



Multifamily Selling and Servicing Guide

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Section 805 Limited Equity Cooperative Properties

Requirements

In addition to the rest of this Chapter, you must ensure that Limited Equity Cooperative Properties meet the following:

- Cooperative Maintenance Fees: You must ensure that:
 - monthly Cooperative Maintenance Fees are not more than 90% of comparable unit market rents; and
 - if there are restrictions from the HUD or others, then both HUD and the Limited Equity Cooperative Property's Board of Directors or managers must approve all Cooperative Maintenance Fee increases before the Commitment Date.
- Replacement Reserve: You must underwrite the greater of
 - the PCA recommended reserves, or
 - \$250 per unit per year.
- Cooperative Operating Reserve: You must require a reserve equal to at least 6 months of P&I payments on the Mortgage Loan.
- HUD IRP Loan: You must require an IRP reserve equal to 2 months of IRP payments for the life of the IRP Loan. The funds in the IRP reserve may only be used to compensate for late IRP payments.
- Cooperative Property Underwritten NCF: You must use the Cooperative Property Underwritten NCF calculation in the Multifamily Analysis of Operations (Form 4254), but the following exceptions apply:
 - Economic vacancy: Use the greater of
 - 5%, or
 - the highest level experienced by the Property during the last 3 years.
 - Actual operating expenses: Equal to 103% of the previous year's operating expenses.
 - Replacement Reserve: Use the greater of
 - the scheduled Replacement Reserve per unit as determined by a PCA, or
 - \$250 per unit per year.
- Unit Turnover: Total unit turnover must not be greater than 20%.
- Escrows: You must require monthly deposits for real estate taxes,



insurance, and the Replacement Reserve.

- Cooperative Property Sponsor: There must be no Sponsor-owned units.
- Property management experience: The Property management firm must have Limited Equity Cooperative Property management experience. If HUD restrictions are in-place, the firm must also have a history of successfully complying with HUD restrictions and reporting requirements.

Guidance

You should consider the following:

- Cooperative Operating Reserve: You may include a similar reserve held by another independent lender if the funds are released to you.
- Cooperative Property Underwritten NCF: 3% trending is not required for trailing 12-month or year-to-date annualized operating expenses.
- Unit Turnover: Unit turnover occurs when a shareholder or tenant chooses to vacate a unit or terminate a lease during the past 3 years.



Glossary

C

Commitment Date Date a Commitment is confirmed by Fannie Mae as described in [Part IV A, Chapter 3: Committing](#).

Cooperative Maintenance Fee Periodic fee assessed each shareholder or owner of a Cooperative Organization to fund costs and expenses associated with ongoing operations of the Cooperative Property.

Synonyms

- Cooperative Maintenance Fees

Cooperative Operating Reserve Liquid funds, including loan proceeds, controlled by the Cooperative Organization to cover operating and capital expenses, and comprised of unrestricted cash, less the sum of accounts payable.

Cooperative Property Multifamily residential property owned by a Cooperative Organization.

Synonyms

- Coop
- Cooperative

Cooperative Property Sponsor Person who invested in, converted, or is converting a residential rental apartment building to a Cooperative Property and continues to own unsold shares in the Cooperative Organization.

H

HUD U.S. Department of Housing and Urban Development

I



IRP

Interest Reduction Payment

Synonyms

- Interest Reduction Payment

L

Limited Equity
Cooperative Property

Cooperative Organization that has income, rent, or equity build-up restriction (not including any transfer taxes), which may be dictated by a governmental entity, a third-party capital provider, or its own organizational documents.

Synonyms

- Limited Equity Cooperative Properties

M

Mortgage Loan

Mortgage debt obligation evidenced, or when made will be evidenced, by the Loan Documents or a mortgage debt obligation with a Fannie Mae credit enhancement.

Synonyms

- Mortgage Loans

P

P&I

Principal and interest

Property

Multifamily residential property securing the Mortgage Loan and including the land (or Leasehold interest in land), Improvements, and personal property (as defined in the Uniform Commercial Code).

Synonyms

- Properties
- Property's

R



Replacement Reserve

Custodial Account established by the Lender and funded by deposits from the Borrower over the term of the Mortgage Loan to fund the replacement of capital items at the Property.

Synonyms

- Replacement Reserves

S

Sponsor

Principal equity owner and/or the primary decision maker of the Borrower (often the Key Principal or the Person Controlling the Key Principal).