The Community Preservation Corporation
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THE COMMUNITY PRESERVATION CORPORATION

1991
ANNUAL
REPORT

Kumko

On the cover: CPC and New York City's Department of Housing Preservation and Development (HPD) jointly financed the gut rehabilitation of this 20-unit rental project at St. Nicholas Avenue and 133rd Street in Manhattan. Next door to the right is The Lesster, an unsubsidized condominium project financed by CPC.

THE COMMUNITY PRESERVATION CORPORATION

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 17 years, CPC has financed the rehabilitation or construction of 28,490 affordable housing units, representing an investment of over $780 million of public and private funds.

CPC has evolved from working solely within the five boroughs of New York City to covering a lending area that includes eight counties in New York's Hudson Valley and Long Island.

Guiding this expansion has been CPC's commitment to join with local governments to help them address their locally-defined affordable housing needs. In New York City, this has meant financing the moderate rehabilitation of occupied apartments and the substantial rehabilitation of abandoned city-owned buildings. In the Hudson Valley, on the other hand, addressing the housing needs of the elderly and expanding opportunities for first-time homebuyers have been high priorities. A constant in CPC's approach is working with state and local governments to organize a process that creates access for small owners and builders to government programs and private financing.

HIGHLIGHTS

Fiscal Year Performance 1990-1991

New Loans Closed (Dollars)

CPC and Other Private Funds	$ 57,475,802
Public Funds	83,225,238
Total	$140,701,040

New Loans Closed (Units)

Manhattan	924
Bronx	946
Brooklyn	550
Queens	38
Hudson Valley	130
Total	2,588

Permanent Loans Closed (Dollars)

CPC and Other Private Funds	$13,261,147
Pension Funds*	22,214,447
Public Loan Funds	45,480,237
Total	$80,955,831

End-Loan Commitments

Dollars	$5,009,500
Units	68

Lending Record 1974-1991

CPC Closed Loans (Dollars)	$780,138,195
CPC Closed Loans (Units)	28,490
End-Loan Commitments (Dollars)	$40,026,004
End-Loan Commitments (Units)	541

**New York City Employees Retirement System, New York City Police Pension Fund, and Teachers Retirement System of the City of New York*

TO OUR MEMBERS

At the close of our 17th year, CPC can look with pride on a record of continuing success in financing affordable housing both in New York City and, more recently, in nearby suburbs. This past year we financed the construction of 2,588 housing units representing a public and private investment of over $140 million. Our loans remain substantially free of default. The soundness of our lending gives us continued access to credit at a time when housing funds are scarce.

We are at the same time concerned about the effects of the current economic recession on the neighborhoods where we have been active and have substantial investments. Rising real estate taxes and water and sewer charges are some of the costs that may well rise faster than tenants' ability to pay.

The strains are greatest in older buildings that have not been rehabilitated. Deteriorating building systems — plumbing, heating, roofs — need repair or replacement. But the credit needed to do the work is in short supply.

CPC and New York City are working jointly to devise new ways of using bank resources to deal with the problem. One solution is to make owners more aware of the problems and to direct them to available remedies. We are working with our sponsoring banks to reach out to owners of troubled buildings with government and private programs that can help. Hopefully this will establish more efficient links between neighborhood banks and building owners in the communities they serve.

The expansion of our operations into new lending regions represents an exciting initiative for CPC. We have already established a presence in six Hudson Valley counties and this year will be establishing a Long Island program. The key to our approach is listening to community goals for affordable housing and then helping to realize them. Thus far we have committed to the construction of close to 500 housing units in the Hudson Valley representing an investment of more than $25 million. Some of the projects are already under construction.

We are also working to develop even more effective financial resources in the region. With a grant from the Federal Home Loan Bank of New York to two of our Hudson Valley banks, we are providing on their behalf below-market loans to owners of small, deteriorated buildings in specific neighborhoods of Beacon, Newburgh, and Poughkeepsie. We are also working with Poughkeepsie officials to blend their subsidy programs with CPC funds. The city will originate the loans using joint underwriting and processing standards. The Poughkeepsie model, if successful, could work in other communities. It offers efficient use of our staff resources and provides greater access for small property owners to government and private funds.

We have added substantial new lines of credit for all of our programs. The New York City Police Pension Fund and the New York City Employees Retirement System (NYCERS) have increased their CPC commitment by $100 million. For the first time the Teachers Retirement System of the City of New York has invested $50 million with us, thus bringing the total city pension fund investment to $350 million. NYCERS has also authorized CPC to use a portion of its investment for economic development. This commitment allows us to further assist targeted communities by providing support for needed retail development.

In support of our Hudson Valley and Long Island programs, the New York State Common Retirement Fund has signed an agreement authorizing the use of the first $50 million of a $200 million commitment.

The CPC model is gaining national recognition as an effective approach for engaging large credit providers in the financing of affordable housing. CPC's newest division, CPC Advisory Services, has helped to create the Community Lending Corporation, which will operate similarly to CPC in those areas of New York State outside of our lending area. Established by 80 commercial and savings banks and savings and loan institutions, the corporation is expected to have $90 million of available credit to assist in developing affordable housing.

Finally, we want to recognize the service of several individuals who have retired from the CPC Board and Mortgage Committee this year. Jerry Lasurdo and Frank Creamer served on the Board with distinction for eight and two years respectively. Jim Murray, who acted as chairman for part of the past year, has been on the Board for six years. We are most grateful for their support and leadership. Both Murray Mascis and Harry Baierlein served as chairman of the Mortgage Committee, and George Hosey also served on the Committee. All were long term members and their hard work and dedication have been essential ingredients to the soundness of our lending. We thank them all.

From left to right: Raymond V. O'Brien, Jr., Chairman of the Executive Committee; Harry D. Garber, Chairman; and Michael D. Lappin, President & CEO.

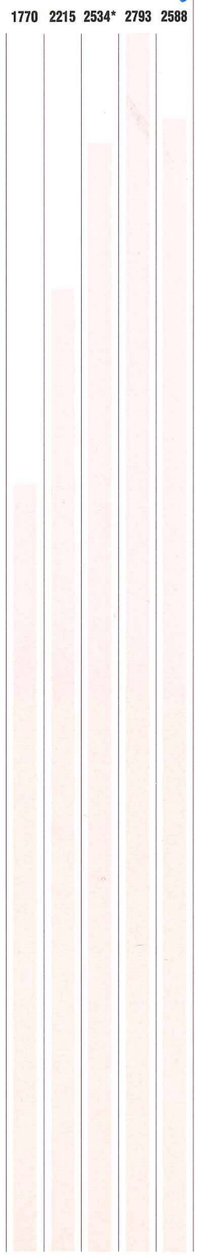
Harry D. Garber
Chairman

Raymond V. O'Brien, Jr.
Chairman of the Executive Committee

Michael D. Lappin
President & CEO

APARTMENT UNITS

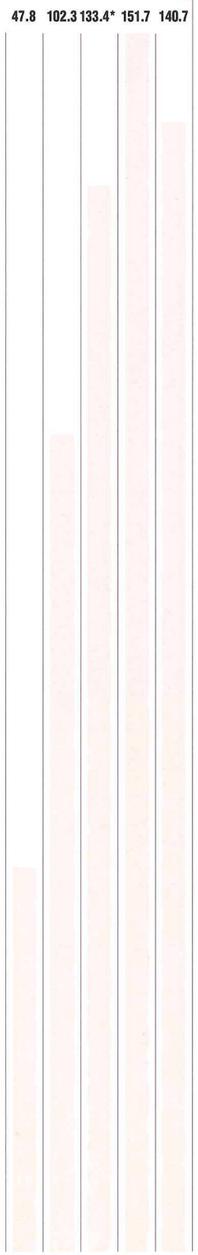
*FY 88-89 contained 10 months.



NEW LOANS CLOSED

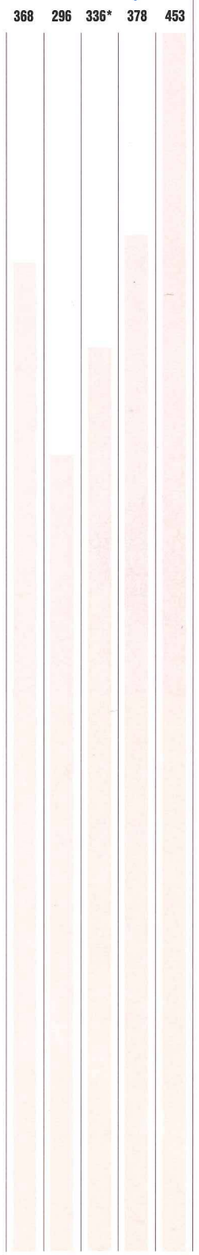
($ in millions)

*FY 88-89 contained 10 months.



LOANS SERVICED

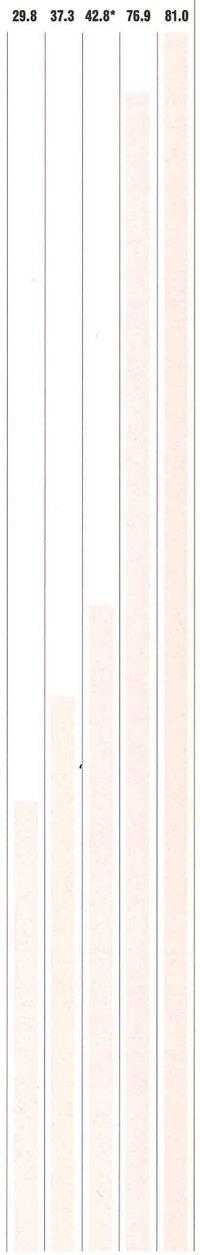
*FY 88-89 contained 10 months.



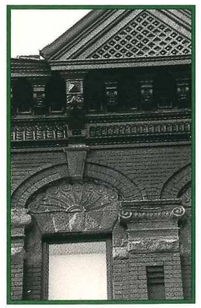
PERMANENT LOANS CLOSED

($ in millions)

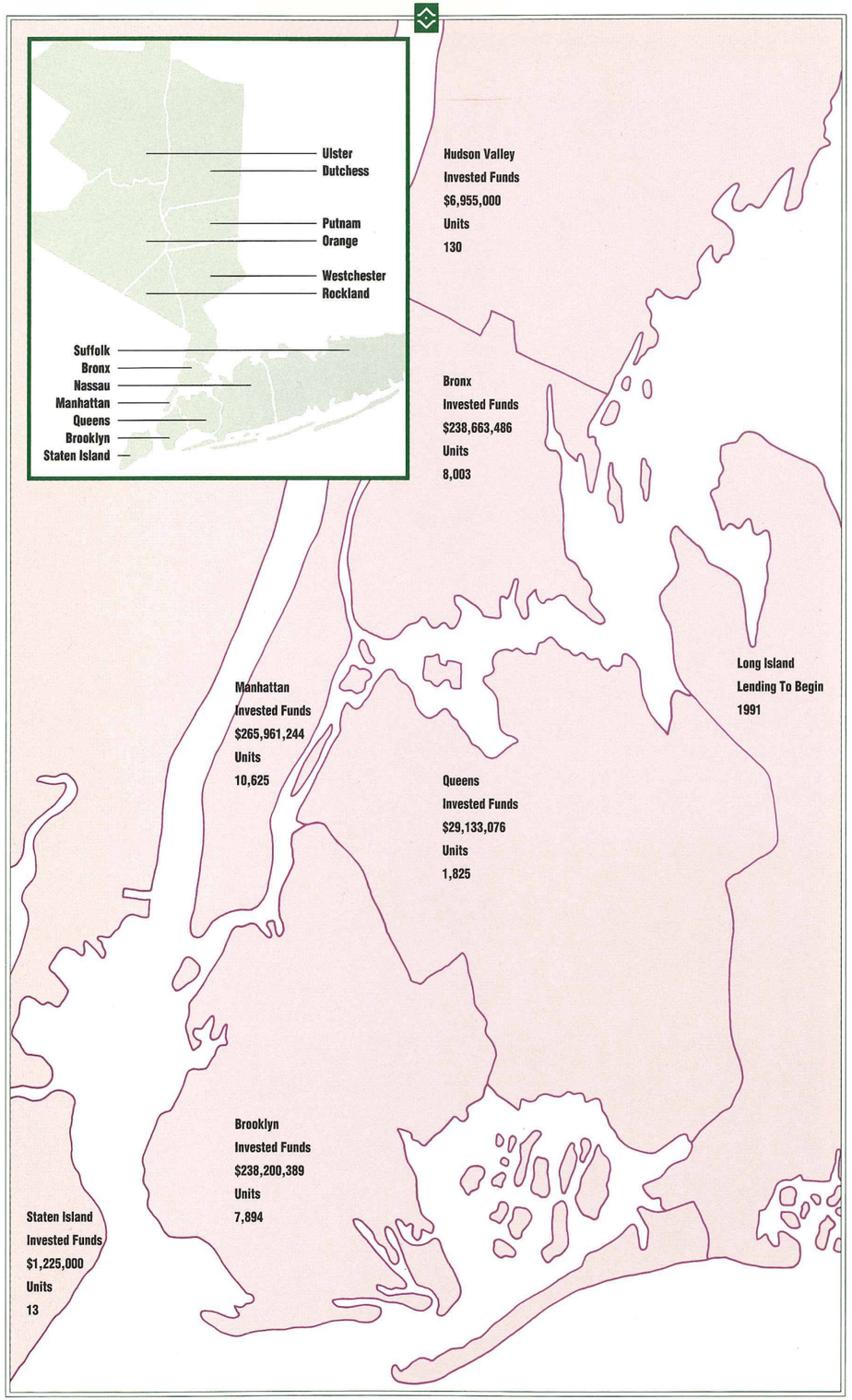
*FY 88-89 contained 10 months.



953 Lafayette Avenue, Brooklyn: a gut renovation of 8 rental apartments.



CPC LENDING AREAS



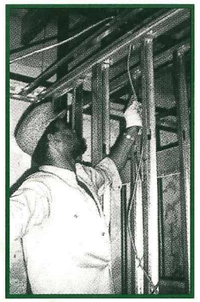
Homeownership enhances the stability of the city's neighborhoods. This 60-apartment condominium project is located on Saratoga Avenue in Brooklyn.

CPC IN NEW YORK CITY

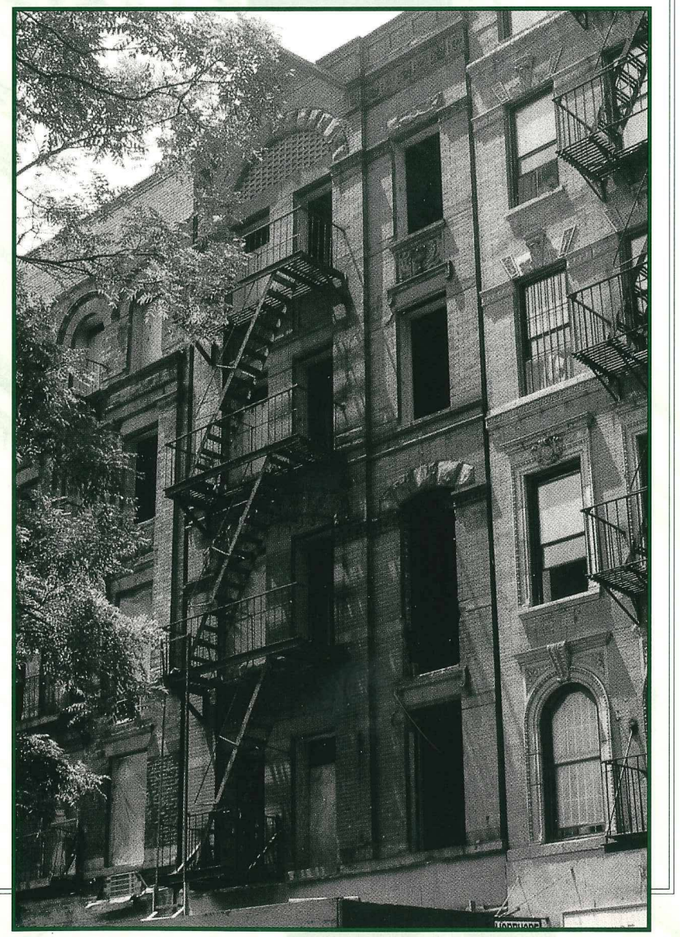
CPC's long partnership with the City of New York has responded to changing housing needs and conditions. It began in 1974 in the midst of economic recession and widespread housing abandonment. Roughly 25,000 units were being lost annually. Whole neighborhoods disappeared, sometimes in a matter of weeks. The social and economic costs were staggering. Arresting housing abandonment became critical to the city's long term survival.

The initial focus of the city and CPC partnership was housing preservation in neighborhoods adjacent to those areas most devastated by the abandonment phenomenon. Public resources and private financing were joined to rehabilitate occupied buildings and to restructure their debt. The effort not only saved the buildings but also extended their useful lives far into the future.

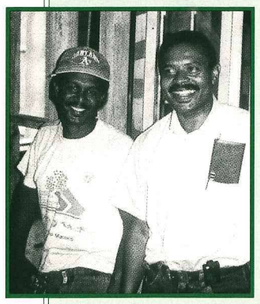
The program that began in northern Manhattan and central Brooklyn spread to most of the city's low- and moderate-income communities. The preservation activities benefited from low interest government loans that allowed rehabilitation to occur in lower-income areas with buildings that were badly deteriorated.



As the city economy rebounded in the 1980's the abandonment problem subsided, and needs shifted to providing new housing units at affordable rents. In addition to preservation, the city and CPC launched a program to redevelop vacant buildings, which were now viewed as a resource. In under four years more than 6,000 new affordable units were created.



Gut rehabilitation of previously vacant buildings returns much needed housing stock to the city's inventory. The "gut rehabs" pictured on this page are in Manhattan (above) and Brooklyn (left).



Above: 850 Longwood Avenue, Bronx: a 36-unit moderate rehabilitation.

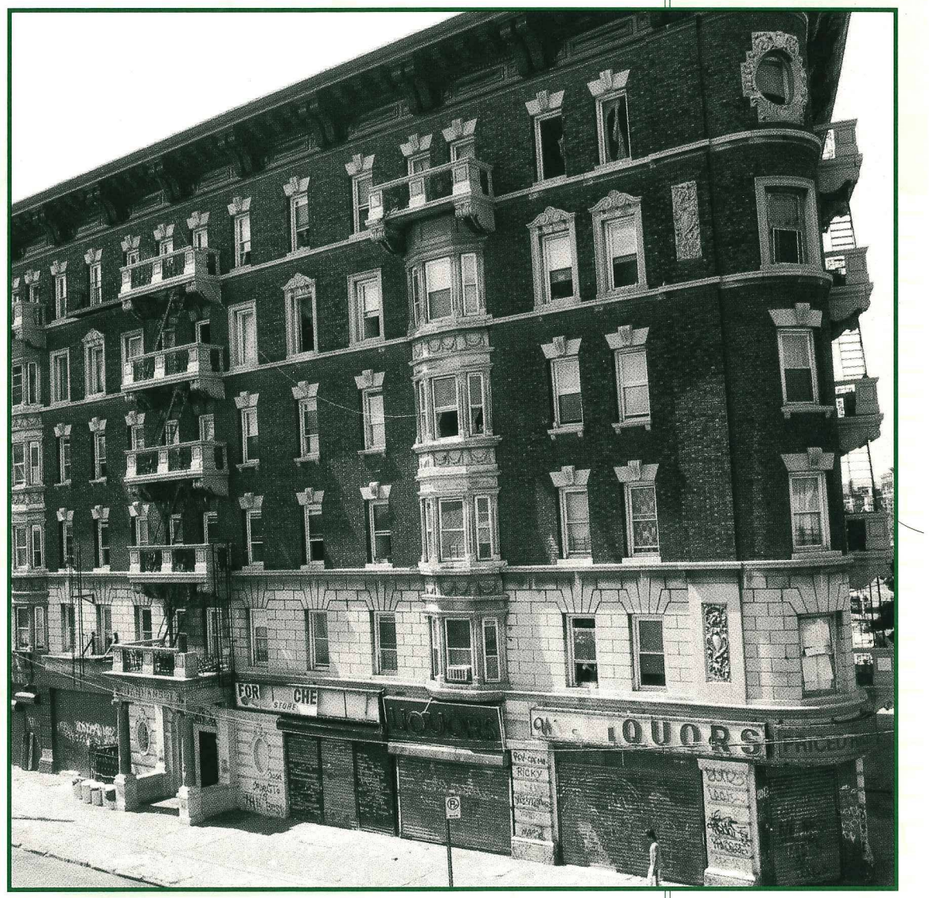
Far right: Reservoir Oval, Bronx: 9 newly constructed homeowner units.

Below: Located on 178th Street in Manhattan, The Heights is considered a model for single-room occupancy housing. Financed by CPC in 1984, The Heights continues to provide safe, affordable living quarters to its residents.

Key to the continuing success of the New York City/CPC partnership is keeping the program simple and usable to the small owners and low-cost builders who are generally involved in the affordable housing market. Public support programs have been integrated into the private financing process, loan documents for the city and CPC combined, costs and work specifications standardized, and duplicative processing steps eliminated. Combining private financing with public subsidies in a one-stop shop has proven attractive to builders and owners. It has also resulted in a more efficient use of public resources.

REPOSITIONING FOR THE FUTURE

Economic recession has once again hit New York. Housing is squeezed by the pressures of rising costs and of tenants' declining ability to pay the required rents. Compounding the problem is the shortage of capital to finance building improvements and to refinance high-cost debt.



850 Longwood Avenue in the Bronx was rehabilitated while its tenants continued to live there. Avoiding displacement during renovations contributes to neighborhood stability and is an important feature of CPC's and New York City's joint preservation efforts.

McKinley Square, Bronx. Care is taken to preserve buildings' unique architectural details.

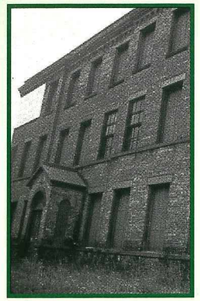
CPC financed the gut renovation of 153 rental apartments here, in conjunction with New York City's Vacant Building Program.

In 1989 CPC expanded its lending area to include six counties in New York's Hudson Valley: Westchester, Putnam, Dutchess, Ulster, Orange, and Rockland. The first loan under the program was closed during this past year for a 64-unit rental project for the elderly in Bedford Hills. As of the end of this fiscal year close to $9 million has been invested in this region. CPC will be expanding its lending to Long Island in 1991-1992.

CPC is working with communities in the six counties to help them achieve their varied affordable housing goals: new homes for first-time buyers in Rockland County; apartment house renovation in Mount Vernon and Yonkers; and the rehabilitation of small, deteriorated neighborhoods in certain towns.

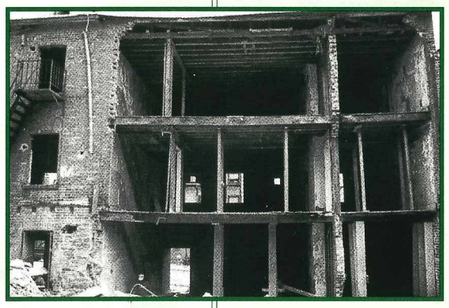
A specific example of CPC's approach was the response to a common need in the communities of Poughkeepsie, Newburgh, and Beacon. All three contain numerous 1-10 unit rental and owner-occupied properties in deteriorated pockets near downtown areas. Many owners rely on building incomes for their livelihood, but few have the knowledge and financial ability to undertake a renovation. Most of the rental tenants, furthermore, are low-income households who cannot afford rent increases to pay for the needed renovations. Several public programs can assist these owners and tenants, but funding is in short supply, and the programs are administered by different agencies, often at both the city and county level of government.

To deal with these problems, CPC designed a one-stop financing pool from which owners in target neighborhoods in these three cities can obtain market-rate private funds, subsidized loan and grant money, and technical assistance. The pool is called the Affordable Housing Finance Fund. The first subsidized funding in it is a $350,000 non-interest bearing advance provided by the Federal Home Loan Bank of New York (FHLB/NY) under its Affordable Housing Program. CPC's application to



the FHLB/NY was sponsored by Mid-Hudson Savings Bank and Inter-County Savings Bank, two CPC members that are also members of the FHLB/NY. It is CPC's goal that public funds will also be channeled through this pool.

The financing pool in Poughkeepsie, Newburgh, and Beacon communities offers simplified access to owners for financing and subsidy. It applies in these Hudson Valley markets an approach CPC has used for years in the five boroughs of New York City. To assist in originations, CPC is working with local agencies able to process packages of mortgage finance and subsidy. An example is our effort with Poughkeepsie's experienced housing agency. Here, the agency and CPC will determine mutually acceptable underwriting standards, and then delegate to each other the processing responsibilities for different types of properties. If this effort succeeds, we hope to use it in other towns.

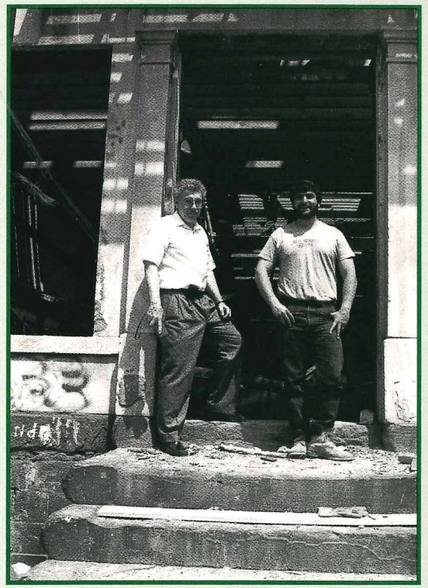


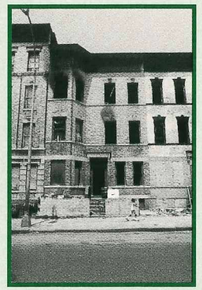
Top: Vacant structure in downtown Beacon.

Above: The back of City Terrace, a 19-unit low-income rental project in Newburgh, had to be completely reconstructed.

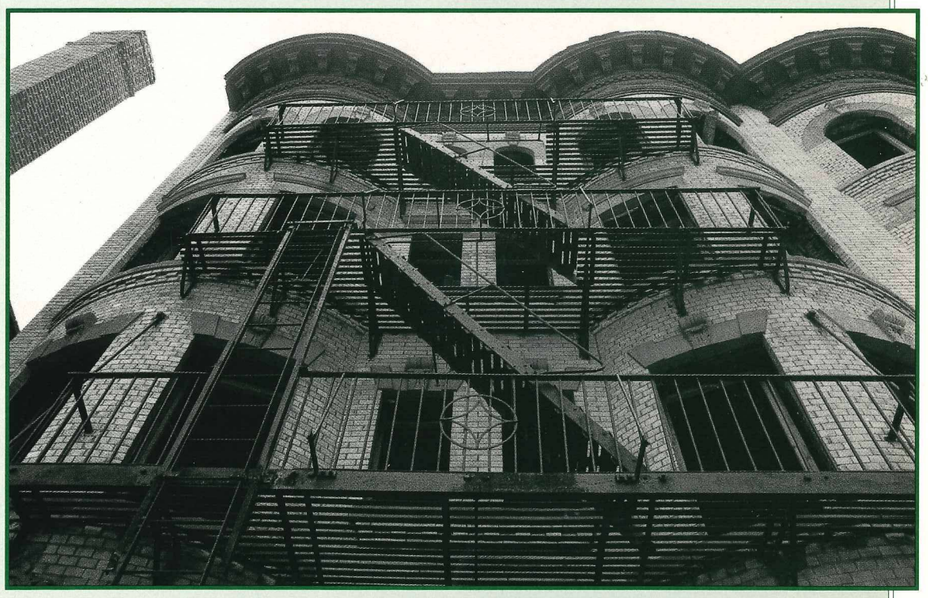
NEIGHBORHOOD FOCUS: BROOKLYN

Brooklyn, a borough of neighborhoods, is home to enough residents to be one of the largest cities in the U.S. The borough is characterized by diversity in its residents, its neighborhoods, and its housing stock, which ranges from single family homes to 6-unit tenements to 6-story elevator buildings. CPC has been active in Brooklyn since 1974. Crown Heights was one of CPC's original target neighborhoods. From that first solid lending base, CPC has expanded into more than a dozen neighborhoods, including Flatbush, East Flatbush, and Fort Greene; and, more recently, the central Brooklyn neighborhoods of Bedford-Stuyvesant, Bushwick, and Brownsville/East New York which are among the neediest in New York City. CPC has responded to the wide range of housing types and needs found in Brooklyn's neighborhoods by financing a broad array of housing products. These have included moderate rehabilitation of occupied rental buildings, new construction of condominiums, new construction of one- to three-family homes, gut rehabilitation of subsidized and unsubsidized rental apartments, gut rehabilitation of tenant-sponsored condominium projects, and rehabilitation and sale of both subsidized and unsubsidized condominiums, including loft conversions. To meet the unique needs of Brooklyn's many disparate neighborhoods, CPC has worked with a number of nonprofit community-based developers. Among these are Pratt Area Community Council, Carroll Gardens Association, and Ridgewood-Bushwick Senior Citizens Council.



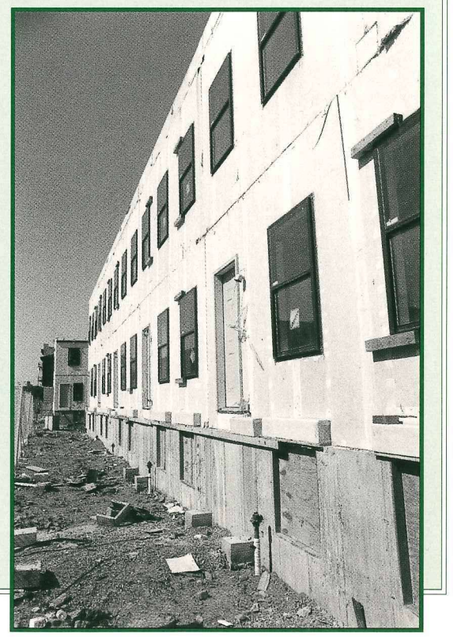


Above and left: 723 MacDonough Street: gut renovation of 32 apartments for homeownership.



Above: Bainbridge Mews: 60 condominium units, a CPC-financed gut renovation, in conjunction with New York City's Rehab & Sale Program.

Right: Linden Street: gut renovation of 30 rental apartments.



Above: These formerly vacant buildings at 172-184 Stuyvesant Avenue are being renovated into 1-, 2-, and 3-bedroom condominiums under HPD's Rehab and Sale Program.

Left and far left: Livel Mechanical Company created 19 2-family homes on Tompkins Avenue under the New York City Housing Partnership's Minority Builders Program.

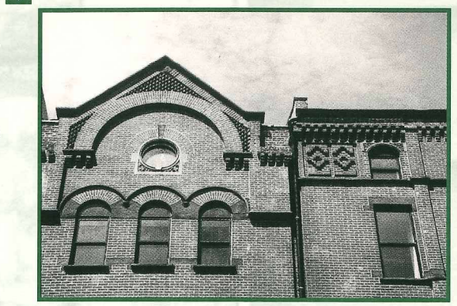
CPC: A NATIONAL MODEL FOR FINANCING AFFORDABLE HOUSING

The lessons CPC has learned are relevant beyond New York's borders. The key to expanding affordable housing opportunities is to open the development process to the small owners and builders who are the most effective producers of such housing. This can be accomplished in four steps: 1) Working with government to simplify its programs that assist affordable housing; 2) Merging this simplified process with sound origination standards; 3) Adding locally provided credit enhancement; and 4) Attracting the participation of secondary market players as reinsurers.

First, government programs that support affordable housing must be modified to accommodate the requirements of institutional investors, and to be more efficient for small owners and builders. This only works where there is a strong public commitment to provide affordable housing.

Second, these streamlined programs should be merged with the loan origination process of an experienced affordable housing lender. In this way, the economic benefits of the public programs can be incorporated into the private lender's underwriting. A unified process creates greater access for small owners and builders to both public programs and private financing which in turn heightens competition and reduces costs. To sustain access to credit sources, private funds must be provided at market rates and reflect non-concessionary underwriting standards. Otherwise, the significant amount of private investment that is required to address the country's affordable housing needs will not be forthcoming.

Third, replicating the CPC model requires appropriate credit enhancement. While individual loans can be prudently underwritten for the short term, lenders must be mindful that the neighborhoods in which affordable housing generally is located feel economic downswings more keenly than others. Properly structured credit enhancement must be in place in order for such loans to be made and sold to the secondary market on more than a token basis. Recognizing that the rebuilding of low- and moderate-income neighborhoods requires a massive investment that cannot be made by either government or the private sector alone, New York State developed a mortgage insurance program to share



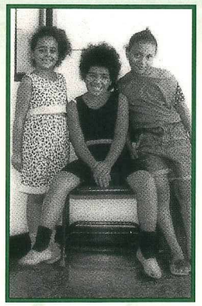
the investment risk. Mortgage insurance has proven to be a highly efficient use of public funds to leverage private funds for affordable housing. Notably, it has enabled pension funds to purchase these loans while upholding their fiduciary standards.

Fourth, the provision of locally-underwritten and financed mortgage insurance suggests a new role — the reinsurance of local mortgage insurance programs — for national credit agencies such as the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal Housing Administration (FHA). Specifically, these agencies can underwrite the soundness of local mortgage insurance programs, rather than reviewing numerous individual deals. By establishing guidelines on such matters as capitalization of loss reserves, top loss coverage, and loss recovery procedures, the agencies would encourage the creation of local mortgage insurance programs. Local programs meeting the guidelines would qualify for reinsurance, and the generally triple-A credit strength of the national agencies.

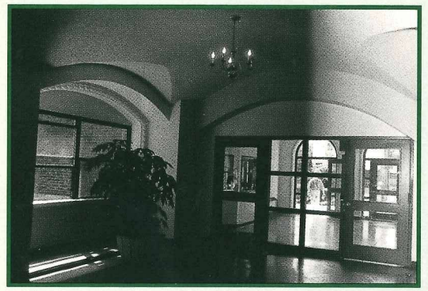
Once a ratable credit enhancement program is in place, the remaining preconditions of a secondary market are volume and standardization. Volume can be achieved by a simplified loan origination process: this opens the market to affordable housing developers, and expands production volume. Standardization is produced, not in the individual investment instruments, but rather in the insurance programs that credit enhance the mortgages.

CPC, while pursuing its own goal of establishing secondary market vehicles for affordable housing loans, is laying the groundwork for a national secondary market that will serve affordable housing finance needs in cities across the country.

Above: 283 West 115th Street, Manhattan: 71 rental apartments, a gut renovation.



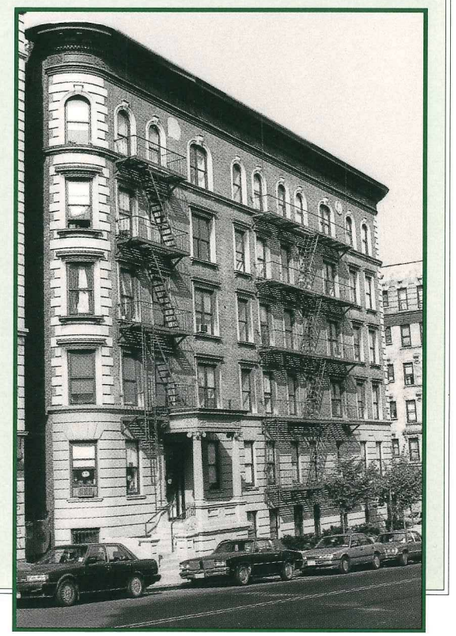
CPC ADVISORY SERVICES



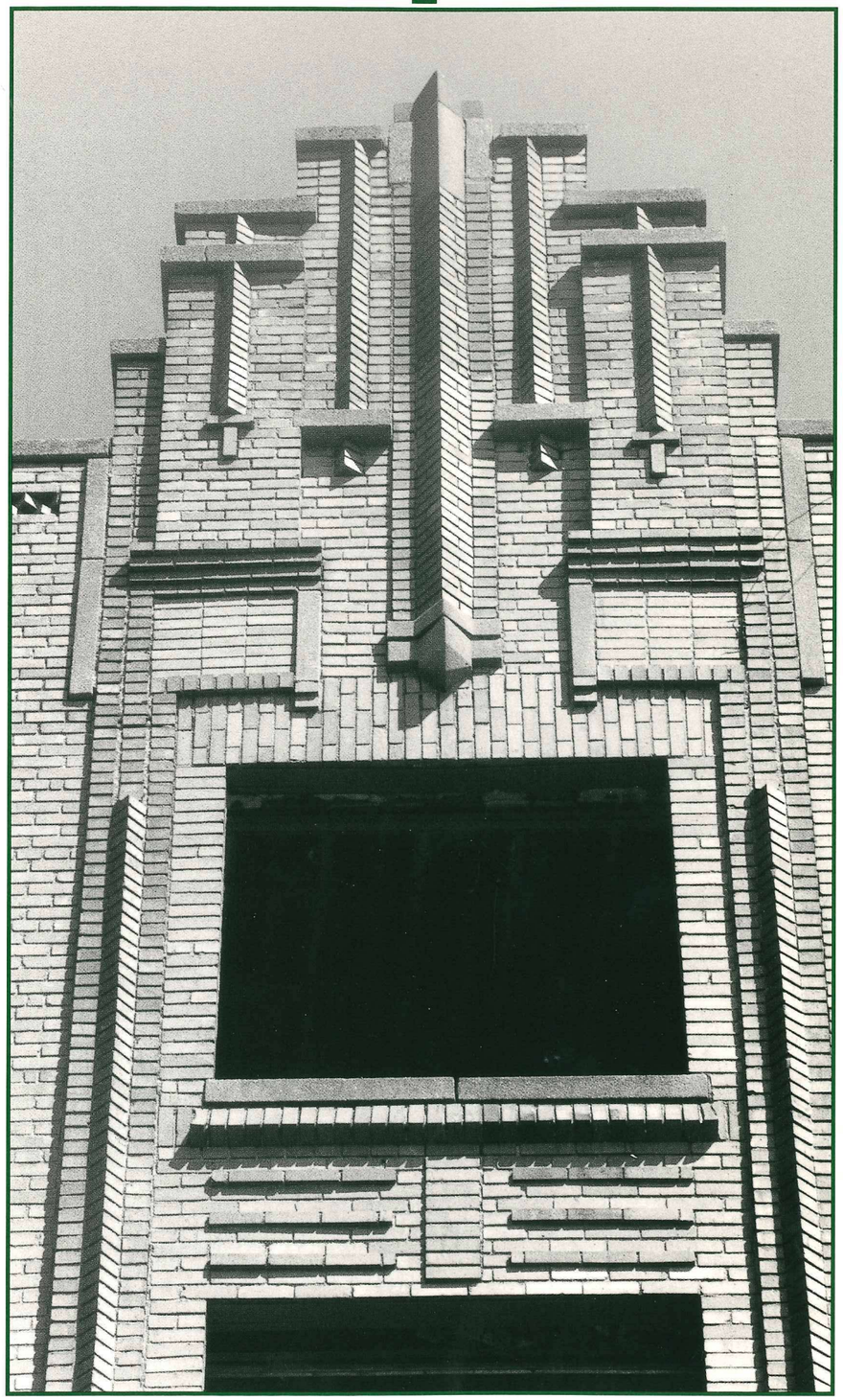
Top: CPC reviews the intricacies of underwriting multifamily loans in New York City with Freddie Mac staff.

Above: Once a symbol of decay in the South Bronx, the rehabilitated 1950 Andrews Avenue now symbolizes what can be accomplished when private investment is combined with city and Federal funds.

Right: Westside Federation for Senior Housing, a local nonprofit developer, owns and manages this formerly vacant 72-unit single-room occupancy building at 149 Manhattan Avenue in Manhattan.



Recognizing that the health of their institutions is inextricably bound to the communities in which their operations are located, bank executives are working to develop more effective mechanisms for community investment, including investment in affordable housing. Bankers are thus faced with a twofold challenge: investing in large enough volume to make a significant impact in their communities, yet doing so in a way that is prudent and profitable. For many years, CPC has served as a model for bankers nationwide who are grappling with the challenge of funneling private resources into affordable housing. In response to a growing demand, CPC has created a new division, CPC Advisory Services, to help in the creation and operation of independent bank-sponsored companies dedicated to financing affordable housing. Having worked since 1989 with lenders from upstate New York to establish the Community Lending Corporation (CLC), CPC is now assisting CLC in many of its start-up activities, ranging from the development of underwriting policies, to the drafting of credit documents, to staff training. CPC is considering establishing consulting relationships with bankers in both the Mid-Atlantic and New England regions who are exploring the feasibility of setting up companies modeled after CPC. CPC is also providing technical assistance to existing affordable housing lenders on matters such as rehabilitation scopes and costs. An integral part of CPC's consulting efforts will be providing assistance in creating local mortgage insurance programs and access to institutional investors (including pension funds), as well as to the national secondary markets.



This art deco building at 1224 Walton Avenue in the Bronx will soon be home to 37 families.

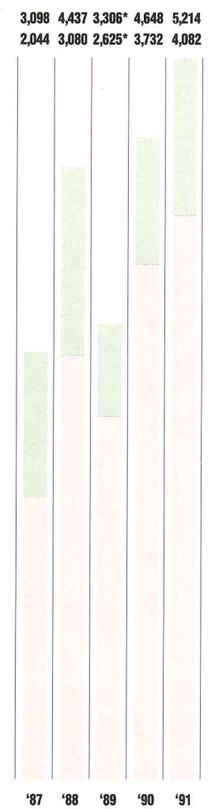
The Community Preservation Corporation completed its seventeenth year with an operating surplus of $932,070. Accumulated surpluses and reserves from all years now total approximately $9.3 million. Income from operations has exceeded expenses in each of the last 12 years. This financial stability enables an assertive pursuit of CPC's objectives:

- It furnishes a reserve against possible losses on construction loans, which carry inherent risks and are generally ineligible for mortgage insurance. CPC's construction and warehoused loan balances were $83.6 million at this year's end, with another $62.8 million yet to be funded on closed loans. Over 50 percent of our construction lending this year represents financing of gut rehabilitations of vacant buildings. While CPC has never suffered a loan loss during its history, an economic downturn could impose pressures that are not now foreseen on our portfolio.
- It satisfies the working capital requirement under the revolving credit agreement with CPC's members, and 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 and the Hudson Valley in order to serve the affordable housing needs of communities in Nassau and Suffolk Counties on Long Island.

CPC INCOME AND EXPENSES

($ in thousands)

*FY 88-89 contained 10 months.



Three sources of revenues contributing to the surplus are interest income from construction loans, fees for servicing the mortgage portfolio, and commitment fees. This year, as in the past, the increase in CPC's surplus was a result of continued high lending activity and effective cost control.

In comparing this year's results with those of prior years, it should be noted that FY 1988-1989 contained only 10 months due to a change in the company's fiscal year-end. In addition, this year is the third in which certain origination income and expenses were deferred under Statement of Financial Accounting Standards No. 91. Applicable to all lenders, the Statement's cumulative effect is a net deferral of $1.2 million that would have been recognized as income 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 real estate taxes and water and sewer charges), the supply of public subsidies, and the efficient functioning of government agencies affecting rental housing.

344 Manhattan Avenue, Manhattan: a 138-unit gut renovation for rental occupancy.

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, 1991 and 1990, and the related statements of support, revenues and expenses and changes in fund balance for the years then ended. 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, 1991 and 1990, and the results of its operations and changes in its fund balance for the years then ended in conformity with generally accepted accounting principles.

Arthur Andersen & Co.

New York, New York
September 20, 1991

Also known as "The Castle," formerly vacant 1950 Andrews Avenue is now home to 224 families.

BALANCE SHEETS

June 30, 1991 and 1990

Assets	1991	1990
INVESTMENT IN FIRST MORTGAGE LOANS (Notes 3 and 4):		
Construction loans, net of participations and allowance for possible investment losses	$ 71,344,397	$ 63,666,031
Permanent mortgage loans	12,330,654	9,056,393
	83,675,051	72,722,424
CASH AND CASH EQUIVALENTS, including restricted funds of $83,275,472 and $91,661,880 in 1991 and 1990, respectively (Note 8)	108,918,622	109,572,586
ACCRUED INTEREST RECEIVABLE	1,011,606	844,715
OTHER RECEIVABLES	3,393,156	4,501,066
OTHER ASSETS, net	1,502,420	1,755,199
	$198,500,855	$189,395,990

Liabilities and Fund Balance	1991	1990
LIABILITIES:		
Notes payable under revolving credit agreement — unsecured (Note 5)	$ 58,000,000	$ 57,500,000
Accounts payable and accrued expenses	3,564,192	1,824,216
Participants' deposits (Note 8)	103,210,777	109,619,972
Escrow and other deposits of borrowers	25,090,158	12,748,144
	189,865,127	181,692,332
COMMITMENTS AND CONTINGENCIES (Notes 3 and 10)		
FUND BALANCE (Note 1)	8,635,728	7,703,658
	$198,500,855	$189,395,990

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

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

For the years ended June 30, 1991 and 1990

	1991	1990
REVENUES AND PUBLIC SUPPORT:		
Interest on first mortgage loans	$8,259,183	$8,127,367
Servicing fee income	1,538,657	1,118,754
Interest on short-term investments	603,343	315,004
Commitment fees	236,522	123,125
Other revenues	234,802	134,753
Public support	75,000	475,074
Total revenues and public support	10,947,507	10,294,077
EXPENSES:		
Interest expense (Note 9)	5,733,644	5,646,161
Employee compensation and benefits (Note 11)	1,956,174	1,874,990
Professional fees	489,280	348,164
Office expenses (Note 10)	707,568	611,402
Depreciation and amortization	333,030	270,009
Other expenses	595,741	627,154
Total expenses	9,815,437	9,377,880
PROVISION FOR POSSIBLE INVESTMENT LOSSES	200,000	—
Excess of revenues and public support over expenses and provision for possible investment losses	932,070	916,197
FUND BALANCE, beginning of year	7,703,658	6,787,461
FUND BALANCE, end of year	$8,635,728	$7,703,658

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

For the years ended June 30, 1991 and 1990

1. ORGANIZATION AND PURPOSE

The Community Preservation Corporation ("CPC" or 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 selected neighborhoods which are experiencing deterioration or disinvestment.

The Corporation accomplishes its purpose by making construction and/or permanent mortgage loans to the private sector for the development and preservation of residential properties in low and moderate income areas of New York City and surrounding areas within New York State. 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. Governmental agencies and private sector organizations participate with the Corporation in many of the mortgage loans that it originates.

Membership in the Corporation is achieved by obtaining approval of the Board of Directors, making a capital contribution to the Corporation, and committing to participate as a lender in the revolving credit agreement and the nonrecourse collateral trust note purchase agreement (See Notes 5 and 6). 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of 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. Servicing fee income on loans serviced by the Corporation is accrued monthly based on the outstanding principal balances of such loans or on the aggregate amount of unadvanced deposits made by participating lenders to fund their share of construction loan commitments, or both as applicable.

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. Direct loan origination costs are offset against any related commitment fees 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 to 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, 1991 and 1990, net deferred commitment fees consisted of the following:

	1991	1990
Unamortized deferred commitment fees	$3,421,403	$2,389,528
Unamortized deferred loan origination costs	(2,162,200)	(1,468,697)
Total	$1,259,203	$920,831

Net deferred commitment fees are included on the balance sheets as part of the Corporation's investment in first mortgage loans (Note 3).

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.

DEPRECIATION AND AMORTIZATION

Office furniture and equipment, computer equipment and automobiles are depreciated using the straight-line method over their estimated useful lives which range from 5 to 8 years. Purchased computer software is amortized over 5 years.

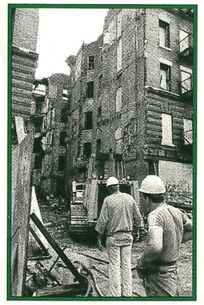
CASH EQUIVALENTS

The Corporation defines cash equivalents as short-term highly liquid investments that are readily convertible to known amounts of cash and have original maturities, at the date of acquisition, of 90 days or less.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to make them comparable to the current year presentation.

344 Manhattan Avenue, Manhattan: 138 rental apartments, a gut renovation in conjunction with New York City's Vacant Building Program.



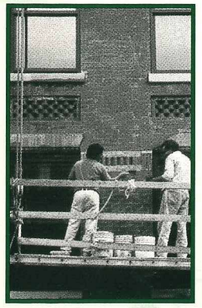
3. INVESTMENT IN FIRST MORTGAGE LOANS AND RELATED COMMITMENTS

The following is a summary of closed first mortgage loans as of June 30, 1991 and 1990 (000's omitted except for number of loans):

1991	Construction	Permanent	Total
NUMBER OF LOANS	131	275	406
FUNDED COMMITMENTS:			
Total funded balance, net of repayments	$250,352	$251,676	$502,028
Less			
Participants' interests	177,087	138,674	315,761
Mortgage loans sold (Note 7)	—	60,514	60,514
Mortgage loans pledged (Note 6)	—	40,119	40,119
Corporation's portion	73,265	12,369	85,634
Allowance for possible investment losses	(700)	—	(700)
Net deferred commitment fees	(1,221)	(38)	(1,259)
	$ 71,344	$ 12,331	$ 83,675

1990	Construction	Permanent	Total
NUMBER OF LOANS	103	232	335
FUNDED COMMITMENTS:			
Total funded balance, net of repayments	$196,906	$179,253	$376,159
Less			
Participants' interests	131,842	89,821	221,663
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)
Net deferred commitment fees	(898)	(23)	(921)
	$ 63,666	$ 9,056	$ 72,722

2120 Frederick Douglas Boulevard, Manhattan: 57 apartments gut renovated for rental occupancy.



At June 30, 1991, the Corporation is obligated to fund the following additional construction loan commitments (000's omitted except for number of loans):

	Number of Loans	Amount
Existing construction loans	131	$ 62,825
Commitments for new loans, including those for which borrower acceptance is pending	47	73,906
Total	178	$136,731

The Corporation's participants in various existing construction loans and commitments for new construction loans are obligated to lend an aggregate of an additional $127 million in connection with such loans and commitments.

At June 30, 1991, the Corporation was providing construction loan servicing in respect of loans originated by others on a portfolio of loans with an aggregate outstanding balance of approximately $164 million.

4. ALLOWANCE FOR POSSIBLE INVESTMENT LOSSES

The Corporation maintains an allowance for possible investment losses on its portion of the mortgage loan portfolio at a level which, in management's judgment, is adequate to reflect potential losses which may result from known adverse conditions affecting the ability of the Corporation's borrowers to meet their obligations to the Corporation.

Substantially all permanent mortgage loans which are held by the Corporation (including the interests of non-governmental agency participants), pledged to secure nonrecourse collateral trust notes or sold to the city pension funds, are insured with the Rehabilitation Mortgage Insurance Corporation ("REMIC") or the State of New York Mortgage Agency ("SONYMA"). The REMIC and SONYMA programs provide insurance coverage against losses resulting from the foreclosure and sale of the mortgage loan. These programs provide insurance in amounts ranging from the first 50% up to 100% of the principal balance of each loan, covering losses of principal, unpaid interest and costs of foreclosure and sale. The Corporation's management believes that these insurance programs make remote the probability of the Corporation incurring any losses on permanent mortgage loans.

Construction loans in the Corporation's portfolio are not presently eligible for REMIC or SONYMA insurance with the exception of a single loan under a special government program, and, accordingly, the Corporation and its participants bear the entire risk of losses as a consequence of borrower defaults. There are significant risks associated with the financing of residential construction projects which may increase or decrease as a result of changes in general economic or other conditions affecting the Corporation's borrowers. In addition to national or local general economic conditions, the ability of the Corporation's borrowers to meet their obligations to the Corporation depends upon, among other things, their ability to: complete construction work on a timely basis within acceptable standards and at the contemplated cost; successfully market condominium or cooperative housing units or, alternatively, convert them to rental units at rates which support debt service; successfully lease-up rental projects and obtain any required rent subsidies and/or real estate tax abatements from governmental sources.

At June 30, 1991, the Corporation's portion of construction loans for which, pursuant to the Corporation's accounting policies, interest is no longer being accrued, aggregated approximately $4.8 million, including $3.5 million which is in the process of foreclosure. At June 30, 1991, the Corporation did not hold any properties as a result of foreclosure actions.

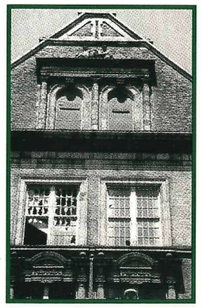
The following summarizes the activity in the allowance for possible investment losses for the years ended June 30, 1991 and 1990:

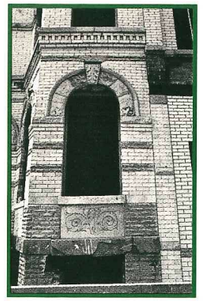
	1991	1990
Balance, beginning of year	$500,000	$500,000
Provision for the year	200,000	—
Balance, end of year	$700,000	$500,000

No amounts have been charged to the allowance since the time at which it was established.

In addition, the Corporation's unrestricted fund balance of approximately $8.6 million at June 30, 1991, is available to cover any presently unforeseen losses which may occur as a result of its lending activities.

HUD Housing Development Action Grant (HODAG) funds represent one part of the financing package for the rehabilitation and conversion of Manhattan's former P.S. 157 into 73 rental apartments.





Bainbridge Mews, Brooklyn: 60 condominium units, a gut renovation financed by CPC, in conjunction with New York City's Rehab & Sale Program.

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 approximately $95 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 1991 and 1990 were at interest rates which ranged from 8.5% to 10.0% and 10.0% to 11.0%, respectively. At June 30, 1991 and 1990, the interest rates on these borrowings were 8.5% and 10.0%, respectively. At June 30, 1991 and 1990, the outstanding balances under this agreement were $58.0 million and $57.5 million, respectively.

6. NONRECOURSE COLLATERAL TRUST NOTES

The Corporation is a party to a note purchase agreement with certain banks whereby the banks have agreed to purchase up to approximately $105 million of nonrecourse collateral trust notes issued by the Corporation, subject to certain conditions. The agreement also provides for the purchase of additional nonrecourse collateral trust notes in excess of $105 million 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 specific permanent mortgage loans originated by the Corporation. The agreement 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, 1991 and 1990, the remaining outstanding principal balances of these notes were approximately $40.1 million and $35.4 million, respectively, which amounts are equal to the principal balances of the pledged mortgages. The unused portion of the amount committed under the amended agreement at June 30, 1991, was approximately $65.1 million.

Pursuant to the terms of a servicing agreement dated January 10, 1978, the Corporation services the mortgage loans 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 mortgage loans.

7. MORTGAGE LOANS SOLD

The Corporation has entered into buy/sell agreements with the New York City Police Pension Fund, the New York City Employees Retirement System and the Teachers Retirement System of the City of New York (the "Pension Funds"). These agreements, as amended, provide among other things, for the Pension Funds to purchase, at their face amount, certain permanent mortgages originated by the Corporation in an aggregate amount of up to $350 million.

Through June 30, 1991, 102 loans with an original principal amount of approximately $65 million have been sold to the Pension Funds, the remaining outstanding principal balance of which is approximately $60.5 million. At that date, the Pension Funds were committed to purchase approximately $124 million of CPC's portion of existing or committed construction loans upon their conversion to permanent mortgages. The unused remaining commitment of the Pension Funds at June 30, 1991 was approximately $161 million.

Pursuant to the terms of related servicing agreements, the Corporation receives servicing fees equal to 1/4 of 1% per annum of the outstanding principal balance of the mortgage loans sold to the Pension Funds.

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 loan 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, 1991 and 1990, HPD deposits consisted of the following:

	1991	1990
Unadvanced loan commitments, all of which were invested in short-term investments	$ 82,035,188	$ 90,827,607
Mortgage interest and principal collections, accumulated interest on short-term investments and other deposits	18,597,490	14,893,712
Total	$100,632,678	$105,721,319

At June 30, 1991 and 1990, other participants had deposited an aggregate amount of $2,578,099 and $3,898,653, respectively, in respect of their commitments to participate in loans originated by the Corporation.

9. INTEREST EXPENSE

Interest expense consisted of the following for the years ended June 30, 1991 and 1990:

	1991	1990
Interest on revolving credit agreement	$5,037,999	$4,861,125
Interest on escrows	374,051	547,616
Interest on construction performance deposits	321,594	237,420
Total	$5,733,644	$5,646,161

10. COMMITMENTS AND CONTINGENCIES

The Corporation leases office space in four locations under agreements which expire at various times through 1997. Annual base rents are subject to escalations or decreases as provided for in the leases. Rental expense for 1991 and 1990 was $347,474 and $296,235, respectively, and is included in office expenses in the accompanying financial statements. The minimum annual rentals under noncancelable leases are due as follows:

1992	$ 265,527
1993	216,860
1994	210,646
1995	216,604
1996	193,279
Thereafter	15,444
Total	$1,118,360

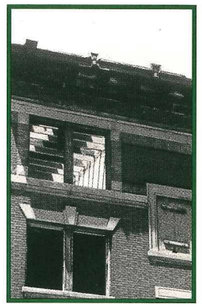
The Corporation is subject to several lawsuits and other claims directly or indirectly related to its normal activities. While the outcome of these proceedings is not presently determinable with certainty, management believes any such outcome will not have a material adverse effect on the financial position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

11. PENSION PLAN

In April 1982, the Corporation established a defined contribution pension plan (the "Plan") covering all officers and employees. Each officer or employee is a participant of the Plan after two years of service. The Plan, as amended, provides for the Corporation to contribute annually an amount up to 10% of the base salary of each eligible officer or employee. Benefits are payable upon retirement, or earlier, as provided for in the Plan. Pension expense for the years ended June 30, 1991 and 1990, was $177,163 and $137,505, respectively. The net plan assets available for benefits at June 30, 1991, the last valuation date of the Plan, was $714,606.

12. SUBSEQUENT EVENT

On July 11, 1991, the Corporation entered into a buy/sell agreement with the Comptroller of the State of New York as trustee of the New York State Common Retirement Fund (the "Fund"). The agreement provides for, among other things, the Fund to purchase certain mortgage loans originated by the Corporation in an aggregate amount not to exceed $50 million. Pursuant to the terms of a related servicing agreement, the Corporation will receive a servicing fee equal to 1/4% per annum of the outstanding principal balances of the mortgage loans sold to the Fund.



Replacing building systems with tenants in occupancy — as in this moderate rehabilitation project on Webster Avenue in the Bronx — is not only cost-efficient, but also preserves the stability of the neighborhood. Because construction costs are so much less than for a gut rehabilitation, lower rents can also be maintained.

The former P.S. 157 in Manhattan is on the Historic Register.

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

Harry D. Garber
Chairman
Vice Chairman
The Equitable Financial Companies

Glen E. Coverdale
Executive Vice President
Metropolitan Life Insurance Company

Frank G. Creamer, Jr.*
Executive Director
Citicorp Real Estate, Inc.

William C. Frentz
Vice President
Guardian Life Insurance Company of America

Richard M. Gunthel
Managing Director
Bankers Trust Company

Richard A. Kraemer
Chairman of the Board & CEO
The Bowery Savings Bank

Michael D. Lappin
President & CEO
The Community Preservation Corporation

I.J. Lasurdo*
The Green Point Savings Bank

Robert N. Laughlin
Division Executive
Citicorp Real Estate, Inc.

John F. Lee
President
The New York Clearing House Association

Robert O. Lehrman
President & CEO
Savings Banks Association of New York State

Gerald M. Levy
Managing Director
Chemical Realty Group

William G. Lillis
President & CEO
American Savings Bank

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

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

Frank J. Ollari
Senior Vice President
New York Life Insurance Company

William F. Olson
Chairman, President & CEO
Peoples Westchester Savings Bank

John A. Somers
Senior Vice President
Teachers Insurance & Annuity Association

Robert S. Strong
Senior Vice President
The Chase Manhattan Bank, N.A.

MORTGAGE COMMITTEES

Edward W. Philipps
Chairman, NYC and Mid-Hudson Valley
Senior Vice President
American Savings Bank

Andrea F. Glickhouse
Vice Chairwoman, NYC
Investment Officer
Home Life Insurance Company

Leonard Saluto
Vice Chairman, Mid-Hudson Valley
First Senior Vice President
Peoples Westchester Savings Bank

Harry A. Baierlein, Jr.*
Administrative Vice President
CrossLand Savings Bank

James H. Bason
Assistant Vice President
Barclays Bank of New York, N.A.

Charles A. Coolidge III
Vice President
Mutual Life Insurance Company of New York

George F. Hosey*
Senior Vice President
Manufacturers Hanover Trust Company

Michael D. Lappin
President & CEO
The Community Preservation Corporation

Murray F. Mascis*
Managing Director
Citicorp Real Estate, Inc.

Patrick J. McEnerney
Northeast Regional Vice President
Bank of New York Mortgage Company

Joseph S. Morgano
Senior Vice President
Independence Savings Bank

Jansen Noyes III
Senior Vice President
Emigrant Savings Bank

Margaret A. O'Leary
Assistant Vice President
New York Life Insurance Company

Roland Peracca, Jr.
Vice President
The Chase Community Development Corporation

Virginia L. Philpott
Vice President
Manufacturers Hanover Trust Company

Joseph E. Sledge
Regional Manager
Metropolitan Life Insurance Company

Peter J. Succoso
Vice President
Citicorp Real Estate, Inc.

John H. Van Loan
Senior Vice President
First National Bank of Rhinebeck

Floyd P. Wiggins
Vice President
New York Life Insurance Company

OFFICERS AND MORTGAGE STAFF

Michael D. Lappin
President & CEO

John M. McCarthy
Executive Vice President

Central Office

Mary E. Enright
Vice President & Director of Closings

Nancy G. Feldman
Vice President, CPC Advisory Services

Susan E. Foresta
Assistant Vice President

Jack Greene
Senior Vice President

Richard A. Kumro
Vice President, General Counsel & Secretary

Dale F. McDonald
Senior Vice President

Stefan Sebastian
Treasurer

Manhattan/Bronx Office

Bruce Dale
Vice President

Richard P. Conley
Mortgage Officer

Christopher Garlin
Neighborhood Mortgage Officer

Gunnel Rydstrom
Mortgage Officer

Brooklyn/Queens/Staten Island Office

Mary A. Brennan
Senior Vice President

Patricia Figueroa
Mortgage Analyst

Susan M. Pollock
Vice President

Hudson Valley Office

Susan V. Adelman
Vice President

Thomas P. McGrath
Vice President

Bruce W. Whipple
Assistant Mortgage Officer

*Resigned during 1990-91.

PARTICIPATING INSTITUTIONS

CONSULTING PROFESSIONALS

Gerry Bakirtjy, A.I.A.
Daniel Frankfurt, P.E.
Peter Franzese, P.E.
Herbert Gallin, P.E.
Robert J. Santoriello, R.A.

AUDITORS

Arthur Andersen & Co.

CORPORATE COUNSEL

Sullivan & Cromwell

REAL ESTATE COUNSEL

Donovan Leisure Newton & Irvine
Rogers & Wells
Plunkett & Jaffe, P.C.

LITIGATION COUNSEL

Hahn & Hessen

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Bronx, New York 10463
(212) 601-6600

Brooklyn/Queens/Staten Island

One Hanson Place
Suite 1215
Brooklyn, New York
11243
(718) 783-8400

Hudson Valley

245 Saw Mill River Road
Hawthorne, New York
10532
(914) 747-2570

COMMERCIAL BANKS

Amalgamated Bank of New York

Banco Popular de Puerto Rico

The Bank of New York

The Bank of Tokyo Trust Company

Bankers Trust Company

Barclays Bank of New York

Canadian Imperial Bank of Commerce (NY)

The Chase Manhattan Bank, N.A.

Chemical Bank

Citibank, N.A.

European American Bank

First National Bank of Rhinebeck

The Fishkill National Bank

Manufacturers Hanover Trust Company

Marine Midland Bank, N.A.

Morgan Guaranty Trust Company of New York

National Westminster Bank USA

Sterling National Bank & Trust Company of New York

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, FSB

The Dime Savings Bank of Williamsburgh

~~Dollar Dry Dock Bank~~

The East New York Savings Bank

East River Savings Bank, a Division of River Bank America

Emigrant Savings Bank

Flushing Savings Bank

~~Goldome Savings Bank~~ Key Bank of New York N.A.

The Green Point Savings Bank

~~The Home Savings Bank~~ Home Savings of America

Independence Savings Bank

Inter-County Savings Bank

Jamaica Savings Bank FSB

Lincoln Savings Bank, FSB

The Long Island Savings Bank, FSB

The Manhattan Savings Bank

Mid-Hudson Savings Bank FSB

North Side Savings Bank

Peoples Westchester Savings Bank

Putnam County Savings Bank

Ridgewood Savings Bank

Roosevelt Savings Bank

Southold Savings Bank

INSURANCE COMPANIES

The Equitable Life Assurance Society of the United States

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

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