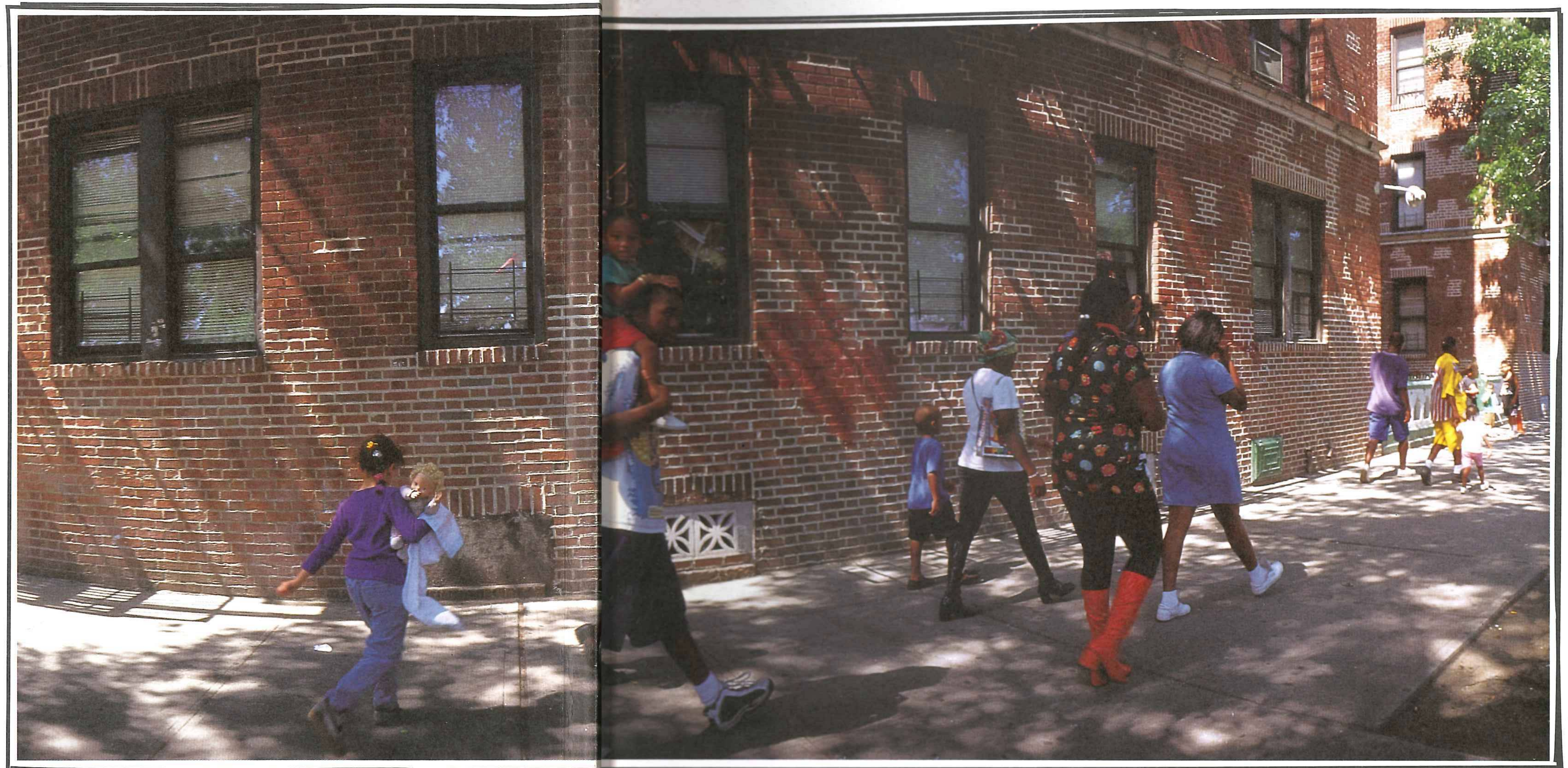


THE RENOVATION OF 1121-1171 MORRISON AVENUE IN THE BRONX, ONCE A HUB OF DRUG-DEALING ACTIVITY AND THE SCENE OF HIGH TENANT TURNOVER, RESULTED IN THE STABILIZATION OF THE ENTIRE BLOCK. THE 309 RENTAL UNITS NOW HAVE ADEQUATE WIRING, NEW PLUMBING, NEW DOORS – AND A WAITING LIST OF PROSPECTIVE TENANTS.

THE COMMUNITY PRESERVATION CORPORATION

1996 ANNUAL REPORT

THE COMMUNITY PRESERVATION CORPORATION
5 WEST 37TH STREET
NEW YORK, NEW YORK 10018
(212) 869-5300

TO OUR MEMBERS • 2 ≈ CPC LENDING AREAS • 6 ≈ PRESERVING OUR COMMUNITIES FOR NEW GENERATIONS • 8
CPC FINANCIALS • 25 ≈ DIRECTORS AND OFFICERS • 37 ≈ PARTICIPATING INSTITUTIONS • 40

CPC HIGHLIGHTS

FISCAL YEAR PERFORMANCE

YEAR ENDED JUNE 30, 1996 UNLESS OTHERWISE STATED

NEW CONSTRUCTION AND PERMANENT LOANS CLOSED (DOLLARS)

CPC, PENSION FUNDS (PERMANENT LOANS ONLY)* & OTHER PRIVATE FUNDS	$160,927,857
PUBLIC FUNDS	22,521,977
TOTAL	$183,449,834

NEW CONSTRUCTION AND PERMANENT LOANS CLOSED (UNITS)

MANHATTAN	1,160	STATEN ISLAND	252
BRONX	1,205	MID-HUDSON VALLEY	1,525
BROOKLYN	950	CLC EASTERN	32
QUEENS	1,940	CLC CENTRAL	180
TOTAL			7,244

PERMANENT CONVERSIONS (DOLLARS)

CPC, PENSION FUNDS* AND OTHER PRIVATE FUNDS	$125,069,020
PUBLIC FUNDS	10,391,081
TOTAL	$135,460,101

LENDING RECORD 1974-1996**

CPC CLOSED LOANS (DOLLARS)	$1,520,152,534
CPC CLOSED LOANS (UNITS)	49,342

* NEW YORK CITY POLICE PENSION FUND, NEW YORK CITY EMPLOYEES RETIREMENT SYSTEM, TEACHERS RETIREMENT SYSTEM OF THE CITY OF NEW YORK, AND NEW YORK STATE COMMON RETIREMENT FUND.

** INCLUDES $25,061,870 AND 295 UNITS OF END LOANS. RECORD AS OF JUNE 30, 1996.

The Community Preservation Corporation (CPC), a private not-for-profit mortgage lender specializing in the financing of low- and moderate-income housing, was born of the recognition that adequate, affordable housing is a crucial factor in sustaining viable communities. CPC makes construction and long-term loans to private and not-for-profit owners to create, rehabilitate and preserve residential properties. We assist first-time buyers to purchase homes, preserve existing rental and cooperatively owned properties, and help communities meet the housing needs of seniors, the handicapped, and others. ≈ From its inception in 1974, the company has worked closely with government to help shape policies so as to attract needed private capital to low- and moderate-income communities. At the same time it has worked with the financial community to help marshall such funds. ≈ CPC is currently sponsored by 96 banking institutions and insurance companies. The banks supply $168 million for CPC's construction warehousing credit lines and provide $212 million in commitments to buy long-term loans. Similar long-term loan commitments are provided by city and state public employee pension funds ($500 million) and insurance companies ($100 million). CPC is a qualified seller/servicer for Freddie Mac and Fannie Mae. ≈ As of December 1996, the company has financed the construction or rehabilitation of more than 51,000 housing units, representing a private and public investment of over $1.58 billion, with negligible losses. ≈ Since its merger in 1995 with the Community Lending Corporation (CLC), CPC's lending area has expanded beyond New York City, Long Island, and the Hudson Valley to include the entire state of New York. CPC/CLC offices in Syracuse, Buffalo, and Albany have already generated substantial investments upstate. ≈ As public subsidies for housing diminish, we are searching for new ways to aid our communities. Our subsidiary, CPC Resources, Inc., is undertaking a range of initiatives — including property development and consulting — which promise to open up new directions for private sector involvement in community renewal. ≈ CPC is proud of its track record. This is a New York success story that can and should be duplicated throughout the country.

TO OUR MEMBERS

Central to a community's stability is the long-term health of its housing. Yet the preservation of housing, and the policies that support it, are struggling to maintain a place on the public agenda. ≈ The need to preserve existing housing stock, particularly in our low- and moderate-income communities, is a compelling one. Most low- and moderate-income households have limited choices for decent shelter. Indeed, where housing is structurally sound and the communities' infrastructure already in place (the situation for much of urban America), preservation may be the only real option. Regular replacement of mechanical and structural systems (plumbing, heating, wiring, windows, roofs) is far less expensive and far more affordable than rebuilding vacant shells which have been left to deteriorate, or constructing new buildings. ≈ This calculus is particularly important given the sharp reduction in direct government support for developing housing, a support unlikely to return in the near future. If we do not invest in preservation now, many low- and moderate-income households will be condemned to choose between living in substandard housing or worse. ≈ Since its inception, The Community Preservation Corporation has focused a large portion of its energy and resources on preservation efforts. Of the more than 51,000 housing units we have financed to date, the majority have undergone renovation while still occupied and habitable. For $10,000-$15,000 per unit of renovation work, plus refinancing and acquisition costs, we have been able to extend the useful life of a building for another generation while maintaining rents that are both affordable to tenants and economical to owners. This approach has generated over 10,000 units of restored rental housing in upper Manhattan, over 13,000 units in the Bronx, and thousands of units in Crown Heights and other parts of Brooklyn. Thousands more units of coop and rental housing in Queens and in several upstate communities have been restored and are thriving. Where such large-scale housing renewal has taken place, not only have individual buildings been preserved but whole neighborhoods have been stabilized.

≈

Various public policies directly affect the ability to preserve housing at an affordable level. Ideally, a predictable and steady flow of private funds into a community is necessary to sustain the ongoing health of its housing and avoid costly remedial work. This simple prescription requires that publicly mandated costs such as real estate taxes and water and sewer charges must not be so high as to crowd out the cash flow necessary to attract and sustain those private funds. Similarly, lead paint remediation requirements and other regulatory mandates must be sensitive to the precarious economics of low- and moderate-income housing and cannot be imposed at so onerous a price as to defeat the very improvements they are meant to encourage. ≈ Where increasingly scarce public subsidies are available, they must be used wisely. All too often the advantages of subsidy programs are not fully realized, as the benefits they provide are offset by higher project costs — the unfortunate result of various delays — caused by added requirements, difficult program access for neighborhood owners, and a tendency for benefits to be capitalized into higher prices.

≈

Nonetheless, some form of public assistance may offer the only route for large numbers of low- and moderate-income households to obtain decent shelter. The relatively low cost of preserving existing housing provides the best opportunity to stretch scarce subsidies which can effectively leverage private investment. ≈ CPC's investments in many communities demonstrate this leverage effect. In moderate-income communities such as upper Manhattan's Washington Heights and Inwood, 15-20% of the existing tenants — often the elderly and those on fixed incomes — needed housing vouchers to pay the difference between the economic rent and what they could afford. The numbers in Harlem and the South Bronx were higher — almost 50% of the residents needed some form of assistance — but the actual dollar amounts were still comparatively low. These modest public subsidies leveraged 10 to 15 times their value in private dollars and allowed needed rehabilitations to occur where abandonment had formerly been a community's only expectation.

≈

While non-profits have done much to spur rebuilding efforts, private owners — who own the majority of the housing in low- and moderate-income neighborhoods — are key to community improvement. Yet many of these owners lack sophistication, organization, or financial strength. Consequently, they find themselves largely ignored in the formulation of policies and programs to revive our communities. To preserve neighborhoods, the effects of publicly mandated costs must be measured against this privately owned housing, and

"I CAME TO THIS COUNTRY TO TRY TO MAKE SOMETHING BETTER FOR MYSELF, TO DEVELOP AND TO CONTRIBUTE SOMETHING. THERE ARE NO PROBLEMS IN THIS NEIGHBORHOOD. NOBODY BOTHERS ME. THE RENTS HERE LET YOU LIVE WITHIN YOUR BUDGET. THANK GOD WE ARE HERE."

RAMON VILCHEZ WITH WIFE VALENTINA, TENANTS, AND THEIR 9-MONTH-OLD DAUGHTER VANESSA, 524 W. 159TH STREET, HARLEM

MICHAEL HEGARTY,
JEROME R. MCDOUGAL,
MICHAEL D. LAPPIN,
JOHN A. SOMERS

assistance programs must be designed to be easily accessible to these owners. ≈ CPC has sought to serve as a bridge between neighborhood owners (both profit and non-profit), the government agencies and programs that subsidize and regulate the owners' activities, and the private financing on which such owners depend. Accordingly, we have sought to create a "one-stop" process which gives owners routine access to government approval and programs as well as to private construction and long-term financing. This simplified process has encouraged broad-scale rehabilitation by neighborhood owners at low cost.

≈

This Report highlights our recent activities in preserving housing in an era of limited public subsidies. It includes a look at our efforts to stabilize cooperative housing and to open up new opportunities for affordable homeownership. We will also report on what we have done to broaden the financial resources available to local communities. Finally, the Report contains an account of our proposed purchase of Parkchester, the 12,271-unit housing complex comprising 171 buildings in the Bronx. The upgrading and stabilization of this vast condominium complex, built over 50 years ago, is crucial not only to its 40,000 residents, but to its larger East Bronx community. Parkchester's problems are symptomatic of America's older urban communities. Finding solutions challenges the resourcefulness and commitment of government and the private sector in the battle to sustain our communities.

≈

We would like to take this opportunity to acknowledge four departing members of the Board. We want to thank both Robert W. Shippee and Timothy Welch for their valuable contributions to our work. We also wish to express our gratitude to Ted Athanassiades for serving as Chairman of the Executive Committee. Finally, we want to thank William Rincker, who so ably helped in the merger of CPC and CLC.

≈

New York, New York
December 12, 1996

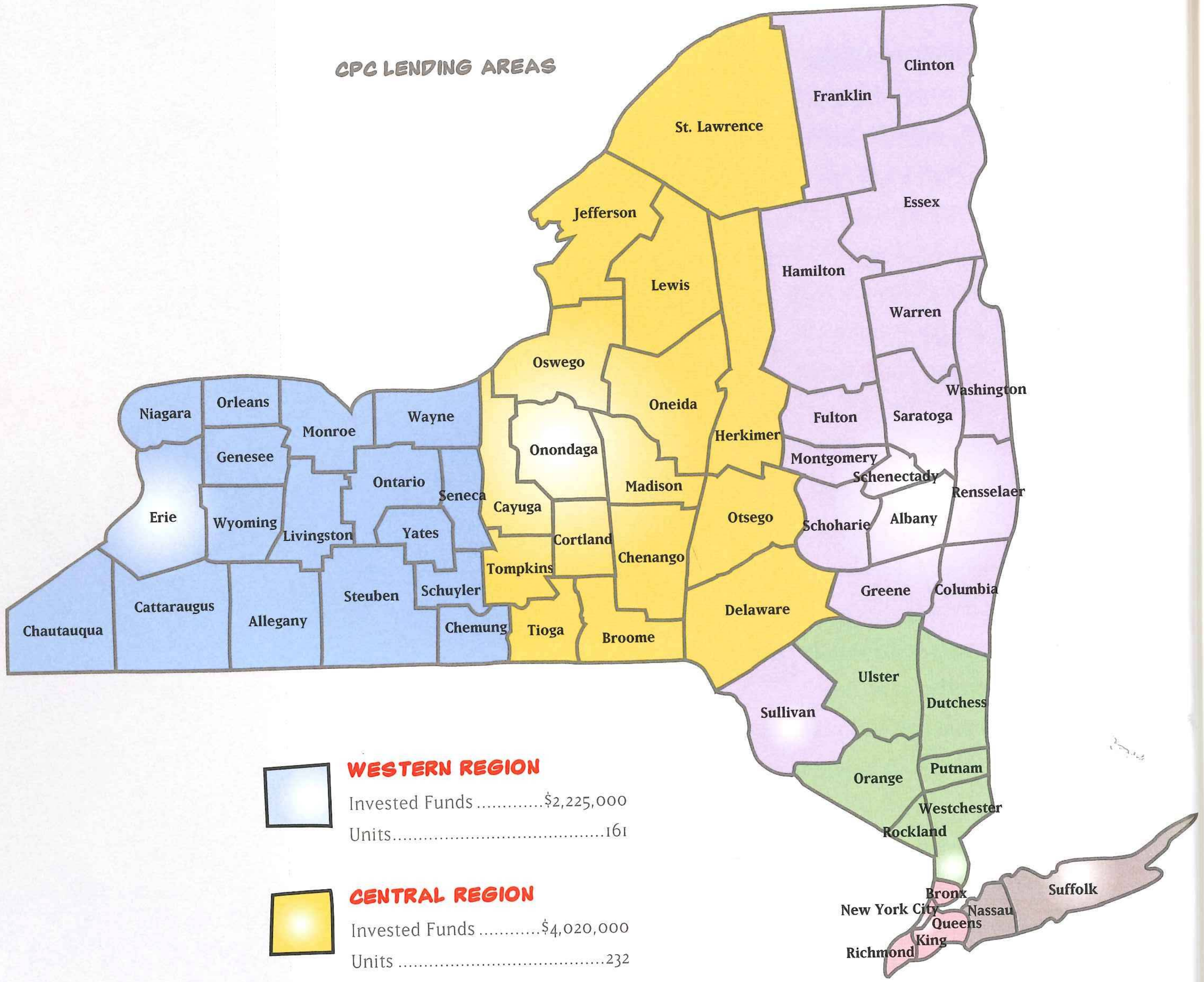
Jerome R. McDougal
Chairman

Michael D. Lappin
President & CEO

John A. Somers
Vice Chairman

Michael Hegarty
Chairman of the Executive Committee

CPC LENDING AREAS



WESTERN REGION

Invested Funds $2,225,000
Units 161

CENTRAL REGION

Invested Funds $4,020,000
Units 232

EASTERN REGION

Invested Funds $4,090,000
Units 90

MID-HUDSON VALLEY

Invested Funds $139,748,326
Units 3,719

LONG ISLAND

Invested Funds $21,517,824
Units 375

NEW YORK CITY

MANHATTAN

Invested Funds $461,480,769
Units 14,949

BRONX

Invested Funds $425,931,709
Units 13,202

QUEENS

Invested Funds $85,131,001
Units 5,006

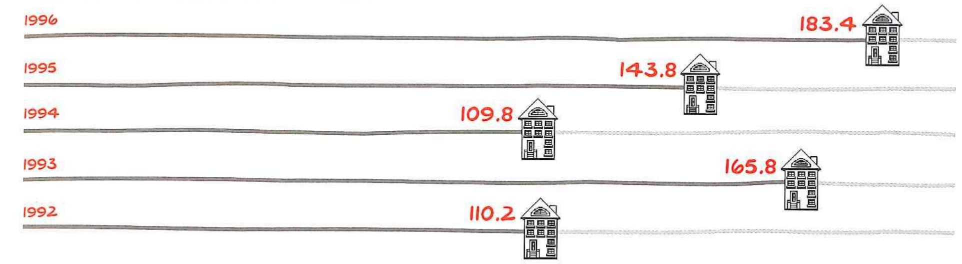
BROOKLYN

Invested Funds $368,398,905
Units 11,343

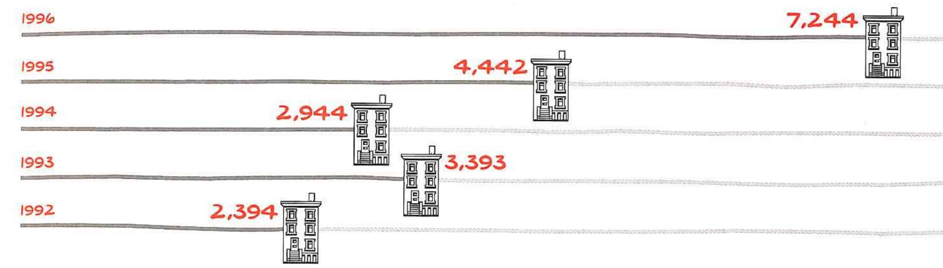
STATEN ISLAND

Invested Funds $7,609,000
Units 265

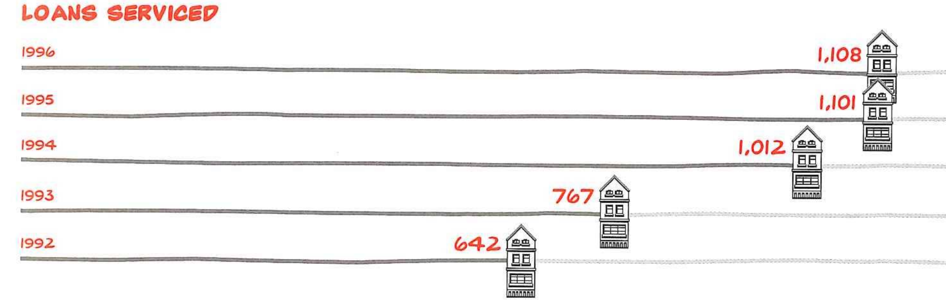
NEW LOANS CLOSED ($ IN MILLIONS)



APARTMENT UNITS FINANCED



LOANS SERVICED



"NOW WE HAVE A PLACE OF OUR OWN, SO WE CAN'T BE KICKED OUT. THE KIDS ARE PROUD OF OUR HOUSE – THEY DON'T CALL IT AN 'APARTMENT' – AND PROUD OF THEMSELVES FOR HELPING OUT. THE RENOVATION BROUGHT NEW BUSINESS INTO THE NEIGHBORHOOD TOO."

BETTY REYES, HOMEOWNER, WITH 10-YEAR-OLD TWINS LUCINDA AND ERIC, AND EIGHT-YEAR-OLD DAUGHTER JESSICA, 393 E. 10TH STREET / 163 AVENUE C, LOWER EAST SIDE

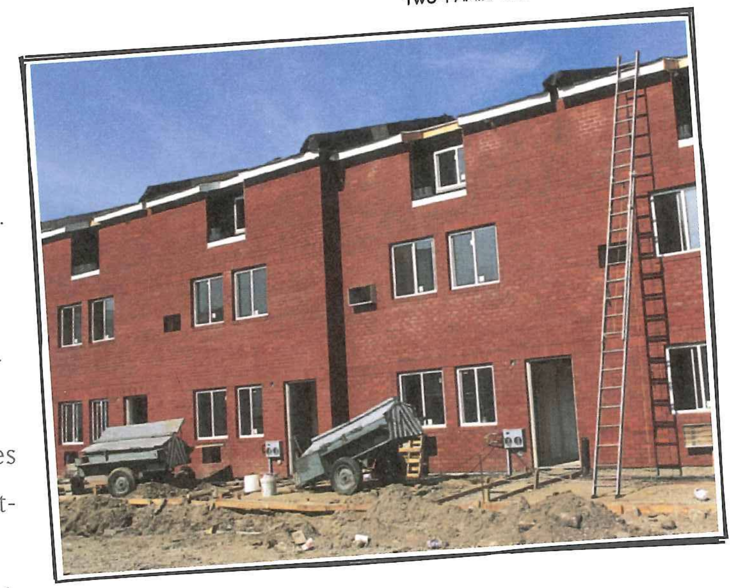
"I USED TO STAY HOME ALL THE TIME – IT WAS REALLY DANGEROUS FOR A WOMAN TO COME HOME AFTER 7 OR 8 AT NIGHT. WITH THE RENOVATION THERE'S A LOT OF LIGHT IN FRONT OF THE BUILDING, SO I GO OUT MORE. I REALLY FEEL SAFE COMING HOME."

YVETTE MARQUEZ, TENANT, WITH HER THREE-YEAR-OLD DAUGHTER ARIEL, 524 W. 159TH STREET, HARLEM

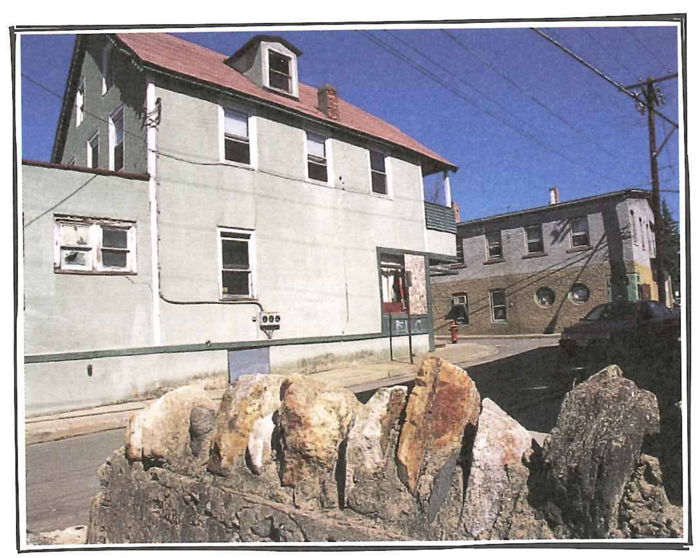
THE CPC MODEL: THE ONE-STOP SHOP

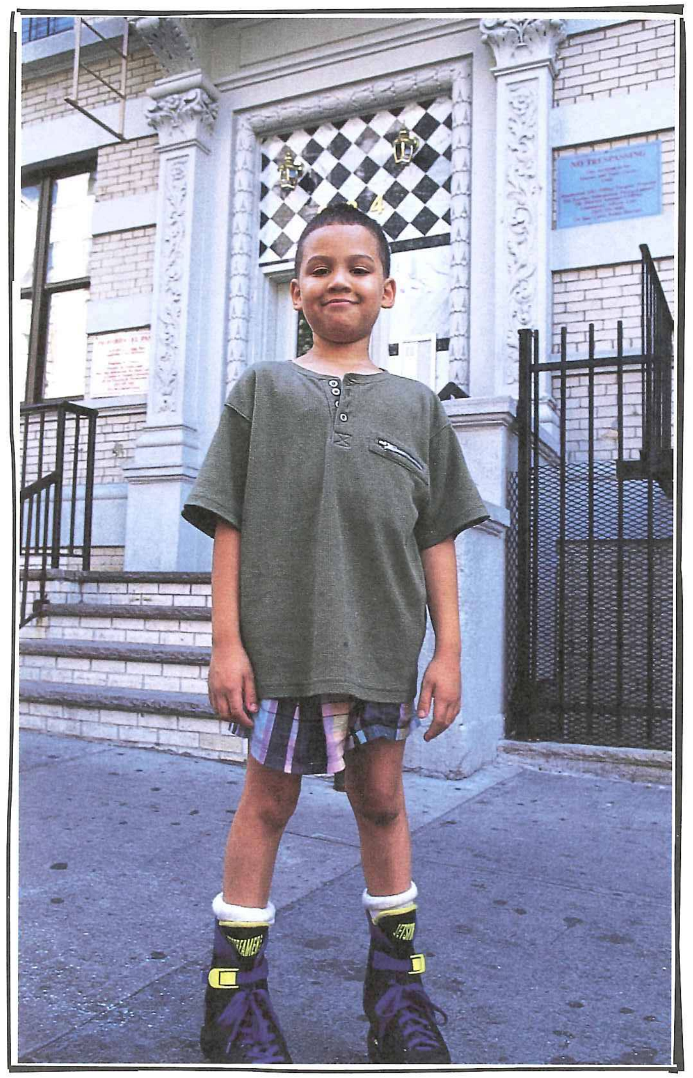
Preserving low- and moderate-income housing is a daunting task in even the best of circumstances. Most properties are small (in New York City, they typically contain between three and 60 units). Although the amounts required for their rehabilitation are low compared to other types of commercial mortgages, the owners are often "mom and pop" individuals with limited financial resources and little sophistication. Many are recent immigrants. In some neighborhoods, nonprofit organizations are the major owners. ≈ The rehabilitation of low- and moderate-income units is often further complicated by the need for public subsidy programs to bridge the gap between housing costs and affordability. Subsidy takes a variety of forms: below market-rate loans, tax credits, real estate tax abatements and exemptions, and rental subsidies. ≈ To interact with this complicated market, the credit system must underwrite such usual market factors as rental income, operating budgets, and construction costs as well as the unique features of the public programs. It must also deal with inexperienced builders/owners who are often poorly capitalized. Furthermore, lenders must be sensitive to adverse social and economic conditions that might disproportionately affect lower income communities. ≈ These problems can increase the pricing of a transaction and, as is so often the case with low- and moderate-income housing, make public credit enhancement necessary. This adds even more layers of complexity. ≈ CPC's solution lies in having created a system that gives easy access to private funds while working with government to address the particular needs, problems, and opportunities of individual communities. That is, we provide a "one-stop shop" where small owners have

AN AFFORDABLE, MIDDLE-INCOME HOUSING PROJECT IN THE MULTI-RACIAL, MULTI-ETHNIC COMMUNITY OF EASTCHESTER IN THE BRONX, MAROLLA HOMES IS BEING BUILT IN TWO PHASES. WHEN COMPLETED, MAROLLA WILL CONSIST OF 40 TWO-FAMILY HOMES.



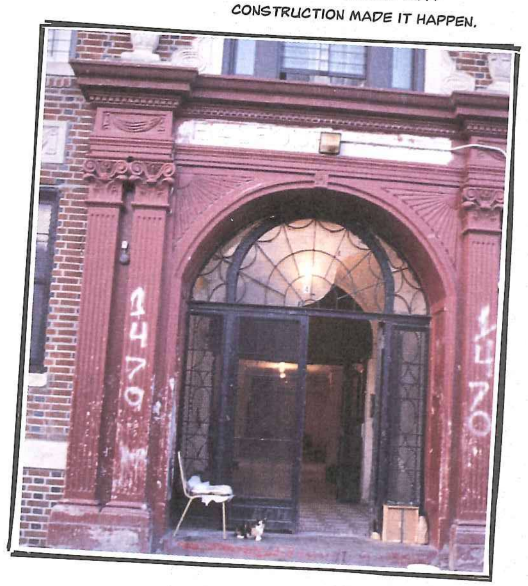
THESE THREE-BEDROOM TOWNHOUSES ON CENTER STREET IN THE VILLAGE OF HIGHLAND FALLS, CONSTRUCTED WITH JOINT FINANCING BY CPC AND THE NEW YORK STATE AFFORDABLE HOUSING CORPORATION, REPRESENT THE FIRST PHASE OF THE VILLAGE'S PLAN TO ELIMINATE A BLIGHTED DOWNTOWN INTERSECTION. THE SIX TOWNHOUSES WILL SELL FOR $65,000 EACH.



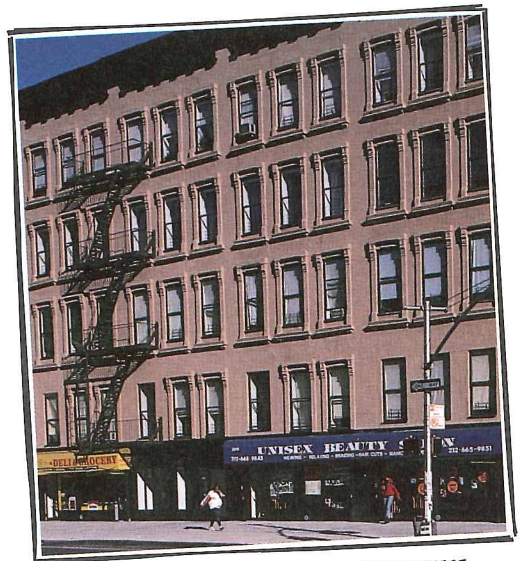


HAVING FINANCED THE COMPLETE GUT RENOVATION OF 524 WEST 159TH STREET IN THE HAMILTON HEIGHTS SECTION OF HARLEM, CPC IS WORKING WITH THE COMMUNITY LEAGUE OF WEST 159TH STREET, THE DEPARTMENT OF HOUSING PRESERVATION AND DEVELOPMENT, AND THE ENTERPRISE FOUNDATION TO REVITALIZE SEVERAL OTHER PROPERTIES ON THE STREET.

AFTER YEARS OF LITIGATION, FORECLOSURES AND DEFERRED MAINTENANCE, BALFOUR COURT AT 1470-1488 STERLING PLACE IN CROWN HEIGHTS IS COMING BACK TO LIFE, WITH REHAB CONSTRUCTION ON 94 UNITS NEARLY COMPLETED. A PARTNERSHIP INCLUDING CPC, COMMUNITY ASSISTED TENANT CONTROLLED HOUSING (CATCH) AND MFA CONSTRUCTION MADE IT HAPPEN.

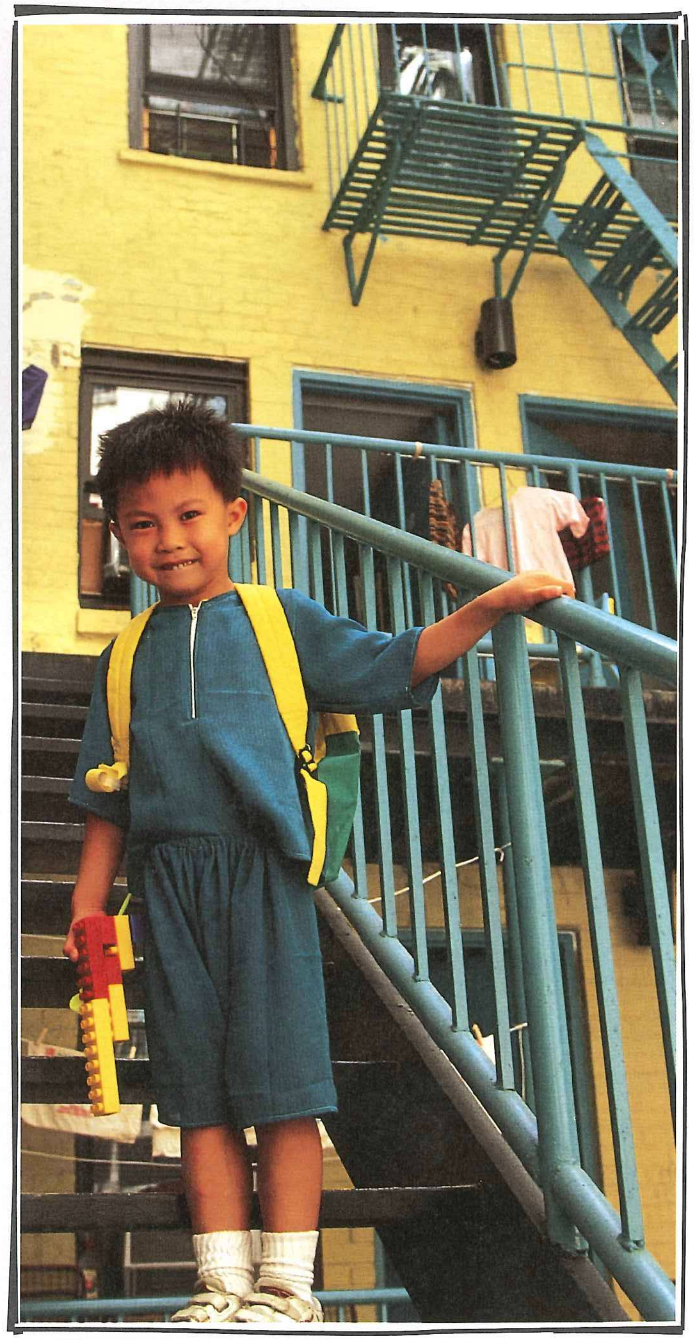


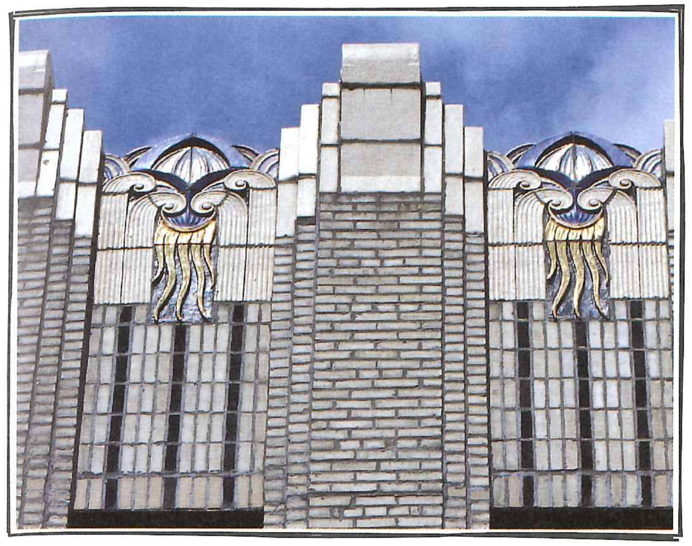
access to construction and permanent financing and technical assistance and at the same time receive needed public supports. ≈ A prime example of the "one-stop shop" is CPC's program to renovate deteriorated rental apartment buildings in New York City with public subsidies. Mortgage documents are worked out in advance with city officials, the borrower receiving one loan commitment for both the public and private monies for construction and permanent financing. Under this system a single loan closing takes place, with the city depositing all of its subsidy funds with CPC. Construction documents, including standard specifications and cost guidelines, are also pre-arranged. Once construction is underway, one engineer represents the private lender and the city, with CPC administering all advances. ≈



THE GUT RENOVATION OF THESE TURN-OF-THE-CENTURY HARLEM BROWNSTONE APARTMENT BUILDINGS AT 2041-2049 ADAM CLAYTON POWELL BOULEVARD IS THE CENTERPIECE OF THE RESTORATION OF SEVENTH AVENUE BETWEEN 122ND AND 123RD STREETS. LOW-INCOME TAX CREDITS WILL OPEN THE DOORS OF THE HISTORIC BUILDINGS TO LOW- AND MODERATE-INCOME TENANTS.

A MODERATE REHABILITATION OF 59 BAYARD STREET IN CHINATOWN, FINANCED BY A TOTAL CPC/HPD LOAN OF JUST OVER $750,000, HAS EXTENDED THE LIFE OF THIS SMALL, 15-UNIT BUILDING FOR A NEW GENERATION. IT IS THE FORERUNNER OF SEVERAL NEW CPC PROJECTS IN THE COMMUNITY.





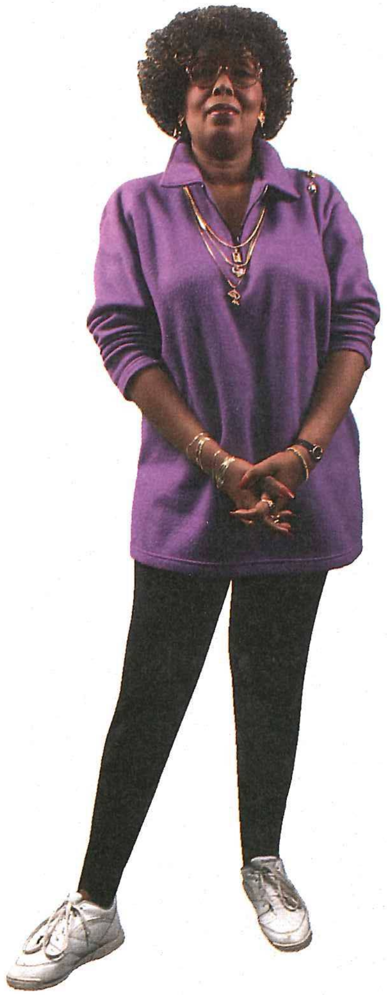
PURCHASED AT FORECLOSURE, THIS ART DECO BUILDING AT 30 DANIEL LOW TERRACE IS OUR FIRST MODERATE REHABILITATION IN THE BOROUGH OF STATEN ISLAND. CPC PROVIDED PERMANENT AND CONSTRUCTION FINANCING TO REVERSE DETERIORATION OF THE PROPERTY AND RESTORE IT TO ITS FORMER GRANDEUR.

When necessary, CPC also provides technical advice to the borrower regarding work scope and recommendations for contractors. And CPC assists in filing for other public actions which typically would include tax abatements and tax exemptions, rent increases, and, on occasion, individual rent subsidies. ≈ A streamlined development process opens the door, often for the first time, to small owners who can build at low cost. More than 60% of CPC's first-time borrowers owned fewer than four properties and most had never participated in an extensive rebuilding program, let alone one involving government assistance. ≈ During the last year, moderate rehabilitation projects averaged $15,000 per unit, while gut rehabilitations of vacant properties averaged $55,000. These figures represent a reduction of as much as half the cost of projects undertaken without such streamlining. ≈ This system has been key in helping to rebuild large areas of New York City.

THIS 70-UNIT APARTMENT BUILDING AT 1033 JAMES STREET ON THE NORTH SIDE IN SYRACUSE WAS REFINANCED AND REHABILITATED WITH A CPC LOAN OF $840,000. CPC CENTRAL REGION STAFF ARE CONTINUING TO WORK WITH THE CITY'S COMMUNITY DEVELOPMENT OFFICE AND THE OWNERS OF THE BUILDING ON REVITALIZING ADDITIONAL PROPERTIES ALONG THE JAMES STREET CORRIDOR.

"THE OLD PLACE WAS A WRECK, BOTH INSIDE AND OUT. I NOW HAVE A MODERN KITCHEN WITH A FULL-SIZE REFRIGERATOR. THE FLOORS HAVE NEW PAINT. THE OUTSIDE IS NEWLY PAINTED. PEOPLE SAY: 'WOW! APPLETREE SURE LOOKS DIFFERENT.'"

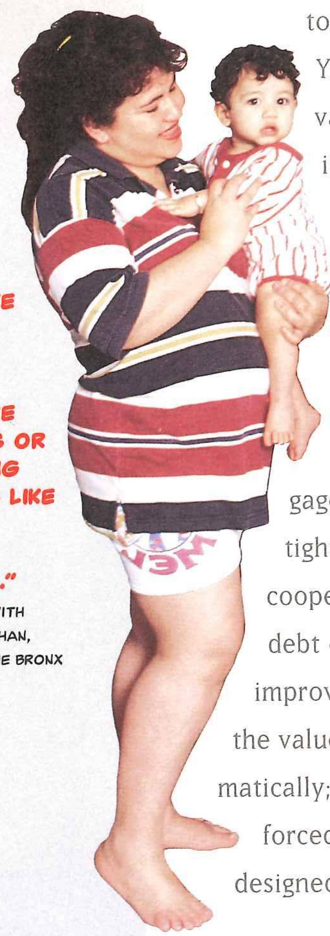
BEATRICE M. REESE, TENANT, 1033 JAMES STREET, SYRACUSE



PRESERVATION FINANCING FOR COOPERATIVE BUILDINGS

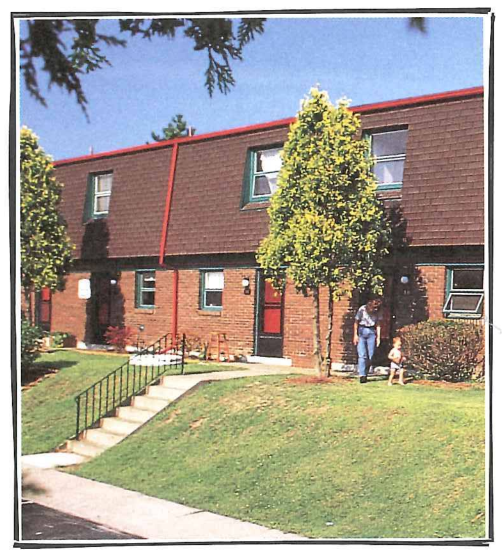
UNDER CPC'S PRESERVATION FINANCING FOR COOPERATIVE BUILDINGS PROGRAM, THE 46-YEAR-OLD HYDE PARK GARDENS IN KEW GARDENS IN QUEENS GOT A NEW LEASE ON LIFE. MAINTENANCE AND MORALE ARE NOW SO HIGH THAT THE LEADER OF A LONG-LASTING RENT STRIKE IS BUYING AN APARTMENT IN THE 618-UNIT COOP.

An opportunity unique to New York to preserve thousands of units of affordable housing became apparent in the mid-1990s. Following the decline in the real estate market in 1987, many buildings which had undergone conversion to cooperative ownership in the late 1980s began to founder. Hundreds of buildings whose units provided stable, affordable homeownership to moderate-income New Yorkers were faced with a variety of apparently intractable problems. These included excessive debts and defaults due to sponsor bankruptcies. In response to the increasing number of problem loans made to coops, lending criteria both for underlying mortgages and for individual share loans tightened considerably. This left many cooperatives unable either to refinance debt or to finance needed capital improvements. Many homeowners saw the value of their properties decline dramatically; they were unable to sell, or were forced to sell at a loss. ≈ In a program designed to open up the potential of this housing stock, CPC — together with the State of New York Mortgage Agency (SONYMA) through its Mortgage Insurance Fund (MIF) — developed a financing program for troubled coops which provided funds for both refinancing and needed rehabilitation. Once the future stability of the coop was ensured, the marketability of individual units could be restored, enabling unit owners to sell and unit purchasers to finance their new homes. CPC works with its sponsoring banks to provide end loans once this stability is achieved. ≈ Since the inception of this program — Preservation Financing for Cooperative Buildings — CPC has closed on almost $70 million in underlying mortgages, representing over 3,500 units of housing located throughout New York City, as well as Westchester and Dutchess counties. At the end of 1996 additional commitments of $30 million representing over 1,900 units have been made, with over $50 million of



"IT USED TO BE THAT THEY NEVER PAINTED; THE WINDOWS WERE BROKEN – ALL THEY CARED ABOUT WAS THAT YOU PAID THE RENT. IT WAS SO BAD THAT I DIDN'T LIKE MY FAMILY TO COME OVER. I WISHED I COULD MOVE. NOW THERE ARE NO ROACHES OR RATS. EVERYTHING GETS FIXED. IT'S LIKE LIVING IN A NEW NEIGHBORHOOD. I WANT TO STAY."

MIRTA BONILLA, TENANT, WITH 8-MONTH-OLD SON JONATHAN, 1155 MORRISON AVENUE, THE BRONX



CPC'S $2.57 MILLION LOAN TO VILLAGE MEADOWS IN ITHACA IS DESIGNED TO ENSURE THE LONG-TERM VIABILITY OF THE 110-UNIT COOP, ENABLING IT TO PURSUE AN AGGRESSIVE STRATEGY – INCLUDING SONYMA END LOANS – IN MARKETING UNSOLD TOWNHOUSES.

IN 1993, 68 EAST HARTSDALE WAS DEVASTATED BY FIRE. THE COOP WAS VACATED AND A GUT RENOVATION BEGUN; THEN THE INSURANCE MONEY RAN OUT AND CONSTRUCTION WORKERS WALKED OFF THE JOB. CPC EXPERTISE AND $1.2 MILLION IN CONSTRUCTION AND PERMANENT FINANCING ARE TURNING THIS WESTCHESTER COUNTY BUILDING INTO A GOOD LUCK STORY.

CPC REFINANCING FOR THIS STATEN ISLAND GARDEN APARTMENT COMPLEX AT 35-75 VERA STREET, BUILT IN 1972, IS DESIGNED TO STABILIZE THE 139-UNIT COOP. END LOANS TO BUYERS ARE ALSO AVAILABLE.

loans being actively processed. Such lending has been achieved without subsidy, and with credit enhancement provided by SONYMA through 50% top-loss insurance. This has opened up a large inventory of affordable housing, with typical two-bedroom apartments selling in the range of $50,000 to $70,000. Perhaps most importantly, the success of this program has encouraged other lenders to re-enter this market, increasing the availability of credit for such affordable homeownership throughout CPC's lending areas.

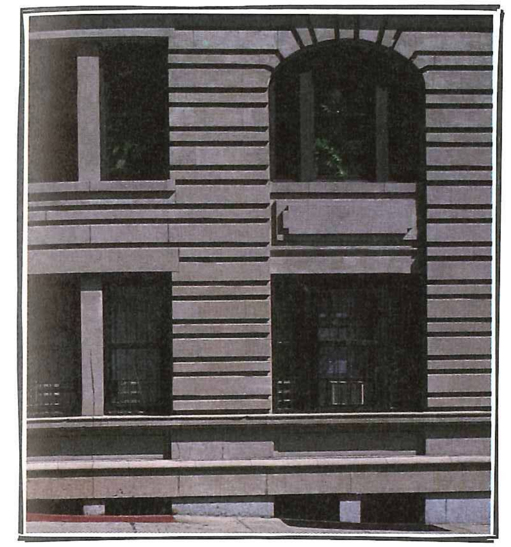
THE GUT RENOVATION OF EIGHT WALK-UPS ON LOTT AVENUE, HERZL STREET, NEWPORT AVENUE, SARATOGA AVENUE AND STRAUSS STREET WAS PART OF A CPC/HPD EFFORT TO MAKE THESE FORMERLY CITY-OWNED AND OTHER VACANT BUILDINGS IN OCEAN HILL-BROWNSVILLE AVAILABLE TO LOW- AND MODERATE-INCOME TENANTS. SIX UNITS ARE SET ASIDE FOR HOMELESS FAMILIES.

"WHEN WE FIRST CAME HERE, THERE WAS ONLY ONE SMALL ELEVATOR – NOW THERE ARE TWO, AND ONE OF THEM IS REALLY BIG. THEY ALSO PUT IN NEW BATHROOMS AND DID THE FLOORS. AND MY KITCHEN IS ABSOLUTELY FANTASTIC!"

BARBARA GORTYCH, TENANT, 260 CONVENT AVENUE, HARLEM

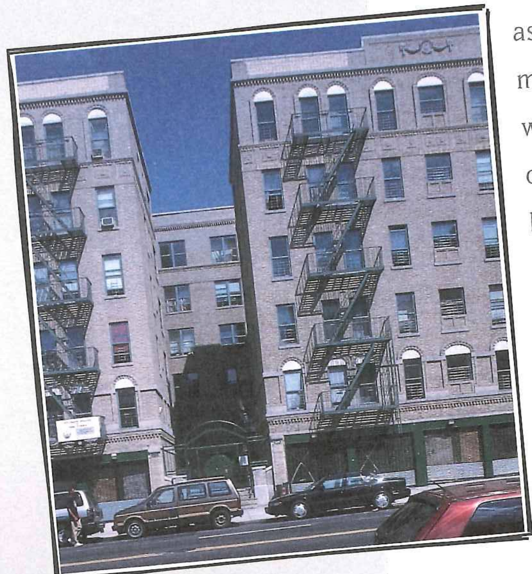
SECONDARY MARKET INITIATIVES

Huge amounts of capital are required to rebuild and sustain healthy low- and moderate-income communities. To raise this capital, mortgage loans must continually be sold into the secondary market. Such sales occur routinely in the residential mortgage market, but they are anything but routine in the area of affordable multifamily mortgages. ≈ Until recently, CPC sold its mortgages to its sponsoring financial institutions and state and city public pension funds pursuant to individual credit agreements. However, with our expanding origination volume, and given the greater diversity of the housing we finance, we too have found a need to raise new capital resources on a continuing basis. We are exploring several opportunities to do so. ≈ First, we are broadening our relationships with our current investors. In the past, the principal means used by CPC to raise long-term capital was our $212 million Collateral Trust Note (CTN) facility, under which the company's bank sponsors purchase securities backed by CPC-originated multifamily mortgages. In 1995, with this facility full, CPC decided to offer for sale to individual sponsor banks 133 loans from the CTN portfolio



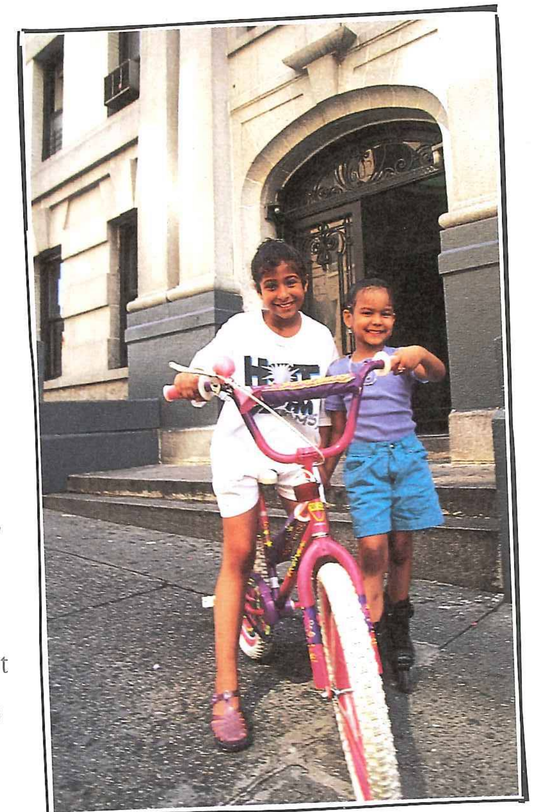
CPC EXTENDED ITS FULL SUPPORT TO THE NEW OWNERS OF 260 CONVENT AVENUE, CLOSING A FANNIE MAE LOAN OF JUST UNDER $1.25 MILLION FOR REFINANCING AND REIMBURSEMENT OF REHABILITATION COSTS. NOW THE FORMERLY DISTRESSED 61-UNIT BUILDING IS STABLE, SAFE, AND CLEAN: AN ASSET TO ITS HARLEM COMMUNITY.

THE NEWLY CONSTRUCTED SOUTH SHORE COMMONS IN WEST BABYLON, UNSUBSIDIZED RENTAL HOUSING FOR SENIORS, CONSISTS OF 114 SPECIALLY DESIGNED APARTMENTS AS WELL AS 28 MARKET UNITS.



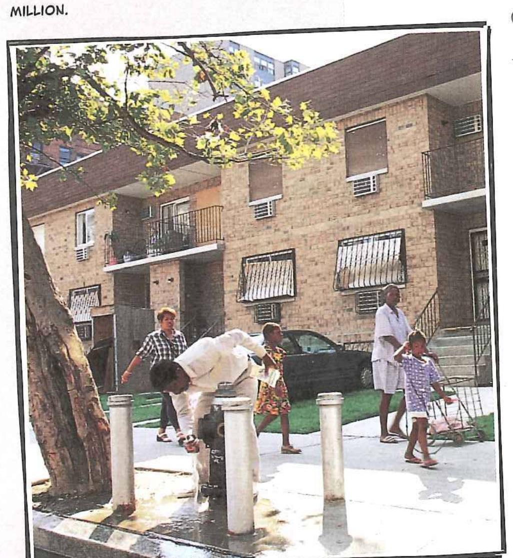
THE GUT RENOVATION OF 205-213 WEST 145TH STREET IS PART OF THE CPC CONTRIBUTION TO THE MULTI-MILLION DOLLAR BRADHURST PROJECT, BEGUN AS AN EFFORT TO REVITALIZE THIS ONCE THRIVING COMMERCIAL THOROUGHFARE IN HARLEM. THE FIVE-STORY BUILDING CONTAINS 62 RENTAL UNITS AND 5,000 SQUARE FEET OF COMMERCIAL SPACE.

as a way of recycling the $55 million they represented. We were able to sell $45 million of these loans, at par, thereby replenishing our CTN facility and creating some excess servicing income for CPC. The loan purchasers were Amalgamated Bank of New York, Astoria Federal Savings & Loan Association, Banco Popular de Puerto Rico, Emigrant Savings Bank, and North Side Savings Bank. We expect to make future loan sales from this facility on an ongoing basis. ≈ Second, our city and state public pension fund investors expanded their facilities with CPC. The State Common Retirement Fund and the New York City Employees Retirement System (NYCERS) both agreed to purchase underlying long-term mortgages on cooperatively owned housing. Additionally, NYCERS has approved a $100 million increase to its credit agreement with CPC. When the addition is finalized the entire public pension fund commitment to purchase mortgages will be $600 million. ≈ CPC also has credit arrangements with the Federal Home Loan Mortgage Corporation (Freddie Mac) and Federal National Mortgage Association (Fannie Mae). Until now, we have mainly sold refinanced mortgages through these facilities — a relatively small part of our business. We recently amended



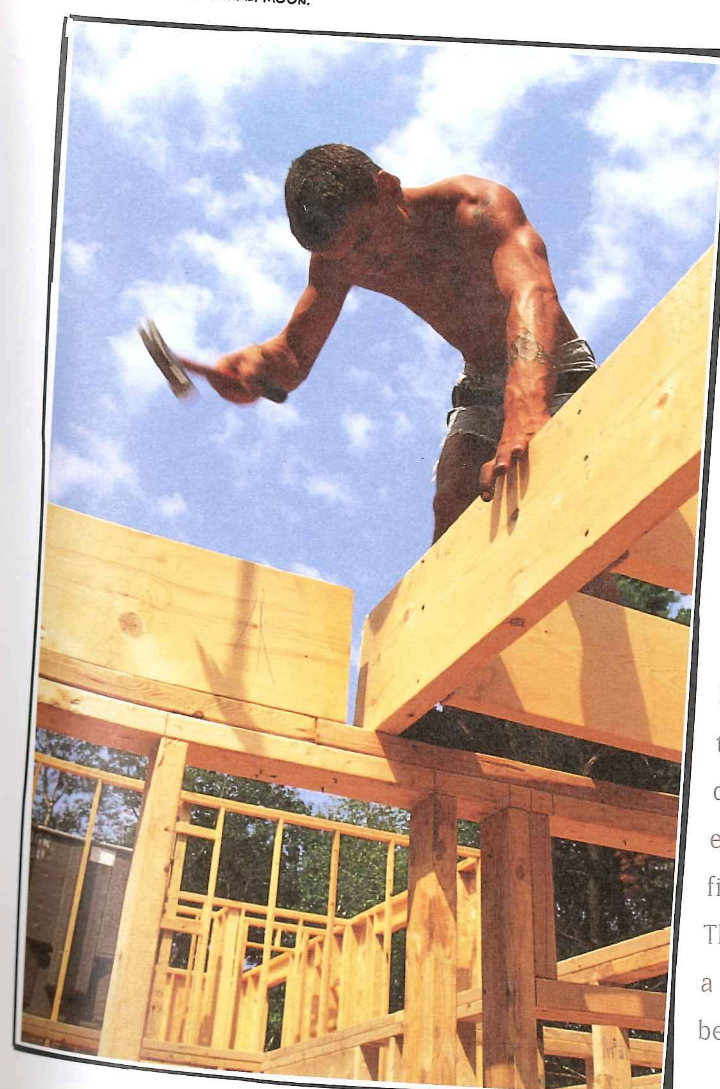
THE OWNER OF 602 WEST 157TH STREET IN WASHINGTON HEIGHTS HAD INVESTED SUBSTANTIALLY IN IMPROVEMENTS TO THE 39-UNIT BUILDING. A JOINT REFINANCING BY CPC AND FREDDIE MAC WAS ARRANGED FOR THE PROPERTY.

WITH THE NEW YORK CITY HOUSING PARTNERSHIP'S SMALL BUILDER ASSISTANCE PROGRAM AND FUNDS FROM NEW YORK STATE, NEW YORK CITY, AND CPC WORKING TOGETHER, A VACANT, LITTER-STREWN BRONX LOT GAVE WAY TO 22 NEWLY CONSTRUCTED TWO-FAMILY HOMES AT MELROSE AVENUE AND 153RD STREET. THE HOMES, EACH CONTAINING ONE OWNER'S UNIT AND ONE RENTAL UNIT, WERE FINANCED WITH A SONYMA INSURED LOAN OF JUST UNDER $4.5 MILLION.



our agreement with Fannie Mae so that we may now obtain its guarantee on mortgages we sell on a forward basis. This will allow us to link Fannie Mae's guarantee program to loans which support rehabilitation as well as refinancing. ≈ We are currently working with Freddie Mac to create a pass-through certificate backed by 28 loans totaling $14 million from CPC's CTN portfolio. CPC plans to offer this security for sale to our sponsoring banks, as well as to a wider investor group, and use this as a model for future sales. ≈ CPC's interest in expanding our sources of long-term financing is shared by our affordable housing counterparts across the country.

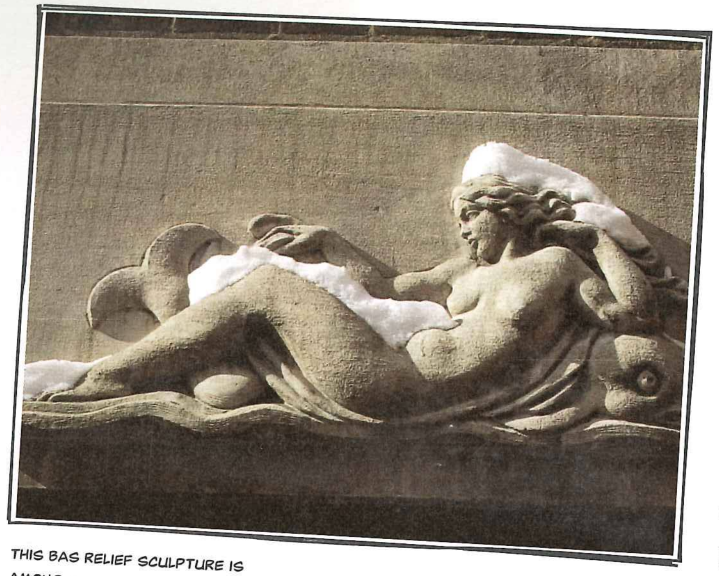
HOUSING FOR MODERATE-INCOME TENANTS IN A RAPIDLY EXPANDING AREA OF SARATOGA COUNTY. CPC MADE IT HAPPEN: A 300-UNIT APARTMENT COMPLEX THAT LOCAL TEACHERS, POLICE OFFICERS, FIRE FIGHTERS AND OTHER MUNICIPAL EMPLOYEES CAN AFFORD. THIS IS 13 SITTERLY ROAD IN HALFMOON.



Recognizing that volume is the key to entering the secondary market, we are assessing the feasibility of assuming an intermediary role in connection with the pooling and sale of multifamily mortgages originated by a select group of such lenders. Should CPC decide to go forward in this direction, we would explore a variety of financing structures. The success of such a transaction would be measured in terms

"I'VE BEEN HERE 16 YEARS. THE BUILDING WAS IN VERY BAD CONDITION. NOW WE HAVE EVERYTHING – NEW PIPES, NEW TILES IN THE BATHROOM, AN INTERCOM. THE SUPERS TAKE PRIDE IN THE BUILDING – THEY COME WHENEVER YOU NEED THEM. THERE'S NO MORE DRUG-DEALING... THE WHOLE NEIGHBORHOOD IS BETTER. I FEEL GOOD ABOUT RAISING MY SON HERE."

GLADYS GARCIA, TENANT,
1171 MORRISON AVENUE, THE BRONX

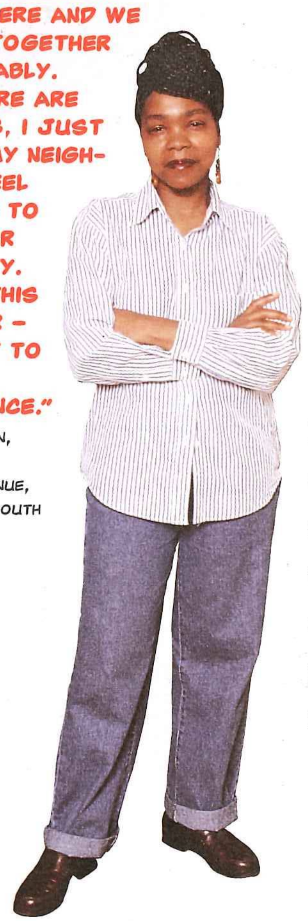


THIS BAS RELIEF SCULPTURE IS AMONG THE MANY FINE ARCHITECTURAL DETAILS THAT DISTINGUISH HISTORIC PARKCHESTER.

subsidiary, CPC Resources Inc. (CPCR), stepped into the breach. ≈ In June of this year, CPCR entered into a conditional contract to purchase all the remaining sponsor interest in Parkchester. By assembling all of these assets under one ownership, there will be sufficient collateral to secure the necessary financing to adequately wire, replumb and replace the windows of all 12,271 units. ≈ CPCR's ability to undertake this proposed upgrade in an affordable manner will require an assortment of private funds matched with public programs. City real estate tax incentive programs will be used to keep costs to all residents low and prevent undue hardship to low-income elderly residents. CPC's sponsors will be asked to provide the needed financing. We will ask the state through SONYMA to provide insurance to help secure low-cost financing for the renovation as well as for future purchases. ≈ In the spring of 1997, CPCR and its partners — Mall Properties, Inc. and The O'Connor Group — will submit a plan that must be approved by the two condominium boards, tenants and unit owners before any renovations can take place. It is expected that the proposed renovations will take three or four years to complete.

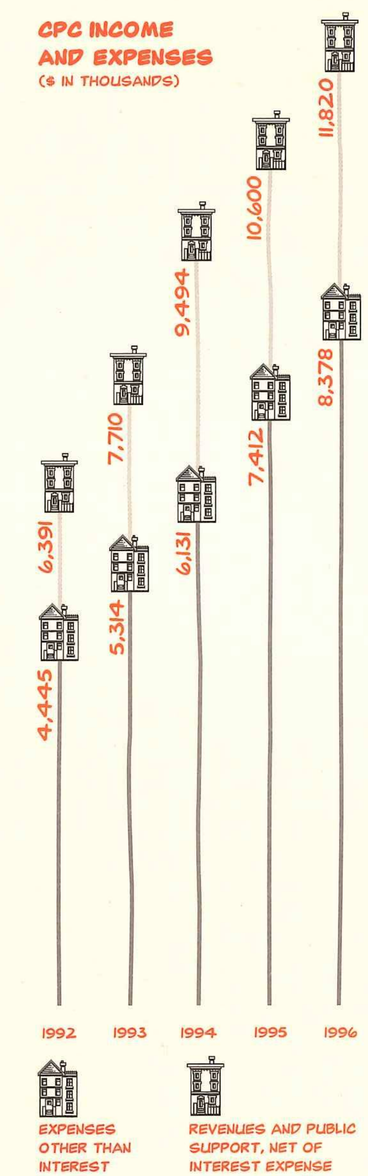
"I'VE BEEN IN PARKCHESTER SINCE FEBRUARY OF 1994. PEOPLE COME IN ALL SHAPES, SIZES AND COLORS HERE AND WE ALL LIVE TOGETHER COMFORTABLY. WHEN THERE ARE PROBLEMS, I JUST CALL ON MY NEIGHBORS. I FEEL YOU HAVE TO MAKE YOUR COMMUNITY. WE'RE IN THIS TOGETHER – NOT JUST TO PAY THE MAINTENANCE."

MONICA FRANKLIN, HOMEOWNER, 1469 EAST AVENUE, PARKCHESTER SOUTH CONDOMINIUM



FINANCIAL OVERVIEW

The Community Preservation Corporation (CPC) completed the fiscal year with an operating surplus of approximately $3.4 million. Accumulated surpluses and reserves from all years now total approximately $22.8 million. Income from operations has exceeded expenses in each year since 1979. This financial stability enables an assertive pursuit of CPC's objectives: 1) 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 $158.6 million at fiscal year-end, with another $52.7 million yet to be funded on closed loans. 2) 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. 3) It provides the minimum financial requirements for seller/servicer status for Fannie Mae and Freddie Mac. 4) It enables CPC to expand its range of services. In fiscal year 1995, CPC consummated a merger with the Albany-based Community Lending Corporation (CLC), thereby extending its lending area to include the entire state of New York. In connection with the merger, new lending offices were opened in Syracuse and Buffalo. CPC's financial strength will support our continued expansion in services to the statewide market. ≈ There are three major sources of CPC's net income: interest spread on construction loans; commitment fees; and servicing fee income. Servicing fee income has made a larger contribution to income in recent years, largely reflecting cumulative portfolio growth from past originations. CPC serviced more than $1.5 billion in mortgages by year-end for its own account and on behalf of participants, investors and other servicing clients. ≈ Prospects for the future, while favorable, continue to be subject to fluctuations in several areas: cyclical economic trends including, in particular, employment trends for City residents and the rising government levies on housing, especially taxes and water/sewer billings; the supply of public subsidies, including entitlement programs for low-income households; and the efficient functioning of government agencies affecting rental housing.



THE COMMUNITY PRESERVATION CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 1996 AND 1995

CASH FLOWS FROM OPERATING ACTIVITIES:	1996	1995
Excess of revenues and public support over expenses	$ 3,441,739	$ 3,187,872
Adjustments to reconcile net income to net cash provided by operating activities —		
Depreciation and amortization	534,191	477,471
Increase in accrued interest receivable	(75,827)	(236,640)
(Increase) decrease in other receivables	(315,139)	1,563,126
Increase in other assets	(496,633)	(46,932)
Increase (decrease) in accounts payable and accrued expenses	3,305,353	(657,700)
Net cash provided by operating activities	**6,393,684**	**4,287,197**
CASH FLOWS FROM INVESTING ACTIVITIES:		
First mortgages originated	(139,764,561)	(97,278,249)
Repayments of first mortgage loans	29,994,973	26,024,191
First mortgage loans sold and pledged	102,748,537	56,854,330
Purchase of fixed assets	(559,989)	(561,828)
Net cash used in investing activities	**(7,581,040)**	**(14,961,556)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (decrease) in notes payable under revolving credit agreement	6,481,997	(900,000)
(Decrease) increase in participants' deposits	(9,432,639)	1,600,682
Increase in escrow, deposits and other liabilities	9,191,881	10,124,263
Net cash provided by financing activities	**6,241,239**	**10,824,945**
Net increase in cash and cash equivalents	**5,053,883**	**150,586**
Cash and cash equivalents, beginning of year	**76,007,689**	**75,857,103**
Cash and cash equivalents, end of year	**$81,061,572**	**$76,007,689**

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED STATEMENTS.

THE COMMUNITY PRESERVATION CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 1996 AND 1995

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 or projects which are experiencing deterioration or disinvestment.

The Corporation accomplishes its purpose by making construction and permanent mortgage loans to the private sector for the development and preservation of residential properties in low and moderate income areas of New York State with a concentration in the New York City area. The housing stock of certain communities within these areas is experiencing physical deterioration which the Corporation's management believes can be ameliorated 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 credit facilities of the Corporation, as required by the Board of Directors (Notes 6 and 7). 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.

On November 2, 1992, CPC Resources Inc., a wholly owned subsidiary of CPC (the "Subsidiary"), was incorporated under Section 402 of the Business Corporation Law of the State of New York as a for-profit corporation. The purpose of the Subsidiary is to function primarily as a servicer for mortgage loans held by the private sector, to seek equity participation in loans or real estate ownership of residential properties in low and moderate income neighborhoods within New York City and New York State and to provide consulting services on affordable housing development and financing. On January 17, 1995, CPC transferred its Federal Home Loan Mortgage Corporation ("FHLMC") loan servicing to the Subsidiary. In addition, during 1995 the Subsidiary acquired rights to service other FHLMC portfolios.

On June 30, 1995, the Corporation merged with the Community Lending Corporation ("CLC"), a New York not-for-profit organization, organized for purposes essentially identical to those of the Corporation, but providing mortgage financing in selected neighborhoods in the upstate New York region. CLC is operated as a division of CPC.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of CPC are as follows:

Principles of Consolidation

CPC consolidates its wholly owned Subsidiary. All intercompany balances and transactions were eliminated in consolidation.

Income Taxes

The Internal Revenue Service has determined that CPC is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. This determination does not, however, apply to any net income earned from business which is not directly related to the tax-exempt purposes of CPC. In 1995, CPC generated unrelated business net income which CPC earned from the servicing of certain mortgages. Such unrelated business net income of CPC, and the net income of the Subsidiary are subject to tax. As a result, CPC and the Subsidiary have recorded Federal, State and City Corporation income taxes of $253,226 and $200,311 in 1996 and 1995, respectively. The Subsidiary files a separate tax return from CPC.

Income Recognition

Interest on first mortgage 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 on a straight-line basis over the life of the loan as an adjustment to income. If the commitment expires unexercised, the net 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.

Net deferred commitment fees are included on the consolidated balance sheets as part of the Corporation's investment in first mortgage loans (Note 4).

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 nonrecourse collateral trust notes (Note 7) 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. Purchased mortgage servicing rights are being amortized over 9 years. These items are included in other assets, net.

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.

Cash Flow Statement

On June 30, 1995, the Corporation merged with the Community Lending Corporation in a noncash transaction. The merger resulted in an increase of assets and liabilities of the Corporation of $1,015,806 which were primarily first mortgage loans, notes payable under revolving credit agreement and escrow, deposits and other liabilities.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3 DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such a value:

Cash and Cash Equivalents

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Investment in First Mortgage Loans

CPC considers the carrying amount of its investment in first mortgage loans to be a reasonable estimate of fair value as the interest rates on its construction loans float with market rates and the fixed rates on its permanent loans are set at market prior to their origination date and are sold or pledged, on a nonrecourse basis, at par, generally pursuant to existing commitments made by the purchaser or the pledgee.

Deposit Liabilities

CPC considers the fair value of participants' deposits and escrow and other deposits of borrowers to be their face amounts, as participant deposits are held to be advanced at par, and borrower deposits are to be either retained by CPC at par, paid at par for applicable purposes or returned at par to eligible borrowers.

Notes Payable

CPC considers the carrying amount of its notes payable under the revolving credit agreement to approximate their fair value as the interest rate on this obligation floats with market rates.

4 INVESTMENT IN FIRST MORTGAGE LOANS AND RELATED COMMITMENTS

The following is a summary of closed first mortgage loans in which CPC has participated, as of June 30, 1996 and 1995 (000's omitted except for number of loans):

1996	CONSTRUCTION	PERMANENT	TOTAL
Number of loans	**174**	**473**	**647**
Funded commitments:			
Total funded balance, net of repayments	$271,408	$681,656	$953,064
Less-			
Participants' interests	165,048	346,296	511,344
Mortgage loans sold (Note 8)	—	188,260	188,260
Mortgage loans pledged (Note 7)	—	93,043	93,043
Corporation's portion	**106,360**	**54,057**	**160,417**
Allowance for possible investment losses	(900)	—	(900)
Net deferred commitment fees	(603)	(307)	(910)
Investment in first mortgage loans	**$104,857**	**$53,750**	**$158,607**
1995			
Number of loans	**163**	**483**	**646**
Funded commitments:			
Total funded balance, net of repayments	$256,979	$620,922	$877,901
Less-			
Participants' interests	155,089	342,248	497,337
Mortgage loans sold (Note 8)	—	158,665	158,665
Mortgage loans pledged (Note 7)	—	68,588	68,588
Corporation's portion	**101,890**	**51,421**	**153,311**
Allowance for possible investment losses	(900)	—	(900)
Net deferred commitment fees	(545)	(280)	(825)
Investment in first mortgage loans	**$100,445**	**$ 51,141**	**$151,586**

Construction loans are loans which require the borrower to pay only interest charges at a floating rate on the outstanding balance, with no principal payments due prior to maturity. At June 30, 1996 and 1995, the weighted average interest rates on the construction loans were 10.25% and 11%, respectively. Historically, substantially all of the Corporation's construction loans have been ultimately converted to permanent loans after completion of construction. Certain construction loans have remained outstanding for periods longer than the originally contemplated term of the loan and the Corporation has effectively extended the maturity date of these loans on a month-to-month basis. At June 30, 1996, substantially all of those loans were current as to the interest payments required of the borrowers. The Corporation has received conditional commitments from its financing sources to purchase these and all other construction loans after they have converted to permanent mortgages or to purchase collateral trust notes secured solely by the permanent mortgages, upon the completion of administrative and other requirements (Notes 7 and 8). These conditional commitments can be extended indefinitely at the sole discretion of the Corporation.

Not the PF commits

Permanent loans are loans which generally require the borrower to make monthly combined payments of interest and principal in a level amount until maturity. At June 30, 1996 and 1995, the weighted average interest rates on the permanent loans were 8.71% and 9.04%, respectively. Permanent loans are normally held by the Corporation for periods ranging from 1 to 36 months after they are converted from construction loans, pending the completion of certain administrative and other requirements.

At June 30, 1996, the Corporation is obligated to fund the following additional loan commitments (000's omitted except for number of loans):

	Number of Loans	Amount
Existing construction loans	174	$ 52,684
Commitments for new loans including those for which borrower acceptance is pending	138	185,381
Total	**312**	**$238,065**

Other participants, in various existing construction loans and in commitments for new construction loans, are obligated to lend an aggregate of an additional $92 million in connection with such loans and commitments.

5 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 (including the interests of nongovernmental agency participants) which have been pledged to secure nonrecourse collateral trust notes or sold to city or state pension funds, are partially insured with the New York City Residential 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 typically 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 incurring any losses on these permanent mortgage loans. Furthermore, the Corporation is not at risk of loss for permanent loans which have been pledged or sold (Notes 7 and 8).

The Corporation holds certain permanent mortgage loans for a period of time and intends to sell the loans after all conditions for sale have been met including, in most instances, the receipt of SONYMA or REMIC insurance. The Corporation has received commitments for such insurance and believes that substantially all permanent mortgage loans will obtain the required insurance and can be sold.

Construction loans in the Corporation's portfolio are not generally eligible for REMIC or SONYMA insurance and, accordingly, the Corporation and its participants bear the entire risk of losses as a consequence of borrower defaults. However, in certain circumstances a portion of the New York City Department of Housing Preservation and Development's participation in certain loans is subordinate to the participation of CPC and others. This reduces the risk of loss to CPC and others on such construction loans.

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. Management actively monitors the market conditions and the realizability of its loans. While management uses current available information to estimate the realizability of its loans, any dramatic changes in the local economy may impact the loans' capacity to generate the earnings projected. Therefore, it is at least reasonably possible that under certain circumstances the recoverable values may be less than estimated.

At June 30, 1996 and 1995, the Corporation's portion of construction and permanent loans for which, pursuant to the Corporation's accounting policies, interest is no longer being accrued, aggregated approximately $7.1 million and $5.5 million, respectively, including $0.8 million and $1 million, respectively, which is in the process of foreclosure. At June 30, 1996, the Corporation did not hold any properties as a result of foreclosure actions.

The allowance for possible investment losses at June 30, 1996 and 1995 was $900,000. 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 $22.8 million at June 30, 1996, is available to cover any presently unforeseen losses which may occur as a result of its lending activities.

6 REVOLVING CREDIT AGREEMENT

The Corporation has a revolving credit agreement with certain banks. These banks have agreed to lend the Corporation up to approximately $141 million, as amended, through January 31, 1998, generally for the purpose of financing construction loans made by the Corporation. Borrowings are evidenced by notes which mature on January 31, 1999. 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 1996 and 1995 were at interest rates which ranged from 8.25% to 9.00%, and 7.25% to 9.00%, respectively. At June 30, 1996 and 1995, the interest rates on these borrowings were 8.25% and 9.00%, respectively. At June 30, 1996 and 1995, the outstanding balances under this agreement were $95.6 million and $90.7 million, respectively.

On July 31, 1992, CLC entered into a credit agreement with certain banks. Under the terms of the agreement, the banks have agreed to lend CLC up to approximately $24 million. Borrowings are evidenced by notes which bear interest at the prime lending rate of the agent bank and mature on June 30, 1998. The notes are secured by the principal and interest payments due under the mortgage loans issued by CLC ("CLC Loan Proceeds"). The lenders under this facility have no recourse against the Corporation, except for the CLC Loan Proceeds. At June 30, 1996 and 1995, the interest rate on this borrowing was 8.25% and 9.00%, respectively, and the outstanding balance was $2.3 million and $0.7 million, respectively.

7 NONRECOURSE COLLATERAL TRUST NOTES

As of June 30, 1996, the Corporation is a party to three note purchase agreements with certain banks and others whereby these parties have agreed to purchase up to approximately $209.3 million of nonrecourse collateral trust notes issued by the Corporation, subject to certain conditions. The three facilities are a $157.9 million facility furnished by CPC member banks, a $45.2 million facility furnished for the Upstate lending area by CLC member banks, and a $6.2 million facility furnished by members under a financing program involving purchases of FNMA securities backed by CPC-originated loans.

Notes issued pursuant to these agreements are secured solely by the pledge of specific permanent mortgage loans originated by the Corporation. 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.

At June 30, 1996 and 1995, the remaining outstanding principal balances of these notes were approximately $93.0 million and $68.6 million, respectively, which amounts are equal to the principal balances of the pledged mortgages. During 1996, approximately $36.4 million of loans secured by one of the collateral trust note series were sold by the trustee. The sale of these loans increased the Corporation's available commitment under the collateral trust note arrangement. The available portion of the amount committed under the amended agreement at June 30, 1996, was approximately $116.2 million.

8 MORTGAGE LOANS SOLD

The Corporation is a party to buy/sell agreements with the New York City Police Pension Fund, the New York City Employees Retirement System, the Teachers Retirement System of the City of New York and the New York State Common Retirement Fund (collectively, the "Pension Funds"). These agreements, as amended, provide among other things, for the Pension Funds to purchase certain permanent mortgages originated by the Corporation in a collective aggregate amount of up to $500 million (as amended in 1995).

Through June 30, 1996 and 1995, 266 and 227, loans respectively, with an original principal amount of approximately $208 million and $172 million, respectively, have been sold to the Pension Funds. At these dates, the Pension Funds were committed to purchase approximately $166 million and $191 million, respectively, 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, 1996 and 1995, was approximately $126 million and $137 million, respectively.

9 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 deposits for unadvanced loan commitments and the interest earned thereon 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.

At June 30, 1996 and 1995, participants' deposits consisted of the following:

	1996	1995
HPD:		
Unadvanced loan commitments and accumulated interest on short-term investments	$ 48,392,618	$ 57,140,467
Mortgage interest collections and other deposits	2,255,367	2,066,443
Total HPD	50,647,985	59,206,910
Other participants	2,712,855	3,586,569
Total participants' deposits	**$53,360,840**	**$62,793,479**

10 CONSTRUCTION AND PERMANENT LOAN SERVICING

The Corporation receives an annual servicing fee from a governmental agency equal to 1/4 of 1% per annum on the aggregate advances made on loans and 1/4 of 1% per annum on the aggregate balances of deposits not yet advanced for construction loans in which the agency has agreed to participate. At June 30, 1996, aggregate loan balance of the portfolio serviced and unadvanced deposits were $611.7 million and $30.5 million, respectively.

The Subsidiary receives an annual servicing fee from FHLMC ranging from 1/8 of 1% to 1/2 of 1% per annum on the aggregate outstanding balance of loans serviced for FHLMC. At June 30, 1996, the aggregate loan balance of the portfolio was $277.2 million.

The Corporation receives an annual servicing fee from Pension Funds equal to 1/4 of 1% per annum on the aggregate outstanding balance of loans serviced for the Pension Funds. At June 30, 1996, the aggregate loan balance of the portfolio was $188.3 million.

The Corporation services the mortgage loans pledged as collateral for the nonrecourse collateral trust notes. The Corporation receives an annual servicing fee equal to 1/4 of 1% per annum on the aggregate outstanding balance of the pledged mortgage loans. At June 30, 1996, the aggregate loan balance of the portfolio was $93.0 million.

The Corporation also services mortgage loans for other entities and receives an annual servicing fee ranging from 1/4 of 1% to 1/2 of 1% per annum of the aggregate outstanding balance of loans serviced. At June 30, 1996, the aggregate loan balance of the portfolios was $249.5 million.

11 INTEREST EXPENSE

Interest expense consisted of the following for the years ended June 30, 1996 and 1995:

	1996	1995
Interest on revolving credit agreement	$ 8,828,945	$ 8,019,390
Interest on escrows	524,728	390,880
Interest on construction performance deposits	376,800	370,343
Total	**$9,730,473**	**$8,780,613**

12 COMMITMENTS AND CONTINGENCIES

The Corporation leases office space in seven locations under agreements which expire at various times through 2003. Annual base rents are subject to escalations as provided for in the leases. Rental expense for 1996 and 1995 was $516,315 and $529,044, respectively, and is included in office expenses in the accompanying consolidated financial statements. The minimum annual rentals under noncancelable leases are due as follows:

1997	$ 452,528
1998	446,827
1999	365,128
2000	367,369
2001	361,608
Thereafter	615,480
Total	**$2,608,940**

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.

In 1996, the Subsidiary signed a conditional contract to purchase all of the unsold condominium units, which are estimated to be 50% of the approximately 12,200 total condominium units, all of the garage units, and approximately 400,000 square feet of retail space at a mixed-use complex located in the Bronx, NY. The Subsidiary has provided a refundable deposit to the owner and has deferred certain additional costs related to this project, which are included in other assets. The Subsidiary has a one year due diligence period with regards to the project. The Subsidiary is negotiating with certain other parties to take part in the venture, performing financial and engineering due diligence and evaluating various financing alternatives for this project. Assuming a closing occurs under the contract, it is presumed that additional third-party investors may hold significant interests in the project.

13 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, 1996 and 1995, was $332,008 and $270,203, respectively. The net plan assets available for benefits at June 30, 1996, the last valuation date of the Plan, was $3,081,184.

14 NEW ACCOUNTING PRONOUNCEMENTS

In 1994, the American Institute of Certified Public Accountants issued Statement of Position 94-6, "Disclosure of Certain Significant Risks and Uncertainties" ("SOP 94-6"). CPC has adopted the disclosure provisions of SOP 94-6 in the accompanying financial statements.

In 1993, the FASB issued SFAS No. 117, "Financial Statements of Not-for-Profit Organizations." SFAS 117 establishes standards for general-purpose external financial statements provided by a not-for-profit organization. This statement requires that all not-for-profit organizations provide a statement of financial position, a statement of activities, and a statement of cash flows. It also amends SFAS Statement No. 95, Statement of Cash Flows, to extend its provisions to not-for-profit organizations. CPC has adopted SFAS 117 in the current year and has presented the required cash flow statement.

In 1995, the FASB issued SFAS No. 122, "Accounting for Mortgage Servicing Rights" and, in 1996, SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." SFAS 122 requires companies that acquire mortgage servicing rights, through either the purchase or origination of mortgage loans, and subsequently sells or securitizes these loans and retain the servicing rights, should allocate the total cost of the mortgage loans between the mortgage servicing rights and the loans based upon their relative fair values, if it is practicable to estimate those fair values. SFAS 125 incorporates and supersedes SFAS 122 and requires that an entity recognize all financial assets and servicing assets it controls and liabilities it has incurred, derecognize financial assets when control has been surrendered, and derecognize liabilities when extinguished. It also provides standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. These Statements will be adopted by the Corporation prospectively in fiscal 1997. Adoption of these Statements is expected by management to have a significant impact on the operations of the Corporation as CPC originates and sells mortgage loans and retains the servicing rights.

DIRECTORS & OFFICERS

BOARD OF DIRECTORS

Jerome R. McDougal, *Chairman*
Chairman & CEO, River Bank America

John A. Somers, *Vice Chairman*
Executive Vice President, Teachers Insurance & Annuity Association

Michael Hegarty, *Chairman of the Executive Committee*
Vice Chairman, The Chase Manhattan Bank

Gerald Clark
Senior Executive Vice President & CIO, Metropolitan Life Insurance Company

Jill M. Considine
President, New York Clearing House Association

Spencer S. Crow
President (ret.), Maple City Savings & Loan Association

Robert M. Curley
Senior Executive Vice President, Key Bank of New York

George L. Engelke, Jr.
President & CEO, Astoria Federal Savings & Loan Association

Peter J. Finley
Vice President, The Equitable Life Assurance Society of the United States

Pamela P. Flaherty
Senior Vice President, Citicorp

William C. Frentz
Vice President, Real Estate Investments, Guardian Life Insurance Company of America

Harry D. Garber
Vice Chairman (ret.), The Equitable Financial Companies

Richard M. Gunthel
Senior Managing Director, BT Securities Corporation, Bankers Trust New York Corporation

Charles J. Hamm
Chairman, President & CEO, Independence Savings Bank

Richard A. Kraemer
Vice Chairman, Republic New York Corporation

Michael D. Lappin
President & CEO, The Community Preservation Corporation

Robert O. Lehrman
President & CEO, Community Bankers Association of New York State

Philip L. Milstein
President & CEO, Emigrant Savings Bank

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

William H. Rincker
Chairman & CEO, BSB Bank and Trust

Robert W. Shippee*
Senior Vice President, The Chase Manhattan Bank

Timothy J. Welch*
Senior Executive Vice President, Equitable Real Estate Investment Management, Inc.

*RESIGNED DURING 1995-96

CLC DIVISIONAL BOARD

William H. Rincker, *Chairman*
President & CEO, BSB Bank and Trust

Spencer S. Crow, *Co-Vice Chairman*
President (ret.), Maple City Savings and Loan Association

Robert M. Curley, *Co-Vice Chairman*
Senior Executive Vice President, Key Bank of New York

David R. Alvord
President & CEO, First National Bank of Cortland

Thaddeus L. Antos*
Chairman (ret.), Fulton Savings Bank

John W. Bennett*
Chairman & CEO, Chemung Canal Trust Company

Michael P. Brassel
Regional President, Evergreen Bank, N.A.

Robert J. Brittain
President & CEO, Amsterdam Savings Bank, FSB

Mosie R. Hannah
Senior Vice President, Fleet Bank of New York

Lewis P. Jones III
Vice Chairman, Chase Community Development Corp.

Michael D. Lappin
President & CEO, The Community Preservation Corporation

J. William Lempka
President & CEO, Ellenville National Bank

Harry L. Robinson
President & CEO, Cohoes Savings Bank

Edward C. Schulz
Senior Vice President, First Federal Savings and Loan Association of Rochester

*RESIGNED DURING 1995-96

MORTGAGE COMMITTEES

Kathy L. Davis, *Chairwoman, Central Region*
Vice President, First National Bank of Cortland

Joseph S. Morgano, *Chairman, NYC*
Executive Vice President & Mortgage Officer, Independence Savings Bank

Edward C. Schultz, *Chairman, Western Region*
Regional Senior Vice President, First Federal Savings & Loan Association of Rochester

Paul Sherman, *Chairman, Eastern Region*
Senior Vice President, Evergreen Bank, N.A.

Margaret A. O'Leary, *Chairwoman, Hudson Valley*
Real Estate Vice President, New York Life Insurance Company

Anthony J. Alfieri*
Commercial Loan Officer & Department Manager, Cohoes Savings Bank

James H. Bason
Vice President & Community Development Officer, The Bank of New York

G. Gary Berner
Chief Lending Officer, Lockport Savings Bank

Terry L. Bertram
President, Maple City Savings & Loan Association

Diane Borradaile*
Vice President, Chase Community Development Corp.

George C. Campbell*
Senior Vice President, First National Bank of the Hudson Valley

Karen Cummings
Vice President, Key Bank of New York

Steve Dormer
Director of Business Development, Provident Savings Bank, F.A.

Richard Driscoll
Assistant Vice President, OnBank & Trust Company

Richard C. Edel
Vice President & Senior Loan Officer, Amsterdam Savings Bank, FSB

Joseph G. Eicheldinger
Vice President, The Chase Manhattan Bank

Frank J. Fogg
Vice President, Lending, MSB Bank

Frank Gaetano
Vice President, The Chase Manhattan Bank

Bernice L. Giscombe
Vice President, Citibank, N.A.

Gary K. Hart
Vice President, BSB Bank and Trust

Kenneth A. Houghton*
Vice President, The Chase Manhattan Bank

Susan M. Hyman*
Vice President, Chase Manhattan Development Corp.

Stephen C. Kirby
Vice President, Herkimer County Trust Company

Michael J. Kolanach
Senior Commercial Loan Officer, Cohoes Savings Bank

Michael D. Lappin
President & CEO, The Community Preservation Corporation

John Lamery
Vice President, First National Bank of the Hudson Valley

Bruce A. Lehnertz
Director - New Investments, Teachers Insurance & Annuity Association

Murray F. Mascis
Executive Vice President, The Dime Savings Bank of New York, FSB

Daniel McKillop
Senior Credit Officer, New York Life Insurance Company

William S. Merle
Vice President, The Chase Manhattan Bank

Norman V. Nichols
Senior Vice President, Key Bank of New York

Thomas Nolan
Vice President, Marine Midland Bank, N.A.

Jansen Noyes, III
Senior Vice President, Emigrant Savings Bank

James L. Rykowski*
Senior Vice President, Key Bank of New York

W. David Schermerhorn
Vice President/Loan Administrator, Oswego City Savings Bank

Robert F. Simington
Vice President & Senior Mortgage Officer, Putnam County Savings Bank

Joseph E. Sledge
Vice President, MetLife

Brian S. Smith
Assistant Vice President, Fleet Bank of New York

Michael Swearingen
Vice President, Chase Community Development Corp.

*RESIGNED DURING 1995-96

OFFICERS AND STAFF

Michael D. Lappin, *President & CEO*
John M. McCarthy, *Executive Vice President & COO*

CENTRAL OFFICE

Carolyn Au, *Vice President*
Rose Browne, *Director of Single Family Lending*
Kathleen A. Dunn, *Senior Vice President*
Nancy G. Feldman, *Vice President*
Eric P. Graap, *Treasurer & Chief Financial Officer*
Jack Greene, *Senior Vice President*
Richard A. Kumro, *Vice President, General Counsel & Secretary*
Dianna Look, *Assistant Vice President*
Dale F. McDonald, *Senior Vice President*
Paul Park, *Controller*
Susan M. Pollock, *Vice President*
Brenda Ratliff, *Assistant Director of Communications*

MANHATTAN/BRONX OFFICE

Bruce Dale, *Senior Vice President*
Ben Carter, *Mortgage Officer*
Richard P. Conley, *Vice President*
Nancy Gonzalez, *Assistant Mortgage Officer*
Gunnel Rydstrom, *Mortgage Officer*
Reginald J. Spencer, *Assistant Mortgage Officer*

BROOKLYN/QUEENS/STATEN ISLAND OFFICE

Mary A. Brennan, *Senior Vice President*
Patricia Figueroa, *Mortgage Analyst*
Susan E. Foresta, *Assistant Vice President*
Lisa Getter, *Junior Mortgage Officer*
Justin Peyser, *Mortgage Officer*
Anita Pins, *Mortgage Officer*

HUDSON VALLEY OFFICE

Thomas P. McGrath, *Senior Vice President*
Eileen M. Cronin, *Assistant Mortgage Officer*
Joseph Czajka, *Assistant Mortgage Officer*
Sadie McKeown, *Vice President*
Douglas L. Olcott, *Neighborhood Mortgage Officer*
Mark D. Spiegel, *Mortgage Officer*

CLC DIVISION**

Thomas P. McGrath, *Executive Vice President*

Central Region
David S. Michel, *Vice President*

Eastern Region
Anders Tomson, *Vice President*

Western Region
William J. Connors, *Vice President*
Michael Clarke, *Mortgage Officer*

**CLC IS AN UNINCORPORATED DIVISION OF THE COMMUNITY PRESERVATION CORPORATION

CPC RESOURCES, INC.***

Directors
Gerald Clark
Theodossios Athanassiades*
William C. Frentz*
Harry D. Garber
Richard M. Gunthel
Michael Hegarty
Richard A. Kraemer
Michael D. Lappin
Robert O. Lehrman
Jerome R. McDougal
Philip L. Milstein
Morton Olshan*
John A. Somers

Officers
Michael D. Lappin, *President & CEO*
John M. McCarthy, *Executive Vice President*
Kathleen A. Dunn, *Executive Vice President for Development*
Richard A. Kumro, *Vice President & Secretary*
Eric P. Graap, *Treasurer & Chief Financial Officer*
Jack Greene, *Senior Vice President*
Dale F. McDonald, *Senior Vice President*
Carolyn Au, *Vice President*
Dianna Look, *Assistant Vice President*

***CPC RESOURCES, INC. IS A WHOLLY OWNED SUBSIDIARY OF THE COMMUNITY PRESERVATION CORPORATION.

*RESIGNED DURING 1995-96

CPC OFFICES

CENTRAL
5 West 37th Street ≈ New York, NY 10018 ≈ (212) 869-5300

MANHATTAN/BRONX
3154 Albany Crescent ≈ Bronx, NY 10463 ≈ (718) 601-6600

BROOKLYN/QUEENS/STATEN ISLAND
One Metrotech Center, North ≈ Suite 1001 ≈ Brooklyn, NY 11201
(718) 522-3900

HUDSON VALLEY
245 Saw Mill River Road ≈ Hawthorne, NY 10532 ≈ (914) 747-2570

LONG ISLAND
6851 Jericho Turnpike ≈ Suite 230 ≈ Syosset, NY 11791 ≈ (516) 364-4800

CLC DIVISON

Central Region
120 East Washington Street ≈ Syracuse, NY 13202 ≈ (315) 476-3173

Eastern Region
1 Metro Park Road ≈ Albany, NY 12205 ≈ (518) 453-1691

Western Region
403 Main Street ≈ Suite 615 ≈ Buffalo, NY 14203 ≈ (716) 853-0266

CPC PARTICIPATING INSTITUTIONS

COMMERCIAL BANKS

Amalgamated Bank of New York
Arab Bank plc
Banco Popular de Puerto Rico
The Bank of New York
Bank of Tokyo-Mitsubishi Trust Company
Bankers Trust Company
Barclays Bank of New York, N.A.
Canadian Imperial Bank of Commerce (NY)
The Chase Manhattan Bank
Citibank, N.A.
European American Bank
First National Bank of the Hudson Valley
First Union National Bank
Fleet Bank, National Association
Industrial Bank of Japan Trust Company
Marine Midland Bank, N.A.
Morgan Guaranty Trust Company of New York
North Fork Bank
Sterling National Bank and Trust Company of New York
United States Trust Company of New York
Waterhouse National Bank

SAVINGS INSTITUTIONS

Apple Bank for Savings
Astoria Federal Savings & Loan Association
The Dime Savings Bank of New York, FSB
The Dime Savings Bank of Williamsburgh
The East New York Savings Bank
Emigrant Savings Bank
Flushing Savings Bank, FSB
GreenPoint Bank
Home Federal Savings Bank
Home Savings of America, FSB
Independence Savings Bank
Jamaica Savings FSB
The Long Island Savings Bank, FSB
MSB Bank
North Side Savings Bank
Provident Savings Bank, F.A.
Putnam County Savings Bank
Queens County Savings Bank
Republic National Bank of New York
Rhinebeck Savings Bank
Ridgewood Savings Bank
Roosevelt Savings Bank
Walden Savings Bank

INSURANCE COMPANIES

The Equitable Life Assurance Society of the United States
The Guardian Life Insurance Company of America
MetLife
Mutual Life Insurance Company of New York
New York Life Insurance Company,
Phoenix Home Life Mutual Insurance Company
Teachers Insurance & Annuity Association of America

CLC PARTICIPATING INSTITUTIONS

COMMERCIAL BANKS

The Adirondack Trust Company
Ballston Spa National Bank
BSB Bank & Trust
The Canandaigua National Bank and Trust Company
Cattaraugus County Bank
Central National Bank of Canajoharie
Champlain National Bank
The Chase Manhattan Bank
Chemung Canal Trust Company
City National Bank & Trust Company
Ellenville National Bank
Evergreen Bank, N.A.
First National Bank of Cortland
The First National Bank of Jeffersonville
First National Bank of Scotia
First State Bank of Canisteo, N.Y.
Fleet Bank of New York
Glens Falls National Bank and Trust Company
The Herkimer County Trust Company
Key Bank of New York
Marine Midland Bank, N.A.
OnBank & Trust Co.
Saratoga National Bank & Trust Company
Solvay Bank
Tioga State Bank

SAVINGS INSTITUTIONS

Amsterdam Savings Bank, FSB
Canton Federal Savings & Loan Association
Catskill Savings Bank
Cohoes Savings Bank
The Dime Savings Bank of New York, FSB
Elmira Savings Bank, FSB
Fairport Savings & Loan Assocation
First Federal Savings and Loan Association of Rochester
Fulton Savings Bank
Greene County Savings Bank
Hudson City Savings Institution
Lake Shore Savings and Loan Association
Lockport Savings Bank
Maple City Savings and Loan Association
Oswego City Savings Bank
Pioneer Savings Bank
Rochester Community Savings Bank
Rome Savings Bank
Savings Bank of the Finger Lakes, FSB
The Savings Bank of Utica

ADDITIONAL INVESTORS

New York City Police Pension Fund
New York City Employees Retirement System
Teachers Retirement System of the City of New York
New York State Common Retirement Fund

DESIGN: JILL SINGER GRAPHICS
EDITOR: PHYLLIS E. GOLDBERG
PHOTOGRAPHY: ELENA BORSTEIN, HERB BUTLER, RONALD R. GLASSMAN, RON LALLY, DAN VECCHIO, CAMILO VERGARA
PRINTING: THOMPSON PRINTING COMPANY