

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**  
SEC Accession No. [0000019617-99-000067](#)

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### FILER

#### **CHASE PREFERRED CAPITAL CORP**

CIK: **1018450** | IRS No.: **133899576** | State of Incorporation: **DE** | Fiscal Year End: **1231**  
Type: **10-K** | Act: **34** | File No.: **001-12151** | Film No.: **99573876**  
SIC: **6500** Real estate

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of  
The Securities Exchange Act of 1934

For the fiscal year ended  
December 31, 1998

Commission file  
number 1-12151

CHASE PREFERRED CAPITAL CORPORATION  
(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

13-3899576  
(I.R.S. Employer  
Identification No.)

270 Park Avenue, New York, N.Y.  
(Address of principal executive offices)

10017  
(Zip Code)

Registrant's telephone number, including area code: (212) 270-6000

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class<br>-----   | Name of Each Exchange on<br>which Registered<br>----- |
|--|---|
| 8.10% Cumulative Preferred Stock, Series A<br>(Par Value --\$25 Per Share) | New York Stock Exchange, Inc.                         |

Securities registered pursuant to Section 12(g)  
of the Act: None

Number of Shares of Common Stock outstanding on  
December 31, 1998: 1

Indicate by check mark whether the  
Registrant (1) has filed all reports required  
to be filed by Section 13 or 15(d) of the  
Securities Exchange Act of 1934 during the  
preceding 12 months (or for such shorter  
period that the Registrant was required to  
file such reports), and (2) has been subject  
to such filing requirements for the past 90  
days. Yes  No

Indicate by check mark if disclosure of  
delinquent filers pursuant to Item 405 of  
Regulation S-K is not contained herein, and  
will not be contained, to the best of  
Registrant's knowledge, in definitive proxy  
or information statements incorporated by  
reference in Part III of this Form 10-K or  
any amendment to this Form 10-K.

All outstanding shares of Common Stock were held  
by The Chase Manhattan Bank at December 31, 1998;  
therefore, no Common Stock is held by nonaffiliates.

| Document incorporated by reference<br>in this Form 10-K<br>----- | Part of Form 10-K<br>which incorporated<br>----- |
|--|--|
| None   |  |

FORM 10-K

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ITEM 1: BUSINESS

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Chase Preferred Capital Corporation (the "Company") is a Delaware corporation and a wholly-owned subsidiary of The Chase Manhattan Bank (the "Bank"), a banking corporation organized under the laws of the State of New York.

The Company began operating in 1996, upon completion of an initial public offering of 22,000,000 shares of its 8.10% Cumulative Preferred Stock, Series A, \$25 par value per share (the "Series A Preferred Shares"), which are currently traded on the New York Stock Exchange. The Company used the net proceeds of that offering (after payment of offering expenses), together with capital invested by the Bank, to purchase a portfolio of residential and commercial mortgage loans ("Mortgage Loans").

The Company's principal business objective is to acquire, hold and manage Mortgage Loans that will generate net income for distribution to stockholders. The Company's initial portfolio of Mortgage Loans was 90% residential and 10% commercial. Over time, as commercial mortgage loans have matured or prepaid, they have been replaced with residential mortgage loans. Currently, 92.4% of the Company's portfolio is comprised of residential mortgage loans, with the balance consisting of commercial mortgage loans, and, as commercial loans continue to prepay or mature, the proportion of the Company's portfolio consisting of residential mortgage loans is expected to increase. The Company's residential mortgage loans consist of the following:

- o six-month prime rate adjustable rate mortgages ("ARMs");
- o six-month treasury ARMs;
- o three-year fixed rate loans with an automatic conversion to six-month and three-year ARMs;
- o one, three, five, seven and ten-year fixed rate loans with an automatic conversion to one-year ARMs; and
- o fixed rate loans.

The Company's commercial mortgage loans consist of fixed and variable rate loans, a majority of which have balloon payments.

The Company currently anticipates that it will continue to acquire all its Mortgage Loans from the Bank, or affiliates of the Bank, as whole loans secured by first mortgages or deeds of trust on single-family (one to four-unit) residential real estate properties or on commercial real estate properties on terms substantially identical to those the Company could obtain from unaffiliated third parties. The Company may also from time to time acquire securities that qualify as real estate assets under Section 856(c)(6)(B) of the Internal Revenue Code of 1986 (the "Code") that are rated by at least one nationally recognized statistical rating organization and that represent interests in or obligations backed by pools of mortgage loans ("Mortgage-Backed Securities"). Mortgage loans underlying the Mortgage-Backed Securities will be secured by single-family residential, multifamily or commercial real estate properties located in the United States.

The Company does not anticipate that it will originate Mortgage Loans or compete with mortgage conduit programs, investment banking firms, savings and loan

associations, banks, thrift and loan associations, finance companies, mortgage banks or insurance companies in acquiring its Mortgage Loans.

In order to preserve its status as a real estate investment trust ("REIT") under the Code, the Company must distribute annually at least 95% of its "REIT taxable income" (excluding capital gains) to stockholders and meet certain capital ownership and administrative tests as defined by the Code. The Company must also annually satisfy three gross income requirements. First, at least 75% of the Company's gross income (excluding gross income from prohibited transactions) for each taxable year must be derived directly or indirectly from investments relating to real property or mortgages on real property (as interest on obligations secured by mortgages on real property, certain "rents from real property" or as gain on the sale or exchange of such property and certain fees with respect to agreements to make or acquire mortgage loans), from certain types of temporary investments or certain other types of gross income. Second, at least 95% of the Company's gross income (excluding gross income from prohibited transactions) for each taxable year must be derived from such real property investments as aforesaid and from dividends, interest, and gain from the sale or other disposition of stock or securities and certain other types of gross income (or from any combination of the foregoing). Third, short-term gain from the sale or other disposition of stock or securities, gain from prohibited transactions, and gain on the sale or other disposition of real property held for less than four years from the date of acquisition (apart from involuntary conversions and sales of foreclosure property), must represent less than 30% of the Company's gross income (including gross income from prohibited transactions) for each taxable year. The Company must also satisfy three tests relating to the nature of its assets at the close of each quarter of each taxable year. First, at least 75% of the value of the Company's total assets must be represented by real estate assets (including stock or debt instruments held for not more than one year that were purchased with the proceeds of a stock offering or long-term (at least five years) debt offering of the Company), cash, cash items, and government securities. Second, not more than 25% of the Company's total assets may be represented by securities other than those in the 75% asset class. Third, of the investments included in the 25% asset class,

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the value of any one issuer's securities owned by the Company may not exceed 5% of the value of the Company's total assets and the Company may not own more than 10% of any one issuer's outstanding voting securities.

The Company has entered into an Advisory Agreement (the "Agreement") with the Bank (the "Advisor"). In administering the Company's Mortgage Loans, the Advisor has a high degree of autonomy. The Board of Directors, however, has adopted certain policies to guide the administration of the Company and the Advisor with respect to the acquisition and disposition of assets, use of capital and leverage, credit risk management and certain other activities. These policies may be amended or revised from time to time at the discretion of the Board of Directors (in certain circumstances subject to the approval of a majority of the Independent Directors (as defined below)) without a vote of the Company's stockholders, including holders of the Series A Preferred Shares.

The Mortgage Loans have been sold to the Company by the Bank on a servicing retained basis. The Bank services the Mortgage Loans pursuant to the terms of servicing agreements ("Servicing Agreements") between the Company and the Bank. (The Bank in its role as servicer under the terms of the servicing agreements is herein referred to as the "Servicer"). The Servicer receives an annual servicing fee with respect to each Mortgage Loan serviced for the Company equal to: (1) in the case of residential mortgage loans, their outstanding principal balance times 0.25%; and (2) in the case of commercial mortgage loans, their outstanding principal balance times a percentage ranging from 0.08% to 0.30%, depending upon the outstanding principal amount of the particular commercial mortgage loan.

The Servicer has entered into sub-servicing ("Sub-Agreements") with Chase Manhattan Mortgage Corporation ("CMMC" or "sub-servicer"), a wholly-owned subsidiary of Chase Manhattan Bank, USA, National Association, an indirect wholly-owned subsidiary of The Chase Manhattan Corporation ("CMC").

The Company intends to operate in a manner that will not subject it to regulation under the Investment Company Act of 1940. The Company does not intend to (i) invest in the securities of other issuers for the purpose of exercising control over such issuers, (ii) underwrite securities of other issuers, (iii) actively trade in loans or other investments, (iv) offer securities in exchange for property or (v) make loans to third parties, including, without limitation, officers, directors or other affiliates of the Company. The Company may, under certain circumstances, purchase the Series A Preferred Shares and other shares of its capital stock in the open market or otherwise, provided, however, that the Company will not redeem or repurchase any shares of its Common Stock for so long as any Series A Preferred Shares are outstanding without the approval of a majority of the Independent Directors (as defined in the Certificate of Designation relating to the Series A Preferred Shares). The Company does not currently intend to repurchase any shares of its capital stock, and any such action would be taken only in conformity with applicable federal and state laws

and regulations and the requirements for qualifying as a REIT.

Restrictions on Ownership and Transfer:

-----  
The Company's Certificate of Incorporation contains certain restrictions on the number of shares of Common Stock and Preferred Stock that individual stockholders may own. For the Company to qualify as a REIT under the Code, no more than 50% in number or value of its outstanding shares of capital stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) during the last half of a taxable year (other than the first year) or during a proportionate part of a shorter taxable year (the "Five or Fewer Test"). The capital stock of the Company must also be beneficially owned by 100 or more persons during at least 335 days of a taxable year or during a proportionate part of a shorter taxable year (the "One Hundred Persons Test"). The ownership by the Bank of 100% of the shares of Common Stock of the REIT will not adversely affect the Company's REIT qualification because each stockholder of CMC (the sole stockholder of the Bank) counts as a separate beneficial owner for purposes of the Five or Fewer Test and the capital stock of CMC is widely held. Further, the Company's Certificate of Incorporation contains restrictions on the acquisition of Preferred Stock intended to ensure compliance with the One Hundred Persons Test, including a provision voiding any transfer of shares of capital stock of the Company that would cause the Company to be beneficially owned by fewer than 100 persons.

Subject to certain exceptions specified in the Company's Certificate of Incorporation, no holder of Preferred Stock is permitted to own (including by virtue of the attribution provisions of the Code) more than 9.9% (the "Ownership Limit") of any issued and outstanding class or series of Preferred Stock. The Board of Directors is permitted but not required to waive the Ownership Limit with respect to a holder upon receipt of an Internal Revenue Service ("IRS") ruling or an opinion of counsel satisfactory to the Company, to the effect that the holder's ownership will not then or in the future jeopardize the Company's status as a REIT.

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The Company's Certificate of Incorporation provides that shares of any class or series of Preferred Stock owned or deemed owned by or transferred to a stockholder in excess of the Ownership Limit (the "Excess Shares") will automatically be transferred, by operation of law, to a trust for the exclusive benefit of a charity to be named by the Company as of the day prior to the date of the prohibited transfer. Any distributions paid prior to the discovery of the prohibited transfer must be repaid by the original transferee to the Company and by the Company to the trustee and any unpaid distributions payable to the original transferee will be rescinded as void. Any vote of those shares on behalf of the original transferee prior to the Company's discovery of the prohibited transfer will be void and the original transferee will be deemed to have given its proxy to the trustee. In liquidation, the original transferee's ratable share of the Company's assets would be limited to the price paid by the original transferee for the Excess Shares or, if no value was given, the price per share equal to the closing market price on the date of the purported transfer. The trustee of the trust will promptly sell the shares to any person whose ownership is not prohibited, and the interest of the trust will then terminate. Proceeds of the sale will be paid to the original transferee up to its purchase price (or, if the original transferee did not purchase the shares, the value on the date of acquisition by that transferee) and any remaining proceeds shall be paid to a charity to be named by the Company.

The constructive ownership rules of the Code are complex and may cause Preferred Stock owned, directly or indirectly, by a group of related individuals and/or entities to be deemed to be constructively owned by one individual or entity. As a result, the acquisition of less than 9.9% of a class or series of Preferred Stock, or the acquisition of an interest in an entity that owns shares of a class or series of Preferred Stock could cause an individual or entity to own constructively in excess of 9.9% of that class or series, and thus subject shares of that class or series to the Ownership Limit. Direct or constructive ownership in excess of the Ownership Limit would cause the Excess Shares to be transferred to the trustee.

All certificates representing shares of Preferred Stock, including the Series A Preferred Shares, do or will bear a legend referring to the restrictions described above. The Ownership Limit provisions will not be automatically removed even if sections 856 through 860 of the Code and the applicable Treasury regulations are changed so as to eliminate any ownership concentration limitation or if the ownership concentration limitation is increased. The Certificate of Incorporation may not be amended to alter, change, repeal or amend any of the Ownership Limit provisions without the prior approval of a majority of the Independent Directors.

The Company's Certificate of Incorporation requires that any person who beneficially owns 1% (or such lower percentage as may be required by the Code or the Treasury Regulations) of the outstanding shares of any class or series of

Preferred Stock of the Company must provide certain information to the Company within 30 days of June 30 and December 31 of each year. In addition, each stockholder shall upon demand be required to disclose to the Company in writing such information as the Company may request in order to determine the effect, if any, of that stockholder's actual and constructive ownership on the Company's status as a REIT and to ensure compliance with the Ownership Limit.

The Company has no foreign operations.

Important Factors that May Affect Future Results:

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From time to time, the Company has made and will make forward-looking statements. These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements often use words such as "anticipate", "expect", "estimate", "intend", "plan", "goal", "believe", or other words of similar meaning. Forward-looking statements give the Company's current expectations or forecasts of future events, circumstances or results. The Company's disclosure in this report contains forward-looking statements. Any forward-looking statements made by or on behalf of the Company speak only as of the date they are made. The Company does not undertake to update forward-looking statements. The reader should, however, consult any further disclosures of a forward-looking nature the Company may make in its reports filed with the Securities and Exchange Commission.

All forward-looking statements, by their nature, are subject to risks and uncertainties. The Company's actual future results may differ materially from those set forth in its forward-looking statements. Factors that might cause the Company's future financial performance to vary from that described in its forward-looking statements including the interest rate, credit and other risks discussed in the "Management's Discussion and Analysis" section of this report. In addition, set forth below are certain risks and uncertainties that the Company believes could cause its actual future results to differ materially from expected results. However, other factors besides those discussed in this or the Company's other reports to the SEC could also adversely affect the Company's results and you should not consider any such list of factors to be a complete set of all potential risks and uncertainties. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995.

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Dependence Upon Bank as Advisor and Servicer

The Company is dependent for the selection, structuring and monitoring of its assets on the diligence and skill of its officers (all of whom are also officers of the Bank or its affiliates) and the officers and employees of the Bank, who are acting on behalf of the Bank as Advisor to the Company. In addition, the Company is dependent upon the expertise of the Bank, as Servicer, for the servicing of its Mortgage Loans. In the event that the Advisor or Servicer subcontract any of their respective obligations, the Company will be dependent upon the parties to whom those obligations are subcontracted.

Potential Conflicts of Interest with the Bank and its Affiliates

The Bank and its affiliates are involved in virtually every aspect of the Company's existence. The Bank is the sole holder of the Company's Common Stock and administers its day-to-day activities as Advisor. In addition, the Bank also services all of the Company's Mortgage Loans. The Bank and its affiliates may have interests that are not identical to those of the Company, and conflicts of interest may arise with respect to transactions, including acquisitions and dispositions of Mortgage Loans and servicing of Mortgage Loans, particularly those placed on classified or nonaccrual status. For example, in the case of commercial Mortgage Loans, the Company's interest will be limited to the loan, while the Bank may have other interests as a result of an overall banking relationship with the mortgagor. In addition, if the Bank acts as lender with respect to other credit facilities for a particular mortgagor, the Bank, in its role as Advisor, may become subject to a conflict of interest if the Mortgage Loan of that mortgagor becomes classified or placed on nonaccrual status. It is the intention of the Company and the Bank that any agreement and transactions between them are fair to all parties and consistent with market terms. In addition, certain actions of the Company must be approved by a majority of the Company's independent Directors (as defined in the Certificate of Designation for the Series A Preferred Shares).

Interest Rate Risk

The Company's income will consist primarily of interest payments on the Mortgage Loans held by it. The Company anticipates that most of its Mortgage Loans will bear interest at adjustable rates. If there is a decline in interest rates (as measured by the indices upon which the interest rates of the Mortgage Loans are based), then the Company will experience a decrease in income available for distribution to stockholders. In such an interest rate environment, the Company

may experience an increase in prepayments on its residential Mortgage Loans and may find it more difficult to purchase additional Mortgage Loans bearing rates sufficient to support payment of dividends to stockholders. In addition, certain residential Mortgage Loans convert an adjustable rate mortgage to a fixed rate mortgage, thus "locking in" a low fixed interest rate. Because the dividend rate on the Company's outstanding Preferred Stock is fixed, there can be no assurance that a significant decline in prevailing interest rates would not adversely affect the Company's ability to pay those dividends.

#### ITEM 2: PROPERTIES

The Company, a subsidiary of the Bank, utilizes space at the headquarters of the Bank, located in New York City at 270 Park Avenue.

#### ITEM 3: LEGAL PROCEEDINGS

The Company is not the subject of any material litigation. None of the Company, the Advisor, the Bank or any of its affiliates is currently involved in or, to the Company's knowledge, currently threatened with any material litigation with respect to the Company's Mortgage Loans which would have a material adverse effect on the business or operations of the Company.

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#### ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

By written consent in lieu of a meeting dated as of December 21, 1998, the Board of Directors approved and submitted to the Bank, as sole common stockholder of the Company, a proposed amendment to the Company's Certificate of Incorporation reducing the Company's authorized common stock from 5,000,000 shares having a par value of \$300 per share to one share having a par value of \$171,750,000. The amendment was approved by the Bank by written consent in lieu of a meeting as of December 21, 1998 and became effective on December 29, 1998. As a result of the amendment, the Company's issued and outstanding common stock was changed from 572,500 shares having a par value of \$300 per share (\$171,750,000 par value in the aggregate) to a single share having a par value of \$171,750,000.

By written consent in lieu of a meeting dated as of September 24, 1998, the Bank, as sole shareholder of the Company, set the number of directors of the Company at seven and elected the following seven persons as directors of the Company, to serve until their successors are duly chosen and qualified: Mr. Richard J. Boyle, Ms. Dina Dublon, Mr. Thomas Jacob, Mr. William C. Langley, Mr. Louis M. Morrell, Mr. Joseph L. Sclafani and Mr. Robert S. Strong.

#### ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

At December 31, 1998, the Company was authorized to issue one share of Common Stock and 50,000,000 shares of Preferred Stock, \$25 par value per share ("Preferred Stock"), of which 22,000,000 Series A Preferred Shares have been issued. The Bank is the sole owner of the Company's Common Stock. Accordingly, there is no trading market for the Company's Common Stock. In addition, CMC intends that, as long as any Series A Preferred Shares are outstanding, it will maintain direct or indirect ownership of at least 80% of the outstanding Common Stock of the Company. Subject to the rights, if any, of the holders of Series A Preferred Stock, all voting rights are vested in the Common Stock. The holders of Common Stock are entitled to one vote per share.

Holders of Common Stock are entitled to receive dividends when, as and if, declared by the Board of Directors of the Company out of funds legally available therefor. However, so long as any shares of Preferred Stock (including the Series A Preferred Shares) are outstanding, no dividends or other distributions (including redemptions and purchases) may be made with respect to the Common Stock unless full dividends on the shares of the Preferred Stock, including accumulations in the case of cumulative Preferred Stock, have been paid. The Company must distribute annually at least 95% of its annual "REIT taxable income" (not including capital gains) to stockholders.

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#### ITEM 6: SELECTED FINANCIAL DATA

<TABLE>  
<CAPTION>

FINANCIAL DATA  
(in thousands, except share and yield data)

|  | Year Ended<br>12/31/98 | Year Ended<br>12/31/97 | For the Period from Inception<br>(September 18, 1996)<br>through 12/31/96 |
|--|------------------------|------------------------|---|
| INCOME STATEMENT:                      |                        |                        |   |
| <S>                                    | <C>                    | <C>                    | <C>   |
| Interest income                        | \$ 79,428              | \$ 82,941              | \$ 22,830   |
| Net interest income                    | 77,179                 | 80,308                 | 22,156  |
| Net income                             | 76,559                 | 79,779                 | 22,085  |
| Net income applicable to common shares | 32,009                 | 35,229                 | 9,339   |
| Income per common share                | \$ 32,009              | \$ 35,229              | \$ 9,339  |

BALANCE SHEET:

|                             |              |              |              |
|-----------------------------|--------------|--------------|--------------|
| Mortgage loans              | \$ 1,021,368 | \$ 985,068   | \$ 1,059,981 |
| Total assets                | 1,121,307    | 1,123,164    | 1,113,398    |
| Preferred stock outstanding | 550,000      | 550,000      | 550,000      |
| Total stockholders' equity  | \$ 1,120,874 | \$ 1,119,930 | \$ 1,112,726 |

OTHER DATA:

|  |            |            |            |
|--|------------|------------|------------|
| Dividends paid on preferred shares     | \$ 44,550  | \$ 44,550  | \$ 12,746  |
| Dividends paid on common shares        | \$ 31,065  | \$ 28,025  | \$ 0       |
| Number of preferred shares outstanding | 22,000,000 | 22,000,000 | 22,000,000 |
| Number of common shares outstanding(a) | 1          | 1          | 1          |
| Average yield on mortgage loans        | 7.6%       | 7.8%       | 7.4%       |

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(a) All common share amounts have been restated to reflect the change, effected on December 29, 1998, of the Company's outstanding Common Stock from 572,500 shares, par value \$300 per share, to one share, par value \$171,750,000 per share.

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ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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OVERVIEW  
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The principal business of the Company is to acquire, hold and manage Mortgage Loans that will generate net income for distribution to stockholders. The Company currently intends to continue to acquire all its Mortgage Loans from the Bank, a banking corporation organized under the laws of the State of New York, or from affiliates of the Bank as whole loans secured by first mortgages or deeds of trust on single-family (one- to four-unit) residential real estate properties or on commercial real estate properties. The Company may also from time to time acquire Mortgage-Backed Securities. Mortgage loans underlying the Mortgage-Backed Securities will be secured by single-family residential, multifamily or commercial real estate properties located in the United States.

The Company began operations in 1996 upon completion of an initial public offering of 22,000,000 Series A Preferred Shares. The Series A Preferred Shares are traded on the New York Stock Exchange. The Company's Common Stock is held solely by the Bank.

The Bank administers the day-to-day activities of the Company in its role as Advisor under the Agreement. CMMC sub-services the Company's Mortgage Loans on behalf of the Servicer under each of the Servicing Agreements.

The Bank and its affiliates may have interests that are not identical to those of the Company. Consequently, conflicts of interest may arise with respect to transactions, including without limitation, future acquisitions of Mortgage



Loans from the Bank or its affiliates; servicing of Mortgage Loans, particularly with respect to Mortgage Loans that become classified or placed in nonaccrual status or which have been, more than once during the preceding twelve months, more than 30 days past due in the payment of principal and interest; future dispositions of Mortgage Loans to CMC or any of its nonbank subsidiaries; and the modification of the Agreement or the Servicing Agreements.

The Company intends that any agreements and transactions between the Company, on the one hand, and CMC, the Bank or their affiliates, on the other hand, will be fair to all parties and consistent with market terms. The requirement in the Certificate of Designation establishing the Series A Preferred Shares that certain actions of the Company be approved by a majority of the Independent Directors (as defined in the Certificate of Designation) is also intended to ensure fair dealing between the Company and CMC, the Bank and their respective affiliates. However, there can be no assurance that those agreements or transactions will be on terms as favorable to the Company as those that could have been obtained from unaffiliated third parties.

#### RESULTS OF OPERATIONS

The Company reported net interest income of approximately \$77,179,000 for 1998 compared with \$80,308,000 in 1997. The Company's basic earnings per share were \$32,009,000 and \$35,229,000 in 1998 and 1997, respectively. In 1998, interest income from residential and commercial mortgage loans was \$64,430,000 and \$7,909,000, respectively, representing a total average yield of 7.6%. In 1997, interest income from residential and commercial mortgage loans was \$70,790,000 and \$9,391,000, respectively, representing a total average yield of 7.8% for 1997. After deductions of approximately \$250,000 and \$370,000 in advisory fees and other administrative expenses, respectively, the Company reported net income of approximately \$76,559,000 for 1998 compared with net income of \$79,779,000 for 1997. The lower results for 1998 when compared to 1997 reflect the impact of lower interest rates and higher prepayments of residential mortgage loans during 1998.

In 1998 and 1997, the Company paid \$44,550,000 in Preferred Stock dividends. As of the date of this report, all dividend payments on the Series A Preferred Shares are current. In addition, the Company paid Common Stock dividends of approximately \$31,065,000 in 1998, compared with \$28,025,000 in 1997. Dividends on the Common Stock are paid to the Bank when, as and if declared by the Board of Directors of the Company out of funds legally available therefor.

The Company expects to pay Common Stock dividends at least annually in amounts necessary to continue to preserve its status as a REIT under the Code.

The Company anticipates that the amount of taxes payable by the Company will be reduced as a result of the recapitalization of the Company's Common Stock, effective December 29, 1998. See Item 4.

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#### MORTGAGE LOANS

At December 31, 1998, the Company had \$1,021,368,000 invested in Mortgage Loans, compared with \$985,068,000 at December 31, 1997. For the years ended December 31, 1998 and 1997, the Company purchased Mortgage Loans having an outstanding principal balance of \$643,947,000 and \$210,588,000, respectively, from the Bank or its affiliates. In addition, during 1998, the Company received approximately \$606,061,000 of principal payments on its portfolio from the Servicer (and sub-servicer).

The following table reflects residential and commercial mortgage loans as a percentage of total Mortgage Loans:

| Mortgage Loans<br>(in thousands) | At December 31, 1998 |         | At December 31, 1997 |         |
|----------------------------------|----------------------|---------|----------------------|---------|
|                                  | Amount               | Percent | Amount               | Percent |
| Residential mortgage loans       | \$ 944,012           | 92.4%   | \$ 889,696           | 90.3%   |
| Commercial mortgage loans        | 77,356               | 7.6%    | 95,372               | 9.7%    |
| Total mortgage loans             | \$ 1,021,368         | 100%    | \$ 985,068           | 100%    |
|                                  | =====                | =====   | =====                | =====   |

The Company intends that each Mortgage Loan acquired from the Bank or one of its affiliates in the future will be a whole loan, will represent a first lien position and will be originated by the Bank or such affiliate in the ordinary course of its real estate lending activities based on the underwriting standards generally applied (at the time of origination) for its own account by the Bank or the affiliate of the Bank that originated the Mortgage Loan. The Company also intends that all Mortgage Loans held by the Company will be serviced pursuant to the Servicing Agreements, which require servicing in conformity with (1) generally accepted secondary market standards, (2) all servicing guidelines

promulgated by the Company and (3) in the case of residential mortgage loans, FNMA and FHLMC guidelines and procedures.

Currently, the Company's policy prohibits the acquisition of any commercial mortgage loan that constitutes more than 5% of the total book value of the mortgage assets of the Company at the time of its acquisition. In addition, the Company's current policy prohibits the acquisition of any Mortgage Loan or any interest in a Mortgage Loan (other than an interest resulting from the acquisition of Mortgage-Backed Securities), that (i) is delinquent in the payment of principal or interest at the time of proposed acquisition; (ii) is or was at any time during the preceding 12 months (a) classified, (b) in nonaccrual status, or (c) renegotiated due to financial deterioration of the borrower; or (iii) has been, more than once during the preceding 12 months, more than 30 days past due in the payment of principal or interest.

The Company may choose, at any time subsequent to its acquisition of any Mortgage Loan, to require the Servicer to dispose of the Mortgage Loan, for any reason, including as a result of the Mortgage Loan becoming classified or being placed in nonaccrual status or having been, more than once during the preceding 12 months, more than 30 days past due in the payment of principal or interest. The Bank has indicated to the Company that it will not purchase any Mortgage Loan of the Company that the Company chooses to dispose of for the foregoing reasons. Accordingly, the Company currently anticipates that the Company would continue to sell any such Mortgage Loan at its then current fair value only to CMC, a nonbank subsidiary of CMC, or an unrelated third party.

There were no nonaccruing residential mortgage loans at December 31, 1998, compared with \$3,330,000 of nonaccruing residential mortgage loans at December 31, 1997. There were no nonaccruing commercial mortgage loans for either period. At December 31, 1998 and 1997, nonaccruing loans represented 0% and .34%, respectively, of the total loan portfolio. The Company sold \$2,488,000 of nonaccruing residential mortgage loans to a wholly-owned subsidiary of CMC during the twelve months ended December 31, 1998. No gain or loss was recognized from this sale.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is available to absorb potential credit losses from the entire Mortgage Loan portfolio. The Company deems its allowance for loan losses as of December 31, 1998 to be adequate. Although the Company considers that it has sufficient reserves to absorb losses that currently may exist in the portfolio, but are not yet identifiable, the precise loss content is subject to continuing review based on quality indicators, industry and geographic concentrations, changes in business conditions, and other external factors such as competition, and legal and regulatory requirements. The Company will continue to reassess the adequacy of the allowance for loan losses.

The accompanying table reflects the activity in the Company's allowance for loan losses during 1998 and 1997:

| Allowance for Loan Losses<br>(in thousands) | Year Ended<br>12/31/98 | Year Ended<br>12/31/97 |
|---|------------------------|------------------------|
| Total allowance at beginning of period      | \$3,468                | \$ 3,150               |
| Acquired allowance                          | 1,092                  | 429                    |
| Provision for loan losses                   | 0                      | 0                      |
| Charge-offs                                 | (78)                   | 0                      |
| Recoveries                                  | 0                      | 0                      |
| Sale of loans                               | (362)                  | (111)                  |
| Total allowance at end of period            | \$ 4,120               | \$ 3,468               |

At December 31, 1998 and 1997, the Company's allowance for loan losses as a percentage of total loans was .40% and .35%, respectively.

INTEREST RATE RISK

The Company's income consists primarily of interest payments on Mortgage Loans. Currently, the Company does not use any derivative products to manage its interest rate risk. If there is a decline in market interest rates, the Company may experience a reduction in interest income on its Mortgage Loans and a corresponding decrease in funds available to be distributed to its shareholders. The reduction in interest income may result from downward adjustments of the indices upon which the interest rates on ARM Mortgage Loans are based and from prepayments of Mortgage Loans with fixed interest rates, resulting in reinvestment of the proceeds in lower-yielding Mortgage Loans. There can be no

assurance that an interest rate environment in which there is a significant decline in interest rates over an extended period of time would not adversely affect the Company's ability to pay dividends on the Series A Preferred Shares.

#### CREDIT RISK

Concentration of credit risk arises when a number of borrowers engage in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. Concentration of credit risk indicates the relative sensitivity of the Company's performance to both positive and negative developments affecting a particular industry. The Company's balance sheet exposure to geographic concentrations directly affects the credit risk of the Mortgage Loans within the portfolio. The following table shows the Mortgage Loan portfolio by geographical area as of December 31, 1998 and 1997:

#### Geographical Breakout

| (in thousands)                       | December 31, 1998 |         | December 31, 1997 |         |
|--------------------------------------|-------------------|---------|-------------------|---------|
|                                      | Amount            | Percent | Amount            | Percent |
| -----                                |                   |         |                   |         |
| Residential Mortgage Loans:          |                   |         |                   |         |
| California                           | \$ 72,200         | 36.4%   | \$ 444,078        | 45.1%   |
| Colorado                             | 63,278            | 6.2%    | -                 | -       |
| Florida                              | -                 | -       | 50,559            | 5.1%    |
| New York                             | -                 | -       | 66,972            | 6.8%    |
| Other States                         | 508,534           | 49.8%   | 328,087           | 33.3%   |
| (no State has more than 5%)          | -----             | -----   | -----             | -----   |
| Total Residential Mortgage Loans     | 944,012           | 92.4%   | 889,696           | 90.3%   |
|                                      | -----             | -----   | -----             | -----   |
| Commercial Mortgage Loans:           |                   |         |                   |         |
| New York Metropolitan Tri-State Area | 73,523            | 7.2%    | 91,260            | 9.3%    |
| Other States                         | 3,833             | 0.4%    | 4,112             | 0.4%    |
| (no State has more than 3%)          | -----             | -----   | -----             | -----   |
| Total Commercial Mortgage Loans      | 77,356            | 7.6%    | 95,372            | 9.7%    |
|                                      | -----             | -----   | -----             | -----   |
| Total                                | \$1,021,368       | 100%    | \$ 985,068        | 100%    |
|                                      | =====             | =====   | =====             | =====   |

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At December 31, 1998, approximately 36.4% of the Company's total Mortgage Loan portfolio consisted of loans secured by residential real estate properties located in California. Consequently, these residential mortgage loans may be subject to a greater risk of default than other comparable residential mortgage loans in the event of adverse economic, political or business developments or natural hazards (earthquakes, for example) in California that may affect the ability of residential property owners in California to make payments of principal and interest on the underlying Mortgage Loans.

In addition, the majority of the commercial mortgage properties underlying the Company's commercial mortgage loans are located in the New York metropolitan tri-state area. Substantially all of these mortgaged properties were, at the time of their origination, at least 70% occupied by the borrowers or their affiliates. Consequently, these commercial mortgage loans may be subject to greater risk of default than other comparable commercial mortgage loans in the event of adverse economic, political or business developments in the New York metropolitan tri-state areas that may affect the ability of businesses in that area to make payments of principal and interest on the underlying Mortgage Loans.

#### LIQUIDITY RISK MANAGEMENT

The objective of liquidity management is to ensure the availability of sufficient cash flows to meet all of the Company's financial commitments and to capitalize on opportunities for the Company's business expansion. In managing liquidity, the Company takes into account various legal limitations placed on a REIT.

The Company's principal liquidity needs are to maintain the current portfolio size through the acquisition of additional Mortgage Loans as Mortgage Loans currently in the portfolio mature, prepay or are sold, and to pay dividends on the Series A Preferred Shares. The acquisition of additional Mortgage Loans is intended to be funded with the proceeds obtained from the sale or repayment of principal balances of Mortgage Loans by individual borrowers. The Company does not have and does not anticipate having any material capital expenditures.

If the Board of Directors determines that additional funding is required, the Company may raise such funds through additional equity offerings, debt financing, retention of cash flow (after consideration of provisions of the Code requiring the distribution by a REIT of at least 95% of its "REIT taxable income" and taking into account taxes that would be imposed on undistributed income), or a combination of these methods. The Company's organizational documents do not contain any limitation on the amount or percentage of debt, funded or otherwise, the Company might incur. However, the Company may not, without the approval of a majority of the Independent Directors, incur debt for borrowed money in excess of 20% of the aggregate amount of net proceeds received in connection with the issuance of all outstanding Preferred Stock and Common Stock of the Company. The above limitation would also apply to any intercompany advances made by the Bank to the Company.

The Company may also issue additional series of Preferred Stock. However, the Company may not issue additional shares of Preferred Stock senior to the Series A Preferred Shares without the consent of holders of at least 66 2/3% of the shares of Preferred Stock outstanding at that time, including the Series A Preferred Shares. In addition, the Company may not issue additional shares of Preferred Stock ranking on a parity with the Series A Preferred Shares without the approval of a majority of the Company's Independent Directors.

#### OPERATIONAL RISK

YEAR 2000. As noted above, the Company is a wholly-owned subsidiary of the Bank, which is itself a wholly-owned subsidiary of CMC. The Company has no employees. In accordance with agreements between the Company and the Bank, the Bank manages all of the Company's operations, including servicing all of the Company's Mortgage Loans. As a result, Year 2000 efforts for the Company are being coordinated, managed and monitored as part of the Year 2000 efforts of CMC by CMC's Year 2000 Enterprise Program Office. The Program Office, which reports directly to CMC's Executive Committee, together with 34 business area project offices, coordinates, manages and monitors all aspects of CMC's Year 2000 effort on a global basis, both technical- and business-related. In addition, a Year 2000 Core Team, consisting of senior managers from CMC's internal audit, technology risk and control, financial management and control, the technology infrastructure division, legal and the Program Office, provides independent oversight of the process. The Core Team, which also reports directly to CMC's Executive Committee, is charged with identifying key risks and ensuring necessary management attention for timely resolution of project issues.

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CMC's Year 2000 Program continues to evolve. On January 1, 1999, CMC established a Year 2000 Business Risk Council, comprised of approximately 20 senior business leaders -- line managers, risk managers and representatives of key staff functions -- to identify potential Year 2000 business risks and to coordinate planning and readiness efforts, contingency plans for Year 2000 and the establishment of a Year 2000 command center structure and rapid response teams.

CMC's Year 2000 Program is tracked against a well-defined set of milestones. CMC completed its inventory and assessment phases on schedule on September 30, 1997, identifying affected hardware and software, prioritizing tasks and establishing implementation plans. Approximately 3,900 business applications (approximately 1,000 of which are provided by third-party vendors) were identified by CMC as requiring Year 2000 remediation. Of these software applications, approximately 93% were remediated by December 31, 1998. CMC projects that approximately 98% will be remediated by March 31, 1999, with the remaining 2% to be remediated by June 30, 1999.

In 1999, attention will also be focused on ensuring that software application systems that have been remediated, tested and certified as Year 2000-compliant remain compliant through re-certification of those systems. Another major focus of 1999 will be continued customer and "street" (i.e., industry-wide) testing, which began in the third quarter of 1998. In addition, CMC is increasing its tracking and risk management of third party providers.

At December 31, 1998, CMC's estimate for Year 2000 costs for 1997-1999 was approximately \$363 million. These costs include the costs of remediation, testing, third party assessment and contingency planning and will be expensed as incurred. These costs do not include approximately \$33 million of capitalizable costs for Year 2000 compliant equipment to be expensed beyond December 31, 1999. None of these costs will be borne by the Company.

In its normal course of business, CMC manages many types of risk. CMC has recognized that the risks presented by Year 2000 are unique given the pervasive nature of the problem and the fact that there may be a higher likelihood that Year 2000 risk may present itself in multiple, simultaneous impacts. Because of this, CMC has adjusted and will continue to adjust its risk management processes and contingency plans to take the most probable anticipated effects into

account. In this regard, CMC has begun its "event planning" for the Year 2000 with the goal of preventing or mitigating potential disruptions. CMC's Year 2000 event planning includes the creation of command centers; the establishment of special rapid response technology teams; the scheduling of availability of key personnel; additional training and testing activities; and the establishment of rapid decision processes.

CMC's expectations about completion of its Year 2000 remediation and testing efforts, the anticipated costs to complete the project and the anticipated business, operational and financial risks to CMC and its subsidiaries, including the Company, are subject to a number of uncertainties. CMC's estimates as to the cost to prepare for the Year 2000 are based on numerous assumptions regarding future events, including, among others, continued availability of trained personnel, expectations regarding third party modification plans and the nature and amount of testing that may be required. The operations or financial results of CMC and its subsidiaries, including the Company, could be materially adversely affected if vendors, service providers, customers or securities exchanges are unable to successfully implement their Year 2000 plans and continue operations; if CMC is unsuccessful in identifying or fixing all Year 2000 problems in its critical operations; or if CMC is unable to retain the staff or third party consultants necessary to implement its technology plans at currently projected costs and timetables.

#### OTHER MATTERS

As of December 31, 1998, the Company believed that it was in full compliance with the REIT tax rules and that it will continue to qualify as a REIT under the provisions of the Code. The Company calculates that:

- o its Qualified REIT Assets, as defined in the Code, are 100% of its total assets, as compared to the federal tax requirement that at least 75% of its total assets must be Qualified REIT assets.
- o 91% of its revenues qualify for the 75% source of income test and 100% of its revenues qualify for the 95% source of income test under the REIT rules.
- o none of its revenues were subject to the 30% income limitation under the REIT rules.

The Company also met all REIT requirements regarding the ownership of its Common Stock and the Series A Preferred Shares and anticipates meeting the 1998 annual distribution and administrative requirements.

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#### COMPARISON BETWEEN 1997 AND 1996

The Company's net interest income was \$77,179,000 in 1997 compared with \$22,156,000 in 1996. Basic earnings per share were \$35,229,000 and \$9,339,000 for 1997 and 1996, respectively. In 1997, interest income from residential and commercial mortgage loans was \$70,790,000 and \$9,391,000, respectively, representing a total average yield of 7.8% compared with interest income from residential and commercial mortgage loans of \$19,337,000 and \$2,782,000, respectively, and representing a total average yield of 7.4% for 1996.

After deductions of \$529,000 for advisory and other administrative expenses, the Company reported net income of \$79,779,000 in 1997 compared with a deduction of \$71,000 for advisory fees and net income of \$22,085,000 in 1996.

The increase in operating results in 1997 reflect twelve months of operations compared with 3 1/2 months in 1996.

#### ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES REGARDING MARKET RISK

For information related to interest rate risk, see the Interest Rate Risk section on page 8.

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#### ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Accountants

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To the Board of Directors and Stockholders

In our opinion, the accompanying balance sheets and the related statements of income, of changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Chase Preferred Capital Corporation (the "Company") at December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 1998, and for the period from inception (September 18, 1996) through December 31, 1996, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PricewaterhouseCoopers LLP  
 New York, New York  
 March 19, 1999

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CHASE PREFERRED CAPITAL CORPORATION  
 BALANCE SHEET  
 (in thousands, except share data)

|  | 12/31/98            | 12/31/97            |
|--|---------------------|---------------------|
|  | -----               | -----               |
| <b>ASSETS:</b>   |                     |                     |
| Residential mortgage loans   | \$ 944,012          | \$ 889,696          |
| Commercial mortgage loans  | 77,356              | 95,372              |
|  | -----               | -----               |
|  | 1,021,368           | 985,068             |
| Less: allowance for loan losses  | (4,120)             | (3,468)             |
|  | -----               | -----               |
|  | 1,017,248           | 981,600             |
| Cash   | 25,215              | 93,919              |
| Due from affiliates  | 71,140              | 40,664              |
| Accrued interest receivable  | 7,703               | 6,981               |
|  | -----               | -----               |
| <b>TOTAL ASSETS</b>  | <b>\$ 1,121,306</b> | <b>\$ 1,123,164</b> |
|  | =====               | =====               |
| <b>LIABILITIES:</b>  |                     |                     |
| Accounts payable   | \$ 432              | \$ 367              |
| Due to affiliates  | 0                   | 2,867               |
|  | -----               | -----               |
| <b>TOTAL LIABILITIES</b>   | <b>432</b>          | <b>3,234</b>        |
|  | -----               | -----               |
| <b>STOCKHOLDERS' EQUITY:</b>   |                     |                     |
| Preferred stock, par value \$25 per share;<br>50,000,000 shares authorized,<br>22,000,000 issued and outstanding | 550,000             | 550,000             |
| Common stock, one share authorized and<br>outstanding, par value \$171,750,000<br>per share                      | 171,750             | 171,750             |
| Capital surplus  | 381,637             | 381,637             |
| Retained earnings *  | 17,487              | 16,543              |
|  | -----               | -----               |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>  | <b>1,120,874</b>    | <b>1,119,930</b>    |
|  | -----               | -----               |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>  | <b>\$ 1,121,306</b> | <b>\$ 1,123,164</b> |
|  | =====               | =====               |

\* No retained earnings related to property sales

CHASE PREFERRED CAPITAL CORPORATION  
STATEMENT OF INCOME  
(in thousands)

<TABLE>  
<CAPTION>

|                                       | Year Ended<br>12/31/98 | Year Ended<br>12/31/97 | For the Period from Inception<br>(September 18, 1996)<br>through 12/31/96 |
|---------------------------------------|------------------------|------------------------|---|
| INTEREST INCOME:                      |                        |                        |   |
| <S>                                   | <C>                    | <C>                    | <C>   |
| Residential mortgage loans            | \$ 64,430              | \$ 70,790              | \$ 19,337   |
| Commercial mortgage loans             | 7,909                  | 9,391                  | 2,782   |
| Interest on overnight investments     | 7,089                  | 2,760                  | 711   |
|                                       | -----                  | -----                  | -----   |
|                                       | 79,428                 | 82,941                 | 22,830  |
| Less: servicing fees                  | (2,249)                | 2,633)                 | (674)   |
|                                       | -----                  | -----                  | -----   |
| Net interest income                   | 77,179                 | 80,308                 | 22,156  |
|                                       | -----                  | -----                  | -----   |
| NONINTEREST EXPENSE:                  |                        |                        |   |
| Advisory fees                         | 250                    | 250                    | 71  |
| Other administrative expenses         | 370                    | 279                    | 0   |
|                                       | -----                  | -----                  | -----   |
| Total noninterest expense             | 620                    | 529                    | 71  |
|                                       | -----                  | -----                  | -----   |
| NET INCOME                            | \$ 76,559              | \$ 79,779              | \$ 22,085   |
|                                       | =====                  | =====                  | =====   |
| NET INCOME APPLICABLE TO COMMON SHARE | \$ 32,009              | \$ 35,229              | \$ 9,339  |
|                                       | =====                  | =====                  | =====   |
| NET INCOME PER COMMON SHARE           | \$ 32,009              | \$ 35,229              | \$ 9,339  |
|                                       | =====                  | =====                  | =====   |

</TABLE>

CHASE PREFERRED CAPITAL CORPORATION  
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
(in thousands)

<TABLE>  
<CAPTION>

|   | Year Ended<br>12/31/98 | Year Ended<br>12/31/97 | For the Period from Inception<br>(September 18, 1996)<br>through 12/31/96 |
|---|------------------------|------------------------|---|
| PREFERRED STOCK:                                  |                        |                        |   |
| <S>   | <C>                    | <C>                    | <C>   |
| Balance at beginning of period                    | \$ 550,000             | \$ 550,000             | \$ 550,000  |
|   | -----                  | -----                  | -----   |
| Balance at end of period                          | \$ 550,000             | \$ 550,000             | \$ 550,000  |
|   | =====                  | =====                  | =====   |
| COMMON STOCK:                                     |                        |                        |   |
| Shares issued at incorporation<br>(June 28, 1996) | \$ 0                   | \$ 0                   | \$ 1  |

|                                |              |             |              |
|--------------------------------|--------------|-------------|--------------|
| Balance at beginning of period | 171,750      | 171,750     | 171,749      |
| Balance at end of period       | \$ 171,750   | \$ 171,750  | \$ 171,750   |
| CAPITAL SURPLUS:               |              |             |              |
| Balance at beginning of period | \$ 381,637   | \$ 381,637  | \$ 381,637   |
| Balance at end of period       | \$ 381,637   | \$ 381,637  | \$ 381,637   |
| RETAINED EARNINGS:             |              |             |              |
| Balance at beginning of period | \$ 16,543    | \$ 9,339    | \$ 0         |
| Net Income                     | 76,559       | 79,779      | 22,085       |
| Common dividends               | (31,065)     | (28,025)    | 0            |
| Preferred dividends            | (44,550)     | (44,550)    | (12,746)     |
| Balance at end of period       | \$ 17,487    | \$ 16,543   | \$ 9,339     |
| TOTAL STOCKHOLDERS' EQUITY     | \$ 1,120,874 | \$1,119,930 | \$ 1,112,726 |

</TABLE>

The Notes to Financial Statements are an integral part of these Statements.

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CHASE PREFERRED CAPITAL CORPORATION  
STATEMENT OF CASH FLOWS  
(in thousands)

<TABLE>

<CAPTION>

|  | Year Ended<br>12/31/98 | Year Ended<br>12/31/97 | For the Period from Inception<br>(September 18, 1996)<br>through 12/31/96 |
|--|------------------------|------------------------|---|
| <S>  | <C>                    | <C>                    | <C>   |
| OPERATING ACTIVITIES:  |                        |                        |   |
| Net income   | \$ 76,559              | \$ 79,779              | \$ 22,085   |
| Adjustments to reconcile net income to<br>net cash provided (used) by operating<br>activities: |                        |                        |   |
| Net change in:   |                        |                        |   |
| Due from affiliates  | (30,476)               | (21,921)               | (18,743)  |
| Accrued interest receivable  | 1,896                  | 585                    | (2,741)   |
| Accounts payable   | 65                     | (63)                   | (1,358)   |
| Due to affiliates  | (2,867)                | 2,625                  | 242   |
| Net cash provided (used) by operating<br>activities  | 45,177                 | 61,005                 | (515)   |
| INVESTING ACTIVITIES:  |                        |                        |   |
| Purchase of mortgage loans net of reserve  | (642,855)              | (210,159)              | (1,119,254)   |
| Principal payments received  | 606,061                | 285,040                | 62,423  |
| Purchase of accrued interest receivable  | 2,618                  | (833)                  | (3,992)   |
| Sale of loans net of reserve   | 1,146                  | 350                    | 0   |
| Net cash provided (used) by investing<br>activities  | (38,266)               | 74,398                 | (1,060,823)   |
| FINANCING ACTIVITIES:  |                        |                        |   |
| Proceeds from common stock issued  | 0                      | 0                      | 572,499   |



|  |           |           |           |
|--|-----------|-----------|-----------|
| Proceeds from preferred stock issued             | 0         | 0         | 550,000   |
| Underwriting discount paid                       | 0         | 0         | (17,325)  |
| Dividends paid                                   | (75,615)  | (72,575)  | (12,746)  |
|  | -----     | -----     | -----     |
| Net cash provided (used) by financing activities | (75,615)  | (72,575)  | 1,092,428 |
|  | -----     | -----     | -----     |
| NET INCREASE (DECREASE) IN CASH                  | (68,704)  | 62,828    | 31,090    |
| CASH AT BEGINNING OF PERIOD                      | 93,919    | 31,091    | 1         |
|  | -----     | -----     | -----     |
| CASH AT END OF PERIOD                            | \$ 25,215 | \$ 93,919 | \$ 31,091 |
|  | =====     | =====     | =====     |

</TABLE>

The Notes to Financial Statements are an integral part of these Statements.

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#### NOTES TO FINANCIAL STATEMENTS

##### NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

Chase Preferred Capital Corporation (the "Company") is a Delaware corporation incorporated on June 28, 1996 and created for the purpose of acquiring, holding and managing real estate assets. The Company is a wholly-owned subsidiary of The Chase Manhattan Bank (the "Bank"), a banking corporation organized under the laws of the State of New York. The Company began operating in 1996, upon completion of an initial public offering of 22,000,000 shares of its 8.10% Cumulative Preferred Stock, Series A, \$25 par value per share (the "Series A Preferred Shares"), which are currently traded on the New York Stock Exchange. The Company used the net proceeds of that offering (after payment of offering expenses), together with capital invested by the Bank, to purchase a portfolio of residential and commercial mortgage loans ("Mortgage Loans") at their estimated fair values. The Mortgage Loans were recorded in the accompanying financial statements at the Bank's historical cost basis, which approximated their estimated fair values.

On December 29, 1998, the Bank, as sole common stockholder, approved an amendment to the Company's Certificate of Incorporation that reduced the Company's authorized Common Stock from 5,000,000 shares to one share and changed the outstanding Common Stock from 572,500 shares having a par value of \$300 per share (\$171,750,000 in the aggregate) to one share having a par value of \$171,750,000. All references to numbers of shares of common stock, per common share amounts and common stock par values have been restated to reflect the effects of the amendment.

The accounting and financial reporting policies of the Company conform to generally accepted accounting principles and prevailing industry practices. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

##### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

###### Mortgage Loans:

Mortgage Loans are carried at the principal amount outstanding, net of any premium or discount associated with these loans. Loans held for sale are carried at the lower of aggregate cost or fair value. Interest income, including amortization of premiums and accretion of discounts, is recognized using the interest method or on a basis approximating a level rate of return over the term of the loan. Mortgage Loans acquired from the Bank or its affiliates are recorded at the Bank's historical cost basis in the accompanying balance sheet. Any difference between the amount paid and the Bank's historical cost basis would be treated as an adjustment to capital surplus.

Nonaccrual loans are those loans on which the accrual of interest has ceased. Loans are placed on nonaccrual status immediately if, in the opinion of management, full payment of principal or interest is in doubt, or when principal or interest is past due 90 days or more and collateral, if any, is insufficient to cover principal and interest. Interest accrued but not collected at the date a loan is placed on nonaccrual status is reversed against interest income. In addition, the amortization of net deferred loan fees and costs are suspended

when a loan is placed on nonaccrual status. Interest income on nonaccrual loans is recognized only to the extent received in cash. However, where there is doubt regarding the ultimate collectibility of the loan principal, cash receipts, whether designated as principal or interest, are thereafter applied to reduce the carrying value of the loan. Loans are restored to accrual status only when interest and principal payments are brought current and future payments are reasonably assured.

A loan is considered impaired when, based on current information, it is probable that the borrower will be unable to pay contractual interest or principal payments as scheduled in the loan agreement. The Company accounts for and discloses nonaccrual commercial mortgage loans as impaired. Impaired loans are carried at the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price, or the fair value of the collateral, if the loan is collateral dependent. The Company recognizes interest income on impaired loans in the manner set forth above for nonaccrual loans. The Company excludes from impaired loans small-balance homogeneous consumer loans, loans carried at fair value or the lower of cost or fair value, debt securities and leases.

A collateralized loan is considered an in-substance foreclosure and is reclassified to Assets Acquired as Loan Satisfactions only when the Company has taken physical possession of the collateral regardless of whether formal foreclosure proceedings have taken place.

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#### Allowance for Loan Losses:

The allowance for loan losses provides for risk of losses inherent in the credit extension process. The allowance is a general allowance and is based on a periodic review and analysis of the portfolio, which is comprised of purchased residential and commercial mortgage loans. The periodic analysis includes consideration of such factors as the risk rating of individual credits, the size and diversity of the portfolio, economic and market conditions, prior loss experience and results of periodic credit reviews of the portfolio. The allowance for loan losses is increased by allowances related to purchased mortgage loan portfolios and by provisions for losses charged against income and is reduced by charge-offs, net of recoveries. Charge-offs are recorded when, in the judgment of management, an extension of credit is deemed uncollectible, in whole or in part.

#### Cash and Cash Equivalents:

The Company considers all short-term, highly liquid investments that are both readily convertible to cash and have a maturity of generally three months or less at the time of purchase to be cash equivalents. At December 31, 1998, the Company's cash and cash equivalent (overnight deposits) were held in custody at the Bank.

#### Offering Costs:

Costs incurred in connection with the raising of capital through the sale of the Series A Preferred Shares were charged against shareholders' equity upon the issuance of shares to shareholders.

#### Dividends:

Preferred Stock. Dividends on the Series A Preferred Shares are cumulative and are payable quarterly on the last day of March, June, September and December at a rate of 8.10% per annum of the initial liquidation preference (\$25.00 per share).

Common Stock. The common shareholder is entitled to receive dividends when, as and if declared by the Board of Directors out of funds legally available after all preferred dividends have been paid.

#### Net Income Per Common Share:

Net income per share is computed by dividing net income after preferred dividends by the weighted average number of shares of Common Stock outstanding.

#### Income Taxes:

The Company has elected to be treated as a Real Estate Investment Trust ("REIT") pursuant to provisions of the Internal Revenue Code of 1986, as amended (the "Code"). As a result, the Company will not be subject to federal income tax on its taxable income to the extent it distributes at least 95% of its taxable income to its shareholders and it meets certain other requirements set forth in the Code. The Company intends to maintain its qualification as a REIT for federal income tax purposes. The Company intends to pay qualifying dividends (for federal income tax purposes) on all of its taxable income to the holders of

its Common Stock and Series A Preferred Shares, a portion of which may be in the form of "consent" dividends or "subsequent year" dividends, pursuant to the Code. As a result, the Company has made no provision for income taxes in the accompanying financial statements.

NOTE 3 - MORTGAGE LOANS  
-----

Mortgage Loans consist of both residential and commercial mortgage loans. Residential mortgage loans consist of six-month prime rate adjustable rate mortgages ("ARMs"); six-month treasury ARMs; three-year fixed rate loans with an automatic conversion to six-month and three-year ARMs; one, three, five, seven and ten-year fixed rate loans with an automatic conversion to one-year ARMs; and fixed rate loans. The commercial mortgage loans consist of fixed and variable rate loans, a majority of which have balloon payments.

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The following represents the Mortgage Loan portfolio before allowance for loan losses as of the dates indicated:

|                            | 12/31/98<br>(in thousands) | 12/31/97<br>(in thousands) |
|----------------------------|----------------------------|----------------------------|
| Residential mortgage loans | \$ 944,012                 | \$ 889,696                 |
| Commercial mortgage loans  | 77,356                     | 95,372                     |
|                            | -----                      | -----                      |
| Total portfolio            | \$ 1,021,368               | \$ 985,068                 |
|                            | =====                      | =====                      |

All of the Mortgage Loans are secured by a mortgage, deed of trust or other security instrument which created a first lien on the residential dwelling or commercial property.

NOTE 4 - ALLOWANCE FOR LOAN LOSSES  
-----

The table below summarizes the changes in the allowance for loan losses during 1998, 1997 and for the period from inception (September 18, 1996) through December 31, 1996:

<TABLE>

<CAPTION>

Allowance for Loan Losses  
(in thousands)

|  | 12/31/98 | 12/31/97 | For the Period from Inception<br>(September 18, 1996)<br>through 12/31/96 |
|--|----------|----------|---|
| <S>                                    | <C>      | <C>      | <C>   |
| Total allowance at beginning of period | \$ 3,468 | \$ 3,150 | \$ 0  |
| Acquired allowance                     | 1,092    | 429      | 3,150   |
| Provision for loan losses              | 0        | 0        | 0   |
| Charge-offs                            | (78)     | 0        | 0   |
| Recoveries                             | 0        | 0        | 0   |
| Sale of loans                          | (362)    | (111)    | 0   |
|  | -----    | -----    | -----   |
| Total allowance at end of period       | \$ 4,120 | \$ 3,468 | \$ 3,150  |
|  | =====    | =====    | =====   |

</TABLE>

NOTE 5 - DIVIDENDS  
-----

For the years ended December 31, 1998, the Company paid dividends on the Series A Preferred Shares and Common Stock in the amounts of approximately \$44,550,000 and \$31,065,000, respectively, compared with \$44,550,000 and \$28,025,000, respectively, for the year ended December 31, 1997.

NOTE 6 - RELATED PARTY TRANSACTIONS  
-----

The Company has entered into an Advisory Agreement (the "Agreement") with the Bank (the "Advisor") requiring an annual payment of \$250,000. The Advisor provides advice to the Board of Directors and manages the operations of the

Company in accordance with the parameters established in the Agreement. The Agreement has an initial term of five years commencing on September 18, 1996 and automatically renews for an additional five years unless the Company delivers a notice of nonrenewal to the Advisor as defined in the Advisory Agreement.

The Company also entered into two servicing agreements with the Bank for the servicing of all the commercial and residential mortgage loans. Pursuant to each servicing agreement ("Servicing Agreement"), the Bank ("Servicer") performs the actual servicing of the Mortgage Loans held by the Company in accordance with normal industry practice. The Servicing Agreements can be terminated by the Company without cause with at least thirty days notice to the Servicer. The servicing fee is 0.25% of the outstanding principal balance for the residential mortgage loans and ranges from 0.08% - 0.30% of the outstanding principal balances for the commercial mortgage loans depending upon the outstanding principal amount.

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The Bank has entered into sub-servicing agreements ("Sub-Agreements") with Chase Manhattan Mortgage Corporation ("CMMC" and "sub-servicer"), a wholly-owned subsidiary of Chase Manhattan Bank USA, National Association, an indirect wholly-owned subsidiary of The Chase Manhattan Corporation ("CMC").

For the years ended December 31, 1998 and 1997, the Company purchased Mortgage Loans having an outstanding principal balance of \$643,947,000 and \$210,588,000, respectively, from the Bank or its affiliates. The Company also sold \$2,488,000 of nonaccruing residential loans to a wholly-owned subsidiary of CMC during the twelve months ended December 31, 1998. No gain or loss was recognized from this sale.

Advisory fees and servicing fees incurred in 1998, 1997 and 1996 totaled approximately \$2,500,000, \$2,883,000 and \$745,000, respectively.

In its capacity as sub-servicer, CMMC owed the Company approximately \$71,140,000, and \$40,664,000 at December 31, 1998 and 1997, respectively, primarily consisting of mortgage loan payments received on behalf of the Company. Pursuant to the terms of the servicing and subservicing agreements, the Company receives mortgage loan payments collected by the Servicer (and sub-servicer) in the month immediately following its collection.

The Company maintains its cash in an overnight deposit account with the Bank and earns a market rate of interest. Interest income on these deposits amounted to approximately \$7,089,000 and \$2,760,000 for the years ended December 31, 1998 and 1997, respectively.

#### NOTE 7 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, entitled "Disclosures About Fair Value of Financial Instruments" ("SFAS 107"), requires the Company to disclose fair value information about financial instruments for which it is practicable to estimate the value, whether or not such financial instruments are recognized on the balance sheet. Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists. The calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

Certain financial instruments and all nonfinancial instruments are excluded from the scope of SFAS 107. Accordingly, the fair value disclosures required by SFAS 107 provide only a partial estimate of the fair value of the Company. Fair values among REITs are not comparable due to the wide range of limited valuation techniques and numerous estimates which must be made. This lack of objective valuation standard introduces a great degree of subjectivity to these derived or estimated fair values. Therefore, readers are cautioned in using this information for purposes of evaluating the financial condition of the Company compared with other REITs.

#### Mortgage Loans:

Mortgage Loans were valued using methodologies suitable for each loan type. Certain of these methodologies and the key assumptions made are discussed below.

The fair value of the Company's commercial mortgage loans was estimated by assessing the two main risk components of the portfolio: credit and interest. The estimated cash flows were adjusted to reflect the inherent credit risk and then discounted, using rates appropriate for each maturity that incorporate the effects of interest rate changes.

For residential mortgage loans for which market rates for comparable loans are

readily available, the fair values were estimated by discounting cash flows, adjusted for prepayments. The discount rates used for residential mortgages were secondary market yields for comparable mortgage-backed securities, adjusted for risk. The discount rates used incorporated the effects of interest rate changes only, since the estimated cash flows were adjusted for credit risk.

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The book value and fair value of Mortgage Loans at December 31, 1998 and 1997 were as follows (in thousands):

<TABLE>

<CAPTION>

|  | 12/31/98     |              | 12/31/97   |              |
|--|--------------|--------------|------------|--------------|
|  | Book Value   | Fair Value   | Book Value | Fair Value   |
| <S>  | <C>          | <C>          | <C>        | <C>          |
| Residential mortgage loans                       | \$ 944,012   | \$ 957,395   | \$ 889,696 | \$ 901,616   |
| Commercial mortgage loans                        | 77,356       | 82,763       | 95,372     | 103,462      |
| Allowance for loan losses                        | (4,120)      | (4,120)      | (3,468)    | (3,468)      |
| Mortgage Loans, net of allowance for loan losses | \$ 1,017,248 | \$ 1,036,038 | \$ 981,600 | \$ 1,001,610 |

</TABLE>

Assets and liabilities for which fair value approximates carrying value:

The fair values of certain financial assets and liabilities carried at cost, including cash, due from affiliates, accrued interest receivable, accounts payable and due to affiliates are considered to approximate their respective carrying value due to their short-term nature and negligible credit losses.

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CHASE PREFERRED CAPITAL CORPORATION  
AVERAGE BALANCE SHEET  
(in thousands, except share data)  
(Unaudited)

<TABLE>

<CAPTION>

|  | 1998         |          |      | 1997         |          |      |
|--|--------------|----------|------|--------------|----------|------|
|  | Balance      | Interest | Rate | Balance      | Interest | Rate |
| ASSETS:  |              |          |      |              |          |      |
| <S>  | <C>          | <C>      | <C>  | <C>          | <C>      | <C>  |
| Residential mortgage loans   | \$ 866,792   | 64,430   | 7.4% | \$ 944,808   | 70,790   | 7.6% |
| Commercial mortgage loans  | 86,552       | 7,909    | 9.1% | 99,751       | 9,391    | 9.4% |
| Cash   | 130,466      | 7,089    | 5.4% | 53,642       | 2,760    | 5.2% |
| TOTAL INTEREST-EARNING ASSETS  | 1,083,810    | 79,428   | 7.3% | 1,098,201    | 82,941   | 7.6% |
| Allowance for credit losses  | (3,631)      |          |      | (3,296)      |          |      |
| Due from affiliates  | 47,547       |          |      | 18,072       |          |      |
| Accrued interest receivable  | 6,526        |          |      | 6,348        |          |      |
| TOTAL ASSETS   | \$ 1,134,252 |          |      | \$ 1,119,325 |          |      |
| LIABILITIES:   |              |          |      |              |          |      |
| Accounts payable   | \$ 6,931     |          |      | 367          |          |      |
| Due to affiliates  | 2,666        |          |      | 2,116        |          |      |
| TOTAL LIABILITIES  | 9,597        |          |      | 2,483        |          |      |
| STOCKHOLDERS' EQUITY:  |              |          |      |              |          |      |
| Preferred stock, par value \$25 per share; 50,000,000 shares authorized, 22,000,000 issued and outstanding | 550,000      |          |      | 550,000      |          |      |
| Common stock, one share authorized and outstanding, par value \$171,750,000                                |              |          |      |              |          |      |

|  |              |              |
|--|--------------|--------------|
| per share                                  | 171,750      | 171,750      |
| Capital surplus                            | 381,637      | 381,637      |
| Retained earnings                          | 21,268       | 13,455       |
|  | -----        | -----        |
| TOTAL STOCKHOLDERS' EQUITY                 | 1,124,655    | 1,116,842    |
|  | -----        | -----        |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 1,134,252 | \$ 1,119,325 |
|  | =====        | =====        |

</TABLE>

The Notes to Financial Statements are an integral part of these Statements.

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CHASE PREFERRED CAPITAL CORPORATION  
 QUARTERLY FINANCIAL INFORMATION  
 (in thousands)

<TABLE>  
 <CAPTION>

|                                       | 1998            |                 |                 |                 | 1997            |                 |                 |                 |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                                       | Fourth Quarter  | Third Quarter   | Second Quarter  | First Quarter   | Fourth Quarter  | Third Quarter   | Second Quarter  | First Quarter   |
| INTEREST INCOME:                      |                 |                 |                 |                 |                 |                 |                 |                 |
| <S>                                   | <C>             | <C>             | <C>             | <C>             | <C>             | <C>             | <C>             | <C>             |
| Residential mortgage loans            | \$ 17,221       | \$ 17,011       | \$ 14,446       | \$ 15,752       | \$ 16,511       | \$ 17,994       | \$ 18,619       | \$ 17,666       |
| Commercial mortgage loans             | 1,836           | 1,746           | 2,141           | 2,186           | 2,334           | 2,286           | 2,385           | 2,386           |
| Interest on overnight investments     | 1,187           | 1,371           | 2,668           | 1,863           | 1,064           | 624             | 383             | 689             |
|                                       | -----           | -----           | -----           | -----           | -----           | -----           | -----           | -----           |
| Less: servicing fees                  | 20,244<br>(421) | 20,128<br>(670) | 19,255<br>(559) | 19,801<br>(599) | 19,909<br>(643) | 20,904<br>(654) | 21,387<br>(671) | 20,741<br>(665) |
| Net interest income                   | 19,823          | 19,458          | 18,696          | 19,202          | 19,266          | 20,250          | 20,716          | 20,076          |
|                                       | -----           | -----           | -----           | -----           | -----           | -----           | -----           | -----           |
| NON INTEREST EXPENSE:                 |                 |                 |                 |                 |                 |                 |                 |                 |
| Advisory fees                         | 63              | 63              | 62              | 63              | 62              | 63              | 63              | 62              |
| Other administrative expenses         | 61              | 93              | 92              | 123             | 66              | 25              | 98              | 90              |
|                                       | -----           | -----           | -----           | -----           | -----           | -----           | -----           | -----           |
| Total noninterest expense             | 124             | 156             | 154             | 186             | 128             | 88              | 161             | 152             |
|                                       | -----           | -----           | -----           | -----           | -----           | -----           | -----           | -----           |
| NET INCOME:                           | \$ 19,699       | \$ 19,302       | \$ 18,542       | \$ 19,016       | \$ 19,138       | \$ 20,162       | \$ 20,555       | \$ 19,924       |
|                                       | =====           | =====           | =====           | =====           | =====           | =====           | =====           | =====           |
| NET INCOME APPLICABLE TO COMMON SHARE | \$ 8,562        | \$ 8,164        | \$ 7,404        | \$ 7,879        | \$ 8,001        | \$ 9,024        | \$ 9,417        | \$ 8,787        |
|                                       | =====           | =====           | =====           | =====           | =====           | =====           | =====           | =====           |
| NET INCOME PER COMMON SHARE (a)       | \$ 8,562        | \$ 8,164        | \$ 7,404        | \$ 7,879        | \$ 8,001        | \$ 9,024        | \$ 9,417        | \$ 8,787        |
|                                       | =====           | =====           | =====           | =====           | =====           | =====           | =====           | =====           |

</TABLE>

(a) All per share amounts have been restated to reflect the change, effected on December 29, 1998, of the Company's outstanding Common Stock from 572,500 shares, par value \$300 per share, to one share, par value \$171,750,000 per share.

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ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 10: DIRECTORS AND EXECUTIVE OFFICERS OF THE CORPORATION

The following persons are directors of the Company as of the date hereof:

|                    |    |   |
|--------------------|----|---|
| Richard J. Boyle   | 55 | Director. Retired as Vice Chairman of the Board of The Chase Manhattan Corporation ("Heritage Chase") and The Chase Manhattan Bank, N.A. upon consummation of the merger of Heritage Chase into Chemical Banking Corporation on March 31, 1996 (the "Merger"). Mr. Boyle served in such positions since 1987.   |
| Dina Dublon        | 45 | President and Director. An Executive Vice President, the Chief Financial Officer of CMC and the Bank, and a member of CMC's policy committee. Ms. Dublon joined the Bank in 1981 and has served in various positions at the Bank, including Corporate Treasurer and Executive Vice President, Corporate Planning.   |
| Thomas Jacob       | 60 | Director. The Chairman and Chief Executive Officer of Chase Manhattan Mortgage Corporation, the mortgage subsidiary of CMC. Mr. Jacob is also the Chairman of Chase Manhattan Bank USA, N.A., and a director of Chase Insurance Agency, Inc. For the six years prior to the Merger, Mr. Jacob was the executive responsible for the residential retail mortgage business of Chemical Banking Corporation.   |
| William C. Langley | 60 | Director. Retired as an Executive Vice President and Chief Credit and Risk Policy Officer of Chemical Banking Corporation and Chemical Bank, effective July 31, 1996. Prior to becoming an Executive Vice President of Chemical Banking Corporation and Chemical Bank in 1991, Mr. Langley had served as an Executive Vice President since 1983, and the Chief Credit Officer since 1990, of Manufacturers Hanover Corporation. Mr. Langley is a director of Morrison Knudsen Corp. |
| Louis M. Morrell   | 52 | Treasurer and Director. A Managing Director of the Bank and CMC. Mr. Morrell joined the Bank in 1970 and, since joining, has held various corporate finance and corporate treasury-related positions with the Bank.   |
| Neila B. Radin     | 45 | Secretary. A Senior Vice President and Associate General Counsel of the Bank. Ms. Radin joined the Bank in 1987 and has been a member of its legal department since 1988.   |
| Joseph L. Sclafani | 50 | Director. An Executive Vice President of CMC and the Bank, and Controller of CMC since the Merger, with responsibility for corporate accounting, reporting, tax and insurance functions. Prior to the Merger, Mr. Sclafani was Controller of Chemical Banking Corporation since August 1992.  |
| Robert S. Strong   | 49 | Chairman and Director. An   |

Executive Vice President and the Chief Credit Officer of CMC and the Bank and a member of CMC's policy council. Mr. Strong joined Heritage Chase in 1971 and served in various positions at Heritage Chase, including as executive in charge of the Global Portfolio Management Group, the Real Estate Finance Group, the Transportation and Defense Group, the Diversified Industries Group and the Public Utilities Group.

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ITEM 11: EXECUTIVE COMPENSATION

The Company does not pay any compensation to its officers or to directors who are not Independent Directors. The Independent Directors (Messrs. Boyle and Langley) each receive annual compensation of \$10,000 plus a fee of \$750 for attendance (in person or by telephone) at each meeting of the Board of Directors.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

None.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Reference is hereby made to "Item 1. Business" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of the Company's various relationships with the Bank, the sole holder of all its outstanding Common Stock.

ITEM 14: EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

No Current Reports on Form 8-K were filed during the fourth quarter of 1998.

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INDEX TO EXHIBITS

| EXHIBIT NO. | EXHIBITS  |
|-------------|---|
| 3(a) (i)    | Form of Amended and Restated Certificate of Incorporation of the Company (Incorporated by reference to Exhibit 3(a) (iii) to the Registration Statement on Form S-11 (File No. 333- 08001) of Chase Preferred Capital Corporation).                                       |
| 3(a) (ii)   | Form of Certificate of Designation establishing the Series A Preferred Shares (Incorporated by reference to Exhibit 3(a) (ii) to the Registration Statement on Form S-11 (File No. 333- 08001) of Chase Preferred Capital Corporation).                                   |
| 3(a) (iii)  | Certificate of Amendment to Amended and Restated Certificate of Incorporation of the Company.   |
| 3(b)        | Form of Amended and Restated By-laws of the Company (Incorporated by reference to Exhibit 3(b) (ii) to the Registration Statement on Form S-11 (File No. 333-08001) of Chase Preferred Capital Corporation).  |
| 4           | Specimen of certificate representing Series A Preferred Shares (Incorporated by reference to Exhibit 4 to the Registration Statement on Form S-11 (File No. 333-08001) of Chase Preferred Capital Corporation).   |
| 10(a)       | Form of Residential Mortgage Loan Purchase and Warranties Agreement between the Company and The Chase Manhattan Bank (Incorporated by reference to Exhibit 10(a) to the Registration Statement on Form S-11 (File No. 333-08001) of Chase Preferred Capital Corporation). |
| 10(b)       | Form of Commercial Mortgage Loan Purchase and Warranties Agreement between the Company and The Chase Manhattan Bank (Incorporated by reference to Exhibit 10(b) to the Registration Statement on Form   |



- 10(c) Form of Residential Mortgage Loan Servicing Agreement between the Company and The Chase Manhattan Bank (Incorporated by reference to Exhibit 10(c) to the Registration Statement on Form S-11 (File No. 333-08001) of Chase Preferred Capital Corporation).
- 10(d) Form of Commercial Mortgage Loan Servicing Agreement between the Company and The Chase Manhattan Bank (Incorporated by reference to Exhibit 10(d) to the Registration Statement on Form S-11 (File No. 333-08001) of Chase Preferred Capital Corporation).
- 10(e) Form of Advisory Agreement between the Company and The Chase Manhattan Bank (Incorporated by reference to Exhibit 10(e) to The Registration Statement on Form S-11 (File No. 333-08001) of Chase Preferred Capital Corporation).
- 11 Computation of net income per share
- 12(a) Computation of ratio of earnings to fixed charges
- 12(b) Computation of ratio of earnings to fixed charges and preferred stock dividend requirements
- 27 Financial Data Schedule

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SIGNATURES

Pursuant to the requirements of Sections 13 and 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHASE PREFERRED CAPITAL CORPORATION  
(Registrant)

Date: March 26, 1999

By: /s/ Louis M. Morrell

-----  
Louis M. Morrell  
Treasurer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Signature<br>-----                                | Title<br>-----  | Date<br>----   |
|---|---|----------------|
| /s/ Robert S. Strong<br>-----<br>Robert S. Strong | Chairman and Director<br>(Principal Executive Officer)                    | March 26, 1999 |
| /s/ Dina Dublon<br>-----<br>Dina Dublon           | President and Director  | March 26, 1999 |
| /s/ Louis M. Morrell<br>-----<br>Louis M. Morrell | Treasurer and Director<br>(Principal financial<br>and accounting officer) | March 26, 1999 |
| /s/ Richard J. Boyle<br>-----<br>Richard J. Boyle | Director  | March 26, 1999 |
| /s/ Thomas Jacob<br>-----<br>Thomas Jacob         | Director  | March 26, 1999 |

/s/ William C. Langley  
-----  
William C. Langley

Director

March 26, 1999

/s/ Joseph L. Sclafani  
-----  
Joseph L. Sclafani

Director

March 26, 1999

EXHIBIT 11  
CHASE PREFERRED CAPITAL CORPORATION  
Computation of net income per share

Net income for basic earnings per share is computed by subtracting from the applicable earnings the dividend requirements on preferred stock to arrive at earnings applicable to common stock and dividing this amount by the weighted average number of common shares outstanding during the period.

| (in thousands, except shares outstanding):  | For the Year<br>Ended 12/31/98 | For the Year<br>Ended 12/31/97 |
|---|--------------------------------|--------------------------------|
| -----                                       |                                |                                |
| Earnings:                                   |                                |                                |
| Net income                                  | \$ 76,559                      | \$ 79,779                      |
| Less: preferred stock dividend requirements | 44,550                         | 44,550                         |
|   | -----                          | -----                          |
| Net income applicable to common stock       | \$ 32,009                      | \$ 35,229                      |
|   | =====                          | =====                          |
|   |                                |                                |
| Shares:                                     |                                |                                |
| Average common shares outstanding(a)        | 1                              | 1                              |
| Net income per share:(a)                    | \$ 32,009                      | \$ 35,229                      |
|   | =====                          | =====                          |

=====  
(a) All common share and per share amounts have been restated to reflect the change, effected on December 29, 1998, of the Company's outstanding Common Stock from 572,500 shares, par value \$300 per share, to one share, par value \$171,750,000 per share.

## EXHIBIT 12(a)

CHASE PREFERRED CAPITAL CORPORATION  
 Computation of ratio of earnings to fixed charges

| (in thousands, except ratio):      | For the Year<br>Ended 12/31/98 | For the Year<br>Ended 12/31/97 |
|------------------------------------|--------------------------------|--------------------------------|
| Net income                         | \$ 76,559                      | \$ 79,779                      |
| Fixed charges:                     |                                |                                |
| Advisory fees                      | 250                            | 250                            |
| Total fixed charges                | 250                            | 250                            |
| Earnings before fixed charges      | \$ 76,809                      | \$ 80,029                      |
| Fixed charges, as above            | \$ 250                         | \$ 250                         |
| Ratio of earnings to fixed charges | 307.24                         | 320.12                         |

## EXHIBIT 12(b)

CHASE PREFERRED CAPITAL CORPORATION  
 Computation of ratio of earnings to fixed charges  
 and preferred stock dividend requirements

| (in thousands, except ratio):  | For the Year<br>Ended 12/31/98 | For the Year<br>Ended 12/31/97 |
|--|--------------------------------|--------------------------------|
| Net income   | \$ 76,559                      | \$ 79,779                      |
| Fixed charges:   |                                |                                |
| Advisory fees  | 250                            | 250                            |
| Total fixed charges  | 250                            | 250                            |
| Earnings before fixed charges  | \$ 76,809                      | \$ 80,029                      |
| Fixed charges, as above  | \$ 250                         | \$ 250                         |
| Preferred stock dividend requirements  | 44,550                         | 44,550                         |
| Fixed charges including preferred stock dividends                            | \$ 44,800                      | \$ 44,800                      |
| Ratio of earnings to fixed charges and preferred stock dividend requirements | 1.71                           | 1.79                           |

<TABLE> <S> <C>

<ARTICLE> 9  
<CIK> 0001018450  
<NAME> CHASE PREFERRED CAPITAL CORPORATION  
<MULTIPLIER> 1,000  
<CURRENCY> UNITED STATES DOLLAR

| <S>                            | <C>         |
|--------------------------------|-------------|
| <PERIOD-TYPE>                  | 12-MOS      |
| <FISCAL-YEAR-END>              | DEC-31-1998 |
| <PERIOD-START>                 | JAN-01-1998 |
| <PERIOD-END>                   | DEC-31-1998 |
| <EXCHANGE-RATE>                | 1           |
| <CASH>                         | 25,215      |
| <INT-BEARING-DEPOSITS>         | 0           |
| <FED-FUNDS-SOLD>               | 0           |
| <TRADING-ASSETS>               | 0           |
| <INVESTMENTS-HELD-FOR-SALE>    | 0           |
| <INVESTMENTS-CARRYING>         | 0           |
| <INVESTMENTS-MARKET>           | 0           |
| <LOANS>                        | 1,021,368   |
| <ALLOWANCE>                    | 4,120       |
| <TOTAL-ASSETS>                 | 1,121,306   |
| <DEPOSITS>                     | 0           |
| <SHORT-TERM>                   | 0           |
| <LIABILITIES-OTHER>            | 0           |
| <LONG-TERM>                    | 0           |
| <PREFERRED-MANDATORY>          | 0           |
| <PREFERRED>                    | 550,000     |
| <COMMON>                       | 171,750     |
| <OTHER-SE>                     | 399,124     |
| <TOTAL-LIABILITIES-AND-EQUITY> | 1,121,306   |
| <INTEREST-LOAN>                | 72,339      |
| <INTEREST-INVEST>              | 0           |
| <INTEREST-OTHER>               | 7,089       |
| <INTEREST-TOTAL>               | 79,428      |
| <INTEREST-DEPOSIT>             | 0           |
| <INTEREST-EXPENSE>             | 2,249       |
| <INTEREST-INCOME-NET>          | 77,179      |
| <LOAN-LOSSES>                  | 0           |
| <SECURITIES-GAINS>             | 0           |
| <EXPENSE-OTHER>                | 620         |
| <INCOME-PRETAX>                | 76,559      |
| <INCOME-PRE-EXTRAORDINARY>     | 76,559      |
| <EXTRAORDINARY>                | 0           |
| <CHANGES>                      | 0           |
| <NET-INCOME>                   | 76,559      |

|                         |        |
|-------------------------|--------|
| <EPS-PRIMARY>           | 32,009 |
| <EPS-DILUTED>           | 32,009 |
| <YIELD-ACTUAL>          | 7.6    |
| <LOANS-NON>             | 0      |
| <LOANS-PAST>            | 0      |
| <LOANS-TROUBLED>        | 0      |
| <LOANS-PROBLEM>         | 0      |
| <ALLOWANCE-OPEN>        | 3,468  |
| <CHARGE-OFFS>           | 78     |
| <RECOVERIES>            | 0      |
| <ALLOWANCE-CLOSE>       | 4,120  |
| <ALLOWANCE-DOMESTIC>    | 0      |
| <ALLOWANCE-FOREIGN>     | 0      |
| <ALLOWANCE-UNALLOCATED> | 0      |

</TABLE>