

WHAT IS A COOPERATIVE?

I. Ownership.

A cooperative apartment's main difference from a condominium is ownership. Instead of buying real property, as you do with a condominium, you are buying shares of stock in the corporation that owns the building(s) and grounds in which the apartment is located. Shares are assigned to each apartment and the number of shares is generally based upon the size of the unit. A one bedroom will have less shares than a two bedroom, which will have less than a three bedroom unit. The number of shares will determine the voting power and the apartment's portion of the annual expenses.

A proprietary lease is granted to the owner; and this guarantees the right to occupy the apartment and to use the common areas. No other corporation or business may buy into the cooperative. Only individuals may purchase stock in the corporation.

II. Board Approval.

When purchasing a cooperative, a potential owner must be interviewed by the directors of the building. This is usually an informal meeting. After the interview has occurred, the directors will bring the transfer of ownership up at the next meeting, and the stockholders will vote on it. Coops usually have tighter control on how the apartments in the corporation can be used, and as seen by the above, have the right to approve or disapprove a new owner.

Most coops have restrictions against renting, or subletting the apartments. However, many coops will allow an owner who is transferred out of the area to sublet, with board approval. This is generally limited to a period of two years. Cases are handled on an individual basis according to the By-Laws of the corporation.

III. Financing

Years ago, financing for coops was non-existent. Now, loans are routinely made for the purchase of coop apartments. However, only certain lenders will do these loans, and they need what is called a Recognition Agreement with that particular cooperative. This is a lengthy, but standard, procedure and almost all coops have at least one recognition agreement. Coops may set minimum requirements for down payments, such as 15% or 20%, but this is decided upon by the owners of the coop, voted upon, and added to the By-Laws.

IV. Management

The decision making process and the day to day running of the coop are very similar to a condominium. Decisions that affect the building and its management are governed by the owners. The owners elect a Board of Directors and hold regular meetings to discuss important

issues. Then, these issues are voted upon by the owners, and each owner's vote based upon the number of shares he or she owns.

Many coops are managed by professional companies such as Legum and Norman & W.C.Smith. These companies handle day-to-day affairs of the building, such as maintenance, upkeep and grounds keeping.

V. Coop Fees and Underlying Mortgage.

Coops charge a monthly fee just as a condo does. This fee includes maintenance, reserves, insurance, etc., and it also includes Real Estate taxes because the whole building is taxed as opposed to each individual unit. After the tax bill comes in, the total tax is divided by the total number of shares in the corporation and that is the dollar amount that is used to determine each unit's share of real estate taxes.

Some coops, when they want to make a capital improvement to the building, will take out a mortgage on the whole building. This is called an underlying, or blanket, mortgage. Like real estate taxes, this mortgage is on the whole building and the payment is divided by the number of shares and that dollar amount is then assigned to each unit by the number of shares and that dollar amount is then assigned to each unit by the number of shares it has. The underlying mortgage stays with the apartment, even after one owner sells and moves out and another owner buys and moves in. It stays until the loan is paid off, and cannot be paid early by an individual owner.

VI. Tax Benefits

The tax advantages of owning a coop are the same as a condo or house. The interest on your mortgage and the real estate taxes are deductible on your income tax as per the IRS rules and regulations for any real estate.

Settlements on cooperatives are less expensive than they are on condos and houses because there are no recordation or transfer taxes paid to the District government (this is a savings of 1.5% of the sales price to the purchaser, and a 1.5% savings to the seller), no Title insurance is needed, and there are no escrows for property taxes!

VI. Resale.

When an owner decides to sell his/her coop apartment, the process is just like selling a condominium. The only differences are that the cooperative has the board approval requirement. Otherwise, it is basically the same.

COMPARISON OF SIMILAR TERMS

| | COOPERATIVES | CONDOMINIUM |
|-----------------------------|--|---|
| Mortgagor | The cooperative corporation | Each individual owner that borrowed money to purchase the unit |
| Mortgagee | The lending institution | Same |
| Monthly Charge | Proportionate share of all costs, including mortgage. | Percentage of common estate costs. Any mortgage payments on the individually owned unit are paid separately as are those assessed on the individual unit. |
| Real Estate Taxes | Assessed on the property of the cooperative corporation. | Assessed on the individual unit. |
| Voting | Each member has one vote. | Each owner has the number of votes representing the percentage of value of his or her unit to the total value of all units. |
| Mortgage Term | Cooperative corporation usually has 40 years – member is not a mortgagor. | Owner usually has 30 years – condominium is not a mortgagor. |
| Closing or Settlement Costs | Costs in addition to the price of the corporate property including the mortgage service charge, title search, insurance and transfer of ownership charges paid when the cooperative first purchases the property. Only a small transfer fee is charged to transfer future membership in the cooperative. | Costs in addition to the price of a unit and its undivided interest in the common estate including mortgage service charge, title search, insurance and transfer of ownership charges paid each time the unit is resold or refinanced. |
| Equity | Increase in the value of a membership certificate over and above the initial “down payment” resulting from members’ monthly contribution toward payment of the corporate mortgage. | Increase in value of ownership interest in the unit as the owner pays off his mortgage and from market value appreciation. |
| Escrow Funds | Subscription or down payments required to be held unused until the viable cooperative is assured. Transfer of membership funds are sometimes escrowed until the transfer are complete | Subscription or down payments required to be held unused until the condominium regime is recorded on the property and titles are conveyed to each buyers. Escrows are usually used in each resale situation. The deed is held in escrow until all conditions of the sale (including any prepayments) have been met. |