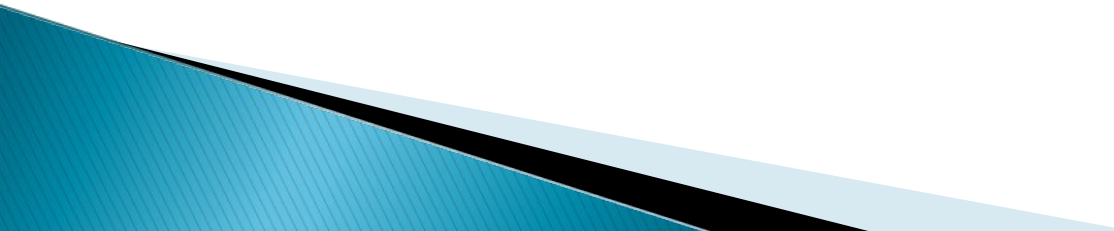


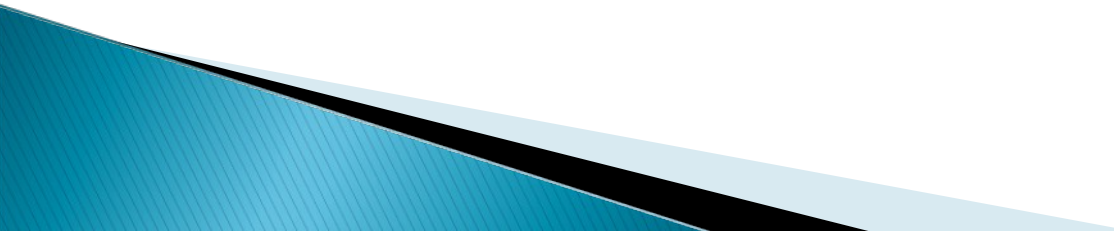
COOPERATIVES – What, Where, Why, How and When?

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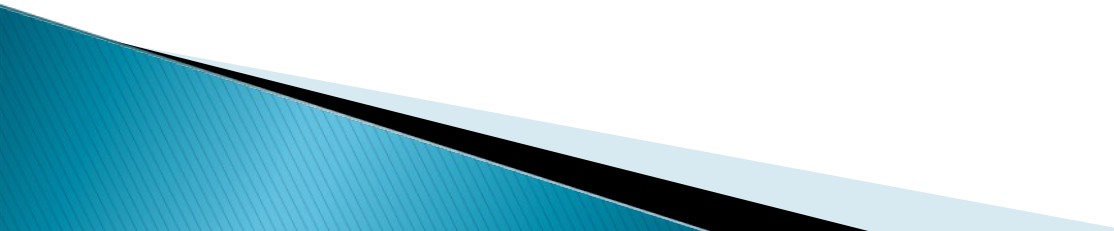
Did You know?

- ▶ 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 development was after World War II, in response to an acute housing shortage.
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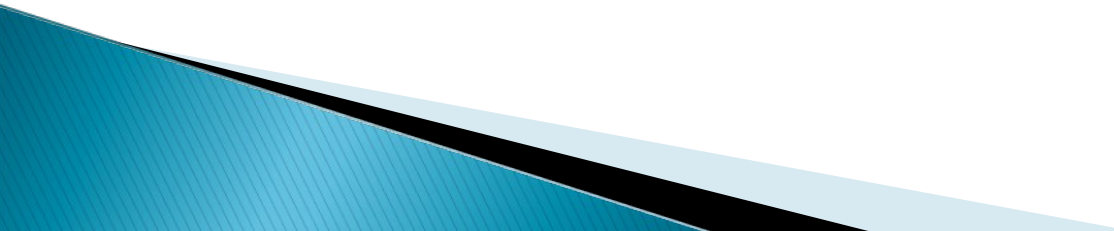
What is a Housing Cooperative in the United States

- ▶ *A housing cooperative is a corporation that owns or leases residential property for the purpose of passing ownership and tax benefits to its member shareholders.*
 - ▶ They are unique more than any other cooperative business because they are heavily influenced by the real estate market.
 - ▶ Different markets dictate different housing needs and styles.
 - ▶ The Cooperative is a tool by which persons can create homeownership privileges.
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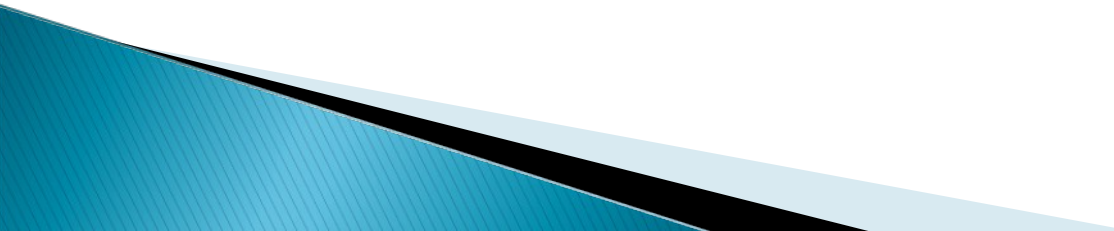
Housing Cooperatives are considered homeownership in the United States

- ▶ The United States Internal Revenue Service considers cooperative membership as an aspect of homeownership.
 - ▶ 49 of 50 states consider cooperative ownership to be homeownership.
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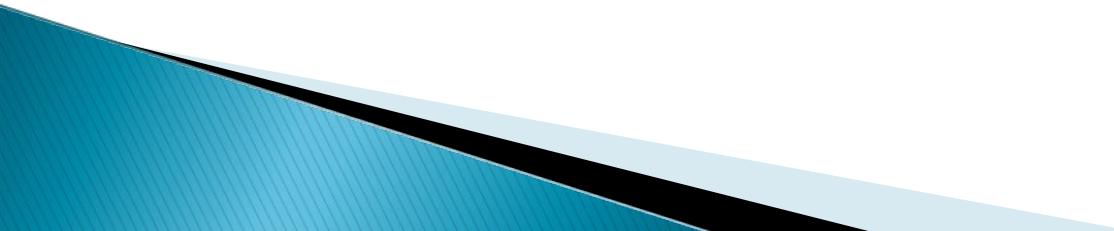
Cooperative are considered homeownership

- ▶ The Emergency Price Control Act of 1942, included provisions that imposed rent controls in New York.
 - ▶ Many owners converted to cooperatives to cope with declining returns on rental properties.
 - ▶ Section 216 of the IRS code was enacted in 1942 as well.
 - ▶ The Act allows income tax deductions for mortgage interest and property taxes for coop homeowners.
 - ▶ Cooperatives were put on par with other forms of ownership.
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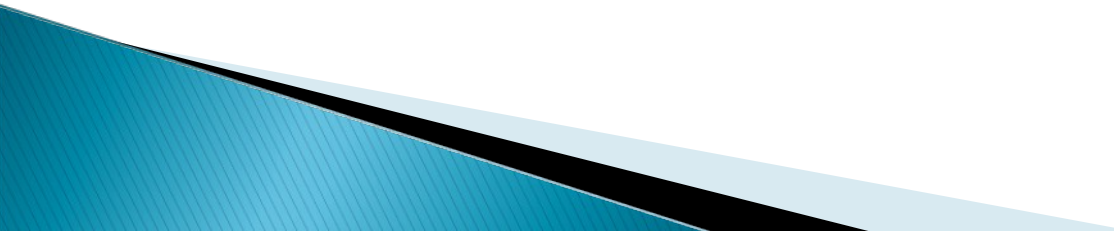
What tax benefits are available?

- ▶ Members can deduct their pro rata share of the Cooperative's mortgage interest and real estate taxes on their income tax returns.
 - ▶ In most instances, Cooperatives and their members face the same tax benefits as single family homeowners.
- 

Who Owns the Cooperative?

- ▶ Cooperative members each own a cooperative share.
 - ▶ Together, the members own 100% of the Cooperative.
 - ▶ The cooperative owns all of the buildings, land and common area.
 - ▶ The right to reside in each specific dwelling unit is allocated to a specific cooperative member and is governed by an occupancy agreement, also known as a proprietary lease.
 - ▶ The member has an ownership interest in the Cooperative Corporation equal to 1% of the Cooperative Corporation.
 - ▶ This ownership is represented by a membership certificate.
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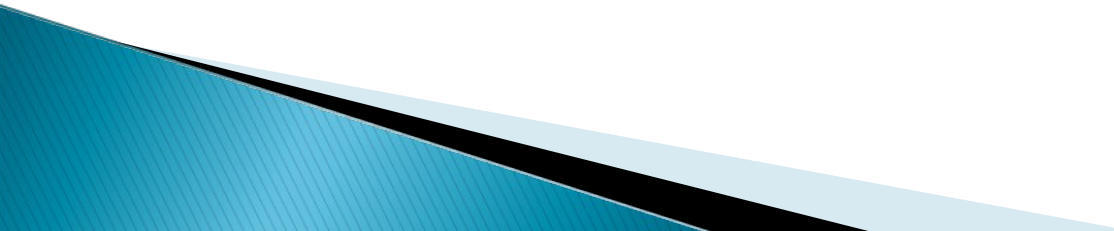
What do I own as a Member of a Housing Cooperative?

- ▶ Your ownership interest in the Cooperative Corporation.
 - ▶ This ownership is represented by a membership certificate.
 - ▶ As a Cooperative Member, you have a right to occupy a particular dwelling unit owned by the Cooperative Corporation.
 - ▶ This portion of the ownership is supported through an occupancy agreement.
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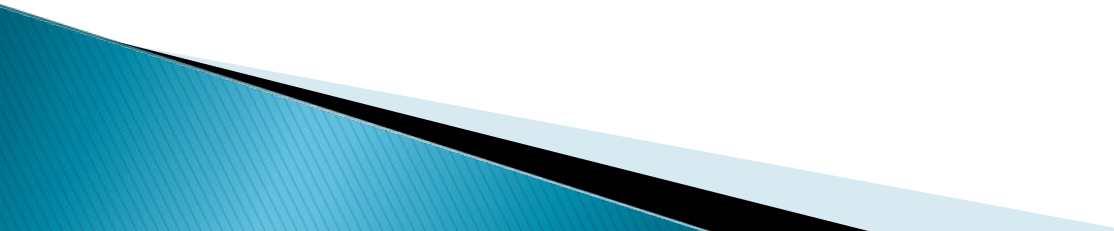
Patronage Funds

- ▶ Patronage funds are not taxable as the shareholders are both owners (by financial investment) and consumers (by occupancy agreement) at the same time.

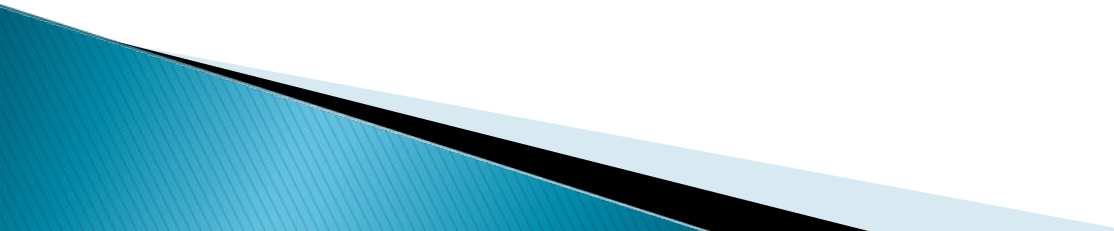
Patronage Funds

- ▶ Patronage refunds can be distributed in two ways:
 - ▶ 1. making cash payments to each member in proportion of his/her contribution or,
 - ▶ 2. by apply surplus revenue to the following year's income budget, lowering monthly fees.
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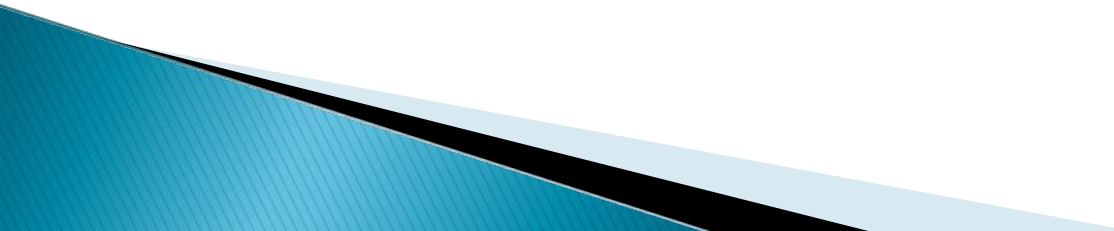
Who is Responsible – Cooperative Operations

- ▶ Member shareholders ultimately control the Cooperative
 - ▶ Their authority is exercised through a Board of Directors whom they have the power to elect and remove from office.
 - ▶ Through this power, members represent the highest level of accountability.
 - ▶ They delegate the power to govern the Cooperative to the Board of Directors.
- 

What is a Board of Directors?

- ▶ The Board of Directors is an elected body responsible for overseeing the affairs of the Cooperative on behalf of the cooperative's owners (its members).
 - ▶ Accountable to the membership
 - ▶ The Board defines objectives, policies, and goals within the constraint of the Cooperative Principles.
 - ▶ The Board has the responsibility to ensure that the created standards and principles are being followed and that the Cooperative's affairs are being managed.
- 

A Little Housing Cooperatives History

- ▶ Rochdale Pioneers, a group of weavers, originated the first food cooperative store at 31 Toad Lane in 1844 in Rochdale, England.
 - ▶ This is considered the birthplace of modern cooperatives.
 - ▶ Their original rules (principles) still guide cooperative business today.
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Housing Cooperatives History

- ▶ In 1863, the “Cooperative Wholesale Society” was established, in which the original Rochdale pioneers played an important role. By 1880, national membership reached over a half million people in what was called “consumer societies”.

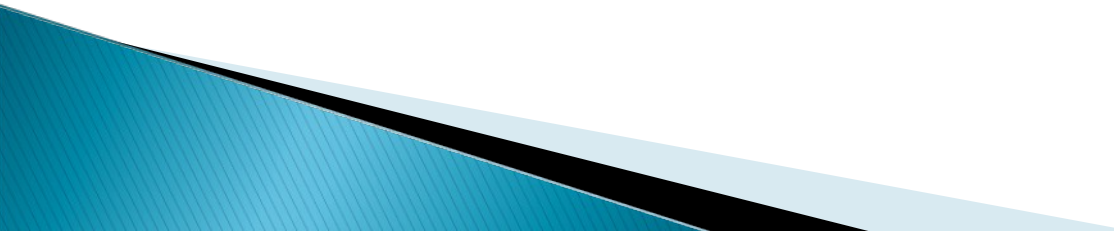
Housing Cooperatives History

- ▶ **International Cooperative Alliance:**

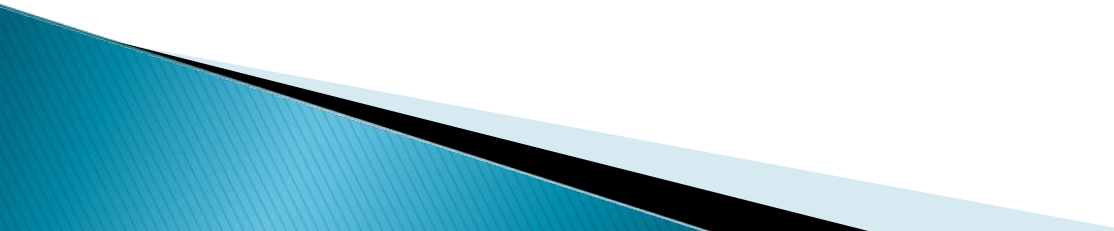
The ICA (referred to as the ICA) was founded in London in 1895 and consists of members of national and international co-operative organizations in all sections of activity including agriculture, banking, energy, industry, insurance, fisheries, housing, tourism, and consumer co-operatives.

The authority for interpretations of the Rochdale Principles to meet the needs of today's economics.

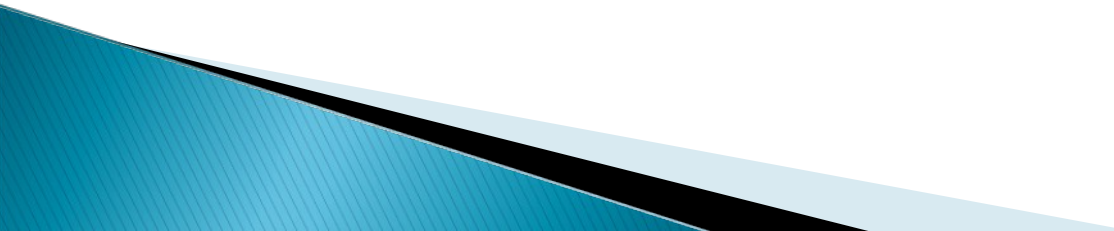
Housing Cooperative History

- ▶ **The Statement on the Cooperative Identity.**
 - ▶ ICA's most recent revision of the definition of a cooperative is:
 - ▶ *“An autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.”*
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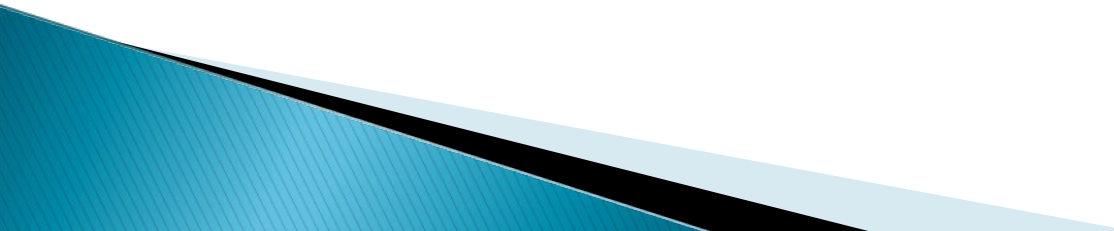
Housing Cooperative History

- ▶ The ICA worked together and developed the Rochdale Principles, which used some of the same rules that the original Rochdale Pioneers developed.
 - ▶ The Rochdale principles still guide Cooperatives today.
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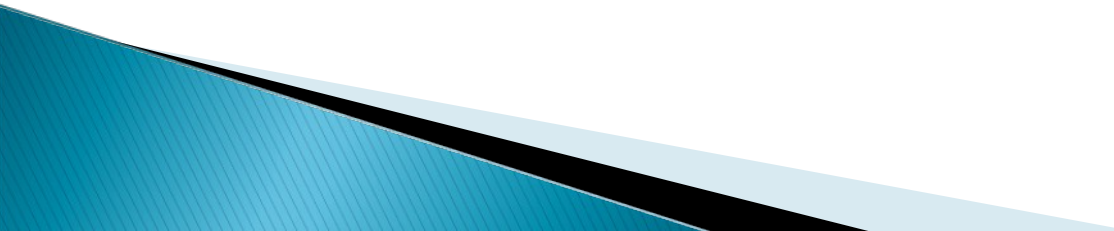
Rochdale Principles

- 1. Open and Voluntary Membership
 - 2. Democratic Control
 - 3. Economic Participation
 - 4. Identity and Independence
 - 5. EDUCATION/EDUCATION
 - 6. Cooperative among Cooperatives
 - 7. Concern Among Community
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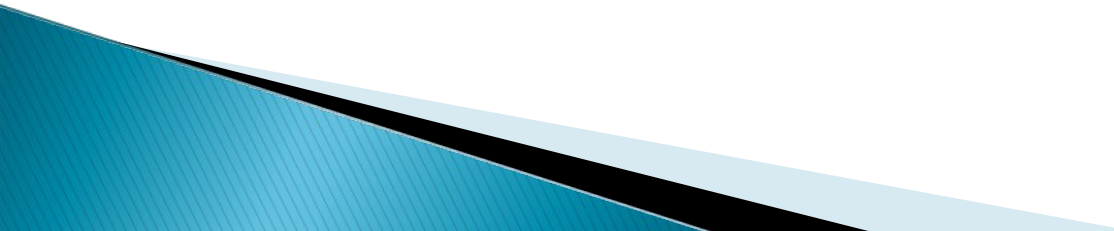
Cooperative Housing in the United States

- ▶ As pointed out earlier, Housing Cooperatives began in Britain around 1850 as a means of providing affordable ownership as an alternative to life-long rental of a tenement.
 - ▶ First recorded Cooperative in New York was in 1876 with construction of the RANDOLPH on West Eighteenth Street.
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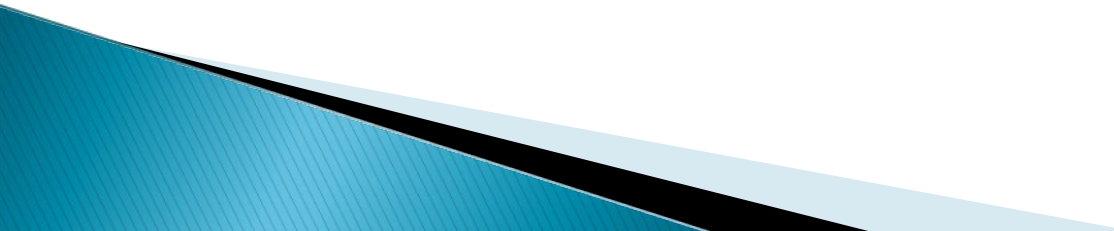
Cooperative Housing in the United States

- ▶ Housing cooperatives enjoyed high occupancy and low turnover during the post-war period.
 - ▶ Upper luxury cooperatives dominated the market until the mid 1920–30's.
 - ▶ Legislation in several states formally recognized the cooperative model for home ownership and boosted moderate-income households in the twentieth century.
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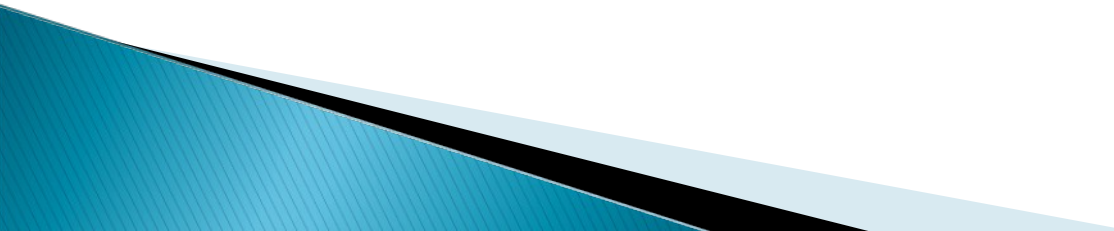
1929 Stock Market Crash

- ▶ The 1929 stock market crash almost brought cooperatives to a standstill. Luxury coops were especially hit hard as they had more risky mortgages. These failures pointed out a flaw in the model whereas members who have paid stand to lose their interests when others cannot pay their fair share.
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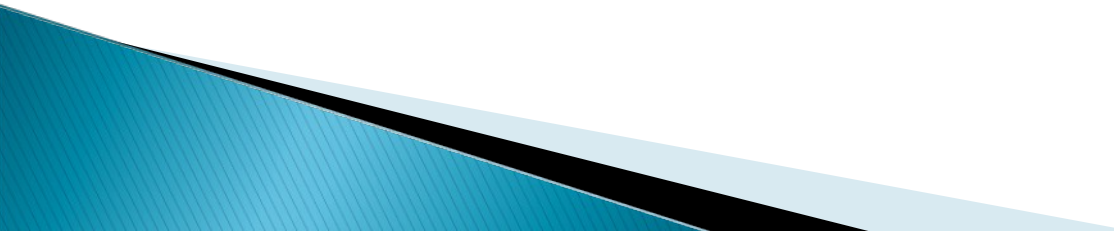
Lanham Act

- ▶ The Lanham Act (1949) gave priority for disposition of publicly held housing for conversion to affordable housing. Many cooperatives were formed and sponsored by their tenants under this act.
 - ▶ The National Housing Act of 1950 authorized for the first time the FHA to insure blanket mortgages on coops and rental communities.
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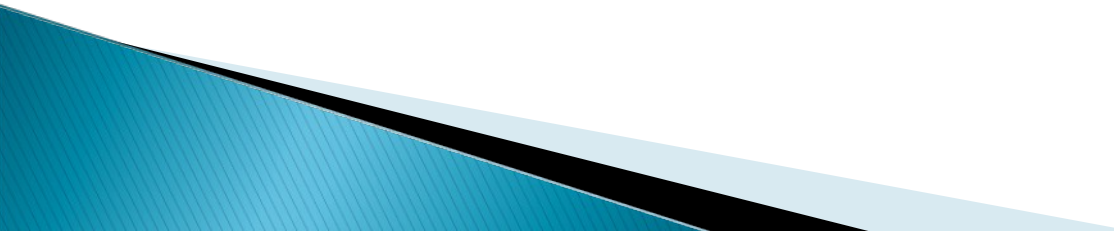
National Housing Act

- ▶ The National Housing Act of 1959 stimulated low and moderate coops during the 60's and 70's. Section 221 (d)(3) was added in 1961 to the act to provide below market interest rates for cooperatives.
 - ▶ In 1965 the act lowered the interest rate of BMIR coops as low as 3%/40 year/100% loan to value mortgages.
 - ▶ Most of these coops are approaching the end of that mortgage and their obligations under HUD will cease to exist.
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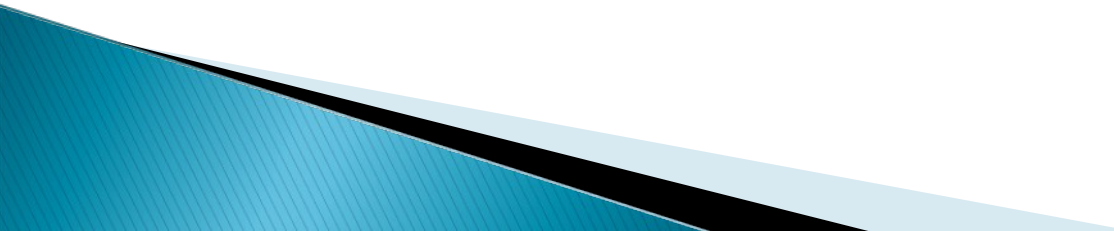
1974 Recession

- ▶ The recession of 1974 dealt a high default rate of a lot of coops that were only 5 years old.
 - ▶ HUD worked with many coops to see them through this period.
 - ▶ This was made possible by the introduction of deep Section 8 subsidies.
 - ▶ Although this helped many cooperatives through financial difficulties, it also brought new government regulations that conflicted with the principles of homeownership devaluating the coop concept.
- 

New Cooperatives

- ▶ After the “Cooperative Boom,” the market has not lent itself to financing of new cooperatives.
 - ▶ The National Affordable Act of 1990 produced three programs that provide for the limited creation of housing cooperatives:
 - ▶ A. The HOME program
 - ▶ B. The Preservation/Prepayment program
 - ▶ C. The HOPE program.
 - ▶ These funds were supplied to the states to largely upgrade local public housing programs by expanding tenants’ rights.
 - ▶ It has had little impact on cooperative housing, and the programs have been used mostly for rentals.
- 

Sponsors

- ▶ One of the main sponsors for Cooperative Housing has been The Urban Homestead Assistance Board (UHAB) in the City of New York City which helps resident groups to convert from rental to coops.
 - ▶ A district law in Washington DC provides that rental residents have the first right of refusal if the owner chooses to convert the property to another use such as condominiums.
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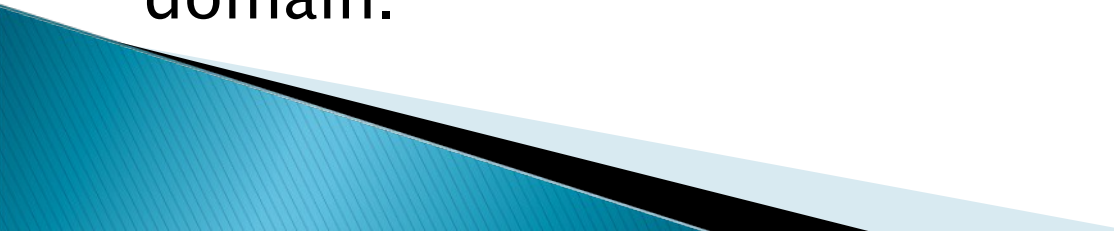
Associations

- ▶ Cooperatives have formed into organizations to help them achieve their own strategic goals.
- ▶ Various Associations have formed to support Cooperatives:
 - NCBA – National Cooperative of Business Associations
 - FCH – Foundation of Cooperative Housing
 - NAHC – National Association of Housing Cooperatives
 - NASCO – National Association of Student Cooperatives Organizations
 - And they keep growing

Types of Housing Cooperatives

- ▶ Fee Simple Cooperatives
 - ▶ Leasing Cooperatives
 - ▶ Mutual Housing Association
 - ▶ Limited Equity Cooperatives
 - ▶ 221 (d) 3
 - ▶ 221 (d) 4
 - ▶ 236
 - ▶ 223 (f)
 - ▶ Market Rate Cooperatives
 - ▶ Cooperative Sponsors
 - ▶ Group Equity Cooperatives
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Types of Housing Cooperatives

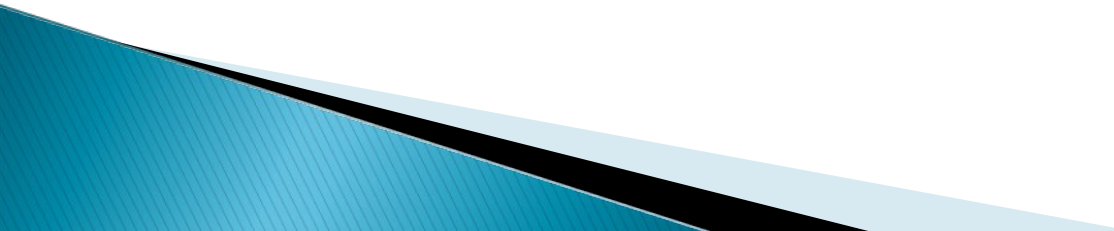
- ▶ Fee Simple: Owns the land and buildings in “fee simple”. It has the highest and best form of ownership and therefore can pass to its members all the rights of possession, equity ownership, use, enjoyment, exclusion and disposition that are described as the “bundle of rights”.
 - ▶ The “bundle of rights” is compared to that of a homeowner.
 - ▶ The use of land is restricted only by the law of nuisance, easements, covenants, and police powers as well as the powers of the State such as building codes, zoning, taxation, and powers of eminent domain.
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Types of Housing Cooperatives

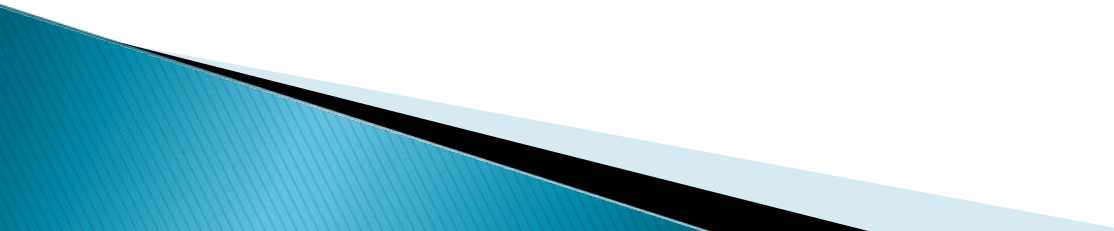
Leasing Cooperative: Similar to a fee simple except that the corporation leases the land or the buildings instead of owning them. The lease grants the right to use the land and buildings under a master lease.

There is no equity ownership in a leasing cooper

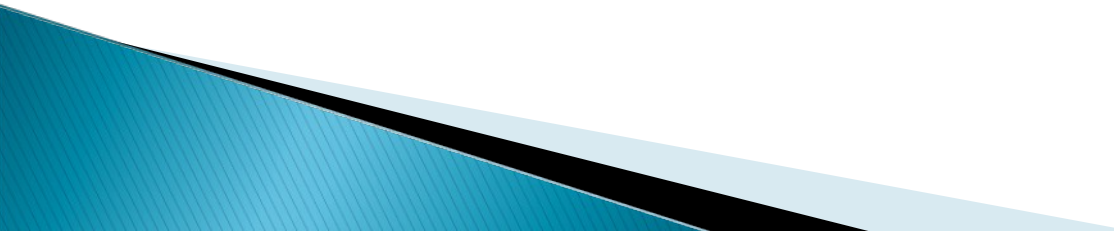
The important thing is the terms of the lease. It is suggested that you use a ninety year automatic renewal lease compared to a ten year non-renewal lease.



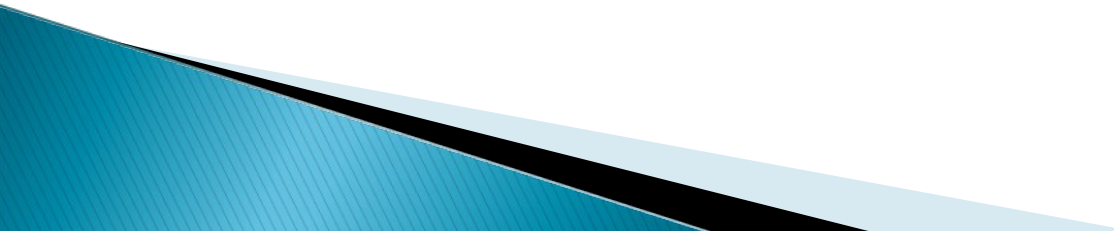
Types of Housing Cooperatives

- ▶ Mutual Housing Associations: The mutual housing corporation is set up similar as a group equity cooperative.
 - ▶ The member rents the home, but does not have a right to “equity ownership.”
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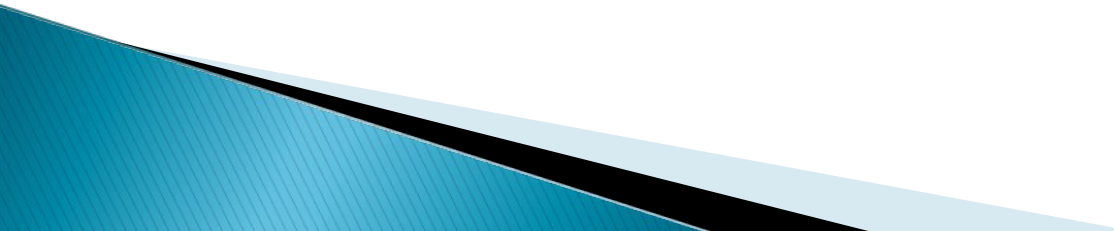
Types of Housing Cooperatives

- ▶ Limited Equity Cooperative:
 - ▶ The deed or By-laws place “artificial restrictions” on equity growth potential or household eligibility in exchange for public subsidies or other benefits.
 - ▶ Limited Equity Cooperatives have been the industry’s solution for providing cooperative ownership in the “affordable housing” market.
- 

Types of Housing Cooperatives

- ▶ There are two basic methods for limited equity.
 - ▶ 1. Direct method...place a limit on the maximum resale price of membership expressed as a dollar value or as a change in the cost of living or other index.
 - ▶ 2. Restriction on incomes for potential purchasers...by directing sales to persons whose income falls below a specified index.
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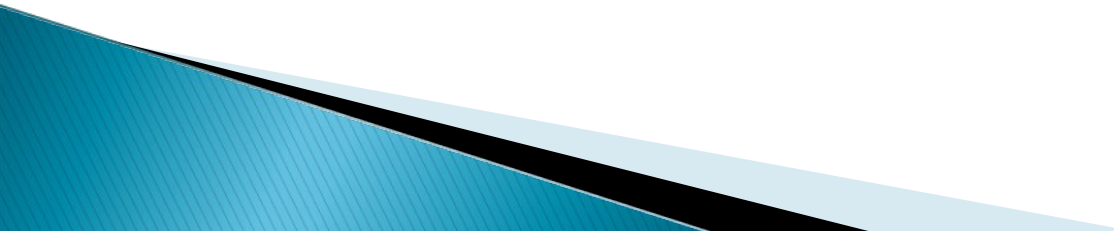
Types of Housing Cooperatives

- ▶ Limited equity Cooperatives types:
 - ▶ BMIR...Insured mortgage under Section 221(d)(3) with a below market interest rate.
 - ▶ The Federal government agreed to pay the difference between the on-going market interest rate and the 3% that was charged to the property. Residents whose income was more than 10% higher than the 80% of area median income paid a surcharge equal to 10% of the basic rate.
- 

Types of Housing Cooperatives – Limited Equity

- ▶ A 221 (d) 4 loan was also a below market interest rate loan provided by the FHA.
- ▶ The loan was basically used by cooperatives that were in a more rural location.

Types of Housing Cooperatives – Limited Equity

- ▶ 236 Cooperative...Mortgage is insured under the section 236 Mortgage Subsidy Program of the national housing act. It provided an interest rate subsidy on the blanket mortgage to reduce mortgage interest payments. This rate was set at 1%.
 - ▶ A “basic” rate that is deemed sufficient to meet operating expenses plus mortgage debt service at the 1% rate of interest is determined by each unit. Each member is required to pay at least the basic charge or up to 30% of income, whichever is higher up to the defined “market rate”.
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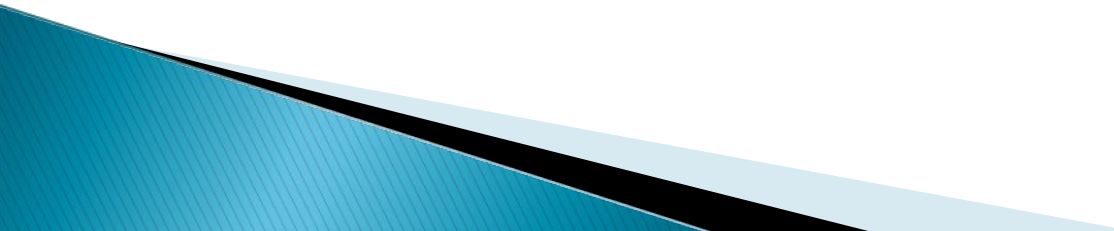
Types of Housing Cooperatives – Limited Equity

- ▶ 236 Cooperative Continued:
- ▶ Market Rate. The market rate is defined as the rate that would be required to service the mortgage debt when no subsidies are applied

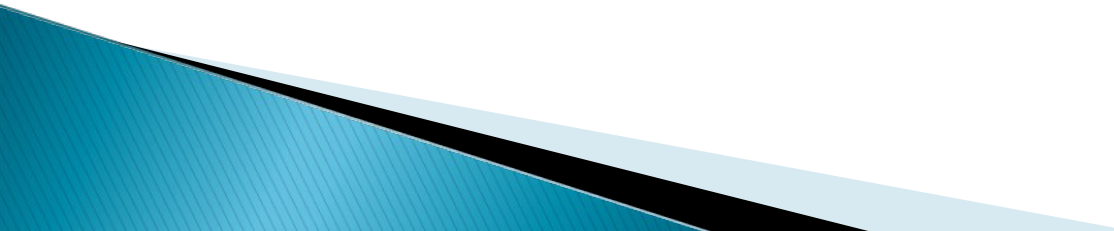
Types of Housing Cooperatives – Limited Equity

- ▶ The FHA loan 223 f is the FHA loan that is currently being used to develop newer cooperatives.

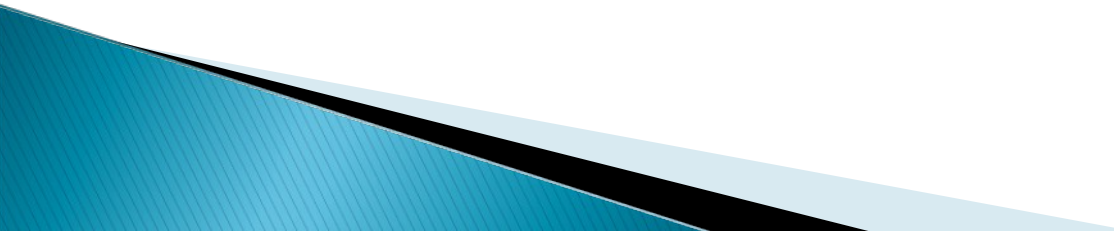
Types of Housing Cooperatives – Other

- ▶ 202 Cooperative...Constructed for use by the elderly and financed directly by HUD under section 202 of the housing act.
 - ▶ Section 8 Cooperative...A cooperative which was, in most cases piggy-backed onto an existing BMIR or 236 cooperative. A member is required to pay 30% per month for housing expenses with the balance paid by HUD.
- 

Types of Housing Cooperatives

- ▶ Market Rate Cooperative....has no artificial restrictions on equity growth or eligibility. Their bylaws contain no artificial resale restrictions nor any income eligibility restrictions potential members.
 - ▶ Market Rate: Often created by profit motivated developers.
 - ▶ 213 Cooperative...A market rate cooperative that is insured under section 213 of the national housing act. They are not subsidized by the federal government.
- 

Types of Housing Cooperatives

- ▶ Tenant Sponsored: The residents of rental property join together to purchase the property for their own ownership as a cooperative.
 - ▶ Non-profit Sponsored: The creation of “affordable” cooperative housing, for low to moderate income households. Often a slow and painstaking process with complex financing plan.
 - ▶ This program is responsible for most of the affordable housing cooperatives developed at the turn of the millennium.
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Housing Cooperatives

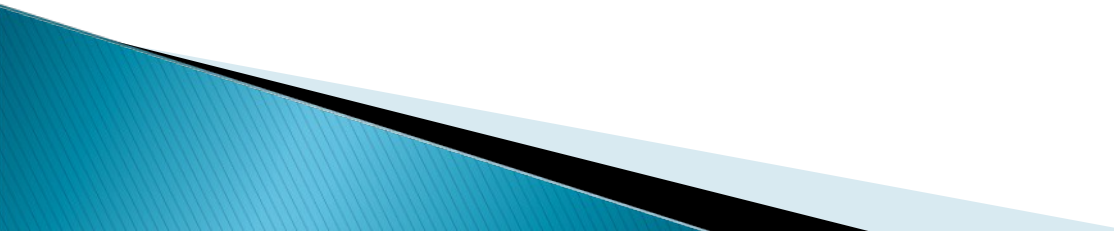
- ▶ Group Equity Cooperatives – Discussion

Cooperatives are Corporations

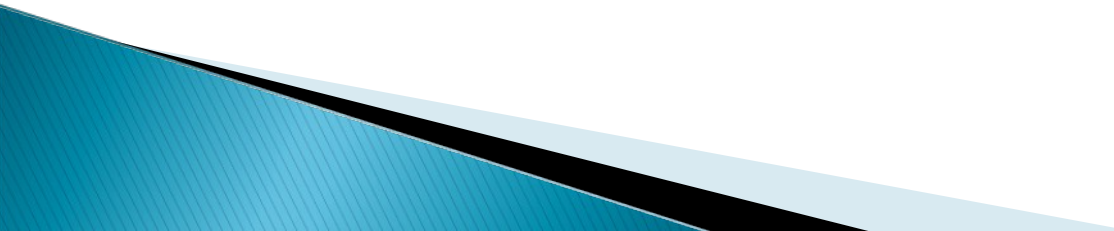
- ▶ Cooperatives differ from other forms of corporations in that:
 - A. They limit the voting rights by having strict voting rules written into their bylaws.
 - B. They limit the amount of shares any one member can purchase and usually tied to the dwelling unit.
 - C. Most are organized under the non-profit statutes that allows special tax treatment that derives from the concept of patronage refunds which are not taxable at either the corporate or shareholder level.



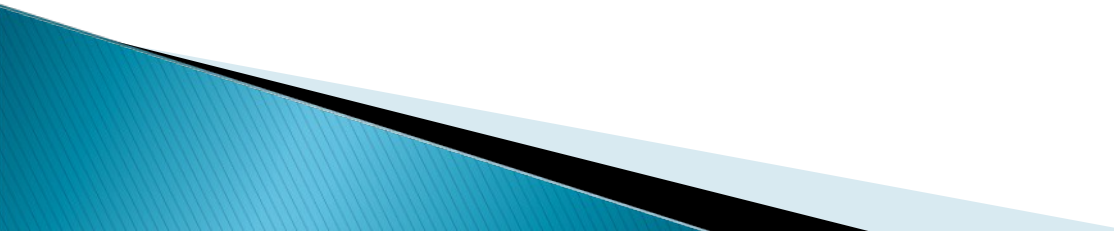
Cooperatives are Corporations

- ▶ Corporate formation gives:
 - ▶ A. Assembly of capital: In a cooperative, this comes from the debt covered by a mortgage and equity in the form of cash payments received from its members.
 - ▶ B. Continuity of life: Corporations have perpetual duration. A housing cooperative may hold title to the same land and buildings for several generations.
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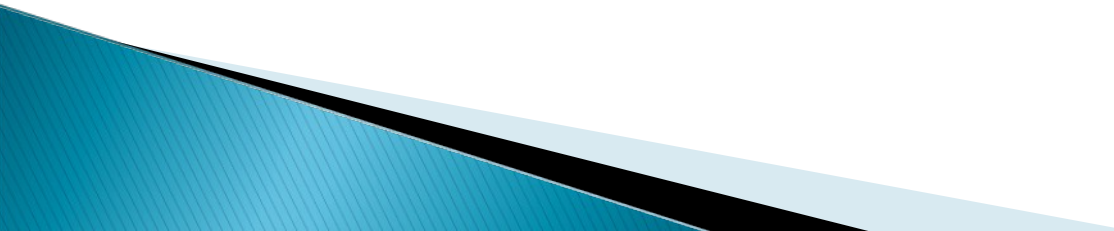
Cooperatives are Corporations

- ▶ C. Protection from Liability: The corporate veil is a legal concept that acts like a shield to protect individual shareholders from personal liability for the actions of the cooperative and protects them from individual liability to pay the cooperative's debt.
 - ▶ D. Favorable tax treatment: This treatment is in turn offered to member shareholders in the form of lower monthly carrying charges.
- 

Cooperative Corporation

- ▶ The Cooperative is required to have WELL DEFINED LINES OF AUTHORITY that describes how the cooperative is organized.
 - ▶ 1. The member-shareholder ultimately control the Cooperative.
 - ▶ Their authority is exercised through a board of directors whom they have the power to elect and remove from office.
 - ▶ 2. The Board of Directors primary duty is “governance and oversight”.
 - ▶ The Board usually delegates asset management responsibilities to a management team.
- 

Cooperative Corporation

- ▶ 3. The Board of Directors engages professional advisors, such as the attorney, the accountant, architect, and more.
 - ▶ 4. The Board of Directors gives authority to the management team to manage the assets according to standards and policies adopted by the Board of Directors.
 - ▶ 5. The management team delegates much of the functions to persons who actually perform the day-to-day tasks of management.
 - ▶ 6. Employees, vendors and Contractors report directly to the management team or the Board of Directors.
- 

What are the Legal Documents that govern a housing cooperative?

- ▶ Articles of Incorporation
 - ▶ Bylaws
 - ▶ Regulatory Agreement
 - ▶ Mortgage Agreement
 - ▶ Membership Certificate
 - ▶ Management Agreement
 - ▶ Occupancy Agreement
- 

OPEN DISCUSSION AND QUESTIONS

