

A report to
Hon. Abraham D. Beame, Mayor
Hon. Harrison J. Goldin, Comptroller
Hon. Melvin N. Lechner, Director of the Budget

*New York City
Housing Development
Corporation*

Annual Report 1975

November 1, 1974 to October 31, 1975

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
- 5 HDC Accomplishments
- 8 Report of Independent Accountants
and Audited Financial Statements

The New York City Housing Development Corporation
110 William Street Suite 3100 New York, New York 10038

Chairman's Report

The past year was one in which the financial world questioned the ability of The City of New York to meet its bond and note obligations. The doubts expressed themselves at first in higher interest rates, but as the year progressed New York found itself unable to market its securities publicly at any price. This marketing difficulty was exacerbated by the unprecedented default of a State housing agency on some of its notes. Another agency found itself unable to obtain financing for new projects.

In this dark period, the New York City Housing Development Corporation was nonetheless able to issue notes in February and both notes and bonds in August. Upon successful completion of the August sales, the Corporation obtained all the funds necessary to meet its commitments to mortgagors.

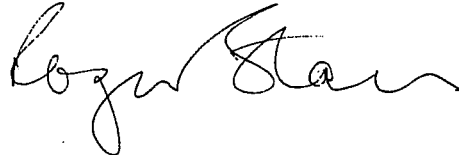
The Corporation was able to survive and even to move ahead during the year because its cautious policies and conservative administration during the three preceding years had won it favorable attention in the capital market. It had built up a General Reserve Fund sufficiently large to cover the high interest rates of the August sales. These sales were made possible through the cooperation and confidence of four major New York banks and four New York City pension funds.

In the face of the generally negative attitude towards residential mortgage lending in the urban centers, prudence required the Corporation to retrench wherever retrenchment was possible. Certain bond reservations for future projects were cancelled or allowed to lapse. It was also a year to seek new techniques for funding. One such might be the issuance by the Corporation of taxable bonds backed by the full faith and credit of the Federal Government. The possibility of issuing such bonds and the various techniques by which they might be secured are now being explored by the Corporation.

At the end of the fiscal year, all the projects funded by the Corporation were in satisfactory financial condition; renting for recently constructed projects was proceeding as planned; the rented projects were up to date on debt service; and there had been no need to call upon City or State funds to maintain the Capital Reserve Fund at required levels. This gratifying state of affairs, in an otherwise gloomy year, gives us all some basis for hoping that development will start once again after the present crisis has been resolved.

On December 31, 1975, Edward R. Levy retired as Executive Director of the Corporation, leaving government after twenty-eight years of dedicated service. He skillfully guided the Corporation during its formative stage and his further efforts during its first four years of existence helped establish it as an agency of high repute. Special praise must be accorded him for spearheading the effort that resulted in the Corporation's obtaining all necessary completion financing for its projects during the present fiscal crisis.

On behalf of the Members of the Corporation, I wish Mr. Levy a healthy and happy retirement.



Roger Starr
Chairman

January 9, 1976

Members and Executive Staff

The membership of the Corporation consists of the Administrator of the Housing and Development Administration 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 the Budget of The City of New York, and the Finance Administrator 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.

Roger Starr

Chairman and Member ex officio

Mr. Starr is Administrator of the New York City Housing and Development Administration. For fifteen years he was Executive Director of the Citizens Housing and Planning Council, a civic organization which works to stimulate better housing and more effective planning in New York City. He has also served as Chairman of the City's Rent Guidelines Board. Mr. Starr has written and taught extensively in the field of urban affairs.

Thomas E. Dewey, Jr.

Vice Chairman and Member

(term expires December 31, 1976)

Mr. Dewey is a General Partner in the investment banking firm of Kuhn, Loeb & Co. He is also a Trustee of Lenox Hill Hospital and of the Harlem Savings Bank. [On January 6, 1976, Mr. Dewey announced the formation of Thomas E. Dewey, Jr. & Co., Inc., which will specialize in financial advisory services.]

Mrs. Frederica C. Hein

Member (serving pursuant to law)

Mrs. Hein is an attorney and a former partner of Hein, Waters, Klein and Zurkow. A committee member of the Community Services Society, Mrs. Hein has also served as a member of the Board of Visitors of the Creedmoor State Hospital. She is former President of the Queens Womens Bar Association and Vice President of the International Federation of Women Lawyers.

Ivan E. Irizarry

Member ex officio

Mr. Irizarry is Finance Administrator of The City of New York. He was formerly Executive Director for the Continental and Foreign Operations Branch, Economic Development Administration of Puerto Rico, and has more than fifteen years of experience in economic development, banking, and government service.

Pazel G. Jackson, Jr.

Member (term expires December 31, 1975)

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.

Melvin N. Lechner

Member ex officio

Mr. Lechner is Budget Director of The City of New York. A certified public accountant, he was associated for six years with the accounting firm of Arthur Andersen & Co. Prior to his appointment as Budget Director, Mr. Lechner served as the City's Deputy Comptroller.

Gilbert MacKay

Member (term expires May 31, 1979)

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.

Edward R. Levy

Executive Director [retired on December 31, 1975]

Mr. Levy is an attorney with extensive experience in housing. He has been the First Deputy Commissioner of the Department of Development, New York City Housing and Development Administration; Assistant Commissioner of the New York State Division of Housing and Community Renewal; Assistant Director of the New York State Housing Finance Agency, and Assistant to the Chairman and Secretary of the Battery Park City Authority.

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.

Harold Kuplesky

Deputy Executive Director [appointed Executive Director effective January 1, 1976]

Mr. Kuplesky is an attorney with extensive experience in housing. He has served the Corporation since its creation as Housing Analyst and Assistant Secretary. Previously he was Assistant to the First Deputy Commissioner, Department of Development, 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

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.

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 borrowing capacity, upon which there are many other claims in addition to housing. HDC was created as a supplementary and alternative vehicle for borrowing money for housing projects without directly encumbering the City's own credit.

Powers

The Corporation is authorized by its enabling act to make loans for new construction or for rehabilitation. It may make both types of mortgage loans 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 or carrying charges payable, and the profit of housing companies are determined and regulated by law.

Authorization

HDC 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 would not cause its Capital Reserve Fund (defined below) to exceed \$85,000,000. Not more than \$200,000,000 of the total authorization may be used for rehabilitation under Article VIII and not more than \$100,000,000 for financing projects jointly with conventional lending institutions.

HDC has the option of financing new projects in the City's housing pipeline or of refinancing projects that have already received mortgage loans from the City or from conventional sources. It can initially sell either notes or bonds to finance the projects.

Security for Bonds

Funds for the payment of the debt service on the Corporation's bonds come primarily from the payments made by the mortgagors of the projects financed by the Corporation. These payments include principal, interest, mortgage origination fees, and annual service charges. The funds paid by the mortgagors may, in part, be derived from payments made by the U.S. Department of Housing and Urban Development under the terms of subsidy contracts.

A secondary source of revenue for payment of debt service on the Corporation's bonds is investment income or earnings from the General Reserve Fund, the Capital Reserve Fund, and various other funds

and accounts established under the General Bond Resolution.

Thirdly, the General Bond Resolution provides for the establishment of a General Reserve Fund not to exceed 2% of the principal amount of outstanding bonds. Investment income, fees, and charges in excess of the Corporation's operating requirements may flow into the General Reserve Fund and become available to meet debt service if required.

As the ultimate security, there is the statutorily required Capital Reserve Fund. This Fund is made up of the maximum annual debt service for each issue of the Corporation's bonds and must be funded from the proceeds of each bond issue, if not provided from another source. If, for any reason, this Capital Reserve Fund should fall below its requirement, then 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 or is unable to restore the Capital Reserve Fund to the minimum requirement, 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.

Bonds of the Corporation are secured by a pledge of the mortgages financed in whole or in part from the proceeds of the sale of bonds. Also pledged are revenues and other monies, securities, funds and accounts of the Corporation, as provided in the General Housing Bond Resolution.

Rent Covenant

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, reserves, and dividends), the Corporation will request the mortgagor to apply to the New York City Housing and Development Administration (HDA) for permission to vary the rentals so as to secure sufficient income. If the mortgagor does not do so within thirty days, the Corporation will request HDA to take action upon its own motion to vary the rental rate. If HDA fails to do so within sixty days, the Corporation will itself vary the rental rate. However, in cases where projects benefited from any Federal housing program of financial assistance, such rental increases would be 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, HDC 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 banks, and savings associations, including 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 of-

ficers 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 HDC notes and bonds is exempt from (i) Federal income taxes under the existing statute and the ruling 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 fiscal year started in November 1974, Knickerbocker Plaza, with its 578 apartments in uptown Manhattan, was well into construction, as was North Waterside, the last building in the handsome Waterside complex built out over the East River. The notes that had been issued in the preceding year to commence their financing were due in February, and further funds were needed to complete the financing of Independence Plaza North (once called Washington Plaza Towers), Ruppert Towers, and the rest of Waterside.

Market conditions at the time were by no means propitious for the issuance of HDC obligations. New York City was in financial straits, and rumors of financial problems in the New York State Urban Development Corporation were affecting housing agencies in general and HDC in particular.

Thus, even though Moody's raised the rating of the Corporation's notes in January from MIG-2 to MIG-1, the HDC staff felt that the February issue should be limited to six-month notes, and that the total amount should be kept as low as possible. It was hoped that at the end of the six-month period the market would be more hospitable to a bond issue.

The Corporation accordingly issued notes in the amount of \$48,000,000, to refinance existing notes and to cover the mortgage loan advances that would be required during the six-month period. Despite the Moody's upgrading, the interest rate was almost double that of the year before—8.20 percent, as opposed to 4.73 percent in 1974.

By August, when it was time for the February notes to be redeemed, the outlook was grim indeed. New York City's financial problems had become the object of nationwide publicity, and other New York issuers of tax-exempt obligations were now encountering market resistance. In early August Moody's, which had withdrawn ratings on New York City's notes during the preceding week, downgraded HDC's notes from MIG-1 to MIG-4. This was in spite of the fact that there had been no change in HDC's mortgage loan portfolio or in the ratings of its bonds.

In this adverse climate, the Corporation nevertheless succeeded not only in refunding the notes but also in obtaining the additional funds it needed to complete the outstanding mortgage loan commitments on the projects it was financing. With the cooperation of the City Comptroller, who gave permission for a pri-

vate placement of its obligations, HDC was able to place \$37,703,000 of notes with the four New York City pension funds and \$27,510,000 of bonds with four banks.

The one-year notes, bearing interest at 10 percent per annum, were secured by a pledge of the mortgages and Federal interest subsidy contracts of the two newest projects, North Waterside and Knickerbocker Plaza, which had been financed previously only by notes and were thus not pledged to bondholders. In the event that it was determined that the notes should not be satisfied by an assignment of the mortgages and interest reduction subsidy contracts, the pension funds could renew the notes for one year or accept an issue of bonds.

Of the two bond issues, Series D, in an aggregate principal amount of \$16,255,000, bore an interest rate of 7½ percent and three-year supplemental coupons at 2½ percent; Series E, in an aggregate principal amount of \$11,255,000, sold at 9 percent, with three-year supplemental coupons at 1 percent. Payment of the 10 percent interest rate on the notes and on the supplemental coupons was possible because of funds available in the Corporation's General Reserve Fund and, in the case of the Series E bonds, the Section 236 subsidy for Independence Plaza North as described further on in this report.

The bond sales were made pursuant to bond purchase agreements which survive the delivery of the bonds. These agreements are designed to induce the Corporation to redeem the bonds from the initial purchasers as soon as market conditions permit.

In the difficult negotiations leading up to the purchase of these bonds, the banks exhibited an exemplary spirit of cooperation and intent to be of assistance. The success of the issue, in the face of such difficult market conditions and of calls upon the banks by other government agencies, is an indication of the banks' confidence in the Corporation and its obligations.

At year end, the Corporation had completed the financing necessary to meet all of its then existing mortgage loan commitments.

Waterside, with its 1099 units over the East River, was substantially occupied at the end of the year. North Waterside, the fourth and last building in the Waterside complex, was fully rented and up to date on debt service. This 31-story tower has 370 apartments, all covered by a Federal Section 236 interest subsidy contract.

Of the three projects financed by HDC in the Ruppert Brewery Urban Renewal Area, Ruppert Towers, the first to be built, was complete and its 549 units substantially occupied. Yorkville Towers, which has 709 apartments, was 70 percent occupied, with further rentals proceeding briskly. Knickerbocker Plaza, which contains 578 apartments of which 394 are especially designed for the elderly, was completed and substantially occupied. The whole project benefits from a Federal Section 236 interest subsidy contract.

Early in the fiscal year, HDC's staff determined that the renting program at Independence Plaza North was not proceeding satisfactorily. Conceived in the late 1960's during the office boom in lower Manhattan and the construction of the World Trade Center, Independence Plaza was designed to be walk-to-work housing for people employed in the government and financial districts. But the unexpected reduction in downtown employment coupled with the general recession reduced the rent-paying capability of the downtown force, and the Corporation came to the conclusion that it was necessary to seek Federal subsidies to lower the project's rents.

Negotiations with the area, regional and headquarters staffs of the Federal Department of Housing and Urban Development culminated in a decision on the part of HUD to grant a Section 236 interest subsidy contract covering all of Independence Plaza's apartments. This result could not have been accomplished without the full assistance and cooperation of all levels of HUD and the New York City Housing and Development Administration.

On the basis of the Section 236 subsidy, HDC agreed to increase the mortgage loan to the housing company to help offset the additional carrying costs incurred during the extended capitalized period. In return, the developers pledged \$1,000,000 to offset any possible operational shortfalls, and the contractors agreed to absorb certain extra costs over the fixed construction price. By the end of the year, construction was complete and renting was proceeding at a satisfactory pace.

Pursuant to the Corporation's covenant with its bondholders to require rent increases when necessary to ensure a project's financial viability, HDC has instituted a policy of periodic and stringent review of its mortgagors' financial affairs. This review includes physical inspection of the projects and analysis of monthly operating reports and both semiannual and annual financial statements. During the year the Corporation staff determined that rent increases should be sought for Ocean Park and Linden Plaza. It obtained the cooperation of the housing companies to that end, and rent increase orders were promulgated by HDA for the two projects.

During the fiscal year the Corporation proposed certain legislative changes that would enable it to operate more effectively. These were amendments to the Private Housing Finance Law (PHFL) that were drafted by HDC, supported by the City, and eventually enacted into law by the State Legislature.

One of the two amendments was crucial to the August sale of HDC's obligations, and both HDC and HDA worked vigorously in its support. It permitted the Corporation's existing mortgagors under certain circumstances to pay in excess of the interest rate ceiling imposed upon other housing companies operating under the Law. But for this amendment, the Corporation could have been unable to complete the August issues described above.

The other amendment clarified HDC's power to raise rents in projects financed by HDC pursuant to Article VIII of the PHFL as it is empowered to do for those financed under Article II.

The development and passage of these two bills resulted from continuous cooperation between the Corporation and HDA. The two agencies also devoted considerable time and effort in trying to persuade the Legislature to amend the PHFL so as to permit the financing under the Law of owner-occupied three-family dwellings. Two bills, one proposing ownership by a Triad Housing Company and the other by low-income individuals, were drafted by HDC, adopted as part of the City's legislative program, and sent up to the Legislature, but neither passed during the year. Triad housing, being relatively inexpensive to build, could enhance the supply of moderate-income housing of the City. It could also encourage owner occupancy, which would have a beneficial effect upon the maintenance of the homes themselves and upon the neighborhoods around them.

The New York City financial crisis led to the passage late in the fiscal year of the New York State Financial Emergency Act, which places certain restrictions on many government agencies and public benefit corporations, including HDC. The Act creates a New York State Emergency Financial Control Board which subjects organizations such as HDC to rules and regulations promulgated by the Board concerning contracts, expenditures and plans for borrowings, and it also sets a limit of \$85,000,000 on the Corporation's Capital Reserve Fund.

During the year there were some significant changes in the Corporation's personnel. Gilbert MacKay, Chairman of the Board of MacKay-Shields Financial Corporation, became a Member of HDC, replacing J. Lee Rankin, who had served with distinction for three years.

By amendment to the By-Laws, the post of Deputy Executive Director of the Corporation was created, and the Members named to the post Harold Kuplesky, who has been with the Corporation since its inception as Director of Housing Analysis and Assistant Secretary.

Arnold Yoskowitz, Ph.D., a specialist in city planning and housing development, joined the staff as Assistant to the Executive Director.

At year's end, the focus of the Corporation was upon consolidating its position and taking the steps required by the difficult market conditions. The Members decided to cancel bonding reservations previously made for Tivoli Towers and Boulevard Towers II. The reservation for Manhattan Landing lapsed as the result of failure by the developer to meet the required conditions.

At the same time, the Members and staff felt that it was essential to seek ways of continuing the important work that the Corporation had been created to do. In cooperation with HDA, HDC is seeking innovative methods of financing future housing develop-

ment. One possible method, still in the early stages of study at the end of the year, is for the Corporation to issue taxable bonds guaranteed by the Federal government, under Section 802 of the 1974 Housing and Community Development Act. In addition, HDA and HDC are actively exploring with a major financing institution a possible program of participatory loans, together with private placement with the institution of HDC's bonds, to provide funds for the much-needed rehabilitation of existing housing.

In spite of all the difficulties encountered, the Corporation's position at the end of the year was sound. It had been able to maintain the position established at its inception of never having to call upon any City or State appropriation to meet its obligations or operating expenses. The Executive Director and the Members are confident that HDC will survive the present storms to finance new development in the future, and that the projects now in existence will be successful in fulfilling the mission for which they were built.

Report of Independent Accountants

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 at October 31, 1975, and October 31, 1974, and the related statements of changes in restricted fund balances, administrative revenues and expenses and changes in general reserve fund – available for future expenses, and sources and uses of cash for the years then ended. 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.

Notes C and E include discussions of (1) the uncertainty related to the realization of the Waterside mortgage loan and (2) the Corporation's 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 (1) the realization of the Waterside mortgage loan and (2) the ultimate loss, if any, to be realized relating to the Corporation's obligation under the Bond Purchase Agreement, the financial statements referred to above present fairly the financial position of New York City Housing Development Corporation at October 31, 1975, and October 31, 1974, and the changes in restricted fund balances, administrative revenues and expenses and changes in general reserve fund – available for future expenses, and sources and uses of cash for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Ernst

New York, N.Y.
January 26, 1976

New York City Housing Development Corporation
Statement of Assets and Liabilities

	October 31	
	1975	1974
<i>Assets—Note E:</i>		
Mortgage loans—Notes B and C	\$284,276,951	\$247,410,747
Receivable from mortgagors for:		
Accrued interest	1,824,197	1,521,455
Reimbursement of expenses	107,081	3,607
Fees and charges	54,624	
Interest advanced	181,918	
Cash and investments held for designated purposes—Notes A and D:		
Project Mortgage Loan Accounts	16,175,025	36,624,682
Capital Reserve Fund	19,178,074	16,352,846
Debt Service Fund	364,567	
	35,717,666	52,977,528
Amount transferred to paying agents in advance	7,813,310	7,810,022
Held for operations:		
Cash	137,614	123,573
Investments—Note D	4,764,135	4,256,749
	4,901,749	4,380,322
Office equipment at cost, less allowance for depreciation of \$18,311 (1975) and \$13,015 (1974)	7,382	12,678
	\$334,884,878	\$314,116,359
<i>Liabilities:</i>		
General Housing Bonds—Note E	\$274,265,000	\$247,070,000
Housing Notes—Note E	37,703,000	43,000,000
Accrued interest payable on bonds	8,156,718	7,575,022
Accrued interest payable on notes	806,426	1,521,455
Accounts payable and other accrued expenses	491,440	184,880
Received in advance from mortgagors:		
Principal and interest	505,358	591,246
Fees and charges		14,565
Debt service deposits	76,453	76,453
Fund balances—Notes E and F:		
Restricted:		
Capital reserves	1,018,501	409,228
Mortgage loans	7,560,737	10,151,472
	8,579,238	10,560,700
General Reserve Fund—Notes A, C, and H:		
Available for future expenses	3,351,245	3,522,038
Held for mortgage loan commitment	950,000	
	4,301,245	3,522,038
	12,880,483	14,082,738
Commitments—Note H		
	\$334,884,878	\$314,116,359

See notes to financial statements.

Statement of Changes in Restricted Fund Balances

	<i>Year Ended October 31</i>	
	1975	1974
<i>Revenues:</i>		
Interest on mortgage loans—Note B	\$19,217,097	\$16,750,907
Fees and charges	370,956	603,395
Earnings on investments	2,705,934	6,917,351
	<u>22,293,987</u>	<u>24,271,653</u>
<i>Expenses:</i>		
Interest on General Housing Bonds—Note E	15,727,045	15,151,915
Interest on Housing Notes—Note E	3,412,506	1,506,252
Transfers to General Reserve Fund—available for future expenses	1,545,168	1,867,118
	<u>20,684,719</u>	<u>18,525,285</u>
Increase in restricted fund balances	1,609,268	5,746,368
Restricted fund balances at beginning of year	10,560,700	4,908,942
	<u>12,169,968</u>	<u>10,655,310</u>
Transfer from General Reserve Fund—Notes E and F	518,700	
Distribution of earnings on investments in Project Mortgage Loan Accounts to mortgagors	(4,109,430)	(94,610)
Restricted fund balances at end of year—Notes E and F	<u>\$ 8,579,238</u>	<u>\$10,560,700</u>

See notes to financial statements.

*Statement of Administrative Revenues and Expenses and Changes
in General Reserve Fund—Available for Future Expenses*

	<i>Year Ended October 31</i>	
	1975	1974
<i>Revenues:</i>		
Transfers from Restricted Funds	\$1,545,168	\$1,867,118
Earnings on investments	441,734	204,268
	<u>1,986,902</u>	<u>2,071,386</u>
<i>Expenses:</i>		
Salaries and related expenses	329,571	301,913
Rent	59,573	55,376
Fees and expenses of the Trustee, Depository and Paying Agent	56,766	34,052
Services of New York City Housing and Development Administration	185,471	126,900
Other administrative and operating expenses	57,614	45,216
	<u>688,995</u>	<u>563,457</u>
Excess of revenues over expenses	1,297,907	1,507,929
General Reserve Fund—available for future expenses at beginning of year ...	3,522,038	2,014,109
	<u>4,819,945</u>	<u>3,522,038</u>
Transfer to Restricted Funds—Notes E and F	518,700	
General Reserve Fund—available for future expenses at end of year and held for mortgage commitment (\$950,000 in 1975)—Notes A, C, and H	<u>\$4,301,245</u>	<u>\$3,522,038</u>

See notes to financial statements.

Statement of Sources and Uses of Cash

	Year Ended October 31	
	1975	1974
<i>Sources:</i>		
Proceeds from sale of bonds	\$ 27,510,000	
Proceeds from sale of housing notes including premium	85,704,200	\$ 43,015,203
Proceeds from investments:		
Cost to the Corporation	785,241,216	1,942,944,884
Earnings	3,234,762	7,278,946
Received from mortgagors:		
Interest	13,715,845	8,698,392
Principal	485,610	241,650
Fees and charges	301,767	603,395
Miscellaneous—net	151,013	108,647
Total Sources	<u>916,344,413</u>	<u>2,002,891,117</u>
<i>Uses:</i>		
Mortgage loans	32,421,113	70,762,880
Retirement of housing notes	91,000,000	
Interest on housing notes	4,128,736	
Interest and principal payments on bonds	7,650,322	7,965,970
Amounts transferred to paying agents for principal and interest on bonds . .	7,813,310	7,810,023
Purchase of investments	768,578,534	1,916,274,945
Distribution of earnings on investments to mortgagors	4,109,430	94,610
Operating expenses	633,892	595,869
Total Uses	<u>916,335,337</u>	<u>2,003,504,297</u>
Excess of Sources (Uses)	9,076	(613,180)
Cash balance at the beginning of year	139,972	753,152
Cash balance at the end of year	<u>\$ 149,048</u>	<u>\$ 139,972</u>
Cash balance was:		
Held for designated purposes	\$ 11,434	\$ 16,399
Held for operations	137,614	123,573
	<u>\$ 149,048</u>	<u>\$ 139,972</u>

See notes to financial statements.

Notes to Financial Statements

Two years ended October 31, 1975

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.

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 (\$18,915,488 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.

Note B—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.

Mortgage loans are made after a review by New York City Housing and Development Administration (HDA) and the Corporation of the qualifications of the prospective borrowers and the financial feasibility of each project. In addition, HDA 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 HDA. In the event the housing company or HDA does not institute proceedings to implement a rent increase deemed necessary by the Corporation, or HDA 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

Note B, Continued

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.

Each housing company is designated by the Corporation as either in Development or Occupancy.

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 or pay construction costs.

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.

Note C—Details of Mortgage Loans and Commitments

	Total Mortgage Commitment	Mortgage Loan Advances	Remaining Mortgage Commitment
Washington Plaza Tower, Inc.	\$ 64,594,680	\$ 62,562,221	\$ 2,032,459
Waterside Housing Co., Inc.	61,577,000	59,054,377	2,522,623
Linden Plaza Housing Co., Inc.	50,706,693	50,301,688	405,005
Yorkville Towers Housing Co., Inc.	35,532,800	33,677,595	1,855,205
Ruppert Towers Housing Co., Inc.	26,823,900	26,730,170	93,730
Ocean Park Housing Co., Inc.	18,265,900	18,265,900	
Knickerbocker Plaza Housing Co., Inc.	24,844,100	22,590,934	2,253,166
North Waterside Redevelopment Co., Inc.	12,859,300	11,791,917	1,067,383
	<u>\$295,204,373</u>	<u>284,974,802</u>	<u>\$10,229,571</u>
Less principal repayment		697,851	
		<u>\$284,276,951</u>	

Of the \$10,229,571 remaining mortgage commitment, \$9,279,571 will be distributed from the project mortgage loan accounts and \$950,000 from amounts held for operations (see discussion of Washington Plaza below). No additional borrowings are required.

Five of the eight housing companies receive subsidies from the U.S. Department of Housing and Urban Development (HUD) under Section 236 of the National Housing Act. Three of the five "236" projects are in Occupancy and were substantially fully rented at October 31, 1975 and a fourth was approximately 97% rented by December 31, 1975. The fifth, Washington Plaza, is discussed below, together with other projects which have experienced difficulties during 1975.

Waterside

Waterside consists of three buildings which became available for occupancy in August 1973, October 1973, and August 1974. At December 31, 1975, the vacancy rate for the apartments was approximately 10% and had been at that level for a number of

months. The housing company is operating at a substantial deficit that will require significant increases in rent which will impact the vacancy rate. The ability of the housing company to meet all of its obligations during the next year is uncertain.

No provision for possible loan loss has been made because such a provision would require (1) that it be probable that the asset has been impaired and (2) that a loss can be reasonably estimated.

Washington Plaza

A HUD subsidy was obtained in November 1975, effective August 22, 1975, for Washington Plaza (also known as Independence Plaza North) after attempts to rent the project apartments without a HUD subsidy were unsuccessful. It is estimated that the project will be at least 95% occupied by April 30, 1976. The Corporation has authorized an increased mortgage loan of \$950,000 to the housing company and the housing company has agreed to provide additional equity of \$50,000. To cover any operating income deficits, a \$200,000 letter of credit has also been provided by the

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

General Managing Partners of the limited partnership that is the equitable owner of the project. These funds in the aggregate are considered sufficient to cover such operating deficits through April 30, 1976.

Ruppert and Yorkville Towers

At December 31, 1975, approximately 95% of Ruppert's and 84% of Yorkville's apartments were rented. Due to the extended rent-up period experienced by Ruppert, the two housing companies that owned Ruppert and the adjacent Yorkville Towers have applied for a merger into one housing company, so that, among other things, cash in the Yorkville Project Mortgage Loan Account can be used to pay

Ruppert's debt service. The Corporation and HDA have approved and forwarded the application to the New York State Commissioner of Housing and Community Renewal for final approval. The Corporation is contemplating increasing Ruppert's mortgage loan commitment by approximately \$350,000 during 1976. This increase will not require further borrowing by the Corporation because the funds are available from the Project Mortgage Loan Account of another project, the cost of which was less than funds available.

Assuming the merger is approved, projections indicate sufficient funds available to cover cash deficits during the rent-up period of the combined projects.

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

At October 31, 1975 cash and securities held for designated purposes and operations (including accrued

interest of \$297,775 on securities) consisted of the following:

	Cash	United States Agency Securities	Repurchase Agreements	Obligations of U.S. Treasury	Total
<i>Held for designated purposes:</i>					
Project Mortgage Loan Accounts	\$ 749		\$16,174,276		\$16,175,025
Capital Reserve Fund	825	\$19,177,249			19,178,074
Debt Service Fund	9,860			\$ 354,707	364,567
	<u>\$ 11,434</u>	<u>\$19,177,249</u>	<u>\$16,174,276</u>	<u>\$ 354,707</u>	<u>\$35,717,666</u>
<i>Held for operations</i>	<u>\$137,614</u>		<u>\$ 3,638,555</u>	<u>\$1,125,580</u>	<u>\$ 4,901,749</u>

The market value of the repurchase agreements approximates cost plus accrued interest and the market values of the United States Agency Securities and Ob-

ligations of the U.S. Treasury were approximately \$18,084,000 and \$1,451,000, respectively, at October 31, 1975.

Note E—General Housing Bonds and Housing Notes

The bonds and notes are general obligations of the Corporation, although substantially all of its assets are pledged as collateral for the payment of principal and interest on its 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 7½% Series D and 9% Series E Bonds, both 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

Note E, Continued

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, 1975, the Corporation sold to four New York City related pension funds, \$37,703,000 of Series VI 10% Housing Notes payable as to principal and interest on August 15, 1976. 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 are unable to accept such collateral, the note holders must either extend the maturity of the notes one year at the same interest rate or receive 8% bonds maturing in approximately 47 years. Prior approval of HUD to such transfer has been obtained by the Corporation, and the Corporation is unaware of any other impediments that would prevent the note holders from accepting the collateral.

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 Corporation is authorized to issue additional 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.

See Tables A, B and C for details of bonds, debt service requirements, and notes.

Note F--Restricted Fund Balances

The capital reserves restricted fund balances consists of the following:

	October 31	
	1975	1974
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.)	\$ 232,148	\$155,803
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.	267,653	253,425
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 D).	518,700	
	<u>\$1,018,501</u>	<u>\$409,228</u>

The mortgage loans restricted fund balance results 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 G--Consultants' Fees

Fees to Goldman, Sachs & Co., Incorporated for financial consulting services amounted to \$20,000 for the year ended October 31, 1975. Fees to Clark, Dodge & Co., Incorporated for financial consulting services amounted to \$21,500 for the year ended October 31, 1974. Such fees were reimbursed to the Corporation by the applicable mortgagors. In addition, fees of \$2,081 and \$1,440 were paid to Ms. Bertha Hatvary for the years ended October 31, 1975 and 1974, respectively, for services as editorial consultant for the Corporation's annual report.

*Notes to Financial Statements, Continued**Note H—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 (\$24,695—1975; \$47,361—1974).

The Corporation has agreed to distribute up to a maximum of \$383,000 of interest earnings of the Capital Reserve Fund to certain projects during fiscal 1976. In addition, because the financing of certain housing projects' mortgages was completed at rates higher than

anticipated for the period through August, 1978, the Corporation will pay from its General Reserve Fund the supplemental interest on the Series D and Series E General Housing Bonds and a portion of the interest on the Series VI Notes, to the extent such interest costs cannot be absorbed by the housing companies. The maximum amount of such interest is approximately \$331,000 in 1976, \$406,000 in 1977, and \$319,000 in 1978.

See Note C for details of mortgage loans and commitments.

Table A—Bond Indebtedness

	Original Face Amount	Balance November 1, 1974	Issued	Retired	Balance October 31, 1975
3.75% to 6.50% — General Housing Bonds, 1972 Series A, maturing in varying annual installments on May 1 to 2022	\$133,000,000	\$132,865,000		\$ 70,000	\$132,795,000
3.50% to 7.00% — General Housing Bonds, 1972 Series B, maturing in varying annual installments on November 1 to 2022	51,640,000	51,415,000		235,000	51,180,000
5.70% to 7.00% — General Housing Bonds, 1973 Series C, maturing in varying annual installments on May 1 to 2023	62,800,000	62,790,000		10,000	62,780,000
7.50% — General Housing Bonds, 1975 Series D, maturing in varying annual installments on May 1 to 2023	16,255,000		\$16,255,000		16,255,000
9.00% — General Housing Bonds, 1975 Series E, maturing in varying annual installments on May 1 to 2022	11,255,000		11,255,000		11,255,000
	<u>\$274,950,000</u>	<u>\$247,070,000</u>	<u>\$27,510,000</u>	<u>\$315,000</u>	<u>\$274,265,000</u>

Table B—Debt Service Requirements

	Amortization of Principal	Interest Expense	Total Debt Service Requirements
For the Year Ending October 31:			
1976	\$ 960,000.00	\$ 17,087,680.42	\$ 18,047,680.42
1977	1,080,000.00	17,830,420.00	18,910,420.00
1978	1,135,000.00	17,767,531.25	18,902,531.25
1979	1,210,000.00	17,332,352.22	18,542,352.22
1980	1,275,000.00	17,110,870.00	18,385,870.00
For the Five Year Period Ending October 31:			
1985	7,650,000.00	84,273,226.25	91,923,226.25
1990	10,425,000.00	81,491,425.00	91,916,425.00
1995	14,285,000.00	77,600,667.50	91,885,667.50
2000	19,370,000.00	72,471,892.50	91,841,892.50
2005	26,260,000.00	65,543,955.00	91,803,955.00
2010	35,645,000.00	56,089,320.00	91,734,320.00
2015	48,500,000.00	43,208,865.00	91,708,865.00
2020	66,005,000.00	25,619,510.00	91,624,510.00
2025	40,465,000.00	4,329,997.50	44,794,997.50
	<u>\$274,265,000.00</u>	<u>\$597,757,712.64</u>	<u>\$872,022,712.64</u>

Table C—Note Indebtedness

	Date Issued	Date Due	Rate of Interest	Balance October 31, 1974	Issued	Retired	Balance October 31, 1975
Housing notes:							
Series I	2/ 6/74	2/ 6/75	4.80%	\$ 9,000,000		\$ 9,000,000	
Series II . . .	2/ 6/74	2/ 6/75	4.74% to 4.80%	34,000,000		34,000,000	
Series III . .	2/ 6/75	8/15/75	8.20%		\$ 5,000,000	5,000,000	
Series IV . .	2/ 6/75	8/15/75	8.20%		35,000,000	35,000,000	
Series V . .	2/ 6/75	8/15/75	8.20%		8,000,000	8,000,000	
Series VI . .	8/15/75	8/15/76	10.00%		37,703,000		\$37,703,000
				<u>\$43,000,000</u>	<u>\$85,703,000</u>	<u>\$91,000,000</u>	<u>\$37,703,000</u>