A Consumer's Guide to

Buying a Co-op

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In the United States, more than 1.2 million families of all income levels live in homes owned and operated through cooperative associations. Housing co-ops are not a new concept. The first housing cooperative in the nation was organized in New York City in the late 1800's. Today, large numbers of housing co-ops are located in major urban areas such as Atlanta, Boston, Chicago, Detroit, Miami, Minneapolis, New York City, San Francisco, Seattle and Washington, DC.

WHAT IS A HOUSING CO-OP?

A housing co-op is people who together own or control the building(s) in which they live. Instead of buying "real" property, you buy stock, or a membership, in a cooperative corporation. That corporation owns the building, land and any common areas.

Think of a housing co-op as three cohesive, integrated segments, each with different functions:

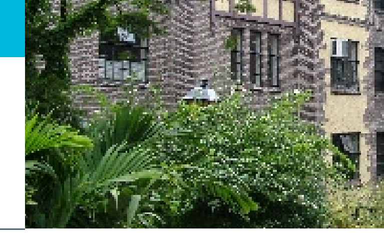
- The members or shareholders (the residents) collectively own the building(s) and property through their shares in the cooperative corporation. As a member, you are entitled to occupy a specific unit indefinitely or until you sell. Members democratically govern the cooperative corporation and elect a board of directors to oversee operations.

  As a member, you have exclusive rights to your unit through your occupancy agreement, or proprietary lease, with the cooperative corporation. You agree to the cooperative's bylaws, which stipulate that you pay a monthly fee toward the operation and maintenance of the entire building(s). Your monthly fee is typically determined by your unit's square footage, which also determines the amount of stock (or shares) you own in the cooperative corporation. Your voting rights will be determined by your cooperative bylaws.

  Members with share loans (mortgages on their co-op unit) make individual principal and interest payments directly to their lenders.

- The cooperative corporation is the collective, legal body made up of the members of the co-op. The corporation owns all the real estate – the land, building(s) and any common areas. The corporation also carries a blanket insurance policy that covers damage to the cooperative property from hazards such as fire or water. However, additional homeowner's insurance is recommended for all members to cover personal contents inside individual units.

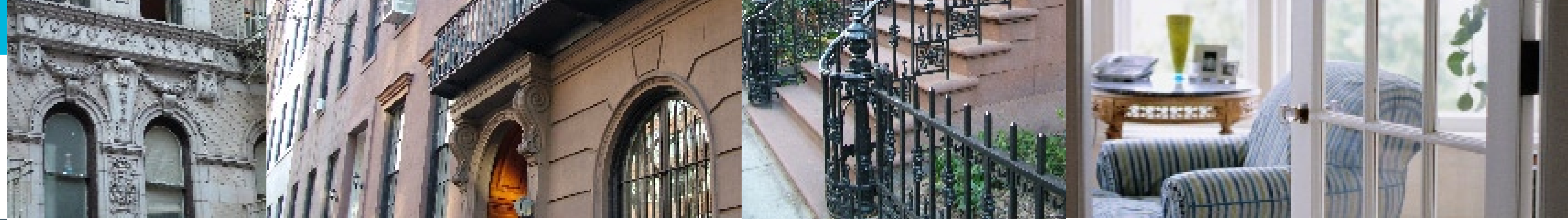
- The board of directors is elected from the membership to manage the co-op and to give members a voice in their co-op. Sometimes, the board may hire a professional management company to oversee the operations, while other co-ops self-manage and set up committees to help run the co-op. In most co-ops, the board of directors interviews and approves prospective purchasers for membership. Members view this as an opportunity for a prospective purchaser to meet with the board to discuss how the cooperative works and the available services and amenities, as well as to answer any questions about cooperative living. In addition, the board can terminate membership and evict residents who violate any part of the occupancy agreement.




What is the Difference
between a Co-op and a Condo?

	CO-OP	CONDO
Ownership	Members own shares in a corporation, which in turn, owns the land and the building(s). A member has the exclusive right to occupy a specific unit in the building.	Residents own their own units in a building, instead of owning shares in a corporation.
Monthly Costs	Members pay monthly fees or carrying charges to the co-op. This pro rata share covers actual operating costs, blanket debt principal and interest, property taxes, insurance and reserves. In some co-ops, utility costs are included as part of the monthly charges. Members with individual share loans (co-op mortgages) make individual principal and interest payments directly to their lender.	Residents pay monthly condo fees to the condo association. This represents a pro rata share of actual operating costs, insurance and reserves. Residents with mortgages make principal and interest payments directly to their lender.
Maintenance and Repairs	The co-op is responsible for exterior maintenance. Typically, through its board of directors, the co-op can choose how it allocates responsibility for maintenance and repairs between individual units and the cooperative as a whole.	The condo association is responsible for exterior maintenance. Individual unit owners are responsible for all interior unit maintenance and repair.
Purchase Price and Move-in Costs	A purchaser of a co-op unit takes out a share loan (co-op mortgage) through a lender that provides financing to co-ops. In addition, the purchaser assumes the seller's obligations in the occupancy agreement for the pro rata share of the co-op's blanket loan. Closing costs for co-op purchases are generally lower than for condo purchases.	Purchasers pay for their individual units. Closing costs include title search and title insurance fees, tax proration, etc. Buyers also become obligated to pay monthly condo fees. Move-in costs may include the first month's condo fee and often a contribution to the condo's reserves, amounting to one or two months of condo fees.
Financial Liability	Members have no personal liability on the co-op's blanket loan. The occupancy agreement calls for members to pay a monthly carrying charge to the co-op. Members with a share loan (co-op mortgage) are individually liable to their lenders for the amount of the loan.	Residents are obligated to pay monthly condo fees to the association. Residents with a mortgage are individually liable to their lenders for the amount of the loan.

	CO-OP	CONDO
Community Control	Members democratically govern the cooperative and elect a board of directors to oversee operations. Through the board, the co-op has the right to approve all potential members. The co-op can terminate membership and evict residents who violate any part of the occupancy agreement.	Residents democratically govern the condo association and elect a board of directors to oversee operations. However, the condo association has no control over the sale of units or approval of the new owners.
Financing Building Improvements and Replacements	Co-ops can pay for improvements and replacements to the building(s) in three ways: • Approve a special assessment for each individual member on a pro rata basis; • Establish and fund replacement reserves; or • Obtain a new blanket loan or refinance an existing one.	Condos can pay for improvements and replacements to the building(s) in three ways: • Approve a special assessment for each individual unit owner; • Establish and fund replacement reserves; or • Obtain a capital improvement loan.
Democratic Control	The co-op has the right to approve all potential members, and can terminate membership and evict residents who violate occupancy agreements. Members democratically govern the co-op and elect a board of directors to oversee operations.	The condo association has little or no control over sale of units or behavior of unit owners. Residents democratically govern the condo association and elect a board of directors to oversee operations.
Tax Benefits	Members can deduct their pro rata share of the cooperative corporation's mortgage interest and real estate taxes on their personal federal income tax returns, as well as the interest paid on their individual share loans (co-op mortgages).	Residents pay their own property taxes through monthly mortgage escrow payments or directly to the local government. Residents can deduct mortgage interest and personal property taxes on their personal federal income tax returns.
Home Equity	Members build equity as the value of their unit increases and their co-op mortgage (share loan) is paid down. The equity can be used in a cash refinance transaction. Members can also take out a home equity loan or line of credit based on the equity built up in their co-op.	Residents build equity as the value of their unit increases and their mortgage is paid down. The equity can be used in a cash refinance transaction. Residents can also take out a home equity loan or line of credit based on the equity built up in their condo.



Glossary of Terms

Adjustable Rate Mortgage (ARM): A mortgage with an interest rate that is periodically adjusted up or down over the life of the loan, depending on a specified mortgage index and terms agreed to at the inception of the loan.

Amortization: The gradual reduction of the mortgage debt through regularly scheduled payments over the term of the loan.

Annual Membership Meeting: All members are invited to attend this annual meeting to elect the co-op's board of directors, vote on bylaw revisions and listen to other important matters brought before the entire membership. The financial status and overall health of the cooperative are usually reported.

Annual Percentage Rate: The annualized cost of credit, expressed as a percentage, that results from an equation that takes into account the amount financed, the finance charge and the term of the loan.

Articles of Incorporation: A legal document establishing the existence and purpose of the cooperative corporation.

Blanket Mortgage: A single loan covering an entire building or property that the cooperative corporation owns.

Bylaws: 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 will be held, and other issues related to the governance of the cooperative.

Carrying Charges: See Monthly Carrying Charges.

Cash Out Refinancing: A transaction in which a member gets cash from the equity in the co-op at settlement. The cash is the excess remaining from the new loan after the existing first mortgage, closing costs, points and the amount required to satisfy any outstanding subordinate mortgage liens have been paid. The member can use the additional cash for any purpose.

Closing: A formal meeting in which ownership is legally transferred from seller to buyer. This marks the final step of the loan transaction, when the total costs associated with the transfer of real estate ownership and any down payment are paid, and all necessary documents accepting the debt and ownership are signed. A closing is typically attended by the buyer, seller, attorneys, real estate agents, lender's representative and the closing agent. Also called settlement.

Closing Costs: Charges incurred at settlement of a purchase or refinance. These represent expenses incurred when transferring ownership. Closing costs include lender fees, such as a loan origination fee or points. They also include attorney fees, an appraisal fee and the fee for a credit report.

Co-borrower: Any borrower other than the first borrower whose name appears on the mortgage note, even when that person owns the property jointly with the first borrower and shares liability for the note.

Code Section 216: The section of the Internal Revenue Code that allows the pass-through of mortgage interest and real estate property tax deductions from the cooperative housing corporation to the members.

Conforming Loan: A loan that meets the Fannie Mae and/or Freddie Mac lending limits.

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

Co-signer: An individual who signs the mortgage note along with the borrower and is jointly liable with the borrower for repayment of the loan, but does not have an ownership interest in the property.

Credit Rating: A history of payment of past debts and a judgement on usage of credit. Sometimes a credit rating is expressed as a number called a credit score.

Debt-to-Income Ratio: The relationship between a borrower's total monthly debt payments (including proposed housing expenses) and his or her gross monthly income; this calculation is used in determining the mortgage amount for which a borrower qualifies. Also called qualifying ratio.

Documents: A term used to describe the parameters within which a housing co-op 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 or proprietary lease, subscription agreement and house rules, spell out the relationship between the cooperative and each member. Additional documents, such as recognition and regulatory agreements, describe the relationship between the co-op and other entities, such as government agencies or financial institutions.

Earnest Money Deposit: A "good faith" payment submitted with an offer on a co-op unit to show the seller that you are serious about proceeding.

Eighty-Ten-Ten (80-10-10): A loan program with a first mortgage of 80 percent, a second mortgage of 10 percent, and a down payment for the remaining 10 percent. This loan program is used to avoid PMI. Also called a piggyback loan.

Encumbrance: Any claim on a property, such as a lien, mortgage or easement, which complicates the title process.

Escrow: An account in which money for property taxes and homeowner insurance is held until paid.

Fixed Rate Mortgage: A mortgage with an interest rate that will remain the same over the life of the loan.

Floating: An option allowing borrowers to postpone locking their rate under the presumption that rates will go down.

Good Faith Payment: See Earnest Money Deposit.

Home Equity Line of Credit: A revolving credit line used to access equity in your co-op, condo or single-family home, with a stock, unit or property serving as collateral.

Home Equity Loan: A loan with fixed terms used to access equity in your co-op, condo or single-family home, with a stock, unit or property serving as collateral.

Housing Expense Ratio: The percentage of a borrower's gross monthly income that is devoted to housing costs.

Index: A published interest rate used to determine the interest rate payable on adjustable-rate mortgages.

Interest Only Mortgage: A mortgage loan that is structured so that the borrower pays only the interest due for a specific amount of time (for example, three, five, seven or 10 years). After the interest-only period has expired, the loan is renegotiated at the current interest rate for the remaining life of the loan.

Jumbo Loan: A mortgage loan that exceeds the conforming loan limit.

Loan-to-Value Ratio (LTV): The ratio between the amount of a mortgage and the value of the property, expressed as a percentage.

Lock-in: The option to guarantee an interest rate prior to the settlement of a loan.

Maintenance Fees: See Monthly Carrying Charges.

Margin: For an adjustable rate mortgage, the amount that is added to the index value to determine the mortgage interest rate, as stated in the note.

Monthly Carrying Charges: The members' proportionate share of the cooperative's operating expenses, reserve fundings and mortgage balance. Also called maintenance fees.

Occupancy Agreement: The agreement between each member and the cooperative corporation. This contract gives the member the right to occupy a unit, participate in the governance of the co-op, and receive tax benefits and equity increases in return for financial and participatory support of the cooperative. Also called a proprietary lease.

Origination Fee: A fee imposed by the lender to cover certain processing expenses in connection with making a real estate loan. This is usually a percentage of the amount loaned, such as one percent. Also called points.

Points: Discount points are considered a form of interest. Each discount points is equal to one percent of the loan amount. You pay them, up front, at your loan closing in exchange for a lower interest rate over the life of your loan. This means more money will be required at closing, however, you will have lower monthly payments over the term of your loan. Also called discount points.

Private Mortgage Insurance (PMI): Protection for a mortgage lender against default. This expense is paid with the monthly individual co-op mortgage (share loan) payment until the borrower has 20 percent equity.

Proprietary Lease: See Occupancy Agreement.

Qualifying Ratio: See Debt-to-Income Ratio.

Recognition Agreement: An agreement on the part of a cooperative corporation to recognize specific rights of lenders who finance share loans (co-op mortgages), as well as the rights of the borrower and the cooperative.

Reserve Fund: A fund managed by the co-op board that provides savings for the timely replacement, improvements or repairs of major appliances, building components and structures.

Reverse Mortgage: A reverse mortgage allows homeowners ages 62 and up to use the equity in their condo, co-op or single-family home. The homeowner can access a percentage of the equity either as a lump sum, a line of credit, in monthly payments or a combination of two or three options. The loan is called a reverse mortgage because the loan is set up to make tax-free payments to the homeowner(s), which is just the opposite of the way a traditional mortgage works.

Second Mortgage: A term used to describe an additional mortgage on a property that already has a first mortgage.

Settlement: See Closing.

Share: The proportion of the cooperative corporation that each member owns. A stock (or membership) certificate documents the purchase price and membership in the cooperative.

Shareholder: See Member.

Share Loan: Similar to a mortgage, a share loan provides you with funds to buy shares of stock in the cooperative and accompanying occupancy rights in a specific unit.

Stock, Membership Certificates or Shares: The member's ownership interest in the cooperative corporation.

Title Insurance: Protection for a lender against challenges to the claim to a specific property or share.

Underwriting: The process of determining the risk for the lender when evaluating a loan application. This process involves an analysis of the borrower's creditworthiness and the quality of the property itself.

Uniform Commercial Code: A filing instrument to make public the lien against the share.

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