

## CO-OP ADVANTAGE

### *Why co-ops over rentals?*

**Cooperatives operate at cost.** There is no landlord looking to turn a cash flow profit or take out equity via refinancing or resale. The members of a co-op own and operate their own building. This structure gives residents substantially more control over building expenses, including both operating costs and debt service, which lowers the monthly carrying charges.

**Co-ops allow their members to enjoy all of the tax benefits** of homeownership, including deductible mortgage interest and property tax payments.

**Members of co-ops can build wealth** in the same manner as owners of single-family homes by: 1) stabilizing housing costs and 2) building equity. As mortgages are paid down and housing values rise, members can sell their shares at a profit or take out low-interest home equity loans based on the increase in the value of their shares. In limited equity cooperatives, the resale prices of shares are capped, allowing wealth-building within that cap.

**Members of co-ops have control over who moves into the building** and becomes their neighbor. Co-op boards screen potential buyers for financial capacity as well as undesirable activities such as drug dealing or excessive noise.

**Co-op members have security of tenure.** They can stay in their homes as long as they pay the monthly carrying charges and abide by the co-op rules.

**Co-ops are low-risk ownership structures** for affordable multifamily properties. A 1994 study by the Urban Institute concluded that co-op loans in the 221(d)(3) and 236 mortgage subsidy programs were lower-risk investments than loans to rental properties owned by for-profit or non-profit companies. The 213 cooperative-only mortgage program is the most successful mortgage insurance program in HUD's history. Since its inception (over 40 years ago), it has never required a credit subsidy from the federal government. The lower comparative risk extends to individual share loans as well as cooperative blanket loans. Fannie Mae reports that share loans routinely outperform the rest of their single-family portfolio, labeling co-op share loan performance "stellar."

### *Why co-ops over condos?*

**The cost of converting existing rental property to home ownership can be substantially lower** in a cooperative model. Condo conversions require the subdivision of the real estate into individual units, which involve higher architectural costs and, in many jurisdictions, additional costs for required improvements.

**There are lower closing costs** associated with the sale of co-op shares when compared to the sale of a condo unit. Costs of abstract, survey, recording, title insurance, and some related local taxes are avoided. These cost savings occur because the real estate (the entire cooperative building) is not changing hands. The transfer of cooperative shares, in most states, is the transfer of personal property so title insurance is rarely needed. Also, a portion of the total purchase price is not refinanced with the sale of cooperative shares. The purchaser merely assumes the obligation to pay his/her proportionate share of the blanket mortgage.

**Co-ops can take advantage of blanket financing to pass through reasonable interest rates to residents** who, individually, would ordinarily not qualify for the best loan terms. Cooperatives can utilize the Section 213 program to get higher leveraged loans (up to 98%) for longer terms (40 years), substantially reducing monthly debt service. Also, co-ops can borrow money via a blanket mortgage to finance capital improvements or unexpected expenses. This spreads the debt out into the future rather than forcing 100% up-front reserve accumulation or imposing individual assessments as in a condo.

**The co-op acts as a safeguard against prevent predatory lending** for its members. The cooperative must approve any share borrowing and enter into a recognition agreement with the share lender, putting it in a position to nix a predatory loan.

## *Why cooperative living?*

- Members of co-ops have control over who moves into the building and becomes their neighbor. Co-op boards screen potential buyers for financial capacity as well as undesirable activities such as drug dealing or excessive noise.
- Cooperatives can prohibit subleasing, unlike affordable condominiums, which often become collections of rental units, each with its own landlord.
- According to a 1997 study "Neighborhoods and Violent Crime: A Multilevel Study of Collective Efficacy," higher levels of owner-occupancy led to lower levels of violent crime at the neighborhood level.
- When owners are living in the building, there is a greater likelihood of voting and participation in the building as well as the local community. The residents of co-ops are stakeholders in their community.
- When a shareholder is unable to meet his/her carrying charges, then co-ops (unlike lenders) can often tolerate workout situations.
- Co-ops have a built in sense of community and are more willing and able to work with individual shareholders to ensure that the sense of community thrives.

## **WHO TO CONTACT FOR MORE INFORMATION AND RESOURCES:**

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