



# The ABC's of TIC Living

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# So just what is a TIC – and what’s the big deal?

TIC stands for “Tenants in Common.” It refers to an arrangement where two or more people co-own real estate without the right of survivorship. For example, two friends, Fred and Alice, who pool their money and buy a house together—they each own an agreed-upon percentage of the property.

In Southern California, TIC is most often used to refer to a special arrangement that allows individuals to own a unit in a building before that building converts to a condo and it’s often the easiest way for first-time buyers to own a home.

**You are probably aware that:**

- California residential real estate is the among the most expensive in the nation. This is particularly true for single family dwellings.
- The scarcity of available condominiums has driven up prices.
- To overcome the limited supply of new condos, many investors and home seekers are willing to purchase rental properties and convert them to personal residences. While the current rent control laws and zoning codes make it difficult to convert to condo, the TIC process is the only path to conversion and ownership of these historic properties.

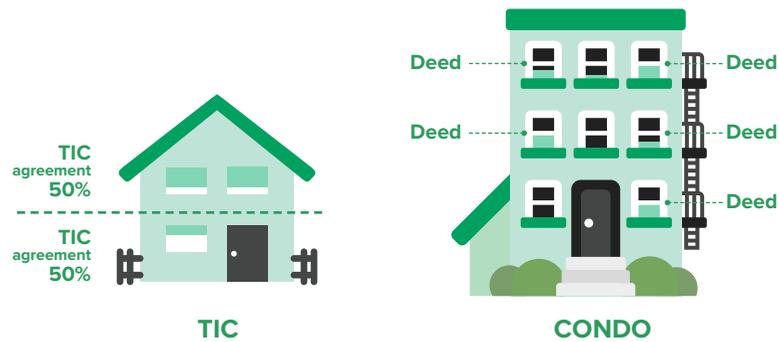
**The net effect of these factors is that:**

- Home Ownership is becoming increasingly more expensive.
- The first time home buyer has very few affordable options.
- The TIC has become a popular path to home ownership.

# How is TIC different from a condo?

With a condo, property is divided into physical parts that are individually mapped and recorded in public records. Each owner has a deed that defines exactly which part of the shared property they own— “Unit 2A, southeast corner” for example.

Tenants in common, however, own percentages in an individual property. Their rights to a certain area of the building (“Unit 2A, southeast corner”) are spelled out by a contract, as are their rights and obligations. This contract is *not* recorded in county real estate records.



## If you buy into a TIC property, can you sell it in the future?

Historically, the resale market for TICs has been very good. A holder of a TIC can sell his or her interest at any time – and while the past is no guarantee of the future, TIC property values have usually held up very well. And not surprisingly, values tend to be higher where the owners have a track record of maintaining the property.

Usually, TIC agreements specify that other tenants in common have the right of first refusal and the right to approve the new owner. In practice, TIC owners usually experience very few problems when they decide to sell.

## Can a TIC co-owner claim the mortgage tax deduction?

Yes. The mortgage interest that you pay on your fraction of your loan is tax deductible. So are property taxes. Be sure to consult your tax advisor for details.

# How are TICs financed?

There are two ways a TIC can be financed: through a **Fractional Loan** or a **Group Loan**.

**Group Loans** have been the norm for years. With a Group Loan, each co-owner makes his payment to the group and the group collectively pays the lender. The risk, of course, is that the entire group could face foreclosure if one party fails to pay. You manage this risk by thoroughly investigating new co-owners before allowing them to buy in, keeping a reserve account with sufficient funds to cover any shortfall, and maintaining strict internal management.

Group Loans may sound riskier than they are in practice. Even though thousands of TIC groups have been formed in the Bay Area over the last ten years or so, default has been extremely rare and foreclosures have been rarer still.

**Fractional Loans** have been available for years and are becoming more popular. Each loan involves a note signed only by the owner of a particular TIC interest and is secured by a deed of trust covering only that owner’s share. Unlike with group financing, none of the other TIC owners are affected by the default or foreclosure.

Remember that a two-unit building that is fully owner-occupied can begin the conversion to condominium after one year. In that case, you may want to consider a short-time term adjustable rate loan.

	TIC	CONDO
Own a percentage in an individual property	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Individually mapped & recorded in public records	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Mortgage interest on fractional loan & property taxes are tax deductible	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Can sell any time	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

# The TIC agreement

How co-owners live in a TIC building—including who owns each portion of the building—is governed by a contract: the TIC agreement. This agreement substitutes for an individual properly deed and condominium by-laws and its importance is critical.

**The TIC agreement protects the owners of the property, specifies in advance how unforeseen events will be handled, and ensures that the property is maintained and bills are paid so that it remains an enjoyable place to live. Good agreements help owners solve problems and hopefully even head off problems before they arise.**

Each agreement should include the following items as a minimum. These items are critical for a mortgage to be approved so be sure to check with your lender before you finalize this document to ensure their requirements are included.

- How the property is divided into individual and group areas, including who has the right to use these areas and how they will be maintained.
- How each owner's monthly payment is determined. Each owner's financial obligations: deposits, reserve accounts, taxes, maintenance, and other expenses.
- Rules about how the group will live together. Are pets allowed? What kind of noise regulations will there be? Are there other issues that need to be covered? How will these rules be enforced?
- How the property will be managed and maintained, including who will be responsible for collecting money and paying bills, how (and how often) owners will receive the financial reports, and how maintenance will be handled.
- How you will handle a co-owner's death or bankruptcy.
- How the group will resolve co-owners disputes.
- Provisions regarding defaults. What constitutes a default? How will they be handled?
- How the sale of interests will be handled, including group approval of prospective purchasers, and rights of first refusals.

# About Us

As a trusted community bank, we opened our first branch in Southfield, Michigan seeking to create a unique banking experience sensitive to the needs of every customer helping them succeed in achieving their goals at their own pace.

Since 1984, we have grown from a single branch to 30 in four major metropolitan markets: San Francisco, Los Angeles, New York and Seattle. Our customers have trusted us to help them handle their banking and financial needs. For 35 years, we have done this by providing a comprehensive choice of banking solutions, innovative loan products and highly personalized service to individuals, professionals, businesses and commercial customers.

Throughout the past 35 years, we have never lost sight of our core values: Community, Integrity, Service, and Employees.

We're known for highly competitive deposit rates, expertise in mortgage lending and keeping deposits at work in the local community.

In 2019, for the second year in a row, Sterling Bank & Trust was named the Top Performing Community Bank with total assets between \$3B-\$10B by SNL/S&P Global Market Intelligence.



## Our TIC Loans

Sterling Bank & Trust has been providing TIC loans since their inception in 2007. We offer excellent rates and quick closing. Our Mortgage Consultants will guide you every step of the way and will work directly with you to simplify the application process.

## SOUTHERN CALIFORNIA

### Alhambra

711 West Valley Blvd Sute 100  
Alhambra  
626-576-8803

### Arcadia

6547 West Duarte Road  
Arcadia  
626-446-1567

### Chino Hills

2911 Chino Avenue Unit F-1  
Chino Hills  
909-662-3333

### Irvine

4250 Barranca Parkway Suite S  
Irvine  
949-559-5792

### Koreatown

3640 Wilshire Boulevard  
Los Angeles  
213-201-3001

### Rowland Heights

19220 Colima Road  
Rowland Heights  
626-581-1568

## NORTHERN CALIFORNIA

### Burlingame

1210 Broadway  
Burlingame  
650-685-6430

### Cupertino

10191 South De Anza Boulevard  
Cupertino  
408-343-1180

### Daly City

440 Westlake Center Drive  
Daly City  
650-991-3275

### Excelsior

4627 Mission Street  
San Francisco  
415-452-4250

### Fillmore

1900 Fillmore Street  
San Francisco  
415-674-9590

### Fremont

38990 Paseo Padre Parkway Suite B  
Fremont  
510-794-8628

### Geary

5498 Geary Boulevard  
San Francisco  
415-379-6990

### Irving

825 Irving Street  
San Francisco  
415-682-2250

### Market

2122 Market Street  
San Francisco  
415-437-3860

### Montgomery

400 Montgomery Street Suite 100  
San Francisco  
415-773-1530

### Noe Valley

3800 24th Street  
San Francisco  
415-970-9070

### Noriega

1239 Noriega Street  
San Francisco  
415-665-5366

### Oakland

735 Webster Street  
Oakland  
510-834-3830

### Portola

2555 San Bruno Avenue  
San Francisco  
415-508-1472

### San Mateo

15 East 4th Avenue  
San Mateo  
650-685-8303

### San Rafael

1104 4th Street  
San Rafael  
415-453-2929

### Sunset

2501 Irving  
San Francisco  
415-731-4386

### Taraval

1122 Taraval Street  
San Francisco  
415-664-7920

### Van Ness Avenue

2045 Van Ness  
San Francisco  
415-674-0200

### West Portal

115 West Portal Avenue  
San Francisco  
415-682-8833

## MICHIGAN

### Southfield

One Towne Square Suite 165  
Southfield  
248-351-3442

## WASHINGTON

### Bellevue

1100 Bellevue Way NE Suite #6  
Bellevue  
425-278-6950

## NEW YORK

### SBT Advantage Bank

774 55th Street 3rd Floor  
Brooklyn  
718-362-3760

### SBT Advantage Bank

39-02 Main Street  
Flushing  
347-625-5260