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

1986 Annual Report

Contents

As New York City confronts its most critical housing shortage, the challenge of producing affordable housing is greater than ever. The New York City Community Preservation Corporation (CPC) has emerged as an experienced and progressive leader in this field by meeting the problem of restoring existing housing in our older urban neighborhoods.

Over the past twelve years, CPC's efforts have produced proven financial and operational models for housing programs in low and moderate income communities.

CPC has demonstrated that its goals— sound investment, affordable housing and neighborhood stability—can be achieved by forging strong relationships among government, financial institutions and the real estate industry.

Highlights

Fiscal Year Performance 1985-86	
Closed Construction Loans	
CPC and Other Private Funds	$ 14,258,714
Pension Funds (For Permanent Loans)	13,310,600
Participation Loan Program Funds	9,726,285
Total	$ 37,295,599
Units (Construction Started)	
Manhattan	488
Bronx	247
Brooklyn	468
Queens	417
Total	1,620
Income (Net of Interest Expense)	$ 2,798,474
Expenses (Other than Interest)	$ 1,769,114

Lending Record 1974-86	
Closed Loans (340)	$204,431,713
Foreclosures (2)*	$ 930,870
Apartment Units	16,589

*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 New York City Community Preservation Corporation continues to make a dramatic impact upon the revitalization of many New York City neighborhoods as it completes the twelfth anniversary of its establishment.

CPC began as an experiment in methods to finance the restoration of deteriorating neighborhoods. Today we have grown into a diversified lending institution which offers innovative lending programs for developing the low-cost housing our City so desperately needs.

CPC's unique ability to combine public with private investment has channeled over $200 million into the rehabilitation of almost 17,000 New York City apartments. This upgraded housing is both financially sound and affordable: there have been virtually no losses in any of our mortgage investments; and rehabilitated apartments are affordable to households earning between $15,000 and $34,000 a year.

Our preservation efforts are regarded as the cornerstone of the rejuvenation of several aging neighborhoods: upgrading has occurred without displacing existing residents; and stability has been achieved without altering the ethnic and economic diversity which makes New York neighborhoods so unique.

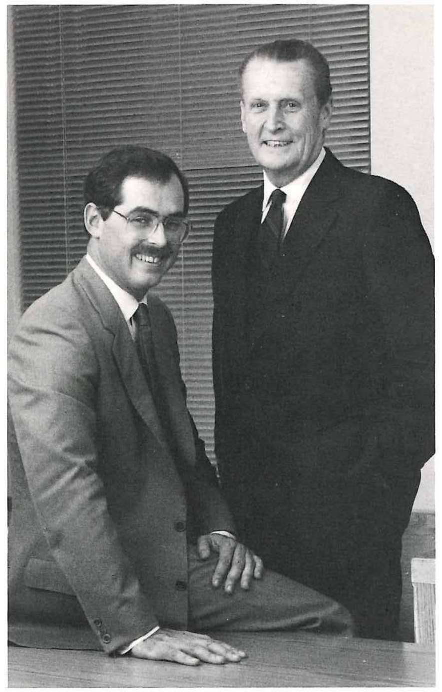
These results demonstrate the viability of our lending. Our goal in the coming year is to broaden these efforts. That this expansion is needed is clearly illustrated by present housing conditions. Over 60 percent of the City's 1.9 million housing units are over 50 years of age, with much of it in need of rehabilitation. The potential loss of this housing and the lack of new affordable housing threatens to be a major obstacle to New York's continued economic growth.

To counter these problems and build upon CPC's record, 1986 saw the inauguration of the Housing Partnership Mortgage Corporation (HPMC).

Established by CPC in partnership with seven New York-based insurance companies (Metropolitan Life Insurance Company, The Equitable Life Assurance Society of the United States, New York Life Insurance Company, MONY (The Mutual Life Insurance Company of New York), Teachers' Insurance & Annuity Association of America, The Guardian Life Insurance Company of America, and Home Life Insurance Company), the new corporation will provide major new financial resources to broaden the scope of redevelopment investment in New York City.

The goals of the newly-created HPMC are twofold: to provide more resources for CPC-type lending for non-luxury housing development; and to make this type of financing a regular part of the lending activities of our City's banks.

HPMC combines an initial investment of $50 million of the insurance companies' funds with CPC's bank and pension fund resources to create a secondary market to purchase loans that finance the building of affordable housing. It is our goal to attract other large institutional investors to similarly provide funds for the formation of this secondary market, as it offers a responsible vehicle for investing in the City's rebuilding.



Donald L. Thomas (right) is Chairman of the Board of The New York City Community Preservation Corporation. Michael D. Lappin is its President.

Next, CPC will work with the City's banks to assist them in originating the type of loans CPC has pioneered. These include conventional loans for financing the rehabilitation of rental, cooperative and condominium projects, as well as subsidized loans (principally those made with funds from the City's Participation Loan Program) for low and moderate income rental projects. Upon completion of a project, a bank can sell these loans to this secondary market and thereby replenish its funds for new projects.

However, the availability of financing will not by itself relieve the City's housing problems. Solutions equally rely upon the effectiveness of the variety of public regulations and subsidy programs that are part and parcel of low, moderate and middle income housing.

First: financing for the preservation of existing rental housing is only useful if the regulatory process permits adequate and timely rent increases to pay for the cost of improvement. Subsidies are also necessary for those tenants who cannot afford the rent increases which accompany rehabilitation. But one cannot be provided in the place of the other. Both rent subsidies for low income tenants and adequate rent increases for property owners are needed to make expanded investment in our City's neighborhoods feasible.

Second: lender and developer participation depends on reliable and speedy processing of applications through government agencies. Streamlined procedures will reduce processing costs so that affordable housing development can be performed routinely by low-cost developers supported by local lending institutions.

Today, we are working closely with State and City officials to resolve these programmatic and administrative problems. Our joint commitment to affordable housing gives us confidence in a positive resolution.

Through the creation of HPMC and the steady growth of CPC's efforts, our goal is to provide a strong incentive to implement sound methods for recycling and developing our City's housing stock. The successful outcome will be an important contribution to the health and vitality of New York City.

D L Thomas

Donald L. Thomas
Chairman

Michael D. Lappin

Michael D. Lappin
President

December 17, 1986

Why Preserve Existing Housing

New York City is experiencing a housing shortage of extreme proportions. Reported citywide vacancies are currently at 2 percent, a rate considered too tight to meet changing household needs. Low and moderate income housing continues to be lost, with few replacements that are affordable to the same population. The Regional Plan Association warns that the lack of sufficient housing may threaten to become a serious obstacle to the City's continued economic growth.

Preservation of the existing stock of multifamily units for low and moderate income households offers the best avenue to affordable housing. It is in this stock—about a million units of privately-owned rental housing built before World War II—that the vast majority of the City's low and moderate income population lives.

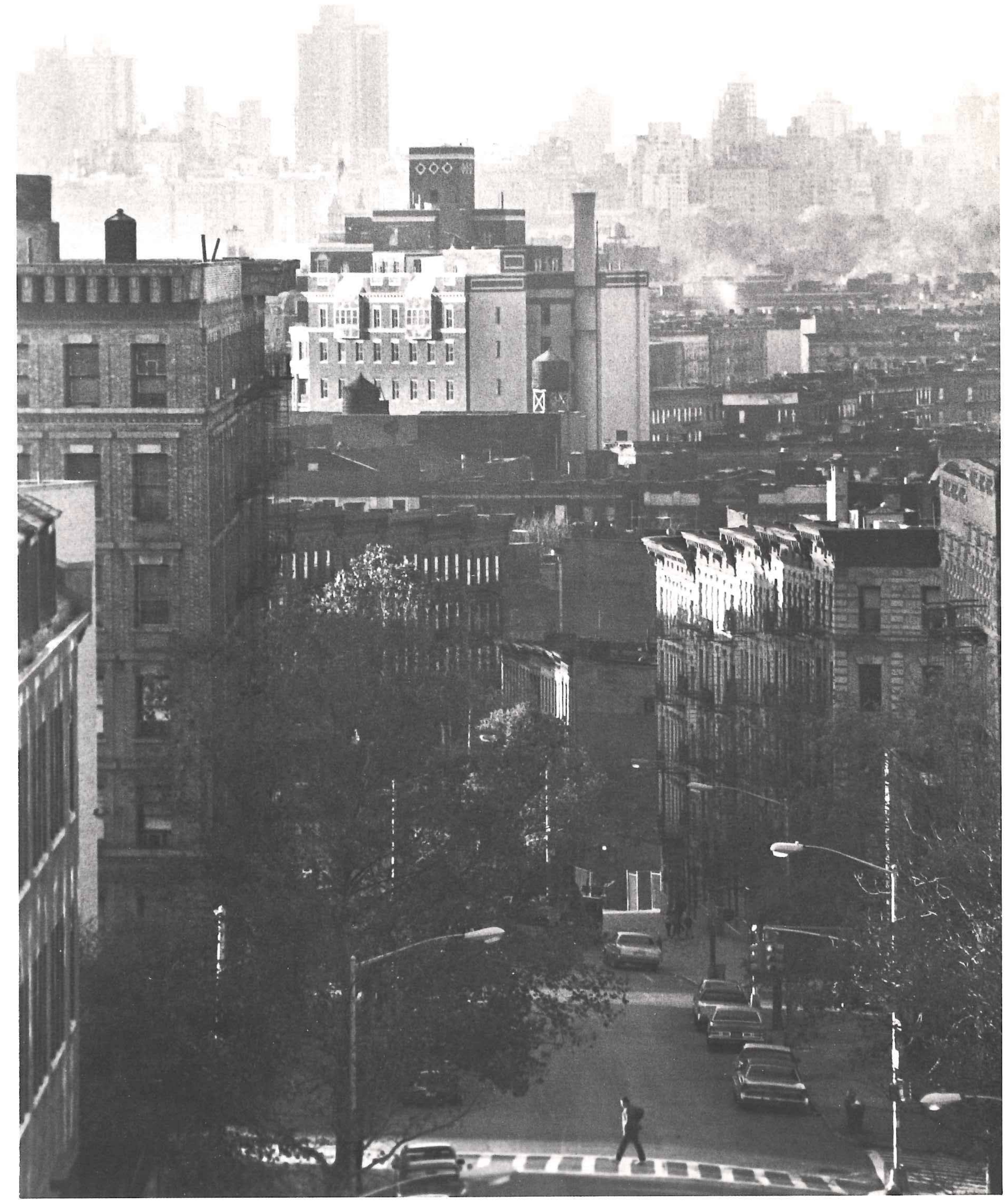
It is also in these aging buildings that the most pronounced deterioration exists. These structures, often with their original plumbing, heating and wiring, face major problems as they reach the limit of their useful lives. The monies needed for replacement and repair usually far outweigh the building's resources. Rental income is low, and the tenants' ability to pay the higher rents needed to support capital investment is limited. The all too frequent result: tax foreclosure and / or abandonment.

Timely intervention can interrupt the deterioration process and reduce the cost of preserving this housing. A typical moderate rehabilitation performed in an occupied building averages $12,000 a unit; restoring an abandoned unit costs four times as much, and usually involves costly public subsidies.

While preservation is fundamental, the creation of new units affordable to low and moderate income households is also a necessity. In this regard, low-cost methods for redeveloping both privately and City-owned vacant land and buildings are essential. The availability of 80,000 vacant City-owned apartments provides unparalleled opportunities for such production.

Historically, the preservation and rebuilding of our urban housing stock has been an important issue for both the public and private sectors. Resolving the tension between a property which needs rehabilitation but does not have sufficient rental income to support those improvements is not simply a housing problem; it is also a political problem. It involves decisions about whether the public should subsidize the cost of housing; and if so, at what level of rehabilitation, and for what combination of income groups.

Regardless of the directions taken, CPC has provided blueprints to efficiently weave private financing with public programs to produce affordable moderately and substantially rehabilitated housing. These achievements are nationally recognized. A summary of our 1986 lending activities, reported in the pages which follow, details our achievements for providing effective models for rehabilitation investment.



From a rooftop in Washington Heights, the unlimited potential of CPC's lending efforts to rehabilitate New York City's older housing clearly emerges.

CPC's initiatives this year to expand lending activities through the establishment of the new Housing Mortgage Partnership Corporation provides the vehicle for preserving more housing during the coming year.

Urban Rehabilitation Models: From Concept to Reality

Responding to the increasing need for rehabilitating existing housing in older New York City communities, commercial bank members of the New York Clearing House Association conducted a study in 1972 to determine how private financial institutions could contribute more actively towards improving the City's existing housing stock.

The New York City Community Preservation Corporation was established as a result of that study which emphasized preserving and rehabilitating housing in New York City's neglected neighborhoods. The study proposed that a corporation be established to deal effectively with the complex problem of creating housing in a rent regulated and seemingly unattractive investment environment.

Initially created as an experiment, CPC was established in September, 1974 as a not-for-profit corporation and received approval by State and Federal governments in May, 1975. Today CPC operates as a nationally-recognized financial institution concerned with fulfilling several important objectives related to producing rehabilitated housing in New York City:

- To work with government to both create functional programs which promote investment in the rehabilitation of existing housing and to identify and remove regulatory constraints impeding housing development;
- To establish CPC as a specialized lending institution capable of channeling private mortgage capital for the rehabilition of multifamily apartment buildings in New York's older neighborhoods; and
- To disseminate loan origination techniques to our sponsoring banks so as to encourage and assist their investment in rehabilitation throughout the City.

CPC Solutions

CPC has developed three investment models to respond to the housing needs of the City's neighborhoods. For each model, CPC provides both construction and permanent financing at market rates. A key feature of the permanent financing is that the loan rate is set at the start of construction. This "forward commitment" eliminates the risk that interest rates might rise during construction and affect the affordability of the completed project.

These models and representative illustrations include:

Conventional Multifamily Rental Projects

In this model, CPC provides the construction loan and forward commits, generally at a fixed rate for 30 years, the permanent financing for the rehabilitation of occupied housing. Public actions to support this lending are the State's authorization for rent increases, the City's abatement and exemption of real estate taxes (the "J-51" program) and rent subsidies for tenants who cannot afford the authorized rent increases.

These projects have added to the stability of neighborhoods since renovation takes place without the displacement of tenants.

CPC provides the same type of financing to rehabilitate abandoned properties. Here, the only public action needed for feasible investment is the provision of J-51 benefits.

Rehabilitated with CPC financing, this Brooklyn apartment house is carefully maintained by its superintendent.

Cooperation among tenants, construction contractors and owners is the key to the preservation process.

Urban Rehabilitation Models: From Concept to Reality

Under this conventional financing model, CPC has funded the rehabilitation of over 7,500 apartments.

A Typical Project

A six-story apartment building in the Soundview section of the Bronx is a typical CPC-financed moderate rehabilitation.

The complete renovation included new plumbing, new entry doors, new windows, steam cleaning and pointing of brick work, an upgraded elevator, and modernization of kitchens and baths. The total cost of the renovation was about $7,500 per apartment. In addition, the old mortgage was refinanced for about $2,000 per unit.

After renovation, real estate taxes were reduced to zero for twenty years, and the tenants' rent was increased by 15 percent. Rents for one-bedroom apartments averaged $350 a month, and they were affordable to households earning $14,000 a year.

In the past, rental subsidies were available for tenants in CPC projects who could not afford a rent increase resulting from capital improvements. Whether or not in-occupancy rehabilitation can continue depends on the availability of these subsidies. The recent extension of the City's Senior Citizen Rent Increase Exemption Program to pay for such rent increases for eligible low income seniors gives some promise for its future.

Subsidized Multifamily Rental Projects

When deterioration is so great and/or tenants' ability to pay higher rents is limited, CPC combines its market rate money with the City's 1 percent Participation Loan Program (PLP) funds to finance affordable rehabilitation. CPC is the principal lender in this program, having financed the rehabilitation of over 9,100 units.

Vacant as well as occupied multifamily properties have been upgraded under the PLP program. Like the conventional multifamily rental model, the same mix of public actions is required for economically feasible rehabilitation: the City-administered J-51 tax abatement to reduce real estate taxes, rent increases (in this case administered by the City) to pay for increased debt costs, and rent subsidies for those who cannot afford the rent increases.

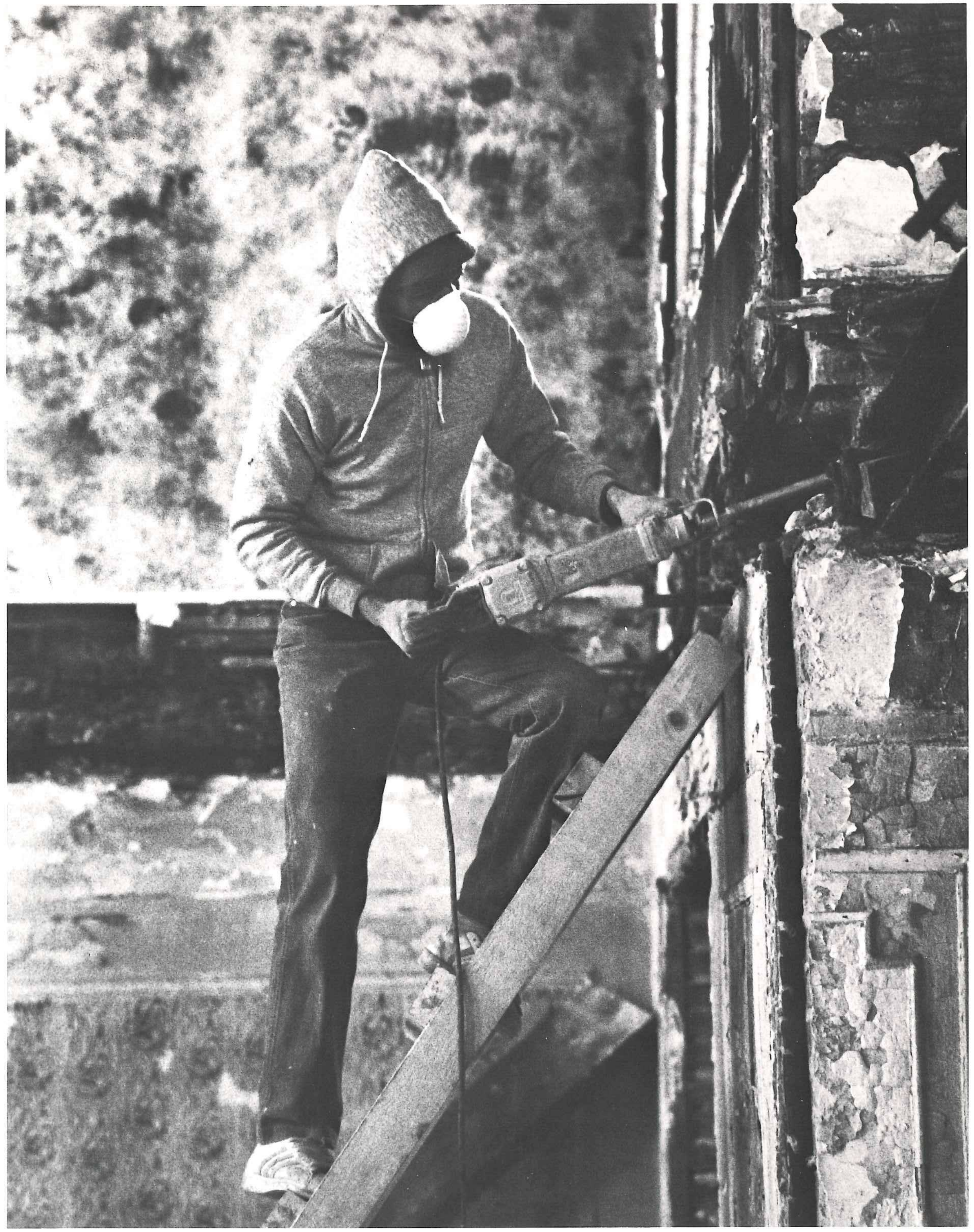
A Practical Illustration

In the Crown Heights neighborhood of Brooklyn a general contractor sought CPC's help to save a building that conventional financing could not.

The 47-unit building received a $1,050,000 moderate rehabilitation loan, which included $500,000 of PLP funds and $550,000 of CPC funds. The building was run down, and it was questionable whether it would remain habitable through another winter. A low-cost builder/owner who had previously worked with CPC bought the building with a plan for upgrading.

Renovation costs average $15,500 per unit and include new building entry and apartment doors, new plumbing, wiring and gas lines, new kitchens, baths and windows and a new boiler and roof.

To be completed by next summer, the rehabilitation will create almost new apartments for rents that average only $90 a room, or $360 a month for two-bedroom apartments. For the 47 families now living



Abandoned residential buildings are a common element in New York City's older neighborhoods. A construction worker repairs this building's exterior walls. CPC's increased investment in the rehabilitation of vacant buildings has become a productive source of new housing for the City.

Urban Rehabilitation Models: From Concept to Reality

in the building, the anxiety of moving out of a building on the verge of delapidation and trying to find an affordable apartment has been replaced by the promise of a renovated apartment that will provide improved housing for many years to come.

Conventional Cooperative and Condominium Projects

In the past few years, CPC has expanded its lending activities to include financing the development of cooperative and condominium projects. Focused on restoring long vacant buildings, CPC has pioneered in financing new ownership opportunities in neighborhoods that have little of this type of housing. By working with low-cost builders, housing has been offered for sale at prices ranging from $65 to $115 a foot; this translates into homes which are affordable to households earning between $25,000 and $45,000 a year.

Under this financing model, CPC provides the construction loan at market rates and forward commits the permanent underlying mortgage (in the case of a cooperative) or the end loans (in the case of a condominium). In some situations, low-rate, tax exempt end loans are provided by the State of New York Mortgage Agency (SONYMA). The principal public action here is the City's real estate tax abatement and exemption program.

CPC has financed the rehabilitation of over 500 cooperative and condominium units. Changes in the Federal tax law, rent controls and the large, unmet demand for moderate and middle income housing promise to make this an increasingly important part of CPC's lending program.

Innovative Applications

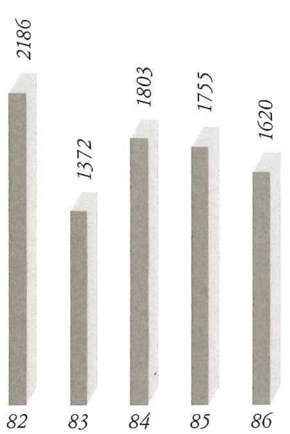
In a Harlem neighborhood just three blocks north of Central Park, a seven-story, multifamily building is under construction to yield a 31-unit condominium. The renovation will produce 14 two-bedroom, 15 one-bedroom and two studio units. Average unit prices of $90,000 will be affordable to families with incomes of about $37,000. Through the newly-created Housing Partnership Mortgage Corporation's ability to forward commit financing, buyers will be able to purchase apartments at today's interest rates when construction is completed a year from now.

The buildings at 77-92 Underhill Avenue in the Prospect Heights section of Brooklyn were vacant when the Urban Coalition came to CPC to develop a rehabilitation and sales package. Twenty-four families with annual incomes of about $21,000 will become homeowners in this complex of condominiums which are projected to cost about $50,000 each. A $750,000 market rate loan was provided by CPC and a $360,000 loan from the Participation Loan Program provided the necessary funds for this project.

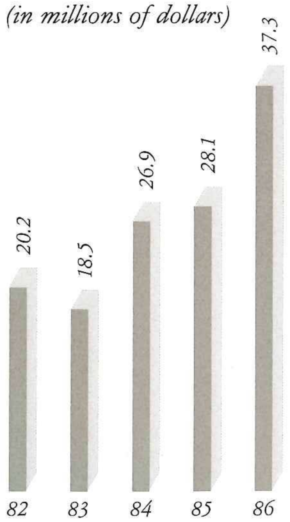
Another application of CPC's innovative model is a 48-unit condominium built from three vacant buildings on Dorchester Road near Flatbush Avenue in Brooklyn. Two-bedroom apartments in this project were sold for $65,000. With SONYMA end loan financing offering interest rates at just over 9 percent, over 500 people applied to purchase the units. Most units were sold within the month.

Rehabilitation in progress: this Fort Greene, Brooklyn building contrasts before CPC financing and after. The construction work will protect the building's physical health for another generation of use; the restructuring of the building's economics will insure the building's financial condition and affordability.

Apartment Units



Construction Loans Closed
(in millions of dollars)



CPC's projects demonstrate that the best way to provide housing in New York is to rehabilitate and revitalize existing housing.

This year CPC-financed construction starts of 61 buildings accounted for $37 million of new investment. This represented an increase of $9 million over the 1984-1985 fiscal year. These buildings contain 1,620 units, 471 of which were vacant and required substantial rehabilitation, with the remainder occupied and in need of moderate rehabilitation.

Additionally, 37 building renovations requiring $21.3 million of financing were completed this year. This represents 1,641 rehabilitated units.

Our ability to work with the low-cost building industry and create inexpensive quality housing was once again confirmed. The average construction cost of substantially rehabilitated vacant units that went into construction this year was $42,000; the average construction cost of moderately rehabilitated units was $11,500.

Less expensive development means more affordable housing and more efficient use of public monies. Sale prices in new, unsubsidized apartments built from vacant units will sell for an average of $84,000 per apartment and are affordable at today's interest rates to households earning $34,000 a year. The rents in moderately rehabilitated apartments in conventionally and PLP financed projects average $106 a room per month and are affordable to households earning about $15,000 a year.

Funding Sources

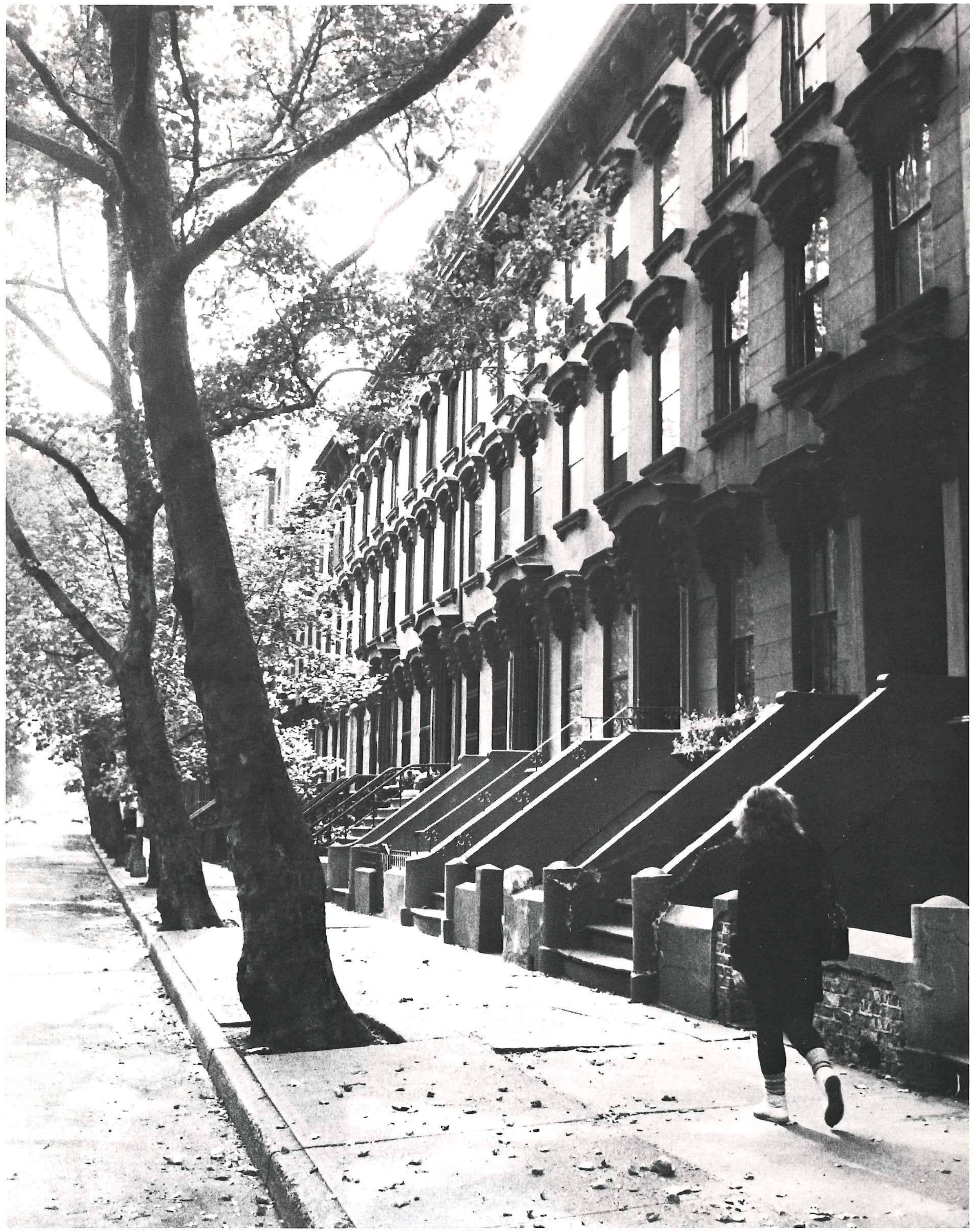
Our origins and funding are private. Twelve commercial banks and twenty savings banks participate in the CPC organization. The commercial bank sponsors provide a $26 million revolving line of credit for funding construction loans.

CPC's long term financing is drawn from several sources:

- $100 million from a financing line established by CPC member banks, of which $79.4 million has been committed;
- $50 million from the New York City Police Pension Fund and an additional $50 million from the New York City's Employee Retirement System, of which $32.3 million has been committed;
- Loan participations by other private lenders, including CPC's individual sponsoring banks, amounted to $33 million through the 1986 fiscal year.
- CPC has been the primary lender in the City's Participation Loan Program. Low rate loan participations through the program have totalled $77 million.

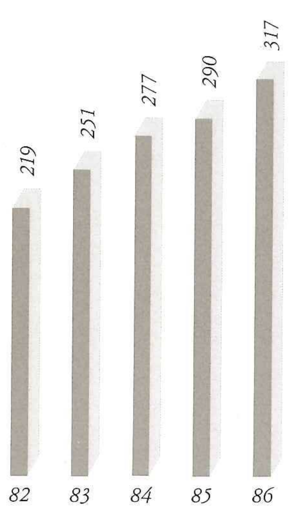
CPC is also a Federal Housing Administration (FHA) approved mortgagee, a co-insuring lender under the FHA 223(f) program and has been approved as a Multi-family Seller/Servicer by the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC) and the Government National Mortgage Association (GNMA). This year CPC received its approval by FNMA and FHLMC as a 1-4 Family Seller/Servicer for mortgage-backed securities.

Both the FHA co-insurer designation and the FNMA, FHLMC and GNMA designations vastly increase CPC's financing capacity by enabling us to sell in the

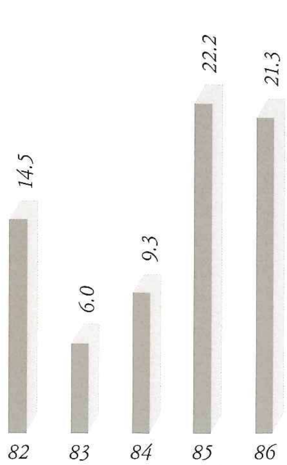


This Brooklyn street illustrates the product of CPC's residential renovated housing activities. In 1974 CPC focused their lending efforts in two target New York neighborhoods; today, CPC's lending efforts are visible in almost every older neighborhood throughout New York.

Loans Serviced



Permanent Loans Closed (in millions of dollars)



secondary mortgage markets the loans it originates under those programs. The resulting proceeds can then be used to generate new loans.

The availability of mortgage insurance is central to CPC's provision of private capital. The economic and physical renewal of individual buildings can easily be overwhelmed by adverse social forces, particularly in lower income communities. To encourage investment in such neighborhoods both the State and the City have created mortgage insurance programs. CPC's private financing has relied heavily on both programs, and, in the case of the City's pension funds, it was an essential condition in their decision to invest through CPC.

CPC services all loans we originate. At present, $78.4 million in construction loans and $109.6 million in mortgage loans are serviced. There is but one single-family loan currently in default.

Expanding Lending Activities

One of CPC's original purposes was to create financial resources for redevelopment efforts.

October, 1986 marked the inauguration of a new finance resource to spur the development of low-cost housing for the City: The Housing Partnership Mortgage Corporation (HPMC).

The initial credit resources of $50 million will be provided by the seven New York-based insurance companies. The participating insurance companies include: Metropolitan Life Insurance Company, The Equitable Life Assurance Society of the United States, New York Life Insurance Company, MONY (The Mutual Life Insurance Company of New York), Teachers' Insurance and Annuity Association of America, The Guardian Life Insurance Company of America, and Home Life Insurance Company.

The catalyst behind the creation of the company was the New York City Partnership, Inc.

HPMC, with the resources and expertise of CPC, will create a secondary market to purchase loans which finance the building of non-luxury housing. By providing a place to sell these loans once the project is completed, banks will be encouraged to make construction loans for these projects. The originating lender will be able to replenish its funds and take on new projects.

The potential for this joint CPC and HPMC venture is to create a financial vehicle for the development of affordable housing on a City-wide scale comparable to what FNMA and FHLMC are on a national scale.

The types of loans that will be purchased under this program are the three types of loans pioneered by CPC (conventional and subsidized rental rehabilitation loans, and moderate income cooperative/condominium loans) and end loans to finance the purchase of new homes built by the Housing Partnership Development Corporation.

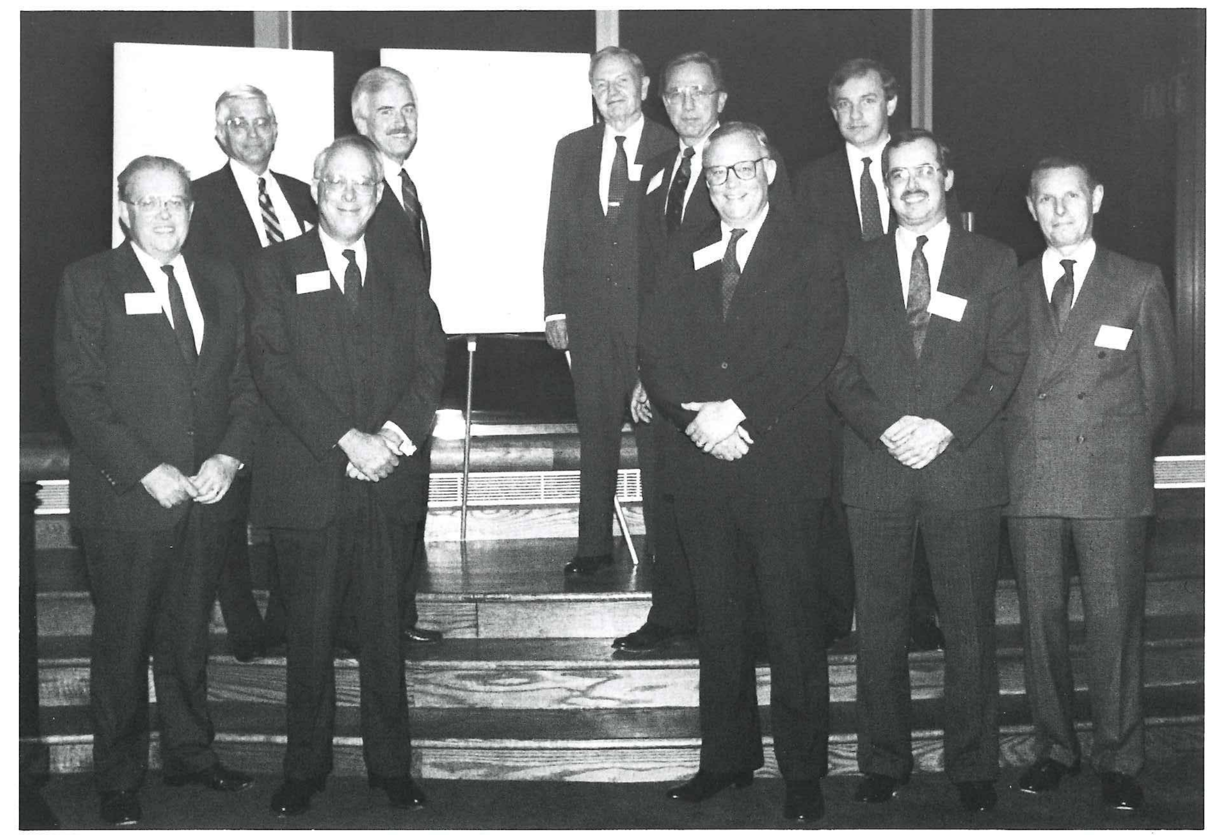
Initially, the insurance companies will use the $50 million to buy loans that are made to finance the purchase of condominiums or new homes in conjunction with their development. It is anticipated that this will be expanded to include financing for multifamily rental projects.

CPC, through its earlier agreements with the New York City Employee Retirement System and Police Pension Funds, will purchase loans that are made to finance the rehabilitation of subsidized and unsubsidized multifamily rental properties.

Both sources of financing are uniquely suited to construction since interest rates can be forward committed. Construction lenders will thus be assured that an adverse rise in interest rates will not affect the affordablity of the project and, hence, the safety of their loans.

HPMC is organized as an independent not-for-profit corporation. CPC's Directors constitute two-thirds of HPMC's Board. The other third is made up of representatives of the participating insurance companies. CPC's senior management is also HPMC's senior management. The company is capitalized by a $300,000 loan from the participating insurance companies and a $600,000 loan of services from CPC.

The inauguration ceremony of the newly-created Housing Partnership Mortgage Corporation, held on October 19, 1986 at the Equitable Center, marked the beginning of expanded investment in the rehabilitation of New York City's aging housing stock by the City's major insurance companies.



From left to right: Top Row: David Rockefeller, Chairman, New York City Partnership, Inc.. Middle Row: John A. Fabian, Senior Vice President, Home Life Insurance Company; James T. Corcoran, Superintendent of Insurance, New York State Insurance Department; Walter G. Ehlers, President, Teachers' Insurance & Annuity Association (TIAA); Michael W. Towner, Real Estate Vice President, New York Life Insurance Company. Front Row: James A. Atwood, Chairman, President & CEO, MONY (Mutual Life Insurance Company of New York); John C. Angle, Chairman & CEO, The Guardian Life Insurance Company of America; John B. Carter, President & CEO, The Equitable Life Assurance Society of the United States; Michael D. Lappin, President, The New York City Community Preservation Corporation; and Glen E. Coverdale, Executive Vice President, Metropolitan Life Insurance Company.

CPC Lending Areas

CPC At Work

From left to right: Barry Zelikson, Executive Vice President, is in charge of CPC's mortgage origination and program development. Formerly Deputy Housing Commissioner at HPD's Department of Development, he holds a Bachelor's degree in Civil Engineering from City College of the City University of New York.

Barbara Gordon Espejo, Vice President and General Counsel, reviews legal aspects of CPC's policy and program initiatives and functions as counsel to the Corporation. Espejo is a graduate of Brooklyn Law School and holds a Master of Public Administration degree from New York University.

Dale McDonald, Vice President, is CPC's loan servicing officer. He is responsible for loan collections and maintenance of CPC's mortgage portfolio.

CPC has become the link between low-cost builder/owners and government. Because the redevelopment of lower income housing requires subsidies and government involvement under a myriad of programs, and because owners of lower income housing do not generally have staff resources to deal with all the complexities attendant to rehabilitation, CPC's intervention is essential.

Our primary goal is to renovate a building and preserve it for another 30 to 40 years. CPC understands the need to make the building economically feasible for the owner, who must meet mortgage and operating obligations when the renovation is completed.

We work with property owners and developers in almost every non-luxury neighborhood in New York City. The communities are served by two CPC neighborhood offices, one in northern Manhattan and the other in central Brooklyn. CPC's central office, located in midtown Manhattan, manages corporate affairs, administration and loan servicing.

CPC's current sponsors consist of 12 commercial banks and 20 savings banks. The sponsors elect a board of directors comprised of chief executive officers and other senior banking officers. The board meets quarterly to establish corporate policies that CPC executes.

The CPC Board has established a mortgage committee to authorize the corporation to make both construction and long-term mortgage loans through its various credit agreements.

However, the CPC commitment to promote effective preservation for low and

From left to right:
Mary A. Brennan, Vice President and Mortgage Officer, directs CPC's Brooklyn and Queens office. Brennan holds a Bachelor's degree in Urban Affairs and a Master's degree in Urban Planning. She was formerly Director of the City's J-51 program.

Bruce Dale, Mortgage Officer, evaluates applications for loans in Manhattan and the Bronx. Formerly Director of Operations at HPD's Alternative Management Program, Dale holds a Master of Philosophy degree in Urban Planning and Master of Architecture degree, both from Columbia University.

Jack Greene, Mortgage Officer, is in charge of CPC's Manhattan and Bronx office Previously, he worked in the City's PLP program. He holds a Bachelor's degree in Urban Studies from SUNY at Purchase and a MPA from NYU.

Not shown: Susan Pollack, Mortgage Officer in CPC's Brooklyn office, is responsible for all aspects of loan origination. She holds a BA degree from Harvard University and has completed post-graduate work in City and Regional Planning at the University of California, Berkeley Campus.

Gunnel Rydstrom, Neighborhood Mortgage Officer in CPC's Brooklyn office, holds a BA degree in Economics from Pace University and was a construction loan officer at Citibank for 16 years.

moderate income housing has translated the organization into more than just a construction and mortgage financing source.

The Development Process

CPC works closely with owners and developers in the following way:

1. The owner or developer completes CPC's application for the financing of a specific rehabilitation project. CPC reviews the application, conducts a property inspection and examines the proposed scope of work. Contractors' estimates are also examined.

2. As the complete project is reviewed, CPC's staff explores financing options with the owner or developer. The amount of money needed for financing the rehabilitation and refinancing the mortgage is established, and the financial sources are identified. Necessary subsidies to make the loan feasible are identified. This typically means obtaining low-cost money from the City's Participation Loan Program, rental subsidies and real estate tax abatement and exemptions. Then CPC works with the owner or developer to complete the required applications.

3. The owner or developer's loan application is reviewed by CPC's internal review committee. Once approved, an engineer reviews the scope and cost of the proposed renovation and an appraisal of the property's value is conducted.

From left to right:
Mariann Perseo, Secretary of the Corporation, oversees all loan closings and coordinates sales of mortgages to purchasers such as member banks, pension funds and other institutions. Perseo holds a J.D. degree from Brooklyn Law School and a Master's degree in Urban Studies from Southern Connecticut State College.

Julie A. Carr, Assistant Mortgage Officer, provides research and operational support for loan activities and conducts the preliminary review of construction loan proposals. Carr is a graduate of Wheaton College and holds a Master's degree in Urban Planning from New York University.

Stefan Sebastian, Assistant Treasurer, is responsible for the Corporation's financial accounting and cash management. Formerly with the public accounting firm of Arthur Andersen & Co., he holds a Bachelor of Business Administration degree from Pace University.

4. If the application is approved by CPC's internal review committee, the application is forwarded to CPC's mortgage committee for final approval. This committee is comprised of six banking representatives and CPC's President.

5. Once final approval of an application is granted, the owner or developer receives a commitment letter. CPC's engineer assists in the preparation of an acceptable construction contract. A loan closing is scheduled. A title search is ordered, and tenants are notified of the scope of the work to be completed and related rent increases.

6. CPC then monitors the construction phase and finances the construction from its credit agreement with its commercial bank.

7. After completion of construction, CPC provides the permanent financing through one of its long-term credit agreements. CPC also assists owners in obtaining many of the necessary approvals from government agencies.

Without CPC, most owners would not know how to master the bureaucratic maze that surrounds the rehabilitation process; with the assistance of CPC, they do.

A principal objective of CPC was not simply to provide financing for the development of affordable housing, but also to work with government to create a regulatory and programmatic environment conducive to such investment. The vast housing finance needs of the City cannot be met by one or a few specialized lenders, but rather require conditions which can regularly attract the capital needed to keep our housing sound and provide for new housing.

In this regard, CPC is working with government on several key issues:

Rent Regulations

The preservation of the City's existing housing necessitates rehabilitation. And rehabilitation inevitably requires rent increases to pay for the cost of improvement as well as other operating costs. The adequacy of such rent increases and the speed with which they are put in place is the foundation upon which preservation efforts rest.

The State's review of major capital improvement rent increase provisions under the Rent Stabilization Code is crucial to this effort. To support rehabilitation investment, these increases need to be predictable, sufficient and implemented in a timely manner to support the long-term financing of such improvements.

Rent and Operating Subsidiaries

The City's J-51 program of real estate tax abatement and exemption has been crucial in keeping housing affordable. On CPC's rental projects, program benefits have lowered rents by about $10 a room per month. Few of CPC's projects would be possible without this program. J-51 has worked well for buildings within the defined neighborhood preservation areas as its benefits are predictable and are implemented in a timely manner. Outside of these defined areas it has not worked as well because there are additional standards for the eligibility of benefits which are largely unpredictable. The program's authority expires next year; the State legislature's renewal of this program is crucial if a commitment to affordable housing is to continue.

Even with tax abatement and exemptions, the resultant rent in moderately renovated buildings—today at about $106 per room per month—is still unaffordable to the lowest income tenants. For these tenants, some form of additional support is needed. In the past, this support has been provided through the Federal government's Section 8 subsidy program. Since this program has elapsed, new support for these tenants is needed. The legislature's extension of the Senior Citizen Rent Increase Exemption Program to pay for capital improvement rent increases is an important step in this direction.

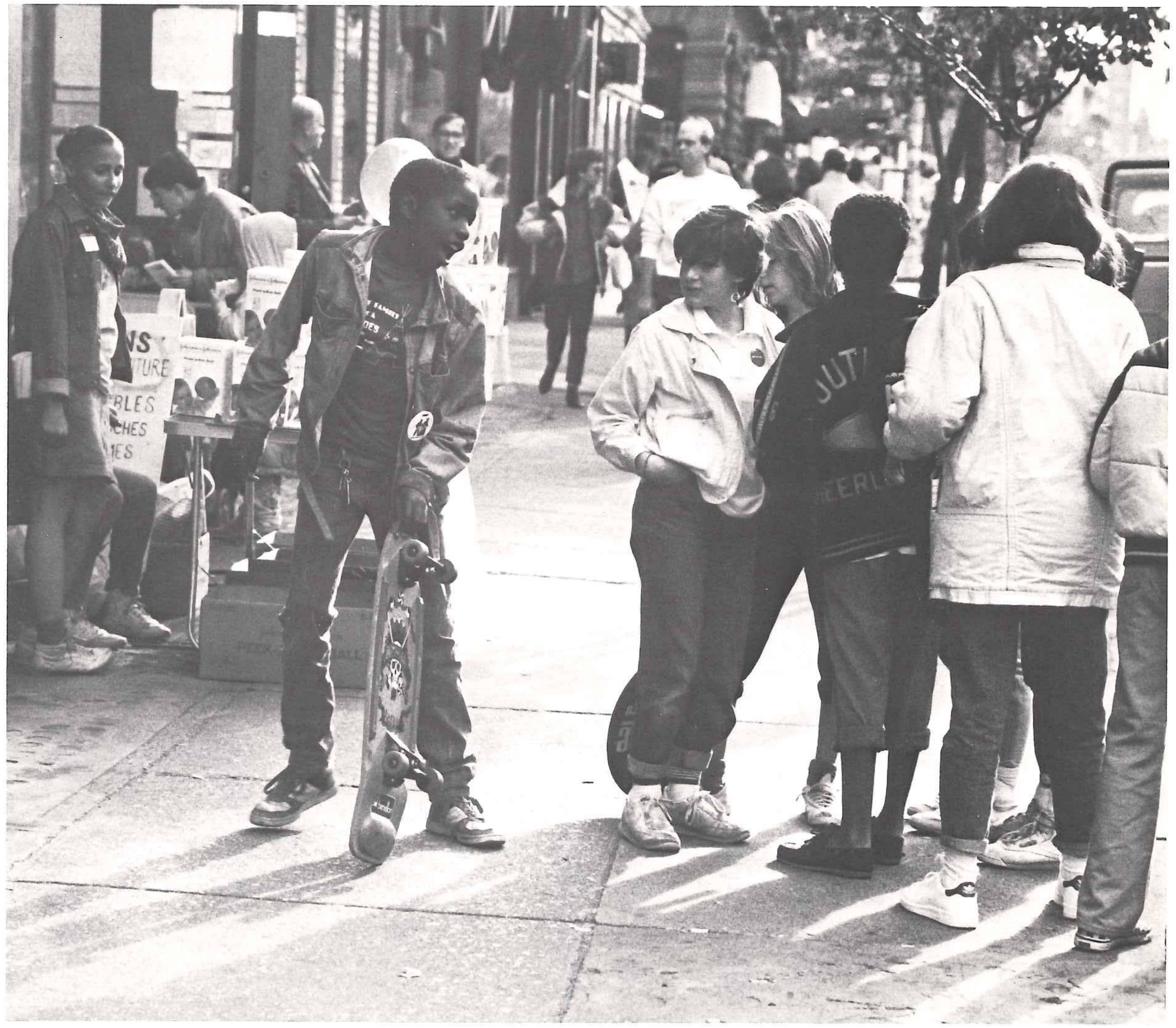
Government Processing

A major cost in developing affordable housing in New York is the cost of processing. Not only do time delays and complex processing add to costs, they also discourage smaller, cost-efficient builders from participating in rebuilding programs. They simply cannot afford the administrative effort necessary to plow through the maze of regulations.

The ironic result is that many programs which are designed to subsidize low income housing end up using a substantial part of the benefits to pay for the cost of their own processing. In this era of diminished public monies for housing, this is no longer acceptable. Rather, the goal must be to encourage the most efficient use of the limited available housing subsidies.

In this regard, CPC and the New York City Department of Housing Preservation and Development (HPD) are working on sweeping measures to streamline the PLP program. The goal is to significantly reduce processing time through the program. If successful, this program promises to be central in wide-scale efforts to rehabilitate both private and City-owned properties.

CPC's financing preserves New York's spirit of neighborhood captured here on this busy avenue in Prospect Heights, Brooklyn.



The New York City Community Preservation Corporation completed its twelfth year with an operating surplus of $1,029,000. Accumulated surpluses and reserves from all years now total $4,200,000. This financial reserve enables us to act on a significant scale in serving CPC's objectives. The surplus accomplishes the following:

- It furnishes a reserve against losses on construction loans which carry inherent risks and are generally ineligible for mortgage insurance. In its active history, CPC has not suffered any losses. Our construction portfolio totaled $49.2 million at this year's end, with another $25.3 million committed to future projects.
- It 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.
- It provides the minimum financial requirements for newly-acquired seller/servicer status for the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC).
- Finally, it enables CPC to invest in staff and equipment to expand services to finance low and moderate income housing. As explained in this report, the Board has authorized new lending programs that will provide for expanded rehabilitation efforts.

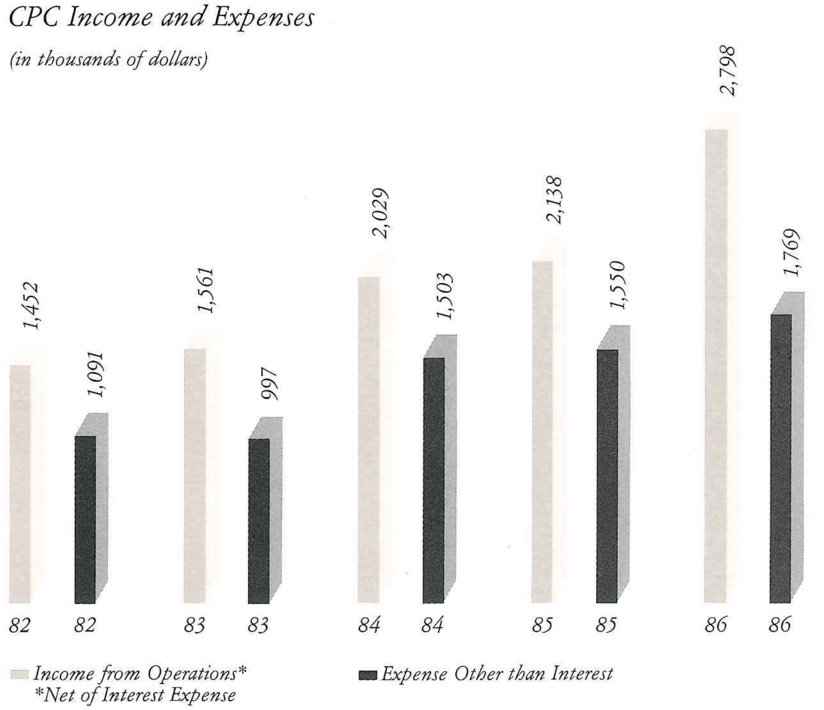
The three factors contributing to the surplus are origination fees, interest income from construction loans and fees for servicing the mortgage portfolio. This year, as in the past, CPC's significant surplus increase was a result of increased lending activity and effective cost control.

Whether or not increased demand for the financing of rehabilitated housing financing will continue at current or greater levels depends on several factors: the impact of the new Federal tax law, cyclical economic factors and the availability of public subsidies.

As it begins its thirteenth year of operations, CPC renews its charge to implement and expand the lending programs necessary to support the rehabilitation and preservation of affordable housing throughout our City.

CPC Income and Expenses

(in thousands of dollars)



Balance Sheets—August 31, 1986 and 1985

	1986	1985
Assets		
Investments in first mortgage loans (Notes 2 through 5 and 10):		
Construction loans	$ 49,249,487	$41,920,854
Less—Allowance for possible investment losses	500,000	500,000
	48,749,487	41,420,854
Permanent loans	97,917,048	90,457,686
	146,666,535	131,878,540
Less—Participants' interests in mortgage loans	58,316,593	52,648,304
Mortgage loans sold	3,760,212	1,107,878
	84,589,730	78,122,358
Cash and cash equivalents:		
Subject to immediate withdrawal	55,755	53,098
Certificates of deposit (Note 6)	1,534,223	2,530,812
Accrued interest receivable	576,577	714,089
Other assets	339,569	330,012
	$ 87,095,854	$81,750,369
Liabilities and Fund Balance		
Liabilities:		
Notes payable under revolving credit agreement—unsecured (Note 4)	$ 4,800,000	$ —
Accounts payable and accrued expenses	5,042,548	4,214,893
Participants' deposits (Note 6)	13,159,456	12,685,145
Escrow and other deposits of borrowers	5,000,584	4,182,028
Deferred income—commitment fees	38,070	113,595
	28,040,658	21,195,661
Nonrecourse collateral trust notes (Note 5)	55,358,643	57,887,515
	83,399,301	79,083,176
Commitments and contingencies (Notes 2, 3, 4 and 8)		
Fund balance (Note 11)	3,696,553	2,667,193
	$ 87,095,854	$81,750,369

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
For the Years Ended August 31, 1986 and 1985

	1986	1985
Public Support and Revenues:		
Interest on loans (Note 7)	$8,496,500	$8,103,766
Commitment fees	832,930	544,546
Servicing fee income	145,820	134,211
Interest on short-term investments	80,757	139,507
Other revenues	172,600	144,238
Public support	6,450	6,090
Total public support and revenues	9,735,057	9,072,358
Expenses:		
Interest (Note 7)	6,936,583	6,933,920
Employee compensation and benefits (Note 9)	1,022,673	890,724
Professional fees	238,527	193,447
Office expenses (Note 8)	225,729	233,470
Other	282,185	232,415
Total expenses	8,705,697	8,483,976
Excess of public support and revenues over expenses	1,029,360	588,382
Fund Balance, beginning of year	2,667,193	2,078,811
Fund Balance, end of year	$3,696,553	$2,667,193

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

Notes to Financial Statements—August 31, 1986 and 1985

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 taxes under Section 501(c)(3) of the Internal Revenue Code.

Income Recognition

Interest on construction loans and permanent loans 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

Commitment fees are charged to prospective borrowers principally to offset the corporation's costs of originating loans. For financial statement purposes, commitment fees are recorded in income over the commitment period, provided that the period is reasonably determinable. Where such period is not determinable, commitment fees are recognized as income upon the closing of the mortgage loan.

Reclassifications

Certain prior year amounts have been reclassified to conform to the presentation used in 1986.

2. Mortgage loans and commitments

The following is a summary of closed mortgage loans as of August 31, 1986 and 1985 (000's omitted except for number of loans):

1986	Construction	Permanent	Total
Number of loans	72	217	289
Funded commitments:			
Total funded balance	$49,249	$97,917	$147,166
Less—Participants' interests	20,704	37,613	58,317
Mortgage loans sold	—	3,760	3,760
Corporation's portion	28,545	56,544	85,089
Less—Allowance for possible investment losses	500	—	500
	28,045	$56,544	$ 84,589
Corporation's portion of unfunded commitments	5,938		
Total Corporation commitment amount	$33,983		

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	31,462	52,648
Mortgage loans sold	—	1,108	1,108
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		

Pending commitments for new mortgage loans (net of portion applicable to participants) as of August 31, 1986 and 1985, were as follows (000's omitted except for number of loans):

	Mortgage Commitments Accepted by Borrowers		Mortgage Commitments Not Yet Accepted by Potential Borrowers	
	1986	1985	1986	1985
Number of loans	11	11	2	8
Amount	$4,193	$4,103	$ 785	$4,000

3. Allowance 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 and / or New York State'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 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. The Corporation has recently made construction loans for the purpose of rehabilitating properties which will be converted to cooperative ownership or condominiums upon the completion of the rehabilitation. Construction loans on conversions of properties involve lending risks which are believed by management to be greater than those which are applicable to rental apartment loans.

The recently enacted Internal Revenue Code of 1986 has made fundamental changes in the taxation of individuals and business enterprises which are owners of real estate. Certain of the Corporation's borrowers may be adversely impacted by those changes and, accordingly, may encounter economic and other pressures which were not contemplated at the time that the Corporation's loans were made. As of August 31, 1986, the Corporation has not incurred any losses on its loan portfolio; however, because of the inherent risks in, among other things, 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. In the absence of specific information that an investment loss has occurred or is likely to occur, no additions to this allowance are presently contemplated. No amounts have been charged to the allowance through August 31, 1986.

In addition to the allowance amount, management considers the Corporation's Fund balance to be available to cover any unforeseen losses which may occur as a result of its lending activities.

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 1986 and 1985 were at interest rates which ranged from 7.50% to 9.50% and 10% to 13.5%, respectively. At August 31, 1986 and 1985, the interest rates on these borrowings were 7.5% and 10%, respectively. At August 31, 1986, $4.8 million was outstanding under this agreement. At August 31, 1985 there were no borrowings outstanding.

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 of ¼ of 1% based on the aggregate outstanding principal balances of the pledged mortgages.

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 1-1¼% 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, 1986, HPD deposits consisted of the following:

Unused HPD funds, partially invested in certificates of deposit	$ 8,982,062
Mortgage interest and principal collections and accumulated interest on short-term investments	4,177,394
	$13,159,456

7. Interest on loans and interest expense

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

	1986		1985	
	Income	Expense	Income	Expense
Unpledged mortgage loans	$2,635,896	$ —	$2,381,325	$ —
Interest on pledged mortgage loans	5,860,604	5,860,604	5,722,441	5,722,441
Interest on revolving credit agreement	—	139,130	—	81,560
Interest on HPD funds and escrows	—	936,849	—	1,129,919
	$8,496,500	$6,936,583	$8,103,766	$6,933,920

8. Lease commitments

The Corporation leases office space in three locations under agreements which expire on three separate dates in 1987, 1989 and 1996.

The Corporation's central office lease presently expires on February 28, 1987. On September 9, 1986, the Corporation entered into a ten-year lease at another location which will become the central office. Management expects to occupy the new location upon expiration of the current lease. The lease for the new premises includes a six-month free rent period from the date of execution. Both the remaining rent payments under the existing lease and under the new lease agreement are reflected in the following table.

Annual base rents are subject to escalations and / or decreases as provided for in the leases. Rental expense for 1986 and 1985 was $135,936 and $119,088, respectively. The minimum annual rentals under noncancellable leases which total $1,021,918 are due as follows:

1987	$106,932	1990	$97,500
1988	103,243	1991	97,500
1989	109,743	Thereafter	507,000

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, 1986 and 1985, was $18,078 and $22,858, respectively. Net plan assets available for benefits at August 31, 1986 and 1985, were $94,301 and $66,627, respectively.

10. Mortgage loans sold

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 sold to the Pension Funds. As of August 31, 1986, eight loans with an aggregate outstanding principal balance of $3,063,396 had been sold to the Pension Funds.

During 1986, one loan with an outstanding principal balance of $696,816 was sold to the Federal National Mortgage Association.

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 non-transferable 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, 1986 and 1985 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, 1986 and 1985 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, New York
November 14, 1986

Directors, Officers and Participating Financial Institutions

Board of Directors

Donald L. Thomas
Chairman of the Board
The New York City Community Preservation Corporation
Chairman of the Board & CEO
Anchor Savings Bank

James O. Boisi*
Executive Vice President
Helmsley Enterprises, Inc.

Francis L. Bryant, Jr.
Executive Vice President
Manufacturers Hanover Trust Company

Jeffrey R. Grandy
Senior Vice President
Citicorp Real Estate, Inc.

Pazel G. Jackson, Jr.*
Senior Vice President
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
The New York Clearing House Association

William G. Lillis
President
American Savings Bank, FSB

James F. Murray
Senior Vice President
The Chase Manhattan Bank, N.A.

Raymond V. O'Brien, Jr.
Chairman of the Board & CEO
Emigrant Savings Bank

*Retired from CPC Board of Directors during 1985-86

Mortgage Committee

William R. Wright
Chairman, Mortgage Committee
Vice President
Morgan Guaranty Trust Company of New York

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

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

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

Murray F. Mascis
Vice President
Citibank, N.A.

Peter C. Underwood
Vice President
Goldome Realty Credit Corporation

Michael J. Wechsler
Senior Vice President
Chemical Bank

Officers

Michael D. Lappin
President

Barry Zelikson
Executive Vice President

Barbara Gordon Espejo
Vice President and General Counsel

Mary A. Brennan
Vice President

Marvin Goldberg
Vice President

Dale F. McDonald
Vice President

Mariann Perseo
Secretary

Stefan Sebastian
Assistant Treasurer

Mortgage Staff

Julie A. Carr
Assistant Mortgage Officer

Bruce Dale
Mortgage Officer

Jack Greene
Mortgage Officer

Susan M. Pollock
Mortgage Officer

Gunnel Rydstrom
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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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, FSB
Anchor Savings Bank
Apple Bank for Savings
The Bowery Savings Bank
CrossLand Savings, 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