

CONVERSION PROCESS FOR VERMONT HOUSING COOPERATIVES (FULFILLING CO-OP HOUSING LAW REQUIREMENTS)

STEP 1: DO WE PROCEED WITH CO-OP CONVERSION?

This is where we are right now.

STEP 2: DRAFTING PRELIMINARY LEGAL DOCUMENTS; LEARNING ABOUT CO-OPS.

For the conversion of Burlington/Winooski cooperatives, a set of model documents has been established which will be adapted for each co-op. Some of the major questions each group will have to decide as it reviews these documents are:

- What will be the *name* of the co-op?
- How many people and who will be on the *Board of Directors*?
- How many *shares* will the co-op issue?
- What will be the *limited equity formula* for the co-op?
- What will be the *house rules* for the co-op?

The first two documents to be reviewed and adapted are the Articles of Association and the Subscription Agreement. The Articles of Association will allow the co-op to do business in the state of Vermont and operate as a co-op. A Subscription Agreement represents a commitment from a potential member to purchase a share in the cooperative. State law requires that **at least fifty percent of the residents in a building** sign Subscription Agreements before Articles of Association can be approved. Along with a subscription agreement, the law states that someone interested in joining the co-op must be given copies of the draft Bylaws, Articles of Association, and a copy of the draft Proprietary Lease. After signing the subscription agreement, a resident can change his or her mind and back out of the agreement without any obligation for up to ten days.

Once these two documents have been completed for the proposed cooperative and reviewed by the co-op's attorney, the group will vote to approve them. The residents will then sign each of these documents and the Articles of Association will be submitted to the State of Vermont for approval.

MAIN DECISIONS:

- How will a co-op work in the building?
- How will the co-op make decisions?
- What will be involved financially?
- Can co-op conversion proceed in the building?
- What will be the co-op's limited equity formula?
- Do I want to participate in the co-op?

STEP 3: DRAFTING OTHER LEGAL DOCUMENTS; LEARNING ABOUT THE BUILDING.

The next step is to begin drafting a set of Bylaws and Proprietary Leases for the co-op. The Bylaws discuss how the co-op will make decisions. The Proprietary Lease is the lease between a member and a co-op and describes the procedure for paying rent, under what conditions the co-op can evict a member, and so on. Again, co-ops in the Winooski/Burlington area will use a set of fill-in-the-blank documents for these two documents.

At this time, the residents will also try to establish the financial feasibility of a co-op and begin looking for financing. This is also a time when the resident will assess the physical condition of the property.

MAIN DECISIONS:

- What will be the house rules for the co-op?
- How will the work of the co-op get done?
- Who will the officers of the co-op be?
- How will the co-op make important decisions?
- Is the building in adequate shape; do I want to buy it?
- What financing terms should the co-op look for?

STEP 4: CLOSING AND START-UP.

Once the co-op has all its legal documents and financing in place, it can *close* or finalize the purchase of the building. At that time the co-op will own the building and the tenants will begin operating the co-op.

LEGAL DOCUMENTS: AN OVERVIEW

The Vermont Cooperative Housing Ownership Act

Passed in 1988, the Vermont co-op law was designed to help enable "individuals to form cooperative housing corporations, including limited equity cooperatives, for the purpose of developing, acquiring, owning, and operating housing on a cooperative basis." The law also enables lending institutions to make loans to an individual wishing to purchase a membership shares in a cooperative. Finally, the law makes a series of requirements on the co-op as it develops its legal documents.

The major legal documents for a co-op are...

Articles of Incorporation	A legal document filed with the state which establishes the existence of a cooperative corporation.
Bylaws	A description of the rules the cooperative corporation uses in business.
Subscription Agreement	Through this agreement, the cooperative grants membership to eligible individuals.
Proprietary Lease	The lease between the cooperative and the member which includes the member's rights and duties and the cooperative's rights and duties and rules which the cooperative members may establish.
House Rules	An informal document which the co-op adopts and changes from time to time and which discusses the rules by which the co-op will operate.
Share Loan Recognition Agr.	If a member borrows money to purchase her/his share in the co-op and uses the share as collateral for the loan; the lender, the co-op, and the member will all sign a three-party recognition agreement which sets out the lender's rights in the event of default.
Federation Membership Agr.	All co-ops under the sponsorship of the Champlain Valley Mutual Housing Federation will be required to maintain membership in the Federation -- an association of co-ops in the Chittenden County area. The Membership Agreement stipulates the obligations of the Federation and the co-op.
Ground Lease Agreement	This is the agreement between a land trust and a co-op regulating the use of the land.
Subsidy Covenant	Sometimes co-ops also are asked to sign a subsidy covenant which restricts the use of the land or their building to uses related to affordable housing.

Adapted from the National Association of Housing Cooperatives (NAHC)

ADVANTAGES & DISADVANTAGES OF CO-OP HOUSING

Advantages

OWNERSHIP means being able to earn equity in the co-op and realize a modest return on your share investment.

OWNERSHIP means co-op members get to make decisions about how the co-op will be run; there is no landlord telling you what to do or making decisions about the building/park.

MEMBERSHIP means working together to solve problems and building a community of residents; co-op are less likely to be impersonal.

MEMBERSHIP means having the opportunity to participate in the operation and improvement of your building/park by serving on the board of directors of the co-op, participating in work days, and so on. Many find this participation a great learning experience and an important social element in their lives. Use of member labor can also save the co-op money and reduce the co-op's monthly rents.

RESIDENT-CONTROL means you are able to shape the nature of the community there will be in your co-op. You will be able to help decide who will live in the co-op, what standards for maintenance and upkeep the co-op will adhere to, and the house/park rules for the co-op.

Disadvantages

OWNERSHIP means having to come up with the money for a membership interest. Co-ops also usually limit the rate of growth in member share values. You may also see the value of your share grow slowly or even drop, depending on the condition of your co-op and the market for co-op housing.

OWNERSHIP means taking responsibility for the operation of the co-op; there is no landlord to take care of maintenance and problems at the building/park.

MEMBERSHIP means taking responsibility for decision-making in the co-op and spending time in meetings, having to work through disputes in the co-op. Co-op members are less likely to be able to retreat to their homes and be left alone.

MEMBERSHIP means having to put in work for the co-op (sometimes several hours a month) which otherwise would be done by a landlord.

RESIDENT-CONTROL means that you have to work with other members of the co-op and may not always be able to do everything you wish. The co-op may choose maintenance or housekeeping standards which are different from yours. The co-op may also choose to adopt house/park rules with which you do not agree. The co-op will also limit to whom you can sell your ownership interest.

