CHARACTERISTICS AND OPERATIONAL PERFORMANCE OF CALIFORNIA'S PERMANENT HOUSING COOPERATIVES

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EXECUTIVE SUMMARY

1. Limited-equity housing cooperatives (LEHCs) are a viable means of promoting social and ethnically diverse low and moderate income home ownership.

LEHC share prices are typically below $5,000, and carrying charges are also very low. LEHCs reported high Latino, Afro-American, and Asian resident populations. Almost half the units in LEHCs are occupied by families with children, and approximately forty percent are occupied by households with less than $20,000 in annual incomes. In contrast, stock housing cooperatives are made up of predominantly white elderly middle-income residents.

2. Stock housing cooperatives are in very good operational and financial condition, while LEHC operational performance is mixed.

Most LEHCs report high levels of satisfaction with their management and are in good financial condition. Many of the LEHCs in this study reported no operational problems. Yet more than half of the LEHCs in this study reported experiencing at least one problem related to financial pressures, high operating costs, or management and maintenance problems. Also, most LEHCs reported at least one internal problem related to membership conflict, poor relations with the management agent, apathy, low participation rates, or lack of education. In contrast, stock cooperatives reported very few repair and financial problems and far fewer management problems than LEHCs.

3. Both stock cooperatives and LEHCs report high levels of satisfaction with the cooperative structure.

Respondents from both stock cooperatives and LEHCs indicated that cooperatives provide control, pride of ownership, security, and community. A further indication of high satisfaction levels are the very low turnover and eviction rates reported by both sectors.

4. Both stock cooperatives and LEHCs provide little board and member education and suffer from low membership participation rates.

Approximately a third of the LEHCs and stock housing cooperatives reported very low participation rates. Over half of the cooperatives reported that a third or less of the members participate in the affairs of the cooperative. One-third of all the cooperatives surveyed reported apathy as a significant problem. More than three-fourths of the stock cooperatives and half of the LEHCs did not hold any board education sessions in 1990. Three-fourths of both stock cooperatives and LEHCs conducted no education session for the general membership in 1990. These problems clearly indicate the need for both stock cooperatives and LEHCs to carry out more board and member education.

5. LEHCs must reorganize to operate on a more operationally and financially efficient basis.

Many of the issues and problems within the sector, such as management, finances, maintenance, planning, and operating expenses, will be difficult to resolve by individual cooperatives acting alone. LEHCs must begin to affiliate with specialized cooperative support organizations that enable member cooperatives to pool resources, share costs, and obtain services such as management, accounting, etc., that are specifically designed for the special needs of LEHCs.

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BY DEWEY BANDY, Ph.D.

California's experience with stock and limited-equity cooperative housing is a long one. Cooperative housing first took root in the state in the 1910's, with the development of the first apartment-style stock cooperatives. Since then, the sector has grown to some 200 cooperatives, providing over 25,000 units of housing. The cooperative form has proven versatile enough to accommodate the housing needs of such diverse groups as middle-income seniors, migrant farm workers, moderate-income working families, and AFDC female-headed households (Heskin and Bandy 1988, Coulter 1980). Cooperative housing has been developed to provide affordable housing, prevent displacement, promote economic development, preserve historical buildings, and protect the character of neighborhoods threatened with gentrification (Bandy 1992, Bordenave 1979, Heskin and Bandy 1988, Heskin 1991).

In spite of this long and often impressive record, surprisingly little comprehensive research has been conducted on stock and limited-equity cooperative housing in California. Just three studies in the last ten years have been conducted, and all of this research was focused on limited-equity cooperatives. Of these three studies, one study, by the Agora group, is a thorough evaluation of development and financial methods used by limited-equity cooperatives in California. A 1987 study by Martin Zone provided an in-depth examination of the management and member participation of six farm-worker limited-equity cooperatives. Only the 1988 study by Heskin and Bandy provided basic data and covered operational issues of the limited-equity housing cooperatives. The only other comprehensive study was carried out in 1980 by Margaret Coulter, for the State of California Housing and Community Development Department. Her study covered seventeen HUD limited-equity cooperatives developed in the 1960's and 1970's.

Consequently there is a striking lack of fundamental data on finances, resident demographics, member participation, physical conditions, and operations within the stock and limited-equity cooperative housing sector as a whole. How well are cooperatives managed? Do cooperatives provide affordable ownership opportunities? To what extent do residents participate? What kinds of financial, maintenance, and management problems are cooperatives experiencing? Is the cooperative model viable when applied to affordable housing? The answers to these and other questions are needed to better inform cooperative board members and residents, policy makers, developers, and managers.

This study was undertaken to start filling this research void. Accordingly, the goals of this study were to gather basic economic and demographic data on permanent cooperative housing, determine what kinds of operational problems and issues cooperatives are facing, and identify some of the benefits and accomplishments of this type of housing. More specifically, this study had four major research objectives:

1. to gather basic data on financing sources, carrying charges, share prices, unit types, member turnover, and resident demographics
2. to assess membership participation, education, and related issues
3. to identify the nature and extent of management, financial, and other operational problems and issues
4. to evaluate the viability of limited-equity housing cooperatives as a form of affordable housing.

This report will begin with an overview of the history of stock and limited-equity cooperative housing. In the next section, the methodologies of the study will be laid out. Subsequent sections will cover cooperative characteristics, affordability, resident demographics, participation, operational problems, and accomplishments. In the final section, conclusions will be drawn regarding the basic condition of the different subsectors, the issues and problems currently challenging cooperative housing in the state, and the viability of the limited-equity form to provide affordable ownership opportunities.

History

The growth of cooperative housing in the state started with the development of stock cooperatives, beginning in 1918. This form of housing foreshadowed the condominium, by providing for apartment-style living, shared amenities, and unrestricted individual ownership. Like condominiums, stock cooperatives served predominantly middle to upper income households who preferred ownership within a multifamily development.

Stock cooperatives are structured as cooperative corporations, which are owned by shareholders. As shareholders, residents are entitled to occupy a unit and elect a board of directors to run the cooperative. Ownership of the property is vested in a cooperative corporation that owns all the housing units, property, and common areas. A blanket mortgage is held by the cooperative, and shareholders are assessed a monthly carrying charge by the board of directors to cover their pro rata share of the mortgage payment and other operating expenses (e.g., property taxes, management fees, reserve accounts, etc.). Although shareholders are free to sell their share for any price the market will bear, the transfer of the share normally occurs through the board of directors. In this way the cooperative must approve new members.

Almost all of the stock cooperatives in the state were developed between the 1920's and early 1970's. With the advent of the condominium in the 1960's the stock cooperative began to fade from the scene. Condominiums were easier to develop, finance, and market than stock cooperatives—particularly in areas where local financial institutions and governments were unfamiliar with cooperatives. The direct ownership of individual units was more familiar to prospective buyers, easier to finance than share loans, and provided more individual control over the units than the cooperative structure. These problems were compounded by what some cooperative advocates felt were excessive consumer-protection requirements placed on stock cooperative developments by the State Department of Real Estate (DRE).[1] While many stock cooperatives converted to condominium ownership over the last three decades, some 120 stock cooperatives remain in operation in California.[2]

As the development of stock cooperatives declined, a new form of cooperative began to appear in the early 1960's. The War on Poverty spurred new efforts to provide home ownership opportunities for low and moderate income families. During the 1960's and 1970's, 27 cooperatives, providing 2,800 units of housing, were developed through the Section 221(d)(3) and 236 loan subsidy programs of the Department of Housing and Urban Development and the loan subsidy and grant programs of Farmers Home Administration (FmHA) (Agora Group 1992). These programs allowed share prices and carrying charges to be kept at below-market levels by reducing the development costs of the cooperative.

In order for cooperatives developed under these programs to provide long-term affordability and prevent windfall gains by the original shareholders who bought in at subsidized prices, resale restrictions had to be placed on shares. To preserve affordability, cooperatives developed under these programs limited member equity by tying the sale price of a share to the paydown of the mortgage and the annual increase in the cost of living. Essentially, as more of the principal of the mortgage is paid off, the value of an individual member's share is allowed to increase on a pro rata basis. Since many of the residents of these cooperatives receive federal rent subsidies—and therefore do not pay the full monthly carrying charge—equity is tied to their actual contribution to the mortgage paydown. In this way equity growth—and hence share prices—is further slowed.

Although these equity limitations did much to keep the housing affordable, they also presented long-term problems of affordability towards the end of the forty-year mortgages under which these cooperatives were typically financed (Heskin and Bandy 1988, Agora Group 1992). As the mortgage matures and more and more of the principal is paid down, the equity buildup can still increase dramatically. Even with all of the equity restrictions, the long-run result may be to price out the very low to moderate income households that the cooperative was intended to serve.

Besides affordability, other issues in the development of limited-equity cooperatives were emerging. As federal spending on social and affordable housing programs began to wind down in the 1970's, federal financing for limited-equity cooperatives became increasingly more difficult to obtain. Those attempting to develop limited-equity cooperatives using funding sources other than the mainstay HUD and FmHA programs found that the legal status of the limited-equity form was in question. Because no specific state legislation authorized this form of housing, questions were raised regarding the legal status of limited-equity cooperatives by state and local agencies and private lenders.

Additionally, DRE created serious problems for any planned limited-equity cooperative. The DRE had been set up to protect the ownership interests of middle-class consumers by ensuring that condominiums and subdivisions met certain financial and construction standards. These standards did make sense when applied to more profit-oriented condominiums and stock cooperatives in which consumers were putting out tens of thousands of dollars in down payments or share purchases. But they proved inappropriate for subsidized, limited-equity cooperatives intended for lower income households, where share prices were often less than $1,000. Consequently, by the late 1970's DRE was widely perceived as the graveyard of limited-equity cooperatives. By applying inappropriate standards, the agency killed a number of proposed limited-equity cooperatives.[3]

In the late 1970's these combined concerns prompted cooperative and affordable-housing advocates to press for legislative recognition of the limited-equity cooperative and refinement of its structure. These efforts paid off in 1979 with the passage of Assembly Bill 1364. This legislation legally defined a limited-equity cooperative and authorized eligibility for various state programs. It also exempted limited-equity cooperatives from DRE review if a public agency provided significant financing and exercised regulatory oversight of the cooperatives' operations.

The equity structure was also changed to pre-preempt the long-term affordability problems faced by the first generation of HUD and FmHA limited-equity cooperatives. For cooperatives receiving public funds, initial share prices were limited to a maximum of 3% of the value of the unit to be occupied by the shareholder. Instead of tying equity to paydown of the principal, appreciation was based on the original share cost and an annual percentage increase that was capped at 10%.[4] Legislative safeguards prevented shareholders from realizing windfall profits by disbanding the cooperative and selling property off at market prices. In such a case, the proceeds of a sale must either be returned to the state or donated to a charity after the outstanding share equity and other debts are paid off. Currently some 44 limited-equity cooperatives, with approximately 3,600 units of housing, have been created under this legislation (Agora Group 1992).

Research Methodology

All known stock and limited-equity housing cooperatives in the state were mailed questionnaires with multiple choice, structured response questions. Ninety-seven questionnaires were returned or answered over the telephone out of a total of 196 cooperatives in the sample, a response rate of 49%. Of these 97 responses, 81 came from presidents of the board or cooperative board members and 16 from management agents. In terms of cooperative types, 53 were stock cooperatives and 44 were limited-equity housing cooperatives (hereafter referred to as LEHCs). Of these 44 LEHCs, 15 were developed prior to the 1979 state legislation while 29 were developed under the 1979 AB 1364 state legislation (Table 1).

Table 1. Responses

Market-rate cooperatives	53
Apartment	51
Mobile home park	02
Limited-equity cooperatives	44
Apartment	38
Mobile home park	6

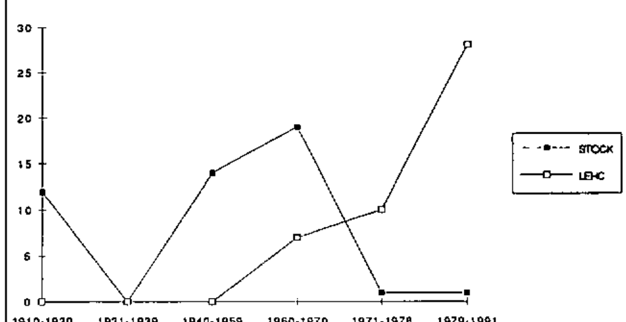
Cooperative Characteristics

The age of the cooperatives in this study reflects the historical trends within the sector. Virtually all of the stock cooperatives were developed between 1910 and 1970, while all the LEHCs were developed after 1960 (Figure 1).

Development

Most of the cooperatives in this study were created through new construction. Of the 94 cooperatives responding, 56 were new construction projects, 18 were converted to cooperative ownership, and 3 were developed through a combination of new construction and conversion. Seventeen of the 35 cooperative conver-

Figure 1
Historical Development Trends



sions required rehabilitation of the building(s) and/or facilities. As Table 2 indicates, most of the rehabilitation conversions were concentrated in the limited-equity sector.

Table 2. Development Method
(52 stock cooperatives and 42 LEHCs responding)

	Stock	LEHC	Totals
New construction	38	18	56
Conversion	14	21	35
Conv/rehabilitation	1	16	17
New const/rehabilitation	0	3	3

Financing

As might be expected, the stock cooperatives were financed primarily through private sources, while LEHCs depended mainly on public financing. As Table 3 indicates, almost all of the stock cooperatives providing information were financed through banks, savings and loans, and funds raised by members. Starting in the 1950's, and continuing into the 1970's, many of the stock cooperatives that were developed used FHA mortgage insurance under the HUD Section 213 program as part of their financing (see the Appendix for a description of this program).

Table 3. Stock Cooperative Financing Sources
(33 providing information)

Banks/S&Ls	8
HUD 213	14
Member Funds	15

In contrast, virtually all of the LEHCs were developed, at least partially, through a federal, state, or local housing program. And, as is often the case in affordable housing development, most of the LEHCs in this study were financed by more than one source. Some of the major sources for state funding came from programs administered by the State Department of Housing and Community Development (HCD) and California Housing Finance Agency (CHFA). At the federal level most of the support for cooperative housing has come through the 236, 221(d)(3), and Section 8 programs administered through HUD. Other sources of funding have been local governments and redevelopment agencies, private sources (e.g., churches, foundations, banks, savings and loans), insurance companies, the National Cooperative Bank (NCB), and funds raised by the members (see the Appendix for a description of the major cooperative financing sources). Table 4 breaks down these sources.

Table 4. LEHC Financing Sources
(43 providing information)

Federal housing programs	24
Local government	10
State housing programs	16
Member funds	14
NCB	7
Private sources	16

Units and Share Prices

A total of 12,517 units of housing was provided by the 89 apartment cooperatives and 8 mobile home park cooperatives participating in this study. Stock cooperatives provided 9,352 units, while LEHCs provided 3,165 units. Table 5 provides a breakdown of the unit types. Of particular note is the provision of scarce family-sized units of three or more bedrooms by the LEHC sector. Approximately a third of all LEHC apartment units were three or more bedroom units. By way of comparison, only 4% of the stock cooperative apartment units were three or more bedroom units (see Table 5 and Figure 2).

Table 5. Unit Type Breakdowns
(48 stock & 44 LEHCs provided unit type information)

	Stock		LEHC		Totals	
Spaces	278	(3%)	621	(20%)	899	(7%)
Studios	218	(2%)	449	(14%)	667	(5%)
1 Bedroom	2291	(25%)	443	(14%)	2734	(22%)
2 Bedroom	5878	(64%)	894	(29%)	6772	(55%)
3 Bedroom	451	(5%)	568	(18%)	1019	(9%)
4 Bedroom	45	(1%)	147	(5%)	192	(2%)
5 Bedroom	0	(0%)	4	(<1%)	4	(<1%)
Totals	9161		3126		12,287	

Affordability

This study showed that both stock cooperatives and LEHCs provide a range of ownership opportunities. Since the share prices of stock cooperatives are unrestricted, the buy-in costs for new members were far higher than in the LEHC sector. But, as Table 6 indicates, even within the stock sector a number of cooperatives offered share prices that were well within reach of middle income—and possibly moderate income—households.

Because share prices vary according to unit size, amenities, etc., cooperatives were surveyed for lowest and highest share prices. Mean and median low share prices were $93,000 and $258,475 respectively. High mean and median share prices were $162,000 and $428,662 respectively.

Table 6. 1991 High and Low Stock Cooperative Share Prices
(24 providing information)

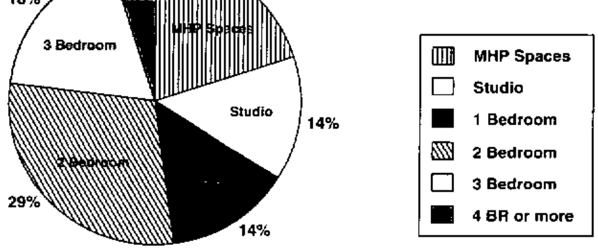
	Low Price	High Price
Zero - 50,000	9 (38%)	3 (12%)
50,001 - 100,000	5 (21%)	5 (21%)
100,001 - 200,000	3 (12%)	6 (25%)
201,000 - 500,000	3 (12%)	3 (12%)
Above 500,000	4 (17%)	7 (30%)

In addition to any loans taken out to finance their share purchase, stock cooperative members must also pay monthly carrying charges that cover all monthly operating costs, blanket mortgage payments, and property taxes. Consequently the monthly carrying charges are important in evaluating the total cooperative ownership costs. The mean and median 1991 low and high monthly carrying charges for the cooperatives in this study are shown in Table 7. Because share carrying charges vary according to unit size, amenities, etc., cooperatives were surveyed for lowest and highest carrying charges.

Table 7. 1991 Stock Low and High Carrying Charges
(44 providing information)

	Low Mean	Low Median	High Mean	High Median
Spaces	266	266	266	266
Studios	163	126	178	142
1 Br	190	180	246	214
2 Br	245	217	330	275
3 Br	388	330	465	361
4 Br	899	800	1102	850

Figure 2
LEHC Unit Types



LEHCs proved to be an important source of affordable ownership opportunities for low and moderate income households. Mean and median low share prices were $4371 and $1636, respectively. High mean and median share prices were $6331 and $2980, respectively. As Table 8 shows, over one-third of the LEHCs had low share prices below $1,000 and more than one-fourth had high share prices of under $1,000.

Table 8. 1991 LEHC Low and High Share Prices
(44 responding)

	Low Price	High Price
Under 1,000	17 (39%)	13 (29%)
1,000 - 5,000	20 (45%)	17 (39%)
5,001 - 10,000	4 (9%)	10 (23%)
Over $10,000	3 (7%)	4 (9%)

Carrying charges in LEHCs were also relatively low. Because virtually all the LEHCs in this study were subsidized, carrying charges were set by the particular programs under which the LEHCs were developed. Under many of these programs, the portion of the scheduled carrying charges that members actually pay is determined by household size and income. Thus one household may have no monthly carrying charges, while another household at a higher income level may pay the full scheduled carrying charge. Table 9 shows the average and median 1991 carrying charges for LEHCs.

Table 9. 1991 LEHC Low and High Carrying Charges
(42 responding)

	Low Mean	Low Median	High Mean	High Median
Spaces	171	178	200	207
Studios	253	261	350	325
1 Br	308	276	394	388
2 Br	371	350	490	442
3 Br	427	368	565	506
4 Br	436	385	635	553
5 Br	425	425	949	999

Resident demographics

The socio-economic makeup of cooperative households was more diverse within the LEHC sector and more homogeneous in the stock sector. The membership of stock cooperatives is mostly white and elderly. When asked to estimate the ethnic makeup of resident populations almost one-third, or 14 out of the 45 stock cooperatives responding, reported 100% white populations. Over half of the stock cooperatives—28—had estimated white resident populations of 90% or greater. Within the stock sector the mean and median white resident population was 85% and 94%, respectively. Only a few stock cooperatives had large nonwhite populations, as indicated by Table 10. As Table 11 shows, percentages of low-income households with less than $20,000 annual incomes, families with children, and single-parent families estimated by respondents were also low.[5]

Table 10. 1991 %Ethnic Makeup of Stock Cooperative Residents*
(45 cooperatives providing information)

	White	Minority
Less than 10%	2	25
10%—29%	0	16
30%—49%	1	0
50%—69%	2	1
70%—89%	12	1
90%-100%	28	2

* Not all LEHCs provided estimates in every ethnic category.

Table 11. 1991 %Social Makeup of Stock and LEHC Residents
(53 stock and 44 LEHCs responding)

	Stock		LEHC		Total	
Total Units	9352		3160		12512	
Elderly*	7834	(84%)	1097	(35%)	8931	(71%
Families*	353	(4%)	1366	(43%)	1719	(14%)
Single parent*	208	(2%)	527	(17%)	735	(6%)
Low income*	466	(5%)	1224	(39%)	1690	(14%)

* Categories overlap.

LEHCs have far more diversity, as measured by family structure and ethnic composition of residents, than do stock cooperatives. For example, as Table 11 shows, families and single-parent households account for 60% of LEHC residents but only for 6% of stock cooperative households. Further, as indicated in tables 10 and 12, 40 of 45 stock cooperatives reported that at least 70% of their residents were white. In contrast, only 18 of 41 stock cooperatives reported that white families accounted for 70% or more of their residents. Almost half the units in LECHs are occupied by families with children, and approximately 40% are occupied by households with less than $20,000 in annual income.

Table 12. 1991 %Ethnic Makeup of LEHC Residents
(44 cooperatives providing information)*

	White	Minority
Less than 10%	11	11
10%—29%	4	7
30%—49%	5	3
50%—69%	3	3
70%—89%	5	2
90%-100%	13	15

* Not all LEHCs provided estimates in every ethnic category.

Participation

A critical issue for any kind of cooperative is the extent of member involvement and their capacity for participation. Housing cooperatives, like other cooperatives, are governed by a board of directors drawn from the residents themselves. Board members must make many important decisions affecting carrying charges, finances, management, amenities, rules, and evictions. For their part, general members must vote, keep abreast of issues affecting the cooperative, provide input to the board, participate on committees, and provide oversight on the actions of the board. If the board and other members are not able or willing to effectively fulfill these responsibilities, the operations of the cooperative can suffer.

This study found reasons for concern regarding the participation and education levels of cooperatives in both sectors. While a number of cooperatives have high participation rates, over half of the cooperatives responding reported that only a third or fewer of the members participate in the affairs of the cooperative. Approximately a third of the LEHCs and stock cooperatives report that only a few members participate. Approximately one-third of all the cooperatives surveyed—14 stock and 20 LEHC—reported apathy as a significant problem. In five of these cases, three stock cooperatives and two LEHCs reported that the lack of member participation created management problems for the cooperative. Overall, 32 of the LEHCs and 29 of the stock cooperatives reported at least one problem regarding internal conflicts between members, board conflicts, management-board conflict, lack of member participation, or membership violations of the cooperative rules and bylaws. These findings are consistent with earlier LEHC research. Coulter (1980) found that member participation was low, with an estimated 40% of the membership inactive. Table 13 provides a breakdown of participation rates.

It should also be noted that these problems are not unique to cooperatives alone. Research by Barton and Silverman (1987) on condominiums and planned unit developments found that participation and internal conflict were significant problems. Their research, which surveyed approximately 770 presidents of the owners association, found that "getting the membership interested in governing the association is one of the most difficult tasks facing [these type of developments]" (1987, 13). According to Barton and Silverman, "only 16% of board presidents report "members give us a lot of support," while 39% said that "members really don't care" (1987, 13). Their research also uncovered significant internal dissent within this type of housing.

Table 13. 1991 Member Participation in Stock Cooperatives and LEHCs
(51 stock cooperatives and 43 LEHCs responding)

	Stock	LEHC	Total
Most members participate	12 (24%)	10 (23%)	22 (23%)
1/2 members participate	8 (16%)	2 (05%)	10 (11%)
1/3 members participate	11 (22%)	16 (37%)	27 (29%)
Few members participate	20 (38%)	15 (35%)	35 (37%)

In evaluating participation levels the board and general membership education must also be considered. Such education is vital for any cooperative in promoting and sustaining participation. Yet, data from this study show alarmingly low education activities in both the stock and LEHC sectors. Approximately 86% of the stock cooperatives and half of the LEHCs did not hold any board education sessions in 1990. Even less education was done for the general membership, with over three-fourths of the stock cooperatives and LEHCs conducting no education session for the general membership in 1990. Six of the stock cooperatives and 19 LEHCs identified lack of education as one of the major problems facing their cooperative. These data are again consistent with earlier research by Heskin and Bandy (1988), which found that the lack of sufficient board and general membership education created significant management and planning problems for the LEHCs. Tables 14 and 15 break down the amount of education carried out in 1990.

Table 14. 1990 Board Education
(51 stock cooperatives and 42 LEHCs responding)

	Stock	LEHC	Total
None	45 (88%)	24 (57%)	69 (74%)
Once	2 (4%)	11 (26%)	13 (14%)
Twice	0 (0%)	3 (7%)	3 (3%)
Three or more	4 (8%)	4 (10%)	8 (9%)

Table 15. 1990 General Membership Education
(51 stock cooperatives and 42 LEHCs responding)

	Stock	LEHC	Total
None	45 (88%)	30 (71%)	76 (82%)
Once	2 (4%)	7 (17%)	9 (10%)
Twice	2 (4%)	1 (2%)	3 (3%)
Three or more	2 (4%)	4 (10%)	6 (5%)

Management

Data on management were mixed. As Table 16 shows, when asked to rate the management of the cooperative over three-fourths of the stock and LEHC cooperatives rated management as good to excellent. These high ratings were mitigated by the exclusion from the data, for reasons of potential bias, of 10 stock and 5 LEHCs where managers filled out the questionnaire. (As might be expected, managers' ratings of their own performances were high.)

Table 16. Management Ratings
(42 stock cooperatives and 38 LEHCs responding)

	Stock	LEHC	Total
Excellent	17 (40%)	11 (29%)	28 (35%)
Good	18 (43%)	18 (47%)	36 (45%)
Fair	6 (14%)	7 (18%)	13 (16%)
Poor	1 (3%)	2 (6%)	3 (4%)

Despite the overall high ratings of management, many cooperatives still experienced management problems in 1991. As indicated by Table 17, over 60% of the stock and LEHCs reported at least one significant management problem. (Coulter's study also found that most of the cooperatives she studied were experiencing management problems.) In particular, maintenance and enforcement of rules seem to be the most troublesome areas for both stock cooperatives and LEHCs. Financial management was also a prominent problem within the LEHC sector. Table 18 shows the specific types of management problems identified.

Table 17. Cooperatives Reporting Management Problems
(53 stock cooperatives and 44 LEHCs responding)

	Stock	LEHC	Total
Some mngmt probs	33 (62%)	27 (61%)	60 (62%)
No mngmt probs	20 (38%)	17 (39%)	37 (38%)

Table 18. Management Problems*
(33 Stock and 27 LEHCs responding; includes manager responses)

	Stock	LEHC	Total
Rule enforcement	21 (64%)	12 (44%)	33 (55%)
Maintenance	11 (33%)	15 (56%)	26 (43%)
Financial mngmt	2 (3%)	9 (33%)	11 (18%)
Mngmt/board relations	0 (0%)	1 (4%)	1 (2%)
Mngmt/member relations	0 (0%)	4 (15%)	4 (7%)

* More than one response possible.

Some possible explanations for this apparent contradiction between high management ratings and the number of cooperatives reporting management problems are suggested by data regarding education and participation. Because of the low levels of board and general membership education, cooperative board members may have difficulty overseeing and/or evaluating the performance of management. In particular, the maintenance and financial management of a cooperative require significant board participation in the form of planning, budgeting, and oversight. These are areas that simply cannot be delegated to a management agent. It is noteworthy that four stock cooperatives and two LEHCs reported that member apathy and lack of participation created a significant management problem. One LEHC reported that conflict among board members had contributed to management problems.

Indeed, the fact that fifteen managers answered the questionnaires, instead of presidents or other board representatives, is suggestive of these kinds of board-management problems. In one case an LEHC manager who was contacted by phone during the survey to request forwarding of the survey to the board president made the following comments regarding education:

> I don't want these board members to get any training or education. A little knowledge is a dangerous thing. I don't want these low-income, uneducated people to get the idea that they know how to run things and can start telling me how to do my job. My board members are happy the way things are now. I don't want to get them any education and get things stirred up here.

Finances

The stock cooperative sector appears to be in excellent financial condition, while the financial status of the LEHC sector is more mixed. When asked to evaluate their overall financial condition, 49 out of 53 stock cooperatives and 30 out of 44 LEHCs reported being in good overall financial shape, with adequate operating reserves (Table 19). Only one cooperative—an LEHC—reported being in bad financial condition due to serious financial problems. However, 13 other LEHCs reported that their finances were "tight" and that they were barely making it financially. Nine LEHCs indicated that their finances were major problems, as opposed to only three stock cooperatives. Further, as Table 20 shows, 21 out of the 44 LEHCs reported experiencing some kind of financial problem. By way of contrast, only nine stock cooperatives reported any kind of financial problem.

Table 19. 1991 Overall Financial Condition
(52 stock cooperatives and 44 LEHCs responding)

	Stock	LEHC	Total
Good (adequate reserves)	49 (94%)	30 (68%)	79 (82%)
Tight (barely making it financially)	3 (6%)	13 (30%)	16 (17%)
Bad (serious financial problems)	0 (0%)	1 (2%)	1 (1%)

Table 20. Cooperatives Reporting at Least One Financial Problem in 1991
(53 Stock cooperative and 44 LEHCs responding)

	Stock	LEHC	Total
Some problems	9 (17%)	21 (48%)	29 (30%)
No problems	44 (83%)	23 (52%)	68 (70%)

When asked to specify financial problems, those most frequently cited were serious maintenance problems, inadequate reserves, and low carrying charges—as shown by Table 21. Within the LEHC sector these three problems suggest that government regulations and programs may contribute to these problems.

This is because the problems of inadequate reserves and carrying charges are often two sides of the same coin. Operating reserves are funded through carrying charges. Since almost all of the LEHCs have been developed through government programs which subsidize the carrying charges of low to moderate income households, the carrying charges that many of the residents can be assessed are regulated by these programs. Consequently LEHC boards often have limited control over carrying charges. And without the ability to raise carrying charges, LEHC boards may not be able to generate the revenue necessary to address maintenance problems.

Table 21. 1991 Financial Problems*
(9 stock cooperatives and 21 LEHCs reporting problems)

	Stock	LEHC	Total
Govt regulations	4 (44%)	4 (19%)	7 (23%)
Reserves	3 (33%)	9 (43%)	12 (40%)
Late carrying charges	2 (22%)	2 (10%)	5 (17%)
Serious maint	2 (22%)	16 (76%)	18 (60%)
Vacancies	2 (22%)	3 (14%)	5 (17%)
Low carrying charges	2 (22%)	9 (43%)	11 (37%)
Property taxes	4 (44%)	1 (5%)	5 (17%)
Insurance costs	2 (22%)	4 (19%)	6 (20%)

* More than one response possible.

Advantages and Benefits of Cooperative Housing

Whatever the problems cooperatives are experiencing, the participants in this study also perceived important benefits and advantages from cooperative living. Only four stock cooperatives and no LEHCs felt that there were no benefits from cooperative housing. Interestingly, although stock cooperatives provide an opportunity to realize substantial financial gain through share appreciation, this sector did not differ significantly from the LEHCs in their perceptions. Both sectors saw the major advantages of cooperatives in the areas of security, control, and community, as indicated by Table 22. While stock cooperatives, as might be expected, cited financial gain as an advantage far more than LEHCs did, it is noteworthy that fewer than half of the stock cooperatives saw this as an important advantage.

Table 22. Advantages of Cooperative Housing*
(43 stock cooperatives and 39 LEHCs responding)

	Stock		LEHC		Total	
Low cost housing	23	(53%)	39	(100%)	62	(76%)
Financial gain	20	(47%)	3	(8%)	23	(28%)
Control	26	(60%)	29	(74%)	55	(67%)
Tax deduction	6	(14%)	6	(15%)	12	(15%)
Security	34	(79%)	27	(69%)	61	(74%)
Pride of ownership	29	(67%)	27	(69%)	56	(68%)
Sense of community	15	(35%)	24	(62%)	39	(48%)
New member control	2	(47%)	15	(38%)	35	(43%)
None	4	(9%)	0	(0%)	4	(5%)

* More than one response possible.

These responses are consistent with the low turnover and eviction rates reported by both stock cooperatives and the LEHCs. Both cooperative sectors reported a 1990 turnover rate of 6%. LEHCs reported a 1% eviction rate, while stock cooperatives had an eviction rate of less than 0.5%.

These findings are important in two regards. First, within the affordable housing community some have questioned whether LEHCs do in fact foster the sense of ownership, control, and community. Cooperative advocates argue that these benefits are one of the principal advantages of LEHC housing over traditional public or nonprofit rental housing. LEHC critics contend that LEHCs, with their heavy equity restrictions, are essentially glorified rentals and that residents feel little sense of control or ownership. This study has certainly provided data to suggest that these concerns are not without some foundation. Yet the responses indicate that, in spite of the problems many LEHCs are contending with, the cooperative form does provide important social benefits for their low to moderate income members. Certainly a more comprehensive study of LEHC member attitudes is needed to definitively answer this question.

Secondly, these findings address similar concerns about the cooperative character of stock cooperatives. Within cooperative circles some cooperative advocates have been concerned that stock cooperatives operate with little or no commitment to cooperative values and principles. The responses in this study, however, suggest that stock cooperatives also value the kinds of social benefits derived from a cooperative structure. Once again, a larger study of member attitudes and perceptions is in order, to fully resolve this issue.

CONCLUSIONS

LEHCs

This study shows that the LEHC form is a viable and successful means of providing affordable ownership opportunities for low and moderate income households. Share prices are typically below $5,000, and carrying charges are also very low. LEHCs report that they are, for the most part, well managed and financially sound. Respondents indicated that LEHCs do provide a measure of control, sense of ownership, security, and pride that are important benefits of the cooperative model. Certainly the very low turnover and eviction rates indicate some degree of resident satisfaction with the cooperative model.

LEHCs also promote social and ethnic diversity in ownership. This sector had high percentages of Latino, Afro-American, and Asian residents. In terms of social groups, the large number of families with children, single parent families, and family-sized units within the LEHCs sector was particularly noteworthy.

This study also indicated, however, that many of the LEHCs in California are also experiencing operational and membership problems. Many LEHCs are faced with financial pressures, high operating costs, management difficulties, and maintenance problems. LEHCs are also plagued by internal tensions caused by membership conflict, poor relations with the management agent, apathy, low participation rates, and lack of education.

Fortunately, there is much LEHCs can do to start addressing some of these sectoral problems. Perhaps the most obvious is for LEHCs to provide ongoing education for their boards and general membership. Many of the problems that LEHCs are experiencing are rooted in, or at the very least partially aggravated by, the lack of education.

Additionally, LEHCs must reorganize to operate on a more operationally and financially efficient basis. Many of the issues and problems within the sector, such as management, finances, maintenance, planning, and operating expenses, will be difficult to resolve by individual cooperatives acting alone. LEHCs must begin to affiliate with specialized cooperative support organizations that enable member cooperatives to pool resources, share costs, and obtain services such as management, accounting, etc., that are specifically designed for the special needs of LEHCs.

One of the most promising such organizations is the California Mutual Housing Association (CMHA). The CMHA has been set up as a member-controlled support and development organization dedicated to the maintenance and expansion of LEHC and other affordable resident-controlled housing. Although in operation less than a year at the time of this study, the CMHA has already begun to provide education services, organized a major cooperative housing conference in conjunction with the Center for Cooperatives, and won a major federal contract to assist residents in federally subsidized housing to carry out cooperative conversions. In addition to the CMHA, the Center for Cooperatives at the University of California, Davis, and the California Association of Housing Cooperatives are state-wide organizations that can assist LEHCs.

Stock Cooperatives

This study showed the stock cooperative sector to be in very good operational and financial condition. Cooperatives in this sector reported far fewer management, repair, and financial problems than their LEHC counterparts. (Not coincidentally, stock cooperatives serve a predominantly white and elderly membership, with far lower percentages of poor, family, and non-white ethnic households than LEHCs.) Share prices are much higher than those of LEHCs, but it is worth noting that many of the shares sold in this sector are well within the reach of middle-income families and possibly some moderate-income families.

The major problems stock cooperatives face are internal problems such as low participation rates, rule violations, member apathy, and lack of education. This may very well be linked to the low levels of board and membership education in this sector.

Addressing this problem is in the long-term interests of this sector. Responses from stock cooperatives indicated that many of the social benefits derived from a cooperative structure are important in stock cooperatives. Additionally, stock cooperative members typically have far larger financial stakes in their cooperatives than do members in LEHCs.

For these reasons, stock cooperatives may wish to reconsider education and search for ways to improve member participation. Gaining full advantage of the economic and social benefits of the cooperative is ultimately linked to the commitment of the membership to the cooperative and their capacity to carry out that commitment. And it will be difficult to galvanize that commitment without undertaking board and general-membership education activities.

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NOTES

1. The DRE may have contributed to these trends by requiring either a bond equivalent to the mortgage or that the lender take second position to the stockholders.

2. The actual number of stock cooperatives is unknown. This is because these cooperatives are not strongly organized within the state and tend not to participate in cooperative affairs such as conferences, trainings, etc. Because they usually do not participate in various affordable housing programs, there are no agencies that keep track of stock cooperatives. Many stock cooperatives are not listed even in local telephone directories. Consequently, when stock cooperatives disband or restructure themselves as condo-

miniums, no readily accessible records or data exist to mark the event. In fact, in order to locate some of the cooperatives that participated in this study, it was necessary to make "cold call" site visits, since even telephone listings for them were not available.

3. For a more complete discussion of this problem, see Heskin and Bandy (1988).

4. LEHCs developed under AB 1364 as well as earlier HUD- and FmHA-subsidized LEHCs seem quite comfortable with equity restrictions. Thirty-one of 39 cooperatives responding rated their equity restrictions as "just right." Only six rated them as "too low," while just two respondents thought that the restrictions permitted too great a return on the share.

5. Because stock cooperatives and many LEHCs are not required to keep records of most of the ethnic and socio-economic data asked for, respondents were asked to provide estimates.

APPENDIX: MAJOR STATE AND FEDERAL FINANCING SOURCES FOR LIMITED-EQUITY HOUSING COOPERATIVES

California Housing Finance Agency (CHFA)

CHAFA was created in 1975 to finance the development of low and moderate income housing in the state. CHAFA provides below-market interest rate loans for new construction, rehabilitation, and acquisition. Mortgage capital is raised through the sale of tax-exempt notes and bonds.

California Department of Housing and Community Development (HCD)

HCD operates a number of affordable housing programs. Among the ones most frequently used for the development of LEHCs are the following:

Farmworker Housing Grant Program (FWHG)

FWHG provides matching grant funding for the construction and rehabilitation of farm worker housing by government and by nonprofit and cooperative developers. This program places a priority on permanent housing.

Mobilehome Park Assistance Program (MPAP)

MPAP provides conversion, blanket, and individual loans for low-income mobilehome park residents and organizations to purchase their mobilehome parks.

Rental Housing Construction Program (RHCP)

RHCP funds local government agencies to finance the development of affordable rental and cooperative housing by nonprofit, governmental, and private developers. RHCP provides low-interest loans and is intended to be used in conjunction with other financing sources.

HUD Section 8 Lower Income Housing Assistance

This program allows very low income households to obtain private housing by subsidizing their monthly rental payment. Eligible households are issued a certificate and then must find appropriate private housing. Households usually pay from 10% to 30% of their adjusted monthly income. The program is administered through local housing authorities.

HUD Section 8 Moderate Rehabilitation

This program promotes affordable rental and cooperative housing through rehabilitation. It essentially operates like the Section 8 Lower Income Housing Assistance program, except that the subsidy is project based for a 15-year period. Under this program, whenever eligible households reside in the project, the owner (i.e., a cooperative) will receive the subsidy.

HUD Section 8 Substantial Rehabilitation

This program promotes affordable rental and cooperative housing through major rehabilitation. It essentially operates like the Section 8 Lower Income Housing Assistance program, except that the subsidy is project based for a 15-year period. Under this program, whenever eligible households reside in the project, the owner (i.e., a cooperative) will receive the subsidy.

HUD Section 8 New Construction

This program promotes affordable rental and cooperative housing through new construction. It essentially operates like the Section 8 Lower Income Housing Assistance program, except that the subsidy is project based for a 15-year period. Under this program, whenever eligible households reside in the project, the owner (i.e., a cooperative) will receive the subsidy.

HUD Section 213

Under this program HUD insures mortgages by private financial institutions on cooperative housing projects. Loans can be used for new construction, rehabilitation, and acquisition of cooperative housing. This program does not impose income eligibility requirements or require resale restrictions on shares.

HUD Section 221 (D) (3) BMIR

This discontinued program supplements the interest rate on mortgages of over 3 1/2% interest. HUD subsidizes the difference between 3 1/2% interest and the market interest rate. Can cover 100% of the cost of the project. Although intended to provide affordable share and carrying charge prices without further subsidy, 221 (D) (3) BMIR (below market interest rate) cooperatives will still frequently require federal subsidization of carrying charges.

HUD Section 221 (D) (3) MIR

Under this discontinued program HUD provides insurance for a market-rate mortgage in tandem with federal rent (i.e., carrying charge) subsidy programs. Carrying charges/rents must be affordable for low and moderate income households. HUD will insure up to 90% of the estimated replacement costs for the housing. However, for nonprofit developers, government agencies, and cooperatives the loan can be insured for 100% of the estimated replacement costs.

HUD Section 236

This discontinued program supplements the interest rate on mortgages of over 3 1/2%. HUD subsidizes the difference between the 3 1/2% interest and the market interest rate. Although intended to provide affordable share and carrying charge prices without further subsidy, 236 cooperatives will still frequently require federal subsidization of carrying charges.

Farmers Home Administration Section 515, Rural Rental Housing Program

Fifty-year loans are provided to public, nonprofit, and limited-profit sponsors for the construction or substantial rehabilitation of rental or cooperative housing. Depending on income levels and the sponsor, interest rates can vary from 1% to market rate. Nonprofit and public sponsors are eligible for 100% of all development costs and can also get an additional 2% to cover first-year operating costs. Under the FmHA 515 program mortgage payments and operating expenses are paid out of the monthly carrying charges. The carrying charges themselves are subsidized by the FmHA and are based on family income. FmHA also imposes eligibility requirements based on family income, and FmHA regulations permit only farm worker families to occupy the units.

FmHA Section 514/516 Farm Labor Housing Loans and Grants

Program provides a package of loans and grants for new construction, rehabilitation, and acquisition of farmworker housing. Grant portion of package can cover up to 90% of the costs, with the remaining portion covered by a 33-year loan at 1% interest.

National Cooperative Bank (NCB)

The NCB provides market-rate loans for cooperatives. Through its Development Corporation the NCB provides low-interest loans for the development of LEHCs.

Savings and Loan Mortgage Consortium (SAMCO)

SAMCO is a consortium of savings and loans. SAMCO provides low-interest loans for construction, rehabilitation, and acquisition of affordable housing.