

# AVON HILLS CONSUMER HOUSING COOPERATIVE

A Non-profit Corporation

## Prospectus and Informational Bulletin

### I. Introduction

Membership in **Avon Hills Consumer Housing Cooperative** is more than just a place to live. A Membership in a housing cooperative grants its members ownership rights which include the participation in its operations.

**Avon Hills Consumer Housing Cooperative** offers the advantage of ownership and the convenience of community living at prices well below those of equivalent condominium or single family homes. Evaluate the advantages of cooperative membership.

- Costs are lower because members collectively are their own landlord. No landlord profits are being removed from the community.
- The cooperative's Board of Directors through its managing agent has the authority to accept or deny applications for membership, and thereby influences the quality of the families in the neighborhood.
- Members who itemize their federal and state income tax deductions can deduct their portion of the mortgage interest and real estate taxes paid by the cooperative.
- Members of the cooperative own, and through the Board of Directors, control the property and determine monthly payments, house rules, and community policies.

### II. Description of Property

The Cooperative is a non-profit housing corporation that was chartered under the laws of the State of Michigan on August 12<sup>th</sup>, 1970. The Cooperative owns a 197-unit housing community in Rochester Hills, Michigan for the use by its members.

The Corporation was organized for the purpose of providing housing and it currently has a regulatory agreement with the Michigan State Housing Development Authority (MSHDA). Accordingly, it is obligated to follow the regulatory requirements prescribed by the MSHDA development under Section 236 Moderate Program pursuant to Michigan Public Act 346 of 1966, as amended.

The land and buildings are owned in a fee simple title by the cooperative, subject to the mortgage described below. The members of the cooperative own and control all the cooperative's outstanding shares of stock.

There are 197 private dwelling units, a sales office. The clubhouse is jointly owned with the neighboring community.

The dwelling units on the property accommodate a variety of family sizes. There are one, two, and three-bedroom townhouses in variety of different styles.

Unless otherwise agreed, the cooperative owns and maintains the plumbing and electrical systems, furnace, water heater, all appliances including refrigerator, stove as well as the structural integrity of the building, its roof, exterior walls, windows, and foundation at no additional cost to the members. The cooperative also maintains the common grounds, sidewalks, fences, and parking facilities at no additional cost to the member.

### III. Cooperative Ownership

A member's ownership interest is evidenced by a membership certificate issued by the corporation and an occupancy agreement that grants the right of occupancy of a private dwelling unit. The occupancy agreement grants the member an automatic right to occupy the dwelling unit for as long as the member complies with the conditions of occupancy.

To become a member of a housing cooperative a person buys a share or membership certificate in the entity and an exclusive right to occupy one of the cooperative's dwelling units. Members occupy their private dwelling unit pursuant to a propriety lease called an occupancy agreement. Each member of a cooperative owns a cooperative interest, whose interest as a whole ownership owns the real estate, and each member has a leasehold interest to a specific dwelling unit.

Ownership of the cooperative interest also gives the member the right to democratic participation in the control and management of the cooperative housing community and the obligation to pay his or her share of the cost of operating and maintaining the housing cooperative. The cooperative operates with one class of membership and, therefore, allows one vote per membership certificate regardless of the number of persons owning the membership or the size of the unit.

Persons who wish to move from the cooperative must sell their membership and right of occupancy to a person approved by the Cooperative before they are released of their obligations under the occupancy agreement. A more detailed and authoritative statement of this procedure is contained in bylaws, and occupancy agreement.

The corporation is not offering condominium or fee simple ownership in the property or the dwelling units. Membership in the cooperative along with the occupancy agreement provides for the creation of a leasehold interest in a dwelling unit.

### III. Mortgage Obligations

The cooperative is obligated under a single mortgage loan that was established in 1972. The mortgage covers the entire property and is insured by the Michigan State Housing Development Authority (MSHDA). It is secured by the land and buildings of the cooperative and is non-recourse to the individual members. The monthly payments are made by the cooperative from revenues it receives from its members each month.

The mortgage note bears an interest rate of 6.25% that is reduced to an effective 1% rate by an IRP subsidy received and its payable over a 40 year term in equal monthly installments.

Original Loan Amount	Principal Balance as of 3/1/08	Monthly Interest & Principal	Maturity Date
\$ 4,388,000.00	\$ 1,200,000	\$ 25,072.57	10/1/2012

**V. Obligations to MSHDA**

The Cooperative received a mortgage subsidy from the Michigan State Housing Development Authority through the maturity of the mortgage on a monthly basis.

The Cooperative is operated under a regulatory agreement with MSHDA. Consent of MSHDA is required to increase the mortgage obligation of the cooperative, increase monthly fees charged to members, and to make certain withdrawals from reserves. The cooperative is also obligated to provide financial reports to MSHDA from time to time, and to insure that all of its new members meet the maximum income requirements as established by MSHDA. This obligation to MSHDA will be in effect until the final payment is made on the mortgage in October of 2012 and the regulatory agreement is discharged.

**VI. Reserves**

A Reserve for Replacement (R.R.) was established to assure the availability of funds for the replacement of roofs, furnaces, water heaters, appliances, as well as sidewalks, asphalt replacement and other qualified items in the cooperative. The cooperative is required to fund this reserve each month up until the maturity date of the mortgage. Disbursements can only be made with the consent of the Michigan State Housing Development Authority.

A General Operating Reserve (G.O.R.) was also established to assure the availability of funds to cover operating shortfalls, special projects and capital improvements at the cooperative. The cooperative is required to deposit an amount equal to 3% of its gross budgeted carrying charges into the reserves until the balance of the reserves meet the balance requirements as established in the Regulatory Agreement.

**VII. Tax Considerations**

In computing the overall housing costs, the member may wish to consider the benefit of federal income tax deduction allowed to tenant-members of cooperative housing corporations under the provision of Section 216 of the Internal Revenue Code. Members are entitled to deduct from their gross income their proportionate share of real estate taxes and mortgage interest paid by the cooperative. At the end of each year the cooperative will advise each member of their proportionate share of the total amounts paid by the cooperative for mortgage interest and real estate taxes. The actual value of the tax benefit depends upon the taxpayer's income and tax bracket.

**VIII. Cooperative Documents**

The Cooperative Documents consist of the Articles of Incorporations, Bylaws, and the Occupancy Agreement.

The Articles of Incorporation was issued by and recorded by the office of the Department of Commerce in the State of Michigan. The Corporation is organized as a non-profit corporation.

The Bylaws are the governing documents of the corporation and set out how the organization is structured and how it should function. It delineates the powers of the governing bodies and the rights of and restrictions on individual members.

The Corporation is governed by a seven person Board of Directors who is elected by the Membership. The Board of Directors is responsible to the member stockholders and is charged with the proper administration and management of the affairs of the Corporation. It monitors the cooperative's finances, selects members, sets community policies and establishes membership rules and regulations. The Cooperative Board of Directors fixes the operating budget and the monthly fees required of each member.

An annual meeting of members is held each year to elect directors and conduct any other business that might properly come before the members.

**IX. Membership**

To become a member of the corporation a person must be approved for the purchase of a membership by the Cooperative's Board of Directors through its Managing Agent.

The Bylaws restrict the transfer value of membership by setting out the maximum resale price at which members may sell their membership interest. Members who wish the cooperative must first offer their membership to corporation who has the first right to purchase it at the transfer value as defined in the bylaws. If the corporation chooses not to purchase the membership, the departing member must sell this membership to any person approved by the Board of Directors through its managing agent at a price not exceeding the transfer value defined in the Bylaws.

End