

National Association of Housing Cooperatives
2012 Annual Conference

**New Board Training Program
Agenda**

History of Housing Cooperatives

- a. History of Co-ops within the United States
- b. Principles of Cooperative Identity
- c. Types of Cooperatives

II Organizational Structure of Co-ops

- a. Characteristics of Housing Cooperatives
- b. Explanation of Co-op Documents
- c. Roles & Responsibilities within the Co-op Structure

III Financial, Legal, and Ethical Responsibilities of the Board

- a. Financial Responsibilities
- b. Legal Responsibilities
- c. Ethical Responsibilities

IV. Member Participation in Co-op Operations

- a. Board member recruitment
- b. Working with committees
- c. Volunteer participation within the cooperative

V. Questions & Answers

I. Forms of Homeownership

What is a Housing Cooperative?

In the United States, more than 1.5 million families of all income levels live in homes owned and operated through cooperative associations. People of varying needs and desires have found several ways to apply cooperative concepts in meeting their housing needs.

Cooperative housing is not a new concept, The first housing cooperative in the nation was organized in New York City in the late 1800's Today, there are over 1,500,000 units in cooperative housing communities throughout the United States, with large numbers located in major urban areas such as New York City, Washington, D.C., Chicago, Miami, Minneapolis, Detroit, Atlanta, and San Francisco.

Cooperative members own a share in a corporation that owns or controls the building(s) and/or property in which they live, Each shareholder is entitled to occupy a specific unit and has a vote in the corporation. Every month, shareholders pay an amount that covers their proportionate share of the expense of operating the entire cooperative, which typically includes underlying mortgage payments, property taxes, management, maintenance, insurance, utilities, and contributions to reserve funds. There are many benefits to cooperative ownership. Some of these include personal income tax deductions, lower turnover rates, lower real estate tax assessments, reduced maintenance costs, resident participation and control, and being able to prevent absentee and investor ownership.

Housing cooperatives come in many shapes and sizes; cooperatives include townhouses, garden apartments, mid-and high-risk apartments, single-family homes, student housing, senior housing, and mobile home parks. The purchase price of cooperative membership can be left to the market or the price can be maintained at below market in order to preserve affordability. All cooperatives share a common set of principles adopted by the International Cooperative Alliance.

The key aspect in any cooperative is democratic control by the members in order to achieve an agreed upon common objective. Democratic control is typically accomplished through governance by volunteer boards of directors elected from the entire membership. In addition to the board, co-ops often have many committees, such as a membership committee, maintenance committee, activities committee, and newsletter committee. Most co-ops hire a manager or management company to perform management functions; smaller co-ops will often have no paid staff or management but will have members handle all the maintenance and operations responsibilities.

The Development of US Housing Cooperatives –
A Summary of Events

<u>YEAR</u>	<u>EVENT</u>
900 AD	Pueblo Bonito/Pueblo Indians built cooperative homes
1827 (approx)	New Harmony of Robert Owen, Indiana
1881	Barring Apartments, NYC
1926	Amalgamated Housing Corporation, NYC—the first large, new construction-housing cooperative
1939	Internal revenue Code/Section 216
1950(approx)	United Housing Foundation, NYC 1951 Mitchell-Lama Act, NYC (tax abatement) FHA Section 213 of National Housing Act Foundation for Cooperative Housing (1952) National Association of Housing Cooperatives was formed
1952	Conversion of Greenbelt Homes, MD
1960	National Association of Housing Cooperatives was incorporated.
1961	FHA Section 221 (d)(3) and “BMIR”
1968	FHA Section 236
1974	FHA Section 8, GNMA Tandem Programs 25,27 FHA Section 203(n)
1978	Section 11(b) FHLBB Authority The National Cooperative Bank was created
1978-1979	FHLMC Authority Bates Act, California
1980	FNMA Authority
1989	Resolution Trust Corporation (RTC) created
1990	HOPE/HOME created Preservation/Prepayment created

Principles of the Cooperative Identity

Purposes

The primary purpose of a cooperative housing corporation and association is to provide its members with housing under mutual ownership, or control, at costs they can afford, Based on a need to satisfy common economic, social, and cultural needs and aspirations, cooperators volunteer to jointly own and democratically control the enterprise. By mutual effort, it is possible for people organized as groups of consumers to pool their resources and provide themselves with good housing through non-profit, non-speculative cooperatives.

Values

Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility, and caring for others.

Principles

The cooperative principles listed below are guidelines by which cooperatives put their values into practice:

1. Open membership without restriction.
2. Democratic control by member-owners-occupants.
3. Members contribute equitably to, and democratically control, the capital of their cooperatives.
4. Cooperatives are autonomous, independent organizations controlled by their members.
5. Cooperatives provide education and training for their members, elected representatives, managers and employees so that they may contribute effectively to the development of the cooperative.
6. Cooperation among cooperatives.
7. Concern for Community.

*Adopted by the International Cooperative Alliance Congress in Manchester, England.
on September 23, 1995.*

Types of Housing Cooperatives

Market-Rate Cooperatives

In market-rate cooperatives, shareholders may buy and sell their shares at full market value.

Limited-Equity Cooperatives

Limited equity co-ops limit the resale value of shares. The maximum resale value is predetermined by a formula established in the cooperative's bylaws. Generally targeted at low-and moderate-income people, the purpose of limited-equity cooperatives is to prevent speculation, encourage long-term residency, and preserve the "affordable" character of the co-op for a wide variety of future residents. Many limited-equity cooperatives were developed by nonprofit organizations with government assistance.

Leasing Cooperatives

In a leasing cooperative, the cooperative does not own the building or property. Instead, the cooperative leases the property from its owner, usually the cooperative has a long-term lease, sometimes with an option to buy. The residents manage and operate the housing on a cooperative basis.

Senior Housing cooperatives

Senior housing cooperatives are housing communities designed for senior citizens, A number of different types of senior housing cooperatives exist. Cooperative Services, Inc., is a senior mutual housing association with over 40 buildings in 4 states, housing over 5,000 seniors of modest means. The Senior Cooperative Network helps develop senior housing cooperatives in rural areas. In addition, retirement oriented communities have been developed using the cooperative form of ownership, most notably in popular Sunbelt locations.

Manufactured Housing Communities (also known as Mobile home Parks)

A growing number of manufactured housing communities own the land comprising the community on a cooperative basis. Cooperative ownership gives manufactured home residents control over management and operating costs of the park, while owning a manufactured home of their own.

Housing Cooperatives For People With Special Needs

In addition to co-ops for seniors, some cooperatives have been developed for individuals with disabilities. For example, Silent Cooperative in Illinois is designed for hearing-impaired people. Another example is Co-op Initiatives, a nonprofit organization in Connecticut, which develops cooperative housing with some units reserved for developmentally disabled individuals. Their mission is independent living opportunities for persons with all types of disabilities.

Student Housing cooperatives

Student housing cooperatives exist at a number of college campuses across the United States. They provide affordable housing to college students in dormitory, house, and apartment settings. The North American Students of Cooperation (NASCO), an association of student cooperatives throughout the U.S. and Canada, maintains a comprehensive listing of student cooperatives.

Artist Cooperatives

Typically organized as leasehold or limited-equity cooperatives specifically for artists and art studios, artist cooperatives are a method of ensuring permanently affordable combined workspace and housing for artists since often artists' communities experience gentrification. Artspace in Minneapolis has been one of the main groups involved with developing artist cooperatives.

Mutual Housing Association

A mutual housing association is a nonprofit corporation set up to develop, own and operate housing. Mutual housing associations always involve substantial resident participation in the community and are often also owned and controlled by the residents of the housing produced. As in leasing cooperatives, there is no equity accumulation for members, or credit for mortgage principal paid.

II. Organizational Structure of Housing Cooperatives

Characteristics of a Housing Cooperative

The structure of housing cooperatives may vary, but they have many common characteristics. These include

Corporate Ownership

Whether it is a limited-equity cooperative, a market rate cooperative, a mutual housing association, or a leasing cooperative, each structure involves at least one corporation that owns and operates the housing complex. This requires the residents to work with and understand corporate responsibilities, limitations, operations and inter-actions; state laws; federal securities requirements; state reporting requirements; and income or franchise taxes. The majority of low-income residents of rental developments have had little experience with the complexities of corporate business,

Non-profit Operations

All cooperatives operate on a non-profit basis. An annual budget is prepared, which projects expenses and income. If there is a surplus at the end of the fiscal year, it is returned to the residents either through a rebate or through a lower budget for the coming year. Underlying blanket mortgages, combined with speculative real estate market, thus preventing any windfall profits from the conversion.

Combined Social and Business Purposes

The goal of resident-controlled housing is to meet basic shelter and shelter-related needs. This is a social goal. The means to achieving this goal is through a business operation. Achieving the social goal requires that the business operate well. If it does not, sooner or later the social goal will no longer be achievable. Conversely, the business only functions well when it is achieving its goal — meeting the housing and community needs at its “clients” or service group.

A Formal Community Structure

All forms of resident-controlled housing, including cooperatives, have a formal organizational structure of the residents. Corporate by-laws should require a board of directors, comprised primarily of residents and operational committees.

Democratic Participation

Residents participate in decision-making through a democratic process. This may be on a one-member, one-vote basis, or proportional to the size of the unit.

Voluntary Membership

Residents are not forced to become members of the corporation. Once minimum required levels of membership are attained, arrangements can be made to allow a portion of rental units on a lease basis. Likewise, there is no discrimination for illegal reasons. There is, however, discretion used in selection of residents, based on people's demonstrated willingness to assume the responsibilities of living in a cooperative community, in addition to the more standard underwriting criteria, such as credit worthiness and references.

An Overview of Cooperative Documents

DOCUMENT	PURPOSE	EFFECTS
Articles of Incorporation	Establish the existence of the cooperative.	<ol style="list-style-type: none"> 1. Makes the organization (as opposed to the individual members) the operative entity. 2. Limits the purposes for which the organization can act. 3. Defines the basic structure of the cooperative.
Bylaws	Regulate the internal workings of the cooperative.	<ol style="list-style-type: none"> 1. Defines membership (eligibility and rights). 2. Delineates powers, operations, and officers of the Board of Directors. 3. Provides for Annual Meeting of Members and elections of directors. 4. Establishes maximum transfer value. 5. Subordinates all of the above to the Regulatory Agreement.
Subscription Agreement	Create a conditional agreement to purchase and sell a membership.	<ol style="list-style-type: none"> 1. Gives prospective members a limited right to buy a membership from the cooperative in exchange for a small payment, which secures the cooperative against default.
Occupancy Agreement	Define the rights and duties of the member as tenant and the cooperative as landlord.	<ol style="list-style-type: none"> 1. Same as any residential lease, except that the term is, essentially, perpetual.
Regulatory Agreement	Control the operations of the cooperative so that they meet the purposes of the (federal) government program under which the cooperative was finance/ insured/subsidized.	<ol style="list-style-type: none"> 1. Restricts the (initial) membership of the cooperative to members of the target population. 2. Regulates the resale of memberships as to both price and membership in the target population. 3. Regulates the financial operations of the cooperative (occupancy charges, reserves, contracts, borrowing, investments). 4. Regulates the maintenance and repair of the structures and grounds. 5. Provides means for enforcement.
Recognition Agreement	Mutually exclusive agreement, which sets forth obligations of share lender and cooperative.	<ol style="list-style-type: none"> 1. Cooperative guarantees the truth of certain statements regarding the status of the cooperative as owners of the real estate and the borrower as a member of the cooperative. 2. Cooperative consents to member's pledge of cooperative interest (membership certificate plus occupancy agreement) as security for loan. 3. Cooperative agrees to notify lender of any threat to the borrower's status as a member in good standing of the cooperative or of any impairment in the cooperatives financial status. 4. Gives lender rights to cure certain defaults by member or by cooperative. 5. Requires cooperative to terminate membership if borrower defaults on share loan obligations. 6. Sets out priorities between cooperative, lender, and borrower upon foreclosure and resale of borrower's cooperative interest.

Roles & Responsibilities within the Cooperative Structure

A cooperative board of directors safeguards the organizational assets, oversees operations, and ensures that laws and regulations are followed, While this is a commonly know bit of information what may not be clear is what the roles and responsibilities of the other members of the cooperative actually are and how these groups work together to ensure the success of the cooperative. This section will examine each facet of the cooperative structure and leave you with concrete checklists of duties for each on he board positions.

Cooperative Players

Members - Board of Directors	Elect Board, Amend bylaws Sets Policy, Informs members, Oversees operations
Management Agent, Consultant	Implements policies, Advises Board, Gathers Information
Professional Services (Attorneys/Auditors/etc.)	Advises Board
Employees	Carry out activities
Outside contractors	Provide contracted services
Regulatory Agency	Regulates, oversees, where applicable

Member Responsibilities

1. Keep up to date on the cooperative's progress by seeking out information, asking questions, and attending board and membership meetings.
2. Participate on established committees and on the Board of Directors.
3. Abide by the corporations rules and cooperate with the board, established committees, and the management agent in fulfilling their respective responsibilities.
4. Hold the elected officers and board members accountable for the decisions they make on the membership's behalf.

Board of Director's Responsibilities

1. Act as the governing body of the association and make policy on behalf of the membership in accordance with the association's governing documents and the membership's stated wishes.
2. Represent the association in dealings with outside agencies.
3. Give direction to established committees and act on recommendations of these committees.
4. Respond to and resolve member grievances~

Committee Responsibilities

1. Implement various policies and program activities established by the Board and report regularly to the board on recommendations and actions taken.
2. Coordinate, when necessary, activities with the membership and outside advisors hired by the association.
3. Function as a means for member involvement in the association's affairs,
4. Communicate information among members and between the Board of Directors and membership.

IV Financial, Legal, and Ethical Responsibilities of the Board

While the financial and legal responsibilities of the board members should be explained during the orientation process for new members, it is not a bad idea to review the cooperative's financial position once or twice a year to make sure that everything is on track and that all board members understand what steps must be taken to maintain the current position or improve upon it.

Financial Responsibilities

Some say that money is the root of all evil, but like it or not money is what helps to create a cooperative and it is also what will aid in the success of that cooperative. Having said that, it is important for board members to fully understand their financial and legal responsibilities in the management of the cooperative. It is not necessary to ensure that every member of the board be a financial expert or a lawyer, but it is definitely important that each member understand the financial position of the cooperative, and be willing to make tough decisions in order to adhere to the cooperative's budget.

The board members of the cooperative corporation should understand the importance of their position on the board in relation to management of the corporation and its financial future. As a board member, you should look at the following materials:

1. Determine the potential gross income for the cooperative by multiplying the average monthly carrying charge by the number of months by the number of units in your co-op
2. Understand all of the corporation's documents, to include Articles of Incorporation, By-Laws, Occupancy Agreement, Membership Fee Agreement, and all other corporation documents,
3. Understand the management process of the cooperative, and understand that you are ultimately responsible for the management of the cooperative.
4. Understand the management contract that has been signed between the management agent and the board of directors,
5. Work with your members to determine their wishes and needs when working on the annual committees budgets.
6. Establish to work with management members in developing a long range plan to complete capital expenditure needs.
7. Hold training classes for members upon request so that the members can understand how the co-op is run and how decisions are made, -
8. Always consider the affordability levels of our membership and work towards keeping your co-op an affordable place to call home.
9. Consider the levels of all reserves and compensate for additional funding on an as needed basis,
10. Work towards understanding the audited financial statements, which are important pieces in the financial planning area, as well as the monthly financial reports so that you can make correct decisions. -
- II Understand all regulatory and or mortgage requirements that are currently pending on your co-op.
12. Understand the Board's role, and how the members can be involved in working with the Board to make decisions.

13. Understand the committee structure, and support the committee in all planning activities.
14. Be involved in the co-op newsletter so that information is distributed in a written form that is clear to all or your members.

Monthly Financial Statements

Financial statements should be completed by the management agent on a monthly basis to provide financial information to the Board. The financial report should include a complete detailed report of income received and expenses incurred to indicate the monthly profit or loss. The report should also include:

- Accounts payable listing showing all vendors currently being owed money;
- Accounts receivable listing members who currently owe the corporation money;
- Check register indicating all the checks written during the month;
- Monthly cash flow report indicating the income and expenses; and
- Budget comparison report

Long-Range Capital Expenditure Planning

The co-op grows with age, and an increasing number of large capital expenditure projects will be needed in order to keep the co-op in good condition. As you consider the capital expenditure program, you must look at the sources of income the co-op can capitalize on in order to plan for this program. It is suggested that you do a ten year reserve forecast, to identify reserve balances, the current funding, the future funding, and how the reserves can be used to benefit the co-op.

Audits

Audited financial statements are completed by your Certified Public Account each and every year in order to certify the monthly financial reports of the co-op. The audited financial statements will detail a balance sheet, income and expense statement, profit and loss statement, member's equity, and specific information regarding the financial position of your corporation. The audit is a very good reference tool to understand the financial position of your corporation. and to provide the Board with reserve and financial projections. Your CPA should review the audited financial statements with the Board on a yearly basis, and be able to answer any questions board members may have as they use the audit as a financial tool.

Overall Corporation Finances -

A monthly report should be provided to the Board that indicates the overall corporation's finances on a monthly basis. This report should include:

- Reserve funding
- Mortgage escrow funding
- Mortgage principal balances
- Secondary financing product balances
- Accounts payable
- Accounts receivable
- Any other financial balances

The management agent should provide you with an ongoing detailed report of any capital expenditures, replacement reserve items, or other large expenditure items that should be considered. Financial planning is an important tool for the co-op, and for the corporation as a whole. Your CPA is the best resource to answer any and all questions the board has regarding the co-op's finances,

Budget Information

The yearly operating budget considers the income needed to cover all of the necessary expenditures of the cooperative. Budgeting is not an exact science, but an "educated guess" based on historical data and planned activities. It is important that the Board work with the budget committee and management agent to investigate all of the items noted on the "wish list" of the cooperative and make appropriate additions to the reserves for long-range planning.

The income portion of the budget is derived by considering what the current carrying charges are and the current anticipated collection of other receipts. The expenditure portion of the budget should be based on historical data and include the last three year's actual operating history. Information can be gathered from previous budgets, audited financial statements and previous monthly financial reports, which include annual income and expense reports. Historical data should be reviewed and information should be gathered regarding the expected increase for each item for the year for which you are budgeting. Reserves should be analyzed by completing long-range planning forecasts to determine if the amount of reserves currently being funded will assist the Board in the future to achieve the co-ops goals.

Budgets are prepared for each co-op with the intention of meeting operating expenses with operating income for the next fiscal year. One of the first steps in preparing budgets is to compile necessary information to determine the upcoming fiscal year's expenses. This should include, but not be limited to;

1. Planned major improvements, with bids increases
2. Mortgage interest and principal
3. Tax and insurance information for escrow
4. Proposed utility increases.
5. GOR and Replacement Reserve funding
6. Payroll costs plus anticipated
7. Subsidy analysis
8. PBE data, if applicable funding
9. Current contract prices and estimates
10. Utility increase, if available
11. Special projects or a "Wish List" needs

Legal Responsibilities

Duty of Obedience

Every cooperative is subject to a number of laws and regulations covering matters from employment law and licensing requirements to zoning restrictions, and contract obligations. Each board and staff person must comply with all local, state, and federal laws, which apply to the cooperative. This may require assistance from the cooperative's legal representative or other professionals to ensure that all laws are understood, so don't hesitate to confer with counsel when necessary.

Duty of Care

Board members must act honestly and reasonably, focusing on co-op business and making responsible, ethical decisions when called upon to do so.

Duty of Loyalty Board members must place the interests of the cooperative above all other interests, especially their own, when making board decisions.

Ethical Responsibilities

A director of a housing cooperative holds a position of prestige and authority within the cooperative community. When acting in concert with the entire Board of Directors he or she

Here are a few pointers in discussing the possibility of running for the board with potential members:

- Stress the positive and be enthusiastic!
- Stress the co-op vision, recent achievements, on going momentum of the board to continue the co-op's development.
- Give the member a realistic overview of the time commitment, responsibilities and general expectations of board members.
- Let the member know what strengths you think they would bring to the board and why you are enthusiastic about having them on board.
- Offer to answer any questions or concerns that they have. (Answer these questions as openly and honestly as possible without interjecting much of your personal issues which may deter them from being open minded about the situation,)

Important Tip: Sometimes the best way to recruit new members is to commit to not running yourself if you have been on the board for quite a long time, perhaps it is time for you to step down and allow some new faces to join the ranks. You can still get involved in the co-op in many other ways but this may be a welcomed change for you and give the board a fresh look at old issues.

Nominating Committee Responsibilities

The recruitment of new board members is definitely a task that should be taken seriously by all of your board members. However, as you continue the nominating process you may want to consider forming a nominating committee to take on the organizing and leadership responsibilities of the election Process. This committee can be made up of perhaps three board members who would be tasked with the following actions:

- * Plan a strategy for board member recruitment.
- * Establish qualifications that should be represented in the board as a whole.
- * Identify gaps in the composition of the current board that you hope to fill with new members.
- * Identify potential candidates.
- * Present recommendations to the full board for comments or discussion,
- * Coordinate recruitment interviews.
- * Orient new board member to the board.
- * Conduct exit interviews with outgoing board members; to provide positive closure, receive constructive criticism and feedback, and maintain the credibility of the board by allowing the outgoing member to express their frustrations and concerns about their term on the board.