New York City Housing Development Corporation

Annual Report 1978

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

New York City Housing Development Corporation

Annual Report 1978

November 1, 1977 to October 31, 1978

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

Table of Contents

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

Chairman's Report

When the New York City Housing Development Corporation was created in 1971, it was as a vehicle for improving the supply of the City's housing for low and middle-income groups, without directly encumbering the City's own credit and putting additional strain on its constitutional borrowing capacity. No one then knew that by 1976 the City would be fighting for its financial life, and that HDC would see its mandate broadened to include improving the City's cash position by refinancing its Mitchell-Lama mortgage portfolio.

To meet this new responsibility, the Corporation has completed a $300 million mortgage refinancing plan, started last year, which will ultimately put $240 million into the City's coffers. In addition, HDC is proceeding with further refinancing that will bring still more funds to the City. The refinancing of the City's Mitchell-Lama program has relieved the City of a large administrative burden, which HDC, as first mortgagee, and the Federal Housing Administration, as insurer, will shoulder.

In 1976, HDC financed the substantial rehabilitation of the 1,269-unit Kew Gardens Hills project. The rehabilitation of this project has now been completed, and it is fully occupied. The positive effect of this successful effort has been not only to improve the housing of 1,269 individuals and families but also to improve the surrounding community by rehabilitating the key blighting influence in the area.

In the coming year, HDC should be able to resume the activity for which it was originally created, the financing of new and rehabilitated housing for low-income families, utilizing some traditional and some new approaches.

In order to reduce the annual subsidy required for Section 8 developments, the Federal Department of Housing and Urban Development (HUD) has requested the Corporation to finance with tax-exempt obligations a significant portion of the fiscal years 1977-78 and 1978-79 allocations. The Corporation expects to accomplish these financings on the strength of the projects' security and with the aid of various mortgage insurance programs. The Corporation will also undertake the financing of the 5,000 units of Section 8 substantial rehabilitation awarded to New York City in a nationwide competition administered by HUD under its new Neighborhood Strategy Areas program. Additionally, the Corporation will embark on a co-insurance program in combination wth the Federal Housing Administration which will provide significant leverage with respect to the Community Development Block Grants available to The City of New York.

In conclusion, the combination of the powers that HDC has received from the State Legislature over the last several years and Federal funding and insurance commitments will serve to expand the Corporation's activities significantly in the year and years ahead.

In fact, the total bonding authority of the Corporation has recently been increased from $800 million to $950 million, and we expect to request an even greater expansion from the State Legislature to meet the ongoing commitments which will be undertaken with two paramount goals in mind: expansion of the available housing supply for low and moderate-income households and fiscal prudence.

Nathan Leventhal
Chairman

January 10, 1979

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.

Nathan Leventhal
Chairman and Member ex officio
Mr. Leventhal assumed the position of Commissioner of the Department of Housing Preservation and Development on February 6, 1978. Prior to this, Mr. Leventhal was with the law firm of Poletti, Freidin, Prashker, Feldman & Gartner. He served as Rent Commissioner of the City from 1972 to 1973, and before that he was a housing advisor to the Mayor.

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.

James Brigham, Jr.
Member ex officio
Before his appointment as Budget Director on February 6, 1978, Mr. Brigham was Special Counselor to the Deputy Mayor for Finance of the City. Mr. Brigham has also been associated with Morgan Guaranty Trust Company.

Harry E. Gould, Jr.
Member (term expires December 31, 1979)
Mr. Gould is Chairman, President and Chief Executive Officer of Gould Paper Corporation. He is a trustee of Colgate University and the National Symphony Orchestra. He also has represented the President at the United Nations East-West Trade Development Commission and has served on the Governor's Task Force on New York State Cultural Life and Arts.

Pazel G. Jackson, Jr.
Member (term expires December 31, 1981)
Mr. Jackson is a Senior Vice President of The Bowery Savings Bank of New York. He was formerly Assistant Commissioner of the 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.

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 (resigned effective January 26, 1979)
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 (appointed Acting Executive Director effective January 29, 1979)
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.

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 borrowing 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 mortgage loans to eligible mortgagors in accordance with the provisions of Articles II, V, VIII, and XV of the Private Housing Finance Law (PHFL). The Corporation is empowered also to make loans where the mortgages securing such loans are insured or co-insured by the federal government. In all 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 by law and regulation.

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.

The Corporation is authorized by the New York State Legislature to sell notes and bonds up to a total of $950,000,000, or such amount as shall not cause its maximum Capital Reserve Fund requirement (see below) to exceed $85,000,000; however, the Corporation shall not issue bonds that would cause the maximum Capital Reserve Fund requirement to rise above $30,000,000 without a concurrent resolution of the Legislature and the Governor's written agreement with such resolution. The Corporation is able to issue bonds for any corporate purpose without making a deposit into a Capital Reserve Fund. The Corporation also is authorized to issue taxable bonds if such bonds are either guaranteed or subsidized by the Federal government.

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 Corporation's two Multifamily Housing Limited Obligation Bond Resolutions 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 Bonds General Bond Resolution of July 25, 1977 and Second General Bond Resolution of October 10, 1978, 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 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

Multifamily Housing

The 1978 fiscal year of the New York City Housing Development Corporation was one of great activity and several important accomplishments. Outstanding among these was the completion of the $300,000,000 bonding program begun and committed during the previous year to refinance mortgages in New York City's Mitchell-Lama portfolio. At that time, HDC had undertaken a plan, proposed by First Pennco Securities, Inc., whereby HDC would sell bonds to savings institutions to be found by First Pennco. Each bond series would consist of tax-exempt, pass-through securities backed by a single refinanced, FHA-insured first mortgage from the portfolio; a subordinate, uninsured mortgage for each project would be assigned to the City. The bonds would pay interest at 6½ percent for a term of 40 years. The purchasers would commit to buy the bonds at that rate and hold the commitment for over a year.

The banks who participated in this commitment were Metropolitan Savings Bank, Greater New York Savings Bank, West Side Federal Savings and Loan Association, Astoria Federal Savings and Loan Association, Dollar Savings Bank of New York, Manhattan Savings Bank, and, as of March 31, 1978, Hamburg Savings Bank. Also as of March 31, the Manhattan Savings Bank retired from the list of participating banks and its share was assumed by Dollar Savings Bank.

The first group of bonds under the arrangement was issued in fiscal 1977 in the amount of $69,859,100, each series secured by one of twelve insured mortgages and substantially equal to the outstanding balance of that mortgage. Similarly secured bonds sold to the end of fiscal 1978 were as follows:

August 11, 1977	12 mortgages	$ 69,859,100
November 1, 1977	7 mortgages	20,639,600
December 1, 1977	5 mortgages	31,667,700
March 31, 1978	4 mortgages	42,610,700
August 1, 1978	6 mortgages	14,186,400
September 18, 1978	8 mortgages	37,871,100
September 29, 1978	16 mortgages	83,052,100
Total to end of FY 1978	58 mortgages	$299,886,700

In the difficult times that the City is passing through, it was very important that HDC succeed in issuing these bonds and realizing their substantial cash proceeds. That it did succeed was due not only to its own efforts but also to the extraordinary help and cooperation that it received, both from the participating banks, which took active part in planning the bond issues and carrying them through, and from the U.S. Department of Housing and Urban Development. HUD established a task force to shorten processing time and sliced red tape in every way possible in order to help New York City in its hour of need. Further, the whole process could not have been carried through without the fullest cooperation from the City's housing agency, the Department of Housing Preservation and Development, and from HDC's financial and legal advisors: The Urban Real Estate Finance Corporation; Brownstein Zeidman and Schomer; and Hawkins, Delafield & Wood.

As the year ended, all projects financed under this arrangement were current on debt service, and the Corporation was moving toward the consummation of another sale of approximately $80,000,000 in bonds, to be backed by an equal amount in insured mortgages.

New Approaches to Refinancing

During the process of refinancing the City's Mitchell-Lama mortgage portfolio, it was found that mortgages for certain projects were not eligible under existing HUD regulations to receive the regular Federal Section 223(f) mortgage insurance. Manhattan Plaza, for example, was excluded because of receiving other Federal assistance, and F.I.T. Staff Housing because it is a dormitory facility.

However, under the market conditions that prevailed, it was not possible to issue bonds to refinance Manhattan Plaza if it was not insured. In grappling with this problem, HDC came up with a unique concept for refinancing projects ineligible for Federal mortgage insurance. It would involve the issuance of both tax-exempt and taxable bonds, the former to be backed by a lien on all debt service payments on an HDC mortgage, the latter to be guaranteed by the Federal government pursuant to another Federal program, Section 802 of the Housing and Community Development Act of 1974. HUD has expressed interest in this idea and the means for implementing it. As the year ended, a concrete proposal for Manhattan Plaza was under active consideration in Washington.

In regard to F.I.T. Staff Housing, a purchaser was found by the officers of the Fashion Institute of Technology for HDC bonds unsecured by FHA insurance. The refinancing was proceeding toward completion at year end.

General Housing Program

During the year the Corporation sold $1,115,000 in Series G bonds to complete the financing of Kew Gardens Hills, a rehabilitation project commenced in fiscal 1976 by means of a participation loan. This is a method of financing in which a private lender, in this case The Bowery Savings Bank, shares the cost of rehabilitation by purchasing HDC bonds and participating in the mortgage.

The rehabilitation of Kew Gardens Hills, which consists of 1,269 garden apartments in 53 buildings on a 24.62-acre site in Queens, was begun in fiscal 1977; initial financing was provided by HDC's Series F bonds, issued in fiscal 1976 in the face amount of

$10,200,000. The rehabilitation was completed in May 1978, the completion being financed through issuance of the Corporation's Series G bonds, in the aggregate principal amount of $1,115,000, all purchased by The Bowery Savings Bank. Rehabilitation of this project, which was 97 percent occupied by the end of this fiscal year, corrected a major blighting influence in an otherwise sound area in the borough of Queens.

Meanwhile, HDC maintained its customary close supervision of the other projects in its General Housing Program mortgage portfolio. Previously approved rent increases went into effect during the year for Yorkville Towers, Waterside, North Waterside, and Independence Plaza North. Toward the end of the fiscal year, Ocean Park and Knickerbocker Plaza were preparing applications for rent increases to meet increased operating expenditures expected in the upcoming fiscal year. For Linden Plaza, a two-stage rent increase was approved by the New York City Department of Housing Preservation and Development, one stage, of $4 a room per month, commencing on October 1, 1978, and the second, of $3 a room per month, to commence October 1, 1979. These increases will permit the project to continue meeting its financial commitments to the Corporation.

Section 8 Housing Program

Section 8 of the United States Housing Act is a program whereby HUD encourages the construction and substantial rehabilitation of multifamily housing by making rent subsidy payments to the project owner in behalf of eligible tenants unable to meet market rents. These payments, making up the difference between market rents and 15 percent to 25 percent of the tenant's income, in effect assure sufficient cash flow to provide adequate maintenance, prompt payment of debt service, and a regulated return to the investor.

Each year Congress sets aside Section 8 funds on an area basis, and in 1977 New York City's set-aside was for nine projects, which the City asked HDC to administer. For four of the nine, HDC now has annual contributions contracts with HUD and agreements with the developers to enter into Section 8 rent subsidy (Housing Assistance Payments) contracts. A fifth project is being processed by HUD, and the others, for various reasons, have not yet reached the financing stage.

For 1978, New York City received Section 8 set-asides for 26 projects. Of these, the Corporation will finance 16, comprising 300 units of new construction and 1400 of substantial rehabilitation, and much Corporation activity during the year was devoted to laying the groundwork for these projects. Thirteen are being processed for FHA mortgage insurance and the financing is in various stages of processing. Marine Terrace, for which negotiations are well advanced, will be financed through a participation arrangement similar to that for Kew Gardens Hills. Allen & Co. will underwrite the HDC bonds. The other two projects are expected to be financed by the sale of HDC bonds, with the mortgages to be insured in part by the New York City Rehabilitation Mortgage Insurance Company (REMIC). For one of these, 769 St. Mark's Place in Brooklyn, a consortium of Brooklyn savings banks has expressed interest in purchasing the necessary HDC bonds by private placement, and negotiations for mortgage insurance are under way with REMIC.

One Section 8 project, JWV Boardwalk Apartments, came independently to HDC for financing, and First Pennco has found a savings bank interested in buying the requisite bonds through private placement. This project is well enough along for the Members of the Corporation to have reserved bonding authority for $9,000,000 in its behalf.

The Credit Climate

In September, Moody's Investors Service, Inc. changed the rating of the Corporation's General Housing Bonds to Ba, revised from Con. (Baa 1). This decision was apparently due to the arrangements that the Corporation had entered into with Waterside, Independence Plaza North, and Yorkville Towers, making short-term loans to help them to cope with sharp rises in operating costs so as to spread out the rent increases taking place. HDC was surprised and distressed at this decision. First, the necessity to give the housing companies temporary help had been created by powerful external forces, chiefly a sudden and steep rise in utility costs. Second, rent increases were established to put the projects on a sound financial footing without further help from HDC. Third, the fact that HDC's projects weathered these forces, which caused many private-sector projects to founder, was due to its foresight in providing for and maintaining its good-sized General Reserve Fund. Fourth, the General Reserve Fund was more than adequate to the need, and there was no necessity to call on the statutorily required Capital Reserve Fund. Finally, since the loans were made there has been no interruption in debt service payments. In any case, it is hoped that Moody's will shortly reconsider its rating. Standard and Poor's has given an A rating to the Corporation's General Housing Bonds.

Unfortunately, the general climate affecting tax-exempt bonds, and in particular New York City obligations, has placed obstacles in the way of some of the Corporation's goals. HDC was again unable this year to issue bonds at a reasonable interest rate in order to refund its Series D and E Bonds or to refund its Series VIII notes with long-term bonds. The deadline for the Series VIII notes, August 15, was extended to November 14 to allow time for negotiations with the City's pension funds, holders of the notes, on the terms of a rollover of the notes. As the year ended a mutually satisfactory agreement was in sight. (On November 14, the notes were rolled over as Series IX, at 9 percent.)

Federal Co-insurance

For two years, HDC has been working with other state housing finance agencies across the country to make the Federal mortgage co-insurance program (Section 244 of the National Housing Act) applicable and useful to such agencies. The problem has been twofold: the regulations were so cumbersome as to be impracticable, and the allocation of risk (80 percent Federal, 20 percent state agency) put more burden on the state agency than it could carry. Happily, the administrative problems have now been worked out, and, most important, HUD has now agreed to a risk-sharing formula of 90 percent/10 percent. HDC has submitted its application to HUD to become a co-insuring agency. Acceptance of this application would permit HDC to underwrite mortgages itself rather than seek underwriting from the FHA. For the Corporation's own 10 percent share of the insurance risk, security mechanisms will be devised that are satisfactory to both HUD and the bond market.

Legislation

In its continuous search for new ways of expanding its services to the City, HDC obtained enactment in the State Legislature of two bills enlarging its powers.

The first allows HDC to make mortgage loans to redevelopment companies organized pursuant to Article V of the Private Housing Finance Law. This Article, under which many developments receiving Section 8 subsidies are financed, allows a financing program which would be more flexible than the one made possible by Article II, under which HDC formerly made the bulk of its loans.

The second legislative change empowers HDC to make loans directly to developers of new construction projects where the mortgage is either insured or co-insured by the Federal government. HDC already has this power with respect to comparably insured or co-insured rehabilitation projects, and that power includes the right to require rent increases when they become necessary for the financial health of the project. The new bill extends this safeguard to Federally insured new construction projects, and thus opens the way for the Corporation to finance them.

Finally, in view of the number of projects that HDC is financing and planning to finance, the Corporation also submitted a bill to the State Legislature requesting an increase in its bonding authority, originally set at $800,000,000. At a special session of the State Legislature in December, the Corporation's bonding authority was increased to $950,000,000.

Members and Staff

With the new 1978 City Administration, changes took place in City appointments which were reflected in changes of ex officio membership in the Corporation. On February 6, Nathan Leventhal, Esq. became Commissioner of the Department of Housing Preservation and Development, and thus HDC's Chairman. In both his new roles Mr. Leventhal replaced Sander Lehrer, Esq., who had been a vigorous and effective Chairman of HDC since August 31, 1977.

Similarly, James Brigham, Jr. on February 6 became Budget Director of the City and hence a Member ex officio of the Corporation, replacing Robert J. Bott, who had served the Corporation with distinction.

On December 31, 1977, Gilbert MacKay, founder and Chairman of the Board of MacKay-Shields Financial Corporation, completed his term as a very helpful and valued Member of the Corporation and Harry E. Gould, Jr. was appointed a Member for a term to expire December 31, 1979.

During the year, William E. Ennis rejoined the HDC staff in his former title of Mortgage Loan Officer; John Reilly was appointed Assistant Treasurer; Alice Baker joined the staff as Assistant Counsel, replacing Emily Maltby, who resigned; Arnold Yoskowitz was promoted to Director of Program Development, and Wendy Dolber was named Assistant to the Executive Director.

Conclusion

Particularly in view of the difficulties under which the City is still laboring, the Corporation has had an excellent year. It fulfilled its $300,000,000 commitment to refinance projects in the City's Mitchell-Lama portfolio, thus materially improving the City's cash position. It successfully completed the financing of Kew Gardens Hills. It laid the groundwork for its new program of financing Section 8 projects, and it saw to the continued viability of the projects financed under its General Housing Program. New legislation broadened its powers, and as the year ended it was vigorously pursuing new initiatives which should gain momentum in the coming year.

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 as of October 31, 1978 and 1977, and the related statements of changes in restricted fund balances, changes in unrestricted fund balances, 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 as of October 31, 1978 and 1977, and the related statements of changes in restricted fund balances, changes in unrestricted fund balance, and sources and uses of cash for the year ended October 31, 1978 and 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 late 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, 1978 and 1977, and the changes in restricted fund balances, changes in unrestricted fund balances, 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, N.Y.
January 10, 1979

Statement of Assets and Liabilities

General Housing Program

	October 31 1978	October 31 1977*
Assets—Note F:		
Mortgage loans—Notes C and D	$302,118,165	$299,817,71
Receivable from mortgagors for:		
Mortgage billings	32,370	1,072,20
Reimbursement of expenses	2,513	116,40
Deferred mortgage billings	1,923,397	1,415,97
Cash and investments held for designated purposes—Notes A and E:		
Project Mortgage Loan Accounts	4,983,094	7,479,259
Capital Reserve Fund	20,237,107	20,326,556
Debt Service Funds	841,889	1,010,723
	26,062,090	28,816,538
Amount segregated for November 1st debt service	9,420,162	9,527,971
Cash and investments held for operations—Note E:		
Operating Fund	1,888,504	116,268
General Reserve Fund	5,848,742	5,231,589
	7,737,246	5,347,857
Receivable from Multifamily Housing Program	81,529	125,534
Office equipment at cost, less allowance for depreciation of $10,506 (1978) and $5,946 (1977)	11,397	10,996
	$347,388,869	$346,251,198
Liabilities:		
General Housing Bonds—Note F	$282,405,000	$282,425,000
Housing Notes—Note F	37,703,000	37,703,000
Accrued interest payable on bonds and notes	9,281,548	9,988,754
Deferred revenue—mortgage loans—Note D	1,923,397	1,415,974
Accounts payable and accrued expenses	1,350,498	1,031,917
Received in advance from mortgagors	575,306	545,306
Fund balances—Notes A, D, F, and H:		
Restricted:		
Capital Reserve	1,764,886	1,727,997
Mortgage Loans	5,039,908	5,565,999
	6,804,794	7,293,996
Unrestricted:		
Operating Fund	633,444	
General Reserve:		
Available for future expenses	5,763,382	4,897,251
Represented by mortgage loan	948,500	694,848
Held for mortgage loan commitment		255,152
	6,711,882	5,847,251
	7,345,326	5,847,251
Commitments—Note K		
	$347,388,869	$346,251,198

*Reclassified to conform to 1978 presentation.
See notes to financial statements.

New York City Housing Development Corporation

Statement of Changes in Restricted Fund Balances

General Housing Program

	Year Ended October 31 1978	1977
Revenues:		
Interest on mortgage loans—Note C	$22,010,124	$22,160,000
Fees and charges	740,271	695,308
Earnings on investments	1,902,305	2,316,569
	24,652,700	25,171,877
Expenses:		
Interest on General Housing Bonds—Note F	18,396,971	18,551,437
Interest on Housing Notes—Note F	3,393,270	3,393,270
Transfers to General Reserve Fund—available for future expenses—Note A	2,317,092	1,888,223
	24,107,333	23,832,930
Increase in Restricted Fund Balances	545,367	1,338,947
Restricted fund balances at beginning of year	7,293,996	7,400,782
	7,839,363	8,739,729
Distribution of earnings on investments in Project Mortgage Loan Accounts to mortgagors	(1,034,569)	(1,445,733)
Restricted Fund Balances at end of year	$ 6,804,794	$ 7,293,996

See notes to financial statements.

New York City Housing Development Corporation

Statement of Changes in Unrestricted Fund Balances

General Housing Program

	Year Ended October 31 1978	1977
Revenues:		
Transfers from Restricted Funds—Note A	$2,317,092	$1,888,223
Earnings on investments	872,412	541,010
Interest on mortgage loan	72,066	
	3,261,570	2,429,233
Expenses:		
Salaries and related expenses	343,593	302,893
Rent	21,044	30,608
Fees and expenses of the Trustee, Depository and Paying Agent	60,681	47,043
Services of New York City Department of Housing Preservation and Development	370,135	352,745
Other administrative and operating expenses	142,519	159,285
Deferred revenues—mortgage loans—Note D	507,423	715,974
Credits granted to mortgagors—Notes C and D	318,100	308,100
	1,763,495	1,916,648
Excess of revenues over expenses	1,498,075	512,585
Unrestricted fund balances at beginning of year	5,847,251	5,334,666
Unrestricted Fund Balances at end of year	$7,345,326	$5,847,251

See notes to financial statements.

Statement of Sources and Uses of Cash

General Housing Program

	Year Ended October 31 1978	1977
Sources:		
Proceeds from sale of housing notes including premium	$ 37,703,000	$ 37,703,000
Proceeds from sale of bonds	1,115,000	
Investment activity:		
Proceeds from sales:		
Cost to the Corporation	316,163,415	548,154,417
Earnings	2,533,397	2,768,372
Purchases	(315,286,165)	(538,208,957)
Received from mortgagors:		
Interest	22,300,568	20,462,274
Principal	1,004,591	818,765
Fees and charges	740,271	675,680
Received from Multifamily Housing Program	125,534	
Total sources	66,399,611	72,373,551
Uses:		
Mortgage loans	3,232,064	9,590,001
Retirement of housing notes	37,703,000	37,703,000
Interest on housing notes	3,958,815	3,393,270
Interest and principal payments on bonds	10,126,810	10,113,466
Amounts segregated for November 1st debt service	9,420,162	9,527,971
Distribution of earnings on investments to mortgagors	1,034,569	1,445,733
Distribution of ground rent escrow account		57,474
Operating expenses	587,100	446,847
Total uses	66,062,520	72,277,762
Excess of sources	337,091	95,789
Cash balances at the beginning of year	278,858	183,069
Cash balances at the end of year	$ 615,949	$ 278,858
Cash balances were:		
Held for designated purposes	$ 317,926	$ 162,517
Held for operations	298,023	116,341
	$ 615,949	$ 278,858

See notes to financial statements.

Statement of Assets and Liabilities

Multifamily Housing Program

	October 31 1978	1977
Assets:		
Mortgage loans—Notes C, F and G	$405,515,870	$ 90,456,789
Receivable from mortgagors for:		
Mortgage billings	2,662,164	578,990
Reserves for replacement and escrows	996,763	130,508
Cash and investments held for designated purposes—Notes B and E:		
Bond Proceeds Account	24,323,645	66,392,625
Revolving Account		6,847,910
Claim Payment Accounts	22,184,050	5,673,563
Minimum Property Standards Accounts	7,234,082	1,872,492
Reserve for Replacement Accounts	18,089,690	1,637,202
Debt Service Accounts	1,398,313	509,554
Escrow Accounts	2,434,398	411,057
Corporate Requirement Account	1,869,200	42,402
	77,533,378	83,386,805
Cash and investments held for operations—Note E	244,658	9,096
	$486,952,833	$174,562,188
Liabilities:		
Multifamily Housing Limited Obligation Bonds—Note F	$299,379,644	$ 69,838,026
Payable to The City of New York—Note G	133,433,971	91,323,220
Accrued interest payable	810,820	189,144
Accounts payable and accrued expenses	154,997	204,999
Payable to General Housing Program	81,529	125,534
Deferred fees	243,774	
Fund balances—Notes B and G:		
Restricted:		
Claim Payment	21,467,906	5,673,563
Reserve for Replacement	18,279,708	3,314,994
Minimum Property Standards	5,905,999	2,615,798
Debt Service	2,412,354	756,883
Escrows	3,223,227	507,579
Corporate Requirement	1,389,246	3,352
	52,678,440	12,872,169
Unrestricted—available for future expenses	169,658	9,096
	52,848,098	12,881,265
Commitments—Note K		
	$486,952,833	$174,562,188

See notes to financial statements.

Statement of Changes in Restricted Fund Balances

Multifamily Housing Program

	Year Ended October 31, 1978	February 16, 1977 to October 31, 1977
Revenues:		
Interest on mortgage loans—Notes B and C	$12,429,761	$ 1,249,218
Earnings on investments	1,099,367	168,510
	13,529,128	1,417,728
Expenses:		
Interest on Multifamily Limited Obligation Bonds—Note F	9,049,537	441,413
Transfers to Unrestricted Fund—available for future expenses—Note B	453,086	9,096
Trustee's fees	24,867	39,050
	9,527,490	489,559
Excess of revenues over expenses	4,001,638	928,169
Contributions:		
Initial deposits from The City of New York (Revolving Account) and from mortgagors ($8,619,651 in 1978 and $958,403 in 1977)—Notes B and G:		
Claim Payment Fund	15,789,725	5,580,165
Minimum Property Standards Fund	3,936,467	2,572,846
Reserve for Replacement Fund	14,601,576	3,284,482
Escrow Fund	8,713,303	1,557,747
	43,041,071	12,995,240
Dispositions:		
Minimum Property Standards Fund	859,938	
Reserve for Replacements Fund	12,622	
Escrow Fund	6,363,878	1,051,240
	7,236,438	1,051,240
Restricted fund balances at beginning of year	12,872,169	
Restricted fund balances at end of year	$52,678,440	$12,872,169

See notes to financial statements.

New York City Housing Development Corporation

Statement of Sources and Uses of Cash

Multifamily Housing Program

	Year Ended October 31, 1978	February 16, 1977 to October 31, 1977
Sources:		
Proceeds from sale of bonds	$ 230,027,600	$ 69,859,100
Proceeds from sale of mortgages		21,060,300
Investment activity:		
Proceeds from sales:		
Cost to the Corporation	1,397,909,468	703,278,957
Earnings	3,451,568	1,118,343
Purchases	(1,391,563,639)	(786,213,510)
Received from mortgagors:		
Reimbursement of expenses	457,798	157,590
Interest	12,297,073	1,679,828
Principal	536,966	53,229
Reserve for replacement	2,318,142	969,256
Escrow	5,172,400	309,119
Minimum property standards deposits	262,854	265,165
Total sources	260,870,248	12,537,377
Uses:		
Interest and principal payments on bonds	8,913,823	273,343
Advances to mortgagors	20,527,891	7,140,092
Purchase and extension fees paid to bondholders	1,183,068	1,954,961
Placement fees	1,150,138	349,295
Transfer of replacement reserves to purchaser of mortgages sold		719,733
Fee related to mortgage and bond closings	1,361,254	123,790
Financial fees	1,066,292	551,491
Escrow	6,371,245	1,051,245
Minimum property standards	859,938	
Paid to The City of New York	218,405,012	
Transfer to General Housing Program	125,534	
Other expenses	371,470	83,246
Total uses	260,335,665	12,247,196
Excess of sources	534,583	290,181
Beginning cash balances	290,181	
Ending cash balances	$ 824,764	$ 290,181
Cash balances were:		
Held for designated purposes	$ 824,764	$ 281,085
Held for operations		9,096
	$ 824,764	$ 290,181

See notes to financial statements.

Votes to Financial Statements

Vote A—Organization

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

The Corporation was created to encourage the inrestment of private capital and provide safe and saniary dwelling accommodations for families and persons vhose need for housing accommodations cannot be rovided by unassisted private enterprise, through rovision for low interest mortgage loans.

During 1977, the Corporation established the Aultifamily Housing Program under the provisions of \rticle II (the Mitchell-Lama program) of the Private Iousing Finance Law. See Note B for a further disussion of the program and the accounts and funds stablished under the Multifamily Housing Limited Obligation Bond Resolutions.

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

roject Mortgage Loan Accounts

Project Mortgage Loan Accounts are established or each project for which bonds and/or notes are sold. he allocated proceeds of bonds or notes sold for each roject are deposited in the respective Project Mortage Loan Account, from which advances are made to nortgagors. Such advances may be used only to pay evelopment costs, provide working capital, or, if not equired for these purposes, then to retire debt.

evenue Fund

All revenues collected by the Corporation are eposited in the Revenue Fund. Such revenues are pplied for the uses and purposes for which such evenues are pledged by the Corporation's General Iousing Bond Resolution.

Operating Fund

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

ebt Service Fund

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

Capital Reserve Fund

The Capital Reserve Fund 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.

At October 31, 1978, the cash and investments in the Capital Reserve Fund of $19,897,186, exclusive of accrued interest, were in excess of its maximum requirements by $518,700 (see Note H).

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 noninterest-bearing loan from the City to the Corporation.

General Reserve Fund

A General Reserve Fund may be maintained by the Corporation and is available for any corporate purpose as provided in the General Housing Bond Resolution. The cash and investments of this fund, excluding accrued interest, may not exceed 2% of outstanding bonds. At October 31, 1978, the 2% limitation was exceeded by approximately $46,000 which will be used for the authorized purposes set forth in the Resolution.

Transfers of money from Restricted Funds to 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 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's 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 noninsured second mortgages. The Corporation retains the federally insured portion and

Notes to Financial Statements, Continued

Note B, Continued

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, six mortgages assigned to the Corporation were sold and 12 mortgages were used as collateral for the initial issuance of $69,859,100 Multifamily Housing Limited Obligation Bonds. In fiscal 1978, 46 additional mortgages were also used as collateral for $230,027,600 of Bonds issued to complete the first phase of the program.

The Corporation adopted a second resolution authorizing the issuance of an additional $165,000,000 in Multifamily Housing Limited Obligation Bonds. Subsequent to October 31, 1978, $79,998,100 of these bonds were sold, secured by 15 mortgages, eight of which had been assigned to the Corporation prior to October 31, 1978. See Note F for a further discussion of the Multifamily Housing Limited Obligation Bonds.

The purchasers' commitment to purchase bonds under the second resolution expired on December 29, 1978. At the conclusion of this program, two mortgages assigned to the Corporation remained unbonded and 73 mortgages were securing bonds.

The interest and principal on the mortgages securing such Multifamily Housing Limited Obligation Bonds 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 ⅛ of one percent of the original principal amount of the mortgages securing the obligations for servicing of the mortgages and to pay administrative costs. In addition, the Corporation also receives an amount required to pay the annual fees of the trustee. The balance of the interest differential is payable to the City less a maximum of $1,500,000 which is to be held pursuant to an agreement with the City.

The following accounts and funds have been established in accordance with the Corporation's two Multifamily Housing Limited Obligation Bond Resolutions:

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. 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 Resolutions and by the federal insurer, are paid from the proceeds. A portion of the proceeds may be maintained in a Revolving Account, not to exceed $20,000,000 at any one time, in accordance with the assignment agreement between the Corporation and The City of New York. Funds in the Revolving Account held last year have been remitted to the City.

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 payments on the related bonds are made, 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 the Federal Housing Administration (FHA). 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 of New York.

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 95% of total project costs or any other limitations described by law. HPD monitors construction, approves mortgage loan advances and certifies 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 were granted during each of the years 1978 and 1977 to Waterside, and $10,000 in 1978 to North Waterside.

Under the two Multifamily Housing Limited Obligation Bond Resolutions, principal and interest received from the mortgagors, and related investments and earnings thereon, are pledged as security for the payment 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 2018.

In the event of default by the mortgagor for nonpayment of principal and interest, the trustee has certain responsibilities as defined in the Multifamily Housing Limited Obligation Bond Resolutions. 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

	Mortgage Commitments	*Mortgage Loan Advances*	*Remaining Mortgage Commitments*
Washington Plaza Towers, Inc.*	$ 64,594,680	$ 64,594,680	
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	62,712,200	
Ocean Park Housing Co., Inc.*	18,265,900	18,265,900	
Knickerbocker Plaza Housing Co., Inc.*	24,844,100	24,700,291	$143,809
North Waterside Redevelopment Co., Inc.*	12,859,300	12,827,081	32,219
Carlton Gardens Housing Co., Inc.	10,367,000	10,367,000	
	$305,571,373	305,395,345	$176,028
Less principal repayments		3,277,180	
		$302,118,165	

*Receives subsidies from HUD under Section 236 of the National Housing Act.

All of the projects experienced increased operating costs and have obtained rent increases or are in the process of obtaining rent increases.

In 1977, certain housing projects were unable to obtain sufficient rent increases to offset working capital deficits and meet forecasted operating costs. This required additional capital contributions to be made by the owners of the housing projects which were matched by the Corporation through a deferral of mortgage payments. As part of the agreement with Waterside, the Corporation agreed to grant an annual credit of $308,100. If the Corporation fails to grant the credit, the amount not granted would be offset against the deferred mortgage payment otherwise repayable to the Corporation by Waterside. The credit for 1978 was granted.

Notes to Financial Statements, Continued

Note D, Continued

Of the $1,850,000 mortgage payments deferred, $465,000 was deferred in 1978. Accrued interest amounted to $42,423 and $30,974 in 1978 and 1977, respectively. The deferred income will be recognized as the receivable is collected. This will be repaid to the Corporation over a ten-year period as follows:

	Interest Rate	Amount of Mortgage Payments Deferred	Payment Commencement Date
Waterside	6%	$700,000	1979
Yorkville Towers	6%	550,000	1980
Washington Plaza	—	600,000	1980

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

At October 31, 1978, cash and investments held for designated purposes and operations (including accrued interest of $623,835 on securities of the General Housing Program and $364,548 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	$ 384		$4,982,710		$ 4,983,094
Capital Reserve Fund	4,737	$17,395,679		$2,836,691	20,237,107
Debt Service Fund		529,084			529,084
Note Interest Payment Fund	312,805				312,805
	$317,926	$17,924,763	$4,982,710	$2,836,691	$26,062,090
Held for operations:					
Operating Fund	$142,504		$1,746,000		$ 1,888,504
General Reserve Fund	155,519	$ 456,140	2,003,417	$3,233,666	5,848,742
	$298,023	$ 456,140	$3,749,417	$3,233,666	$ 7,737,246

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 $16,651,394 at October 31, 1978.

Multifamily Housing Program:

	Cash	United States Agency Securities	Security Repurchase Agreements	Obligations Of U.S. Treasury	Total
Held for designated purposes:					
Bond Proceeds Account	$ (710,693)		$25,034,338		$24,323,645
Claim Payment Accounts	4,164		706,169	$21,473,717	22,184,050
Minimum Property Standards Accounts	354		7,233,728		7,234,082
Reserve for Replacement Accounts	33,201		2,727,651	15,328,838	18,089,690
Debt Service Accounts	5,393		1,392,920		1,398,313
Escrow Accounts	1,492,255		767,623	174,520	2,434,398
Corporate Requirement Account	90	$1,695,969	173,141		1,869,200
	$ 824,764	$1,695,969	$38,035,570	$36,977,075	$77,533,378
Held for operations		$ 244,658			$ 244,658

The market value of securities held at October 31, 1978, approximates cost plus accrued interest.

Note F—Bond and Note Indebtedness

This note should be read in conjunction with Table A—Details of Bond and Note Indebtedness.

The bonds, notes and other obligations of the Corporation are not debts of either the State or The City of New York and neither is liable thereon.

General Housing Program

The General Housing Bonds and Notes are general obligations of the Corporation. Substantially all 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 originally sold on a private basis in 1975 to four commercial banks, bore supplemental interest of 2½% and 1%, respectively, through August 15, 1978, on which date such interest expired. Upon issuance of the Bonds, $518,700 was transferred from the General Reserve Fund to the Capital Reserve Fund which amount approximated the annual debt service on the supplemental interest. See Note H.

The original four purchasing banks now hold $22,385,000 of the Series D and Series E Bonds and 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. Also, during the year the rating of the Corporation's bonds was dropped to a noninvestment grade status of Ba by Moody's Investors Service.

The Corporation's Series VIII Housing Notes in the amount of $37,703,000 became due on August 15, 1978. These Notes were extended by agreement through November 14, 1978, and on that date rolled over into Series IX Housing Notes at the same annual interest rate of 9% with $46,000 maturing on February 15, 1979, $47,000 maturing on May 15, 1979, and the balance of $37,610,000 due on August 15, 1979. The Series IX Housing Notes are collateralized by the mortgages and related HUD interest reduction payment contracts of Knickerbocker Plaza and North Waterside.

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 46 years.

On May 1, 1978, the Corporation issued 7⅜% Series G Bonds in the amount of $1,115,000 to complete the financing of the Kew Gardens Hills (Carlton Gardens Housing Co. Inc.) rehabilitation project. Initial funding for the project was derived from the Corporation's 7⅜% Series F Bonds issued in fiscal 1976 in the amount of $10,200,000. Both series of bonds were privately placed with The Bowery Savings Bank which participated with the Corporation in the mortgage loan made to the housing company.

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), 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 and Series G Bonds of the Corporation are subject to optional redemption at 100% commencing in 1981.

Multifamily Housing Program

Bonds issued by the Corporation under its Multifamily Housing Limited Obligation Bonds General Bond Resolution of July 25, 1977 and Second General Bond Resolution of October 10, 1978, 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 are paid only from money received for the account of the insured mortgage securing that series, including payments made by, or on behalf of, the mortgagor or by the Federal insurer.

The Corporation issued 6½%, 40-year term, Multifamily Housing Limited Obligation Bonds in the amount of $299,886,700 between August 1977 and September 1978. The Bonds were privately placed, and the principal and interest on them are paid monthly. The Corporation paid a commitment fee to the purchasers of one percent of the principal amount of Bonds issued. Also, the Corporation paid 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. Fees incurred of $2,333,206 in 1978 and $2,304,256 in 1977 have been deducted from the proceeds from the sale of the Bonds.

Prior to the end of fiscal year 1978, the Corporation adopted a Second General Bond Resolution authorizing the issuance of an additional $165,000,000 in Multifamily Housing Limited Obligation Bonds. On November 30, 1978 and December 28, 1978, the Corporation privately placed Bonds in the amounts of $51,808,800 and $28,189,300, respectively, with

Notes to Financial Statements, Continued

Note F, Continued

nine thrift institutions (eight in the New York metropolitan area and one in Los Angeles, California) pursuant to a Bond Purchase Agreement which terminated December 28, 1978. This second program was structured similarly to the previous one, except that the Bonds carried an average interest rate of 7⅛% for the 40-year term.

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 under the first Resolution, and November 15, 1998, under the second Resolution, the City may require the redemption of bonds prior to maturity at 105% of tl unpaid principal plus accrued interest.

The Corporation is authorized to issue bonc and notes for its housing programs in an aggrega principal amount outstanding, exclusive of refundir bonds or notes, not to exceed $950,000,000 or suc amount which would not cause the maximum Capit Reserve Fund Requirement to exceed $85,000,00(however, the Corporation shall not issue bonds th would cause the maximum Capital Reserve Fund r quirement to rise above $30,000,000 without a cor current resolution of the Legislature and the Gov ernor's written agreement with such resolution. Th Corporation is able to issue bonds for any corporat purpose without making a deposit into a Capital Re serve Fund. The Corporation is also authorized t issue taxable bonds if such bonds are either guarar teed or subsidized by the Federal government.

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 assignec mortgages net of certain costs, as described in Note B

At October 31, 1978 and 1977, the amounts payable to The City were determined as follows:

	Year Ended October 31, 1978	February 16, 1977 to October 31, 1977
Mortgages assigned by The City of New York:		
Sold by the Corporation		$ 21,060,300
Collateral for the Multifamily Housing Limited Obligation Bonds	$315,583,800	90,498,963
Principal and interest received on mortgages prior to bonding	1,961,008	1,038,550
Earnings on investments of unrestricted funds	2,519,350	1,121,000
Total sources	320,064,158	113,718,813
Dispositions:		
Advances of final mortgage commitment from The City of New York to the mortgagors	20,527,891	7,140,092
Transfers to Restricted Funds:		
Escrow Accounts	2,842,250	1,160,799
Claim Payment Fund	15,789,725	5,580,165
Minimum Property Standards Fund	3,673,613	2,307,681
Reserve for Replacement Fund	12,115,832	2,988,192
	34,421,420	12,036,837
Administrative and operating expenses:		
Purchase and extension fees paid to bond purchasers	1,183,068	1,954,961
Placement fees	1,150,138	349,295
Financial consulting fees	1,066,292	551,492
Legal fees	378,332	362,916
Other	821,254	
	4,599,084	3,218,664
Paid to The City of New York	218,405,012	
Total dispositions	277,953,407	22,395,593
Excess of sources	42,110,751	91,323,220
Payable to The City of New York beginning of period	91,323,220	
Payable to The City of New York end of period	$133,433,971	$ 91,323,220

Subsequent to October 31, 1978, $75,000,000 was paid to The City of New York.

Note H—Restricted Fund Balances

The capital reserves restricted fund balances consist of the following:

	October 31 1978	October 31 1977
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.)	$ 864,320	$ 644,438
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	381,866	564,859
3. In 1977, an amount approximating the supplemental interest on the Series D and Series E General Housing Bonds. The Corporation has decided to retain such amount in 1978 in view of the indeterminable liability that may result from the sales of these Bonds (as explained in Note F), and the decline in market value of the securities in the Capital Reserve Fund. The amount will be transferred to the General Reserve Fund when the Corporation considers such a transfer prudent	518,700	518,700
	$1,764,886	$1,727,997

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—$24,021 and $21,039 in 1978 and 1977, respectively; and Hawkins, Delafield & Wood—$845 and $18,499, in 1978 and 1977, respectively.

Fees to Ms. Bertha Hatvary of $2,850 and $1,750 for 1978 and 1977, respectively, were incurred for editorial consulting services for the Corporation's annual report.

Multifamily Housing Program

Financial consulting fees of $1,066,292 and of $551,491 were incurred in 1978 and 1977, respectively, for services performed by Urban Real Estate Finance Corporation.

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

	1978	1977
Brownstein Zeidman & Schomer	$328,913	$255,030
Hawkins, Delafield & Wood	47,882	77,352
Willkie, Farr & Gallagher	1,537	
Marshall, Bratter, Greene, Allison & Tucker		10,371
Robinson, Silverman, Pearce, Aronsohn & Berman		9,500
Weil, Gotshal & Manges		10,664

Note J—Related Party Transactions

The Corporation sold $11,315,000 of Series F and Series G 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 Senior 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. In addition, subsequent to October 31, 1978, The Bowery Savings Bank purchased $1,775,200 of bonds issued under the Multifamily Housing Limited Obligation Bonds Second General Bond Resolution.

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 ($45,000, 1978; $39,701, 1977).

See Note D for details of mortgage loans and commitments.

Table A—Details of Bond and Note Indebtedness

	Original Face Amount	Balance November 1, 1977	Issued	Retired	Balance October 31, 1978
General Housing Program:					
3.75% to 6.50%—General Housing Bonds, 1972 Series A, maturing in varying annual installments on May 1 to 2022	$133,000,000	$131,760,000		$ 55,000	$131,205,000
3.50% to 7.00%—General Housing Bonds, 1972 Series B, maturing in varying annual installments on November 1 to 2022	51,640,000	50,680,000		265,000	50,415,000
5.70% to 7.00%—General Housing Bonds, 1973 Series C, maturing in varying annual installments on May 1 to 2023	62,800,000	62,335,000		250,000	62,085,000
7.50%—General Housing Bonds, 1975 Series D, maturing in varying annual installments on May 1 to 2023	16,255,000	16,215,000		45,000	16,170,000
9.00%—General Housing Bonds, 1975 Series E, maturing in varying annual installments on May 1 to 2022	11,255,000	11,235,000		20,000	11,215,000
7⅜%—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
7⅜%—General Housing Bonds, 1978 Series G, maturing in varying annual installments on May 1 to 2009	1,115,000		$ 1,115,000		1,115,000
	$286,265,000	$282,425,000	$ 1,115,000	$ 1,135,000	$282,405,000
9.00%—Housing Notes, August 15, 1977 Series VIII, maturing August 15, 1978, extended to November 14, 1978 (See Note F)	$ 37,703,000		$ 37,703,000	$37,703,000	$ 37,703,000
Multifamily Housing Program:					
6.50%—Multifamily Housing Limited Obligation Bonds, 1977 and 1978 Series I through LVIII, maturing by June 15, 2018	$299,886,700	$ 69,838,026	$230,027,060	$ 485,982	$299,379,644