

WHAT IS A COOPERATIVE?

by Terry Faust

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 fewer 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 businesses may buy into the cooperative. Only individuals may purchase stock in the corporation.

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 than condominiums on how the apartments in the corporation can be used and as mentioned 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 time period generally is limited to two years. Cases are handled on an individual basis according to the By-Laws of the corporation.

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 percentage is decided upon by the owners of the coop, voted upon, and added to the By-Laws.

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, each owner's

vote based upon the number of shares he or she owns.

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

Coop Fees and Underlying Mortgages

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 the 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 that it has. This 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 it cannot be paid off early by an individual owner.

Tax Benefits

The tax advantages to 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, according to the IRS rules and regulations for any real estate.

Settlements on cooperatives are less expensive than they are on condos and single-family homes because there are no recordation or transfer taxes paid to the District government (a saving of 1.1% of the sales price to the purchaser and a 1.1% savings to the seller for units costing more than \$250,000), no title insurance is needed, and there are no escrows for property taxes!

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 of the new owner, and the coop may have a minimum down payment requirement. Otherwise, it is basically the same.