

Plan of Reconstitution
of
Seward Park Housing Corporation

Dated: April 15, 1996

Table of Contents

	<u>Page</u>
INTRODUCTION.....	1
SPECIAL RISKS	2
DESCRIPTION OF PLAN OF RECONSTITUTION	8
New Certificate of Incorporation, Bylaws, Proprietary Leases and House Rules	9
Selling Your Apartment.....	9
The Resale Price of Your Shares	11
Transfer Fees ("Flip Taxes") and Related Policies	14
The Cooperative's Right of First Refusal.....	19
Transferring Your Apartment to a Relative or Friend	20
Sublet Policies (Including Sublet Fees).....	20
Financing in Purchases of Apartments.....	22
Tenant-stockholders Who Require Governmental Financial Assistance	22
Effect of Reconstitution on the Cooperative's Mortgage	24
Effect of Reconstitution on the Cooperative's Real Estate Taxes.....	25
Must the Cooperative Make a Payment of Cash Surplus to the City of New York When It Reconstitutes?	26
Effect of Reconstitution on the Operation of the Cooperative.....	27
PROCEDURES FOR ADOPTING AND EFFECTING THE PLAN OF RECONSTITUTION	29

Table of Contents (continued)

	<u>Page</u>
SUMMARY OF CHANGES TO THE OCCUPANCY AGREEMENT (PROPRIETARY LEASE)	34
SUMMARY OF CHANGES TO THE HOUSE RULES	38
SUMMARY OF CHANGES TO THE BYLAWS	39
SUMMARY OF CHANGES TO CERTIFICATE OF INCORPORATION	46
CONCLUSION	47

EXHIBITS

1. Application to Attorney General for "no action" letter
2. "No action" letter issued by Attorney General
3. Proposed Proprietary Lease to be submitted to tenant-stockholders
4. Proposed House Rules to be submitted to tenant-stockholders
5. Proposed Bylaws to be submitted to tenant-stockholders
6. Proposed Amendment to Certificate of Incorporation to be submitted to tenant-stockholders
7. Proposed Restated Certificate of Incorporation to be submitted to Board of Directors after the reconstitution has gone into effect
8. Resolutions adopted by the Board of Directors on February 6, 1996

INTRODUCTION

This Plan of Reconstitution is, in substance, a plan whereby Seward Park Housing Corporation (the "Cooperative") will be converted from a government regulated cooperative to a completely private cooperative that has the same legal status as all of the conventional cooperatives organized in the State of New York. If approved by the tenant-stockholders, this conversion will be accomplished by amending the Certificate of Incorporation of the Cooperative and by adopting new Bylaws, a new Proprietary Lease and new House Rules. **Every tenant-stockholder will continue to own the same number of shares that he or she owned before the reconstitution and will continue to occupy the same apartment that he or she occupied before the reconstitution. No tenant-stockholder will have to purchase or pay for the apartment that he or she presently occupies.**

The most important consequences of the reconstitution, in addition to the termination of the right of the New York City Department of Housing Preservation and Development ("HPD") to impose governmental regulations on the Cooperative and its tenant-stockholders, are that (i) the selling price of the tenant-stockholders' shares and proprietary lease will no longer be subject to governmental control (but will be limited by the Bylaws and Proprietary Lease of the Cooperative as set forth below) and (ii) tenant-stockholders of the Cooperative will no longer be required to surrender their shares and proprietary leases to the Cooperative when they vacate their apartments and will be able to select the purchaser or next owner of their shares and leases, subject to approval by the Board of Directors.

The terms of this Plan of Reconstitution are not subject to review or approval by the Department of Law of the State of New York or any other government agency. The decision on whether or not to authorize the Plan of Reconstitution rests with the tenant-stockholders and is an important decision for every tenant-stockholder. All aspects of the Plan should be carefully studied -- particularly those set forth in the section of the Plan entitled Special Risks, which follows this brief introduction.

SPECIAL RISKS

1. The Department of Law of the State of New York (sometimes referred to as the Attorney General's Office) has determined that the Plan of Reconstitution for the Cooperative will not constitute a public offering and has agreed to allow the Board of Directors of the Cooperative to submit an application for a "no-action" letter in lieu of a full offering plan (also known as a prospectus). Only such information and documents as are required by the Department of Law to obtain a "no-action" letter have been prepared and submitted to the Department of Law and provided to the tenant-stockholders as this Plan of Reconstitution.

2. On and after the effective date of the reconstitution, the Cooperative will no longer as a matter of course purchase shares of stock from its tenant-stockholders and accept surrender of the proprietary lease when they vacate their apartments.¹ Tenant-stockholders will have to find purchasers for their shares and lease and the purchasers will have to be submitted to the Board of Directors of the Cooperative for approval before the purchases can be consummated. Tenant-stockholders will remain responsible for all obligations under their proprietary leases, including the payment of maintenance charges and assessments, until those obligations have been assumed by an incoming tenant-stockholder approved by the Board of Directors.

¹See the sections entitled "Selling Your Apartment," "The Resale Price of Your Shares," "Transfer Fees (Flip Taxes)" and "The Cooperative's Right of First Refusal" on pages 9 to 20 of this Plan of Reconstitution for a full discussion of the impact on tenant-stockholders of the proposed new procedures for sales of apartments.

3. The resale price of a tenant-stockholder's shares and proprietary lease will have to be negotiated between the tenant-stockholder and the prospective purchaser, but will not be permitted to exceed the maximum resale price fixed from time to time by the Board of Directors.

An explanation of the maximum resale prices that will be in effect at the time of the reconstitution and the applicable rules and policies appears on pages 11 to 14 of this Plan of Reconstitution. The proposed maximum resale prices are significantly higher than the resale prices that are presently permitted. However, the Cooperative cannot guarantee that the tenant-stockholder will be able to sell his or her shares and proprietary lease for the maximum resale price nor can the Cooperative predict how long it will take any tenant-stockholder to find a purchaser and consummate a sale.

4. The Cooperative will retain a right of first refusal which will entitle it to purchase any outgoing tenant-stockholder's shares and proprietary lease at the same price that the tenant-stockholder has negotiated with a prospective purchaser. However, the price paid by the Cooperative will in no event be more than the maximum resale price fixed by the Board of Directors. An explanation of this right of first refusal is set forth on pages 19 to 20 of this Plan of Reconstitution.

5. The proprietary lease that will take effect upon reconstitution will provide that any tenant-stockholder who sells his or her shares and proprietary lease will have to pay a transfer fee to the Cooperative in amounts fixed from time to time by the Board of Directors (commonly referred to as a "flip tax"). The transfer fee applicable to the first sale of every apartment after reconstitution that will be in effect at the time of the reconstitution and for at

least two years thereafter will be 25% of the gross selling price.² Other details with respect to the transfer fee, including the situations that are wholly or partially exempt from the transfer fee, are set forth at pages 14 to 19 of this Plan of Reconstitution.

6. In its present status as a Redevelopment Company organized and existing under the provisions of Article 5 of the Private Housing Finance Law ("PHFL"), the Cooperative is exempt from the New York State Franchise Tax and the New York City General Corporation Tax. Since the reconstitution will convert the Cooperative to a corporation organized and existing under the Business Corporation Law, the Cooperative will not be exempt from these two taxes after the reconstitution. The Cooperative's accountants BDO Siedman have estimated that based on present law, present tax rates, present policies of the taxing authorities and the present assessed value of the Cooperative's land and buildings, the cost to the tenant-stockholders of the loss of the exemptions from these two taxes would amount to approximately \$0.49 per room per month in additional operating costs for the Cooperative.

7. As has been disclosed in the Cooperative's annual financial statements for the past several years, the Internal Revenue Service has been asserting claims that the Cooperative owes federal income taxes on its interest income, its income from commercial and professional tenants and on other income which the IRS claims is not derived from tenant-stockholders. In October 1995, the IRS conceded that no tax was due from the Cooperative for all years then at

²The 25% transfer fee applies for the first three years after reconstitution, but it is subject to amendment as provided in the Bylaws after the first two years after reconstitution.

issue in the Tax Court (*i.e.*, the fiscal years ending 11/30/84, 11/30/85 and 11/30/86). The IRS did so based in part on a favorable decision issued earlier in the year by the Tax Court in a case brought by Trump Village Section 3, Inc., a Mitchell-Lama cooperative located in Brooklyn. The IRS has conceded similar claims against a number of other redevelopment companies and Mitchell-Lama companies. As of the date of this Plan, the IRS has not conceded the similar claims it has asserted against conventional cooperatives.

There is no clear indication as yet as to how the pending claims of the IRS against conventional cooperatives will be resolved by the IRS or the Courts or as to what position the IRS will take with respect to conventional cooperatives in future years. Proposed legislation that is pending in Congress would give more favorable treatment to "limited equity" cooperatives than to other cooperatives with respect to the taxation of rental income from commercial and professional tenants. If the Cooperative reconstitutes, it may not qualify as a "limited equity" cooperative under that proposed legislation.

It is not possible to predict whether the proposed legislation will ever be enacted or whether such legislation would be amended before it were enacted. Nor is it possible to predict at this time how the courts would rule on the matter if the pending legislation were not enacted and the IRS insisted on treating conventional cooperatives differently from government-regulated cooperatives. Accordingly, no prediction can be made at this time as to whether the position of the Cooperative on this issue in future years would be adversely affected if the Cooperative adopted the Plan of Reconstitution.

8. As of December 1, 1995, 97 tenant-stockholders residing in the Cooperative receive benefits under the New York City Senior Citizens Rent Increase Exemption (SCRIE) Program. If the Plan of Reconstitution is adopted and these residents' SCRIE benefits are no longer available to them, the Cooperative will provide its own "Substitute SCRIE Program" on the terms and conditions set forth at pages 22 to 24 of this Plan of Reconstitution to these 97 tenant-stockholders and to any other tenant-stockholders who meet all the criteria for SCRIE benefits within the first two years after reconstitution. So long as this Substitute SCRIE Program continues, the cost of the Substitute SCRIE benefits will be an added cost of operation for the Cooperative which will be recovered, with interest, when the tenant-stockholder in the program sells his or her apartment.

Based on current figures, this cost is estimated to amount to approximately \$217,130 per year (\$2.61 per room per month in additional costs for each tenant-stockholder) at present maintenance levels assuming all tenant-stockholders currently in the SCRIE program elect to receive substitute SCRIE benefits from the Cooperative. It is not possible to predict how many additional tenant-stockholders will enroll in this program or what the annual costs of their enrollment will be.

9. Pursuant to the Redevelopment Companies Law, the Cooperative must pay any cash surplus it has in its treasury on the effective date of reconstitution to the City of New York. Cash surplus is calculated to be net of current operating expenses, taxes, indebtedness, accrued interest on indebtedness and the par value of the stock of the Cooperative. After taking into account the foregoing, the Cooperative's accountants have concluded that there will be no

cash surplus due to the City of New York on the reconstitution of the Cooperative. However, HPD has not yet reviewed the accountants' calculations.

10. The Cooperative anticipates that the added costs of operation referred to in paragraphs 6 and 8 will be more than offset by the transfer fees paid to the Cooperative when tenant-stockholders sell their shares and that there is no reason to expect that reconstitution will cause the monthly maintenance charges (rent) to increase any more rapidly than they would increase if the reconstitution was not adopted. However, the Cooperative cannot guarantee the number or frequency of the sales that will occur after reconstitution and therefore cannot guarantee how much income it will receive from transfer fees. Moreover, no representation is or can be made with respect to the possible impact on the financial condition of the Cooperative of the corporate income tax problem discussed in paragraph 7 .

DESCRIPTION OF PLAN OF RECONSTITUTION

The Cooperative was incorporated on June 12, 1956 and took title to the property it now owns shortly thereafter. The buildings of the Cooperative first opened for occupancy in or about 1960. They have always been owned and operated as a residential housing cooperative. The Cooperative has authorized capital stock in the amount of 59,800 shares par value \$100 each, of which 47,684 shares of stock are issued and outstanding. The cooperative contains 1,728 residential apartments.

Since its inception, the Cooperative has been a Redevelopment Company organized pursuant to Article 5 of the Private Housing Finance Law ("PHFL") of the State of

New York. Section 123 of the PHFL permits the Cooperative to reconstitute itself as a corporation organized under the laws applicable to business corporations at any time after the tax abatement granted to it pursuant to §125 of the PHFL expires. That tax abatement expired more than ten years ago and the ten-year phase-out of tax abatement provided by §423 of the Real Property Tax Law has also expired. Accordingly, at present and for a number of years the Cooperative has been paying full real estate taxes without abatement.

The reconstitution permitted by PHFL §123 can be accomplished by the filing of an amendment to the Cooperative's Certificate of Incorporation, which must be authorized by a vote of tenant-stockholders at a shareholders' meeting (the procedures and voting requirements are discussed below). The effect of the reconstitution would be that the Cooperative would become a private corporation no longer subject to the PHFL and no longer subject to the supervision of the HPD. The Cooperative's legal status would then be no different from any of the hundreds of other conventional residential housing cooperatives located throughout the City of New York.

The significant changes that would result from reconstitution and the significant aspects of the Cooperative that would continue unchanged after reconstitution are discussed in the paragraphs that follow.

New Certificate of Incorporation, Bylaws, Proprietary Leases and House

Rules. A new form of Proprietary Lease, a new set of House Rules, a new set of Bylaws and an amended Certificate of Incorporation will be presented to the tenant-stockholders for adoption at the stockholders meeting at which they vote on the Plan of Reconstitution. The full text of these

documents is annexed to this Plan as Exhibits 3, 4, 5 and 6. The principal changes effected by these documents are discussed below. Summaries of other changes made begin on pages 34, 38, 39 and 46 of this Plan.

Selling Your Apartment. The Cooperative will no longer re-purchase the shares and proprietary lease of an outgoing tenant-stockholder and will no longer select the purchaser and next occupant of the apartment. Instead, the outgoing tenant-stockholder will market his or her shares and will contract directly with the purchaser subject to the following conditions:

(a) As is the case with all other conventional cooperatives, the purchaser and all persons who will occupy the apartment with the purchaser at the time of purchase will have to be approved by the Board of Directors of the Cooperative.

(b) The selling price may not exceed the maximum resale price set by the Board of Directors as described on pages 11 to 14 below.

(c) The seller will have to pay a transfer fee ("flip tax") to the Cooperative based on formulas to be adopted from time to time by the Board of Directors. The amount of the transfer fee and the applicable rules and policies are described on pages 14 to 19.

(d) The seller will also have to pay the administrative and closing costs of the transfer as fixed by the Board of Directors.

(e) The Cooperative will have the right of first refusal with respect to any sale at the same price that the seller has negotiated with the purchaser. However, the price paid by the

Cooperative will in no event be more than the maximum resale price fixed by the Board of Directors. Further explanation of the right of first refusal is presented on pages 19 to 20.

The seller will remain liable for maintenance charges, assessments and all other obligations set forth in the Proprietary Lease until the purchaser has taken title to the shares and has assumed the seller's liability to the Cooperative under the Proprietary Lease. Depending on market conditions, the seller may find it necessary or advisable to retain a real estate broker to find a purchaser for the shares and lease. Although not obligated to do so, the seller may also find it advisable to retain an attorney to handle the contract of sale and closing.

Exchanges of apartments will be treated as sales and purchases and will also be subject to all of the requirements listed above except as specifically exempted from the transfer fees (see page 18).

The Resale Price of Your Shares. Reconstitution would eliminate the present statutory restriction imposed by the PHFL on the price at which shares of stock of the Cooperative may be sold. Currently, a tenant-stockholder who sells his or her shares of stock of the Cooperative may receive no more than the sum of (a) the price paid for the shares and (b) the amount of amortization of the mortgages on the property of the Cooperative attributable to the shares during the period they were held by the seller. If the Plan of Reconstitution is adopted and takes effect, the resale price of the shares will be restricted only by the maximum resale price formula adopted by the Board of Directors of the Cooperative.

A schedule of the maximum resale prices that will be permitted immediately after reconstitution and for the ensuing two years is incorporated in the proposed Bylaws and a copy is reproduced on the two pages that follow this page. These prices, which are the most you may receive for the sale of your stock during this period, are significantly higher than the prices presently allowed by the PHFL. However, there is no guarantee that you will receive the maximum price listed for your apartment. The actual sales price may be less, depending on market conditions.

The Boards of Directors of East River Housing Corporation, Hillman Housing Corporation and Seward Park Housing Corporation (sometimes referred to below as the "Affiliated Cooperatives") have agreed to adopt the same schedule of maximum resale prices

(with variations only for certain specified unique apartments) and have further agreed that these maximum resale prices will remain unchanged for the first two years following reconstitution, and that for the next three years (after the initial 2-year period) the maximum resale prices can be increased only if a majority of the Boards of the Affiliated Cooperatives vote in favor of such an increase, each Board acting by the majority vote of the entire Board. *[Thus, for example, assuming for the purpose of illustration that each of the three Affiliated Cooperatives reconstituted and each had an 11-member Board, an increase in maximum resale prices during the 3rd through 5th years after the reconstitution would require that at least two Boards of Directors, each by the affirmative vote of at least six Directors, vote in favor of the increase.]*

This agreement among the Affiliated Cooperatives expires at the end of the 5th year after the reconstitution. At that time, each cooperative will be free to increase its maximum resale prices as it deems advisable by amending the applicable provisions of its Bylaws, which can be done either by the Board of Directors or the tenant-stockholders as provided in Article XVI of the proposed Bylaws that would take effect upon reconstitution. Advance notice of any such action will be given to all tenant-stockholders.

Transfer Fees ("Flip Taxes") and Related Policies. In light of the fact that those tenant-stockholders who sell their stock and leave the Cooperative will undoubtedly receive far more than they paid for their stock, and in fairness to those tenant-stockholders who wish to remain in the Cooperative for many more years, the Board of Directors has concluded that it is appropriate for the Cooperative to impose a transfer fee to be paid to and retained by the Cooperative so that some portion of the financial gain obtained by tenant-stockholders who leave the Cooperative will inure to the benefit of the Cooperative and the tenant-stockholders who remain in the Cooperative. Similar transfer fees (sometimes called "flip taxes") have been adopted by numerous other cooperatives in the City of New York.

The Board of Directors of the Cooperative has concluded that it is appropriate to have a higher transfer fee for sales made in the years immediately after reconstitution and a lower transfer fee in later years. The Board has also concluded that it is appropriate to charge a lower transfer fee to tenant-stockholders who are selling stock that they purchased after the reconstitution since those tenant-stockholders will have paid much higher prices for their shares and are likely to receive much smaller gains when they sell their shares. Finally, the Board has concluded that special transfer fee rules should apply to tenant-stockholders who move to other apartments in any of the Affiliated Cooperatives, sell to another tenant-stockholder in the Affiliated Cooperatives who moves into the seller's apartment, exchange apartments or make bona fide bequests or gifts of apartments to members of their immediate family.

All of these considerations have necessarily resulted in an intricate set of proposed rules and policies, all of which are set forth in full in Article VI, Section 5 of the proposed Bylaws that will take effect on the date of reconstitution, a copy of which is annexed as Exhibit 5. The following is a summary and explanation of those provisions:

(a) For the first sale of any apartment after reconstitution, the transfer fee is:

- (i) 25% of the gross sales price for first sales made within 3 years after reconstitution;
- (ii) 15% of the gross sales price for first sales made in the next 2 years; and

(iii) 12% of the gross sales price on first sales made thereafter (*i.e.*, subsequent to the first five years after reconstitution).

(b) For the second sale of any apartment after reconstitution and all subsequent sales of the apartment, the transfer fee is 5% of the gross sales price regardless of when the sale occurs. *[Thus, for example, a first sale made two years after reconstitution would trigger a 25% transfer fee, and if the shares allocated to the apartment were resold six months later or three years later, the transfer fee on the second sale would be only 5%.]*

(c) On all sales, a minimum transfer fee applies which is calculated as if the shares were sold for 85% of the applicable maximum resale price. The calculation is done by multiplying an amount equal to 85% of the then applicable maximum resale price for the apartment by the transfer fee rate that applies to the sale as per paragraphs (a) and (b). *[Thus, for example, if the maximum resale price for an apartment is \$50,000, and the shares allocated to the apartment were sold for the first time within three years after reconstitution for only \$40,000, the transfer fee would be not be \$10,000 (25% of the \$40,000 sales price) but would instead be \$10,625 (25% of \$42,500, which is 85% of the maximum resale price of \$50,000).]* This particular rule will have no impact on sales that are made for between 85% and 100% of the maximum resale price. It will only have an impact on sales that are made for less than 85% of the maximum resale price.

(d) If a tenant-stockholder sells the shares allocated to his/her apartment and buys the shares allocated to another apartment in one of the Affiliated Cooperatives, the tenant-stockholder pays only 50% of the applicable transfer fee. However, if within 5 years of that transaction the tenant-stockholder sells the shares that were purchased and does not buy the shares allocated to another apartment in one of the Affiliated Cooperatives, then the tenant-stockholder must pay the other 50% of the previously waived transfer fee, which is payable to the cooperative that was originally entitled to receive the transfer fee, and must also pay the 5% transfer fee due on the second sale to the cooperative in which the second apartment is located.

(e) If a tenant-stockholder sells the shares allocated to his or her apartment to a purchaser who is, at the time of the closing of the sale, the tenant-stockholder of another apartment in the Affiliated Cooperatives and the purchaser is buying the shares for the purpose of residing in the apartment of the selling tenant-stockholder, the selling tenant-stockholder pays only 50% of the applicable transfer fee.

(f) If a tenant-stockholder engages in a sale to which paragraphs (d) and (e) both apply, he or she must pay 50% of the applicable transfer fee.

(g) If two or more tenant-stockholders residing in the Affiliated Cooperatives sell to or exchange apartments with each other, no transfer fee will be due on any part of that transaction. But, in any subsequent sale, the status of each tenant-

stockholder involved in the transaction as it existed prior to the exchange (*i.e.*, whether the sale is the first sale after reconstitution) will apply in any subsequent sales of any of the apartments exchanged. [*Thus, for example, if two tenant-stockholders sell to each other or exchange apartments and the transaction is their first after reconstitution, when they next sell their apartments those sales will be treated, for transfer fee purposes, as the first sales after reconstitution.*]

(h) Bequests and bona fide gifts by tenant-stockholders to members of their immediate family (as that term is defined in Article VI, Section 5(h) of the Bylaws) are exempted from the transfer fee, but the status of the apartment prior to the bequest or gift (*i.e.*, whether the sale is the first sale after reconstitution) carries over to the new tenant-stockholders when they sell their shares.

The Boards of Directors of all three of the Affiliated Cooperatives have agreed to adopt the same schedule of transfer fees and same transfer fee policies and have further agreed (i) that these transfer fees and policies will remain unchanged for the first two years following reconstitution, and (i) that for the next three years (after the initial 2-year period) the transfer fees and policies can be changed only if a majority of the Boards of the three Affiliated Cooperatives vote in favor of the change, each Board acting by the majority vote of the entire Board. [*Thus, for example, assuming for the purpose of illustration that each of the three Affiliated Cooperatives had an 11-member Board, a change in the transfer fees or policies during the 3rd through 5th years after the reconstitution would require that at least two Boards of Directors, each by the affirmative vote of at least six Directors, vote in favor of the change.*]

This agreement among the three Affiliated Cooperatives expires at the end of the 5th year after the reconstitution. At that time, each cooperative will be free to change its transfer fees and policies as it deems advisable by amending the applicable provisions of its Bylaws, which can be done either by the Board of Directors or the tenant-stockholders as provided in Article XVI of the proposed Bylaws that would take effect upon reconstitution. Advance notice of any such action will be given to all tenant-stockholders.

The Cooperative's Right of First Refusal. Article VI, Section 8 of the proposed Bylaws that will take effect upon reconstitution gives the Cooperative the option to purchase the shares of any tenant-stockholders who desire to sell their shares. The option price is the price agreed to by the tenant-stockholders in the contract of sale they sign but in no event more than the applicable maximum resale price. Transfer fees and all other fees and costs applicable to a sale apply when the Cooperative exercises its option. Pursuant to the Bylaws, all tenant-stockholders who enter into contracts to sell their shares of stock in the Cooperative must send notice of their contracts to the Cooperative. The Cooperative is required to exercise its option to purchase the shares within 30 days after receipt of the notice. If the Cooperative fails to do so, the option lapses.

Transferring Your Apartment to a Relative or Friend. Since every tenant-stockholder will be selecting the purchaser of his or her apartment (subject to the approval of the Board of Directors and the other requirements listed above), all tenant-stockholders will have the right to select a relative or friend as the purchaser or to make a gift or bequest of the shares and proprietary lease to a relative or friend. This right is subject to the provisos that the relative or friend must meet all the requirements of the Board of Directors for approval as a purchaser, that the transfer fee ("flip tax") must be paid unless a specific exemption from the transfer fee

applies and that all other requirements listed above for consummation of a sale must be complied with.

Sublet Policies (Including Sublet Fees). As is the case in virtually all cooperatives in New York City, the proposed Proprietary Lease prohibits subletting "without obtaining the prior written consent of the Lessor" and authorizes the Board of Directors of the Cooperative to establish the rules and policies regarding subletting. Article XIII of the proposed Bylaws sets forth the rules and policies regarding subletting that will apply when the reconstitution takes effect and until the Bylaws are amended by the Directors or the tenant-stockholders. The following is a summary of the sublet fees and policies set forth in the proposed Bylaws:

(a) All sublet arrangements, all proposed sublessees and all persons who will occupy the apartment with the proposed sublessees are subject to prior written approval of the Board of Directors.

(b) Sublets for less than one year are not permitted. Sublets may be permitted for one year, and may be renewed for a second year with Board approval provided that there have been no violations of the lease by the tenant-stockholder or by the subtenant. (c) A tenant-stockholder may sublet for a maximum of no more than 2 years (consecutive or non-consecutive) in any 5 year period.

(d) A sublet fee will be charged to the tenant-stockholder, in an amount equal to 30% of the maintenance (rent) payable by the tenant-stockholder to the Cooperative. The fee will be billed monthly as additional maintenance.

(e) As in all sublets, the tenant-stockholder will remain responsible to the Cooperative for all payments due to the Cooperative and for any and all violations of the Proprietary Lease, House Rules or Bylaws and any and all violations of law by any occupant of the apartment.

(f) No sublet that has been commenced without first obtaining the prior written approval of the Board of Directors will be approved after the fact. Any tenant-stockholder who has entered into a sublet without first obtaining the prior written approval of the Board of Directors will have to pay the sublet fees for the period of the unauthorized sublet and will not be permitted to sublet until the expiration of one year after the unauthorized sublet has terminated.

(g) Permission to sublet an apartment will not constitute permission to sublet any parking space leased by the tenant-stockholder.

Financing in Purchases of Apartments. In light of the increased resale prices permitted under the Plan of Reconstitution, it is likely that many purchasers will have to obtain financing, secured by their shares of stock and proprietary leases, to enable them to purchase apartments in the Cooperative. Such financing is typical in most conventional cooperatives. The new Bylaws and new Proprietary Lease permit such financing. For the protection of the Cooperative, the Board of Directors will develop appropriate guidelines for the amount of financing that is permitted, along with all other requirements to be met by prospective purchasers. The costs of obtaining financing are customarily paid by the purchaser and not by the seller.

Tenant-Stockholders Who Require Governmental Financial Assistance. As indicated in paragraph 8 of the "Special Risks" section of this Plan (pages 2 to 7), 97 tenant-stockholders residing in the Cooperative as of December 1, 1995 receive benefits under the New York City Senior Citizens Rent Increase Exemption (SCRIE) Program. This program provides certain eligible senior citizens with exemption from the payment of increases in monthly carrying charges (rent) for apartments occupied by them.

It is anticipated that, after reconstitution, those senior citizens who are currently eligible for SCRIE Program benefits will no longer be eligible for those benefits. If the Plan of Reconstitution is adopted and these residents' SCRIE Program benefits are therefore lost, the Cooperative will provide its own "Substitute SCRIE Program" to (a) all tenant-stockholders who are receiving New York City SCRIE Program benefits on the effective date of the reconstitution and (b) all tenant-stockholders who become eligible for SCRIE Program benefits within the first two years after the effective date of the reconstitution. These Substitute SCRIE Program benefits will consist of reductions in the carrying charges payable by a tenant-stockholder participating in the Substitute SCRIE Program. The reductions will be treated as loans to the tenant-stockholder which are repayable only upon the sale or transfer of the shares of stock and accompanying proprietary lease owned by the tenant-stockholder. The loans will be repayable with interest accrued at a rate to be determined from time to time by the Board of Directors but not to exceed the maximum rate permitted by law. The interest on the loans will also be payable only when the stock and proprietary lease of the participant are sold or transferred. A participating tenant-stockholder will be required to enter into an agreement with the Cooperative to this effect and to execute a UCC-1 financing statement to secure the loan.

The benefits of the Cooperative's Substitute SCRIE Program will continue for so long as (i) the SCRIE Program continues and (ii) the tenant-stockholder meets all of the eligibility standards for the SCRIE Program that would have been applicable if the Cooperative had remained a Redevelopment Company. The anticipated costs to the Cooperative of this Substitute SCRIE Program and the likely impact of those costs on all residents' monthly maintenance (rental) payments are set forth on page 6.

Residents who are not receiving SCRIE benefits when the reconstitution takes effect and who do not meet the income eligibility requirements for those benefits until more than two years after the effective date of the reconstitution will not be eligible for either the governmental SCRIE program or the Cooperative's substitute SCRIE program and will have to find other forms of financial assistance.

Those residents who are receiving other forms of governmental assistance such as Section 8 subsidies, supplemental social security benefits ("SSI"), aid to families with dependent children ("AFDC"), or home care or medical benefits under Medicare or Medicaid will not be adversely affected in any way by the reconstitution and residents who meet the income eligibility requirements of these programs after reconstitution will remain eligible for these benefits notwithstanding the reconstitution.

Effect of Reconstitution on the Cooperative's Mortgage. The Cooperative presently has outstanding (i) a first mortgage held by the Comptroller of the State of New York as Trustee of the Common Retirement Fund ("NYSERS") with a principal balance of \$13,500,000.00 as of April 1, 1996, which bears interest at the rate of 11¾% per annum, (ii) a

second mortgage held by National Cooperative Bank ("NCB"), with a principal balance of \$7,626,219.12 as of April 1, 1996, which bears interest at the rate of 11.33% per annum and (iii) an unsecured loan from NCB with a principal balance of \$1,688,104.49 as of April 1, 1996, which bears interest at the rate of 2% over NCB's Commercial Loan Base Rate.

The first mortgage held by NYSERS includes the following provision:

"...Mortgagor may effectuate a one-time reorganization of itself into a business corporation pursuant to Article V of the New York Private Housing Finance Law."

The second mortgage held by NCB includes the following provision:

"[NCB] will not unreasonably withhold its consent to any amendment to [the Cooperative]'s certificate of incorporation or bylaws (including, without limitation, any such amendment made to convert [the Cooperative] from a limited equity cooperative corporation to a private business corporation complying with the requirements of Section 1.29 of this Mortgage), provided that, in [NCB]'s reasonable opinion, such amendment does not have an adverse affect on the value of the Mortgaged Property or on the validity, enforceability and/or priority of [NCB]'s security interest in the Mortgaged Property."

The two outstanding mortgages and the unsecured loan referred to above will all mature on August 20, 1996 -- well in advance of the anticipated date of reconstitution. The Cooperative is presently in the process of negotiating a refinancing of these obligations with a new lender. The Cooperative plans to include provisions in the refinanced loan that would permit it to reconstitute. Based on discussions to date with the prospective lender, the Cooperative believes that the lender will not object to such provisions.

Any mortgages on the property of the Cooperative, and any unsecured notes payable by the Cooperative, that exist on the date of the reconstitution will continue to be obligations of the Cooperative after the reconstitution on exactly the same terms and conditions as are applicable prior to reconstitution.

Effect of Reconstitution on the Cooperative's Real Estate Taxes. Under New York State law, RPTL §581, the assessed value of the land and buildings of a residential housing cooperative is determined by the value of comparable rental properties. The resale price of a cooperative's shares is not permitted to be used in fixing the assessed value. Nor is there any legal authority for assessing the land and buildings of a private cooperative at a higher value than comparable land and buildings of a cooperative organized under the PHFL. In addition, the attorneys for the Cooperative have checked the tax assessments of the other cooperatives that have reconstituted and have ascertained that the tax assessments of these cooperatives have decreased somewhat following their reconstitutions in line with the over-all decrease in assessed values of New York City real estate. Accordingly, while the Cooperative cannot guarantee that the adoption of the Plan of Reconstitution would not cause its annual real estate tax payments to increase, it is not aware of any reason why adopting the reconstitution would cause this to occur.³

Must the Cooperative Make a Payment of Cash Surplus to the City of New York When It Reconstitutes? Section 123 of the PHFL requires that, upon the reconstitution of

³Under present law, any increase in the assessed value of the Cooperative's land and buildings would not only increase the Cooperative's real estate taxes but also its New York State Franchise Taxes and New York City General Corporation Taxes.

a Redevelopment Company, any cash surplus remaining in the treasury of the company must be paid to the general fund of the municipality where the property is situated. Cash surplus is defined by the City of New York through HPD as cash remaining in the treasury of the corporation after payment of all current operating expenses, taxes, indebtedness and all accrued interest thereon, and the par value of the stock of the corporation.

Any funds held by the Cooperative, whether designated as a reserve or otherwise, will be included in the calculation of cash surplus. The Cooperative will submit to HPD its certified public accountant's balance sheet showing all cash on hand, including reserve and working capital accounts. The balance sheet will also list amounts set aside for outstanding contracts, bills, taxes, debt and an amount equal to the par value of stock of the Corporation.

Since the par value of the stock of the Cooperative is \$100 per share and there are 47,684 outstanding shares of stock, the Cooperative would have to have cash, including cash in reserves, that exceeds its outstanding unpaid bills by more than \$4,768,400 before it would owe any surplus to the City of New York. Since the Cooperative does not have cash that even approximates this amount, it is satisfied that there will be no cash surplus due to the City of New York if it reconstitutes.

Effect of Reconstitution on Operation of the Cooperative. The principal changes in the operation of the Cooperative that will take place if it reconstitutes are set forth above, as well as in the section of this Plan entitled "Special Risks" and in the summaries of changes to the Certificate of Incorporation, Bylaws, Proprietary Lease and House Rules. These changes are very important and should be carefully reviewed by all tenant-stockholders.

To the best of the Cooperative's knowledge, the reconstitution should not result in any other material changes in the operation of the Cooperative. The management of the Cooperative will continue to be conducted as in the past under the supervision of a Board of Directors elected by the residents, but the Board will be free of all regulation and potential regulation by the HPD. There are no plans to change staffing or services⁴ as a result of the reconstitution (although management and the Board will continue their on-going efforts to reduce operating costs wherever that can be accomplished without materially reducing the services provided to the residents). The outstanding mortgages on the Cooperative's property will continue as obligations of the Cooperative after reconstitution, as will all present collective bargaining agreements, contracts for improvements to and/or maintenance of the property and other existing contracts. The allocation of parking spaces, storage rooms and other aspects of living in the Cooperative will not be changed.

Although some increases in costs of operation of the Cooperative after reconstitution are anticipated as set forth in the "Special Risks" section of this Plan (pages 2 to 7), the Cooperative believes that these increases will be more than offset by the additional income that it will receive from the transfer fees paid to it on the resale of apartments. Since the amount of this additional income will depend on the number and frequency of resales, the Cooperative cannot guarantee that its expectation as to the amount of this additional income will be realized in every year or in any year. Assuming, however, that the anticipated number of

⁴Tenant-stockholders should review the Summary of Changes to the Occupancy Agreement at pages 34 to 38 which discusses potential changes in the Cooperative's policy with respect to repairs and maintenance of apartments and appliances that might occur in future years if deemed advisable by the Board of Directors.

resales will occur after reconstitution, the Cooperative is not aware of any reason to believe that the reconstitution would cause any material increase in monthly carrying charges.

The foregoing projections are made on the assumption that the IRS will not change its position as to the applicability of section 277 of the Internal Revenue Code to the Cooperative after the Cooperative's reconstitution. As noted at pages 5 through 6, no reliable predictions as to the future position of the IRS with respect to this issue can be made at this time.

PROCEDURES FOR ADOPTING AND EFFECTUATING THE PLAN OF RECONSTITUTION

The Plan of Reconstitution cannot be adopted without the approval of the tenant-stockholders of the Cooperative. Some of the procedures required for the adoption and effectuation of the Plan of Reconstitution have already taken place; other procedures have yet to take place.

The procedures that have already taken place are as follows:

1. A Reconstitution Committee consisting of representatives from the Boards of Directors of all three of the Affiliated Cooperatives has held meetings since the Fall of 1994 to review and discuss all aspects of the matter and to review and discuss drafts of all of the extensive documents prepared by the attorneys for the three Affiliated Cooperatives including the Plan of Reconstitution and the documents annexed as Exhibits to the Plan and to propose changes and revisions to those documents, which are now complete.

2. After final approval by the Reconstitution Committee, the completed documents for each of the three Affiliated Cooperatives were presented to their respective

Boards of Directors for review and approval. The Board of Directors of the Cooperative approved the set of documents applicable to the Cooperative, authorized the Cooperative's attorneys to submit these documents to the Attorney General of the State of New York, together with an application for a "no action" letter, and authorized the necessary amendments to the Cooperative's certificate of incorporation subject to the required vote of the tenant-stockholders.⁵

A copy of the resolutions adopted by the Board of Directors of the Cooperative is annexed hereto as Exhibit 8.

3. The Cooperative's Plan of Reconstitution, with Exhibits, has been submitted to the Attorney General together with the application for a "no action" letter.⁶

4. The Attorney General, who does not review or approve the merits of the proposal in any way, has indicated that the Cooperative's Plan of Reconstitution and application for a "no action" letter is in appropriate form and that it is permissible to submit these documents to the tenant-stockholders of the Cooperative at this time. Accordingly, the Attorney General has issued a "no action" letter, a copy of which is annexed as Exhibit 2.

⁵The Boards of Directors of the other two Affiliated Cooperatives likewise approved the documents prepared for their cooperatives.

⁶A "no action" letter is a statement from the Department of Law that the proposed reconstitution does not constitute a public offering which would require submission of a formal offering plan.

The procedures that have to take place to complete the adoption of the Plan of Reconstitution by the tenant-stockholders are as follows:

1. Before any vote is taken, all tenant-stockholders will have a period of at least ninety days after the distribution of the Plan of Reconstitution so that they can carefully consider all aspects of the Plan. In addition, before any vote is taken, the Cooperative will hold a series of informational meetings at which representatives of the Board of Directors will explain the Plan and will answer questions about it. All tenant-stockholders will be encouraged to attend these meetings and to become fully informed with respect to all aspects of the Plan.

2. If required, the new holder of the mortgage on the property of the Cooperative will be asked to issue its consent to the reconstitution. (See discussion under "Effect of Reconstitution on the Cooperative's Mortgage" on pages 24 and 25.)

3. After the period allocated for review and discussion of the Plan, a formal meeting of shareholders of the Cooperative will be held to vote on whether or not to approve the Plan, authorize the execution and filing of the Certificate of Amendment and Restated Certificate of Incorporation, and approve the new Bylaws and new Proprietary Lease to take effect upon the reconstitution.

If the tenant-stockholders vote to approve the Plan, the following steps will then have to be taken to effectuate the Plan:

1. HPD will be asked to review the conclusion of the Cooperative's accountants that there will be no surplus on reconstitution that will have to be paid to the City of New York and to issue a letter confirming that conclusion.
2. The Certificate of Amendment to the Cooperative's Certificate of Incorporation will be submitted to the Secretary of State of the State of New York for filing.
3. Upon the acceptance of said documents for filing by the Secretary of State, the reconstitution will be effective and the Cooperative will no longer be governed by or subject to the provisions of the PHFL and will instead be governed by and subject to the Business Corporation Law.
4. Shortly after the reconstitution takes effect the Board of Directors will authorize the filing of a Restated Certificate of Incorporation with the Secretary of State. This document will make no changes in the Certificate of Incorporation. It will simply restate the Certificate of Incorporation and all prior amendments in one document that is more easily usable than the entire series of prior corporate documents that have been filed at various times since 1950. Since this document makes no changes, it does not require stockholder approval.

The voting at the meeting of shareholders called to approve or disapprove the Plan of Reconstitution will be tabulated pursuant to the Certificate of Incorporation of the Cooperative which presently provides:

"Each holder of shares of capital stock shall be entitled to one vote at any and all meetings of tenant-stockholders for any and all purposes, regardless of the number of shares held by such holder."

The Bylaws of the Cooperative contain a similar provision. These provisions have been followed at all meetings of shareholders of the Cooperative since its inception and have been interpreted so as to treat all joint or co-shareholders of the shares relating to one apartment as one holder of shares entitled to one vote.

The Board of Directors of the Cooperative plans to conduct the vote on all aspects of the Plan of Reconstitution in accordance with this long-standing provision of the Certificate of Incorporation and the Bylaws.

However, the attorneys for the Cooperative have advised that Section 803(a) of the Business Corporation Law, one of the statutes that governs this matter, provides:

"Amendment or change of the Certificate of Incorporation may be authorized by vote of the board followed by vote of the holders of a majority of all outstanding shares entitled to vote thereon at a meeting of shareholders."

The attorneys for the Cooperative have also advised that there is an unresolved ambiguity in the statute as to whether Cooperative's Certificate of Incorporation governs the way that shareholders vote on amending the Certificate of Incorporation (*i.e.*, one vote per shareholder) or whether §803(a) governs and requires that a vote on this issue must be on a per-share basis. However, the attorneys have expressed the firm opinion that, regardless of how the vote is counted, the majority needed to authorize the amendment of the Certificate of Incorporation must be a majority of all shareholders and not merely a majority of those shareholders present and voting at the meeting.

The attorneys have recommended that the vote on the Plan of Reconstitution be tabulated both in the manner provided in the Certificate of Incorporation and, alternatively, by allowing every shareholder one vote for every share of stock held by the shareholder. If the Plan of Reconstitution receives the vote of a majority of all shareholders under both methods of counting the shareholder vote (or if the Plan is rejected under both methods of counting), there will be no possibility of a dispute over the legal effect of the vote. However, if the result of the shareholder vote is different depending on which method of counting the vote is utilized, the matter will have to be submitted to the Secretary of State or possibly the Courts for a resolution.

SUMMARY OF CHANGES TO THE OCCUPANCY AGREEMENT (PROPRIETARY LEASE)

Upon reconstitution, the Occupancy Agreement presently in use will be replaced by a Proprietary Lease, a copy of which is attached as Exhibit 4, and the tenant-stockholders will be required to sign such Leases. Annexed to and made a part of the Lease are the House Rules.

You are urged to read the Lease carefully. The most significant differences between the Occupancy Agreement and the new Lease, and some important provisions which remain unchanged, are as follows:

1. In the Lease, you are referred to as the "Lessee" (instead of the "Member"); the Cooperative is referred to as the "Lessor"; and the carrying or maintenance charges payable by you are sometimes referred to as "rent". The Lease does not change your status as a tenant-stockholder. It does conform more closely to the standard forms of lease in use at private cooperatives.

2. All references to approvals or regulation of the Cooperative by the City of New York or its agencies or bodies in regard to maintenance (rent) increases or other matters, and to the agreement between the Cooperative and the City dated May 22, 1952, are deleted, as the Cooperative will no longer be subject to such governmental regulation or to the agreement after reconstitution. Rent increases will be determined by the Cooperative's Board of Directors, as is now the case, based on the Cooperative's financial needs.

3. The Lease states that you will accept your apartment and all equipment and systems on the date of reconstitution in "as is" condition. Pursuant to the resolution of the Board of Directors (see Exhibit 8), the Cooperative's current practices regarding routine apartment repairs and painting will be followed for at least five years following reconstitution, and notice of at least one year will be given to the tenant-stockholders before any change in the practices is implemented. The Lease and the existing Occupancy Agreement provide that such matters are the responsibility of the tenant-stockholders.

4. Maintenance, repair and replacement of appliances, such as refrigerators, stoves, air conditioners, are the responsibility of the tenant-stockholders under the Lease. You accept the appliances in "as is" condition on reconstitution, and you may dispose of them as you wish when you move.

5. Occupancy of the apartment is restricted to the tenant-stockholder(s) and spouses, and the children, grandchildren, parents, grandparents, brothers and sisters of either the tenant-stockholder or the spouse. Guests are permitted on a restricted basis. Other occupants are

allowed only to the extent required by law. The Cooperative reserves the right to establish maximum occupancy standards for the apartments.

6. The right to sublet the Apartment or to sell the Cooperative's shares of stock allocated to the Apartment and assign the Lease in connection with such a sale, are subject to the Cooperative's consent, as is the case now. However, upon reconstitution you will not be required to sell your stock to the Cooperative or its designee. You will be free to select your own purchaser or sublessee (subject to the Cooperative's consent). The Lease grants to the Cooperative the following additional rights which are not in the Occupancy Agreement: (a) to impose a sublet fee as a condition of consent to a sublet; (b) to impose a transfer fee and maximum sales prices on all sales of stock allocated to the apartments; and (c) to itself purchase the stock at a price equal to that offered by a purchaser (subject to the maximum sales price).

7. The changes with respect to maximum resale prices, transfer fees, policies and sublet fees and policies and the right of first refusal are discussed in full on pages 11 to 20 above.

8. At the time you sell your shares of stock, you will be responsible for restoration of and repairs to the apartment. The condition of the apartment and its contents will be a matter of agreement between you and your purchaser; the Cooperative will not be involved.

9. The term of your Lease (and all the Leases) will be for ninety-nine years, instead of for renewable 3-year terms as is now provided in the Occupancy Agreement . You can sell the shares allocated to your apartment and assign the Lease to the purchaser at any time, subject to the restrictions set forth in the Lease and Bylaws. You can also cancel the Lease after

the third anniversary of reconstitution without incurring continuing liability. All the Leases will end on the same date. At the end of the term, which will be in the year 2095, the tenant-stockholders can elect to continue the development as a co-op. Also, two thirds of all the tenant-stockholders can, at any time, elect to terminate the Cooperative.

10. Under the Lease, tenant-stockholders will be permitted to pledge their shares and leases as collateral for loans, subject to restrictions that may be imposed by the Cooperative. That right does not now exist under the Occupancy Agreement.

11. Existing arrangements regarding the provision of electricity, water and gas to the apartments will continue. The Cooperative reserves the right to have the tenant-stockholders pay separately on a metered basis for these utilities, in which event the rent would be adjusted.

12. The tenant-stockholders at the option of the Board of Directors, may be required to provide insurance for damage to their personal property and for liability in the case of injury or death in their apartments. (It is highly recommended that such insurance be obtained by the tenant-stockholders even if not required.)

13. The existing prohibition against pets remains in the Lease.

14. The Lease contains a special supplement at the end for use where the Board of Directors has authorized a tenant-stockholder to use his or her apartment as a professional apartment.

15. The provisions of the Lease can be amended by the affirmative vote of at least two-thirds of all the tenant-stockholders entitled to vote. The Occupancy Agreement does not provide for amendments.

16. All votes of tenant-stockholders taken under the lease will be taken as prescribed in the Certificate of Incorporation (see Exhibits 6 and 7 and pages 46-48 of this Plan).

Most of the obligations, limitations and rights contained in the Occupancy Agreement appear in the Lease, such as the Cooperative's rights if you default under the Lease, restrictions on the use of balconies and terraces and the like. However, they are presented in different form and text. You are urged to carefully read the Lease and to raise any questions you may have at the information meetings which will be held before a vote by the tenant-stockholders on reconstitution takes place.

SUMMARY OF CHANGES TO HOUSE RULES

As in virtually all cooperatives, the proposed House Rules for the Cooperative are annexed to and made part of the Proprietary Lease. These rules, which the Board of Directors is authorized to amend and/or supplement on notice to the tenant-stockholders, cover a variety of subjects such as leaving bicycles in public hallways, throwing objects out of windows, installation of appliances in apartments, moves and large deliveries, noise and playing music, use of laundry rooms, harboring of dogs and other animals and a variety of similar matters. All tenant-stockholders are urged to read the proposed House Rules carefully. A copy is annexed to this Plan as Exhibit 4.

SUMMARY OF CHANGES TO THE BYLAWS

The full text of the proposed Bylaws of the Cooperative that will take effect upon reconstitution is annexed to this Plan of Reconstitution as Exhibit 5. All tenant-stockholders are advised to read the full text carefully.

Certain important provisions of the proposed Bylaws are summarized in the portions of this Plan of Reconstitution entitled "The Resale Price of Your Shares", "Transfer Fees ('Flip Taxes')", "The Cooperative's Right of First Refusal", "Sublet Policies (Including Sublet

Fees)" and "Tenant-Stockholders Who Require Governmental Financial Assistance." In addition, provisions dealing with the following issues have been modified or added to the Bylaws⁷:

- Qualifications of Directors;
- Removal of Directors by the Board of Directors under certain circumstances;
- Fidelity bonds;
- The Corporation's lien on all stock;
- The form of the Proprietary Lease and procedures for future changes to the House Rules;
- The combining of apartments (regrouping of space);
- Fees which may be charged by the Corporation upon the sale, transfer, or pledge of shares or subletting of an apartment; and
- The establishment of a Substitute SCRIE Program.

Apart from the matters discussed above, the most significant changes made in the proposed Bylaws are as follows:

⁷ Obviously, all references to the Redevelopment Companies Law and to the Corporation as a redevelopment company have been changed or deleted.

VOTING - The provision on voting (*Article II, Section 4*; Article I, Section 4)⁸ has been modified to reflect the manner in which Stockholders currently vote and to be consistent with the language of the proposed amendment to the Certificate of Incorporation. The new voting provision also states that voting shall be by secret ballot, rather than orally ("viva voce").

DIRECTORS OF THE CORPORATION - The Article dealing with Directors of the Corporation (*Article III*; Article II) now incorporates three new provisions:

1. Qualifications of Directors (Section 2). To be eligible to run for or serve on the Board of Directors, a person may not be in violation of any of the following criteria/rules: (1) only one of two or more co-holders of the same shares of stock of the Corporation may serve on the Board of Directors at any given time; (2) no employee of the Corporation, or a relative of an employee as defined below, may be a Director; and (3) no Stockholder who is in arrears in an amount equivalent to the base maintenance charges for two or more months at the time of the annual Stockholders' meeting shall be eligible to run for or serve on the Board of Directors. In addition, this provision of the revised Bylaws limits participation as a Director of the Corporation by any person who is, or who holds an interest of any kind whatsoever in, an entity that is a commercial or professional tenant of the Corporation.

⁸ Most of the articles and sections in the Bylaws have been renumbered. References to specific sections which have been modified will contain both the old and new location of the sections. References to the old Bylaws are placed in *italics*.

a. Definition of the term "relative". Section 2 also defines the term "relative", as it is used in this section of the Bylaws, to mean spouse, parents, stepparents, parents-in-law, children, including adopted children, stepchildren, sisters, brothers, sisters-in-law, brothers-in-law, grandparents, spouse's grandparents, aunts and uncles by blood or marriage, nephews and nieces by blood or marriage and first cousins by blood or marriage.

2. Election of Directors. The second new provision is found at Article II, Section 3, and outlines the procedures to be used in electing the Directors of the Corporation.

3. Removal of Directors. The third new provision in Article II establishes the criteria for and the mechanism by which a Director may be removed by the Board (Section 8). A Director may be removed by the Board when certain procedural requirements have been met if he or she: (1) has committed a material violation of his or her proprietary lease; (2) is in arrears in an amount equivalent to base maintenance charges for two or more months; (3) has failed to attend three consecutive Board of Directors' meetings or any four such meetings between two consecutive annual meetings of the Corporation, except for good cause; or (4) is in violation of these Bylaws and has not cured such violation after being given notice of such violation. A two-thirds vote of the entire Board of Directors at a special meeting held for that purpose is necessary to remove a Director.

CAPITAL STOCK -Article VI, Capital Stock, establishes the method by which stock of the Corporation shall be sold or transferred. The specific provisions of Article VI are identical to those provisions dealing with the sale or transfer of stock in the Proprietary Lease. As noted above, these provisions are summarized elsewhere in this Plan of Reconstitution.

INDEMNIFICATION OF DIRECTORS AND OFFICERS - *Article XI*, dealing with the indemnification of Directors and Officers of the Corporation, has been rewritten and incorporated into the revised Bylaws as Article VII.

CONTRACTS OF THE CORPORATION - Article VIII, Contracts, contains new material which will enable the Board of Directors to make use of the services of a business or entity in which one or more Directors have a financial interest when the Board determines that it is in the best interests of the corporation to utilize the services offered by this business or entity. To protect against any abuse or impropriety, this Bylaw contains extremely stringent restrictions on when this type of action can be undertaken. The Bylaw requires that the interests of the Director or Directors in the proposed transaction be disclosed to all Directors in the notice of meeting and that the transaction be approved by at least 2/3 of the full Board of Directors with the interested Director or Directors not voting. These restrictions are much more rigorous than what the law requires. It is anticipated that this provision would be rarely utilized and would only be considered where the services available to the corporation from the business or entity in which the Director or Directors have an interest are unique and are not readily available from other sources or where the interest of the Director or Directors in the transaction is either remote or so small as to be immaterial.

FIDELITY BONDS - Article IX of the revised Bylaws is a new provision which provides for bonding for fidelity, at the expense of the Corporation, for all Officers, Directors, employees and agents of the Corporation that have authority over the disposition of funds of the Corporation.

THE CORPORATION'S LIEN ON ALL STOCK - Article X of the revised Bylaws, Corporation's Lien, grants to the Corporation, at all times, a lien upon the shares of stock owned by each Stockholder for all rent then due or to become payable by such Stockholder in the future. This provision allows the Corporation, at the time that any Stockholder defaults in the payment of rent or other indebtedness to the Corporation or refuses to comply with any covenants or conditions relating to the Stockholder's ownership of such Stock, to enforce a lien against the defaulting Stockholder. Provisions such as this are customary in virtually all cooperatives.

PROPRIETARY LEASE AND HOUSE RULES - Article XI of the revised Bylaws, Proprietary Lease and House Rules, establishes that once a Proprietary Lease has been executed and delivered by the Corporation, all future Proprietary Leases shall be in the same form as the first one, except with regard to routinely varying conditions such as the initial rent and the number of shares of stock owned by the lessee. Subsequent changes to the format of the Proprietary Lease may only occur as allowed for and provided for in the Proprietary Lease itself. With regard to the House Rules, this new Article establishes that the Board of Directors shall have the power to make, eliminate and change the House Rules (which are set forth in the Proprietary Lease) upon thirty days prior written notice to the Stockholders. This provision also establishes criteria for how such notice must be given.

REGROUPING OF SPACE - Article XII, Regrouping of Space, establishes criteria for the combining of apartments within the same building. The Article provides that combined apartments will be treated as one apartment for all purposes, including the right to vote at meetings of Stockholders.

FEES - Article XIV, Fees, establishes four types of fees which may be charged by the Corporation under certain conditions.

1. Expenses of the Corporation Relating to the Transfer of Shares. Section 1 grants to the Board of Directors the authority to fix by resolution reasonable fees to cover the Corporation's expenses and attorneys' fees in connection with an assignment of a Proprietary Lease or a reallocation of shares, or both, as the case may be. The Board of Directors may require that such fees be collected prior to any such assignment or reallocation.

2. Transfer Fees. Section 2 grants to the Board of Directors the authority to fix and collect a transfer fee which shall be required before permitting the transfer by sale, gift, intestacy or devise of any shares. The transfer fee must be paid by the Stockholder at the time the shares and the Proprietary Lease are transferred, and may be modified from time to time by the Board of Directors. Further discussion of this matter is contained in the portion of this Plan of Reconstitution entitled "Transfer Fees ('Flip Taxes')."

3. Subletting Fees. Section 3 permits the Corporation to establish a fee as a condition to its consent to the subletting of any apartment, as discussed in the portion of this Plan of Reconstitution entitled "Sublet Policies (Including Sublet Fees)."

4. Loan Processing Fees. Section 4 authorizes the Board Directors to fix fees to be paid to the Corporation for administrative and attorneys' fees relating to the transaction. The Board of Directors may require that such fees be collected by the Corporation before allowing the shares to be pledged and the Proprietary Lease to be assigned as security for a loan.

AMENDMENTS TO THE BYLAWS - Article XVI of the revised Bylaws, which concerns the process by which the Bylaws may be amended or altered, provides that the Bylaws may be amended or altered by a majority vote of the Stockholders voting at any meeting of the Stockholders, when proper notice is given, or by the affirmative vote of a majority of the entire Board of Directors at any meeting of the Board of Directors, upon proper notice thereof as well. It is important to note, however, that the new provision specifically provides that the Board may not repeal, modify or amend any amendment of the Bylaws adopted by the Stockholders after the effective date of the Reconstitution.

Since it is not possible to summarize all of the provisions of the proposed Bylaws, tenant-stockholders are again reminded to read the entire text of the proposed Bylaws which is annexed as Exhibit 5.

SUMMARY OF CHANGES TO CERTIFICATE OF INCORPORATION

The full text of the proposed amendment to the Cooperative's Certificate of Incorporation is annexed as Exhibit 6. The full text of the proposed Restated Certificate of Incorporation of the Cooperative is annexed as Exhibit 7. The following is a summary of the changes made by these documents.

The principal change effected by the proposed Certificate of Amendment to the Certificate of Incorporation of the Cooperative is the change of the status of the Cooperative from a corporation organized and existing under the Redevelopment Companies Law to a

corporation organized and existing under the Business Corporation Law. As a consequence of that change, a number of other changes are made in order to remove all references to the Redevelopment Companies Law and all references to governmental supervision from the Certificate of Incorporation.

The Certificate of Amendment also modifies the language that defines how shareholders vote at meetings. The Certificate of Incorporation presently provides:

"Each holder of shares of capital stock shall be entitled to one vote at any and all meetings of stockholders for any and all purposes, regardless of the number of shares held by such holder."

The Certificate of Amendment would change this language to read as follows:

"Every holder of capital stock of the Corporation shall be entitled to one vote regardless of the number of shares held by such stockholder. For this purpose, all joint or common holders of the same shares shall be deemed to be one stockholder."

This change represents a clarification of existing policies and does not change the practice with respect to voting that has been followed since the Cooperative was first organized.

After reconstitution, the Cooperative plans to adopt a Restated Certificate of Incorporation which will consolidate all prior amendments and changes in one document. Since the Restated Certificate of Incorporation will make no further changes to the Certificate of Incorporation, § 807 of the Business Corporation Law authorizes the Board of Directors to adopt it without shareholder action. A copy of the proposed Restated Certificate of Incorporation is

annexed hereto as Exhibit 7 so that the tenant-stockholders will know exactly what the Certificate of Incorporation will provide after reconstitution.

CONCLUSION

1. Except as set forth herein, there are no lawsuits, administrative or other proceedings the outcome of which may materially affect the Plan of Reconstitution, the property, the rights of existing tenant-stockholders, the capacity of the Cooperative to perform all of its obligations under the Plan of Reconstitution, or the operation of the Cooperative.

2. The Cooperative, its agents and employees will not discriminate against any person on any basis prohibited by civil rights laws.

Dated: New York, NY
April 15, 1996

Board of Directors
Seward Park Housing Corporation