

A report to:
Hon. Edward I. Koch, Mayor
Hon. Harrison J. Goldin, Comptroller
Hon. Robert J. Bott, Director of Management and Budget

New York City Housing Development Corporation

Annual Report 1977

November 1, 1976 to October 31, 1977

Submitted by
The Chairman and Members of the
New York City
Housing Development Corporation

Table of Contents

- 2 Chairman's Report
- 3 Members and Executive Staff
- 4 HDC Housing Finance Program
- 6 HDC Accomplishments
- 9 Report of Independent Auditors
and Audited Financial Statements

The New York City Housing Development Corporation
42 Broadway Tenth Floor New York, New York 10004

Chairman's Report

Last year, the New York City Housing Development Corporation saw the first fruits of a project begun the preceding year: to give New York City significant help in weathering its severe financial crisis. It did so by aiding the City to obtain Federal insurance for its Mitchell-Lama mortgage portfolio. At the time Federal insurance was obtained, the Mitchell-Lama mortgages were modified and recast into insured first mortgages, which the Corporation retained, and non-insured second mortgages, which were assigned to the City. HDC then used the insured mortgages either for outright sale or as security for bonds.

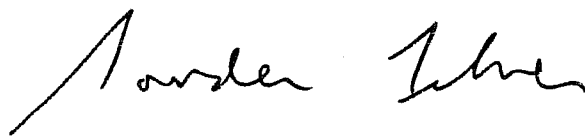
The first step in this process was the sale of six insured mortgages to Unity Savings Association; the second was a bond issue of \$70,000,000 secured by another twelve such mortgages, and purchased by six thrift institutions. The bond sale was an innovative process. It represented the first time that tax-exempt, modified pass-through bonds backed by Federally insured mortgages were sold to purchasers under an agreement that embodied a forward commitment at a fixed interest rate. That commitment covered up to \$230,000,000 more in bonds, and as the year ended plans were being completed for a second bond issue in the amount of some \$20,000,000.

During the year the Corporation pursued another important goal: maintaining the financial viability of the eight projects it had previously financed. This was no easy task, for the basic economic problems affecting the City plagued both the projects and their tenants. Rising operating costs, especially utilities, required rent increases, but the tenants in many cases were unable to meet the levels required. This problem was met by negotiation among HDC, project owners, and tenants, in an attempt to protect everyone's interests. At the end of the fiscal year all payments due to bondholders had been met, and there had been no necessity to call upon HDC's Capital Reserve Fund.

The Corporation also continued to seek ways to finance rehabilitation and thus continue to carry out the City's housing policy. In view of its still limited access to the market, HDC explored various possible security devices. These included the Federal coinsurance program and participatory relationships with government or private thrift institutions. In addition, the City's housing agency and HDC received a set-aside of Federal housing assistance payments under Section 8 of the U.S. Housing Act. These subsidy funds, covering approximately 1000 units, were earmarked largely for rehabilitation projects. At year end, the two agencies were working together to develop either bond or mortgage financing mechanisms which would allow them to proceed with the projects.

Thus, over the year, the Corporation made a substantial contribution to the City's cash flow, helped

economic stability, and made progress in developing a program for financing housing rehabilitation. The Corporation itself remained financially sound, so that it did not need to turn to City or State sources for replenishment of its Capital Reserve Fund. In the coming year, HDC hopes to complete the Mitchell-Lama refinancing and to move forward with a financing program for the rehabilitation of housing in the City.



Sander Lehrer
Chairman

January 17, 1978

Members and Executive Staff

The membership of the Corporation consists of the Commissioner of the Department of Housing Preservation and Development of The City of New York (who is designated by the New York City Housing Development Corporation Act as Chairman of the Corporation), The Director of Management and Budget of The City of New York, and the Finance Commissioner of The City of New York, serving *ex officio*, and four public members, two appointed by the Mayor and two appointed by the Governor. A minimum of four members is required to bind the Corporation.

Sander Lehrer

Chairman and Member ex officio

Mr. Lehrer is Commissioner of the Department of Housing Preservation and Development of The City of New York. His immediately prior position was Assistant Commissioner for Legal Affairs for that Department, working on the development, formulation, and interpretation of laws, rules, and regulations, participating in policy-making decisions, and supervising the legal staff. Mr. Lehrer was in private practice for eight years, specializing in real estate, general corporate work, and commercial litigation.

Thomas E. Dewey, Jr.

Vice Chairman and Member (serving pursuant to law)

Mr. Dewey is founder and President of Thomas E. Dewey, Jr. & Co., Inc., a firm specializing in financial advisory services. He is also a Trustee of Lenox Hill Hospital and of the Harlem Savings Bank. Formerly he was a General Partner in the investment banking firm of Kuhn, Loeb & Co.

Robert J. Bott

Member ex officio

Mr. Bott is Director of Management and Budget of The City of New York. Previously Deputy Director of that office, he had served earlier as Assistant Dean for Budget Administration of the City University, Budget Director and Deputy Assistant Administrator for Administrative Management of the New York City Housing and Development Administration, Budget Director of the Boston Redevelopment Authority, and Financial Advisor to the Government of Brazil.

Pazel G. Jackson, Jr.

Member (serving pursuant to law)

Mr. Jackson is a Vice President of The Bowery Savings Bank of New York. He was formerly Assistant Commissioner of the New York City Department of Buildings and Chief of Design of the New York World's Fair Corporation.

Ms. Frances Levenson

Member (term expires January 1, 1979)

Ms. Levenson is Director of Urban Housing and Vice President of The New York Bank for Savings,

where she is in charge of the Bank's program of sponsoring, financing and promoting low and moderate income housing. She was previously Deputy Commissioner for Housing Sponsorship in the Department of Development of New York City's Housing and Development Administration. She had formerly been General Counsel to the City Commission for Human Rights.

Gilbert MacKay

Member (term expires December 31, 1977)

Mr. MacKay is founder and Chairman of the Board of MacKay-Shields Financial Corporation, an investment management firm which deals primarily with corporate pension trust clients.

Harry S. Tishelman

Member ex officio

Mr. Tishelman is Commissioner of Finance of The City of New York. He had previously served the City's Finance Administration in several capacities, most recently as First Deputy Finance Administrator. Before entering public service, Mr. Tishelman was in private law practice. He is a member of the New York State Bar and a Registered Public Accountant of New York State.

Harold Kuplesky

Executive Director

Mr. Kuplesky is an attorney with extensive experience in housing. He has served the Corporation since its creation as Housing Analyst and then Deputy Executive Director. Previously he was Assistant to the First Deputy Commissioner, New York City Housing and Development Administration. Mr. Kuplesky was also a planner for the New York State Office of Planning Coordination and the New York State Division of Housing and Community Renewal.

Roger C. Simons

*Deputy Executive Director/
General Counsel and Secretary*

Mr. Simons, an attorney and previously Assistant Counsel of the Corporation, is experienced in both the public and private sectors of the real estate and construction fields. Prior to his association with the Corporation he served as Senior Attorney with the Department of Development of the New York City Housing and Development Administration and had been Vice President and General Counsel of a major eastern developer.

John L. Warren

Treasurer

Mr. Warren is a certified public accountant. He was formerly the Director of Finance for the City of New Rochelle, New York, Accounting Executive of the County of Nassau, New York, and Comptroller of the Incorporated Village of Rockville Centre, New York.

HDC Housing Finance Program

Need

Since the enactment of New York State's Limited Profit Housing Companies Law in 1955, The City of New York has borrowed over one billion dollars from the public in order to finance limited-profit housing projects. This ambitious commitment strained the City's constitutional capacity, upon which there are many other claims in addition to housing. The Corporation was created as a supplementary and alternative vehicle for borrowing money for housing projects without directly encumbering the City's own credit. During the City's fiscal crisis the Corporation has aided the City in the refinancing of its limited-profit housing mortgages.

Powers and Authorization

The Corporation is authorized by its enabling act to make loans for new construction or for rehabilitation of multifamily housing and to obtain the funds therefor by issuing its notes and bonds. It may make both types of mortgage loan to housing companies in accordance with the provisions of Article II (the Mitchell-Lama program) of the Private Housing Finance Law. Under Article VIII of the same law, the Corporation may make rehabilitation loans to owners of existing multiple dwellings. In both cases, the loans must serve the public purpose of providing residential accommodations to persons and families whose need for safe and sanitary housing is not being met in New York City by unassisted private enterprise. The maximum income of persons and families occupying such housing, the rentals and carrying charges payable, and the profit of housing companies are determined and regulated by law.

The Corporation is also authorized to acquire certain mortgages which secure loans made by The City of New York under the Mitchell-Lama program, and which the City intends to sell or assign to the Corporation to enable it to raise cash on the City's behalf. Mortgages acquired from the City are to be insured by the Federal government and either sold or used as security for the sale of bonds. The net proceeds of the sale of the mortgages or the bonds will go to the City.

In 1977, the Corporation was authorized (1) to develop its own program for financing the rehabilitation of housing in New York City where the mortgages securing such loans were insured or coinsured by the Federal government, and (2) to participate with The City of New York and/or private investors to make rehabilitation loans in accordance with the provisions of Article XV of the Private Housing Finance Law.

In addition, the Corporation is authorized to issue taxable bonds if such bonds are either guaranteed or subsidized by the Federal government pursuant to Section 802 of the Housing and Community Development Act of 1974.

The Corporation has been authorized by the New York State Legislature to sell notes and bonds up to a total of \$800,000,000, or such amount as shall not cause its Capital Reserve Fund (defined below) to exceed \$85,000,000. In 1977, the State Legislature authorized the Corporation to issue bonds for any corporate purpose without making a deposit into Capital Reserve Fund.

Existing Financing Programs

Pursuant to the above powers and authorization, the Corporation has two operational programs. The first covers obligations issued pursuant to the General Housing Bond Resolution and the second relates to the issuance of bonds pursuant to the Multifamily Housing Limited Obligation Bond Resolution encompassing the refinancing of mortgages acquired from The City of New York.

A. General Housing Bonds. Funds for the payment of debt service on these bonds come primarily from the payments made by the mortgagors of the projects financed by the Corporation pursuant to the General Housing Bond Resolution. These payments include principal, interest, mortgage origination fees, and annual service charges. The funds required to be paid by the mortgagors may be derived in part from payments made by the U.S. Department of Housing and Urban Development under the terms of subsidy contracts. Under the Resolution, deficiencies in such payments may be made up from monies on deposit in the General Reserve Fund.

Bonds issued by the Corporation pursuant to the General Housing Bond Resolution are secured by a pledge of all mortgages financed in whole or in part by the proceeds of the bonds and by various funds and accounts including the Capital Reserve Fund. The Capital Reserve Fund is made up of the maximum annual debt service for each issue of General Housing Bonds and must be funded from the proceeds of each bond issue, if not from another source. If, for any reason, this Fund should fall below its required level, then the Chairman of the Corporation must certify that fact to the Mayor and the Director of the Budget of The City of New York. If the City fails or is unable to restore the Capital Reserve Fund to the required minimum, either from budgetary funds or from borrowings as authorized by the Corporation's enabling Statute, then the Chairman must so certify to the State Comptroller, who is then required to pay to the Corporation the amount necessary to restore the Fund to its required level. The Comptroller is to make this payment out of the first monies available from the next payment of unallocated per capita State aid to the City (the only prior claimant to this money is the City University Construction Fund). Any such payment would be a non-interest-bearing loan from the City to the Corporation.

B. Multifamily Housing Limited Obligation Bonds. Bonds issued by the Corporation under its Multifamily Housing Limited Obligation Bond Resolution are not secured by the Capital Reserve Fund or any of the funds and accounts established under the General Housing Bond Resolution. The primary security for these bonds is the Federal mortgage insurance obtained at the time of the acquisition of a Mitchell-Lama mortgage from the City of New York. Debt service on any series of bonds is paid only from monies received on account of the insured mortgage securing that series, including payments made by, or on behalf of, the mortgagor or by the Federal insurer. Bonds issued under this resolution are structured as modified pass-through obligations.

Rent Variance Power

To ensure the continued financial viability of the project mortgages it finances, the Corporation is empowered to vary the rentals charged. Whenever it finds that the maximum rentals being charged are not sufficient to meet the mortgagor's necessary payments of all expenses (including fixed charges, sinking funds, reserve, and dividends), the Corporation may request the mortgagor to apply to the New York City Department of Housing Preservation and Development (HPD), formerly HDA, for permission to vary the rentals so as to obtain sufficient income. If the mortgagor does not do so within thirty days, the Corporation may request HPD to take action upon its own motion to vary the rental rate. If HPD fails to do so within sixty days, the Corporation may itself vary the rental rate. Pursuant to the General Housing Bond Resolution, the Corporation has covenanted to exercise such power for projects financed thereunder. However, in cases where projects benefit from any Federal housing program of financial assistance, such rental increases are subject to the approval of the U.S. Department of Housing and Urban Development.

HDC Notes and Bonds as Legal Investments

Under the provisions of Section 662 of the New York City Housing Development Corporation Act, the Corporation's notes and bonds are made securities in which all of the following may properly and legally invest funds, including capital in their control or belonging to them: all public officers and bodies of the State of New York and all municipalities and municipal subdivisions of the State; all insurance companies and associations and other persons carrying on an insurance business; all banks, bankers, trust companies, savings and loan associations, building and loan associations, investment companies, and other persons carrying on a banking business; administrators, guardians, executors, other fiduciaries; and all other persons whatsoever who are now, or may hereafter be authorized to invest in bonds or in other obligations

of the State. The notes and bonds are also securities which may be deposited with and may be received by all public officers and bodies of the State and municipalities and public corporations for any purpose for which the deposit of bonds or other obligations of the State is now or may hereafter be authorized.

Tax Exemption

In the opinion of Bond Counsel to the Corporation, the interest on the Corporation's notes and bonds is exempt from (i) Federal income taxes under the existing statutes and rulings issued by the Internal Revenue Service and (ii) New York State and New York City income taxes; except that Bond Counsel expresses no opinion as to the exemption from Federal income taxes of such interest for any period during which any bond or note is held by a person who, within the meaning of Section 103(c)(7) of the Internal Revenue Code of 1954, as amended, is a substantial user of the facilities with respect to which proceeds of the notes or bonds were used or a related person.

HDC Accomplishments

As the 1977 fiscal year began, the New York City Housing Development Corporation was examining ways to help New York City weather its financial crisis. Under consideration were two approaches involving the use of the City's Mitchell-Lama mortgage portfolio. Both of these depended upon securing Federal insurance on the mortgages pursuant to Section 223(f) of the National Housing Act. Once insured, the mortgages could either be sold directly in the secondary mortgage market or serve as security for bond issues of the Corporation.

During 1976-77, both of these possibilities were realized. The United States Department of Housing and Urban Development committed itself to insuring parts of the existing mortgages of twenty-five New York City Mitchell-Lama projects. It was agreed between HDC and the City that the mortgages would be assigned to HDC and modified and recast into a Federally insured first mortgage, which HDC would either sell or use to secure bonds, and an uninsured subordinate mortgage which would be assigned to the City.

In February, the first set of insured mortgages was sold on a competitive basis in the secondary mortgage market to Unity Savings Association of Chicago. Unity paid \$21,060,300 for the six mortgages, or 99.92 percent of their total face amount. The mortgages carried an annual interest rate of 8½ percent for 40 years.

At the same time, the Corporation was seeking means of using other insured mortgages as backing for bonds, since this arrangement would be more advantageous for the City in the long run. First, the differential between the interest rate on the mortgages and the lower rate on the tax-exempt bonds would result in an income to the City over the life of the bond issue. Second, for certain mortgages it would be possible to lower the mortgage rate and thus achieve a higher insured mortgage, which would carry higher initial proceeds.

An attempt to structure a public sale of bonds was unsuccessful because the tax-exempt bond market consisted, at the time, chiefly of individual investors, and it was felt that such bonds, issued while New York City was still experiencing severe financial problems, would meet with too much market resistance, even though they were secured by Federally insured mortgages.

After the February sale, First Pennco Securities, Inc. approached the Corporation with a proposal that HDC should sell bonds to savings institutions to be found by First Pennco. The bonds, each backed by a single mortgage, would be structured as tax-exempt, pass-through securities. They would pay interest at 6½ percent, and the purchasers would commit to buy a substantial amount of bonds at that rate and hold that commitment for as long as a year. The purchasers would receive a commitment fee, and First Pennco

would receive a fee for its services in the transaction.

The proposal was advantageous for several reasons. First was, of course, the forward commitment. The proposal would allow HDC to lock in a 6½ percent interest rate for a substantial period and thus be protected from mortgage and bond market fluctuations. Furthermore, HDC could issue mortgage-backed bonds as the mortgages became available, instead of having to stockpile mortgages in advance, as a bond sale would normally require. And the private placement would mean that HDC would not be obliged to enter a public market troubled at that time by the uncertainties surrounding the City moratorium payment plan.

After HDC obtained an expedited ruling from the Internal Revenue Service that the bonds would be exempt from Federal income tax, the Members decided to proceed along the lines proposed by First Pennco. The Corporation would offer 40-year bonds, each backed by a 40-year mortgage. The bonds would carry an interest rate of 6½ percent, which in all cases would be less than the interest rate on the mortgages. The purchasers would commit to buy a total of \$200,000,000 in bonds at the same interest rate, with the option for a third \$100,000,000. They would hold the commitment on the first \$100,000,000 through December 31, 1977 and on the second \$100,000,000 through March 31, 1978. As to the third \$100,000,000, the purchasers agreed to buy the bonds if delivery could be accomplished by December 31, 1977; the Corporation later obtained the purchasers' agreement to extend this date to March 31, 1978.

Six banks agreed to take part in the plan, with each series to be allocated among them as follows:

Metropolitan Savings Bank	36.6670%
Greater New York Savings Bank	16.6665
West Side Federal Savings and Loan Association	16.6665
Astoria Federal Savings and Loan Association	13.3330
Dollar Savings Bank of New York	8.3335
Manhattan Savings Bank	8.3335
	<hr/>
	100.0000%

For the initial \$69,859,100 bond sale, HDC issued a series of bonds for each of twelve insured mortgages, each in an amount equal to the face value of that mortgage. Competitive bids for trusteeship of the sale were solicited, and the Corporation chose Chemical Bank. At the end of the fiscal year, plans were maturing for a second bond sale of approximately \$20,000,000, to be backed by seven insured mortgages.

While carrying on all these activities in behalf of the City, HDC did not lose sight of its responsibility towards the eight housing projects that it has financed since its inception. These projects, like all other hous-

ing in the City, were beleaguered by rising maintenance costs, particularly utilities, and initial rent increases have been necessary for all except Knickerbocker Plaza. An increase of 20 percent was put into effect at Ocean Park at the end of fiscal 1976, and a two-stage increase instituted then for Linden Plaza was completed this year with a second-stage rise of approximately 20 percent. Waterside is the subject of an agreement entered into in 1976, whereby the owner, HDC, and the tenants would share in meeting increased operating costs. That program, described in last year's Annual Report, resulted in a rent increase this year of 7½ percent.

Independence Plaza North also faced an extraordinary increase in maintenance costs, primarily as a result of significant increases in the cost of steam heat provided by Con Edison. The rent increases that would be required to meet these higher costs were such that the tenants could not meet them unassisted, and HDC met with the owner and tenant representatives to discuss the problem and negotiate a solution. In the end, it was agreed that the owner would make an equity contribution of \$600,000, HDC would permit the deferral of interest payments in an equal amount, and the tenants would pay rent increases over the next two years of 10 percent and 6 percent respectively. The interest deferred would be repaid over a ten-year period commencing September 1, 1980.

Another arrangement was worked out with North Waterside, whereby rents would be increased 7½ percent each year for five years and monthly utility charges increased by \$2 per room per month each year for five years. During the first four years of this period, HDC will provide a total credit of \$68,000, allocating the amount of \$10,000 for each of the first two years, \$15,000 the third, \$33,000 the fourth. The owner will contribute by forgoing certain expected revenues.

The most difficult problem of the year arose in the project now known collectively as Yorkville Towers (formed by the merging of the former Rupert Towers and Yorkville Towers projects). Here, the rise in maintenance costs led to an owners' application for rent increases, a public hearing, and an order, effective July 1, for an increase of 14.5 percent. This prompted approximately 40 percent of the tenants to institute a rent strike. Prolonged negotiations finally led to the following proposal: the tenants would accept a three-year rent increase plan entailing rises of 6½, 7½, and 8 percent annually. The owner would make a loan to the project of up to \$950,000, and HDC would defer \$550,000 of debt service; both would be repayable on a *pari passu* basis over a ten-year period at a 6 percent interest rate, commencing July 1, 1980. As the end of the 1977 fiscal year approached, this proposal was about to be presented to all parties involved. (Shortly afterwards, all parties

agreed to the proposal, and it was implemented.)

Kew Gardens Hills, a rehabilitation project undertaken by the Corporation in Queens during 1975-1976, progressed during the past fiscal year. At the end of the year the contractor was ahead of schedule, and rent-up of the rehabilitated units was proceeding. Out of the 909 units that had been vacated for rehabilitation, 408 were completed, and of those 317 had been rented. Another 357 units, which were substantially occupied, were to receive moderate rehabilitation that would require no relocation of tenants.

HDC's Series VI Housing Notes, in the amount of \$37,703,000, were issued on August 15, 1975, and were secured by the mortgages and interest subsidy contracts of Knickerbocker Plaza and North Waterside. These notes, held by the four New York City Pension Funds, were rolled over in 1976 as Series VII. It had been hoped that this year they might be refinanced with bonds, but with the market for New York State and City obligations still unsteady, this proved impossible to accomplish. On August 15, 1977 the Funds had the options of renewing the notes, accepting bonds, or taking over the mortgages and their interest subsidy contracts. Understanding the market problems faced by HDC, they elected to roll over the 9 percent notes as Series VIII Housing Notes at the same rate.

Efforts were made to find alternative buyers for the Corporation's Series D and E bonds, since if the original purchasers were to sell them after August 15, 1978 and sustain an aggregate net loss as adjusted, the Corporation has an obligation to reimburse them for any such loss. By year end this had not been accomplished, but efforts were continuing.

While HDC was helping the City face its financial crisis, the long-term problem of deteriorating housing stock remained an important concern for both the City and the Corporation. Since the City's housing policy is now aimed toward rehabilitation, it was in this direction that HDC pursued its housing activities during the year.

One possible avenue appeared to be cooperation with the Federal government under the mortgage coinsurance program (Section 244 of the National Housing Act). Used alone, this program as now designed is not practical for multifamily housing sponsored by state housing agencies, as only 80 percent of the risk is assumed by the Federal government. Another problem has been Federal insistence that state agencies follow procedures that have proved cumbersome in the past. HDC is one of several agencies across the country that have been striving for a workable Federal coinsurance program.

Another method of financing rehabilitation is participation loans, in which a private lender shares the cost by purchasing HDC bonds. (This method was

used for Kew Gardens Hills, which was financed in 1975-76 by General Housing Bonds purchased by The Bowery Savings Bank.) The security for future bond issues would be solely the mortgage and revenue from the project. No tap on State aid to New York City and no general obligation of the Corporation would be involved.

A new aspect of the participation loan plan could be the use of Community Development Funds to supplement bond proceeds. At year end, this possibility was under active discussion with a savings bank in Brooklyn, which is interested in the rehabilitation of buildings in Brighton and Flatbush.

In July 1977, a set-aside for 1,000 units of Federal Section 8 Housing Assistance Payments was made available to New York City. It was subsequently allocated to one new construction and nine rehabilitation projects. By year end, two of these were discussing with the Corporation the possibility of financing rehabilitation through sale of HDC bonds. It is planned that, after completion of the projects, the Section 8 contracts for all ten will be administered by HDC.

During the summer, New York City restructured its housing agency, the New York City Housing and Development Administration; its Administrator, Thomas Appleby, became Commissioner of the resulting new agency, the Department of Housing Preservation and Development. Under both titles Mr. Appleby, as head of the City's housing agency, was ex officio Chairman of the New York City Housing Development Corporation, and in that capacity served the Corporation with an energy and dedication for which the Corporation is very grateful. On August 31, Mr. Appleby resigned to become Regional Director for New York and New Jersey of the U.S. Department of Housing and Urban Development. He was succeeded at HPD and HDC by Sander Lehrer, Esq., who had been HPD's Assistant Commissioner for Legal Affairs.

In February, Ivan E. Irizarry, an ex officio Member of HDC, resigned his post as the City's Finance Commissioner, and hence his valued membership in the Corporation. He was replaced in HDC by Harry S. Tishelman, upon the latter's appointment as Acting Commissioner, then Commissioner of Finance. In June, Robert J. Bott became the City's Director of Management and Budget and therefore an ex officio Member of HDC, replacing Donald D. Kummerfeld, who had served the Corporation with distinction.

The state of New York City's finances and of the whole economy made 1977 a very strenuous year for the Corporation, with the painful necessity for rent increases, the arduous negotiations that resulted, and the difficulty of marketing HDC's notes and bonds. Yet HDC survived and remained solvent; at the end of the year it was up to date on payments to bondholders, without having been obliged to make any call upon City or State funds to maintain its Capital Re-

serve Fund at the required levels.

The Corporation can look back with satisfaction upon selling \$69,859,100 in bonds and \$21,060,300 in mortgages on behalf of the City, with the promise of further sales of bonds. Several rehabilitation projects are in the planning stages, and it is hoped that 1978 will see a real acceleration in HDC's efforts to rescue and improve New York City's aging housing stock.

*Report of Ernst & Ernst
Independent Auditors*

To the Members of the
New York City Housing
Development Corporation

We have examined the statement of assets and liabilities of New York City Housing Development Corporation's General Housing Program at October 31, 1977 and October 31, 1976, and the related statements of changes in restricted fund balances, administrative revenues and expenses and changes in general reserve fund, and sources and uses of cash for the years then ended. We have also examined the statement of assets and liabilities of New York City Housing Development Corporation's Multifamily Housing Program at October 31, 1977, and the related statements of changes in restricted fund balances, administrative revenues and expenses and changes in general reserve fund, and sources and uses of cash from inception, February 16, 1977, to October 31, 1977. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note F the Corporation has an obligation to reimburse the original purchasers of the Corporation's Series D and Series E Bonds, if the original purchasers sell such Bonds between August 15, 1978 and August 15, 1979 (or such later Settlement Date as provided in the Bond Purchase Agreement) at an aggregate net loss as adjusted.

In our opinion, subject to the ultimate loss, if any, to be realized relating to the Corporation's obligation under the General Housing Bond Purchase Agreement, the financial statements referred to above present fairly the financial position of New York City Housing Development Corporation at October 31, 1977 and October 31, 1976, and the changes in restricted fund balances, administrative revenues and expenses and changes in general reserve fund, and sources and uses of cash for the indicated periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Ernst

E&E

New York City Housing Development Corporation
Statement of Assets and Liabilities
 General Housing Program

	October 31	
	1977	1976*
<i>Assets—Note F:</i>		
Mortgage loans—Notes C and D	\$299,817,719	\$291,102,424
Receivable from mortgagors for:		
Mortgage billings	1,072,205	448,518
Reimbursement of expenses	116,404	56,707
Deferred mortgage billings	1,415,974	700,000
Cash and investments held for designated purposes—Notes A and E:		
Project Mortgage Loan Accounts	7,479,259	17,206,939
Capital Reserve Fund	20,326,556	20,036,994
Debt Service Funds	1,010,723	1,314,327
	<u>28,816,538</u>	<u>38,558,260</u>
Amount segregated for November 1st debt service	9,527,971	9,549,204
Cash and investments held for operations—Note E	5,347,857	5,409,147
Receivable from Multifamily Housing Program	125,534	
Office equipment at cost, less allowance for depreciation of \$5,946 (1977) and \$22,030 (1976)	10,996	16,809
	<u>\$346,251,198</u>	<u>\$345,841,069</u>
<i>Liabilities:</i>		
General Housing Bonds—Note F	\$282,425,000	\$283,505,000
Housing Notes—Note F	37,703,000	37,703,000
Accrued interest payable on bonds and notes	9,988,754	10,019,987
Deferred revenue—mortgage loans—Note D	1,415,974	700,000
Accounts payable and accrued expenses	1,031,917	603,702
Received in advance from mortgagors	545,306	573,932
Fund balances—Notes A, D, F, and H:		
Restricted:		
Capital reserves	1,727,997	1,223,142
Mortgage loans	5,565,999	6,177,640
	<u>7,293,996</u>	<u>7,400,782</u>
General Reserve:		
Available for future expenses	4,897,251	4,384,666
Represented by mortgage loan	694,848	
Held for mortgage loan commitment	255,152	950,000
	<u>5,847,251</u>	<u>5,334,666</u>
Commitments—Note K		
	<u>\$346,251,198</u>	<u>\$345,841,069</u>

*Reclassified to conform to 1977 presentation.
 See notes to financial statements.

Statement of Changes in Restricted Fund Balances

General Housing Program

	Year Ended October 31	
	1977	1976
<i>Revenues:</i>		
Interest on mortgage loans—Note C	\$22,160,000	\$22,111,820
Fees and charges	695,308	901,256
Earnings on investments	2,316,569	2,307,918
	<u>25,171,877</u>	<u>25,320,994</u>
<i>Expenses:</i>		
Interest on General Housing Bonds—Note F	18,551,437	18,225,168
Interest on Housing Notes—Note F	3,393,270	3,689,658
Transfers to General Reserve Fund—available for future expenses—Note A	1,888,223	2,469,650
	<u>23,832,930</u>	<u>24,384,476</u>
Increase in restricted fund balances	1,338,947	936,518
Restricted fund balances at beginning of year	7,400,782	8,579,238
	<u>8,739,729</u>	<u>9,515,756</u>
Distribution of earnings on investments in Project Mortgage Loan Accounts to mortgagors	(1,445,733)	(2,114,974)
Restricted fund balances at end of year—Notes F and H	<u>\$ 7,293,996</u>	<u>\$ 7,400,782</u>

See notes to financial statements.

*Statement of Administrative Revenues and Expenses**and Changes in General Reserve Fund*

General Housing Program

	Year Ended October 31	
	1977	1976*
<i>Revenues:</i>		
Transfers from Restricted Funds—Note A	\$1,888,223	\$2,469,650
Earnings on investments	541,010	639,900
	<u>2,429,233</u>	<u>3,109,550</u>
<i>Expenses:</i>		
Salaries and related expenses	302,893	333,538
Rent	30,608	53,198
Fees and expenses of the Trustee, Depository and Paying Agent	47,043	44,930
Services of New York City Department of Housing Preservation and Development	352,745	476,762
Other administrative and operating expenses	159,285	100,501
Deferred revenue—mortgage loans—Note D	715,974	700,000
Credits granted to mortgagors—Notes C and D	308,100	367,200
	<u>1,916,648</u>	<u>2,076,129</u>
Excess of revenues over expenses	512,585	1,033,421
General Reserve Fund at beginning of year	5,334,666	4,301,245
General Reserve Fund at end of year—Notes A and D	<u>\$5,847,251</u>	<u>\$5,334,666</u>

*Reclassified to conform to 1977 presentation.

See notes to financial statements.

New York City Housing Development Corporation
Statement of Sources and Uses of Cash
 General Housing Program

	Year Ended October 31	
	1977	1976*
<i>Sources:</i>		
Proceeds from sale of housing notes, including premium	\$ 37,703,000	\$ 37,703,000
Proceeds from sale of bonds, including accrued interest purchased		10,576,125
Proceeds from investments:		
Cost to the Corporation	548,154,417	942,690,051
Earnings	2,768,372	2,873,169
Received from mortgagors:		
Interest	20,462,274	21,515,771
Principal	818,765	817,879
Fees and charges	675,680	954,148
Total sources	<u>610,582,508</u>	<u>1,017,130,143</u>
<i>Uses:</i>		
Mortgage loans	9,590,001	6,933,713
Retirement of housing notes	37,703,000	37,703,000
Interest on housing notes	3,393,270	3,770,300
Interest on principal payments on bonds	10,113,466	10,234,395
Amounts segregated for November 1st debt service	9,527,971	9,549,204
Purchase of investments	538,208,957	945,906,562
Distribution of earnings on investments to mortgagors	1,445,733	2,114,974
Distribution of ground rent escrow account	57,474	204,774
Operating expenses	446,847	679,200
Total uses	<u>610,486,719</u>	<u>1,017,096,122</u>
Excess of sources	95,789	34,021
Cash balances at the beginning of year	183,069	149,048
Cash balances at the end of year	<u>\$ 278,858</u>	<u>\$ 183,069</u>
Cash balances were:		
Held for designated purposes	\$ 162,517	\$ 17,687
Held for operations	116,341	165,382
	<u>\$ 278,858</u>	<u>\$ 183,069</u>

*Reclassified to conform to 1977 presentation.
 See notes to financial statements.

New York City Housing Development Corporation
Statement of Assets and Liabilities
 Multifamily Housing Program

October 31, 1977

<i>Assets:</i>		
Mortgage loans—Notes C, F and G		\$ 90,456,789
Receivable from mortgagors for:		
Mortgage billings		578,990
Reserves for replacement and escrows		130,508
Cash and investments held for designated purposes—Notes B and E:		
Bond Proceeds Account	\$66,392,625	
Revolving Account	6,847,910	
Claim Payment Accounts	5,673,563	
Minimum Property Standard Accounts	1,872,492	
Reserve for Replacement Accounts	1,637,202	
Debt Service Accounts	509,554	
Escrow Accounts	411,057	
Corporate Requirement Account	42,402	83,386,805
Cash held for operations—Note E		9,096
		<u>\$174,562,188</u>
 <i>Liabilities:</i>		
Multifamily Housing Limited Obligation Bonds—Note F		\$ 69,838,026
Payable to the City of New York—Note G		91,323,220
Accrued interest payable		189,144
Accounts payable and accrued expenses		204,999
Payable to General Housing Program		125,534
Fund balances—Notes B, E and G:		
Restricted:		
Claim payment	5,673,563	
Reserve for replacement	3,314,994	
Minimum property standards	2,615,798	
Debt service	756,883	
Escrow	507,579	
Corporate requirement	3,352	12,872,169
General reserve:		
Available for future expenses		9,096
		<u>12,881,265</u>
Commitments—Note K		
		<u>\$174,562,188</u>

See notes to financial statements.

Statement of Changes in Restricted Fund Balances
Multifamily Housing Program

February 16, 1977
to October 31, 1977

Revenues:

Interest on mortgage loans—Notes B and C	\$ 1,249,218
Earnings on investments	168,510
	<u>1,417,728</u>

Expenses:

Interest on Multifamily Limited Obligation Bonds—Note F	441,413
Transfers to General Reserve Fund—available for future expenses—Note B	9,096
Trustee's fees	39,050
	<u>489,559</u>
Increase in restricted fund balances	928,169

Contributions:

Initial deposits from The City of New York (Revolving Account) and from mortgagors (\$1,674,147)—Notes B and G:	
Claim Payment Fund	5,580,165
Minimum Property Standards Fund	2,572,846
Reserve for Replacement Fund	3,284,482
Escrow Fund	506,507
	<u>11,944,000</u>
Restricted fund balances at end of year—Note B	<u>\$12,872,169</u>

See notes to financial statements.

Statement of Administrative Revenues
and Expenses and Changes in General Reserve Fund
Multifamily Housing Program

February 16, 1977
to October 31, 1977

Revenues:

Transfers from Restricted Funds—Note B	\$9,096
General Reserve Fund at end of year	<u>\$9,096</u>

Statement of Sources and Uses of Cash
Multifamily Housing Program

February 16, 1977
to October 31, 1977

Sources:

Proceeds from sale of bonds	\$ 69,859,100
Proceeds from sale of mortgages	21,060,300
Proceeds from investments:	
Cost to the Corporation	703,278,957
Earnings	1,118,343
Received from mortgagors:	
Interest	1,679,828
Principal	53,229
Reserves for Replacement	969,256
Escrows	309,119
Minimum Property Standards Deposits	265,165
Total sources	<u>798,593,297</u>

Uses:

Interest and principal payments on bonds	273,343
Purchase of investments	786,213,510
Advances to mortgagors	7,140,092
Purchase and extension fees paid to bondholders	1,954,961
Mortgage insurance premiums	1,051,245
Placement fees	349,295
Transfer of replacement reserves to purchaser of mortgages sold	719,733
Other expenses	600,937
Total uses	<u>798,303,116</u>
Cash balances at October 31, 1977	<u>\$ 290,181</u>
Cash balances were:	
Held for designated purposes	\$ 281,085
Held for operations	9,096
	<u>\$ 290,181</u>

Note A—Organization

New York City Housing Development Corporation is a corporate governmental agency, constituting a public benefit corporation of the State of New York, established under the provisions of Article XII of the Private Housing Finance Law (the Act). The Corporation and its corporate existence are to be continued at least as long as bonds, notes or other obligations of the Corporation shall be outstanding.

The Corporation was created to encourage the investment of private capital and provide safe and sanitary dwelling accommodations for families and persons whose need for housing accommodations cannot be provided by unassisted private enterprise, through provision for low interest mortgage loans.

During 1977, the Corporation established the Multifamily Housing Program under the provisions of Article II (the Mitchell-Lama program) of the Private Housing Finance Law. See Note B for a further discussion of the Program and the accounts and funds established under the Multifamily Housing Limited Obligation Bond Resolution.

The following accounts and funds have been established in accordance with the Corporation's General Housing Bond Resolution:

Project Mortgage Loan Accounts

Project Mortgage Loan Accounts are established for each project for which bonds and/or notes are sold. The allocated proceeds of bonds or notes sold for each project are deposited in the respective Project Mortgage Loan Account, from which advances are made to mortgagors.

Capitalized Interest Accounts

The allocated proceeds of bonds sold for certain projects are deposited in the Capitalized Interest Accounts and are used to pay interest during the period of construction, and for a period not to exceed one year after completion.

Revenue Fund

All revenues collected by the Corporation are deposited in the Revenue Fund. Such revenues are applied for the uses and purposes for which such revenues are pledged by the Corporation's General Housing Bond Resolution.

Operating Fund

Cash is deposited in the Operating Fund from (1) designated proceeds of the sale of bonds or notes and (2) the Revenue Fund and General Reserve Fund to the extent required by the General Housing Bond Resolution. Such cash is used solely to pay operating expenses of the Corporation.

Debt Service Fund

The Debt Service Fund is used to pay the principal or redemption price of and interest on the Corporation's bonds.

Capital Reserve Fund

The Capital Reserve Fund (\$19,995,286 at October 31, 1977, exclusive of accrued interest) was established as additional security for bondholders pursuant to the General Housing Bond Resolution in accordance with the requirements of the Act. The Act provides that the Corporation will maintain the Capital Reserve Fund at an amount equal to the largest annual debt service requirement for any fiscal year. If, for any reason, the Capital Reserve Fund should fall below its requirement, the Chairman of the Corporation must certify that fact to the Mayor and Director of the Budget of the City of New York. If the City fails to or is unable to restore the Capital Reserve Fund to the minimum requirement, then the Chairman must so certify to the State Comptroller, who must in response pay to the Corporation the amount necessary to restore the Fund to its required level. The Comptroller is to make this payment out of the first monies available from the next payment of Unallocated Per Capita State Aid to the City. (The only prior claimant to this money is the City University Construction Fund.) Any such payment would be considered a non-interest-bearing loan from the City to the Corporation.

General Reserve Fund

A General Reserve Fund, not in excess of 2% of outstanding bonds, may be maintained by the Corporation and is available for any corporate purpose as provided in the General Housing Bond Resolution.

Transfers of money from Restricted Funds to the General Reserve Fund—available for future expenses consist primarily of fees and charges and earnings on investments of the Capital Reserve Fund.

Note B—Multifamily Housing Program

In February 1977, the Corporation established the Multifamily Housing Program. The Corporation was assigned certain mortgages of Mitchell-Lama housing companies from The City of New York as selected and approved by New York City Department of Housing Preservation and Development (HPD). Some of these housing companies receive subsidies from the U.S. Department of Housing and Urban Development (HUD) under Section 236 of the National Housing Act. The mortgages were modified and recast into federally insured first mortgages and non-insured second mortgages. The Corporation retains the federally insured portion and either sells these mortgages or assigns them as security for obligations it issues.

The net proceeds from the sales of the mortgages or obligations secured by mortgages are payable to The City of New York. The non-insured mortgages are assigned to the City.

During fiscal 1977, 25 mortgages were assigned to the Corporation. Six insured mortgages were sold during the year, and on August 11, 1977 the Corporation issued a series of Multifamily Housing Limited Obligation Bonds which were secured by 12 insured mortgages. The remaining seven insured mortgages were used to secure a series of bonds issued on November 1, 1977. Subsequent to October 31, 1977, five additional insured mortgages were used to secure a series of bonds issued on December 1, 1977. See Note F for a further discussion of the Multifamily Housing Limited Obligation Bonds.

The interest and principal on the mortgages securing such obligations are paid to a trustee, to whom the mortgages were assigned, who in turn makes debt service payments to the Corporation's bondholders. The payments received from the mortgagors exceed the amounts payable to the bondholders, because the interest on the mortgages exceeds the interest on the bonds. From the interest differential (Corporate Requirement Account), the Corporation receives an annual fee equal to 1/16 of one percent of the original principal amount of the mortgages securing the obligations to pay administrative costs plus an amount required to pay the annual fees of the trustee. In the event that servicing of the mortgages is performed solely by the Corporation, the fee will be increased to 1/8 of one percent. The balance of the interest differential is payable to the City.

The following accounts and funds have been established in accordance with the Multifamily Housing Limited Obligation Bond Resolution:

Bond Proceeds Account

All proceeds from the sales of bonds are deposited in the Bond Proceeds Account. The proceeds, net of certain costs related to the issuance of the bonds, are payable to The City of New York.

Revenue Fund

Payments of principal and interest on the mortgages are deposited in the individual project revenue accounts and are pledged for the payment of principal of and interest on the related bonds. After making payments on the related bonds, the remaining money, including earnings from investments, is disbursed to the Corporate Requirement Account.

Escrow Fund

A separate escrow account within the escrow fund is established for each project for which bonds are sold. Payments for mortgage insurance premiums, taxes, fire insurance premiums and other similar

charges are deposited in the respective escrow accounts.

Reserve for Replacement Fund

A separate reserve for replacements account within the reserve for replacement fund is established for each project as required by FHA (the Federal Housing Administration). Monthly deposits, as determined by FHA, are made by the mortgagors. The funds will be used to pay for replacements of property fixtures and other necessary expenses as approved by the federal insurer.

In addition to the above, the Corporation established certain other accounts:

Claim Payment Fund

Individual accounts were established for each project for the purpose of co-insuring with FHA. The deposits required by the federal insurer represent 5% of the face amount of the insured mortgages.

Minimum Property Standards Fund

In order to obtain federal insurance, certain property improvements were required within one year. The funds to meet these requirements were deposited into the Minimum Property Standards accounts. Upon the mortgagor's completing the improvements and obtaining approval from HPD, the mortgagor will be reimbursed for the improvements, and the remaining money, if any, including earnings, is payable to the City.

Revolving Account

In accordance with the assignment agreement with The City of New York, the Corporation deposited the proceeds from the sale of the six mortgages into a Revolving Account which is to be maintained for a period of 18 months subsequent to the date of the first deposit (February 16, 1977). If the balance exceeds \$20,000,000 at any time, the excess must be remitted to the City. The funds from the Revolving Account have been used to pay all costs in connection with insuring the mortgages and issuing the Multifamily Housing Limited Obligation Bonds including making the initial deposits in the accounts required under the Bond Resolution and by the federal insurer.

Note C—Mortgage Loans

The General Housing Bond Resolution requires, among other things, that as to mortgage loans which are financed from the proceeds of bonds: a) the mortgage shall create a first mortgage lien on the real property of each project; b) the amount of the mortgage loan shall not exceed the project cost or any other limitations described by law.

*Notes to Financial Statements, Continued**Note C, Continued*

Mortgage loans are made after a review by HPD and the Corporation of the qualifications of the prospective borrowers and the financial feasibility of each project. In addition, HPD monitors construction, approves mortgage loan advances and certifies total project costs. Such mortgage loans do not exceed 95% of total project costs.

The realization of mortgage loans depends on the ability of each of the housing companies to generate sufficient funds to service its debt which, in turn, is predicated on its maintaining sufficient occupancy levels and obtaining rent increases to offset escalating operating costs. Such rent increases are subject to the approval of HPD. In the event the housing company or HPD does not institute proceedings to implement a rent increase deemed necessary by the Corporation, or HPD, after conducting a hearing, fails to grant such necessary increase, the Corporation can, pursuant to law, order such increase and must do so pursuant to the General Housing Bond Resolution.

Should any of the housing companies be unable to meet its debt service obligations, the Corporation can commence foreclosure proceedings and operate the project or sell it to a third party. To the extent that the project does not generate sufficient funds to meet the annual debt service requirements of the Corporation, payments would be made first from the General Reserve Fund to the extent available and then from the Capital Reserve Fund. The Capital Reserve Fund would be restored each year as described in Note A.

The Corporation may, at its option, grant credits to housing companies to be applied against their interest payment requirements. Credits of \$308,100 and \$154,050 were granted during 1977 and 1976 respectively to the Waterside housing company and \$213,150 to Linden Plaza in 1976. See Note D for a discussion

of the operations of the housing companies during 1977.

Each housing project is designated by the Corporation as either in Development or in Occupancy. At October 31, 1977 all housing projects were designated as occupied except for Carlton Gardens Housing Co., Inc. During Development a portion or even all of a project may be occupied, since Occupancy status is determined at the discretion of the Corporation. When the project is in Development, assets in the Project Mortgage Loan Account may be used to retire debt or pay construction, rent-up, operating, and interest costs. When in Occupancy, Project Mortgage Loan Account assets may be used only to retire debt, pay construction costs or provide working capital.

Mortgage loans include bond interest expense paid from the Project Mortgage Loan Account or the Capitalized Interest Account while a project is in Development. Mortgage loans also include discounts from the face amount of bonds sold.

Under the Multifamily Housing Limited Obligation Bond Resolution, principal and interest received from the mortgagors, and related investments and earnings thereon, are pledged as security for the payments to bondholders. The Corporation also pledged and assigned all of its rights, title and interest in the loan documents to the trustee as additional security for bondholders. The mortgage loans are collectible monthly over periods ranging through the year 2017.

In the event of default by the mortgagor for non-payment of principal and interest, the trustee has certain responsibilities as defined in the Multifamily Housing Limited Obligation Bond Resolution. The assets of the Corporation under the General Housing Program are not pledged as security for the payments due holders of the Multifamily Housing Limited Obligation Bonds.

Note D—Details of Mortgage Loans and Commitments

	Total Mortgage Commitments	Mortgage Loan Advances	Remaining Mortgage Commitments
Washington Plaza Towers, Inc.*	\$ 64,594,680	\$ 64,339,528	\$ 255,152
Waterside Housing Co., Inc.	61,577,000	61,577,000	
Linden Plaza Housing Co., Inc.*	50,351,193	50,351,193	
Yorkville Towers Housing Co., Inc.	62,712,200	62,356,700	355,500
Ocean Park Housing Co., Inc.*	18,265,900	18,265,900	
Knickerbocker Plaza Housing Co., Inc.*	24,844,100	23,970,590	873,510
North Waterside Redevelopment Co., Inc.*	12,859,300	12,608,939	250,361
Carlton Gardens Housing Co., Inc.	10,367,000	8,693,431	1,673,569
	<u>\$305,571,373</u>	<u>302,163,281</u>	<u>\$3,408,092</u>
Less Principal Repayments		2,345,562	
		<u>\$299,817,719</u>	

Note D, Continued

Of the \$3,408,092 remaining mortgage commitments, \$2,037,940 will be distributed from the project mortgage loan accounts, \$255,152 from amounts held for operations and \$1,115,000 will be raised if required, pursuant to an agreement whereby The Bowery Savings Bank agreed to purchase bonds of the Corporation to be used for completion of Kew Gardens Hills (Carlton Gardens Housing Co., Inc.). In January 1977, the Corporation increased Yorkville's mortgage loan commitment by \$355,500. This increase did not require further borrowing by the Corporation because the funds were available from the Project Mortgage Loan Account of the Linden Plaza project, the cost of which was less than funds available. No other additional borrowings are required.

All of the projects experienced increased operating costs during the year, and have obtained rent increases or are in the process of preparing rent increase applications.

Four projects which have experienced particular operating problems during 1977 are described below:

Waterside

In July 1976, rent increases of 7½% each were approved by HPD, effective September 1, 1976, 1977 and 1978, respectively. Simultaneously, the Corporation entered into an agreement with the owner to provide financing to cover expected operating deficits over the three year period. The Corporation deferred receipt of interest payments of \$700,000 which was matched by an advance from the owner of an equivalent amount. The \$1,400,000 was deposited in a special escrow account and earned interest.

Expenses during 1977 significantly exceeded those estimated by the housing company, and substantially all of the escrow funds have been used. The owner has developed a new program to increase income and decrease expenses, which it feels will allow the project to meet its cash obligations through August 31, 1979.

Commencing in the fourth year, the owner and the Corporation are to be repaid the funds advanced from the escrow account to Waterside plus interest at 6% over a ten year period. If the Corporation fails to grant an annual credit of \$308,100 during this period, the amount not granted would be offset against the deferred interest otherwise repayable to the Corporation by Waterside. The credit for 1977 was granted.

Yorkville Towers

Rents were withheld by approximately 40% of the tenants after HPD ordered an increase of rents effective July 1, 1977 of 14½%. Consequently, mortgage payments were not received from the mortgagor for the four months ended October 31, 1977. On December 19, 1977, an agreement was reached between

the owner of the housing project and the tenants' association whereby three rent increases of 6½%, 7½% and 8% would become effective commencing July 1, 1977, 1978 and 1979, respectively. In February 1978, the Corporation received all mortgage payments less the deferment described below.

The project financial projections indicated that these annual rent increases would not be sufficient to cover all operating expenses. In order to cover such deficits, estimated to be approximately \$1,500,000 through 1980, the owner agreed to make an initial deposit of \$550,000 in a special escrow account and provide an additional \$400,000 as required. The Corporation agreed to defer \$550,000 of interest payments, which the owner will also deposit in the same account. The deposits of \$1,100,000 will earn interest, and drawdowns from the account to meet operating deficits will be charged equally against the funds provided by the owner and the Corporation.

Commencing July 1, 1980, the funds provided by the Corporation and the developer plus interest at 6% are to be repaid in equal monthly installments over a ten year period.

Washington Plaza Towers

Effective September 1, 1977 and 1978, HPD ordered rent increases of 10% and 6%, respectively. The Corporation and the owner of the housing project agreed to provide funds in order to meet projected losses through August 31, 1979. The Corporation will provide \$600,000 by way of deferral of mortgage payments and the owner will match this through an additional equity investment, less \$200,000 provided previously. The \$1,000,000 will be deposited in a special escrow account and will earn interest until withdrawn to meet operating deficits.

The deferred debt service will be repaid without interest in equal quarterly installments over a ten year period, commencing September 1, 1980. As of October 31, 1977, \$135,000 of mortgage payments have been deferred and the Corporation will defer the remaining \$465,000 of mortgage payments in fiscal 1978.

North Waterside

Cumulative annual increases of 7½% each over five years became effective July 1, 1977. In addition, a monthly utility charge of \$2 per room became effective January 1, 1978, increasing by \$2 per room every year thereafter on April 1st through 1982. The Corporation has agreed to provide \$68,000 over a four year period commencing in 1978 in the form of annual credits.

During February 1978, rents were withheld by 18% of the tenants. The owner has commenced dispossession action against the non-paying tenants and expects to be able to meet the debt service obligation to the Corporation.

Notes to Financial Statements, Continued

Note D, Continued

The Corporation has deferred revenue (\$715,974 in 1977, \$700,000 in 1976) equal to the deferral of

mortgage payments and interest earned thereon. The deferred income will be recognized as the receivable is collected.

Note E—Cash and Investments Held for Designated Purposes and Operations

At October 31, 1977, cash and investments held for designated purposes and operations (including accrued interest of \$382,500 on securities of the General Hous-

ing Program and \$171,167 on securities of the Multifamily Housing Program) consisted of the following:

General Housing Program:

	Cash	United States Agency Securities	Security Repurchase Agreements	Obligations of U.S. Treasury	Total
Held for designated purposes:					
Project Mortgage Loan Accounts	\$ 419		\$7,478,840		\$ 7,479,259
Capital Reserve Fund	102,837	\$17,386,898		\$2,836,821	20,326,556
Debt Service Fund		437,519			437,519
Note Interest Payment Fund	59,261		513,943		573,204
	<u>\$162,517</u>	<u>\$17,824,417</u>	<u>\$7,992,783</u>	<u>\$2,836,821</u>	<u>\$28,816,538</u>
Held for operations	<u>\$116,341</u>		<u>\$1,987,189</u>	<u>\$3,244,327</u>	<u>\$ 5,347,857</u>

The market value of the security repurchase agreements and obligations of U.S. Treasury approximates cost plus accrued interest, and the market value

of the United States Agency Securities was approximately \$17,068,941 at October 31, 1977.

Multifamily Housing Program:

	Cash	United States Agency Securities	Security Repurchase Agreements	Obligations of U.S. Treasury	Total
Held for designated purposes:					
Bond Proceeds Account	\$ 44,007		\$66,348,618		\$66,392,625
Revolving Account	(134,214)		6,957,585	\$ 24,539	6,847,910
Claim Payment Accounts	16,815	\$5,223,037		433,711	5,673,563
Minimum Property Standards Accounts	4,118			1,868,374	1,872,492
Reserve for Replacements Accounts	151,007		1,486,195		1,637,202
Debt Service Accounts	110,054			399,500	509,554
Escrow Accounts	46,896			364,161	411,057
Corporate Requirement Account	42,402				42,402
	<u>\$ 281,085</u>	<u>\$5,223,037</u>	<u>\$74,792,398</u>	<u>\$3,090,285</u>	<u>\$83,386,805</u>
Held for operations	<u>\$ 9,096</u>				<u>\$ 9,096</u>

The market value of the security repurchase agreements and obligations of U.S. Treasury approximates cost plus accrued interest, and the market value

of the United States Agency Securities was approximately \$5,218,903 at October 31, 1977.

Note F—Bond and Note Indebtedness

See Table A for details of bonds and notes.

The bonds, notes and other obligations of the Corporation are not debts of either the State of New York or The City of New York and neither the State nor the City is liable thereon.

The General Housing Bonds and Notes are gen-

eral obligations of the Corporation. Substantially all the General Housing Program assets are pledged as collateral for the payment of principal of and interest on its bonds, other than those pledged as collateral for the payment of principal of and interest on its notes.

The 7½% Series D and 9% Series E Bonds, both

Note F, Continued

sold to banks, bear supplemental interest of 2½% and 1%, respectively, to August 15, 1978, provided they are held by the original purchasers. The Corporation has agreed to try to retire or refund these Bonds as soon as market conditions allow refunding on a reasonable basis. Should the banks sell these Bonds at an aggregate net loss between August 15, 1978 and August 15, 1979 (or, if no bona fide bids are received by August 15, 1979, such later date on which bona fide bids are received for all Bonds held by the original purchasers), the Corporation is liable to the banks in an amount equal to the aggregate net loss, less (1) any net aggregate gains on sales made prior to August 15, 1978 and (2) certain adjustments relating to sales proposed by the Corporation but refused by the banks. The ultimate loss, if any, that may be realized if such bonds are eventually sold cannot be determined because of uncertainties relating to the future sales prices of such bonds.

On the date of issuance of the Series D and Series E Bonds, the Corporation transferred \$518,700 from the General Reserve Fund to the Capital Reserve Fund, an amount approximating the annual debt service on the supplemental interest. The amount will be returned to the General Reserve Fund after the termination of the supplemental interest payments in 1978 and the corresponding reduction in the Capital Reserve Fund requirements.

On August 15, 1977, the Corporation renewed, with four New York City related pension funds, \$37,703,000 of Housing Notes payable as to principal and interest on August 15, 1978. The notes are collateralized by mortgage loans on two projects and related HUD interest reduction payments. If the Corporation does not pay the principal and interest at maturity, the note holders are entitled to assignment of the collateral. In the event they elect not to accept such collateral, the note holders may receive 8% bonds maturing in approximately 47 years.

On October 7, 1976, the Corporation issued Series F 7¾% Bonds in the amount of \$10,200,000. These Bonds were privately placed with The Bowery Savings Bank and the proceeds were used to fund the rehabilitation of the Kew Gardens Hills project. The Bank has agreed to purchase \$1,115,000 more Bonds in the event that such funds are needed to complete the rehabilitation of the Kew Gardens Hills project.

The Series A to E Bonds of the Corporation are subject to optional redemption at rates ranging from 103% to 100% for various periods commencing in 1983 (Series C Bonds), and 1987 (Series A and B Bonds) and 1988 (Series D and E Bonds, assuming the Bonds are sold by the original purchasers). The Series F Bonds of the Corporation are subject to optional redemption at 100% commencing in 1981.

The Corporation is authorized to issue bonds and

notes for its housing programs in an aggregate principal amount outstanding, exclusive of refunding bonds or notes, not to exceed \$800,000,000 or such amount which would not cause the maximum Capital Reserve Fund Requirement to exceed \$85,000,000, whichever is less. In 1977, the State Legislature authorized the Corporation to issue bonds for any corporate purpose without making a deposit into a Capital Reserve Fund.

Bonds issued by the Corporation under its Multifamily Housing Limited Obligation Bond Resolution are not secured by the Capital Reserve Fund or any of the funds and accounts established under the General Housing Bond Resolution. The primary security for these bonds is the Federal mortgage insurance obtained at the time the Mitchell-Lama mortgages were assigned from The City of New York. Principal and interest is paid only from money received on account of the insured mortgage securing that series, including payments made by, or on behalf of, the mortgagor or by the Federal insurer.

On August 11, 1977, the Corporation issued its 6½% Multifamily Housing Limited Obligation Bonds in the amount of \$69,859,100. These Bonds were privately placed with six thrift institutions in New York City and the principal and interest are paid monthly. The purchasers agreed with the Corporation to purchase up to \$300,000,000 of these bonds, secured by the federally insured mortgages, through March 31, 1978. The Corporation is obligated to pay a maximum fee to the purchasers of one percent of the principal amount of Bonds issued in order to maintain the commitment.

Certain fees have been paid, which will be deducted from the balance of the one percent fee due at the time of the issuance of the Bonds. Also, the Corporation is obligated to pay a placement fee of one-half of one percent of the principal amount of the Bonds issued to First Pennco Securities, Inc. for placing the Bonds. The fees of \$2,304,256 incurred through October 31, 1977, have been deducted from the proceeds from the sale of the Bonds.

On November 1, 1977 and December 1, 1977, the Corporation issued Multifamily Limited Obligation Bonds in the amounts of \$20,639,600 and \$31,667,700, respectively.

The Corporation may redeem the bonds at any time at an amount equal to the unpaid principal plus accrued interest if the funds are from condemnation awards, casualty insurance proceeds or a prepayment of a related mortgage required by the federal insurer. Otherwise, a redemption premium of three percent reduced by one-eighth of one percent, for each elapsed year of the mortgage, is required. After July 1, 1997, the City may require the redemption of bonds prior to maturity at 105% of the unpaid principal plus accrued interest.

Notes to Financial Statements, Continued

Note G—Payable to The City of New York

In accordance with the assignment agreement of the Multifamily Housing Program, the Corporation has agreed to remit to The City of New York the proceeds from the sales of assigned mortgages or sales of the limited obligation bonds secured by assigned mort-

gages net of certain costs as described in Note B.

At October 31, 1977, the amount payable to The City of New York was \$91,323,220 determined as follows:

Mortgages assigned by The City of New York:

Sold by the Corporation	\$ 21,060,300
Collateral for the Multifamily Housing Limited Obligation Bonds	90,498,963
Principal and interest received on mortgages prior to bonding	1,038,550
Earnings on investments of the Bond Proceeds and Revolving Account	1,121,000
Total sources	113,718,813

Dispositions:

Advances of final mortgage commitment from The City of New York to the mortgagors	7,140,092
Transfers to Restricted Funds:	
Escrow Account	\$ 109,559
Claim Payment Fund	5,580,165
Minimum Property Standards Fund	2,307,681
Reserve for Replacement Fund	2,988,192
Administrative and operating expenses:	
Purchase and extension fees paid to bond purchasers	1,954,961
Placement fees	349,295
Financial consulting fees	551,492
Legal fees	362,916
Mortgage insurance premiums	1,051,240
Total dispositions	4,269,904
Due to The City of New York	22,395,593
	\$ 91,323,220

Subsequent to October 31, 1977, \$96,000,000 was from the November 1 bond issue. paid to The City, which includes part of the proceeds

Note H—Restricted Fund Balances

The capital reserves restricted fund balances consist of the following:

	October 31	
	1977	1976
1. The excess of interest income on mortgage loans over interest expense on related bonds. (The excess is necessary to generate sufficient revenues to amortize the bond principal used to establish the Capital Reserve Fund)	\$ 644,438	\$ 429,145
2. Interest earned in the Capital Reserve Fund, which will be transferred to General Reserve Fund to the extent not needed to maintain the Capital Reserve Fund Requirement	564,859	275,297
3. An amount approximating the supplemental interest on the Series D and E General Housing Bonds, which will be returned to the General Reserve Fund Balance when no longer required in the Capital Reserve Fund (see Note F)	518,700	518,700
	\$1,727,997	\$1,223,142

The mortgage loans restricted fund balances result from interest earned on related securities. Such interest may be distributed at the discretion of the Corporation to mortgagors or be used to reduce the total mortgage commitment to the applicable project.

Note I—Consultants' Fees

General Housing Program

Legal fees incurred in connection with services performed are as follows: Brownstein, Zeidman, Schomer & Chase—\$21,039 and \$31,611 in 1977 and 1976, respectively; and Hawkins, Delafield & Wood—\$18,499 in 1977.

Financial consulting fees of \$20,000 were incurred in 1976 for services performed by Goldman, Sachs & Co.

Fees to Ms. Bertha Hatvary of \$1,750 and \$1,500 for 1977 and 1976, respectively, were incurred for editorial consulting services for the Corporation's annual report.

Multifamily Housing Program

Financial consulting fees of \$551,491 were incurred in 1977 for services performed by Urban Real Estate Finance Corporation.

Legal fees were incurred in 1977 in connection with services performed as follows:

Brownstein, Zeidman, Schomer & Chase—\$255,030
Hawkins, Delafield & Wood—\$77,352
Marshall, Bratter, Greene, Allison & Tucker—\$10,371
Robinson, Silverman, Pearce, Aronsohn & Berman—
\$9,500
Weil, Gotshal & Manges—\$10,664

Note J—Related Party Transactions

On October 7, 1976, the Corporation sold \$10,200,000 of Series F Bonds to The Bowery Savings Bank which were used to finance the rehabilitation of the Kew Gardens Hills project. In addition, the Corporation is participating in a mortgage loan with The Bowery Savings Bank to the same project with the Bowery portion of the loan representing its prior mortgage and equity interest in the project. Mr. Pazel Jackson, Jr., a member of the Corporation, is a Vice President of The Bowery Savings Bank. Pursuant to an opinion of Bond Counsel dated November 3, 1975, Mr. Jackson disclosed his prior involvement with the project to the Corporation's Members and removed himself from any consideration in the negotiations that took place between HDC and The Bowery Savings Bank. Furthermore, he absented himself from Members' Meetings when the Corporation took action in regard to the Kew Gardens Hills project.

Note K—Commitments

The Corporation is a participating employer in the New York City Employees' Retirement System, of which substantially all of the employees of the Corporation are members. The Corporation pays its proportionate share of the System's cost (\$39,701—1977); (\$54,626—1976).

See Note D for details of mortgage loans and commitments.

Table A—Details of Bond and Note Indebtedness

	Original Face Amount	Balance November 1, 1976	Issued	Retired	Balance October 31, 1977
<i>General Housing Program</i>					
3.75% to 6.50%—General Housing Bonds, 1972 Series A, maturing in varying annual installments on May 1 to 2022	\$133,000,000	\$132,295,000		\$ 535,000	\$131,760,000
3.50% to 7.00%—General Housing Bonds, 1972 Series B, maturing in varying annual installments on November 1 to 2022	51,640,000	50,935,000		255,000	50,680,000
5.70% to 7.00%—General Housing Bonds, 1973 Series C, maturing in varying annual installments on May 1 to 2023	62,800,000	62,565,000		230,000	62,335,000
7.50%—General Housing Bonds, 1975 Series D, maturing in varying annual installments on May 1 to 2023	16,255,000	16,255,000		40,000	16,215,000
9.00%—General Housing Bonds, 1975 Series E, maturing in varying annual installments on May 1 to 2022	11,255,000	11,255,000		20,000	11,235,000
7 ³ / ₈ %—General Housing Bonds, 1976 Series F, maturing in varying annual installments on May 1 to 2009	10,200,000	10,200,000			10,200,000
	<u>\$285,150,000</u>	<u>\$283,505,000</u>		<u>\$ 1,080,000</u>	<u>\$282,425,000</u>
9.00%—General Housing Notes, August 15, 1976, Series VII, maturing August 15, 1977	\$ 37,703,000			\$37,703,000	
9.00%—General Housing Notes, August 15, 1977, Series VIII, maturing August 15, 1978			\$37,703,000		\$ 37,703,000
	<u>\$ 37,703,000</u>		<u>\$37,703,000</u>	<u>\$37,703,000</u>	<u>\$ 37,703,000</u>
<i>Multifamily Housing Program</i>					
6.50%—Multifamily Housing Limited Obligation Bonds, 1977 Series I through XII, maturing on June 15, 2017	\$ 69,859,100		\$69,859,100	\$ 21,074	\$ 69,838,026