

Cooperative Housing

THE BASICS
and some
Nuts and Bolts

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What is a Housing Cooperative?

Cooperative Housing is a form of collective ownership of multifamily housing by the residents of the housing

All types of multifamily housing can be cooperatives: apartment buildings, 2-4 family homes; groups of single family homes; manufactured homes communities; a collection of individual condominium units in a condominium complex

Co-op can be formed and remain in existence if less than 100 percent of the resident households of the property are “owners” or members of the co-operative ^b

A hybrid of ownership and renting

Legally and practically housing co-ops have features of both homeownership and renting

Legal structure:

- Housing Cooperatives are corporations. The stock in the corporation is owned only by the residents of the property that is owned by the Corporation
- The stockholders/members of the co-operative are entitled to occupy a housing unit of the corporation and are tenants of the Cooperative, each of whom has a “proprietary lease” or “occupancy agreement”

...

Since, the residents together own the stock in the corporation individually and collectively they own the housing.

As Owners

- residents elect the Board of Directors^d which makes all legal decisions about the operation and financing of the property
- residents can sell the stock in the Corporation and recoup their initial investment (price they paid to buy the stock) generally with some profit
- residents can make improvements and alterations to their homes and generally can recoup their investment in the improvements
- residents can claim federal income tax homeownership benefits, deducting their portion of the co-op's mortgage and real estate taxes from their incomes

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Each member is also a tenant of the Cooperative through the proprietary lease that the resident enters into with the Co-op

as a renter

- the resident pays a monthly rent – “carrying charge” or “maintenance fee”. The monthly fees cover all costs of operating the housing *including the mortgage on the property, insurance, and real estate taxes*. Generally the only other housing costs the resident pays are utilities
- the resident under the lease is entitled to have most repairs within the unit completed by the Cooperative, at no cost to the resident.

SOME REASONS THAT PEOPLE JOIN CO-OPS

Over the long run monthly housing costs will be lower than rental housing and comparable to or lower than full homeownership

Attraction to community building and neighborliness of a co-op^d

Desire to live with like-minded neighbors in a co-op organized as an “intentional community”

Not willing or able to take on the full burden, cost or responsibility of outright homeownership

Cannot qualify for a home mortgage; mortgage not required to join most “affordable housing” co-ops

Cooperative Principles and Philosophy

Cooperative Housing has its roots in the 175 year old Cooperative movement. ^f

Consumer co-ops, producer co-ops and worker-owned businesses are all part of the Cooperative sector of the economy

Co-op Principles and Philosophy

Cooperatives are often considered to be *social enterprises* following these principles

Democratic control and economic democracy = ONE MEMBER ONE VOTE.

Regardless of how much stock a member owns, how large or amenity-rich their unit each member has only one vote in decisions the members make ⁸

Members contribute to the capital of their co-ops and receive limited compensation for capital contributed as a condition of membership

The purchase of shares of stock in the housing cooperative corporation and the ability to re-sell those shares with or without a limitation on “profit”

Co-op Principles (cont.)

Membership is voluntary, and open to all with broad anti-discrimination standards; co-ops can establish reasonable ground rules and standards for membership as long as applied in a non-discriminatory way

Housing co-ops are subject to all federal state and local fair housing laws and have a very low rate of discrimination complaints and lawsuits

Co-operatives work for the sustainable development of their communities through policies approved by their members.

This is particularly true of housing co-ops that were developed or sponsored by non-profit, often religious organizations

Continuous education and training of members and leaders is fundamental to the success and sustainability of cooperatives.

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Homeowner & co-op owner equity

Equity in homeownership generally is the cash that the owner has invested in the home or the co-op unit.

Equity is usually thought of as the cash to buy the home

For a homebuyer it is the downpayment on the home

For the co-op purchaser it is the amount paid for co-op stock

Equity is also the amount paid by the homeowner to pay off the mortgage on the property and/or the loan that may have been taken out to cover part of the downpayment or the stock purchase.

Three categories of Housing Cooperatives

Limited Equity co-op:

- Purchase price of co-op shares/stock about equivalent to downpayment on a comparable condominium or home
- Resale price – what member can re-sell stock for when member leaves the co-op – is restricted by a formula based on inflation and/ or the amount of the co-op's blanket mortgage that has been paid off

Market Rate co-op:

- The purchase price of co-op shares about 10% to 30% below purchase price of a comparable condominium
- There is no limitation on price member can ask or receive for sale of their shares

Zero or nominal equity co-op:

- No or nominal cost of stock and therefore no owner/member equity in the housing

Notable features of the three categories

Limited Equity Co-ops

- ❖ Reason for the limited equity structure is to assure that over many years the co-op remains affordable to the same income groups that initially occupied it.
- ❖ Affordability subsidies and/or mixed income population most often in LE co-ops

Market Rate co-ops

- ❖ Greatest “wealth building” opportunities in Market rate co-ops
- ❖ Co-ops established as “intentional communities” or “co-housing” most easily fit in this category

Zero/nominal equity co-ops

- ❖ Unless there is serious attention to co-op principles such as self-governance, member participation, democratic management and especially ongoing training and education of members and Board, it may be “a co-op in name only”
- ❖ There are many communal living arrangements in the Boston area that are called “co-ops” and operate under co-op principles; Since they are not owned collectively by their residents they are not legal housing cooperatives.

BUYING (INTO) A CO-OP

Financing the “purchase” of a co-op apartment

Technically a resident of a co-op does not own their unit; however practically speaking most co-op members see themselves as homeowners.

Joining a housing co-op involves purchasing shares of stock in the Corporation.

The resident’s stock ownership is their EQUITY in the housing. This is equivalent to the DOWN PAYMENT on a home or a condominium

In a co-op the member generally does not need to secure a home mortgage. The mortgage is secured by the Co-op corporation. The mortgage payments are made collectively by all of the members/stockholders through their monthly fee.

FINANCING	Co-op Apartment	Home or condominium
Equity	Shares of stock: paid by member	Down payment: paid by homebuyer
Debt	“blanket mortgage”: Corporation is the Borrower; mortgage for the entire building	Home mortgage: Homebuyer is Borrower
Subsidy for affordability	Grant or loan to Cooperative	Grant or loan to home-buyer

Co-op Purchase Process is simple

1. New co-op members **must be approved by the Co-op's Board of Directors**, following an interview and meeting with the Co-op's Membership Committee.

Before being interviewed applicant's income will be verified; previous landlord, employment and credit and criminal records check will usually be done
2. The applicant signs a Subscription Agreement, which is **a very simple Purchase and Sale agreement** and puts down a **deposit for the share price**. The Subscription Agreement usually **acknowledges that applicant has received and read the Co-op's**
 - ✓ By Laws
 - ✓ Articles of Organization
 - ✓ Proprietary Lease or Occupancy Agreement
 - ✓ Informational materials provided to applicants

Co-op Purchase Process

3. There is usually no formal CLOSING. Attorneys for co-op, buyer, and any lenders do not meet.

The Buyer meets with the Co-op's management company,

- pays the balance of the share price,
- signs the proprietary lease,
- receives official stock certificate signed by an officer of the Corporation^e,
- sets a move-in date at which time the first month maintenance fee will be paid and keys will be issued.

4. If the buyer is receiving a direct loan for the purchase of the shares, the lender, the co-op and the buyer will also sign a Recognition Agreement, which gives the co-op priority on collecting on unpaid monthly fees before the lender can get paid for unpaid share loan amounts.

Generally, co-op buyers do not have to borrow money to join a co-op, but...

...sometimes they do.

Market rate co-ops: Share prices are quite high and there are a handful of Massachusetts banks that provide home mortgage loans to purchasers of market rate co-ops.

In many limited equity co-ops that have been operating for more than 20 years, the share price under a limited appreciation formula may exceed what a moderate or middle income buyer has available in cash.

Very few banks provide loans to purchase shares in LE co-ops. New co-op share loan products are now being developed by non-traditional lenders and City government, some credit unions provide share loans; occasionally a bank that has given the entire co-op a blanket mortgage will provide share loans to buyers with “good credit”.

How does Limited Equity work?

Limited equity co-ops are set up **to insure that over time the co-op** will continue to serve –**remain affordable** to -- the same income group(s) it was initially set up to serve

Limited equity affects how much the co-op member/owner can sell their co-op shares or membership for when they leave the co-op.

The limited equity mechanism is stated, usually in the by-laws, as “Maximum Transfer Value of Stock.”

It is a **formula** for annual increase in the value of stock **based on**

Consumer Price Index (the **government’s measure of increased cost of living**)

and/or

The amount of the **co-op’s mortgage that has been repaid to the bank**