

UNITED VETERANS MUTUAL
HOUSING #2 CORP.
BELL PARK GARDENS

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October 8th, 2010

Edward DeMarco Acting Director
Federal Housing Finance Agency
1700 G Street NW
Washington, DC. 20552

RE: Guidance on Private Transfer Fee Covenants (No. 2010-N-11)
Cooperative Housing Transfer Tax (Flip-Tax)

Dear Mr. DeMarco,

As President of United Veterans Mutual Housing No. 2 Corporation a/k/a Bell Park Gardens, I am writing to you to express my opposition and that of our Board of Directors to the ill advised proposal to effectively ban "Flip Taxes" by making it difficult for Lenders to make co-op loans to Purchasers at co-ops that impose a Flip Tax. Originally established to provide housing for Veterans returning from World War II and their families, our 800-unit garden apartment cooperative housing company sits on 42 acres of park like land and now serves an even broader community. Like most other cooperative housing companies, the operating expenses we pay on behalf of our residents include, but are not limited to, real estate taxes, water and sewer, oil, insurance, landscaping, snow removal, as well as payroll for personnel to man the boilers and make general repairs and installations, and for grounds keeping and leaf removal, and for our Manager, Bookkeeper and other Administrative personnel as well as our professionals such as Accountants and Attorneys to cite just some of our operating expenses. Additionally, we incur capital expenses to insure the continued integrity of our housing stock and the services that we provide like heat. Accordingly, we have brick pointed our facades when indicated, replaced roofs, sidewalks and inner roadways, and have been energy efficient whenever possible by installing new boilers as old ones need replacement and installing new energy efficient windows. As you can well imagine, these capital expenses can often run into several hundred thousand dollars per project. Recently, we completed an Asbestos Removal project for our housing company that cost several million dollars.

Our income to pay for operating costs and our capital expense is limited primarily to Maintenance (rent) collected from our shareholder/residents and from our collection of "Flip Tax" upon apartment transfer. We do not have commercial tenants on our premises and derive no income from such a source. Without such "Flip Tax" our Maintenance would be substantially higher just to help pay operating expenses and would likely prevent some shareholders from being able to remain shareholders in our desirable

cooperative apartment complex. Since we also set aside "Flip Tax" income for capital improvements, we are generally able to pay such expense even when funds are needed immediately because of emergency without raising maintenance. An additional benefit in our co-op is it discourages investors whose only concern is short term gain on their investment and promotes longer term shareholders who are residents and think of our Housing Company as community and tend to hold on to their shares until appreciation covers the "Flip Tax" as well as profit.

One way or the other, our expenses must be met. We have little control over them. Real Estate taxes are set by others and generally are always on the rise. So too is water and sewer. The other operating expenses cited above, like oil for heat, etc. are necessary costs and so there is almost no discretionary spending. Capital expenditures are undertaken after careful analysis of all the facts, often including engineering recommendations and low bid consideration. Without "Flip Tax" revenue, maintenance income would substantially increase to cover the deficit caused by one longer having "Flip Tax" income.

Isn't it better to have reasonable monthly maintenance for those who continue to live in a co-op complex on an ongoing basis and to have the excess of total co-op expenses subsidized through "Flip Tax" by those who have enjoyed the benefits of living at the co-op with reasonable monthly maintenance and who are now selling (usually at a profit) and therefore have a lump sum to contribute due to the sale of their individual unit or is it better to only have high monthly maintenance to cover co-op expense? Not only does high maintenance result in some persons becoming unable to purchase a co-op apartment in the first place but high maintenance makes units less desirable on resale thereby suppressing resale value.

It would seem a desire to suppress "Flip Tax" as a source of income to a co-op housing company is merely means of providing a benefit to Lenders and takes no account of a co-op's needs. But I submit that such a benefit to Lenders is illusory. Our experience is "Flip Tax" is a useful and desirable tool to augment the handling of a co-op's expenses. A financially healthy cooperative housing company is crucial to the Lenders who lend to co-ops for underlying mortgages and crucial to Lenders who lend to individual purchasers of co-op units. Without "Flip Tax, higher maintenance costs will not be beneficial to Lenders but will be detrimental to them. Furthermore, many lenders today, take a Flip Tax that exists in a given co-op into account by reducing the loan amount accordingly and lend 60 to 80 percent of market value instead of the 70 to 90 percent they might otherwise lend. This small loan reduction is more than offset by the increase in the number of purchasers who can buy units with affordable monthly maintenance and take out loans to do so.

Accordingly, based on all of the above, I respectfully submit that the proposal to ban "Flip Tax" or to suppress lending to co-ops that retain a "Flip Tax" policy is ill advised and counter productive in all respects and should not be promulgated.

Very Truly Yours,



Paul Stein, President