NAHC National Association of Housing Cooperatives

Housing Cooperative Overview

Thinking of buying a cooperatively owned house or apartment? If you are, you may have noticed that housing co-ops are a bit different than other types of homeownership. This page offers a full complement of information on what's involved in buying into Housing Cooperatives.

What is a housing cooperative?

A housing cooperative is formed when people join with each other on a democratic basis to own or control the housing and/or related community facilities in which they live. Usually they do this by forming a not-for-profit cooperative corporation. Each month they simply pay an amount that covers their share of the operating expenses of their cooperative corporation. Personal income tax deductions, lower turnover rates, lower real estate tax assessments (in some local areas), controlled maintenance costs, and resident participation and control are some of the benefits of choosing cooperative homeownership.

What do you actually own?

The main distinction between a housing co-op and other forms of homeownership is that in a housing co-op you don't directly own real estate. But if you don't own real estate, what exactly are you buying? You are buying shares or a membership in a cooperative housing corporation. The corporation owns or leases all real estate. As part of your membership (being a shareholder) in the cooperative you have an exclusive right to live in a specific unit (this is established thorough a occupancy agreement or proprietary lease) for as long as you want, as long as you don't break any of the rules or regulations of the cooperative. As part of your membership, you also have a vote in the affairs of the corporation.

What does the share or membership purchase price involve?

When you buy a share or membership in a housing cooperative, you are paying for just that-a share of the cooperative housing corporation. The purchase price will vary depending on what kind of neighborhood it is in, how big the unit is, whether the co-op limits resale prices, and whether the co-op has an underlying mortgage for the entire property

What is a share loan?

Let's say you were going to buy a $100,000 home. Most likely you would not be able to pay the seller $100,000 in cash for the house. Instead, you would pay a down payment, and you would get a mortgage from a lender to cover the rest of the purchase price. In a co-op, since you are actually buying a share(s) in a corporation rather than real estate, you get a type of loan called a share loan from a lender. A share loan is like a mortgage. It provides you with borrowed funds to buy the share(s) from the seller. You then make monthly payments on the share loan to the lenders and monthly carrying charge (maintenance) payments to the co-op.

How do I accumulate equity?

Good question. It actually depends on what type of cooperative you are buying into. There are three different types of housing cooperatives as far as equity is concerned.

1. **Market-rate housing cooperatives**

   In a market-rate cooperative you can buy or sell a membership or shares at whatever price the market will bear. Purchase prices and equity accumulation are very similar to condominium or single-family ownership.

2. **Limited-equity housing cooperatives**

   In a limited-equity housing cooperative (LEC) there are restrictions on what outgoing members can get from sale of their shares. These are usually imposed because the co-op's members benefit from below-market interest rate mortgage loans, grants, real estate tax abatement, or other features that make the housing more "affordable" to both the initial and future residents for a specified period of time. In some co-ops these limitations are voluntarily imposed by the members. These restrictions are usually found in the cooperative's bylaws. The documents may also establish maximum income limits for new members to further target the special benefits of the housing to families who need them the most.

3. **Leasing cooperatives (or zero-equity)**
   In a leasing cooperative, the cooperative corporation leases the property from an outside investor (often a nonprofit corporation that is set up specifically for this purpose). Since the cooperative corporation does not own any real estate, the cooperative is not in a position to build up any equity (just as a renter doesn't build any equity). However, as a corporation, the cooperative is often in a position to buy the property if it comes up for sale later and convert to a market rate or limited-equity cooperative. And some leasing cooperatives allow outgoing members to take with them at least part of their share of the cash reserves built up by the cooperative corporation while they were in occupancy.

What are the monthly charges for?
Almost all co-ops charge residents a monthly carrying charge (often called a monthly maintenance fee). The amount of the monthly charge varies from co-op to co-op. The charges cover your proportionate share of operating and maintaining the cooperative, which can include blanket mortgage payments, property taxes, management fees, maintenance costs, insurance premiums, utilities, and contributions to reserve funds.

Do I pay real estate taxes?
Taxes are assessed on the cooperative corporation, as owner of the property. Your monthly payments to the co-op are, in part, used by the co-op to pay the real estate taxes. Even thought you don't pay real estate taxes directly, federal tax law allows you to deduct your share of the co-op tax payments, as well as your mortgage interest payments, on your personal income tax return.

Are co-ops allowed to discriminate?
Like any other form of housing, cooperatives may not discriminate based on the protected classes listed in the Fair Housing Act, which includes race, color, religion, sex, familial status, national origin, or disability. Historically, the basic cooperative principles include both open membership without restriction as provided by law and non-partisan in politics and non-sectarian in religion. However, many co-ops are selective in approving memberships. As communities of people who share a financial obligation and responsibility for governing how they want to live together, it is important for co-ops to ensure that incoming members can meet their financial obligation and will abide by the rules of the community.

What do most housing cooperatives look like?
Co-ops can be almost any time of housing, and there is a wide variety in terms of what housing cooperatives look like. Housing cooperatives can be high-rise apartment buildings, garden-style apartments, townhouses, single-family homes, and senior housing.
There are other kinds of housing cooperatives. Mobile home park cooperatives usually own the land, utilities, and community facilities; their members own the individual "mobile homes." Some other housing cooperatives own land and community facilities and use legal documents including recorded covenants as the basis for maintaining the desired cooperative controls over functioning of the cooperative community.

What questions should I ask before buying into a cooperative?
Remember, since you are buying a share of a corporation that owns real estate, you will want to find out about the financial health of the corporation. You will also want a clear understanding of what your financial obligations to the cooperative will be. Be sure to find out what all the rules and regulations of the community are. Here are some sample questions to ask before making your investment:

- What is the share price?
- Where can I obtain share loan financing?

- How much are the monthly carrying charges?
- What is the underlying mortgage?
- What is your pet policy?
- What is your subletting policy?
- What is the policy for making alterations to my unit?
- Confused on any of these terms? Check out our glossary. Also, to understand your rights and responsibilities as a co-op resident, visit Living in a Housing Cooperative. If you have any legal questions about co-ops, you should be sure to consult an attorney.
- I'm interested in moving into a housing cooperative. How can I find a co-op in my area?

A local real estate professional may be able to offer assistance. You may also want to consult your local yellow pages. In many cities you can find co-ops listed under the apartments section.

Economic Advantages

- Affordable: Lower down payment, much lower closing costs, economies of scale, longer mortgage term all make co-ops more affordable than other ownership housing.
- Living in a Co-op Stays Affordable. Members have no reason to substantially increase monthly charges unless taxes or operating costs go up, so monthly charges remain reasonable.
- Tax Deductions. For income tax purposes, the co-op member is usually considered a homeowner and, as such, can deduct his or her share of the real estate taxes and mortgage interest paid by the cooperative. Equity. Co-ops can provide for accumulation of individual member equity. For market-rate co-ops, the accumulation of equity and resale prices are based on the market. Limited-equity co-ops establish limitations on the accumulation of equity to assure long-term affordability to new members.
- Limited Liability. Members have no personal liability on the co-op mortgage. The cooperative association is responsible for paying off any mortgage loans. This can often make it possible for persons whose income might not qualify them for an individual mortgage to buy a membership in a limited equity co-op.
- Consumer Action. Through their cooperative association, members can jointly exert influence in order to change tax rates and utility prices and obtain improved services from local governments. The co-op, as consumer advocate, can also join with other organizations.
- Savings. Co-op members can benefit from economy of scale in co-op operating costs as well as from not-for-profit operation. Also, when there are "transfers", only the out-going member's equity must be financed by the incoming member. Transfers of shares are subject to fewer settlement costs.

Social Advantages

- Elimination of Outside Landlord. Co-ops offer control of one's living environment and a security of tenure not available in rental housing.
- Community Control. As mutual owners, member residents participate at various levels in the decision-making process. This is not true of tenants who usually do not have the opportunity to exercise responsibility. Members own the cooperative together and have the security of being able to remain in their homes for as long as they wish, as long as they meet their monthly obligations, and abide by the co-op bylaws, rules, and regulations.
- Cultural Diversity. Many co-op members indicate that the possibility for interaction with people from different backgrounds, cultures, and income levels is a positive factor in their decision to become a member.
- Extended Services. By establishing cooperative procedures and working together, people are able to provide services for themselves that otherwise would be impossible to obtain. When one cooperatively organized venture is successful it often becomes clear that people can be successful in another area as well. As a result, the original effort often can be strengthened. Examples include athletic teams, co-op preschools, credit unions, tutoring, food-buying clubs, arts and crafts, and senior health care and support services.

Physical Benefits

- Shared Maintenance Responsibilities. Co-op members usually have limited direct maintenance responsibilities. The cooperative association is responsible for major repairs, insurance, replacement of worn-out equipment, and upkeep of common grounds and facilities.
- Vandalism and Security. Co-op members vigorously protect their association's property. An important benefit of converting rental properties to co-op ownership is reduction in vandalism and abuse of property and improved and shared security arrangements. And recent studies show that the co-ops presence in the neighborhood brings neighborhood crime down.

Standard Co-Op Practices

Members of the National Association of Housing Cooperatives agree that cooperative housing associations are most successful when operated in accordance with specific recommended practices, in addition to the general co-op principles.

The cooperative's board of directors should keep its members informed of all its actions. A regular communication system-a frequent newsletter, information bulletins, special meetings, solicitation of members for opinions and priorities-strengthens the relationship between the board of directors and the members. Leader accountability is central to the co-op concept. The board of directors should depend upon the two-way nature of communication to guide them in all decision-making.

The cooperative association must maintain adequate financial reserves to protect the cooperative and its members' interests. These usually include a general operating reserve and a reserve for replacing components of buildings as they deteriorate. Such reserves reduce the possibility of members having to pay unexpected special charges in emergencies. An annual audit should be conducted by professional accountants and made available to all members.

To protect the interests of the remaining residents, the co-op board must have the right to approve incoming members who take the place of those leaving the cooperative. A credit check and a visit with the membership committee are usually required. This process also helps orient the incoming member to their rights and responsibilities as co-op members.

Subleasing should be permitted only for the short-term absence of a member, if allowed at all. If permitted, the length of the sublease agreement and the amount of payment should be determined by the cooperative. To allow subleasing on any larger scale is seen as a return to absentee rental ownership.

More information may be available to you on a local or state level. Find out more about the nearest NAHC Member Association in your area at www.nahc.coop /Member Associations