

Arrowwood Hills Cooperative

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What Is Mortgage Payoff?

Having begun in 1970 (thanks to special 100% federal financing, i.e., debt, at a special low interest rate), September 2010 will mark full repayment of the Co-op's original mortgage (payoff of the original construction & development costs).

Completing the repayment of the original cost of Arrowwood is good news for all member-residents. It will mark the elimination of a 40-year old obligation that makes up about 17% of the Co-op's current annual budget (nearly \$300,000). As this payback to HUD is finished, the HUD regulations (Regulatory Agreement) related to the original mortgage also expire (are eliminated).

As such, many questions about how things *should* change "after-2010" have begun to be discussed. After all, the member-residents will continue to be the owners of the non-profit corporation named "Arrowwood Hills Co-op, Inc" – and, like all user-owned housing, the year-to-year decisions about operations will continue to rest with the resident co-owners, through their elected Board members.

This write-up is prepared by management and your elected Board 'reps' as an overview of some of the things that are already known about operations after 2010. Also addressed are some of the legal and tax considerations that apply now – and will continue to apply until outside laws (or internal "bylaws") change.

This write-up answers some of the basic questions that you as a member-resident may have. It also points out the kinds of information, planning and discussions that you can expect - as we all look ahead beyond 2010.

Between now and Sept 2010, at any time, please feel free to write down any question(s) you may have regarding the "mortgage payoff" subject. Keep one copy and give your question to the Site Manager or office (addressed to the Board), so that it can be answered in writing. Misinformation is common when questions are organizational and/or financial – so, to avoid confusion, "*get it in writing*".

The Board will provide a written response to all such questions – using advisors as necessary. Periodically, the Board as part of its "Post Payoff Planning" program will schedule and hold OPEN information sessions for all Arrowwood members regarding one topic or another related to the this write-up – and mortgage payoff, in general.

From time-to-time, additions to this 4-page paper will be made. The goal will be to reflect and make available new information to co-owners whenever helpful.

1. Monthly Fees ?

After HUD mortgage payoff, there will be only ONE “basic” monthly fee for each type of townhouse at Arrowwood. The second “surcharge” rate (10% higher) will be eliminated. This will mean that each year’s operating budget, as determined by the Board, will be met by equal payments from all co-owners who have the same size townhouse.

2. Mortgage ?

Although the original “cost of construction” mortgage will be eliminated in 2010, the payoff triggers a *second* repayment obligation for a deferred loan (“Flex Sub”) that was made to Arrowwood by HUD in 1989. The percentage of the current budget that is going to our current HUD mortgage repayment is about the same as our deferred loan payment will be. So, at HUD payoff in 2010, we will really be replacing one mortgage for another – with virtually no resulting change in monthly fees (due specifically to the end of the *first* mortgage). The Co-op has planned this FlexSub loan purposely to not start (not amortize) until the HUD mortgage ends. This FlexSub loan was how the Co-op financed major renovations needed in 1988-89 (e.g., windows, siding, roofs, roads and parking, appliances, etc).

3. Taxes ?

Property taxes for all townhouses will continue to be governed by State Law and City Assessment; (and still be invoiced directly to the Co-op due to the Co-op since it is the Co-op that owns all land and buildings, as a member-owned corporation). Because co-op membership is regarded as housing ownership for income tax purposes (if deductions are itemized), an “assessed value” and a “taxable value” record for each townhouse at Arrowwood is expected to be developed and kept by the City Assessor -- as the City tracks resales (transfers). Each member’s unit, therefore, will have its own “AV” and “TV” valuation for the member’s (your) ownership records and personal tax reporting. Under current MI state law, Taxable Value (TV) remains “capped” (to changes in CPI or 5% whichever is less) UNTIL there is a sale of the co-op membership. This means that even after HUD payoff, your annual property taxes can be expected to remain stable (currently about 12% of monthly fees). If you move out or sell your membership, however, the new co-owner will have to pay whatever the higher Assessed Value (AV) of the unit’s membership is at the time of his or her purchase. This may be quite a bit higher (for the new move-in) if there is a large gap between TV and AV at the time of sale. Because of this DIFFERENCE in individual UNIT tax bills (also due to the different unit sizes), it is likely that the Co-op will prepare and send out individual tax bills once a year, AFTER HUD payoff (and reassessment by the City).

4. ***How will monthly fees change?***

Besides #1 above, monthly fees will change only if and when members (through their elected Board representatives), change the Co-op's *Responsibility Matrix* and/or annual operations plan. Monthly fees, after all, are determined by the list of things that the Co-op is responsible for PLUS the cost of operations to take care of these responsibilities (in the short and long term). Co-owners can make suggestions to their elected representatives on the Board of Directors to seek to modify the published "Responsibility Matrix" (see Members Handbook). Increasing individual responsibilities results in lower co-op fees – whereas *decreasing* the items for *individual member care raises monthly co-op fees*. During the HUD mortgage years, HUD was involved in most changes to the operating budget and Responsibility Matrix at Arrowwood. After 2010, without HUD's involvement, co-owners (through the Board) will have more flexibility and direct control.

5. ***What will a co-owner of Arrowwood own?***

Just as each member does now, after HUD-payoff each co-owner will continue to own their membership SHARE (membership) in the Co-op. With that ownership share (of everything at Arrowwood), you own the specific rights to the townhouse you reside in – and are eligible for the same tax and equity benefits of homeownership that others receive who own their homes differently (e.g., condo or fee simple). In terms of ownership, nothing changes (or is due from you, the member) as a result of paying off the HUD mortgage. Mortgage payoff simply means that there is LESS debt owed on the land and the buildings at Arrowwood. Less debt suggests that the Assessed Value of your townhouse and of others at the Co-op will be higher (as calculated by City Assessors and lenders who finance homeownership, if owner-members need to borrow). This value of owner equity, however, will be constrained by market conditions and by any other specific stipulations set forth in the bylaws.

6. ***How much higher will the value of my membership be?***

If you ever sell your membership, the cost of the memberships to the *new* move-in *buyer* will be the PRICE (or value) you will receive. Either a formula in the bylaws (as historically the case for AW memberships) – or the open market will determine this COST to new move-in buyers.

Since its 1989 "mortgage workout" with HUD (when monthly debt payments were recalculated), membership values at Arrowwood Hills have followed the increases set forth in the bylaws ("limited equity") table. These values have increased cost-of-membership approximately \$200 to \$300 per year. Different formulas – even fixed rate formulas -- for future resale values have been suggested and evaluated.

Another paper “*Origins & Options*” discusses the options and formulas in more detail. To summarize, they include the following: (1) to make no changes to the *Restricted Equity* (or “limited equity”) table, allowing it to increase gradually just as it does; (2) to change to *Fixed Equity* (flat rate) table, where the price for membership never changes; (3) to change to *Open Market (unrestricted)* resale pricing; OR (4) to change to a hybrid form that would combine #2 and #3 to perpetuate income diversity (by preserving some memberships only for low-income).

Specific OPEN meetings are scheduled for presentations and discussion of these different options. A third paper “*Sustaining Affordable Housing*” details preservation actions taken following 2006 and 2007 meetings. At the end of the evaluation period (and prior to HUD-payoff in Sept 2010), a recommendation and proposal to the membership will be made by the Board of Directors. A vote specific to the question of HOW memberships will be resold (to new buyers when a member moves out) will be taken. That vote of the membership will determine the final change(s) to be made.

7. *How will agreed-upon changes (after-2010) be reflected and implemented?*

As the governing documents of the Co-op, the changes will be written up in a new set of bylaws. These new bylaws for Arrowwood Hills will be voted on by the entire membership, and have a “post-HUD-payoff” effective date.

Following adoption of the updated set of *Co-op Bylaws* that speaks to the specific question of how memberships will be resold, the Co-op’s elected Board will issue a revised *Members Handbook* and procedures for sale and resale of memberships. In all other respects, Co-op operations will continue as they are, that is, with decisions on services and required monthly rates made by the elected representatives of all members.

Our OVERALL and COMMON GOAL is to make the next 40-years of Arrowwood Hills Cooperative, Inc as beneficial to its member-residents, young and old, as the first 40-years have been. Please help us toward that goal.

Each co-owner / member is urged to participate in this process of informational gathering, evaluation and “Post Payoff Planning” – for good, for all. Please remember, your written questions are welcome at any time – and you are invited to the periodic members meetings intended to present helpful information.

Thank you for your interest and assistance.

Board of Directors & Management