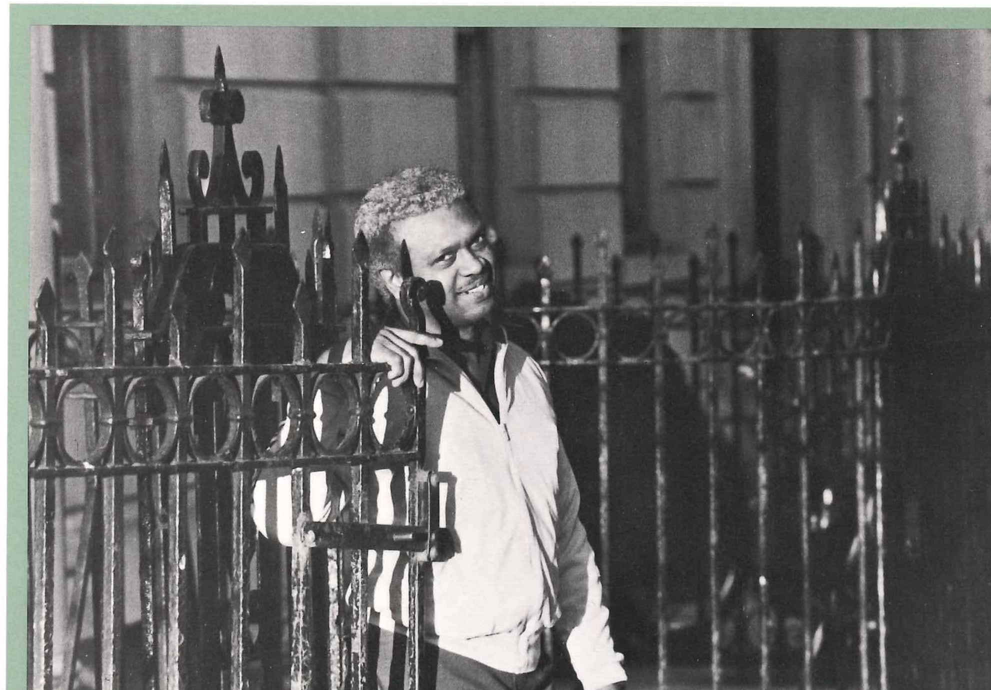
Second, the owners of this kind of housing generally have limited staff resources, and tend to be unfamiliar with both rehabilitation and the government programs that can help accomplish it.

To preserve a building first requires an understanding of the construction work necessary to extend the building's useful life for another 30 or 40 years. CPC works closely with the owner, inspecting the property and providing guidance as to what work will be needed and what range of costs will be involved. Buildings constructed in the 1920's or before – comprising the bulk of existing housing for low and moderate income households – typically require new heating, plumbing and electrical systems, new roofs and new windows, along with various cosmetic items.

Next, a proposed rehabilitation project must be economically feasible. That is, after completion the building must be profitable for the owner, meet its mortgage and operational expenses, and still have rents that remain affordable for the existing tenants.

Older buildings, such as this one in The Bronx (below), are an irreplaceable housing asset for New York. At right, the superintendent of a CPC-funded building in Brooklyn.





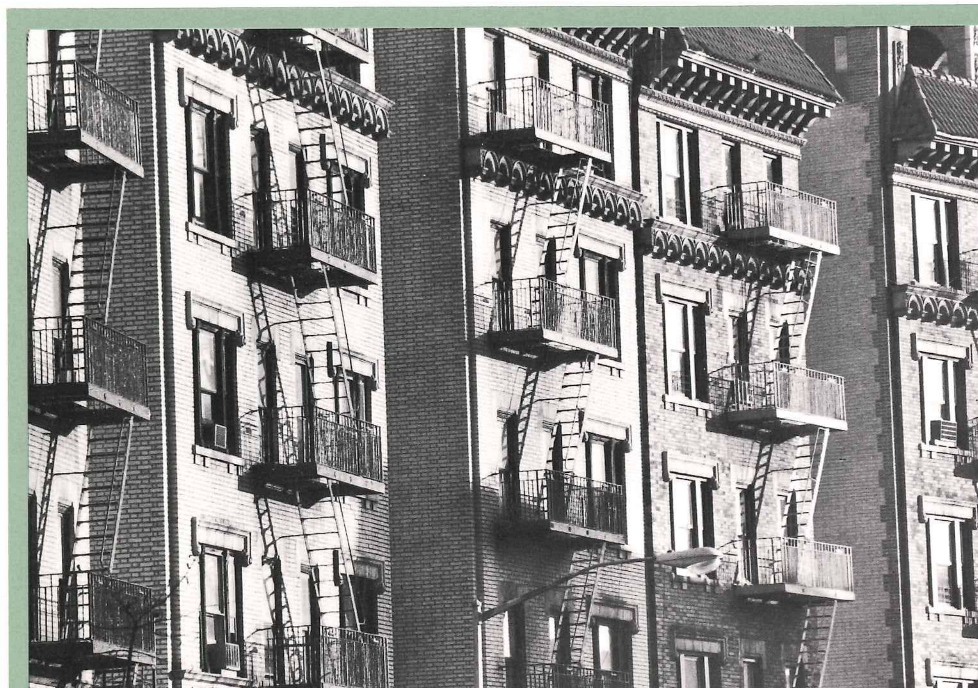
Repayments on a rehabilitation mortgage loan will raise the building's annual costs, requiring higher rents in order to pay for the cost of improvements. CPC helps to obtain these rent increases, steering the application through the appropriate city and state agencies.

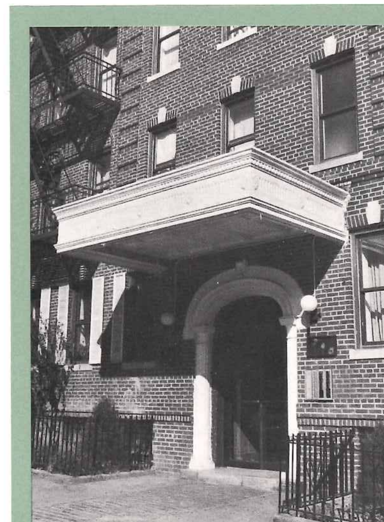
But to keep new rents at a minimum and thereby assure that tenants can afford them, CPC employs several means. First, its knowledge of the construction process can go far in promoting efficient, economical construction.

Next, CPC helps owners use a variety of government programs to limit the increase in costs, and thus rents. The City's J-51 program, by providing a temporary abatement of existing real estate taxes and exemption from increased taxation for the renovated building, is crucial to keeping rents affordable. Financing costs can be reduced by obtaining mortgage money at 1 percent interest through the City's federally funded Participation Loan Program. Federally funded rent subsidies have also been available for individual tenants whose incomes are so low they cannot afford even modest increases in rent.

Without CPC, most small owners – and 97 percent of the members of the Rent Stabilization Association own 100 or fewer apartments – find this array of programs and regulations a frustrating and intimidating maze. The more dilapidated the housing, the more complex the process, as more substantial public assistance is needed.

Basically sound older buildings, such as these in Washington Heights, can be rehabilitated at moderate cost. At right, the entrance to a CPC-financed project in Brooklyn's Crown Heights section.





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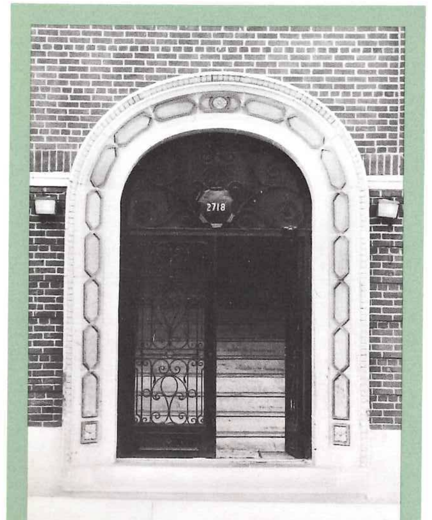

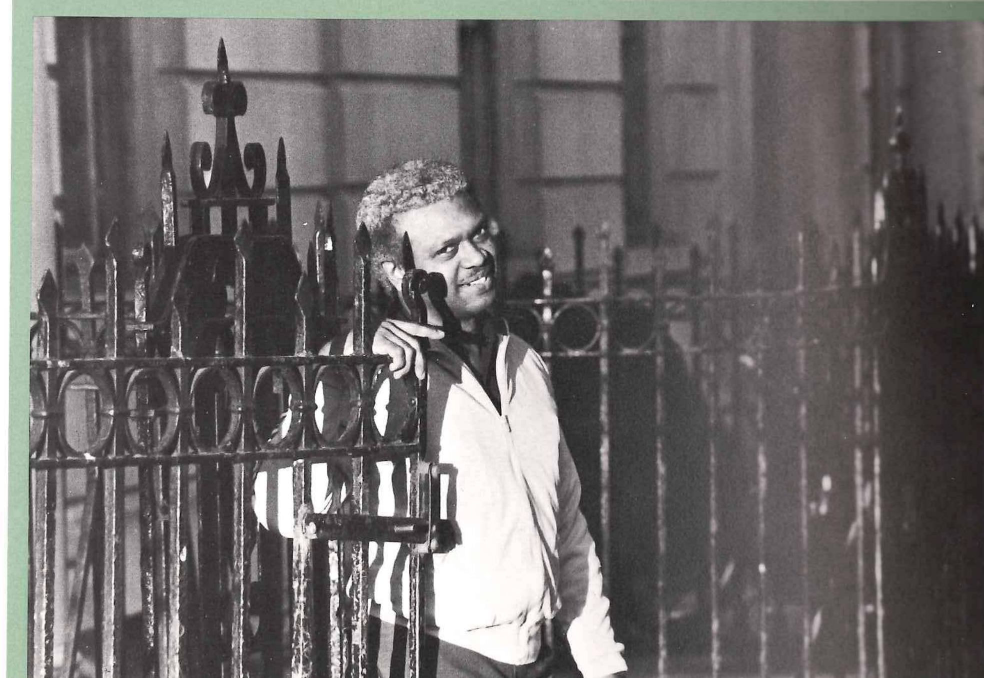

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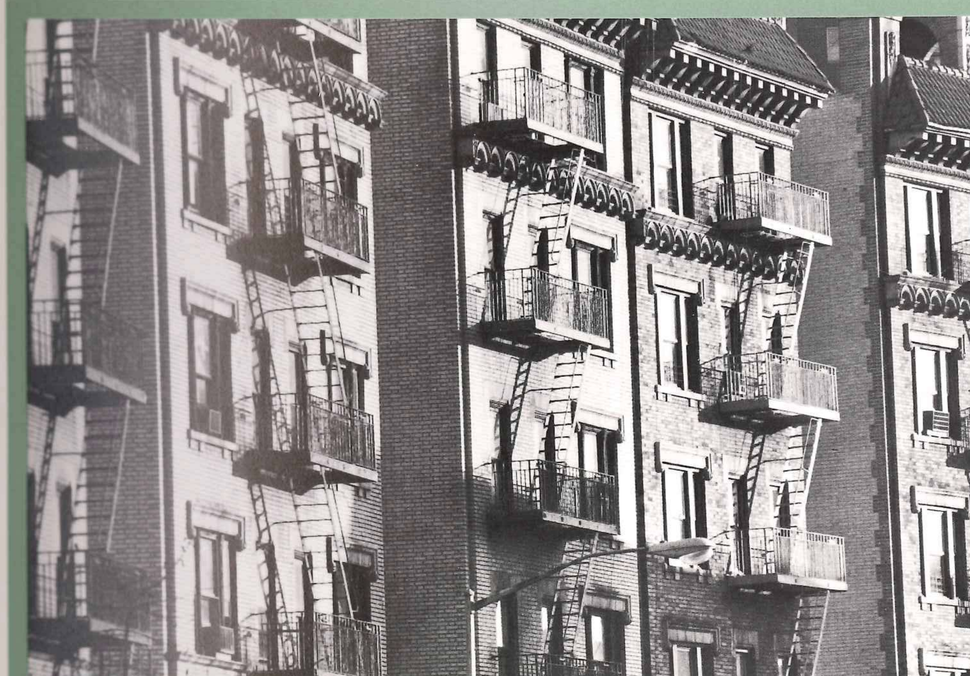
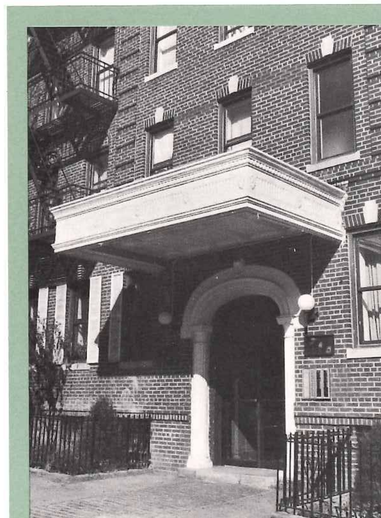




In effect, the owners whose buildings are most in need of public programs aimed at preservation are often those least capable of taking advantage of those programs.

As a result, many owners merely patch instead of rehabilitating, and their buildings may decline into unprofitability and eventual abandonment.

CPC attempts to bridge this gap. Its thorough familiarity with construction and finance and with governmental programs enables it to guide an owner through the entire process. Thus owners who might not otherwise undertake an extensive rehabilitation project can proceed confidently with CPC's help – to the benefit of themselves, their tenants and the city as a whole.

A case study: reversing a building's downhill slide in Brooklyn

A case history shows how CPC works with owners in rehabilitating housing.

The prospective buyer of a deteriorating building in the Crown Heights section of Brooklyn approached CPC in the summer of 1982. Having worked with CPC previously, he knew the help CPC could offer. Would CPC finance the rehabilitation if he bought the building? After analyzing the project, CPC agreed to do so.

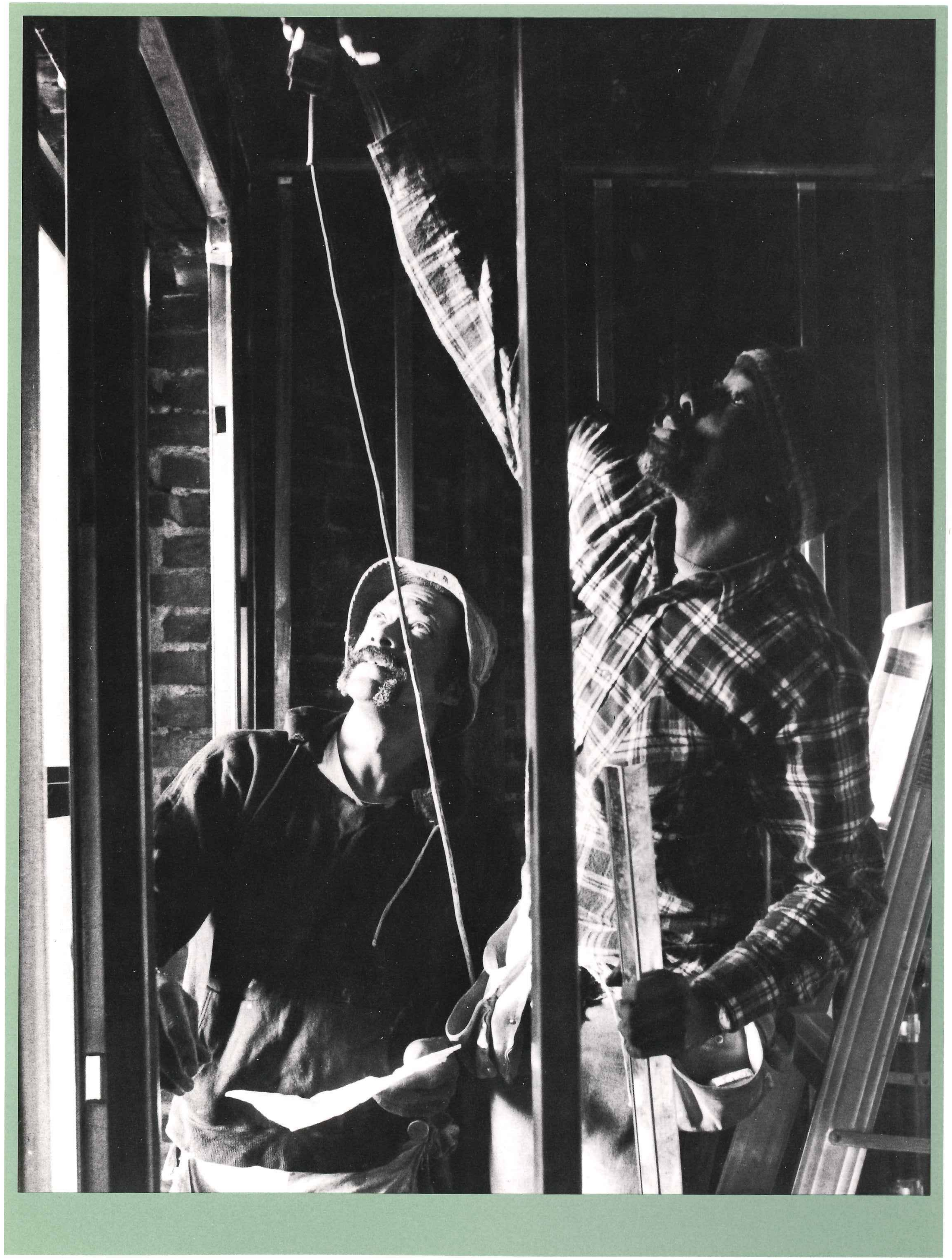
The building, in a mixed black and Orthodox Jewish neighborhood, was a solidly built, brick structure erected in the mid-1920's. But it had been neglected for years and was clearly headed for eventual abandonment. There had been no heat or hot water the previous winter, causing many tenants to move out. Half of the 60 apartments, all rent controlled or rent stabilized, were empty, as were several of the ground floor stores.

CPC engineers determined that the building needed a new heating and hot water system, new plumbing, new electric wiring. Its roof had holes in it and would have to be replaced. Windows leaked and would also have to be replaced, as would the elevator, a victim of poor maintenance. Beams in many of the bathrooms, rotted from unrepaired leaks, needed replacement. The entire interior needed replastering and, of course, repainting.

CPC agreed to provide a construction loan of $1,250,000, to be replaced after completion by 30-year mortgage financing of that amount. The new owner bought the building for $150,000 cash, including closing costs.

The work was begun in December, 1982, with tenants remaining in residence while the work was going on. Construction was finally completed in the spring of 1984.

As buildings age, their mechanical systems, such as windows, heating, plumbing and wiring may need replacement. Sometimes more extensive construction is needed. At right, workmen on a Brooklyn project prepare to sheetrock a wall.



Meanwhile, CPC was taking steps to assure that the building could be operated on a sound financial basis at rent levels affordable to present and future tenants.

That meant finding ways to hold down operating costs, including the cost of financing the renovation. One way was by arranging a two-part mortgage package, with half the money lent at market rates of interest by CPC through its member banks, the other half lent at 1 percent interest by the City through its federally funded Participation Loan Program.

Another device involved lowering the project's property taxes through the City's J-51 program.

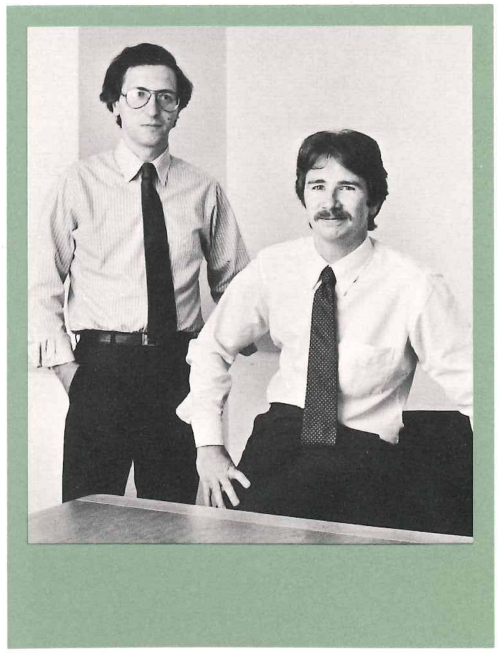
The effect was to moderate the rent increases needed to put the renovated building on a sound operating basis. For the occupied apartments, rents rose modestly to about $80 a room, or approximately $250 for a one-bedroom apartment. Even that was more than the poorest tenants could afford. For these, federally funded Section 8 rent subsidies were arranged, paying that portion of the rent above 30 percent of the tenant's income.

The vacant apartments were rented at approximate market levels for the neighborhood – $110 per room, or $330 for a one-bedroom unit and $440 for a two-bedroom unit. This met CPC's goal of providing affordable housing.

Virtually all of the vacant apartments, and the vacant stores, were rented by mid-summer, 1984.

The project has benefited everyone involved: the owner, who has a sound investment that can continue to operate profitably; the tenants, who enjoy comfortable but affordable quarters, and the neighborhood, for which the building is no longer a source of blight but rather a model for other troubled buildings.

CPC's mortgage officers. Left to right: Mary A. Brennan and Susan M. Pollock, who handle CPC lending in Brooklyn and Queens, and Joseph A. Barberio and John P. Greene, who originate CPC's loans in Manhattan and the Bronx.



Maintaining a strong framework of public programs is fundamental to effective preservation

The effort to preserve and develop housing for low and moderate income New Yorkers rests on a framework of public programs and regulations. How well this effort succeeds depends importantly on government's response to two basic questions:

- Do the programs and regulations recognize the fundamental economics of housing?
- Are the benefits readily accessible to those who own the buildings where low and moderate income families live?

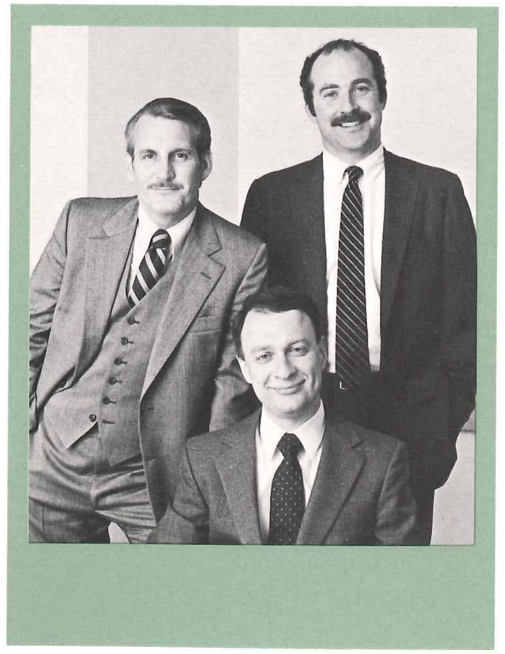
The key to the economics of housing is that there must be sufficient long term income to pay for the investment that built or renovated it, and to fund the maintenance necessary to keep it up. There must also be public subsidies for those who cannot pay that cost.

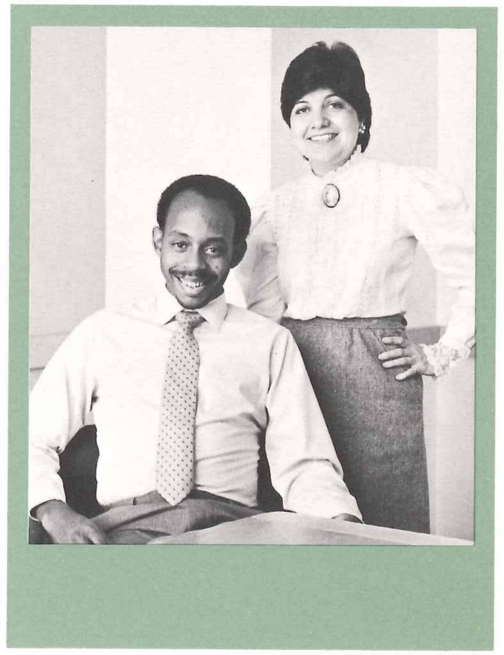
Concurrently, it must be recognized that two thirds of New York's low and moderate income families live in privately owned apartment houses, most built in the 1920's or earlier, and most belonging to small property owners. These owners often have a limited staff capacity for handling the complexities of government subsidized rehabilitation projects.

To encourage such owners to invest in modernizing their aging buildings, government should offer a simple compact: if the owner does X, the government will do Y. The clearer the arrangement is, the greater the participation by small owners, and the greater the likelihood of obtaining the desired housing.

Several housing-related issues facing the State Legislature should be viewed in light of the questions posed above.

CPC's corporate staff. Left to right: Dale F. McDonald and Marvin Goldberg, vice presidents, and John M. McCarthy, executive vice president and treasurer. At right, Stefan Sebastian, assistant treasurer, and Mariann Perseo, secretary.





Major Capital Improvements. State law allows owners of rent-stabilized buildings to raise rents to recoup the cost of major improvements. Proposed legislation would limit such increases. While the system can and should be improved, some of the proposed restrictions would only discourage investment in older buildings. Three key elements must be retained:

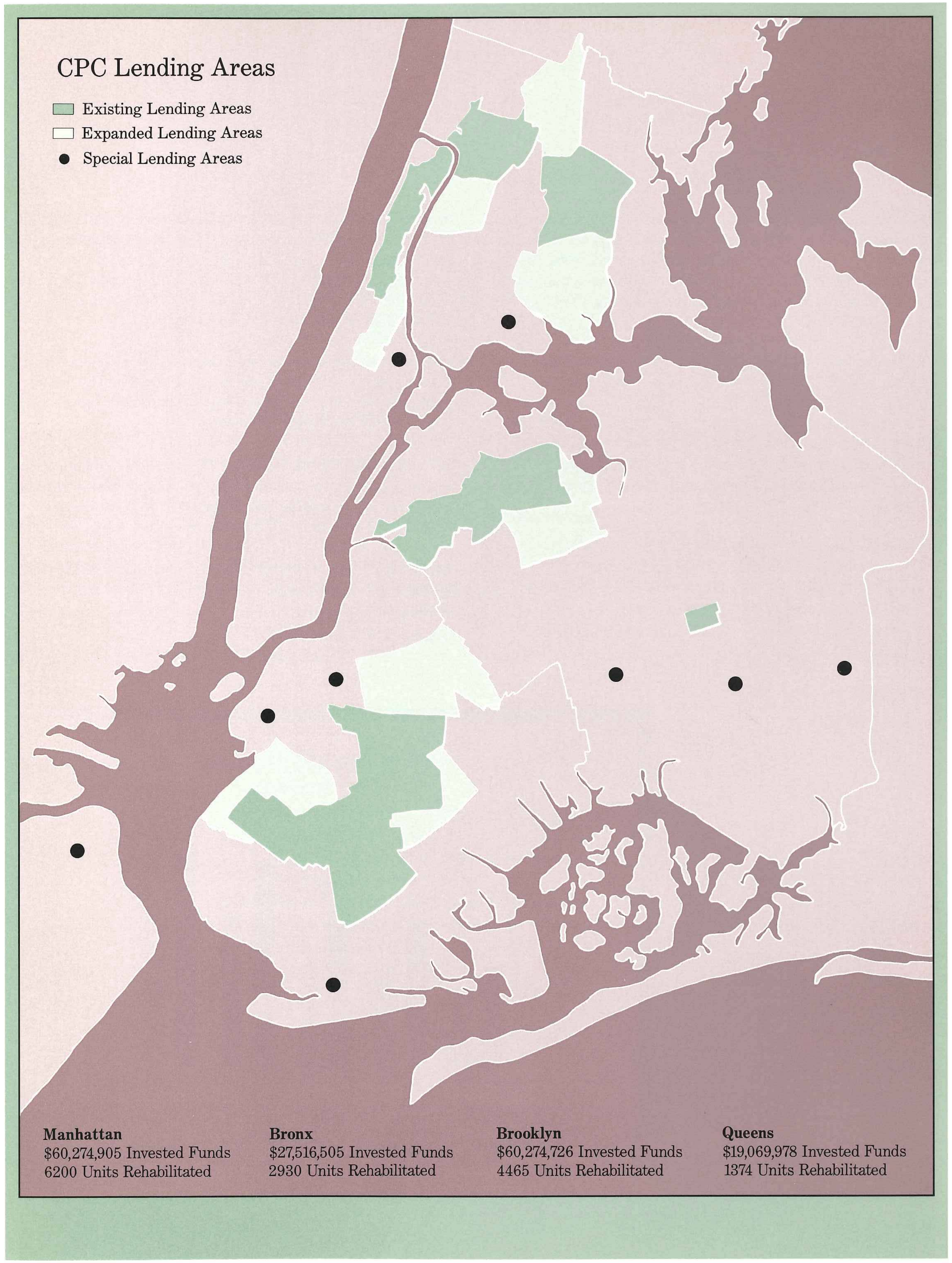
- Rent increases need to be long term, in order to support long term financing.
- Rent increases should be sufficient to pay for the cost of financing and for the other costs of maintaining the housing.
- Rent increases for major capital improvements should be a matter of right, upon proper notice to tenants, after replacement of items basic to the preservation of the building, such as boilers, windows or plumbing.

The J-51 Program. The City's J-51 program, which reduces necessary rent increases by lowering real estate taxes and thus operating costs, is crucial to rehabilitation projects for low and moderate income families. It must be continued. In designated areas where it is known in advance that projects will be eligible, the J-51 process is sufficiently clear as to encourage participation by small owners.

Rent Supplements. New approaches are needed because of cuts in federal funding of the rent supplement program, which subsidizes the rents of the lowest income individuals.

One imaginative approach the Legislature might consider is modeled on a successful City program which exempts low income senior citizens from statutory rent increases. The City, in effect, pays the rent increase. Such a program could be extended, at modest cost, to exempt low income residents from rent increases resulting from rehabilitation. A shallow subsidy of this kind is extremely important to avoid displacing tenants who cannot afford even a modest increase.

Deep Subsidy Programs. More extensive subsidies are needed to rebuild the most deteriorated buildings, which typically house the poorest families. In shaping such a program, we should learn from past experience: if requirements are too rigid and complex, smaller owners will not use it. Such a program would then only be used by larger developers, who have the resources to guide their applications through the process. The most likely result would be excessively costly projects, with the benefits of the subsidy being largely offset by the cost of the program's own complexity.



Financial Overview

The New York City Community Preservation Corporation completed its 11th year with an operating surplus of $588,000. Accumulated surpluses and reserves from all years now total $3.2 million, a financial reserve which enables us to act on a significant scale in serving the objectives of CPC's founders. The surplus:

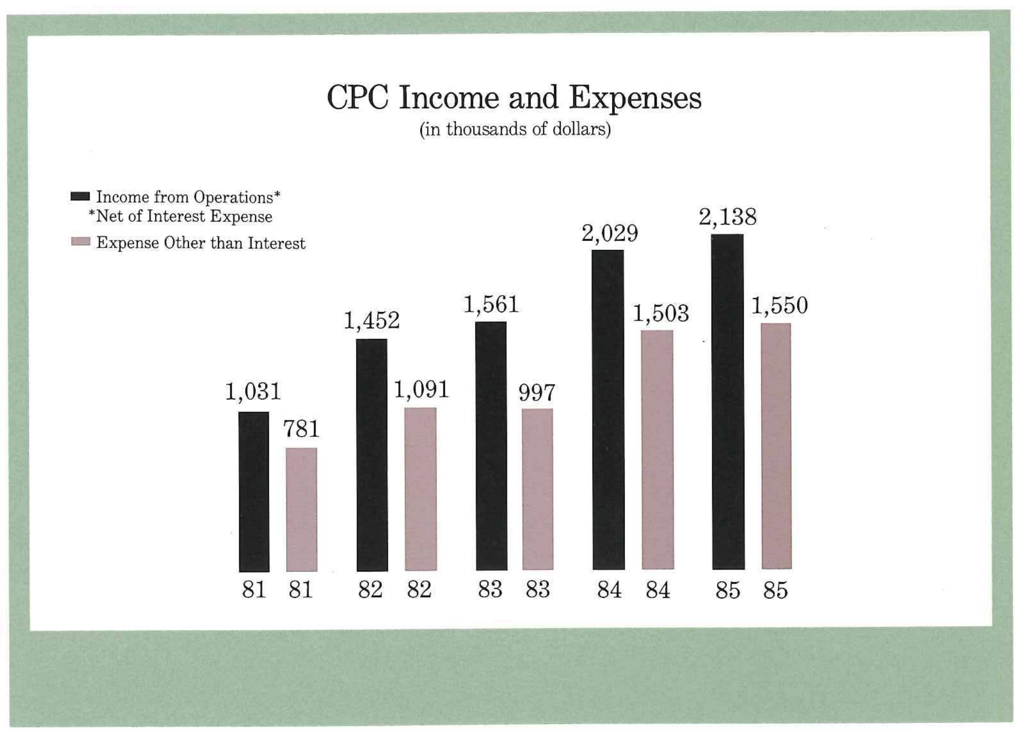
- Furnishes a reserve against losses on construction loans, which carry inherent risks and generally are ineligible for mortgage insurance. CPC has been fortunate so far: it has not suffered a single loss in its history. However, our construction portfolio totaled $41.9 million at year end, with another $10.5 million committed to be advanced. Prudence requires a reserve for the maintenance of this volume of activity.

- Supplies the FHA-mandated financial strength for CPC's continued eligibility as a Section 223(f) co-insuring lender. FHA requires a minimum of $1.5 million in "sound capital resources."

- Enables CPC to invest in staff and equipment to expand services to additional areas of low and moderate income housing. This year, as noted in this report, the Board authorized lending in an additional 26 target neighborhoods. CPC already serves 19 neighborhoods in Manhattan, The Bronx, Queens and Brooklyn.

CPC derives its revenue from three major sources. Origination fees (2 percent of the amount of a construction loan), interest income from construction loans, and fees for servicing its mortgage portfolio.

Servicing income, we believe, will be a stable and steadily increasing revenue source. Origination fees and construction interest, of course, are dependent on a continued demand for financing. While this may be subject to cyclical economic factors, our 11 years of growing origination volume give us a cautious optimism that CPC will continue to generate the financial resources needed to carry on its work.



Balance Sheets

August 31 Assets	1985	1984
Investments in first mortgage loans (Notes 2, 3, 4, 5 and 10):		
Construction loans	$ 41,920,854	$ 36,141,031
Less–Allowance for possible investment losses	500,000	500,000
	41,420,854	35,641,031
Permanent loans–		
Pledged	89,674,471	72,801,905
To be pledged	783,215	1,333,888
	131,878,540	109,776,824
Less–Participants' interest in mortgage loans	53,756,182	42,119,255
	78,122,358	67,657,569
Cash and cash equivalents:		
Subject to immediate withdrawal	53,098	1,046,647
Certificates of deposit (Note 6)	2,530,812	2,501,476
Accrued interest receivable	714,089	653,138
Other assets	330,012	309,146
	$ 81,750,369	$ 72,167,976

Liabilities and Fund Balance		
Liabilities:		
Notes payable under revolving credit agreement–unsecured (Note 4)	$ –	$ –
Accounts payable and accrued expenses	4,214,893	2,587,410
Participants' deposits (Note 6)	12,685,145	11,943,021
Escrow and other deposits of borrowers	4,182,028	3,721,520
Deferred income–commitment fees	113,595	64,418
	21,195,661	18,316,369
Nonrecourse collateral trust notes (Note 5)	57,887,515	51,772,796
	79,083,176	70,089,165
Commitments and contingencies (Notes 2, 3, 4 and 8)		
Fund balance (Note 11)	2,667,193	2,078,811
	$ 81,750,369	$ 72,167,976

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,	1985	1984
Public Support and Revenues:		
Public support	$ 6,090	$ 5,550
Revenues –		
Interest on loans (Note 7)	8,103,766	6,978,831
Servicing fee income	134,211	249,493
Commitment fees	544,546	570,040
Interest on short-term investments	139,507	383,149
Other	144,238	151,261
Total revenues	9,066,268	8,332,774
Total public support and revenues	9,072,358	8,338,324
Expenses:		
Interest (Note 7)	6,933,920	6,309,324
Employee compensation and benefits	890,724	825,650
Professional fees	193,447	252,000
Office expenses	233,470	187,958
Provision for possible investment losses (Note 3)	–	90,000
Other	232,415	147,647
Total expenses	8,483,976	7,812,579
Excess of public support and revenues over expenses	588,382	525,745
Fund Balance, beginning of period	2,078,811	1,553,066
Fund Balance, end of period	$2,667,193	$2,078,811

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

Notes to Financial Statements August 31, 1985 and 1984

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, 1985 and 1984 (000's omitted except for number of loans):

1985	Construction	Permanent	Total
Number of loans	69	224	293
Funded commitments:			
Total funded balance	$41,921	$90,458	$132,379
Less – Participants' interests	21,186	32,570	53,756
Corporation's portion	20,735	57,888	78,623
Less – Allowance for possible investment losses	500	–	500
	20,235	$57,888	$ 78,123
Corporation's portion of unfunded commitments	10,534		
Total Corporation commitment amount	$30,769		

1984			
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		

Pending commitments for new mortgage loans (net of portion applicable to participants) as of August 31, 1985 and 1984, were as follows (000's omitted except for number of loans):

	Mortgage Commitments Accepted by Borrowers		Mortgage Commitments Not Yet Accepted by Potential Borrowers	
	1985	1984	1985	1984
Number of loans	11	12	8	3
Amount	$4,103	$3,553	$4,000	$1,050

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

Notes to Financial Statements August 31, 1985 and 1984

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, 1985, 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. During the period from 1981 to 1984, an aggregate of $500,000 was provided for this allowance. No amounts have been charged to the allowance through August 31, 1985.

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 1985 and 1984 were at interest rates which ranged from 10% to 13.5% and 11% to 13%, respectively. At August 31, 1985 and 1984, the interest rates on these borrowings were 10% and 13%, respectively. At August 31, 1985, 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 October of 1984, the annual servicing fee was reduced from the previous level of ½ of 1% to ¼ of 1%.

6. Participants' deposits:
The Corporation has entered into agreement 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.

Notes to Financial Statements August 31, 1985 and 1984

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, 1985, HPD deposits consisted of the following:

Unused HPD funds, partially invested in certificates of deposit	$ 7,624,410
Mortgage interest and principal collections and accumulated interest on short-term investments	5,060,735
	$12,685,145

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

	1985		1984	
	Income	Expense	Income	Expense
Unpledged mortgage loans	$2,381,325	$ –	$1,733,683	$ –
Interest on pledged mortgage loans	5,722,441	5,722,441	5,245,148	5,245,148
Interest on revolving credit agreement	–	81,560	–	33,114
Interest on HPD funds and escrows	–	1,129,919	–	1,031,062
	$8,103,766	$6,933,920	$6,978,831	$6,309,324

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 1985 and 1984 was $119,088 and $106,013, respectively. The minimum annual rentals under noncancellable leases are as follows:

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 Pension Parameters, Inc. 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, 1985 and 1984, was $28,858 and $24,964, respectively. Net plan assets available for benefits at August 31, 1985 and 1984, were $66,627 and $41, 391, 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, 1985, three loans aggregating $1,107,879 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.

Auditor's 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, 1985 and 1984 and the related statements of support, revenues 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, 1985 and 1984 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 15, 1985

Design: Susan Shaw Photography: Robert Maass, Jeanne Somers

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The New York City Community Preservation Corporation
Chairman of the Board
Anchor Savings Bank

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

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Executive Vice President
Manufacturers Hanover Trust Company

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

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The Chase Manhattan Bank, N.A.

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The Bowery Savings Bank

John D. Kyle
Executive Vice President
Chemical Bank

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

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

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American Savings Bank

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Senior Vice President
The Chase Manhattan Bank, N.A.

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Emigrant Savings Bank

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Vice Chairman
National Westminster Bank, USA

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Chairman, Mortgage Committee
Vice President
Morgan Guaranty Trust Company of New York

Harold L. Van Varick
Vice Chairman, Mortgage Committee
First Senior Vice President
American Savings Bank

Harry A. Baierlein, Jr.
Vice President
CrossLand Savings Bank, FSB

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

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Vice President
Citibank, N.A.

Peter C. Underwood
Vice President
Goldome Realty Credit Corporation

Michael J. Wechsler
Senior Vice President
Chemical Bank

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Executive Vice President and Treasurer

Marvin Goldberg
Vice President

Dale F. McDonald
Vice President

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Secretary

Stefan Sebastian
Assistant Treasurer

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Neighborhood Mortgage Officer

Mary A. Brennan
Mortgage Officer

John P. Greene
Mortgage Officer

Susan M. Pollock
Mortgage Officer

Consulting Engineers

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

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Arthur Andersen & Co.

Corporate Counsel

Sullivan & Cromwell

Real Estate Counsel

Rogers & Wells

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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
CrossLand Savings Bank, FSB
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
Ridgewood Savings Bank
Roosevelt Savings Bank
The Seamen's Bank for Savings
The Williamsburgh Savings Bank

*Retired from CPC Board of Directors during 1984-85.