

## INTRODUCTION

This Plan sets forth the terms for sale of the building by the City to the present tenants. Part I describes the terms of sale, the rights of present tenants and how the cooperative corporation will operate after purchasing the building from the City. Part II consists of exhibits which include a physical description of the building, a purchase agreement ("Subscription Agreement"), copies of the operating documents which will be used by the cooperative corporation, and other relevant legal documents.

This introduction is a summary of the Plan. Please see the text of Parts I and II for a fuller description of all the terms of sale. Building-specific information may be found in Schedules A, B and C at the end of Part I and Exhibits 1 and 2 at the beginning of Part II.

### Sponsor

The City acquired this building and the property on which it is located through tax foreclosure proceedings against the former owner. The City, through its Department of Housing Preservation and Development ("HPD"), is the Sponsor of this Plan to sell the property and building to its present tenants.

### Terms for Sale of the Building

This Plan provides for the sale of the building for a total price which is equal to \$250 times the number of apartments in the building. The sale will be to a cooperative corporation ("Co-op Corporation") formed under Article XI of the Private Housing Finance Law ("Article XI") and the Business Corporation Law of the State of New York. This Co-op Corporation will be owned by the tenant-purchasers. A total of 250 shares of stock, each of which represents an equal ownership interest in the Co-op Corporation, will be issued for each residential apartment in the building. Each purchasing tenant will buy the 250 shares of stock allocated to his or her apartment at \$1 per share. The total purchase price for each tenant's apartment will be \$250 (see page 7 and Schedule A for purchase prices and share allocation).

All tenants of record in the building as of the date on which this Plan is delivered to the tenants ("Presentation Date") will have the exclusive right to purchase the shares allocated to their apartments. Tenants who owe rent arrears may purchase the shares allocated to their apartments as long as they meet the purchase procedure requirements outlined on pages 27-28. Tenants whose occupancy has been terminated by court order will not be eligible to buy the shares allocated to their apartments.

Tenants will have 90 days after the Presentation Date to decide whether to purchase the shares allocated to their apartments. This is known as the "offering period". If 60% of the present tenants sign a Subscription Agreement (see Part II, Exhibit 11), HPD will declare this Plan effective by notice to the tenants and will file an amendment to that effect with the New York State Department of Law ("Attorney General").

#### What is a Co-op Corporation?

The Co-op Corporation that will purchase the building is a business corporation organized to buy, own and operate the building for low income residents. The Co-op Corporation will issue shares of stock for each apartment in the building. All tenants who agree to purchase will become shareholders in the Co-op Corporation. The shareholders will own the Co-op Corporation that owns the building.

The shareholders will elect the members ("Directors") of a board of directors ("Board") that will be responsible for making decisions for the building. The Board will elect officers of the Co-op Corporation (similar to your present Tenant Association officers) who will be responsible for carrying out the decisions of the Board and for making decisions on matters that arise between Board meetings. The Co-op Corporation will operate according to a set of By-Laws (see Part II, Exhibit 5) that outline the responsibilities of the officers and the Board, specify how meetings and elections are held, and determine which matters are decided by a vote of the Board and which matters are decided by a vote of the shareholders. All shareholders will be entitled to one vote per share in all decision-making that is reserved for the shareholders.

Each shareholder will be issued a lease known as a proprietary lease ("Proprietary Lease") which entitles the shareholder to occupy his or her apartment (see Part II, Exhibit 3). The Proprietary Lease defines the rights and responsibilities of the shareholder and the Co-op Corporation. The Proprietary Lease requires, among other things, that the shareholder use the apartment as his or her primary residence.

Once the Co-op Corporation purchases the building, each shareholder will pay a monthly maintenance charge which is based on the number of rooms in his or her apartment. The maintenance charge will replace the rent presently being paid and, in most cases, will be the same amount as the current rent (see Part I, Schedule A for proposed maintenance charge). Maintenance charges are based on an estimate of operating costs for the first year after the building is sold to the Co-op Corporation (see page 9 and Part I, Schedule B).

## Rights of Non-Purchasing Tenants

This Plan is an eviction cooperative offering plan. Non-purchasing tenants, except for eligible senior citizens and eligible disabled persons, will be evicted in certain circumstances (see pages 14-15). Eligible senior citizens are defined as present tenants or their spouses who are 62 years old or older on the Presentation Date (see page 13). Eligible disabled persons are defined as present tenants or their spouses who are disabled on the Presentation Date (see page 13). Although senior citizens and disabled persons may not be evicted for not purchasing, they are eligible to purchase the shares to their apartments and are advised that only purchasing tenant shareholders will participate in Co-op Corporation decision-making after sale.

Tenants who believe that they are eligible senior citizens or eligible disabled persons and who do not wish to purchase are advised to contact their Tenant Association officers or the Director of DAMP Sales, HPD, 150 William Street, New York, N.Y. 10038 (212-240-5603). These tenants should fill out page 2 and submit it to their Tenant Association officers or HPD within 90 days after the Presentation Date.

The apartments of tenants who do not purchase will return to their former rent controlled or rent stabilized status upon sale of the building and the tenants will pay the last rent charged while the building was owned by the City plus any increases allowed by the rent laws (see pages 14-15 and Part I, Schedule A). The Co-op Corporation will purchase the shares allocated to these apartments ("Unsold Shares") and will assume the responsibility of landlord to the non-purchasing tenants.

## Resale Restrictions

This Plan contains resale restrictions for 25 years on both the sale of the building and the sale of shares allocated to apartments in the building (see pages 23-24 and Part II, Exhibits 4 and 6). During the resale restriction period, the City will receive 40% of the profit from any sale of the building or from any sale of shares allocated to apartments in the building. The remaining 60% of the profit from apartment sales will be divided between the selling shareholder and the Co-op Corporation according to the formula outlined in the By-Laws (see pages 23-24 and Part II, Exhibit 5).

The Co-op Corporation will be required to observe the income guidelines of Section 576 (1) b of Article XI (see page 20 and Part II, Exhibit 9) for all new purchasers. New purchasers of shares may not have an income greater than six times the annual cost of maintenance charges and utilities

("carrying charges") for the apartment, or seven times the annual carrying charges for purchasers in families with three or more dependents.

#### Purchase Payment and Closing Date

If this Plan is declared effective, HPD will set a date ("Closing Date") for the sale of the building from the City to the Co-op Corporation ("Closing"). The Closing Date will generally be 30 to 90 days after the date on which the Plan is declared effective. The Closing will not take place until the effectiveness amendment has been accepted for filing by the Attorney General. On the Closing Date the purchasing tenants will pay to the City the full purchase price of \$250 times the number of apartments in the building. All tenants who have agreed to purchase will be required to pay the \$250 purchase price to their Tenant Association 15 days before the Closing Date.

Tenants receiving public assistance are eligible to receive a grant from the Department of Social Services (DOSS) to pay the \$250 purchase price. Contact your Tenant Association or the Director of DAMP Sales, 150 William Street New York, N.Y. 10038 (212-240-5603 ) for further information.

#### Compendio En Espanol

Este es un Plan de Oferta de desalojamiento. El Inquilino que no vaya a comprar podra ser desalojado bajo ciertas circunstancias con la excepcion de incapacitadas y ancianos. Para mas detalles favor referirse a las paginas 14-15.

Este Plan de Oferta proporciona la venta del edificio por un precio total el cual equivavale a \$250 por apartamento. Los inquilinos tendran 90 dias para decidirsen si van a comprar. Si el 60% de los inquilinos actuales del edificio aceptan comprar, este Plan sera declarado viente y el edificio sera vendido a una corporacion cooperativo propietario de los inquilinos compradores.

La compra de un apartamento cooperativo tiene significante consecuencia financieras y legales. El Departamento de Vivienda ("HPD") firmemente solicita que usted lea este Plan de Oferta con mucho cuidado y consulte con su abogado de la asociacion de inquilinos antes de firmar el acuerdo de compra.

Algunos de estos documentos quizas estaran disponibles en Espanol. Para mas informacion por favor consulte con su asociacion de inquilinos o llame al Director del Departamento de Ventas (212-240-5603 ).

## PURCHASE PRICES AND SHARE ALLOCATION

The City is offering to sell this building for a total price equal to \$250 per apartment. This sale will be to a Co-op Corporation owned by the tenants, with 250 shares of stock issued for each apartment in the building at a value of \$1 per share. The total purchase price for the 250 shares allocated to each apartment will be \$250. See Schedule A at the end of Part I for a list of purchase prices and share allocation for the apartments in this building.

If any of the present tenants do not buy the shares allocated to their apartments, the Tenant Association will need to raise additional money for the full purchase price of the building. The tenants who have agreed to purchase may therefore be required to make a payment in addition to the \$250 purchase price. The estimated maximum amount of this additional payment has been calculated by HPD (see Part I, Schedule A) to show the highest amount each purchasing tenant would have to pay if only 60% of the present tenants agree to purchase and the Tenant Association is unable to raise the funds from other sources.

## BUDGET FOR FIRST YEAR OF COOPERATIVE OPERATION

### What is a Budget?

This Plan contains a projected budget (see Schedule B at the end of Part I) for the building's first year of operation after sale. The budget is a projection, based on past operating costs and revenues, of future expenses and income. The budget for this building projects one year of operating expenses and estimates the amount of income the Co-op Corporation will receive from maintenance charges and residential and commercial rents. The budget was developed by the Tenant Association and approved by HPD.

The budget is only an estimate of the expenses and income needed to run the building after sale. Actual expenses and income of the Co-op Corporation may be more or less than the amounts projected in the budget. HPD does not guarantee that the Co-op Corporation will have adequate funds to cover the costs of future expenses for the building. If expenses exceed projections, or income falls short of projections, a deficit may result. The Board will be responsible for determining what measures are necessary to eliminate any deficit that may occur during the first year of operation or at any time thereafter. The measures chosen must either decrease building expenses, increase building income, or perform both functions.

### Operating Expenses of the Co-op Corporation

The Co-op Corporation's budget states the amount of money that is expected to be spent in its first year to operate the building. The budget lists estimated dollar amounts for continuing building expenses such as fuel, electricity, painting, supplies, liability insurance, legal fees, management fees, superintendent's salary and general repair needs. These estimates are based on past actual expenditures. In addition, the budget includes operating expenses that the Co-op Corporation will incur after it purchases the building that were not incurred by the Tenant Association while the building was owned by the City. These expenses include real estate taxes, water and sewer charges, fire insurance and certain professional fees.

The budget also lists reserve funds set aside for unanticipated expenses, emergency repairs and building-wide improvements. The budget may also include money for annual payments for an anticipated loan to replace major systems in the building. While HPD does not provide the Co-op Corporation with any money for a reserve fund, the Co-op Corporation may spend any funds remaining in the Tenant Association checking account as of the Closing Date on building expenses (see Part I, Schedule B).

Since shareholders must pay for any increases in operating costs for the building, the Co-op Corporation should carefully examine its expenses to ensure that the building is operating as efficiently as possible. Methods of reducing operating costs include making weatherization improvements to reduce fuel usage, tenant management of the property to reduce management costs, use of available low interest loans for building system replacement and challenging property tax assessments to prevent increases in real estate taxes.

#### Income of the Co-op Corporation

The Co-op Corporation will pay for all operating expenses of the building by using the income it receives from maintenance charges paid by shareholders, rents paid by non-purchasing tenants and rents from any commercial tenants. Rents and maintenance charges have been set to meet the projected operating expenses for the building's first year of operation as a cooperative.

All purchasing shareholders will pay a monthly maintenance charge to the Co-op Corporation that will be used to maintain and operate the building. Maintenance charges have been computed by dividing the total expenses of the building by the total number of rooms in the building. Each tenant shareholder will pay a maintenance charge equal to the cost per room times the number of rooms in his or her apartment. For example, all 3 $\frac{1}{2}$  room apartments in the building will have the same maintenance charge, all 4 $\frac{1}{2}$  room apartments will have the same maintenance charge, etc. (see Part I, Schedule A). If a tenant-purchaser is currently paying a rent that is higher than the proposed maintenance charge, he or she will begin to pay the lower maintenance charge amount after the building is sold.

The Co-op Corporation will also collect rent from non-purchasing tenants and/or any commercial tenants. Non-purchasing tenants will be required to pay the initial rents specified in Schedule A plus any increases allowed under the applicable rent laws. Commercial tenants will be required to pay the rent negotiated with the Co-op Corporation under any lease agreement.

If income from maintenance charges and rents is not sufficient to cover the operating expenses of the building, the Board will have the responsibility of determining how to eliminate the resulting deficit. The Board can seek allowable increases in the rents of non-purchasing tenants, increase the rents of any commercial tenants as allowed by any lease agreements in effect or increase the maintenance charges of shareholders to any level that may be required to operate the building. The Proprietary Lease and By-Laws outline how maintenance charges are established and how they

may be changed by the Board. If major building repairs and/or system replacement are needed, the Board may utilize contingency reserve or building improvement reserve account funds derived from maintenance charges (see Part I, Schedule B) or other sources of funding, such as rehabilitation loans or special assessments on tenant shareholders.

ATTORNEY'S INCOME TAX OPINION

In most cooperative corporations, shareholders who itemize deductions on their personal income tax returns may deduct from their adjusted gross incomes the portion of the maintenance charges paid by them in the previous year which their cooperative corporation utilized to pay for the building's real estate taxes and interest on building mortgages or loans. However, the cooperative corporation must fulfill several legal requirements in order for such tax deductions to be available to its shareholders. The following opinion of HPD Counsel concludes that such tax deductions will not be available to shareholders in this Co-op Corporation because it fails to comply with such legal requirements.

Section 216 (a) of the Internal Revenue Code ("IRC"), as presently in effect, allows a tenant-shareholder of a cooperative housing corporation to deduct from his or her adjusted gross income his or her proportionate share ("Proportionate Share") of interest charges and real estate taxes paid or incurred by the cooperative housing corporation in any taxable year, to the extent that such tenant-shareholder has paid to the cooperative housing corporation, within such taxable year, an amount equal to such Proportionate Share. The deductions from adjusted gross income ("Deductions") which are allowable for Federal income tax purposes under IRC Section 216(a) are also allowable for New York State and New York City income tax purposes under cross-references in Section 360 (12) of the Tax Law of the State of New York and Section 11-1712 of the New York City Administrative Code.

However, these Deductions are allowable only if the tenant-shareholder is an "individual who is a stockholder in a cooperative housing corporation and whose stock is fully paid up in an amount not less than an amount ... bearing a reasonable relationship to the portion of the value of the corporation's equity in the ... apartment building and the land ... which is attributable to the ... apartment which such individual is entitled to occupy." IRC Section 216(b) (2). The number and initial purchase price of shares allocated to each apartment in the building (after taking into account any reductions in price offered to tenants in occupancy) must therefore bear a reasonable relationship to the fair market value of such apartment (in comparison with other apartments in the building) on the Closing Date.

It is the opinion of HPD Counsel that, because each apartment offered pursuant to this Plan is allocated an equal number of shares without regard to its size or other characteristics which have a bearing on its fair market value, a reasonable relationship does not exist between

(i) the number and initial purchase price of shares allocated to each apartment, and (ii) the fair market value of each apartment. Therefore, Deductions will not be allowed.

If the deductibility of a portion of maintenance charges is a factor in deciding whether or not to purchase , it is recommended that prospective purchasers consult an attorney or accountant and discuss this Plan and the significance of the unavailability of such Deductions.

Except as otherwise specifically provided herein or as the context may otherwise require, all capitalized terms used herein shall be deemed to have their respective meanings as set forth in the Plan.

## RIGHTS OF ELIGIBLE SENIOR CITIZENS/ELIGIBLE DISABLED PERSONS

Senior citizens and disabled persons will be entitled to all of the rights granted to existing tenants under this Plan (see pages 14-16), including the exclusive right to purchase the shares allocated to their apartments during the 90-day offering period, plus the additional rights discussed below.

To be eligible for these additional rights, a present tenant or his or her spouse who resides in the apartment must qualify as a senior citizen or disabled person. Eligible senior citizens are present tenants who are 62 years old or older on the Presentation Date of this Plan. Eligible disabled persons are present tenants who are impaired by physical or psychological abnormalities (other than addiction to gambling, alcohol or any controlled substance) that prevent the tenant from being able to work as of the Presentation Date. The abnormality must be expected to be permanent and must be verifiable by medical tests.

This Plan is an eviction cooperative offering plan. Tenants who choose not to purchase may be evicted as a result of the conversion of the building to cooperative ownership (see pages 14-15). However, eligible senior citizens and eligible disabled persons who choose not to purchase cannot be evicted for that reason. They may remain as rental tenants after the building is sold to the Co-op Corporation and cannot be evicted except for non-payment of rent or for other violation(s) of their tenancy.

Non-purchasing eligible senior citizens and eligible disabled persons will become rental tenants and the Co-op Corporation, as owner of the building, will become their landlord. Non-purchasing tenants must be provided with all services and facilities required by law in a non-discriminatory manner. The initial rents for non-purchasing tenants are listed in Schedule A. Please see the following section (pages 14-16) for information regarding the rental status of non-purchasing tenants as well as information on rental assistance that may be available.

Eligible senior citizens and eligible disabled persons who do not wish to purchase are advised to contact their Tenant Association officers or the Director of DAMP Sales, HPD, 150 William Street New York, N.Y. 10038 (212-240-5603 ). These tenants should fill out the Election Not to Purchase (page 2) and submit it to their Tenant Association officers or HPD within 90 days after the Presentation Date. HPD may challenge the eligibility of any tenant by applying to the Attorney General within 30 days after receipt of the Election Not to Purchase. If the eligibility of a tenant is challenged, the Attorney General will determine whether or not such tenant is eligible.

## RIGHTS OF EXISTING TENANTS

All existing tenants in the building are eligible to purchase the shares allocated to their apartments under the sales terms specified in this Plan. Non-purchasing tenants who are not eligible senior citizens or eligible disabled persons are entitled to the limited rights of continued occupancy after sale specified below. Both purchasers and non-purchasers are eligible to apply for maintenance or rental assistance.

### Exclusive Right to Purchase

All tenants of record in the building on the Presentation Date will have the exclusive right, during the 90 day offering period, to purchase the shares allocated to their apartments under the sales terms specified in this Plan. No present tenant will be entitled to purchase shares for more than one apartment unless he or she has been simultaneously occupying two adjoining apartments prior to the Presentation Date. Any present tenant who purchases the shares allocated either to a vacant apartment or to an apartment occupied by a non-purchasing tenant will not be entitled to purchase the shares to any other apartment, including the apartment he or she presently occupies.

Tenants who owe rent arrears may purchase the shares allocated to their apartments as long as they meet the purchase procedure requirements specified on pages 27-28. Tenants whose occupancy has been terminated by court order will not be eligible to purchase the shares to their apartments.

### The Rights of Non-Purchasing Rent Controlled Tenants

Upon sale of the building, all non-purchasing present tenants who lived in their present apartments under the provisions of Rent Control before the building was owned by the City will have their apartments restored to their previous rent controlled status. These tenants may be subject to eviction approximately two years after the building has been sold to the Co-op Corporation if at least 35% of the rent controlled tenants living in the building on the Presentation Date agree to purchase. The Co-op Corporation or other owner of the shares to a non-purchaser's apartment may begin eviction proceedings two years after the apartment of the non-purchasing tenant has been registered with the State Division of Housing and Community Renewal (DHCR). Registration of the apartment generally occurs within 30 days after the Closing Date.

During the time non-purchasing tenants reside in the building as renters, they must be provided with all services and facilities required by law in a non-discriminatory

manner. The initial rents for rent controlled tenants will be the rents currently being charged (see Part I, Schedule A), which will constitute the Maximum Base Rent (MBR). The owners of the shares allocated to these apartments may thereafter seek rent increases to the extent permitted by the Rent Control laws.

#### The Rights of Non-Purchasing Rent Stabilized Tenants

Upon sale of the building, all non-purchasing present tenants (other than those who lived in their present apartments under the provisions of Rent Control before the building was owned by the City) will be offered Rent Stabilized leases. These tenants must be given a choice between either a one or two year lease. These tenants may be subject to eviction in one or two years, depending on the lease term chosen, once this initial lease expires.

During the time non-purchasing tenants reside in the building as renters, they must be provided with all services and facilities required by law in a non-discriminatory manner. Leases should be issued by the Co-op Corporation within 30 days after the Closing Date. The initial rents for Rent Stabilized apartments will be the rents currently being charged plus increases based on guidelines issued by the Rent Guidelines Board for one and two-year leases (see Part I, Schedule A).

#### Maintenance and Rental Assistance

HPD provides assistance for payment of maintenance and rental charges for eligible low income tenants. Before this Plan was presented to the tenants, the rents may have been restructured to meet the building's estimated after-sale expenses. During rent restructuring, a tenant could have applied for Section 8 Housing Assistance Payments if the new rent was more than 30% of his or her total family income or for the Senior Citizen Rent Increase Exemption ("SCRIE") if the tenant is 62 years old or older and the new rent was more than one-third of his or her total family income. If any tenant believes he or she may be eligible for maintenance or rental assistance and has not yet applied for it, he or she should contact the DAMP Rental Assistance Unit at 212-240-5496 .

A tenant who is eligible for Section 8 will pay approximately 30% of his or her income as maintenance or rent. The remainder of the maintenance or rent will be paid to the Co-op Corporation by the City. A tenant who is eligible for SCRIE will pay approximately one-third of his or her income as maintenance or rent. The remainder of the maintenance or rent will be deducted from the amount of real estate taxes owed by the Co-op Corporation to the City. Tenants in buildings sold through this program may receive a

SCRIE exemption based on the total rental increase during the time of City ownership, rather than solely on the latest increase, but only if application is made within one year after the Closing Date.

Tenants who are granted Section 8 assistance before the sale of the building should contact HPD (718-643-7139) to adjust the Section 8 payment amount if rent or maintenance charges increase or if the financial circumstances of the tenant change. Tenants who become eligible for Section 8 after sale of the building due to rent or maintenance charge increases, or because of a change in financial circumstances, may seek assistance by contacting the DAMP Rental Assistance Unit (212-240-5496 ) or by applying through the New York City Housing Authority (212-306-3000). Senior citizens may apply for SCRIE (240-5496 ) to cover rent or maintenance increases imposed after sale.

RIGHTS AND RESPONSIBILITIES OF PURCHASERS  
WHO ARE NOT PRESENT TENANTS

This Plan does not provide for the sale of shares to any person who is not a present tenant at any time up to and including the Closing Date. The shares allocated to vacant apartments and to the apartments of non-purchasing tenants will be considered Unsold Shares and will be purchased by the Co-op Corporation at the Closing. The Co-op Corporation may later sell Unsold Shares if the requirements of the By-Laws are met (see page 22 and Part II, Exhibit 5).

If the Co-op Corporation sells the shares allocated to the apartment of a non-purchasing tenant still in occupancy, the purchaser will be considered the landlord of the non-purchasing tenant and the tenant will pay the legally permitted rent to the purchaser. The purchaser will be issued a Proprietary Lease and will pay the maintenance charge for the apartment to the Co-op Corporation, regardless of whether the maintenance charge is more or less than the rent received from the non-purchasing tenant. The purchaser will bear all the obligations and responsibilities of other tenant shareholders, including the payment of any special assessments and compliance with the primary residence requirement of the Proprietary Lease after the lawful termination of the non-purchasing tenant's right to occupancy (see Part II, Exhibit 3).

A non-occupant purchaser will bear all the obligations and responsibilities of a landlord under Rent Control or Rent Stabilization, whichever applies, including performing all necessary maintenance, repairs and replacements in the apartment, as well as ensuring that full services are provided to the non-purchasing tenant. The Co-op Corporation and the purchaser must provide non-purchasing tenants with all services and facilities required by law on a non-discriminatory basis.

Purchasers may seek to obtain occupancy of the apartments of non-purchasing tenants in accordance with the time requirements and rights of non-purchasers, as outlined in this Plan and the applicable laws and regulations (see pages 14-15 and Part II, Exhibits 7 and 8). The purchaser may not, however, evict an eligible senior citizen or eligible disabled person, except for non-payment of rent or other violation of his or her tenancy. HPD makes no representation as to the success of an eviction proceeding, the time required before a final court judgment is issued, or the time period required to obtain possession of the apartment.

The rights of a non-occupant purchaser, and his or her obligations to any non-purchasing tenant, may be affected by the Rent Control or Rent Stabilization laws, any

lease for the apartment and other requirements of this Plan. HPD recommends that non-occupant purchasers consult with a lawyer regarding these rights and obligations.

## OPERATION OF THE CO-OP CORPORATION AFTER SALE

The Co-op Corporation that will purchase the building and operate it after sale must abide by the laws under which it is established and the restrictions required by the City which are outlined below. As long as these requirements are complied with, the Co-op Corporation may operate the building in accordance with the needs and wishes of its shareholders.

### Apartment Corporation

If the tenants agree to purchase, the building will be sold to the Co-op Corporation, which is a Housing Development Fund Corporation formed by HPD under Article XI of the Private Housing Finance Law and the Business Corporation Law of the State of New York. This is a business corporation organized to buy, own and operate the building for low income residents. The Co-op Corporation will issue 250 shares of stock for each apartment in the building. All tenants who agree to purchase will become shareholders in the Co-op Corporation.

Certain decisions of the Co-op Corporation must be made by a vote of the shareholders, as provided in the By-Laws and Proprietary Lease. In addition, the Board may, at its discretion, decide to present other important decisions to the shareholders. Shareholders will cast one vote per share in all shareholder decision-making, including electing members to the Board. Certain decisions reserved for the shareholders require the support of a majority (or, in some cases, a greater percentage) of all of the votes possessed by all of the shareholders ("Total Votes"). However, other decisions reserved for the shareholders require the support of a majority (or, in some cases, a greater percentage) of all of the votes possessed by the shareholders who attend the meeting at which the decision is made ("Meeting Votes"), and not of the Total Votes.

The shareholders must have their first annual meeting within 30 days after the Closing Date. At that meeting, and once a year thereafter, the shareholders will elect, by a majority of Meeting Votes, the Directors who will serve on the Board and who, in that capacity, will collectively make decisions for the building regarding such issues as level of services and resale of shares. There must be at least three Directors. The shareholders must decide on the number of Directors they believe is appropriate for their building. The Board will elect officers of the Co-op Corporation by majority vote once a year. The officers will carry out the decisions of the Board and make decisions on matters that arise between Board meetings. Officers may be, but are not required to be, Directors. Both the Board and the officers are accountable to the shareholders and may be removed by a proposition which receives a majority of the Total Votes.

The Co-op Corporation will operate according to a set of By-Laws. By-Laws describe how the Co-op Corporation will be governed, how Directors and officers will be elected, the duties and powers of Directors and officers, how meetings of the shareholders are conducted and how Proprietary Leases will be issued to shareholders. The By-Laws also specify the procedures for issuing shares of the Co-op Corporation and transferring shares when sales occur in the building. In addition, the By-Laws outline aspects of the financial management of the Co-op Corporation, including how the books and accounts are kept, and requirements for annual financial statements that must be distributed to shareholders.

A set of By-Laws is included in this Plan (see Part II, Exhibit 5). The shareholders must vote to adopt the By-Laws at the first annual shareholders' meeting. The shareholders may, by a proposition which receives a majority of the Total Votes, amend the By-Laws at any annual, regular or special meeting if they find that certain provisions are not appropriate for the operation of the Co-op Corporation. Any amendments to the By-Laws must be consistent with the Certificate of Incorporation (see below) and may only be approved in accordance with the amendment provisions of the By-Laws.

HPD has prepared the Certificate of Incorporation required to establish the Co-op Corporation (see Part II, Exhibit 6). The Certificate of Incorporation is a statement of the purpose of the Co-op Corporation and includes certain restrictions required under New York State law. It also contains the resale restrictions on the sale of the building and the sale of shares in the Co-op Corporation required by the City. The Co-op Corporation must abide by these restrictions and Directors, officers and shareholders should examine the Certificate of Incorporation carefully whenever making decisions that may be subject to these requirements. These restrictions cannot be changed by the Co-op Corporation without the written permission of the Commissioner of HPD.

The Certificate of Incorporation states that the Co-op Corporation is organized exclusively to buy and operate the building as a housing project for persons of low income, as defined in Section 576 of Article XI. Section 576 (1) b defines low income as persons or families earning no more than six times the annual carrying charges of the apartment, or seven times the annual carrying charges for families with three or more dependents. Any new purchaser of shares or subtenant must meet these income requirements. The Certificate of Incorporation also specifies that all income of the Co-op Corporation must be used exclusively for corporate purposes. The Co-op Corporation may use its funds only to undertake activities related to the ownership and operation of the building.

Under this Plan, the City requires resale restrictions for 25 years on the sale of the building and the sale of shares in the Co-op Corporation. The resale restrictions are contained in the Certificate of Incorporation and will be enforced by the City in accordance with the provisions of a Note and Security Agreement signed by the Co-op Corporation on the Closing Date (see Part II, Exhibit 4). During the 25 year resale restriction period, the sale of the building will require the permission of the Commissioner of HPD, and the City will receive 40% of any profit on the sale of the property. In addition, during the 25 year resale restriction period, the City will receive 40% of the profit from any resale of shares in the Co-op Corporation, including shares sold by the Co-op Corporation (see pages 23-24). The resale restrictions will expire 25 years after the Closing Date.

#### Proprietary Lease and House Rules

Each shareholder will be entitled to a Proprietary Lease authorizing occupancy of his or her apartment. The Co-op Corporation must issue the Proprietary Lease (see Part II, Exhibit 3) within 30 days after the Closing Date. The Proprietary Lease is a contract between the Co-op Corporation and the individual shareholder. While the By-Laws outline the operation of the Co-op Corporation, the Proprietary Lease describes the landlord-tenant relationship between the Co-op Corporation and each individual shareholder. Two copies of the Proprietary Lease must be signed by the shareholder and by the Co-op Corporation officers, and each party should keep a signed copy.

The Proprietary Lease authorizes occupancy of the apartment for a renewable term of 99 years, as long as the obligations under the Proprietary Lease, Certificate of Incorporation and the Co-op Corporation's By-Laws are met. Any shareholder who violates the Proprietary Lease may be evicted by the Co-op Corporation and will be entitled to receive the proceeds from the sale of his or her shares only after deductions are made for amounts owed the Co-op Corporation for resale profits, unpaid maintenance charges and expense reimbursement.

The Proprietary Lease provides that a shareholder must accept the apartment in its "as is" condition as of the Closing Date and that a shareholder is responsible for maintaining the apartment, including making interior repairs. The shareholder will be responsible for all appliances and fixtures within the apartment and the Co-op Corporation will be responsible for maintaining building systems, such as the plumbing, heating and electrical systems.

The Proprietary Lease also states that the shareholder must pay the monthly maintenance charges set by the Board and

any special assessments that may be imposed for building-wide improvements. The shareholder must use the apartment as a primary residence unless he or she is in active service in the Armed Forces of the United States. A primary resident is someone who resides in the apartment or who spent a total of at least 183 days residing in the apartment in the previous calendar year. A shareholder may not be the primary resident of more than one apartment unless he or she occupies two adjoining apartments that have been combined. If an apartment ceases to be the shareholder's primary residence, then the shareholder may be subject to eviction.

The Proprietary Lease allows a shareholder to sublet his or her apartment only if he or she receives either the approval of the Board or the approval of shareholders holding two thirds of the Total Votes. The shareholder must also comply with the additional requirements for subletting set forth in the Proprietary Lease. Approval for subletting may not be unreasonably denied. A shareholder may cancel his or her Proprietary Lease by giving the Co-op Corporation three months' notice of his or her intent to move out of the building. A shareholder may sell his or her shares in the Co-op Corporation and transfer his or her Proprietary Lease to a new purchaser in accordance with the provisions of the Certificate of Incorporation, the By-Laws and the Proprietary Lease.

The Proprietary Lease may be amended by a proposition which receives two thirds of the Total Votes, as long as the changes are consistent with the Certificate of Incorporation. If a proposed change will affect the lease of only one shareholder, the affected shareholder must also approve the change. If a proposed change is approved that will affect all shareholders, all Proprietary Leases in the building will be amended accordingly, regardless of whether every shareholder voted to approve the change.

When a shareholder signs a Proprietary Lease, he or she agrees to abide by the House Rules (see Part II, Exhibit 3) that are part of the Proprietary Lease agreement. Any violation of the House Rules is a violation of the Proprietary Lease. The House Rules describe how shareholders and their guests must conduct themselves in the building. Provisions of the House Rules include requirements about noise, pets and hallway obstructions. House Rules may be amended either by the Board or by a vote of the shareholders.

#### Shares Held By Co-op Corporation

Shares that are allocated to vacant apartments or to apartments that are not purchased by their occupants on the Closing Date will be considered Unsold Shares and will be purchased by the Co-op Corporation. The Co-op Corporation will hold the Unsold Shares and act as landlord for the non-

purchasing tenants. It must provide these tenants with all services and facilities required by law on a non-discriminatory basis. Non-purchasing tenants will pay rent to the Co-op Corporation as allowed by this Plan and the applicable laws and regulations.

The Co-op Corporation may later sell its Unsold Shares if such a sale is approved by two thirds of the Board and is ratified by shareholder approval of a proposition which receives a majority of the Total Votes, as specified in the By-Laws (see Part II, Exhibit 5). The purchaser of these Unsold Shares must be a family, individual or group of individuals that collectively (i) qualify under Article XI income guidelines, and (ii) intend to occupy the apartment for primary residence. Income that the Co-op Corporation receives from the sale of Unsold Shares must be used for capital and operating expenses for the building.

#### Reports to Shareholders

The Co-op Corporation will be required to send all shareholders an annual financial statement and notice of annual, regular or special meetings of the shareholders. Shareholders must receive copies of any proposed amendments to the By-Laws or Proprietary Lease. The specific time requirements for these notices are contained in the By-Laws (see Part II, Exhibit 5).

#### 60/40 and Other Requirements for Sale and Transfer of Shares

Shareholders who decide to move may sell the shares allocated to their apartments. The sale of shares must be approved by the Board and must comply with the sale and transfer provisions of the Certificate of Incorporation, By-Laws, Proprietary Lease, Note and Security Agreement.

The Co-op Corporation may adopt additional requirements for the resale of shares, such as Co-op Corporation guidelines for choosing new shareholders. The Co-op Corporation may not, however, change the City's mandatory resale restrictions without the permission of the Commissioner of HPD.

The City's resale restrictions will remain in effect for 25 years and provide for a division of the profit from the sale of shares among the City, the selling shareholder and the Co-op Corporation. Upon a sale of shares, the selling shareholder will be entitled to receive all of his or her original purchase price and a portion of the profit. The profit is defined as the difference between the original purchase price and the gross sales price. The City will receive 40% of the profit. The remaining 60% will be divided between the shareholder and the Co-op Corporation as specified in the By-Laws. The By-Laws provide that the

shareholder will first receive any amounts paid for special assessments imposed for building-wide improvements. During the first 10 years after Closing, the shareholder will also receive 25% of the balance and the Co-op Corporation will retain 75% as a reserve for capital and operating expenses. During the remaining 15 years, the shareholder will receive 50% of the balance and the Co-op Corporation will retain 50% as a reserve for capital and operating expenses.

The provisions which entitle the City to receive 40% of the profit cannot be changed by the shareholders during the 25-year resale restriction period. The formula for allocating the remaining 60% portion of the profit may be changed by a proposition which receives a majority of the Total Votes, as specified in the By-Laws.

The Co-op Corporation will be required, as a condition of this Plan, to sign a Note and Security Agreement with the City that will remain in effect during the 25 year restriction period (see Part II, Exhibit 4). The Note and Security Agreement protect the City's 40% interest in any resale profits from the sale of the building or the sale of shares. The Co-op Corporation will be required to obtain a signed statement of the terms of the sale ("Affidavit of Sale") from the selling shareholder and purchaser each time there is a sale of shares of the Co-op Corporation. The Co-op Corporation must submit the Affidavit of Sale to HPD within 30 days after the transaction. Once a year the Co-op Corporation will submit to HPD the City's 40% share of the profits from all resales that took place during the previous year. Every second year, an independent auditor hired by the City will conduct an audit of the Co-op Corporation's records to determine whether the Co-op Corporation is complying with the City's resale requirements.

#### Management of the Building

This property has been managed and maintained by its Tenant Association under the Tenant Interim Lease Program ("TIL") of HPD. The Tenant Association has been responsible for monthly rent collections and vacant apartment rentals. It has also been responsible for arranging for repairs and daily building maintenance. Tenant training has been provided by the Urban Homesteading Assistance Board (UHAB) under a contract with HPD.

The Co-op Corporation will be responsible for deciding how the building will be managed after the Closing. Day to day management includes: maintaining the Co-op Corporation books; collecting maintenance charges and rents; paying all bills; overseeing building repairs; supervising building employees; and maintaining delivery of services to the building. The Co-op Corporation has the option of self-managing the building or hiring a building manager.

Since ineffective management can lead to the physical deterioration of the building, economic losses, and discord among shareholders, the selection of a management plan suitable for the building and its shareholders is essential. In deciding on a management plan, the Co-op Corporation must consider the adequacy of its present management system, the size of the building and whether the building can afford an outside manager. In smaller buildings, one or more shareholders may perform all management responsibilities. Some buildings find it advantageous to hire a manager. This may be an individual with management skills, a private management company or a non-profit management group. Professional managers are generally paid a percentage of the monthly rent collection for their services. A manager functions as an employee or independent contractor retained by the Co-op Corporation and is responsible for carrying out the decisions and policies of the shareholders, as expressed by the Board.

#### After Sale Assistance

Once the Co-op Corporation purchases the building and becomes the new owner, the Co-op Corporation will be solely responsible for all matters related to the building including paying for all required services and repairs. However, HPD sponsors two programs that provide after sale assistance for buildings sold through this program.

The DAMP After Sale Assistance Program assists cooperatives in adjusting incorrectly billed real estate and water/sewer charges, resolving outstanding problems with City repair contracts, and obtaining low interest City Article 8A system replacement loans. The After Sale Assistance Program can also assist cooperative corporations and individual shareholders with Section 8, SCRIE and real estate tax assessment issues and provide advice to Directors, officers and individual shareholders on cooperative legal issues related to this Plan. Directors, officers and shareholders may also contact the program for referral to City agencies on other housing problems. For assistance contact: DAMP After Sale Assistance Program, Sales Unit, 150 William Street, 5th Floor, New York, N.Y. 10038 (212-240-5603 ).

The Cooperative Support Program of the Urban Homesteading Assistance Board ("UHAB") is funded by HPD to provide technical assistance and training to Co-op shareholders. UHAB offers free classes on Co-op management, including such topics as management techniques, accounting and rehabilitation financing. In addition, UHAB assists cooperatives in applying for low interest City Article 8A system replacement loans and can assist officers with bookkeeping and the preparation of budgets. UHAB staff will attend shareholder meetings to assist cooperatives with

questions about By-Laws, resale policy or how to conduct meetings. UHAB publishes a series of manuals to help shareholders manage their buildings more successfully. For more information contact: Cooperative Support Program, UHAB, 40 Prince Street, New York, N.Y. 10010; 212-226-4119.

An important issue for many cooperative corporations after sale is the need for substantial repair or replacement of major building systems. Even if systems are in good condition when the Co-op Corporation purchases the property, building systems deteriorate over time and repair or replacement eventually becomes necessary. When this occurs, the Co-op Corporation must decide how to pay for the required work. The Co-op Corporation has several options, which include using reserve funds, raising maintenance costs, imposing an assessment on all shareholders to pay for a specific repair or replacement, or obtaining a loan from a bank, the City or another source.

HPD offers a loan, known as the Article 8A Loan, for system replacement in buildings that are sold through this program. The loan can be for up to \$5,000 per apartment (\$10,000 per apartment under certain circumstances) at an interest rate of 3% and is repaid over an average term of 15 years. To qualify, the Co-op Corporation must show that maintenance charges and rents in the building are sufficient to cover the additional monthly costs of repaying the loan. The DAMP After Sale Assistance Program and UHAB can assist cooperatives in applying for this loan. HPD does not guarantee that the Co-op Corporation loan application will be approved.

## CLOSING PROCEDURES

### Procedure to Purchase and Effectiveness Date

Tenants who wish to purchase the shares allocated to their apartments should sign the Subscription Agreement (Part II, Exhibit 11) and return it to their Tenant Association officers or HPD (Director of DAMP Sales, HPD, 150 William Street, 5th Floor, New York, N.Y. 10038) within 90 days after the Presentation Date. The Subscription Agreement outlines the tenant's agreement to purchase the shares allocated to his or her apartment on the terms specified in this Plan and to abide by the purchase procedure requirements discussed below.

This Plan will be declared effective if 60% of the present tenants sign the Subscription Agreement within 90 days after the Presentation Date. HPD will declare this Plan effective by notice to the tenants and will file an amendment to that effect with the Attorney General. The base for calculating the 60% will include all apartments in the building except : a) vacant apartments; b) apartments of non-purchasing senior citizens and non-purchasing eligible disabled persons; c) apartments of occupants whose tenancies have been terminated; and d) apartments set aside for building employees.

If the Plan is declared effective, HPD will set a Closing Date. The Closing Date will be between 30 and 90 days after the date the Plan is declared effective. The Closing will not take place until the effectiveness amendment has been accepted for filing by the Attorney General. No downpayment will be required by the City prior to the Closing Date. On the Closing Date, the purchasing tenants will collectively pay to the City the full purchase price of \$250 times the number of apartments in the building. All tenants who have agreed to purchase will pay the purchase price and any additional required payments (see pages 7 and 30 and Part I, Schedule A) to their Tenant Association 15 days before the Closing Date.

Tenants receiving public assistance are eligible to receive a grant from the Department of Social Services (DOSS) to pay the purchase price. Contact your Tenant Association or the Director of DAMP Sales, HPD, 150 William Street, New York, N.Y. 10038 (212-240-5603 ) for further information.

Tenants who owe rent arrears at the time the plan is presented have the exclusive right to purchase the shares to their apartments and may sign the Subscription Agreement. However, these tenants will not be able to purchase the shares to their apartments until they have either (i) paid all overdue rent and the purchase price, (ii) paid all

overdue rent required pursuant to a final Court order and the purchase price, or (iii) entered into a written payment agreement with the Tenant Association or the Co-op Corporation.

#### Unsold Shares

Shares that are allocated to vacant apartments or to apartments that are not purchased by their occupants by the Closing Date will be considered Unsold Shares and must be purchased by the Co-op Corporation at the Closing. See page 22 for information on the conditions under which such shares may later be sold by the Co-op Corporation.

#### Closing Date

The Closing Date will be between 30 and 90 days after the Plan has been declared effective. The Closing will not take place until the effectiveness amendment has been accepted for filing by the Attorney General. The Closing will be at HPD offices at 150 William Street, New York City. At the Closing, the Tenant Association must pay by certified check or money order the full purchase price of \$250 times the number of apartments in the building. At the Closing, HPD's lawyer, the Tenant Association's lawyer and the Tenant Association officers will review and sign all of the documents that are required to convey ownership of the building from the City to the Co-op Corporation. This is known as "taking title to the building." Purchasing tenants will receive proof of stock ownership, known as a Certificate of Shares (see Part II, Exhibit 10), at the first annual shareholders' meeting.

#### Management Agreements, Contracts and Leases

The City has not entered into any management agreements, contracts or leases on behalf of the Co-op Corporation and will not assign any such agreements, contracts or leases to the Co-op Corporation at the Closing.

The Tenant Association is presently managing the building under a lease with the City. Please see Schedule B for a list of any management agreements, service contracts or leases projected for the building.

After sale, the Co-op Corporation will be solely responsible for contracting for all building services.

#### Representation by a Lawyer

The City strongly recommends that the Tenant Association hire a lawyer as soon as possible after this Plan has been presented. The tenants will need a lawyer to advise them before Closing and to represent them at the

Closing. Legal services organizations, lawyers who donate their services free of charge and private lawyers are available to represent the tenant purchasers. It is recommended that the Tenant Association hire a lawyer who is experienced in the sale and conversion to cooperative ownership of residential buildings.

Services generally provided by lawyers representing tenant purchasers of City owned buildings include attending a tenant meeting at the building during the offering period to explain the Plan, representing the tenants at the Closing and attending a meeting at the building within 30 days after Closing to oversee the first annual shareholders' meeting. Non-profit legal services organizations generally charge approximately \$850 to \$1,000 for such services. Any legal fees must be paid for by the tenant purchasers.

#### Certificate of Title and Title Insurance

A Certificate of Title is a legal document that states the history of ownership of the building and gives the status of all legal claims, if any, that exist against the property. The City will pay for a Certificate of Title for this building. At the Closing, a representative of the title company, HPD and the Tenant Association lawyer will resolve any problems that might appear in the Certificate of Title.

When title insurance is purchased for a building, the title company guarantees to the purchaser that its rights of ownership of the property are superior to the rights of any others. If necessary, the title company will defend these rights in Court against any legal actions covered in the title policy or will pay to the purchaser the value of the insurance policy.

The City requires the Co-op Corporation to have title insurance in an amount equal to the purchase price of the property. The City will pay for the first \$5,000 of title insurance and the Co-op Corporation will have to pay for any additional amounts up to the amount of the purchase price. The Co-op Corporation has the option to purchase additional title insurance above that which is required by the City. The City recommends that the Co-op Corporation purchase a total title insurance policy which is at least equal to the assessed value of the building.

#### Fire and Liability Insurance

The Note and Security Agreement contained in this Plan (see Part II, Exhibit 4) require the Co-op Corporation to maintain a fire insurance policy which names the City as a co-insured party during the 25 year resale restriction period. The tenant purchasers must bring a copy of the

mandatory fire insurance policy with them to the Closing. The City also recommends that the Co-op Corporation maintain adequate liability insurance coverage for the building.

#### Closing Costs

At the Closing, the Co-op Corporation must pay the purchase price of the building (\$250 times the number of apartments in the building) and the following mandatory closing costs:

- 1) a multiple dwelling registration fee of \$6 per tax lot;
- 2) a deed recording fee of \$16 for a deed containing six pages (plus \$1 per page if the deed exceeds six pages);
- 3) a deed stamp tax of \$4 per \$1,000 of the purchase price for the building;
- 4) additional title insurance, if the purchase price of the building is greater than \$5,000, to cover the difference between the \$5,000 worth of title insurance purchased by the City and the sale price of the building; and
- 5) the New York City Real Property Transfer Tax of 1% of the purchase price of the building, if the purchase price exceeds \$25,000.

Mandatory closing costs may be paid from the Tenant Association account. In the event that sufficient funds are not available, it will be the responsibility of each of the individual purchasers to pay a proportionate share of the mandatory closing costs.

The Co-op Corporation may also pay the following optional closing costs:

- 1) Real estate taxes and water and sewer charges, pro-rated from the Closing Date to the end of the tax payment period. If the Co-op Corporation does not pay the pro-rated amounts on the Closing Date, it will be required to pay a penalty charge;
- 2) Additional title insurance for coverage in excess of the purchase price or \$5,000. Additional title insurance will cost \$5.81 per thousand dollars of coverage for total policies of up to \$50,000. Policies totaling between \$50,000 - \$100,000 will cost \$4.74 per thousand dollars of coverage. Policies totaling between \$100,000 - \$500,000 will cost \$3.80 per thousand dollars of coverage.

Funds for the optional closing costs may be taken from the Tenant Association account.

(Copies of the latest elevator inspection report may be obtained from HPD, Director of DAMP Sales, located at 150 William St., New York, New York 10038).

ELEVATOR:

None.

TRASH COMPACTOR:

None.

PERMITS AND CERTIFICATES REQUIRED

Permits and Certificates:

Date:

Certificate of Occupancy

Certificate of Operation from Department of  
Air Resources (Boiler)

Certificate of Inspection from Department of  
Buildings.

Oil Tank Storage Permit

Elevator Inspection Certificate from  
Department of Buildings

Any legal costs to represent the Tenant Association and the Co-op Corporation at the Closing must be paid by the tenant purchasers (see page 28). Costs for securing fire and liability coverage prior to the Closing Date must be paid by the tenant purchasers (see page 29 and Part I, Schedule A Footnotes) and may be taken from the Tenant Association account.