



Housing Cooperatives

An Accessible and Lasting Tool for Home Ownership

Northcountry Cooperative Development Fund



Overview

Did you know.... that in the United States, more than 1.5 million families of all income levels live in homes owned and operated through cooperative associations? The period of greatest cooperative housing development was after World War II, in response to an acute housing shortage.

How does a housing cooperative work?

A housing cooperative is a legal corporation. Members of the cooperative live in the cooperative and run the cooperative—from organizing social activities, to maintenance, to handling finances and landscaping. Members set the bylaws and elect, from among themselves, a board of directors. The board ensures that the cooperative runs smoothly, in accordance with the cooperative's bylaws and operating agreements. The board organizes a membership meeting at least annually, and hires staff to run the day-to-day business of the cooperative.

What is a housing cooperative?

A housing cooperative forms when people come together to own and control the buildings they live in. They form a cooperative corporation, to which they pay a monthly amount to cover operating expenses. The cooperative owns the land, the buildings, and any common areas. Members buy shares in the cooperative.

How many kinds of housing cooperatives are there?

A **market rate** cooperative sells shares at full market value in the original sale, and permits future unit sales at market value. Much like conventional real estate, a unit's sale price is determined by the market, allowing for potential accumulation (or loss) of equity by the members.

A **limited equity** cooperative puts restrictions on a unit's sale price, with the restrictions outlined in the cooperative's bylaws. This type of cooperative is designed to maintain long-term housing affordability. While most public sector programs have limited timelines—after which affordability disappears—a limited equity cooperative can continue offering benefits forever.

A **leasehold** cooperative leases the property from an investor, sometimes with an option to buy. Cooperative members operate the property as a cooperative, but do not own the cooperative.

A **senior** housing cooperative can be either a market rate or limited equity cooperative that incorporates design and service features appropriate for seniors.

A **mutual housing association** is a non-profit corporation set up to develop, own, and operate housing. Generally, the association is owned and controlled by residents of the housing.



Ownership

Who owns the cooperative itself?

Cooperative members each own a share in the cooperative corporation. All members combined own the cooperative, which is comprised of the land, building, and any common areas. A member's right to reside in a specific unit is governed by a proprietary lease or occupancy agreement.

What does a member of a housing cooperative own?

Each member owns a share in the cooperative, which is comprised of:

1. An ownership interest in the corporation, represented by a certificate of membership or a corporate share.
2. An exclusive right to occupy a particular dwelling unit that is owned by the cooperative corporation. An occupancy agreement or proprietary lease governs this relationship.

How are housing cooperative units bought and sold?

Before selling, the seller must obtain approval from the cooperative's board of directors. This approval process prevents 'flipping' by unscrupulous investors, and ensures that a new member pledges to abide by the cooperative house rules. Selling a cooperative housing unit typically involves lower closing costs. The purchaser assumes the seller's obligations for pro-rata taxes, etc., under a new occupancy agreement.

Control

How are cooperatives governed?

Cooperatives are governed by a board of directors that are elected democratically by the membership, from the membership, with one vote per member.

Who manages and maintains the cooperative?

In cooperatives under 20 units, the members generally manage the cooperative themselves, and perform their own maintenance. In larger cooperatives, the board of directors may select an individual or outside firm to provide management services. In both cases, members develop and maintain the house policies, including criteria for screening, evicting, and foreclosing on problem members.

NCDF has a history of 100%

**on-time repayment of principal
and interest to investors since**

NCDF's founding in 1978.

To date, NCDF has made

over \$8 million dollars in

**loans to promote affordable
cooperative housing.**



Affordability

80% of NCDF's current housing loan portfolio is placed in low income communities, as defined by standards of the U.S. Treasury CDFI Fund.

How is the purchase of a housing unit financed?

A new member buys a cooperative corporation share at closing, which represents ownership in the cooperative and the right to occupy a specific space in the building. The new member also agrees to pay the cooperative a monthly amount to cover operating expenses. A new member can borrow part or all of the share price, secured by his/her interest in the cooperative. The member must individually qualify for the share loan, and is individually liable for this debt.

How is the cooperative itself financed?

One or more lenders will provide the cooperative with a blanket mortgage, used to purchase, build, or rehabilitate a building. Part of each member's monthly fee is used to retire the blanket mortgage. Typically, members do not need to individually qualify, nor are they individually liable for the blanket mortgage.

What tax benefits are available to a housing cooperative member?

In most instances, cooperatives and their members receive the same benefit as single-family homeowners. Members can deduct the pro-rata share of the cooperative's mortgage interest and real estate taxes on their tax return, along with any interest paid on a share loan. In some states, homeowners receive favorable property tax treatment, compared to commercial and industrial uses.

What's the difference between owning a condo and a cooperative?

A cooperative member owns an interest in the cooperative—which in turn owns the building—and includes the right to occupy a specific dwelling unit. A condominium owner owns fee simple title in the air space to the back of the paint on the walls of a dwelling unit, plus an undivided interest in the common property of the condominium. See the table on the next page for details.

How can a low-income family afford to own a cooperative housing unit?

Limited equity cooperatives ensure long-term affordability in a number of creative ways, including limits on resale price. Transaction costs for buying or selling are also low for cooperative members, since separate title searches and title insurance are unnecessary. Finally, cooperatives can borrow collectively for major improvements, pledging the building as collateral, and avoiding large special assessments common to condo ownership.

Why is being a cooperative member better than renting?

Lower monthly costs—Because cooperatives operate at cost, cooperative carrying charges are often 15 to 25 percent or more below rental market rates.

Tax deductions—For income tax purposes, cooperative members are considered homeowners. As such, they can deduct their share of real estate taxes and mortgage interest paid by the cooperative, in addition to any interest paid on a share loan.

Home equity—In a market equity or limited equity cooperative, members can accumulate equity in their dwelling unit.

Limited liability—Cooperative members have no personal liability, and need not individually qualify on the cooperative blanket mortgage. The cooperative corporation is responsible for paying the blanket mortgage. This arrangement enables persons who normally don't qualify for an individual mortgage to buy a membership in a cooperative.

Overall savings—Cooperative members benefit from economies of scale inherent in cooperative operating costs, as well as participation in a non-profit enterprise. Bulk purchasing of major building improvements provide members with substantial savings. In a low-income setting, cost-sharing among members cushions the economic shock of emergency repairs that sometimes lead to mortgage delinquency or foreclosure for single-family homeowners.

Community building—Cooperatives provide homes for members, and build a community within the cooperative as well.

Security—Tenure is secure, within the guidelines of the law, cooperative bylaws, and occupancy agreements.

Community

What do housing cooperatives look like?

A housing cooperative can be a high rise apartment building, a garden-style apartment, a townhouse, a single-family home, a senior housing complex, or a manufactured home park. In a manufactured home park, the cooperative usually owns the land, utilities, and community facilities, while the members own their individual manufactured homes.

How do cooperatives contribute to stronger communities?

Cooperatives are a natural vehicle for social and civic organizing. They encourage neighbors to become acquainted, and form mutually beneficial enterprises such as block clubs, childcare cooperatives, buying clubs, and energy cooperatives. Studies have shown that higher levels of civic and community participation and lower levels of crime correlated with the presence of housing cooperatives in neighborhoods.



NCDF represents 105 cooperatives across 11 states joined together for mutual support and benefit.

50% of NCDF's housing cooperative share loan borrowers are first-time home buyers.



Housing at a Glance

	Market Rate Co-op	Limited Equity Co-op	Condo	Rental	Single Family
Ownership	Member/residents are the sole owners through a corporation, which in turn owns the land and buildings. Each member has the exclusive right to occupy a particular dwelling unit in perpetuity.	Member/residents are the sole owners through a corporation, which in turn owns the land and buildings. Each member has the exclusive right to occupy a particular dwelling unit in perpetuity.	Unit owners take title to the air space to the back of the paint on the walls of a particular dwelling unit, plus an undivided interest in the common elements (the land and buildings).	The landlord owns the land and buildings. Each tenant has the exclusive right to occupy a particular dwelling unit during the term of the lease.	Owners take title to the land and building directly.
Monthly Costs	Members pay monthly carrying charges to the cooperative—a pro-rata share of actual operating costs, blanket debt principal and interest, property taxes, insurance, and reserves. Members with share loans make individual principal and interest payments directly to the share lender.	Members pay monthly carrying charges to the cooperative—a pro-rata share of actual operating costs, blanket debt principal and interest, property taxes, insurance, and reserves. Members are individually responsible for making principal and interest payments on any share loans.	Unit owners pay monthly condo fees to the condominium association—a pro-rata share of actual operating costs, insurance, and reserves. Unit owners with mortgages make principal and interest payments directly to the lender. Each unit owner makes his own property tax payments through monthly mortgage escrow payments or directly to the local government.	Tenants pay the rent specified in the lease, which includes the landlord's profit margin.	Owners with mortgages make principal and interest payments directly to the lender. Owners make their own property tax and insurance payments through monthly mortgage escrow payments, or directly to the insurance company and local government.
Maintenance and Repairs	Cooperative is responsible for exterior maintenance. Cooperatives can choose how they allocate responsibility for dwelling unit maintenance and repair between individual member and cooperative as a whole.	Cooperative is responsible for exterior maintenance. Cooperatives can choose how they allocate responsibility for dwelling unit maintenance and repair between individual member and cooperative as a whole. Many limited equity cooperatives assume most or all responsibility for dwelling unit maintenance and repair, in order to even out and reduce costs to their members.	Condominium association is responsible for exterior maintenance. Individual unit owner is responsible for all dwelling unit maintenance and repair.	Landlord is responsible for all maintenance and repair.	Owner is responsible for all maintenance and repair.
Purchase Cost / Move-in Costs	Purchaser pays market price for shares or membership. Pro-rata share of cooperative's blanket loan remains in place. Purchaser assumes seller's obligations under occupancy agreement. Few closing costs.	Purchaser pays low price for shares or membership. Pro-rata share of cooperative's blanket loan remains in place. Purchaser assumes seller's obligations under occupancy agreement. Few or no closing costs.	Purchaser pays market price for condominium unit. Purchaser becomes obligated to pay monthly condo fees. Closing costs include title insurance, tax pro-ration, etc.	Tenant typically pays first and last month's rent plus security deposit.	Purchaser pays market price. Closing costs include title insurance, tax pro-ration, etc.
Financial Liability	Members have no personal liability on cooperative's blanket loan. Members are obligated under their occupancy agreements to make monthly carrying charge payments to the cooperative. Members with share loans (if any) are personally liable to their share lenders for the amount of the loan.	Members have no personal liability on cooperative's blanket loan. Members are obligated under their occupancy agreements to make monthly carrying charge payments to the cooperative. Members with share loans (if any) are personally liable to their share lenders for the amount of the loan.	Unit owners are obligated to pay monthly condo fees to the condominium association. Unit owners with mortgages are personally liable to their lenders for the amount of the loan.	Tenants are obligated under their leases to pay monthly rent to the end of the lease term.	Owners with mortgages are personally liable to their lenders for the amount of the loan.

Housing at a Glance

	Market Rate Co-op	Limited Equity Co-op	Condo	Rental	Single Family
Community Control	Cooperative has right to approve all potential members. Cooperative can terminate membership and evict residents who violate occupancy agreement. Members democratically govern the cooperative and elect board of directors to oversee operations.	Cooperative has right to approve all potential members. Cooperative can terminate membership and evict residents who violate occupancy agreement. Members democratically govern the cooperative and elect board of directors to oversee operations.	Condominium association has little or no control over sale of units or behavior of unit owners. Unit owners democratically govern the condominium association and elect board of directors to oversee operations.	Tenants have no voice in who moves in and no control over behavior of other residents.	Owners have no control over who moves in to neighborhood and no control over behavior of neighbors.
Facilities Rehabilitation	Replacements, and Improvements Three methods are available to finance cooperative rehab, replacements, and improvements: 1. Assessment of individual members for their pro-rata share of the total cost; 2. Establishment and funding of replacement reserves; and 3. New long-term blanket financing.	Three methods are available to finance cooperative rehab, replacements, and improvements: 1. Assessment of individual members for their pro-rata share of the total cost; 2. Establishment and funding of replacement reserves; and 3. New long-term blanket financing.	Two methods are available to finance rehab, replacements, and improvements of the common elements: 1. Assessment of individual unit owners for their pro-rata share of the total cost; and 2. Establishment and funding of replacement reserves.	The landlord decides when and if rehab, replacements, or improvements are to be done.	Owner is individually responsible for all rehab, replacements, and improvements.
Property Management	Cooperative members democratically elect a board of directors, which is responsible for overseeing property management.	Cooperative members democratically elect a board of directors, which hires and oversees a property management firm and/or employees.	Unit owners democratically elect board of directors that hires and oversees property management firm and/or employees.	The landlord hires and oversees property management firm and/or employees.	Owner is individually responsible for all aspects of property.
Tax Benefits	Cooperative members enjoy all of the income tax benefits of home ownership. In most states, cooperatives and their members receive whatever property tax benefits are available to other homeowners.	Unless the cooperative has given them up in exchange for tax-exempt financing, cooperative members enjoy all of the income tax benefits of home ownership. In most states, cooperatives and their members receive whatever property tax benefits are available to other homeowners. In some states, there are additional property tax benefits or savings due to the limitation of resale prices.	Condominium unit owners enjoy all of the income tax benefits of home ownership. In most states, condominium unit owners receive whatever property tax benefits are available to other homeowners.	Tenants receive no income tax benefits associated with home ownership. In most states, rental properties incur higher property taxes than owner-occupied housing. The higher taxes are passed through to tenants as part of their rent.	Owners receive all of the income tax benefits associated with home ownership. In many states, homeowners receive some property tax benefits in the form of lower assessments or lower tax rates.
Home Equity	Cooperative members build equity as the value of their cooperative interest increases and as their share loan and blanket debt is paid down.	Growth in equity is limited through a limitation of resale prices. Generally, a formula is used to determine the portion the selling member will receive of the increase in value of her cooperative interest and the pay-down of the cooperative mortgage.	Unit owners build equity as the value of their unit increases and as their mortgage is paid down.	Any increase in value belongs to the landlord and reflects itself in increased rents.	Owners build equity as the value of their home increases and as their mortgage is paid down.

NCDF Services for Housing Cooperatives

- Full range of housing cooperative development services
- Assistance with location of first mortgage financing, subordinate debt, and other financing elements
- Loans to cooperatives for property acquisition or rehabilitation
- Share loan mortgages to cooperative home buyers
- Home equity loans to housing cooperative members
- Assistance with developing appropriate by-laws and house rules
- Training services for housing cooperative members and boards of directors
- Forum for meeting and sharing experiences with cooperative members from all sectors



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