DC Cooperative Housing Coalition News

Representing the interests of the cooperative community in the District of Columbia since 1984

May - August | 2018 ***Serving the District's cooperative housing community for 34 years***

Helping Cooperative Communities Flourish Highly Successful

Steve McKevitt, Coalition Board Director
Beverly Court Cooperative

On May 15, the DC Cooperative Housing Coalition held a popular and successful Roundtable Discussion event for its co-op members held at the University Club in DC. Entitled *Helping Cooperative Communities Flourish,* the event featured a pre-meeting reception, with hors d'oeuvres and drinks sponsored by the National Cooperative Bank. The reception provided time for the attendees to meet and to share their thoughts with other cooperative homeowners.

Russ Rader, Coalition President, welcomes participants

The event was organized into six tables with each table focused on one of six topics (listed below) with someone who was an expert in the topic under discussion. Each participant was able to explore two topics.

There were 68 participants with representatives from 36 member cooperatives. Based upon person-to-person (*Cont'd., page 2,* **Roundtable**)

Coalition Member Cooperatives Approach $2 Billion in Valuation

The DC Cooperative Housing Coalition represents 64 market-rate cooperatives with a cumulative valuation of $1,892,971,440 according to DC's Office of Taxation and Revenues' (OTR) proposed 2019 values. That amount does not reflect the Homestead Exemption. The current, 2018 valuation on which members paid taxes was $1,578,955,296. That amount does reflect the Homestead Exemptions deduction cooperatives provided to the OTR for 2018.

Individual 2019 proposed values ranged from a low of $1,342,350 for a 7-unit cooperative in Ward 3, to a high of $157,309,800 for a 545-unit cooperative in Ward 2.

2019 Valuation by Ward

Ward	# of Coalition Member Co-ops	Total Proposed 2019 Assessed Valuation
1	16	$287,228,590
2	17	$711,012,230
3	20	$444,304,140
4	3	$14,929,640
5	2	$4,671,330
6	5	$397,254,070
7	1	$33,571,440
8	0	NA
Total	64	$1,892,971,440

The overall increase for the 64 co-ops' proposed 2018 ($1,795,708,430) to 2019 proposed valuations was 5.4 percent. The change in valuations by Ward ranged from -3.3 percent in Wards 4 to 18.3 percent in Ward 5.

2018 - 2019 Percent Change in Proposed Valuation by Ward

Ward	Percent change from 2018 to 2019
1	.18%
2	7%
3	5.6%
4	-3.3%
5	18.3%
6	7.3%
7	-1.2%
8	NA
Overall Change	5.4%

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Annual Meeting

October 23

Hosted by
The Broadmoor Cooperative
3601 Connecticut Avenue, NW
Cleveland Park Metro
Red Line Stop

Guest Speaker from IONA
Supporting our elderly residents

Details will be mailed to members in early October

Roundtable *(From page 1)*

comments made that evening, as well as in the written feedback evaluation forms that were submitted, the event was well received by attendees. High marks were given for the event's organization. Participants indicated that they found the presentations and discussion at each of the roundtables that they attended to be very informative and helpful. However, a fair number commented that they would have liked more time for discussions, a point that the Coalition will consider when planning future presentations.

Pre-meeting reception, with hors d'oeuvres and drinks provided by the National Cooperative Bank

After the opening reception and welcome by Russ Rader, the Coalition's Board President, groups at the six tables began their presentations and discussions.

Summary information and materials of each roundtable was emailed to each person attending shortly after the event. Each attendee also received a list of the names of all of the participants and their contact information. Information about each topic (excluding participant names and contact information) will also be posted on the Coalition website.

Roundtable topics

Screening New Members for Financial Ability to Meet Financial Obligations

Subject Matter Expert: Ryan Greer, Vice President, Loan Officer, National Cooperative Bank

Responding to Mechanical and Plumbing Emergencies.

Subject Matter Expert: Ann Benefield (center in front of flip chart), General Manager, The Residences at City Center (and former General Manager at The Westchester Cooperative)

Enforcing the Rules.

Subject Matter Expert: Joseph Douglass (far right), Attorney at Whiteford, Taylor, Preston, LLC

Communicating With and Engaging Co-op Members

Subject Matter Experts: Stacy Baker, Chair (left), and Corinne Irwin (right), Co-chair, Harbour Square Owners Cooperative Communications Committee

Planning, Managing, Financing Capital Projects

Subject Matter Expert: Richard Chauncey (center, jacket and tie), General Manager, Tilden Gardens, Inc.

How to Select and Manage Professional Management Companies

Subject Matter Experts: Gary M. Simon (standing, right), Regional Director of Property Management, Comsource Management AAMC; Lynn Ohman, President, Shoreham West Cooperative, Inc.

When Associations Borrow

What to Know Before Taking Out a Loan

Mike Odenthal, *staff writer/reporter for The Cooperator.*

The following article appeared in the July 2018 online edition of "The Cooperator", https://cooperator.com/article/when-associations-borrow?utm_source=newsletter266&utm_medium=email&utm_campaign=newsletter&npe=n266-1240675)

Whether it's a renovation, an emergency repair, or anything in-between, condos, cooperatives, and homeowners' associations are rarely not spending money on something. And while they may have reserves on hand to pay for its latest project, money often needs to be scraped together pronto in order to cover unexpected expenses, delays, or other issues.

While special assessments to raise needed funds are a common fact of life in multifamily communities, coming up with a hefty amount in a relatively short window of time isn't always realistic, depending on the means and limitations of individual residents.

An alternative to assessment is to take out a loan from a bank, which the association can then pay back over time— with interest—often by making a marginal increase to residents' monthly dues. This can often be an appealing option—but it's important for boards to do their due diligence and weigh the pros and cons of assessment versus borrowing before entering into any long-term financial arrangement.

Why Borrow?

There are a number of reasons why a board might want to take out a loan to fund even a fairly modest project. But realistically, the higher the price tag, the more sense it makes to bring in an outside financier. "Associations typically borrow money when they have a large capital need, such as a roof, siding, a roadway, or something similar," explains Lisa Wagner, VP and Business Development Officer with ConnectOne Bank in Englewood, New Jersey. "Existing cash saved in a capital reserve account might be short, or the association might not want to deplete all of those funds, so it will borrow from a bank."

Jared Tunnell, Senior VP of National Cooperative Bank, which has offices in Virginia, Washington, D.C., New York, Ohio, and Alaska, cites some more examples of big-budget to-dos: "The largest ones that I've seen recently, if you're a townhouse community for example, have been roofs, siding or stucco. For high- or mid-rise buildings, the big line-items are facades, balconies, or HVAC risers."

A responsible board will be aware of the inevitability of these major repair projects, as everything from building systems to roofs to facades all face gradual wear and tear. "These projects are often necessary 15-20 years into the existence of a property," notes Charles F. Withee, President and Chief Lending Officer of the Provident Bank, which has locations throughout New England. "Let's say that you're faced with repairing or replacing the roof and the siding simultaneously. If the former is going to cost you $200,000 and the latter $300,000, and your association is 100 units, you can do the math on a special assessment. That's a big nut."

"The benefit of borrowing...is that you're actually using the balance sheet of the community to borrow money, so it doesn't impact an individual resident on a personal level, or affect personal credit," explains Tunnell. "They're using the aggregate value of the community to borrow, as opposed to a specific unit. And then you can pass on the monthly fee to the next owner. So if you're dealing with a 50-year-old community with 50-year-old pipes that need to be replaced, various owners have come and gone who have enjoyed those pipes over that time period. Why should a handful of individuals shoulder the burden of coming up with that replacement money upfront?"

From Whom?! And How?!

Of course, the first step is to identify a qualified lender with which an association can negotiate agreeable terms and come up with a feasible repayment plan. And certain criteria need to be met on the association's side in order for it to prove a viable lendee.

"The association will need to have a reserve account that is being funded," says Rachel Rowley, VP-Association Financial Partner with Alliance Association Bank in Oswego, Illinois. "Most associations want to use their reserves so they can take out a lower loan. The reserves are actually what helps them become qualified. Past-due accounts can hinder the loan process. For [us], they can have no more than 10% of their total units over 60 days past due. And they should look for a loan that does not contain a prepayment penalty. A bank will not finance a project for longer than the life expectancy of the product – so the board...should look at all of the projects that will need to be undertaken during a specific period of time. If they need their roof taken care of now, but may need siding in two years, it may behoove them to take out a larger loan and complete both projects simultaneously in order to avoid starting the loan process over again a few years later."

"Most banks, if they are assessing the loan request correctly, will ask for a recent capital reserve study, year-end and interim financials, arrears report, estimates from contractors, and bylaws," adds Wagner. "We like to see a special assessment put in place by the board for the homeowners to pay the loan. This ensures that the bank will get paid back dollar-for-dollar by the homeowners. If the association has a problem with collecting management or assessment fees, we would be concerned. If the board doesn't want to share the idea of a loan and/or assessment with its owners, this is concerning; even if the bylaws state that they do not need approval, we would prefer a vote by the residents anyway. It's not worth a legal battle in the future."

It's also worthwhile for a board to research banks in the area to ascertain whether one may specialize in association loans. "If you approach a bank, and they ask something like 'What's the collateral again?' then you're at the wrong bank, because they don't know that they're dealing with a cash-flow loan," warns Withee. "And there are other underwritings to consider; we're typically dealing with seven-year terms, or possibly 10 years. We calculate for an association what the debt service is going to look like; what they need to do is look at the budget to determine what they'll need to raise in dues to cover that new debt service.

"From there," Withee continues, "you need to review the significance of that increase. If it's going to be a 30 to 40% spike to the [maintenance] fee, that could be a real problem. The bank is going to look at the likelihood of the unit owners staging an uprising. There's no magic number to indicate that, but if the increase is north of 10 or 15%, we're going to need to have a discussion. You can write beyond that, certainly, but that's an area that the board should consider: how this loan will affect the condo fee. And an alternative is to keep the fee untouched, but then you'll probably have to have an enormous special assessment."

What, Me Worry?

So it's imperative that a board consider how much it will have to raise monthly fees in order to pay off its debt in a timely fashion, and whether its residents will reasonably be able to afford to do so month after month. And there are other red flags that may indicate that a board is entering into an ill-advised loan transaction, as well as problems that can turn a loan sour down the line.

"Borrowing is a bad idea if the association is only looking to get a head start on capital projects," warns Rowley. "In those cases, they should focus on increasing assessments to help them prepare. But an association loan is one of the safest loans that a bank can enter into."

"[We look at] delinquencies, adds Tunnell. "How many people are not paying [monthly dues or maintenance] – though we look more at the number of units [in arrears] than the balance owed. We look at investor-owned units or sublets; we like to see a majority owner-occupied. In major metropolitan areas, we like to see this number at around 50 percent."

"These loans are surprisingly simple for those that do them all the time, on behalf of all parties concerned," says Withee. "But the converse is also true: if you deal with a local bank – and maybe it's the bank of the condo president – and they don't know these things, you'll have to educate them, and that's going to be hard for the board. The bank will get uncomfortable, then the board will get uncomfortable. That discomfort, for a traditional commercial bank, is going to result in no collateral, and no tertiary guarantees, which means you essentially have one source of repayment: the condo fees. But that hypothetical bank fails to realize that the source of repayment is actually diversified among 100 or more individuals, and is actually very predictable. We've done these loans for a dozen years, and never lost a penny. They're always good loans. But you don't want to have to catch your banker up to speed, so don't get hung up on just using a board member's favorite commercial banker. Be very objective. Ask how many deals they've done, and with whom. Make sure the bank is specifically equipped to do an association loan. Because, while it's not hard, it is a specialized practice, and your bank needs to be prepared to do it."

DC Cooperative Housing Coalition
Since 1984 ◆ CoopsDC.org

Recent Coalition e-Surveys

The following surveys were conducted at the request of Coalition members. Thanks to the Coalition members for sharing your knowledge and experiences with another co-op. The questions are broad and interesting and our members always come through!

Composting (May)
Roof Contractors (June)
Delinquencies (June)
Donations (June)
Painting (June)
Capital Reserves (July)
Fios (July)
Joist Repairs (July)
Maintenance Management Systems (Aug.)
Increasing Board Pools (Aug.)

Don't Forget

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All sizes, styles, and locations!
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Board of Directors

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Russ Rader
The Westmoreland, 60 units

Vice President
Lynn Ohman
Shoreham West, 60 units

Secretary
Art Leabman
1870 Wyoming Avenue, 28 units

Treasurer
Dottie Moskowitz
Tiber Island, 389 units

Directors

Fred Dyda
Tilden Gardens, 170 units

Stephen McKevitt
Beverly Court, 39 units

Spring Worth
Madison Terrace, 44 units

Michael O'Dell
Harbour Square, 447 units

Ray Olson
River Park Mutual Homes, 518 units

Nancy Skinkle
The Broadmoor, 194 units

Janet Sten
3020 Tilden Street, 20 units

Katie Wilson
Cathedral Avenue Cooperative, 145 units

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About DC/CHC, the Coalition

Established in 1984, the DC Cooperative Housing Coalition exists to advance the common interests of cooperative housing associations in the District of Columbia and to promote cooperative housing as a desirable form of home ownership. It is therefore both an advocacy organization that articulates the interests of members before government officials and regulatory agencies and a service organization that provides information and education to members.

Membership is open to all District housing cooperatives, regardless of size. A volunteer board of directors, elected by member co-ops, governs the Coalition. Activities are financed through annual dues, $1.50 per unit per year (12.5 cents per month)

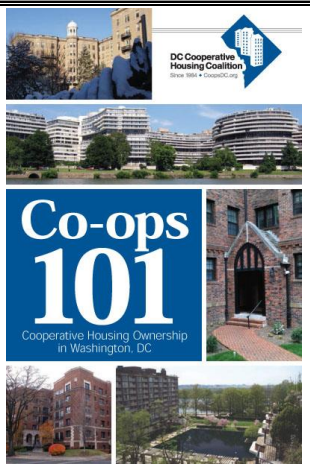
The Coalition grew out of an ad-hoc group of District cooperatives that formed in response to a judicial ruling that had cast a cloud over many cooperatives by banning proportionate voting. By marshaling the forces of more than 3,000 housing cooperative units, the ad-hoc group persuaded the District's City Council to resolve the matter.

Recognizing the importance to the cooperative housing community of speaking in a single voice and maintaining the ability to respond quickly and knowledgeably to matters affecting cooperative housing, the ad-hoc group decided to form a permanent organization.

The Coalition was established in 1984 and was incorporated as DC/CHC, Inc., a nonprofit, IRS Code Section 501(c)(6) organization in the District of Columbia, May 24, 1993.

www.CoopsDC.org

The first place to look for a service provider



Co-ops 101 **Free download:** http://coopsdc.org/wp-content/uploads/2014/07/Co-ops101-PDF.pdf

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Member Profile Page

Does your cooperative have its own dedicated page on the Coalition's website? It's free and it is one of the Coalition membership benefits. See what your co-op is missing at http://coopsdc.org/members/ and click on members with names in bold. ***Don't let your co-op miss out on this members-only benefit***