regions



reinvesting

rebuilding



HEADQUARTERS & NYC REGION

28 East 28th Street, 9th Floor New York, NY 10016 212-869-5300 212-683-0694 Fax

HUDSON VALLEY

245 Saw Mill River Road Hawthorne, NY 10532 914-747-2570 914-747-2587 Fax

ALBANY & EASTERN NY

54 State Street, Suite 201 Albany, NY 12207 518-463-1776 518-463-1636 Fax

CENTRAL & WESTERN NY

315 North Clinton Street Syracuse, NY 13202 315-476-3173 (Syracuse) 716-853-0266 (Buffalo) 315-476-3975 Fax

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resilience



repositioning



revitalizing



reestablishing

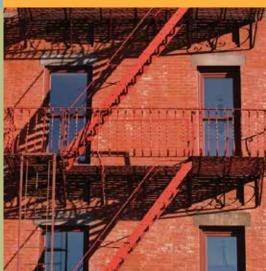
restructure



recovery



relationships





rebuilding **FOR A STRONGER NEW YORK**



restructure



reemerging



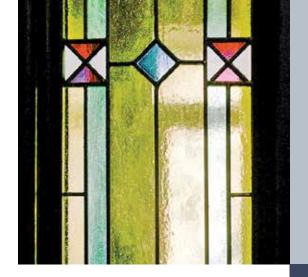
THE COMMUNITY **PRESERVATION** CORPORATION

CPC believes that stable and sustainable affordable housing is the foundation of strong communities and we strive to contribute to comprehensive neighborhood revitalization through our lending and partnerships.

A nationally recognized leader in affordable housing finance, CPC has provided a consistent source of capital to underserved housing markets throughout New York State since our inception in 1974. CPC is committed to delivering financing and technical expertise, and to working closely with a range of community partners to create and preserve affordable housing.

Over our 38-year history, CPC has contributed to the preservation or creation of nearly 145,000 units of affordable housing, initiated numerous downtown revitalizations, and improved the quality and energy efficiency of the multifamily stock.





board of directors

LIQUIDITY During the fiscal year, CPC significantly improved its capital position. In addition to refinancing its primary credit facility, CPC also greatly improved its cash position and repaid a mezzanine loan. During the fiscal year, CPC generated cash by selling loan participations and resolving troubled assets as well as performing loans. This enabled the company to make total debt payments of \$46.8 million and build an unencumbered cash balance of \$37.1 million.

CPC maintains its financial records according to generally accepted accounting principles (GAAP). However, for financial reporting purposes, CPC makes certain non-GAAP adjustments in order to facilitate comparability across different periods. The non-GAAP adjustments are described below.

For the fiscal year ended June 30, 2012, CPC had a non-GAAP net loss of \$6.1 million. This net loss is primarily due to lower loan originations and portfolio runoff (to generate liquidity) which resulted in a 47% decline in net interest income. Other operating revenues are 25% lower than last year primarily due to lower real estate investment income as a result of market rate valuations. To make up for lower operating revenue, CPC has eliminated 27 positions which resulted in a 21% reduction in compensation expense. Active expense management has enabled CPC to reduce other operating expenses by 16%.

FINANCIAL RATIOS The company has several financial covenants it must comply with as a result of entering into the new credit facility. As of June 30, 2012, the company was significantly ahead of all of its covenants. Our loan to value ratio of 92% was 760 basis points favorable to the required covenant level. As of December 31, 2012, the loan to value ratio has reduced to 88%.

NON-GAAP ADJUSTMENTS The non-GAAP adjustments included above eliminate one-time items related to restructuring charges (primarily for refinancing) and severance. Non-GAAP results also exclude fair value accounting adjustments and consolidation of real estate funds where CPC is the primary beneficiary. Net loss for the fiscal year on a GAAP basis was \$23.2 million.

Michael Hegarty * <u>Chairman</u> **Octagon Credit Investors, LLC**

Bruce A. Beal, Jr. * **President Related Companies**

Richard C. De Zego Senior Executive Vice President **HSBC Bank USA**

Thomas Garbutt Managing Director Head of Global Real Estate TIAA-CREF

Todd A. Gomez Senior Vice President Bank of America

Richard M. Gunthel * **Managing Principal True North Management Group**

Robert J. Mueller (ret.)
Senior Vice President The Bank of New York

Gregory R. Reimers REB. Market Manager JP Morgan Chase Bank

Arthur H. Seter, CFA Senior Vice President & Deputy Chief Investment Officer New York Life Insurance Company

D. Kenneth Patton (ret.) **Dean of Real Estate** NY University Real Estate Institute

Ronald F. Poe * President **Ronald F. Poe & Associates**

Anders M. Tomson President **Capital Bank Division at Chemung Canal Trust Company**

Michael J. Wechsler (ret.) **Managing Director/ Centerline Financial Centerline Capital Group**

Managing Director Wells Fargo Multifamily Capital

* CPC Resources Board Members

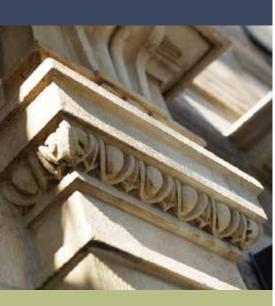




financial highlights

2012 was filled with both challenges and accomplishments for CPC. CPC successfully renegotiated its credit facility with its member banks and on January 31, 2012, converted a \$405 million revolving line of credit into a term loan. The new term loan is amortizing and matures on January 31, 2014. As of June 30, 2012, CPC made amortization payments totaling \$34.3 million which left a term loan balance of \$370.6 million. As of January 2013, amortization payments totaled \$121.3 million, leaving a term loan balance of \$283.6 million.

results



resilience

CPC CONSOLIDATED STATEMENTS (\$000's)	2012	2011
Cash	\$47,520	73,765
Restricted cash	258,736	164,925
Investment in loans, net	299,921	387,957
Investment in real estate	235,358	221,459
Other assets, net	32,314	37,380
Total assets	\$873,849	885,486
Notes payable under credit agreement	\$370,610	404,924
Mortgage notes payable	134,315	123,639
Escrows, deposits and other liabilities	210,575	207,027
Other liabilities	100,940	76,785
Total liabilities	816,440	812,375
Fund balance	41,888	58,303
Noncontrolling interests (NCI)	15,521	14,808
Total fund balance and NCI	57,409	73,111
Total liabilities, fund balance and NCI	\$873,849	885,486
Interest income	\$18,826	25,542
Interest income	(10,862)	(10,575)
Interest income, net	7,964	14,967
Provision for loan losses	(6,434)	(43,500)
Net interest income	1,530	(28,533)
Servicing income	8,224	9,295
Commitment fees	2,733	2,463
Real estate investment income	12,463	19,386
Other income	1,415	1,942
Total revenues	26,365	4,553
Compensation and benefits	18,453	23,498
Other noninterest expenses	12,683	15,019
Total noninterest expenses	31,136	38,517
Pretax revenues over expenses	(4,771)	(33,964)
Income tax expense	(1,513)	(3,374)
Noncontrolling interest	174	170
Excess of expenses over revenues	\$(6,110)	(37,168)

Excludes CPCR Opportunity Fund and CPCR Opportunity Fund II, LLC as well as other non-GAAP adjustments described above Fiscal Year 2012 (7/1/11 – 6/30/12)

Dear Partners,

This past year has been an eventful one for CPC – filled with many successes and some challenges – in which we focused our efforts on stabilizing our lending platform and repositioning ourselves for the future. CPC's commitment to providing a consistent source of capital to the affordable housing industry is stronger than ever, and is reinforced by seeing the need for downtown revitalization in upstate communities, distress in the multifamily stock in New York City, and the devastation left by Superstorm Sandy across the region.



In January 2012, we negotiated a loan extension on our credit facility which enabled us to move forward with new lending in communities across the State. We refocused our efforts on mission-driven lending, specifically on the affordable multifamily rental stock, and are proud of the investment we brought to this market. As always, CPC delivered top-notch customer service and emphasized the long-term sustainability of the buildings we financed.

Throughout the course of 2012, we have worked vigorously to resolve a large portion of our troubled assets in order to drive down our debt and strengthen the quality of our portfolio. These resolutions were a huge driver in our ability to pay down over \$120 million of our term loan, well ahead of our forecasts and business plan. We were also helped by the sale of the Domino Sugar site to Two Trees Management Company, which enabled us to move forward more aggressively in pursuit of new lending opportunities, and allows the Domino site to realize its full potential.



Capital raising initiatives have also been a central focus for CPC. To this end, we recently secured \$250 million in financing from Citi for the construction, rehabilitation and preservation of affordable housing. This capital will help finance the creation or preservation of nearly 6,000 units of much-needed low- and moderate-income housing throughout New York State. One hundred million is specifically designated for construction lending in New York City projects being undertaken by The New York City Department of Housing Preservation & Development and the New York City Housing Development Corporation. We are proud to partner with the City especially in this final year of the Mayor's ambitious "New Housing Marketplace Plan".

CPC will continue to work in tandem with local government and its partners to identify and solve the most pressing problems facing neighborhoods. CPC Resources, Inc. pursued this goal in 2012 by partnering on a range of development projects that needed additional resources and affordable housing expertise to complete.

This has been a very busy year here at CPC/CPCR. We are grateful to our board of directors and many partners for their continued commitment to CPC and our mutual goal of creating and preserving affordable housing in communities across New York. Additionally, we could not have had the success we did in 2012 without our talented and dedicated staff that carried out our mission during this transition period. In 2013, we look forward to exploring new financing tools and products so that we can broaden our ability to meet the capital needs in communities across the State.



RAFAEL E. CESTERO (left)
President & Chief Executive Officer



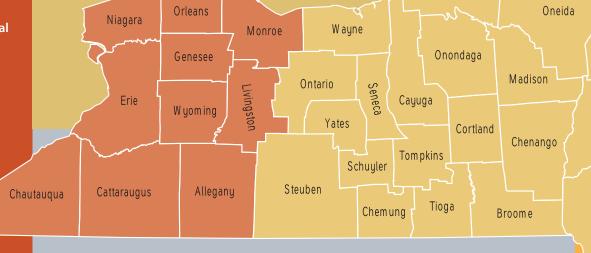
WESTERN NY REGION: Academy Building

Located at 13 South Fitzhugh Street, the Academy Building was built 140 years ago on land donated by Nathaniel Rochester, the City's original founder, and was Rochester's first public school. With CPC construction financing of \$3.7M and CPC **SONYMA-insured Pension Fund** permanent financing of \$3.25M, the building will be historically preserved and converted into 21 upscale market-rate rental apartments. The project also received Federal and State Historic Tax Credit equity and funding from The City of Rochester and New York State's Empire State **Development Corporation.**

CENTRAL NY REGION: The Pike Block

115 W. Fayette St. are excellent examples Scheduled for completion in 2013, it involves the conversion of four historic market-rate residential units and 25,000sf

green building guidelines. In addition to a CPC construction loan of \$13.7M and SONYMA-insured Pension Fund permanent mortgage financing of \$9.6M, this flagship project is the recipient of Federal and Onondaga County, the Downtown Committee and National Grid.





Clinton

Essex

Warren

Saratoga

Albany

Greene

Ulster

Orange

Rensselaer

Columbia

Dutchess

Putnam

West-

Franklin

Hamilton

Fulton

Schoharie

Montgomery Schen-

St Lawrence

Herkimer

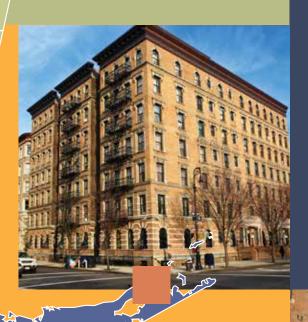
Otsego

Delaware

Sullivan

EASTERN NY REGION: Winner's Circle at Saratoga

CPC's strong collaboration with Freddie Mac continued with a \$13M Freddie Mac permanent loan to refinance a completed Phase II of this Ballston Spa-based apartment complex, which houses 120 units. The loan was originated under Freddie Mac's Capital Markets Execution Program.



NYC REGION:

22 and 24

NYC REGION: Concern Heights Apartments, Brooklyn

This 90-unit mixed-use building, located at 801-805 East NY Ave. in Crown Heights, provides housing & supportive services to formerly homeless individuals recovering from mental illness and to low-income residents. The project's development totaled \$30.8M, and was made possible by collaboration between CPC, NYS Office of Mental Health, NYS Homes and Community Renewal (HCR), **NYS Office of Temporary and** Disability Assistance, NYC Comptroller's Office and NYC Pension Funds, Federal Home Loan Bank of NY, Astoria Federal Savings and National Equity Fund.

HUDSON VALLEY REGION:

Pendell Commons



provides quality affordable housing to families and seniors. In addition to CPC's construction loan of \$9M James Tax Credit Funds provided tax sold to the New York State Common

Oswego

Jefferson

Lewis

Mount Morris Park. Harlem HOME loan of \$1M. CPC's permanent loan will refinance the portion of the existing

CPC Lending FY 2012

2,572 units

\$286 million in public & private investment

2012 lending highlights

resolutions



reconnecting



the CPC difference

To CPC, our loans and investments are not simply financial transactions; each represents CPC's commitment to neighborhoods and families in need of affordable housing. To ensure that projects come to fruition and are as impactful as possible, CPC provides expertise and technical assistance to our borrowers throughout the process.

PARTNERSHIPS CPC works closely with government partners to maximize the impact of their housing programs. By working closely with communities to understand their housing needs, CPC is able to maximize private capital to support those needs and leverage public funds. This combined investment has resulted in nearly 145,000 units of housing. CPC has partners – public, private, or both – in every deal that we do, and we view those collaborations as essential to our success.

LOCAL GOVERNMENT

CPC partners closely with local government in order to contribute to solving the most pressing issues facing communities. The New York City Department of Housing Preservation and Development (HPD) participates in 36% of CPC's construction loans. Many of the loans CPC makes in partnership with the City are to rent regulated apartment buildings in neighborhoods that have seen billions of dollars in City and CPC investment over the past four decades, including those in upper Manhattan, and the South Bronx. The partnership with HPD is crucial to the strength and stability of these neighborhoods.

CPC has a strong history of working with local government and community stakeholders to contribute to downtown revitalizations. In downtown Syracuse, CPC has lent over \$36 million on 13 developments which have fostered residential and retail development, job creation and a more vibrant central business district.

CPC provided a \$6.8 million loan for the rehabilitation of 1520 Sedgwick

Avenue - "The Birthplace of Hip Hop" - in the Bronx. For decades, this former

Mitchell Lama building provided safe and affordable housing for over 100 Bronx

families, but when the owners opted out during the real estate boom, the

building fell into disrepair and foreclosure. In response, the City financed a note

purchase to Workforce Housing Advisors, in order to revitalize the property

and bring it back as affordable housing. Moderate rehabilitation at the

development is underway.

looking ahead

2012 was a year of stabilization and rebuilding for CPC. In 2013 CPC will refocus our lending on our core business – mid-size affordable rental housing - and seek new ways of addressing emerging needs in New York neighborhoods.

CPC CITI PARTNERSHIP In December 2012, CPC secured \$250 million in financing from Citi for the construction, rehabilitation and preservation of affordable housing in NY. This capital will help finance the creation or preservation of nearly 6,000 units of much-needed low- and moderate-income housing throughout the State, including the construction of approximately 3,000 affordable apartments in New York City. The financing being provided represents one of the largest one-time investments in affordable housing in Citi's history and provides CPC with new lending capacity, and a renewed mandate to provide subsidized construction loans in New York City. Financing is also being provided by HPD, and HDC is providing a 10% top loss guarantee on the Fund.

In keeping with CPC's commitment to, and expertise in, retrofit financing, all of the properties renovated under this program will be benchmarked for energy usage and retrofit work scopes will be included in their loans. All buildings burning number 6 oil will be converted to lighter heating fuel to comply with the City's "Clean Heat initiative".

POST-HURRICANE SANDY RECOVERY Rebuilding the housing stock damaged by Hurricane Sandy is one of the most pressing issues our industry faces in the coming years. CPC is committed to offering resources and expertise for the recovery efforts. Our President and CEO, Rafael E. Cestero, was asked to chair the City's "Multifamily Housing Work Group", tasked with recommending ways of bringing capital to owners of storm damaged properties. CPC was proud to announce with HPD, HDC, and Citi, the launch of a \$30 million "Storm Recovery Fund", a pilot program to provide low-cost loans to fund the repair of multifamily buildings damaged by Superstorm Sandy. HPD subsidy will be combined with CPC capital from the CPC Citi Fund.

NEW SOLUTIONS NY has the most sophisticated affordable housing network in the country. CPC's success is the result of a commitment to affordable housing at the State and local level, a vast array of talented practitioners, and various government programs, insurance products, and investors. It is crucial that we continue to seek new areas of investment, and new ways of doing our business. CPC will continue its commitment to downtown revitalizations underway, and look to partner in additional neighborhoods. We will develop new products, like the Hurricane Sandy Fund, to solve emerging problems. And we will work with industry partners to develop new tools that will help us continue to deliver a consistent and flexible source of capital to New York's underserved markets.



relationships



recovery

responsive



retrenching



CPC Resources, Inc.

CPC Resources, Inc. (CPCR) is an independent, wholly-owned subsidiary of CPC. In 2012, CPCR worked with a sharp focus on public-private partnerships that brought its expertise and capital to complex projects that need additional resources to complete. Like in our lending platform, CPCR's projects are private-public partnerships, and have buy-in from communities and local government.

Madison Putnam, one of CPCR's newest developments in Bedford
Stuyvesant, Brooklyn, truly underscored the need for NYC affordable housing
when it received 10,000 applications for its 48 low-income rental units.
The project was awarded to CPCR through an RFP and built upon a scattered
site of formerly vacant lots that were originally planned as a low-income
cooperative and restructured as rentals with Low Income Housing Tax Credits.

The project was created using CPCR's infill housing model, an efficient, cost-effective prototype designed specifically to fit R-6 zoning. Partners include HPD, East Brooklyn Congregations, the New York City Pension Funds, SONYMA and PNC Bank, N.A.

CPCR's commitment to revitalizing Spring Valley's Main Street continued with the completion of Spring Valley Family Housing, which was co-developed with Rockland Housing Action Coalition (RHAC). The building offers 55 affordable family units and 6,500sf of ground floor commercial space. Directly across the street is Spring Valley Senior Housing, a new CPCR and RHAC project, which features 53 affordable senior units and Four Corners Spring Valley, the commercial rental space on the ground floor of the senior housing complex.

All sites were developed as part of the Village's comprehensive Main Street Urban Renewal Plan to revitalize the Downtown district. Financing for the family site was provided through a collaboration which includes HCR, PNC Bank, the Village of Spring Valley, the Town of Ramapo, Rockland County, the NYS Empire State Development Corporation and JP Morgan Chase.

Overall, CPCR has developed over \$32M of affordable units and commercial retail in the Village of Spring Valley.

In Auburn, NY, the Auburn Housing Authority (AHA) worked with CPC to replace every 1950's furnace and hot water maker in every unit, and replaced 19 roofs using AHA funds. Lighting and refrigerators were also replaced in every apartment. Master metered for gas and electric, CPC has documented savings of 26.2% reduction in heating gas usage and 54.8% reduction in hot water and stove usage. Since the retrofit, vacancy has gone from 20% to 3%.

A STABLE SOURCE OF FINANCING Most of CPC's loans are 100% insured by the State of New York Mortgage Agency (SONYMA). The SONYMA-insured mortgages provide a source of long-term, fixed-rate capital to stabilize multi-family properties in low- and moderate-income communities across the state while offering the State and City pension systems a secured, long-term investment. CPC has delivered nearly \$1.3 billion in SONYMA-insured loans to the NYC and State pension funds. This crucial collaboration with the pension fund has helped to create or preserve over 40,000 units of affordable housing.

ENERGY EFFICIENCY Throughout 2012, CPC continued its pioneering work in the area of energy efficient financing. Under the Green Financing Initiative (GFI), which is offered to every building we finance, CPC staff benchmarks a property's energy use and identifies ways for the owner to save money with a retrofit. Nearly 300 buildings were benchmarked in 2012. CPC loans incorporate comprehensive energy retrofit scopes intended to drive down energy usage in buildings, adding cash flow, and improving property values.

CPC was proud to be chosen as an administrator for the State's Weatherization
Assistance Program. With weatherization funds, CPC successfully retrofitted
1,200 units of housing, well ahead of the goal of 800 units. Weatherization dollars
were used to enhance scopes and reduce the costs of building rehabilitation
work CPC financed.

This typical NYC 1920 walkup building at 510 West 188th Street was going through a mod rehab, and added a full weatherization package at a cost of \$4,000 per apartment. Post-retrofit, heating and hot water fuel usage declined (weather adjusted) 63.7%. Fuel costs fell on average \$2,177 per apartment, per year.



recognizing



