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THE COMMUNITY PRESERVATION CORPORATION

1990 Annual Report

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CPC

The Community Preservation Corporation (CPC) is a private not-for-profit mortgage lender specializing in the financing of low and moderate income housing. Founded in 1974, CPC is sponsored by more than 50 banks and insurance companies based in the New York City metropolitan area. In 16 years, CPC has financed the rehabilitation or construction of 25,901 affordable housing units, representing an investment of over $630 million.

CPC's principal mission is to work with government to preserve and develop affordable housing in New York City and its surrounding counties. The effort involves three interrelated approaches:

First, CPC seeks to create a positive environment for investment in affordable housing by working with government to 1) identify and rectify legal and regulatory impediments to that investment, and 2) help structure public subsidy programs to mesh with private financing and thereby simplify access to these programs by small owners and builders.

Second, once a positive environment and workable programs have been created, CPC assists other lenders in the routine originations of these loan and subsidy packages, and works with institutional investors to create a secondary market for such investments.

Third, CPC works to improve the skills and increase the number of developers, contractors, and community groups who are involved in developing affordable housing.

CPC thus leverages its knowledge and position — standing between its member financial institutions, government, and owner/builders — to expand the financial resources available for affordable housing and to assist communities in meeting their housing needs.

HIGHLIGHTS

Fiscal Year Performance 1989-90

New Loans Closed (Dollars)	
CPC and Other Private Funds	$ 58,970,516
Public Funds	92,766,041
Total	$151,736,557
New Loans Closed (Units)	
Manhattan	892
Bronx	1,550
Brooklyn	338
Staten Island	13
Total	2,793
Permanent Loans Closed (Dollars)	
CPC and Other Private Funds	$19,469,297
Pension Funds*	19,039,959
Public Loan Funds	38,398,667
Total	$76,907,923
End-Loan Commitments	
Dollars	$2,550,500
Units	47
Lending Record 1974-90	
CPC Closed Loans (Dollars)	$639,647,155
CPC Closed Loans (Units)	25,901
End-Loan Commitments (Dollars)	$ 41,866,558
End-Loan Commitments (Units)	508

** New York City Employees Retirement System and New York City Police Pension Fund*

TO OUR MEMBERS

In its 16th year, CPC set a new annual record in its lending for community development. We originated $150 million of public and private funds representing construction starts on close to 2,800 units. These funds, which continue to be loss-free, provide the means for the rebirth of many of New York's low and moderate income neighborhoods.

For the coming year, we are concerned about the health of New York City's neighborhoods and its housing stock. Some of the conditions that led to the decline of the 1970's are reappearing. Operating costs and income are going out of balance. Costs are rising for fuel and for real estate and water and sewer taxes, at the same time that employment is receding and rental income eroding. Compounding this imbalance is a lack of mortgage financing to make needed capital repairs in the aging multifamily stock. Bank and tax foreclosures are also on the rise, leading to new, and often inexperienced, ownership.

To face these problems during this recessionary period, City housing policy must be repositioned, with resources shifted to maintain our existing housing stock and preserve the gains recently made in the rebuilding of our communities. The successful preservation programs launched in Washington Heights and Inwood in the mid-70's should be mounted on a larger scale to minimize the effect of these downward trends. Those programs, combining private funds with public subsidy, have been able to reconcile the need to finance and operate the buildings in a sound manner with the need to keep them affordable to community residents. The programs have proven to be accessible to the small and generally unsophisticated owners in whose buildings most of the City's low and moderate income households reside.

We must also intervene early in foreclosure situations where ineffective debt restructuring, combined with inefficient ownership and management, inevitably lead to decline, and possibly to housing abandonment. With the cooperation of private institutions, a mechanism must be established for an orderly workout of defaulted mortgages that will result in responsible new owners who are able to make necessary improvements, and whose debt obligations still leave sufficient cash flow for proper operations.

Support of these programs may prove difficult with the withdrawal of Federal funds. Nevertheless, we are confident that this challenge can be met, and we have established strong and close working relations with the new City administration to seek effective solutions.

At a time when the nation is searching for new approaches to its housing needs, and the financial sector is redefining its housing role, we believe CPC's experience points the way to solutions that have relevance beyond New York's borders. At the core of our success has been our ability to work closely with government to create easy access for low cost builders, both profit and nonprofit, to government programs and private financing. This in turn has broadened participation in the development of low and moderate income housing, with increased competition lowering its cost. This report explores the potential of replicating CPC's model for other parts of the nation.

In response to interest in this consortium approach to funding affordable housing, we are establishing an advisory service to help financial institutions and communities set up local programs patterned after CPC. Assistance has been provided so far to the states of California and Hawaii, as well as to Chicago, Boston and upstate New York.

In the past year, CPC has expanded its activities to six counties to the north of New York City: Westchester, Rockland, Putnam, Orange, Ulster and Dutchess. An initial $7 million has been committed for affordable housing. The first projects include the financing of senior citizen housing in Westchester and the rehabilitation of vacant multifamily properties in Mount Vernon and Kingston.

1 2 3 4

In the next year, our challenge will be to use limited public resources more efficiently and to institutionalize those programs that have demonstrated effectiveness for both housing preservation and production. This in turn can be accomplished by further strengthening the cooperation between government and the private sector, which has been the basis of our success in the past and is critical for the future well-being of our communities.

We note the retirement this past year of H.L. Van Varick, who served for ten years on CPC's Mortgage Committee, the last four of these as Chairman and Vice Chairman. We thank him for his distinguished service.

1 Raymond V. O'Brien, Jr.
Chairman

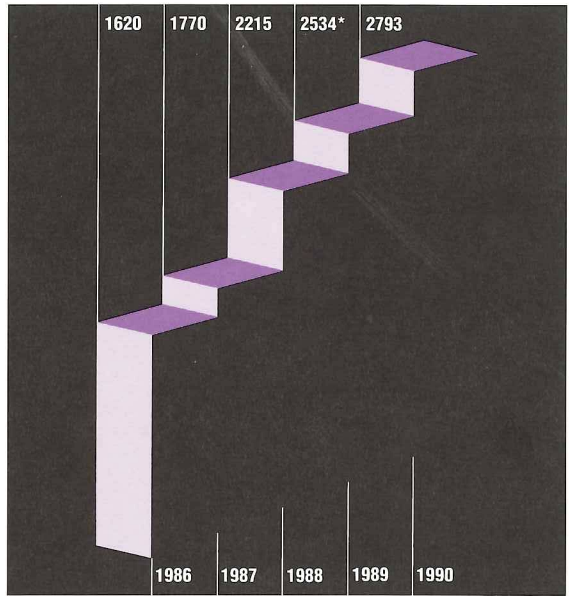
2 Glen E. Coverdale
Vice Chairman

3 James F. Murray
Chairman of the Executive Committee

4 Michael D. Lappin
President & CEO

APARTMENT UNITS

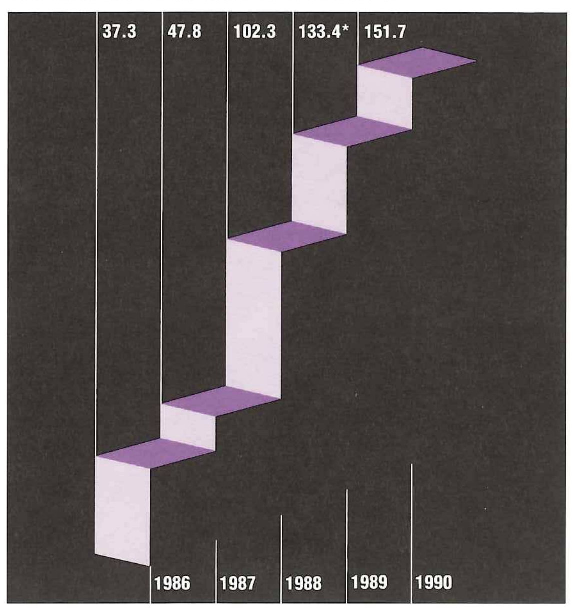
*FY 88-89 contained only 10 months. See Financial Statements.



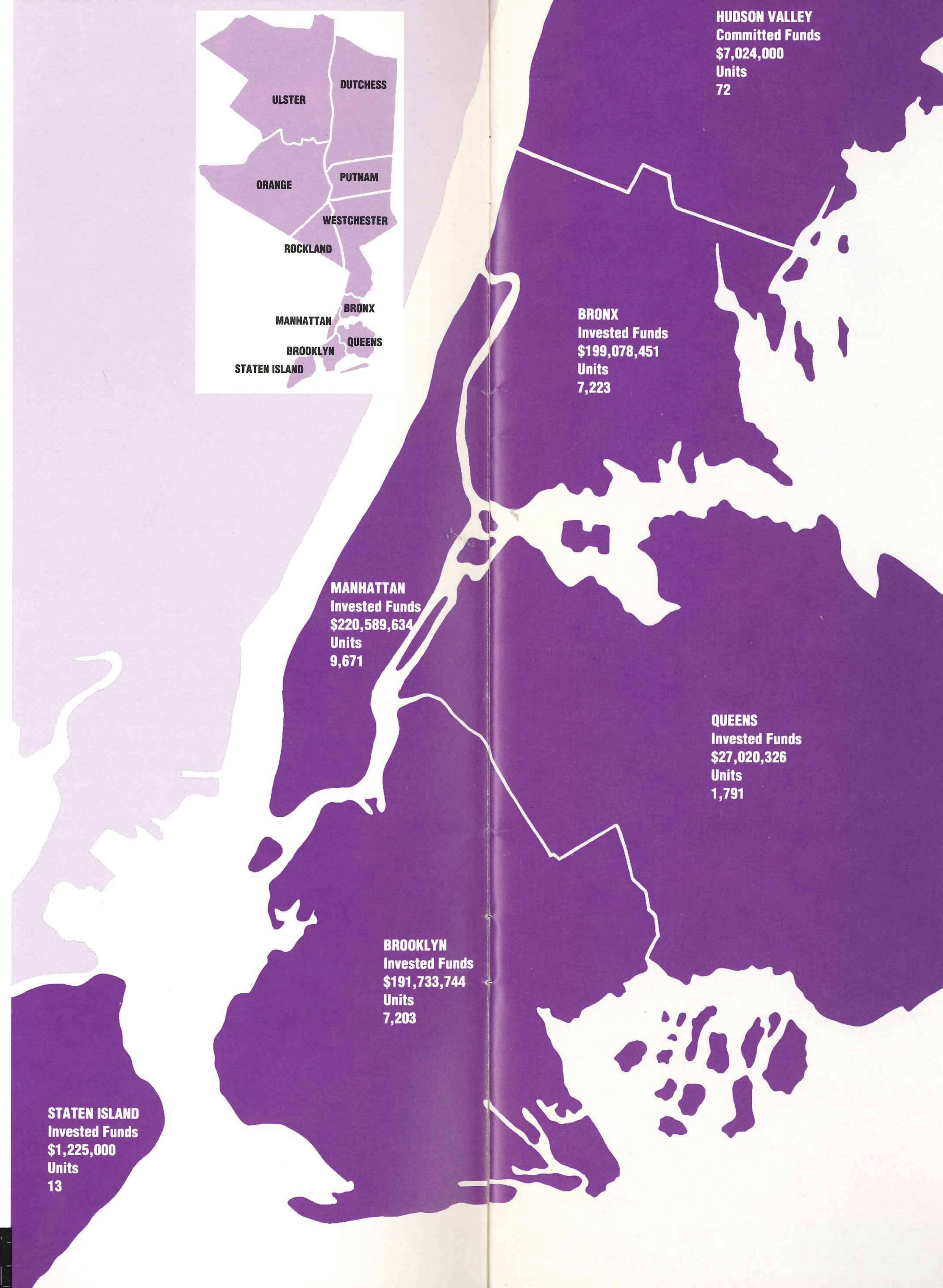
NEW LOANS CLOSED

($ in millions)

*FY 88-89 contained only 10 months. See Financial Statements.

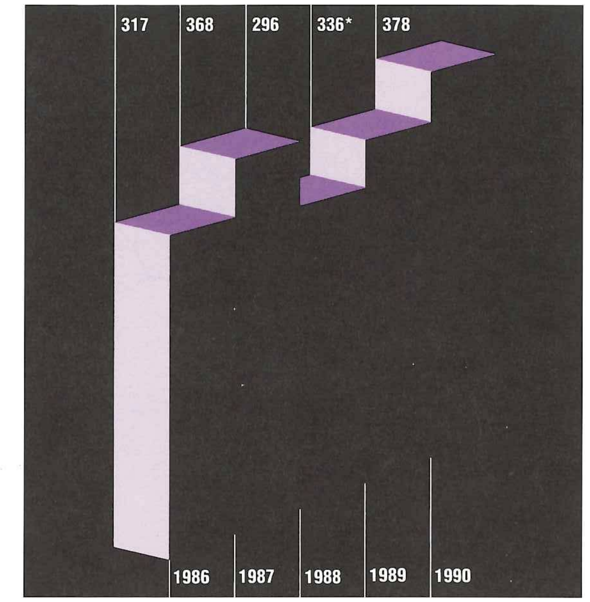


CPC LENDING AREAS



LOANS SERVICED

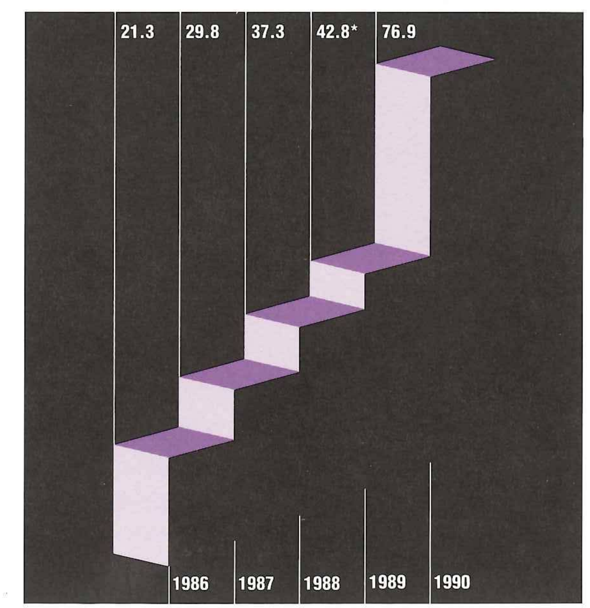
*FY 88-89 contained only 10 months. See Financial Statements.



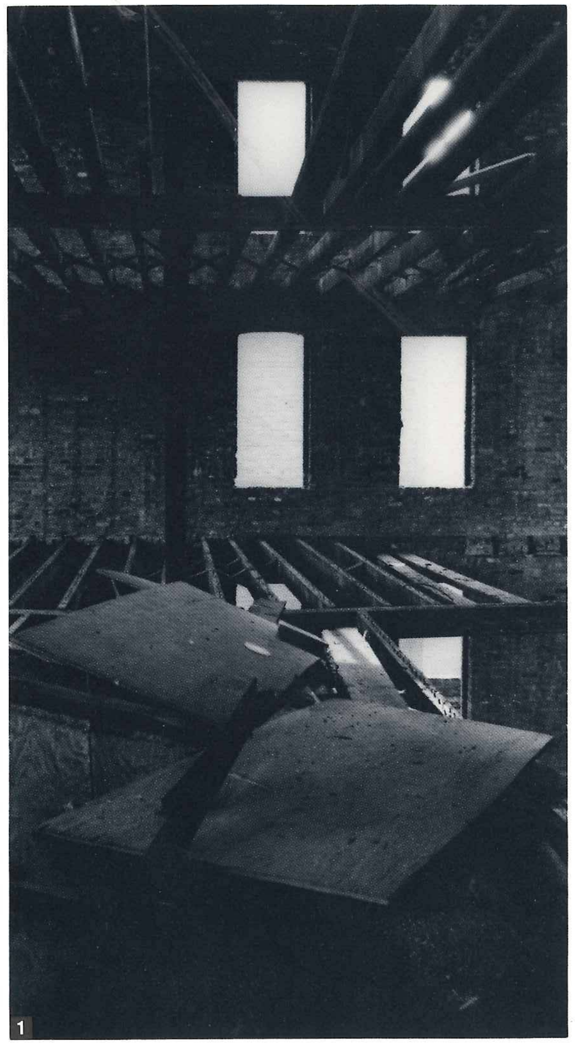
PERMANENT LOANS CLOSED

($ in millions)

*FY 88-89 contained only 10 months. See Financial Statements.



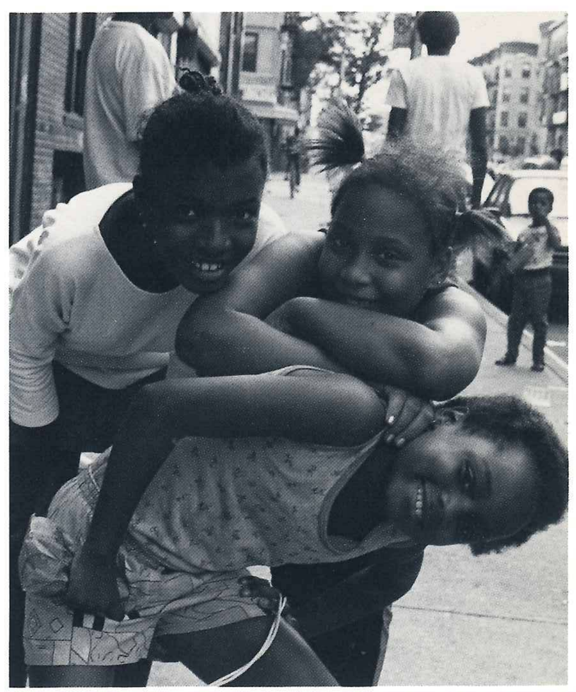
CPC: A NATIONAL MODEL



1 *A substantial number of CPC loans finance "gut" rehabilitation of vacant buildings, as at* ***Times Plaza*** *on* ***Atlantic Avenue*** *in* ***Brooklyn,*** *where most interior beams had to be replaced.*

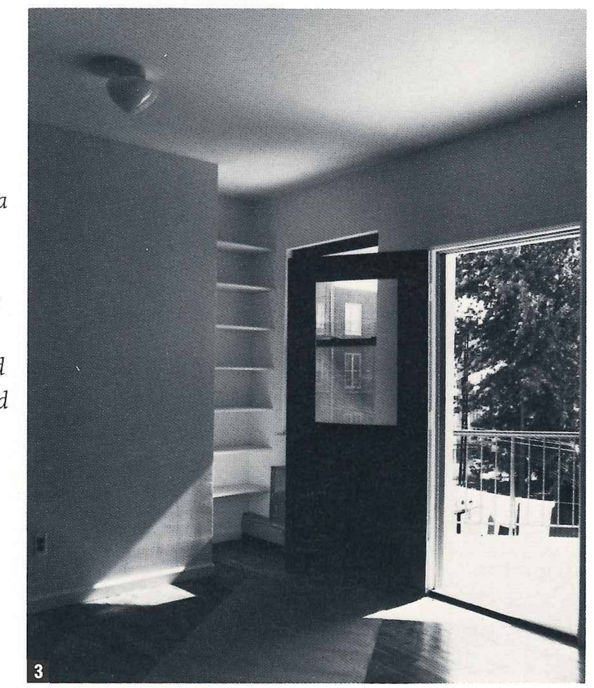
2 ***1165 Shakespeare Avenue, Bronx.*** *Gut rehabilitations focus on a building's interior structure and systems (e.g. plumbing, heating, wiring), but also improve the exterior through repointing, window and door replacement, and steam cleaning.*

3 *CPC finances new construction as well, including this condominium at* ***102 Guernsey Street, Brooklyn,*** *and the townhouses in Staten Island pictured on page 10.*



Most of New York's low and moderate income families live in privately owned multifamily housing. A large percentage of all low and moderate income Americans, especially those in urban areas, also live in apartment house rentals. These units must be the target of any serious effort to improve affordable housing.

CPC has developed a production and financing system for multifamily buildings that is large in scale, financially sound, and relatively low in cost. The methods and impact of the system have national relevance. They can be replicated.



Over the past 16 years, CPC has financed the rehabilitation of almost 26,000 units representing a combined public and private investment of over $630,000,000. There have been no loan losses. The private funds have received market rates of return. And the housing has been produced at per-unit costs 30 percent lower than those financed by government programs alone.

CPC has benefited from substantial financial lines to major institutional investors: $350,000,000 from public pension funds and $300,000,000 from banks and insurance companies.

Replicating the CPC program elsewhere has four requirements: creating a supportive government environment, including subsidies and simplified approvals; developing an efficient mechanism for loan origination; adding credit enhancement; and creating a market to sell the loans.

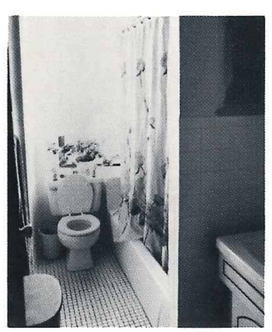
GOVERNMENT ENVIRONMENT

In 1974, CPC confronted many obstacles that deterred mortgage investment in New York's low and moderate income neighborhoods. The City's job base was at a low point, largely as a result of a net loss of 500,000 manufacturing jobs during the previous 10 years. Declining income and demand collided with increased housing costs, particularly for fuel, maintenance, and repairs. Investment was also hindered by the difficulty of adjusting rents following improvements and by the complexity of obtaining government approvals and using support programs for building renovation. Apartment houses, built in the early part of the century, urgently needed capital investment to replace their aging systems. These factors culminated in a crisis in the mid 1970's, when building owners were abandoning roughly 25,000 units annually.

The New York City government had four key programs to encourage owners to stay and to improve their buildings. These included real estate tax abatement and tax increase exemption; low-cost financing for capital improvements; rent control relief; and Federal rent subsidies to offset rent increases.

For these inducements to work, coordination was essential. Also, the terms had to be understandable to private lenders so that loan amounts could be underwritten to take into account the value of their benefits.

Finally, the City's programs had to be accessible to owners of buildings in low and moderate income neighborhoods. This was difficult, as the several public programs were administered by different agencies, thereby complicating already complex procedures, and the targeted owners had little experience in dealing with government. These owners also had limited dealings with banks — many had purchased their buildings with their own funds and seller mortgages — and even more limited experience with rehabilitation. This challenge was met by reorganizing and simplifying the public programs, and combining them with the loan origination process of a private bank expert in rehabilitation, CPC.



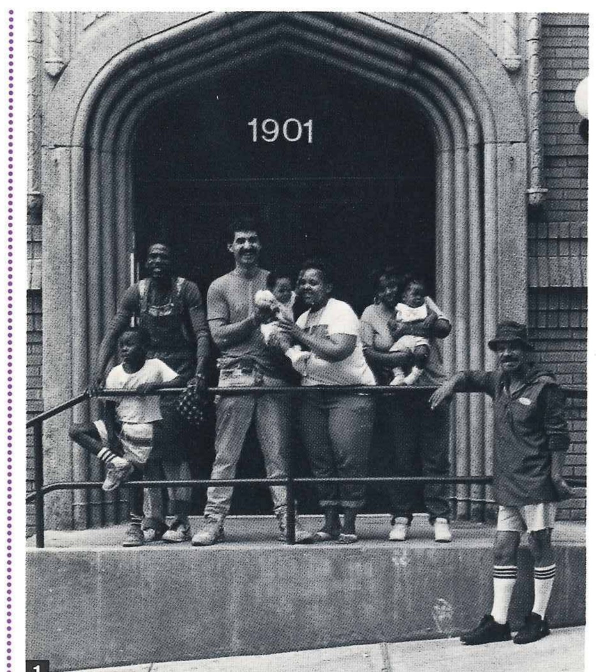
1 ***680-686 Fulton Street, Brooklyn.*** *A 48-unit unsubsidized gut rehabilitation financed by CPC. This project was also able to take advantage of historic rehab tax credits.*

2 ***1900 Hennessey Place, Bronx.*** *This unit was occupied during rehab, as was the rest of the building. Moderate rehab of buildings with tenants in occupancy, a CPC specialty, presents unique problems for the lender in addition to the obvious burdens on tenants.*

LOAN ORIGINATION

CPC, as a construction and permanent lender, serves as an intermediary with government in its loan origination process. CPC and the City standardized legal agreements for loan servicing, subsidy provisions and subordinated deed restrictions, and developed preapproved cost standards and specifications for construction. This permitted financing and subsidy applications to be combined in one document, as were funding commitments. It also gave CPC the authority to represent both parties during construction, with CPC also taking responsibility for advancing City funds escrowed with CPC, as well as its own funds, during construction. CPC became a "one-stop shop" for small owners and builders interested in preserving their buildings and producing affordable housing.

In CPC's first target area, Washington Heights, more than 10 percent of all the units in the neighborhood — 7,500 in all — were rehabilitated by 1984. Most of the



1 ***1901 Hennessey Place, Bronx.*** *The Vacant Building Program, developed by CPC and the City of New York, illustrates the principles of market assembly, production and financing, which can be replicated elsewhere in the nation. The program began with agreements between the City and CPC on the specifications, construction standards and capital subsidies for the restoration of several hundred abandoned buildings owned by the City, primarily in Harlem and the South Bronx. CPC served as the loan originator and manager of construction on behalf of itself and the City. The simplified process attracted small developers who bought the buildings for one dollar and now manage them. In the three years since the program began, some 5,000 units have been created with average total development costs of $67,000 per unit. The apartments are rented by families earning between $15,000 and $25,000 annually.*

2 *To be successful, an affordable housing program must be able to attract small, low-cost builder/developers. Pictured above are developers Bong and May Yu in front of their 48-unit gut rehab project at* ***195 East 2nd Street,*** *in* ***Manhattan,*** *sponsored by the Lower East Side Mutual Housing Association and financed by CPC and the State of New York.*

owner-participants had never before been involved in either rehabilitation or the use of subsidy programs.

The owners' inexperience placed a special burden on CPC. It meant helping them to develop work scopes, evaluate contractors, and review prices. CPC had to learn the development business in order to shape and define the market for its lending. Its technical assistance, combined with a simple and routine process, has encouraged small builders and developers to enter the field. The resulting price competition has dramatically lowered development costs.

While CPC uses traditional underwriting standards in its loans, it has adopted important practices to account for the often uncertain financial condition of many of its building owners. CPC requires upfront equity investment. It also insists on letters of credit covering 10 percent of the construction cost to insure completion. The placement of equity in advance of the institutional investment makes the creditworthiness of the borrower less important than it would be otherwise. The combination of this deal structuring and CPC's development knowledge has meant no losses in the lending.

(Continued on page 12)

1 Kingsbridge Heights, Bronx. *Rehabilitation of individual buildings leads to preservation of whole neighborhoods.*

2 Riverview Parc, Staten Island. *Located in the Mariner's Harbor neighborhood, CPC's first project in Staten Island will contain 60 townhouses when the final phase is completed in 1993.*

3 Grand Concourse, South Bronx. *A symbol of elegance in the Thirties and Forties, later a symbol of decay in the Seventies, the Grand Concourse is now home to a stable, moderate income community thanks to preservation efforts by CPC and the City and State of New York. (The building at right in the photo was completed in 1989.)*

CPC CELEBRATES FIFTEEN YEARS

On January 24, 1990, New York's governmental, financial, development and nonprofit communities came together to celebrate CPC's fifteenth anniversary at the Museum of Modern Art in New York City. The program, entitled "Fifteen Years of Public-Private Partnership," highlighted the cooperation of government and the private sector in stemming the tide of housing abandonment in the City and in upgrading some 25,000 affordable housing units.

Prominent among the guests was David Rockefeller, whose efforts led to the founding of CPC in 1974. CPC was honored to have as featured speakers David Dinkins, Mayor of New York City, Comptroller Elizabeth Holtzman, and New York State Lieutenant Governor Stan Lundine. In addition, CPC presented a video entitled "Rebuilding Neighborhoods," commemorating its activities over the years.

Raymond V. O'Brien, Jr., Chairman of CPC, announced the creation of the Alfred S. Mills Scholarship at New York University and the Joseph C. Brennan Scholarship at Fordham University, honoring two of CPC's founding directors. The scholarships will assist financially needy New York City residents in pursuing undergraduate studies in urban planning and affordable housing.

NYU and Fordham Scholarship Presentation

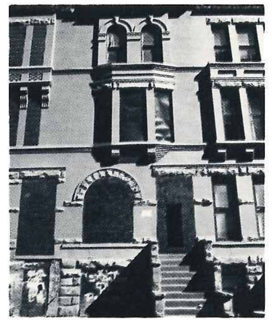
New York City Comptroller Elizabeth Holtzman

New York State Lieutenant Governor Stan Lundine

New York City Mayor David N. Dinkins

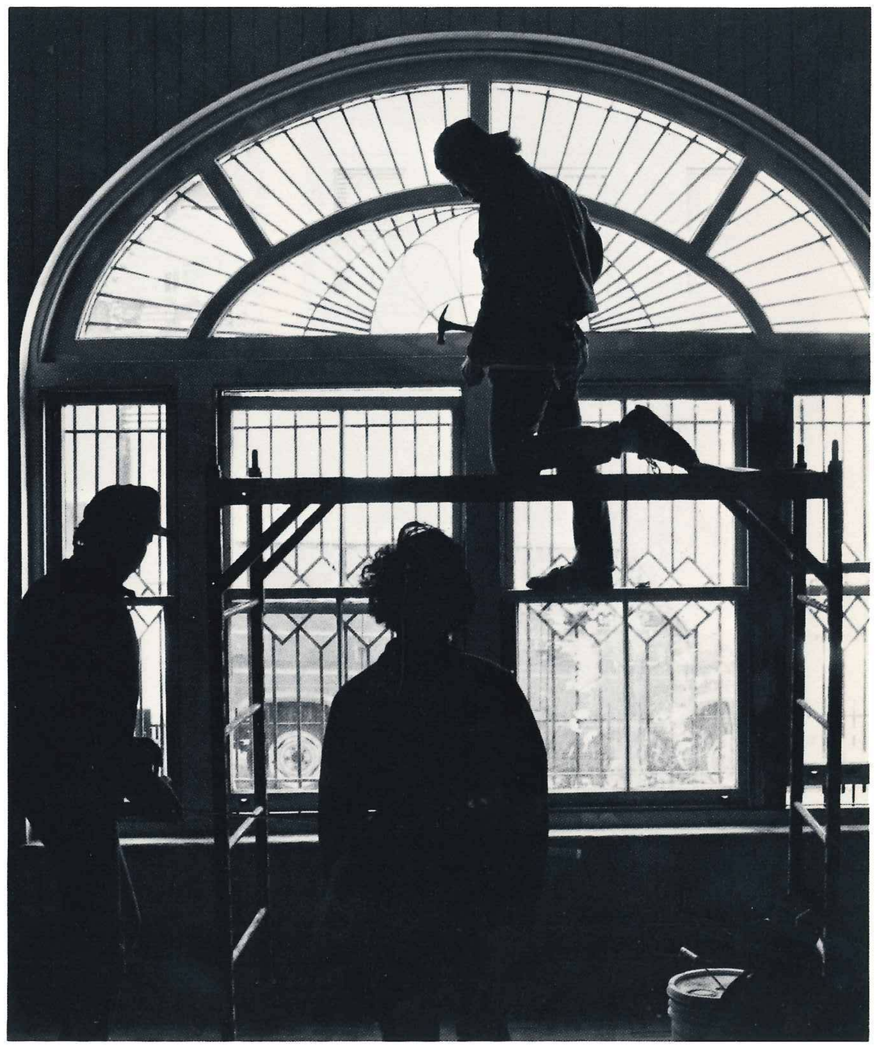
CREDIT ENHANCEMENT

CPC's lending record does not mean that multifamily financing at the low and moderate income range is risk free. The neighborhoods in which this housing is located feel economic downswings and social problems more keenly than others. The apartment buildings abandoned in the South Bronx, Harlem, and central Brooklyn during the 1970's had mortgages.



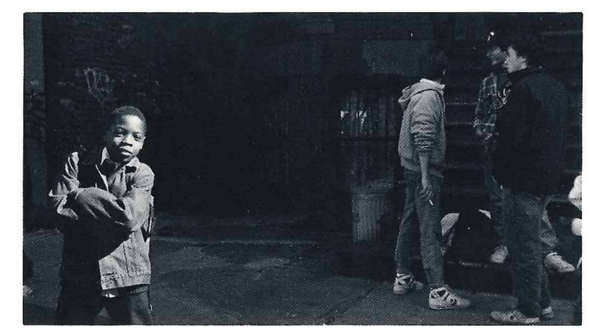
New York's low and moderate income neighborhoods are home to some of the City's sturdiest but oldest housing stock. Generally built prior to World War II, these buildings require not only regular maintenance but periodic rehabilitation to replace major systems such as plumbing, heating and wiring.

While loans can be properly underwritten for individual risks, the larger societal forces that can hurt a neighborhood and its buildings should be shared through some form of public mortgage insurance. This is done in New York through the insurance programs administered by the Rehabilitation Mortgage Insurance Corporation (REMIC) and the State of New York Mortgage Agency (SONYMA), the latter funded by a .25% surcharge on the New York State mortgage recording tax. SONYMA insures mortgages underwritten according to its standards in depressed neighborhoods. It provides top loss coverage of up to 75% of the mortgage (100% in cases where public pension funds are involved). For every dollar insured, a reserve of 20 cents is maintained.

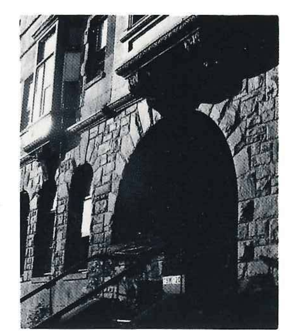


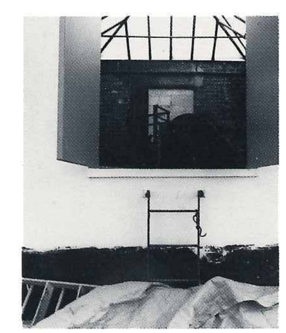
Despite a good record, there has been little market for the purchase of loans insured by SONYMA. The one exception came with the decision by City (and subsequently State) pension fund administrators to purchase whole loans covered by SONYMA insurance.

This contrasts with the uneven record of national credit sources. During the 1980's, the Federal Home Loan Mortgage Corporation ("Freddie Mac") invested billions of dollars in moderate and middle income multifamily buildings in New York. While this investment has been important, Freddie Mac's national underwriting standards did not fully appreciate local market conditions, operating costs, and the inexperience of owners. This resulted in some overstated building values and many troubled loans today.



The Federal National Mortgage Association ("Fannie Mae"), on the other hand, has invested much less than Freddie Mac in these same neighborhoods, and may have missed some opportunities for solid housing investments.





If maintained properly and upgraded periodically, these buildings will supply housing for generations to come.

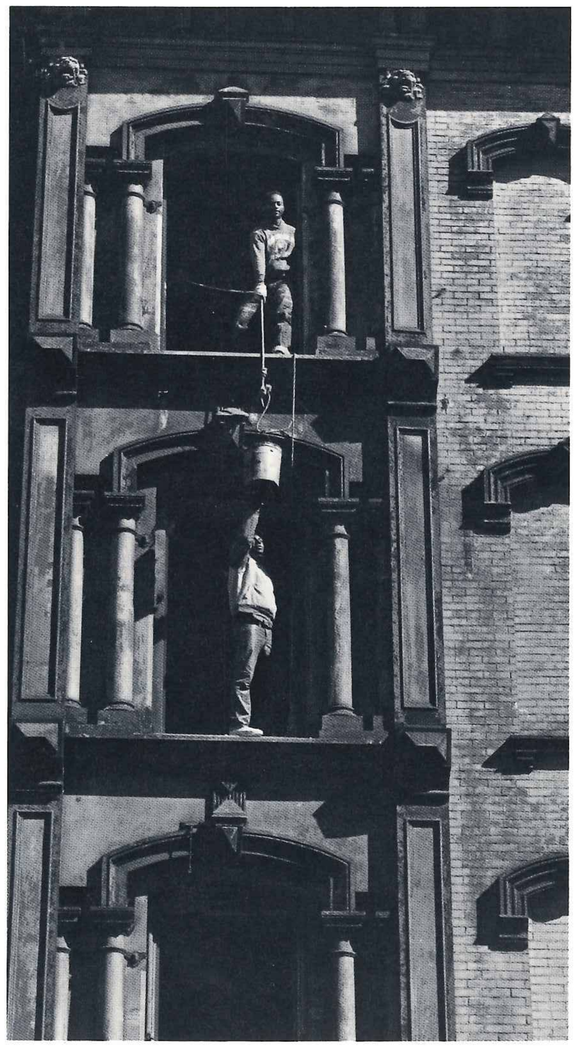
THE SECONDARY MARKET

The problems that national credit sources have in attuning their programs and standards to local conditions suggest a new role for them: the reinsurance of a local mortgage insurer. Specifically, they could underwrite the local mortgage insurance rather than the underlying collateral.

Under such a system, the national agency (Fannie Mae or Freddie Mac, a regional Federal Home Loan Bank, or a rated private company, for example) would establish standards for loss reserve ratios, minimum top loss coverage, and loss recovery procedures. The local insurer, armed with specific knowledge of the local market, would specify standards for underwriting individual loans. Care in establishing such guidelines would be encouraged by the local insurer's position at the front of the line should loan defaults occur.

Also needed is a forward commitment in the interest rate for permanent mortgages on affordable housing projects, locking in the long-term rate at the time that construction starts. Even a small increase in interest rates during construction prior to the take-out mortgage can be financially disastrous for low and moderate income housing developments. Satisfactory formulas to provide investments at forward committed interest rates have been worked out with CPC's sponsoring insurance companies and participating pension funds.

A national program of this kind would create investment-grade securities attractive to national credit markets. With investors who make forward commitments to purchase securities, the CPC approach to multifamily rehabilitation and new construction would be readily adaptable to other urban areas.



The CPC approach begins with a commitment to multifamily housing by local private lenders acting as a consortium to maximize resources and minimize risk. It proceeds with local government support to encourage redevelopment through needed subsidies and simplified approvals that are organized efficiently. It includes reaching out to small owners and contractors to create a routine and predictable financing and development process. It requires some level of local mortgage insurance. And, finally, it can be enhanced and expanded through the establishment of a reinsurance mechanism at the national level that would in turn create a market for the purchase of these investments.

446 Myrtle Avenue, Brooklyn.
CPC financed the gut rehabilitation of this building, which was converted to a moderate income cooperative.

FINANCIAL OVERVIEW

The Community Preservation Corporation completed its sixteenth year with an operating surplus of $916,197. Accumulated surpluses and reserves from all years now total approximately $8.2 million. Income from operations has exceeded expenses in each of the last eleven years. This financial stability enables an assertive pursuit of CPC's objectives:

- It furnishes a reserve against losses on construction loans, which carry inherent risks and are generally ineligible for mortgage insurance. CPC's construction loan balance was $63.6 million at this year's end, with another $57.3 million yet to be funded on closed loans. Approximately 50 percent of our construction lending this year represents financing of gut rehabilitations of vacant projects. While CPC has never suffered a loan loss during its history, an economic downturn could impose pressures not now foreseeable on our portfolio.

- It supplies the mandated financial strength for CPC's continued eligibility as an FHA-approved lender.
- It provides the minimum financial requirements for seller/servicer status for the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation.
- It enables CPC to expand its range of services. This year, CPC continued to expand its operations beyond New York City's five boroughs, in order to serve the affordable housing needs of communities in Westchester, Putnam, Dutchess, Ulster, Orange and Rockland counties.

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, the increase in CPC's surplus was a result of increased lending activity and effective cost control.

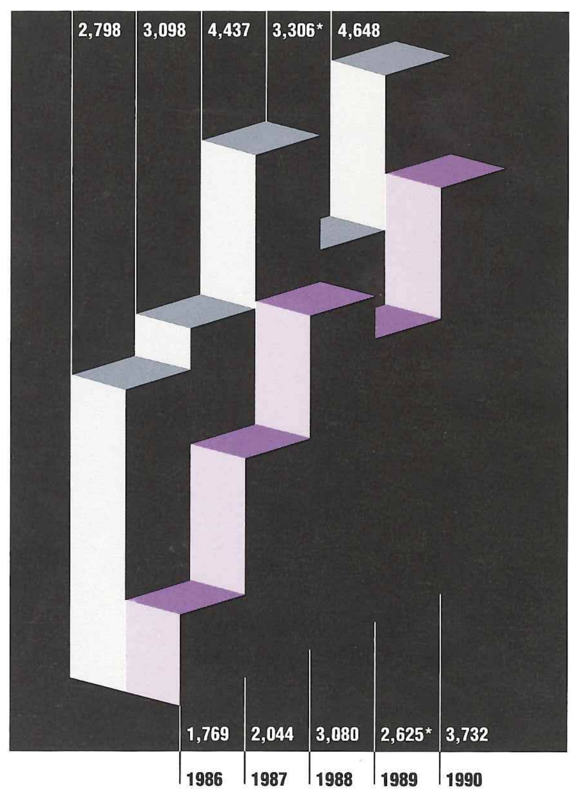
In comparing this year's results with those of prior years, it should be noted that the immediately prior year, FY 1988-1989, contained only ten months due to a change in the company's fiscal year-end. In addition, this year is the second in which certain origination income and expenses were deferred under Statement of Financial Accounting Standards No. 91. Applicable to all lenders, the Statement's effect this year was a net deferral of $600,024 in CPC income that would have been recognized under the accounting standards formerly applicable.

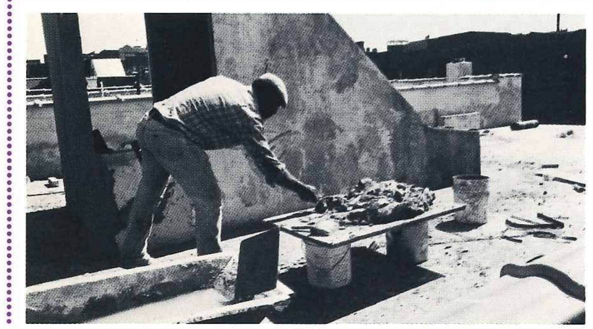
Prospects for the future, while favorable, are subject to fluctuations in several factors: cyclical economic trends (including, in particular, those affected by fuel prices), the supply of public subsidies, and the efficient functioning of government agencies affecting rental housing.

CPC INCOME AND EXPENSES ($ in thousands)

*FY 88-89 contained only 10 months. See Financial Statements.

Income from Operations (Net of Interest Expense)
Expenses Other than Interest





REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
The Community Preservation Corporation:

We have audited the accompanying balance sheets of The Community Preservation Corporation (a New York not-for-profit corporation) as of June 30, 1990 and 1989, and the related statements of support, revenues and expenses and changes in fund balance for the year ended June 30, 1990 and for the ten months ended June 30, 1989. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Community Preservation Corporation as of June 30, 1990 and 1989, and the results of its operations and the changes in its fund balance for the year ended June 30, 1990 and for the ten months ended June 30, 1989, in conformity with generally accepted accounting principles.

Arthur Andersen & Co.

New York, New York
September 7, 1990

BALANCE SHEETS

June 30, 1990 and 1989

	Assets	*1990*	*1989*
Investment in First Mortgage Loans *(Notes 2 through 7)*	Construction loans, net of participations and allowance for possible investment loss	$ 63,643,046	$ 52,175,871
	Permanent mortgage loans	9,079,378	4,013,882
		72,722,424	56,189,753
Cash and Cash Equivalents	Funds subject to immediate withdrawal	5,348,586	1,794,815
	Short-term investments, including restricted funds of $90,827,607 and $96,247,278 in 1990 and 1989, respectively (Note 8)	104,224,000	114,450,000
Accrued Interest Receivable		720,425	775,916
Other Receivables		4,625,356	860,298
Other Assets		1,755,199	654,897
		$189,395,990	**$174,725,679**

	Liabilities and Fund Balance	*1990*	*1989*
Liabilities	Notes payable under revolving credit agreement — unsecured (Note 5)	$ 57,500,000	$ 40,000,000
	Accounts payable and accrued expenses	1,824,216	2,236,295
	Participants' deposits (Note 8)	109,619,972	116,650,356
	Escrow and other deposits of borrowers	12,627,685	8,937,130
	Other liabilities	120,459	114,437
		181,692,332	167,938,218
Commitments and Contingencies *(Notes 2, 3 and 10)*			
Fund Balance *(Note 1)*		7,703,658	6,787,461
		$189,395,990	**$174,725,679**

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

STATEMENTS OF SUPPORT, REVENUES AND EXPENSES AND CHANGES IN FUND BALANCE

For the year ended June 30, 1990 and for the ten months ended June 30, 1989

		1990	*1989*
Revenues and Public Support	Interest on mortgage loans	$8,127,367	$5,249,286
	Commitment fees	123,125	592,826
	Servicing fee income	1,118,754	551,257
	Interest on short-term investments	315,004	244,978
	Other revenues	134,753	35,625
	Public support	475,074	12,000
	Total revenues and public support	**10,294,077**	**6,685,972**
Expenses	Interest (Note 9)	5,646,161	3,380,164
	Employee compensation and benefits (Note 11)	1,874,990	1,227,549
	Professional fees	348,164	342,600
	Office expenses (Note 10)	611,402	424,075
	Other	897,163	631,115
	Total expenses	**9,377,880**	**6,005,503**
	Excess of revenues and public support over expenses	916,197	680,469
Fund Balance	Beginning of year	6,787,461	6,106,992
Fund Balance	**End of year**	**$7,703,658**	**$6,787,461**

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

For the year ended June 30, 1990 and for the ten months ended June 30, 1989

1. ORGANIZATION

The 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of The Community Preservation Corporation (the "Corporation" or "CPC") 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 is accrued monthly based on the daily outstanding principal balances of such loans. Fee income from loans serviced by the Corporation is accrued based on the outstanding principal balances of such loans.

The Corporation ceases to accrue interest on specific loans for financial reporting purposes when required payments of principal and/or interest have not been received for a period of more than 90 days. In such circumstances, the Corporation also reverses any previously recorded unpaid interest.

Commitment Fees
Commitment fees are charged to prospective borrowers principally to offset the Corporation's costs of originating construction loans. For all construction loans closed prior to September 1, 1988, for financial statement purposes, commitment fees were recorded in income over the commitment period, provided that the period was reasonably determinable. Where such period was not determinable, commitment fees were recognized as income upon the closing of the mortgage loan.

Beginning September 1, 1988, as prescribed by Statement of Financial Accounting Standards No. 91, "Accounting for Non-Refundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases" ("SFAS No. 91"), direct loan origination costs are offset against any related commitment fee collected and the net amount is deferred. If the commitment is exercised, the net deferred amount is recognized over the life of the loan as an adjustment of interest income. If the commitment expires unexercised, the deferred portion is recognized in income upon expiration of the commitment. If the loan is subsequently sold, any remaining deferred balance is recognized in income at the time of the sale.

As of June 30, 1990 and 1989, respectively, the Corporation had deferred commitment fees of $2,389,528 and $984,818 and costs of $1,468,697 and $664,011, net of amortization. The net deferred fees are included on the balance sheets as part of the Corporation's investment in first mortgage loans.

Pledged Mortgage Loans
Mortgage loans pledged as collateral for nonrecourse collateral trust notes are accounted for as if they had been sold to the holders of the notes. Accordingly, no accounting recognition is given to the pledged loans or the collateral trust notes (Note 6) in the accompanying financial statements.

Change in Fiscal Year
In 1989, the Corporation changed its fiscal year-end from August 31, to June 30, and has commenced reporting on that basis for the ten months then ended.

Reclassifications
Certain amounts contained in the financial statements for the year ended June 30, 1989, have been reclassified in order to conform to the method of presentation used for the current year.

3. MORTGAGE LOANS AND COMMITMENTS

The following is a summary of closed mortgage loans as of June 30, 1990 and 1989 (000's omitted except for number of loans):

	1990	*Construction*	*Permanent*	*Total*
Number of loans		146	232	378
Funded commitments	Total funded balance	$305,017	$179,253	$484,270
	Less Participants' interests	239,953	89,821	329,774
	Mortgage loans sold (Note 7)	—	44,938	44,938
	Mortgage loans pledged (Note 6)	—	35,415	35,415
	Corporation's portion	**65,064**	**9,079**	**74,143**
	Allowance for possible investment losses	(500)	—	(500)
	Deferred commitment fee income, net of accumulated amortization	(921)	—	(921)
		$ 63,643	$9,079	$ 72,722

	1989	*Construction*	*Permanent*	*Total*
Number of loans		122	205	327
Funded commitments	Total funded balance	$185,070	$119,679	$304,749
	Less Participants' interests	132,073	55,420	187,493
	Mortgage loans sold (Note 7)	—	25,646	25,646
	Mortgage loans pledged (Note 6)	—	34,599	34,599
	Corporation's portion	**52,997**	**4,014**	**57,011**
	Allowance for possible investment losses	(500)	—	(500)
	Deferred commitment fee income, net of accumulated amortization	(321)	—	(321)
		$ 52,176	$ 4,014	$ 56,190

At June 30, 1990, the Corporation had the following commitments to lend additional funds to existing borrowers under the terms of their construction loans and under commitment letters issued by the Corporation in respect of new mortgage loans (000's omitted except for number of loans):

	Number of Loans	*Amount*
Existing construction loans	146	$ 57,253
Mortgage commitments not yet accepted by potential borrowers	34	56,750
Total	**180**	**$114,003**

The Corporation's participants in various mortgage loans and mortgage loan commitments are committed to lend an aggregate of approximately $266 million in connection with such loans and commitments.

4. ALLOWANCE FOR POSSIBLE INVESTMENT LOSSES

The Corporation's purpose is to make mortgage loans for the development and preservation of residential properties in moderate income areas of New York City and the Lower Hudson Valley. The housing stock of certain communities within these areas is experiencing physical deterioration which the Corporation's management believes can be preserved through the combined effort and resources of government and the private sector.

The soundness of the Corporation's mortgages on rental properties is dependent upon, among other things, rent increases to be approved by municipal and/or New York State's rent regulatory bodies upon completion of planned rehabilitations. The viability of many of these loans is also dependent upon the granting by the municipality 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 rental properties will be adequate to maintain the viability of each of the Corporation's loans on these properties. Substantially all permanent mortgage loans supporting collateral trust notes 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 August 31, 1981 and up to 75% of the principal balance of loans made after August 31, 1981. All loans sold to the NYC pension funds (see Note 6) are insured by SONYMA for 100% of principal and interest balances.

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 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 these properties involve lending risks which are believed by management to be greater than those which are applicable to rental apartment loans.

As of June 30, 1990, 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 has determined that it is prudent to establish an allowance for possible investment losses. Over a period of time, 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 June 30, 1990.

In addition to the allowance amount, management considers the Corporation's fund balance, which is unrestricted in nature, to be available to cover any unforseen losses which may occur as a result of its lending activities.

5. 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 $93 million through January 31, 1993, generally for the purpose of financing construction loans made by the Corporation. Borrowings are evidenced by notes which mature on January 31, 1994. The notes bear interest at 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 1990 and 1989 were at interest rates which ranged from 10.0% to 11.0% and 10.0% to 11.5%, respectively. At June 30, 1990 and 1989, the interest rates on these borrowings were 10.0% and 11.0%, respectively. At June 30, 1990 and 1989, $57.5 million and $40 million, respectively, were outstanding under this agreement.

6. NONRECOURSE COLLATERAL TRUST NOTES

The Corporation is a party to a note purchase agreement with a number of financial institutions. Under this agreement, these institutions had originally agreed to purchase up to $100,000,000 of nonrecourse collateral trust notes issued by the Corporation, subject to certain conditions. On June 1, 1989, the Agreement was amended in two principal respects. The first provided for the addition to the agreement of new institutions as they are admitted to membership in CPC. As of June 30, 1990 twelve new members have been added to the agreement, raising the aggregate financing ceiling to $106,687,553. The second principal amendment provided for the purchase of additional nonrecourse collateral trust notes in amounts equal to the lesser of (a) the aggregate amount of principal repayments under previously issued collateral trust notes and (b) the sum of $50 million plus the aggregate note purchase commitments of new CPC members admitted after June 1, 1989.

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.

At June 30, 1990 and 1989, the remaining outstanding balances of these notes were approximately $35.4 million and $34.6 million, respectively, which was equal to the principal balances of the pledged mortgages. The unused portion of the amount committed under the amended agreement at June 30, 1990, was approximately $71.3 million.

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 1/4 of 1% based on the aggregate outstanding principal balances of the pledged mortgages.

7. MORTGAGE LOANS SOLD

During the 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, as amended, provide, among other things, for the Pension Funds to purchase certain mortgages originated by the Corporation in an aggregate amount not to exceed $200 million. Pursuant to the terms of related servicing agreements, the Corporation will receive a servicing fee equal to 1/4% per annum of the outstanding principal balance of the mortgages sold to the Pension Funds. As of June 30, 1990, 78 loans with an aggregate outstanding principal balance of approximately $44.9 million have been sold to the Pension Funds. At June 30, 1990, the Pension Funds have committed to purchase approximately $122 million in additional mortgage loans.

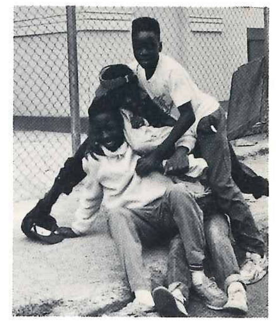
8. PARTICIPANTS' DEPOSITS

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 deposits funds with the Corporation to be used to fund the HPD commitment to participate in such loans. Under a July 1, 1988 agreement, CPC is required to segregate HPD's funds into a separate account, invested on behalf of HPD in short-term investments until the funds are required to fulfill the HPD commitments or are otherwise used or remitted to HPD. The HPD portion of each mortgage bears interest at the rate of 1-1/4% per annum.

The Corporation receives a servicing fee from HPD equal to 1/4 of 1% per annum on the aggregate advances made on each construction loan and 1/4 of 1% per annum on the aggregate balances of HPD deposits unadvanced under each construction loan.

At June 30, 1990 and 1989, HPD deposits consisted of the following:

	1990	*1989*
Unadvanced loan commitments all of which were invested in short-term investments	$ 90,827,607	$ 96,247,278
Mortgage interest and principal collections and accumulated interest on short-term investments	12,459,830	$7,188,400
Total	**$103,287,437**	**$103,435,678**



At June 30, 1990 and 1989, other participants had deposited an aggregate amount of $6,332,535 and $13,214,678 in respect of their commitments to CPC.

9. INTEREST EXPENSE

Interest expense consisted of the following for the year ended June 30, 1990 and the ten months ended June 30, 1989:

	1990	*1989*
Interest on revolving credit agreement	$4,861,125	$3,070,742
Interest on HPD funds and escrows	547,616	196,804
Interest on construction performance deposits	237,420	112,618
Total	**$5,646,161**	**$3,380,164**

10. COMMITMENTS AND CONTINGENCIES

The Corporation leases office space in four locations under agreements which expire in 1991, 1992, 1995 and 1996. Annual base rents are subject to escalations or decreases as provided for in the leases. Rental expense for 1990 and 1989 was $296,235 and $204,075, respectively. The minimum annual rentals under noncancelable leases are due as follows:

1991	$ 243,743
1992	233,703
1993	185,036
1994	178,823
1995	184,781
Thereafter	119,444
Total	**$1,145,530**

The Corporation is subject to several lawsuits and other claims directly or indirectly related to its normal activities. While the outcome of these proceedings is not presently determinable with certainty, management believes any such outcome will not have a material adverse effect on the financial position of the Corporation.

11. 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 two years of service and benefits are payable upon retirement or earlier, as provided for in the plan. The plan, as amended, provides for the Corporation to contribute annually an amount equal to 10% of the base salary of each eligible officer or employee. Pension expense for the year ended June 30, 1990 and the ten months ended June 30, 1989, was $137,505 and $78,240, respectively. The net plan assets available for benefits at June 30, 1990, the last valuation date of the plan, was $364,691.

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H.L. Van Varick*
Executive Vice President
American Savings Bank

**Resigned during 1989-90.*
***Elected 12/90.*

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Senior Analyst

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The Bank of Tokyo Trust Company
Bankers Trust Company
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The Bowery Savings Bank
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The Dime Savings Bank of New York, FSB
The Dime Savings Bank of Williamsburgh
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Flushing Savings Bank
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The Green Point Savings Bank
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Putnam County Savings Bank
Ridgewood Savings Bank
Roosevelt Savings Bank

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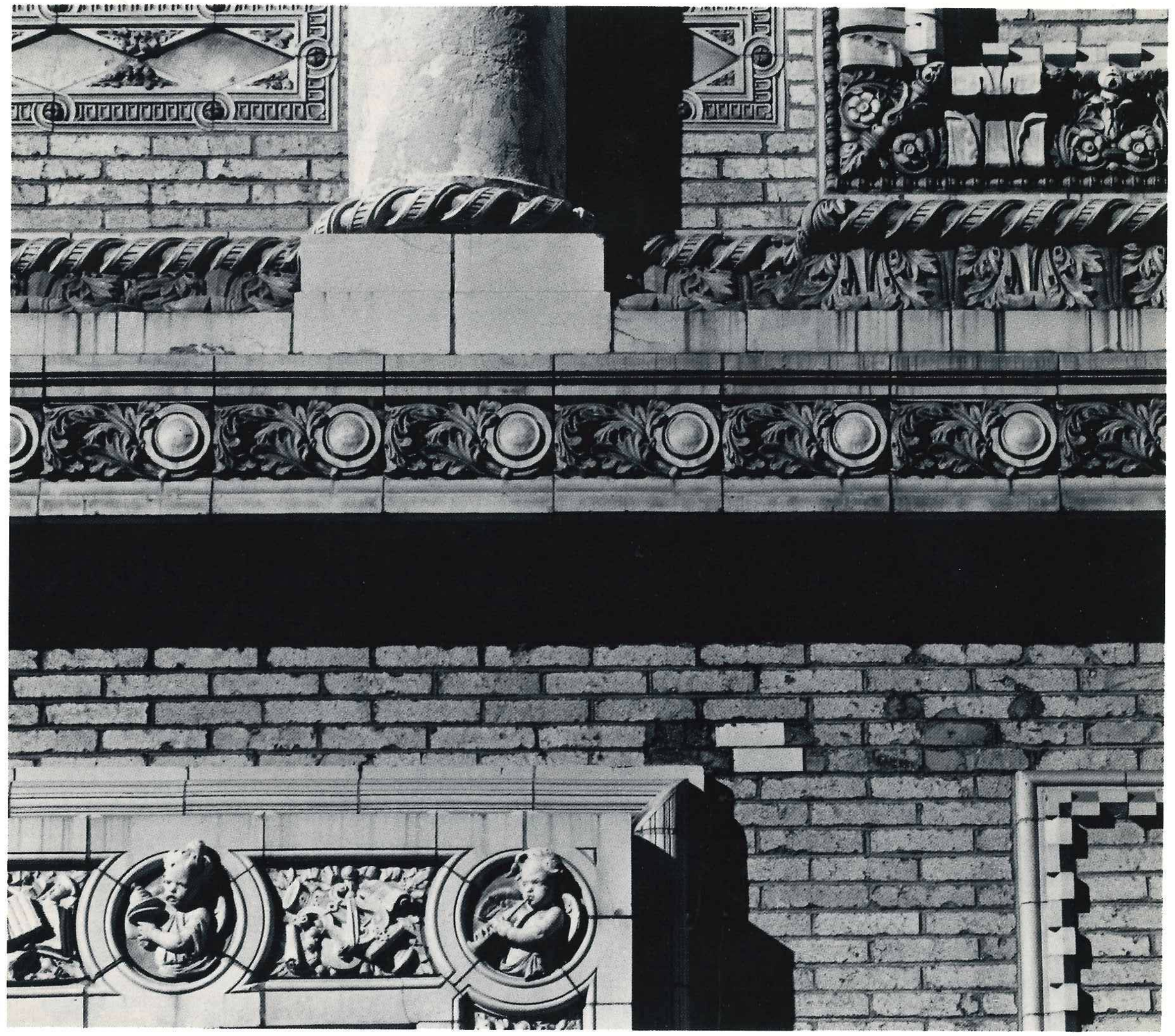
Guardian Life Insurance Company of America
Home Life Insurance Company
Metropolitan Life Insurance Company
Mutual Life Insurance Company of New York
New York Life Insurance Company, Inc.
Teachers Insurance & Annuity Association

Membership Pending

Orange County Trust Company



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