



Housing Cooperative GUIDE



THE
RESURRECTION
PROJECT
CO-OP HOUSING

WHAT IS A HOUSING CO-OP?

Living in a housing cooperative, or co-op, is a popular choice in Chicago. This form of ownership allows the cooperative to own the entire apartment building. When you own a co-op apartment, you hold shares and a proprietary lease instead of a traditional deed. All "owners" contribute to a monthly fee that covers the mortgage, property taxes, maintenance, and other property costs.

WHAT ARE THE ADVANTAGES OF BUYING A CO-OP APARTMENT IN CHICAGO?

Consider a co-op in Chicago and enjoy the advantage of stability, no landlord, and collective control over your housing with your fellow neighbors.

This resource book provides valuable information, resources, and tools to help you effectively structure and support your housing cooperative. It serves as a comprehensive reference guide for organizing and sustaining your cooperative.



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What is a housing cooperative?

A cooperative is an organization formed by people who voluntarily unite to meet shared economic, social, and cultural needs through a democratically-controlled enterprise. Members come from diverse backgrounds and join cooperatives to address various needs, such as childcare, groceries, or financial services.

Ownership

When you join a co-op, you invest money and become both a resident and an owner. As a co-op owner, your focus is not just on sustainability but also on whether the cooperative is meeting the needs of its member-owners. In contrast,

Benefits of membership

The primary goal of a housing co-op is to provide affordable housing for its members, charging only for the actual cost of operating the co-op. While it aims to meet members' needs, it must cover its expenses, housing co-ops typically operate at cost or on a not-for-profit basis, setting aside funds for emergencies, vacancies, unexpected costs, maintenance, and property improvements.

In contrast, investor-owned housing developments are profit-driven, with profits distributed based on the number of shares owned. The more shares you hold, the larger your share of the profits. Decisions regarding property maintenance and improvements may not always prioritize the well-being of residents.

Member governed

In a cooperative, participation in decision-making is a key way for members to exercise their ownership rights. As a member-owner of a housing co-op, you have one vote on decisions, regardless of your level of involvement.

Co-ops are governed by a member-elected board of directors, who are volunteers serving for a set term. The co-op manager (if there is one) reports to the board. In investor-owned businesses, the board typically consists of company executives and outside directors.



Types of housing cooperatives

Cooperative law allows different co-op types to meet member needs. There are three main types of housing co-ops, each based on how members build equity.

In a **market rate co-op**, units are bought and sold at market value, like condos, but residents own shares in the co-op rather than the individual units and have a long-term lease to occupy a unit. Unlike condominiums, co-op members control who can purchase into the co-op.

In a **limited equity co-op**, the co-op can establish rules that cap the resale prices of units to maintain long-term affordability and protect any public funding used to develop the co-op. This limit on equity growth is what defines a "limited equity" co-op. When a member-owner sells their unit, the sale price is determined by a formula set in the co-op's rules. For instance, some co-ops set a low price limit, with any extra value going to the co-op rather than the individual. Others may allow prices to rise slightly based on factors like inflation, the depreciation of improvements, or the member's contribution to the co-op's debt.

Due to their focus on affordable housing, limited equity co-ops are often eligible for government and nonprofit grants and loans.

Zero equity housing cooperatives are co-ops where members don't build any ownership value (equity) in their units. Instead of selling units for a profit, members pay a monthly fee that covers the cost of operating the co-op. When members leave, they don't receive money back for their share. The goal is to keep housing affordable for everyone, as there's no increase in value over time.

Comparing types of homeownership

	Market Rate	Limited Equity	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. Share loans, if any, are small and may be serviced by the cooperative. Members with share loans make individual principal and interest payments.	Unit owners pay monthly fees to the condo association—a pro-rata share of actual operating costs, reserves and insurance. Unit owners with mortgages make principal and interest payments directly to the lender. Unit owners make their own property tax payments.	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 unit maintenance and repair, in order to balance and reduce costs to 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.

Comparing types of homeownership

	Market Rate	Limited Equity	Condo	Rental	Single Family
Purchase Price	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 proration, etc.	Tenant typically pays first and last month's rent plus security deposit.	Purchaser pays market price. Closing costs include title insurance, tax proration, etc.
Financial Liability	Members have no personal liability on cooperative's blanket loan. Members are obligated under occupancy agreement 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 occupancy agreement 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.
Community Control	Cooperative has right to approve all potential members and 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 and 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 into neighborhood and no control over behavior of neighbors.
Facility Rehabilitation	Three methods available to finance cooperative improvements: 1. Assessment of individual members for pro-rata share of the total cost. 2. Establishment and funding of replacement reserves. 3. New long-term blanket financing.	Three methods available to finance cooperative improvements: 1. Assessment of individual members for pro-rata share of total cost. 2. Establishment and funding of replacement reserves. 3. New long-term blanket financing.	Two methods are available to finance improvements of the common elements: 1. Assessment of individual unit owners for their pro-rata share of the total cost. 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 board of directors, which hires and oversees property management firm and/or employees.	Cooperative members democratically elect board of directors, which hires and oversees property management firm and/or employees.	Unit owners democratically elect board of directors, which 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.

Comparing types of homeownership

	Market Rate	Limited Equity	Condo	Rental	Single Family
Tax Benefits	Cooperative members enjoy all of the income tax benefits of homeownership. 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 homeownership. 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 homeownership. In most states, condominium unit owners receive whatever property tax benefits are available to other homeowners.	Tenants receive no income tax benefits associated with homeownership. 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 homeownership. 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 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 the cooperative interest and the pay-down of the cooperative mortgage.	Unit owners build equity as the value of their unit increases and as the 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 the home increases and as the mortgage is paid down.

Source: Northcountry Cooperative Foundation

Benefits and responsibilities of Co-op ownership

Tax Benefits

Co-op members enjoy the same tax advantages on mortgage interest and property taxes as homeowners.

Equity Building

Members can build equity in their co-op shares, similar to owning a home or condo.

Financing Flexibility

Co-ops offer flexible financing options, including joint or individual loans, with protection against emergency repair costs.

Limited Liability

Members are not personally responsible for co-op loans.

Joint Purchasing

Co-ops leverage group buying power, securing better prices and services for members.

Protection from Predatory Lenders

Co-ops protect members from predatory lending through owner-occupancy rules and board approval.

Cost-Effective Operation

Co-op fees cover actual property costs, unlike rental units that include landlord profits.

Overall Value

Co-ops prioritize member benefits, while rentals focus on maximizing landlord profits.

Protection from Non-Paying Members

Co-ops can enforce rules and evictions more effectively than in rental or condo settings.

Community empowerment

Self-Management

Co-op members oversee legal documents, policies, new member approvals, management selection, budget decisions, and maintenance priorities.

Community Control

Members prioritize both community and individual needs, with the ability to approve new buyers and enforce rules more effectively than in condos or townhomes.

Leadership Development

Board membership offers members the chance to develop valuable leadership skills.

Civic and Democratic Engagement

Co-op living empowers members, enhancing life skills and increasing participation in civic activities, with studies showing higher community involvement and voting rates.

Flexibility to Move

Members can move to different units within the co-op by following internal procedures and board approval, avoiding real estate transactions.

Multigenerational Living

Co-ops support families as they grow or change, with members moving to larger or smaller units within the same community.

Enhanced Security

Members often feel safer due to strong neighbor relationships, with studies showing lower crime rates in co-ops, especially in low-income areas.

Stronger Community Connections

Co-ops provide opportunities for members to build friendships and strengthen the social fabric of the community.

Lower Delinquency and Foreclosure Rates

Co-ops experience fewer delinquencies and foreclosures than rental properties, even with similar housing assistance programs.

Community empowerment

The success of a housing cooperative depends on the active involvement of its members. When members are engaged—staying informed, following rules, attending meetings, and voting—the co-op thrives. However, disengagement can lead to a small group taking control and potentially abusing their power.

Central to a co-op is the principle of equality, with the "one member, one vote" system giving each member an equal voice in decisions. This egalitarian structure is crucial for upholding democratic governance.

For a co-op to work effectively, members must know each other, fostering a strong sense of community. Many co-ops encourage this by organizing group activities and creating shared spaces for interaction.

In a co-op, members are both consumers and owners, giving them the ability to influence decisions and maintain control. While this structure empowers members, it also carries the risk that a few individuals may dominate if others disengage. To ensure the co-op remains democratic and sustainable, it's vital that members hold themselves and the board accountable.

Democratic Governance

Housing cooperative democracy is a system in which residents collectively manage and make decisions about their housing, based on democratic principles. Key features of this system include:

1.Resident Ownership and Control: In a housing cooperative, residents typically own shares or have a stake in the property, granting them control over how the cooperative is run. This differs from traditional rental housing, where residents have no influence over property management.

2.Equal Voting Rights: Each member has one vote in the cooperative's decision-making process, ensuring that all members have an equal say in key issues, such as rent, maintenance, and rule changes.

3.Collective Decision-Making: Cooperatives prioritize group discussions and decision-making, where members can propose and deliberate on issues. While consensus is often sought, decisions can also be made through majority voting when needed.

4.Board Oversight: A board of directors, elected by the members, handles the daily operations and management of the cooperative. While the board takes care of tasks like budgeting and maintenance, it remains accountable to the membership.

5.Encouraging Participation and Building Community: Residents are encouraged to actively engage in the cooperative's activities and decision-making, fostering a sense of shared responsibility and strengthening community ties.

6.Focus on Long-Term Stability: The democratic structure of a housing cooperative helps ensure long-term stability and sustainability, as members are invested in maintaining and improving the property over time.

In essence, housing cooperative democracy gives residents a direct role in managing their living space, with decisions made collectively to promote fairness, responsibility, and long-term well-being.

Membership

A cooperative's success relies on strong governance, which requires balancing effective decision-making with democratic principles. Members must be able to oversee operations while fostering the growth of both the co-op and its members.

The core governance structure includes the members, the board of directors, and committees. At the heart of this structure is the individual member, whose rights and responsibilities are essential for the co-op's functioning. Understanding the roles of members, the board, and management (if applicable) is crucial for success

Member Rights

- To participate in key co-op decisions, such as changes to the articles of incorporation and bylaws.
- To elect and, if needed, remove board members.
- To review annual reports.
- To access services and common areas without discrimination.
- To pay a fair share of co-op expenses.
- To receive prompt notifications of changes in board policies, house rules, and other important matters.
- To be informed about annual or special meetings in advance.
- To initiate actions like dissolving, merging, or forming joint ventures with the co-op.

Member Responsibilities

- To hold directors accountable and ensure the co-op operates according to its governing documents.
- To provide necessary capital, sharing the financial responsibility as co-op owners.
- To stay informed about co-op issues.
- To pay dues and charges on time.
- To follow co-op rules and board policies.
- To attend meetings and vote on decisions.
- To respect common areas and treat them as shared spaces.
- To interact with fellow members as equals and fellow owners, not as tenants.
- To engage actively in co-op committees and activities.

Legal Considerations

Each cooperative has key incorporation documents that outline its operations. These important documents should be provided to every member upon joining.

Articles of Incorporation

The articles of incorporation legally establish the co-op as a business, defining its name, purpose (usually to provide housing), and structure. They allow the co-op to operate at cost and offer patronage rebates.

When written correctly, the articles enable tax benefits under subchapter T of the Internal Revenue Code, allowing members to deduct mortgage interest and real estate taxes. The articles should also outline the co-op's purpose, any restrictions (like government programs), and include provisions for amendments and board governance.

Articles of Incorporation

Article I	Name
Article II	Address of housing co-op
Article III	Location of registered office (if any)
Article IV	Name and address of resident agent
Article V	Purpose of the cooperative
Article VI	Number of Directors
Article VII	Capital Stock
Article VIII	Distribution of Dividends
Article IX	Names of incorporators and directors
Article X	Membership Termination
Article XI	Duration

Bylaws

The bylaws of the corporation state how the corporation will operate, how meetings will be held, how many directors will serve on the board, the structure of membership meetings and other rules of the corporation. The bylaws generally can be amended by a majority vote of the membership.

Amendment procedures are outlined in the bylaws. Board members, in particular, should be familiar with the bylaws, which should be reviewed on an annual basis.

Bylaws

Article I	Name and location of housing co-op
Article II	Purpose and Powers
Article II	Membership
Article III	Membership Meetings
Article IV	Member Meetings
Article V	Directors
Article VI	Officers
Article VII	Committees
Article VIII	Financial Regulations
Article IX	Seal
Article X	Waiver of Notice
Article XI	Repeal or Amendment of Bylaws
Article XII	Dissolution and Property Interests of Members

Legal Agreements

Occupancy Agreement (Proprietary Lease):

This agreement gives members the right to live in a unit, provided they follow co-op rules, pay their share of housing costs, and adhere to the agreement's terms. It outlines the co-op's expectations and possible consequences for non-compliance.

Subscription Agreement:

For new co-ops, this agreement commits prospective members to purchase shares and follow co-op rules. It also outlines approval, cancellation, and withdrawal procedures, as well as restrictions on occupancy, subleasing, and resale.

Regulatory Agreements:

Co-ops financed by federal, state, or local agencies must comply with regulatory agreements (e.g., with HUD), which set rules on reserves, borrowing, inspections, and member income limits.

Other Documents:

Co-ops also have House Rules covering daily operations (e.g., pet policies, noise limits) and enforcement measures such as fines or occupancy termination.

Glossary

Alteration/Improvement Agreement

The alteration agreement describes the terms under which the cooperative gives permission to a shareholder before making any changes or improvements to the unit the member occupies.

Annual Membership Meetings

The annual membership meeting is a yearly meeting to which all the members of the co-op are invited. At the annual meeting, members elect the co-op's board of directors, bylaw revisions can be voted on, and other important matters can be brought before the entire membership. The financial status and overall health of the cooperative is usually reported on. Most cooperatives, as corporations, are legally required through their bylaws to hold an annual member/shareholder meeting. The bylaws state when, where, and the agenda.

Articles of Incorporation

The articles of incorporation are the legal document that establishes the existence and purpose of the cooperative corporation. The articles of incorporation must be filed with the appropriate state government agency, usually the Secretary of State, under applicable provisions of state law. Some states have specific laws that pertain to cooperatives and/or cooperative housing corporations.

Board of Directors

A co-op's board of directors is elected by the members/shareholders to govern the cooperative including setting policy, making rules and regulations and other decisions which govern the operations and the welfare of its members/shareholders.

Bylaws

The bylaws are a written set of provisions and directions that the cooperative corporation follows in governing operations. Usually, any changes to the bylaws require a vote by the entire membership at a duly called meeting upon proper notice. Bylaws typically cover topics such as how the board of directors is elected, when membership meetings shall be held, and other issues related to the governance of the cooperative.

Cooperative

A cooperative is any type of organization that is owned and controlled by its member-users for a common purpose and that follows the cooperative principles. A cooperative operates for the benefit of its members on a not-for-profit basis in order to provide the goods and services members need at the lowest practical cost. Members/shareholders own the cooperative and participate equally in the governance of the cooperative.

Cooperative Interest

The cooperative interest is the combination of the cooperative ownership (share or membership) and occupancy rights (occupancy agreement or proprietary lease). The two interests cannot be divided.

Glossary

Cooperative Principles

The cooperative principles are a set of seven principles that cooperatives worldwide follow. They are based upon principles developed by the Rochdale Pioneers in England during the 1800s, generally considered to be the founders of the modern cooperative movement. The International Cooperative Alliance revised the principles in 1995.

Documents

A number of documents set down the parameters under which a housing cooperative operates. Certain documents such as the bylaws and the articles of incorporation relate to the cooperative corporation itself. Other documents such as the occupancy agreement/proprietary lease, subscription agreement, and house rules spell out the relationship between the cooperative and each member-shareholder. Yet other documents, such as recognition agreements and regulatory agreements describe the relationship between the cooperative and other entities, such as government agencies or financial institutions.

Equity

The difference between the value of the cooperative property and the total amount of all debt against the property. It reflects the book value of the member/shareholder interest in the co-op.

Excess Income

An FHA/HUD term that refers to income paid by residents who, at certification or recertification, have income over the prescribed limits, thus requiring the payment of a monthly charge above the basic rate. This term is most commonly used in relation to a Section 236 development.

Fannie Mae

See Federal National Mortgage Association

Federal Housing Administration (FHA)

The sub-governmental unit within HUD that insures mortgages and provides subsidies. The FHA insures many housing loans, including cooperative loans.

Federal National Mortgage Association (Fannie Mae or FNMA)

Fannie Mae is a private corporation, created by the National Housing Act to establish a secondary market facility for home mortgages by buying and selling such mortgages and returning cash to lenders so that they can lend again.

Glossary

Fee Simple

Fee simple ownership refers to the private ownership of real estate in which the owner has the right to control, use, and transfer the property at will. In 9 states, cooperative shares are or can be considered real estate. In other states) cooperative housing ownership is not considered fee simple because shareholders do not own actual real estate, but rather a share in a cooperative corporation, which in turns owns the real estate. The share is considered personal property.

FHA

See Federal Housing Administration

Flip Tax

A flip tax is a fee that is levied by the cooperative in return for waiving the co-ops right to purchase when a cooperative shareholder sells his or her share.

General Operating Reserve (GOR)

HUD-related cooperatives are required to maintain a reserve fund at a level specified in the regulatory agreement for the purpose of providing funds in emergency or crisis situations. Many non-HUD related co-ops also maintain these reserves.

House Rules

House rules are rules of conduct developed by a co-op to ensure harmonious cooperative living. House rules typically cover issues such as noise levels, parking, pets and garbage disposal.

Housing Cooperative

Housing cooperatives are a form of homeownership where individuals own shares or memberships in a corporation that owns or controls the land and buildings that provide housing. The ownership of a share entitles one to occupy a unit within the cooperative.

Housing Finance Agency (HFA)

Housing finance agencies are public agencies established by statute in certain states. They are empowered to raise money and make direct loans to sponsors of low and moderate income housing under conditions more favorable than those available in the open market.

Glossary

FHA

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HUD (U.S. Department of Housing and Urban Development)

HUD is an agency within the U.S. government with chief administrative responsibility for providing a wide range of assistance for public and private housing and development of the nation's cities.

Income Limits

Income limits are found in many types of affordable housing. The co-op or sponsor sets certain eligibility requirements for admission or continued occupancy in housing developments designed for low-income people. Certain housing cooperatives, primarily those that have been developed through government subsidy programs for the purpose of providing affordable housing, have income limits on incoming members. However, unlike most rental or public housing with income limits, in a cooperative, if an individual or family's income goes over the limit once they have moved in, they do not have to move out.

Glossary

Internal Revenue Code Section 216

Section 216 is a section of the U.S. federal tax law that permits individual cooperative members to deduct mortgage interest and property tax on their income tax returns just like other homeowners do. Section 216 allows cooperative housing corporations to pass-through the mortgage interest and real property tax deductions to their stockholders on a pro rata basis.

Land-Only Cooperative

In a land-only cooperative, only the land beneath the building(s) is owned on a cooperative basis. The individual homes are owned subject to lease on the land. Mobile home park cooperatives or manufactured housing park cooperatives are almost always land-only cooperatives. Other than mobile home park or campground cooperatives, land-only cooperatives are quite rare.

Leasehold Cooperative

The cooperative corporation owns the building(s), but leases the land. Leasehold cooperatives are found in urban renewal areas, tribal lands, Hawaii, land fill waterfronts, and similar areas.

Leasing Cooperative

In a leasing cooperative, the cooperative corporation does not own the property in which members reside but rather leases it from another entity.

Limited-Equity Housing Cooperative

A limited equity cooperative is a cooperative where the bylaws limit the resale price of a membership/shares for the purpose of keeping the housing permanently affordable to incoming members. The resale value of shares is not determined by whatever the market will bear as in market rate co-ops, but rather it follows a pre-determined formula in the bylaws that limits that maximum resale value over time. Limited equity cooperatives also usually restrict purchase of memberships to persons below a certain annual income level. This also serves to preserve the property for low and moderate income families.

Maintenance Fee

See Monthly Maintenance Fee

Management Agent (or Management Company)

A management agent is a firm or entity hired by the cooperative to manage the development. The relationship between the cooperative and the management agent is usually governed by a specific contract, called a management agreement. Not all cooperatives use a management agent. Some larger cooperatives hire a General Manager as an employee of the co-op, others are managed by the members themselves. However, most large co-ops use a management company.

Glossary

Management Agreement

The management agreement is a contractual arrangement between the cooperative corporation and the firm hired to manage the cooperative's property. These contracts outline the firm's responsibilities and compensation. While there are standard forms of such contracts, they are usually adapted to the specific needs of the particular cooperative.

Management Plan

A specific plan of operations provided by a management agent to the cooperative, in substantially greater detail than that provided in the management agreement. The plan may be attached to the management agreement as a rider.

Manufactured Housing Park Cooperative

A manufactured housing park cooperative is a manufactured housing park that is owned on a cooperative basis. Typically the cooperative owns the land, and residents each own their individual manufactured homes. Cooperative ownership provides residents with a much higher level of economic security since they do not have to live with the constant threat of higher rents or sale and closure of the park.

Market-Rate Housing Cooperative

A market rate cooperative is a cooperative (1) financed with interest rates considered market rates and (2) with no restrictions on membership/share resale prices.

Member/Shareholder

An individual who owns a share or membership in a cooperative. Depending on the type of cooperative, members are also be referred to as shareholders.

Member Equity

(see "Equity")

Membership

Membership can either refer to all the members of a cooperative, or an individual share in a cooperative.

Membership Committee

Many cooperatives have a membership committee that reviews incoming members and approves or rejects their application based upon specific criteria set forth by the Board of Directors. (See "Right of Approval".) Often incoming members will need to have an interview with the membership committee before they will be approved for membership. In some co-ops, the board of directors will screen incoming members. In other cooperatives, management performs this function.

Membership Meeting

See Annual Membership Meeting.

Glossary

Mitchell-Lama Cooperatives

New York State established the Mitchell-Lama Housing Program in 1955 for the purpose of building affordable housing for middle-income residents. The housing developed under this program is more commonly known as “Mitchell-Lama” housing, derived from the last names of the state legislators MacNeil Mitchell and Alfred Lama, who sponsored the legislation. Mitchell-Lama co-ops are limited equity co-ops, supervised by local government. 60,000 cooperative apartments were developed through this legislation.

Mobile Home Park Cooperatives

See Manufactured Housing Park Cooperatives

Monthly Carrying Charges or Monthly Maintenance Fee

The monthly carrying charges or monthly maintenance fee is the member/shareholders' proportionate share of the cooperative's operating expenses, reserve funding, and mortgage payments.

Mortgage Insurance

Mortgage insurance is insurance with a guarantee that if an owner defaults on mortgage payments, the insurer (FHA/HUD/VA) will pay the lender the owed balance. The FHA charges a “mortgage insurance premium” for the insurance it provides against default on the mortgage. It is generally at a rate of 1/2% of the original mortgage balance.

Multifamily Development

A multifamily development is usually defined as four or more units of housing in a single building.

Mutual Housing Association

A mutual housing association is a nonprofit corporation that develops, owns and/or manages, or assists cooperatives and other forms of nonprofit resident-controlled housing. It is democratically structured for participation by its organizational members, its resident members, those waiting to become residents, and other individuals who support its purpose.

Occupancy Agreement (or Proprietary Lease)

The occupancy agreement or proprietary lease is the contract between the cooperative corporation and the member that sets the conditions for the right to occupy a particular unit. FHA co-ops and some other co-ops call this contract an occupancy agreement; others refer to it as a proprietary lease. It sets forth the rights and obligations of the member and the cooperative to each other. Legally, it is viewed as a lease by the member with the housing cooperative.

Glossary

Officers

In addition to the board of directors, all cooperative corporations have officer positions held by members of the board. The bylaws of a cooperative usually describe these positions and explain how they are elected. President, Vice President, Secretary, and Treasurer are typical officer positions.

Personal Property

Personal property is property which is not real property (real estate), consisting of things temporary or movable-refrigerators, stoves, or air conditioners.

PITI

PITI is an abbreviation for the costs that make up the mortgage payments-Principal, Interest, Taxes, and Insurance.

Proprietary Lease

See Occupancy Agreement

Proxy or Proxy Vote

A proxy is an authorization of one person to act on behalf of another for voting purposes. Some cooperatives allow “instructed” proxy voting, others do not. Usually the co-op’s bylaws state whether or not proxy voting is allowed.

RCM

RCM stands for Registered Cooperative Manager. It is a professional designation for cooperative site managers who have successfully completed NAHC’s Registered Cooperative Manager Program.

Real Property

Real property denotes land and generally whatever is erected on it, growing upon it, or affixed to it. It is also known as real estate. In most states, co-op members do not own real property, but rather a share in a corporation, which in turn owns the real property.

Recognition Agreement

A recognition agreement is an understanding between a cooperative and a financial institution that provides share loans to the cooperative’s members or shareholders. The recognition outlines the responsibilities between the co-op and the bank and the courses of action that must be taken by each party if a shareholder/member defaults on the loan.

Glossary

Regulatory Agreement

Co-ops that have mortgage insurance through HUD or the FHA have certain obligations that are outlined in a document called a regulatory agreement. Co-ops financed by state and local housing authorities often have similar contracts, which are often modeled on the standard HUD agreement. Basically, the regulatory agreement requires the co-op to abide by the regulations of HUD (or FHA), which insured the mortgage in order to induce a lender to finance the development. This document binds the mortgagor (the cooperative) and mortgagee (the financial institution that holds the mortgage until the amount borrowed, plus interest, is paid) with the Secretary of HUD.

Replacement Reserve

A replacement reserve is a reserve fund to provide savings for the timely replacement of major appliances, building components, and structures.

Resale

The term resale describes the process of transferring a share from an outgoing co-op member to a new member.

Resale Value

See Transfer Value.

Reserve

See Replacement Reserve and General Operating Reserve)

Right of First Approval

Most co-ops have a process to review and approve new members/shareholders. Your purchase of a membership/share is conditioned on the co-ops review and approval of your application and abilities to meet your obligations under the occupancy agreement. Co-ops may not discriminate against any protected class under local, state, and federal law.

Right of First Refusal

A right of first refusal is often stipulated in a co-op's bylaws. If a co-op's bylaws contain a right of first refusal clause, the co-op has the first option to purchase or refuse to purchase the outgoing member's share at an agreed upon price.

Section 8

Section 8 is a federal assistance program that subsidizes the monthly rents of low-income individuals. Individuals who receive Section 8 assistance must fall under certain income requirements. Individuals benefiting from Section 8 pay only a certain percentage of their monthly income in rent, the government pays the rest directly to the landlord or co-op.

Glossary

Section 202

Section 202 is a HUD program that provides financing for housing developed for the elderly and disabled. A number of senior housing cooperatives have been developed using this program.

Section 203(n)

HUD's Section 203(n) single-family cooperative mortgage insurance program insures loans for persons buying a share/membership in a housing cooperative. The loan is made by a lending institution, such as a mortgage company, bank, or savings and loan association, and is insured by HUD's Federal Housing Administration (FHA). (See "Share Loan")

Section 213

Section 213 is a HUD program that insures mortgages only on cooperative housing projects on a market rate basis. Section 213 has been used to insure over 500 cooperative housing projects, totaling over 70,000 units.

Section 216

See "Internal Revenue Code Section 216"

Section 221(d)(3)

Section 221(d)(3) is a HUD/FHA program that insures mortgages for the new construction or substantial rehabilitation of multifamily cooperatives and nonprofit rental housing. Under 221(d)(3), a nonprofit sponsor may receive an insured mortgage for up to 100% of the HUD/FHA estimated replacement cost of the project.

Section 221(d)(3) BMIR

Previously, the Section 221(d)(3) Below Market Interest Rate (BMIR) program provided below market interest rate financing for sponsors of low-income housing projects. Many cooperatives that were developed during the 1960s and 70s used this program. BMIR projects were replaced by the Section 236 Mortgage Subsidy Program under authority of the Housing Development Act of 1968. Presently no new mortgages are insured under the BMIR or the Section 236 programs.

Section 236

Section 236, a HUD program enacted in 1968, provides a subsidy to reduce mortgage interest payments down to as low as 1%.

Self-Management

In a self-managed cooperative, cooperative members perform the function of maintenance and administration themselves, or contract to various vendors.

Senior Housing Cooperative

A senior housing cooperative is cooperatively owned or controlled housing designed especially for seniors.

Glossary

Share

A share is the proportion of the cooperative that each member owns, and it represents the proportionate amount that each member invested in the co-op when the co-op was started. A certificate, often called a stock or membership certificate, documents the purchase price and membership in the cooperative.

Shareholder

A shareholder, also called a member, is the owner of a share in a housing cooperative.

Share Loan

A share loan is a loan obtained to purchase a share in a housing co-op secured by the shares and occupancy rights (cooperative interest). A member can get an individual loan for that amount from a bank or other lending institution (just as when an individual is buying a house).

Site Manager

A site manager is the individual who is employed by the cooperative or the cooperative's management agent to perform the necessary on-site management functions. The site manager may or may not reside on-site, and may or may not be employed full time.

Stock Certificate (or Membership Certificate or Shares)

A stock certificate is a documentation of ownership of share(s) in a cooperative. It indicates the number of shares registered in the name of the owner. Stock shares are issued by stock issuing corporations.

Subchapter T

Subchapter T refers to Sections 1381 to 1388 of the U.S. Internal Revenue Code, which cover cooperatives that serve some public benefit. Cooperative housing corporation pay federal corporate income taxes in accordance with the provisions of Subchapter T.

Sublease

A sublease is a lease between a current co-op shareholder and another person. Most co-ops restrict subleasing and require subleases to be approved by the board.

Subscription Agreement/Purchase Agreement

A subscription agreement documents the purchase of shares in the housing cooperative.

Glossary

Subscription Funds/Purchase Price

Subscription funds are a fee or price paid along with the subscription agreement or purchase agreement.

Subsidized Housing Cooperative

A subsidized housing co-op receives a subsidy of some kind from the federal, state, or local government or other sources in order to lower the overall costs of the housing.

Sweat Equity

Sweat equity is the act of providing personal labor in building or rehabilitation a property by a resident-owner in order to reduce the price and/or as a part of a purchase agreement, especially as used in subsidized or self-help housing.

Transfer Value

The transfer value is the dollar amount of the membership or share in a housing cooperative as set by the bylaws in event the cooperative re-purchases the membership/share. In a limited equity co-op, the transfer value is the maximum amount at which a member's share in the co-op may be sold according to the co-op's limited equity formula.

Unrelated Business Income

Income from a trade or business that is not substantially related to a not-for-profit organization's tax-exempt function and that is regularly carried on by the organization. Annuities, interest, dividends, Annuities, interest, dividends, royalties, and rent from certain real and certain personal property are specifically excluded from the definition of unrelated business income. A corporate tax is imposed on UBI in excess of \$1,000 in order to place the tax-exempt organization on an equal footing with taxable organizations with respect to their business operations



For more information, visit us at
Resurrectionproject.org/cooperatives
or call 312-666-1323.



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