

Chapter Eight: Glossary of Terms

What follows is a short list of phrases and terms that are commonly used in the Cooperative field, and every Board member should have knowledge of them. This is not an exhaustive list.

BMIR ("Beemer")

BMIR is an FHA abbreviation for Below Market Interest Rate. This term applies to certain FHA mortgage insurance programs where the mortgage carries with it a subsidized interest rate that is below the market. This reduces monthly cost and makes it possible for low- to moderate-income families to benefit from the cooperative form of home ownership.

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.

Flexible Subsidy Loan

Loans provided by HUD pursuant to section 201 of the Housing and Community Development Amendments of 1978. In general these loans were provided to assist in financing of capital improvements. Some of the flexible subsidy loans had interest rates at 1% per annum and generally have a balloon payment due upon the maturity date of the original mortgage or upon prepayment of the original mortgage.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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%.

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).

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.

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.

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.

For additional Cooperative related terms visit the National Housing of Cooperatives (NAHC) web site:

<http://www.coophousing.org/glossary.shtml>