Organization and Funding
The CLT is initially formed by a community group concerned about local housing issues. Frequent sponsors include non-profit housing organizations, religious coalitions, and tenant advocacy groups. Often, but not always, a public agency is also involved. The board manages the CLT, selecting members to form operating committees in charge of construction, administration, financing, land acquisition, community outreach, and other programs.

CLTs need funding for a variety of programs and services; operating funds, land acquisition, development costs, and home buying subsidies all require capital. Once the organization is well established and has developed a number of projects, some of the financing will be generated through lease fees, rental income, and membership dues. Additional funding is necessary, however, and comes from a broad range of sources, including foundations, religious organizations, individual contributions, government agencies, and private banks. Although the latter have had relatively little involvement with financing CLTs, two factors might lead to greater contributions: (1) increasing numbers of affordable housing programs and broader acceptance of the CLT concept, and (2) increasing numbers of bank mergers, triggering reviews of Community Reinvestment Act criteria.

In recent years, state governments have become more proactive in financially supporting CLTs, developing "Forever Housing" programs designed to keep housing permanently affordable and preserve government housing subsidies. Connecticut is among the states most supportive of such programs. In 1987, the state approved legislation allowing its Land Trust/Land Bank program to fund CLTs and permanently affordable housing; this program has invested some $30 million in land trust projects. In addition, the Connecticut Housing Finance Agency agreed to provide reduced-interest mortgage rates on CLT homes with the stipulation that the Federal Housing Administration (FHA) insure the mortgages. After long negotiations and some modifications in the ground lease, the FHA agreed to do so, setting an important precedent for future CLT projects (Baker, 1991).

Distinguishing Characteristics
The CLT represents a unique hybrid of many land ownership and affordable housing models. The concept of land leases, for example, is certainly not new and has precedent in major downtown office buildings such as One Post Office Square in Boston and, perhaps most notably, Rockefeller Center in New York City (Abromowitz). Similarly, restrictions on resale prices have been used in limited-equity cooperative models. While such precedents exist, they represent only certain facets of the fully developed CLT model, which blends diverse philosophies and practical examples from a wide range of sources. As John Emmeus Davis writes,

> ... From Henry George, the CLT draws its focused opposition to speculation. George's influence is also apparent in the CLT's preoccupation with the origins and allocation of property value. From Gandhi, the CLT draws its emphasis on decentralization—political and economic development that proceeds from the bottom up, controlled by community-based associations. From the mixed-ownership models of Israel and England, the CLT draws the practical details of leasing land and guiding local development. In addition, the CLT implements a conception of land that is, at once, both Gandhian and Native American in regarding land as a common trust rather than a commodity, a common heritage that may be individually used but not individually owned. The community land trust combines these disparate strands within itself to form a community-based model of land reform—a grass-roots approach to the reallocation of equity (Davis, 1984).

Philosophy
Perhaps the most important feature of the CLT is its underlying philosophy that land, like air, is a resource that should be accessible to all. Individuals should not be able to profit from speculative

investment or exploitation of resources. Land and its resources should be used wisely and sustainably for the benefit of the community.

Distinction Between Earned and Unearned Equity

As part of this philosophy, the CLT model distinguishes between earned and unearned equity. Earned equity is the increase in value achieved through an individual's investment of time and money in her or his property. For example, a homeowner who renovates a substandard house, or simply paints the exterior and cultivates a garden, earns any of the additional value created through this effort. By comparison, unearned or "social" equity is the gain in value resulting from some factor outside the owner's control. If a homeowner does nothing to her house, but the value increases because her neighbors have renovated their homes—or a transit station has been built nearby, or the neighborhood's zoning has changed—this increase would be considered unearned equity. The CLT model assumes that while an individual is entitled to the earned increment, she does not have a right to the gain in value achieved through no effort of her own; this social equity belongs to the community.

Community Involvement

The emphasis on community is a critical feature of the CLT model. Far more than an alternative form of land ownership, the CLT is a grass roots organization dedicated to serving the needs of the community, particularly those with limited incomes. Two of the criteria outlined above are crucial to meeting this end. First, membership in the CLT is affordable and open to all. Second, the democratically-elected board includes not only CLT residents, but representatives of broader community interests. The CLT thus serves as a catalyst for uniting diverse groups and provides a democratic and non-threatening forum for members of the community to be heard.

Preservation of Affordability

A further distinction in the CLT model is that it preserves housing affordability in the long term. Limited-equity housing cooperatives are also designed to achieve this end, but may not always succeed. The difference is in the composition of their decision-making boards. Cooperative boards are comprised of residents; if housing values increase substantially, they could reap significant financial gains. Despite initial commitments to affordability, therefore, they may decide in the future that it is in their best interest to eliminate the limited-equity restriction and sell their units at market rates. Such a decision is less likely to occur with a CLT. The diverse membership of the board ensures that the interests of residents are balanced against the broader needs of the community. Restraining price increases also protects any financial investment public agencies or non-profit groups have provided to fund affordable housing. Rather than losing this subsidy when units are later sold at market rates, the investment is preserved for the long term by the CLT's resale restrictions. Note that some CLTs may combine with limited-equity housing co-ops, providing an additional layer of protection for permanent affordability.

Land as Community Resource

The final and perhaps most basic distinguishing characteristic of the CLT is in its decommodification of land. The earth and its resources belong not to a single individual but to the community as a whole. With the profit potential resulting from unearned equity removed, there is no incentive to speculate. Thus a fundamental feature of the existing land use system and a guiding principle of real estate practice is eliminated.

Advantages of the CLT Model

By holding land in perpetuity, controlling its development, and removing expectations of profit, the CLT model ameliorates the social and environmental problems discussed above. In particular, the CLT offers the following advantages over the traditional private property system:

1. **Reduces housing costs and maintains affordability.** Low and moderate income households can benefit from homeownership, and any initial subsidies provided are preserved.

2. **Improves community stability.** By bringing control back into the hands of the community rather than absentee or corporate landlords, CLTs build residents' sense of security and stabilize communities. Moreover, homeownership reduces turnover and gives owners a greater sense of commitment to their neighborhoods.

3. **Provides a forum for community organization.** Interaction among community members encourages the development of other programs, such as food cooperatives, child care services, and informal barter and trade systems. In North Carolina, for example, the North Carolina Community Land Trust and the Durham Food Co-op have worked together in financing a new store for the co-op (which will sell the land beneath it to the CLT) and in organizing a neighborhood association that plans to build a community center for the area's children (ICE, Summer 1991).

4. **Develops communities' political clout.** Increased organization also enhances the community's ability to influence political decision makers. This influence may be multiplied beyond the CLT membership through cooperation with other organizations. In Massachusetts, for example, representatives from 10 CLTs have worked together to influence state housing policies (ICE, Summer 1990). In addition to strengthening communities as a political unit, the training and skills learned through involvement in CLT committees (administrative, construction, outreach, etc.) also increase individuals' personal empowerment.

5. **Promotes economic development.** Instead of flowing out to absentee and corporate landlords, who are likely to spend the money elsewhere, residents' dollars are recycled back into the community. In addition, the CLT may generate new jobs directly through construction, agriculture, or cooperative businesses and indirectly through skills developed through membership involvement. One example is the Homeworkers Organized for More Employment (HOME, Inc.) in Maine. The 21-year old organization developed the Covenant Community Land Trust and a number of businesses, including a crafts cooperative and a sawmill (ICE, Summer 1990).

6. **Fosters environmental sustainability.** The CLT land lease normally includes a broad directive to protect the environment and in some cases may be more explicit regarding permissible uses. Some CLTs include elements of conservation trusts and dedicate part of the site to open space or sustainable agriculture.

COMMUNITY LAND TRUSTS IN PRACTICE

CLTs are expected to play an increasingly important role in facilitating mixed-use land planning and more compact urban forms as methods of preserving and protecting open space and providing other environmental benefits. The CLT is a highly flexible tool, adaptable to rural, suburban, and urban communities and suited to various occupancy forms. It can be used for owner-occupied or rental housing and single-family or multi-family units, as well as for commercial buildings. Although far from common, CLTs have been rapidly increasing in number. According to ICE, there are more than 100 now existing or in development in the United States, compared to fewer than 10 in 1980. The following statistics, provided by ICE, illustrate the broad application of this model.

Project Location

There are 23 states with at least one operating or developing CLT. Although scattered across the country, the distribution is most heavily concentrated in the northeast and the west coast. CLTs are predominantly located in urban areas with populations of 100,000 or more (roughly 40%) and small cities of 10,000 to 100,000 people (40%); the balance are located in rural areas with fewer than 10,000 residents.

Types of Projects

Approximately two-thirds of all CLT units are in multi-tenant buildings (owner and renter occupied), and about one quarter are single-family homes. The balance includes (in descending order) single room occupancy facilities (SROs), commercial buildings, and farms. Of the occupied residential units, nearly 40% are owner-occupied (including single-family homes, condominiums, and cooperatives); 40% are rentals planned for conversion to owner occupancy, and the remainder are permanent rentals.

Household Profile

CLT residents include a broad range of household types. The primary common denominator is income level: nearly 90% have incomes below 80% of the median for their metropolitan area (just over half are below 50% of the median). Most of the households have children: 34% of the residents are single parents, and 27% are two parents with children. The balance is fairly evenly divided between single-person households and those with two or more adults. Nearly half of all CLT residents are white; 35% are African-American, and 15% are Latino.

EXAMPLES OF CLTS

As noted above, the community land trust concept is adaptable to a wide variety of projects and environments. The following examples of urban and rural CLT projects illustrate the flexibility of this model in achieving community goals of perpetual stewardship and permanent affordability.

Urban

The CLT has been used by tenants in urban areas as a means of gaining control of and rehabilitating neglected rental properties. Low-income neighborhoods have organized CLTs in cities across the country; among the most recent are the United Hands CLT in Philadelphia, Northern Communities CLT in Duluth, Minnesota, and WISH (Washington's Inner City Self Help) in the District of Columbia. One of the largest and most well established is the RAIN (Rehabilitation in Action to Improve Neighborhoods) CLT in New York City. The organization was created by residents of a run-down Lower East Side neighborhood with the help of the Lower East Side Catholic Area Conference. The group renovated and took title to abandoned city-owned tenement buildings, transferring ownership of the first properties to the CLT in 1988. RAIN's goals for 1992 are to have 130 units of completed housing included in the trust and an additional 40 under construction. The organization provides a good example of the types of community programs and services that can evolve out of the CLT: they hope to build a residence for people with AIDS and a new church with community space; they also plan to establish a tool pool and a revolving loan fund for small emergency loans to members.

Rural

Some of the earliest CLTs were established in rural areas to help preserve lifestyles dependent on agriculture and other natural resources. New Communities in Leesburg, Georgia, is perhaps the largest (more than 4,000 acres) and oldest (established in 1968). The primary purpose of this CLT was to preserve the area's small farms and create a self-sustaining lifestyle (ICE, 1984). More recently, the CLT model has been used extensively in Vermont to provide affordable housing and to preserve a small-town way of life increasingly threatened by development. The state has developed very progressive housing policies, including the establishment of the Housing and Conservation Board through the passage of the Trust Fund Act in 1987. The Board is authorized to fund conservation of farmland and affordable housing projects that have permanent benefits. In its first year, the Board provided $20 million in grants and loans to 120 projects, which created or protected 1,200 units of permanently affordable housing and preserved 23,000 acres of farmland and open space (ICE, Summer 1990).

The Northern California Community Land Trust provides a particularly good example of the versatility of the CLT model. This single trust, incorporated in 1973, encompasses agricultural, residential, and commercial projects in rural and urban environments. The trust includes a 40-acre farm in Lodi used by two families on a 49-year

lease, a seven-unit rental project in North Oakland for low-income households, a duplex in West Berkeley, a small office building in Berkeley, and a transition house for the homeless.

CONCLUSION

This chapter has focused on the problems associated with private property ownership and the advantages community land trusts offer as an alternative to this system. While the CLT model offers a way of alleviating the social injustice and environmental degradation resulting from speculation and the commodification of land, it is not a panacea. The CLT represents one model, with an as yet limited application. Far more dramatic reform is necessary in order to rectify such pervasive and deeply rooted problems.

A broad educational campaign, including a fundamental change in values, is required for CLTs to achieve widespread use. The idea that individuals should profit from investment in land and its resources is deeply entrenched in our culture. Changing this belief and convincing people that the community rather than individuals should benefit from unearned equity is an ongoing challenge. That challenge can be met by an educational campaign that helps people to develop a sense of common stewardship toward land and its resources.

Implications for Land Use

The community land trust offers a valuable method of addressing the social and environmental consequences of the private property system. Its grass roots approach empowers communities to gain control of their neighborhoods rather than waiting for the benefits of "trickle-down" government policies to reach them. If the concept continues to gain acceptance and, in particular, if more states begin to support permanent preservation of affordable housing, natural resources, and farmland, the CLT model could significantly alter the patterns of land use in this country.

A key component of this change would result from community involvement in land use decisions. Zoning and land use plans would no longer be dominated by planning technicians, real estate lobbies, and affluent investors; rather, community residents would be able to determine (or at least influence) land uses that meet their needs and protect resources. Development based on the concept of fair returns versus windfall profits would dramatically affect land use. There would be less development pressure on resort areas, open space, and farmland; rural, agriculturally-based communities could be preserved, and compact mixed use urban developments with an emphasis on affordable housing would be encouraged. Moreover, buildings would be designed to be durable and meet needs adequately rather than lavishly detailed to achieve rent and purchase premiums.

Widespread CLT development would also change land patterns in inner city areas. Shifting control from corporate and absentee owners to the community would help revitalize blighted neighborhoods; homeownership and community organization would help stabilize areas with high turnover. The money flowing out to absentee landlords could be rechanneled into community development, rebuilding the area's economic base. Increased political clout could help residents fight against the harmful land uses (incinerators, oil refineries, etc.) that tend to be concentrated in poor, disempowered neighborhoods.

Instilling a sense of stewardship toward the earth and its resources would have the most profound impact on land use. Basing land use decisions on long-term sustainability rather than short-term profit would dramatically alter the choices now made. Few communities would be likely to clear-cut their forest land or overgraze their fields. Rather, they would evaluate their long-term needs and allocate their resources accordingly. If community land trusts can demonstrate that this sense of stewardship can be developed, and that collective needs can take precedence over individual profit, they will make a substantial contribution to the development of truly sustainable communities.

This is an edited version of an article written by Linda Ashman.

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Chapter **18**

Safeguards For Cooperatives and the Cooperative Principles

THE COOPERATIVE PRINCIPLES

Genuine adherence to the cooperative principles is the most important way to develop, safeguard and preserve housing cooperatives in California. These principles can be given to all prospective members and discussed at regular and informal board and member meetings. All members should have the opportunity to know, understand, and interpret these principles for application to their cooperative housing situation.

The cooperative principles are included as part of this chapter as an ongoing reminder of their importance to housing as well as other types of cooperatives.

This is the official text of the principles adopted by the International Cooperative Alliance in 1966.

Preamble to the Cooperative Principles
Cooperative organizations seek to build a world of justice and peace based on the enterprise of self-governing individuals, families, communities, peoples, and regions. These principles provide a guide for such enterprise.

1. **Open, voluntary membership.** Membership of a cooperative society should be voluntary and available without artificial restriction or any social, political, racial, or religious discrimination, to all persons who can make use of its services and are willing to accept the responsibilities of membership.

2. **Democratic control.** Cooperative societies are democratic organizations. Their affairs should be administered by persons elected or appointed in a manner agreed by the members and accountable to them. Members of primary societies should enjoy equal rights of voting (one member, one vote) and participation in decisions affecting their societies. In other than primary societies the administration should be conducted on a democratic basis a suitable form.

3. **Limited return,** if any, on equity capital. Shared capital should only receive a strictly limited rate of interest.

4. **Net surplus belongs to owner-users.** The economic results arising out of the operations of a society belong to the members of a society and should be distributed in such a manner as would avoid one member gaining at the expense of others. This may be done by decisions of the members as follows: (a) by provision for development of the business of the cooperative; (b) by provision of common services; or (c) by distribution among the members in proportion to their transactions with the society.

5. **Education.** All cooperative societies should make provision for the education of their members, officers, and employees and of the general public in the principles and techniques of cooperation, both economic and democratic.

6. **Cooperation among cooperatives.** All cooperative organizations, in order to best serve the interest of their members and their communities, should actively cooperate in every practical way with other cooperatives at local, national, and international levels.

The following two principles have been added by many cooperatives:

7. **Honest business practices.** Cooperatives should deal openly and honestly with their members and the general public.

8. **Ultimate aim is to advance the common good.** The ultimate aim of all cooperatives is to aid in the participatory definition and advancement of the common good.

SAFEGUARDS

Housing cooperatives are social systems unto themselves. In general, co-ops are good affordable places to live. In particular, however, co-ops are wonderful places to live if the residents and leadership are sensitive to one another. The social aspects are most important, because if cooperators adhere to agreed-upon processes for decision making, communicating, and conflict resolution, then clear progress can be achieved on all other issues. When cooperatives choose to follow the fifth co-op principle regarding education about the "principles and practices of cooperatives, both economic and democratic," they have a good chance of becoming communities in which the spirit of cooperation makes cooperatives a pleasure to live in.

This type of sensitivity can be achieved when both board and membership participate in ongoing informational seminars, process training, group training, and other methods of informally building trust and friendship in the context of up-to-date knowledge based on relevant housing issues.

Following is a checklist that co-op leadership should use for ensuring that their cooperative goals are securely aligned with the spirit of cooperation:

1. **Legal Preservation**
   - Contracts are in order and accessible to members.
   - Role of board of directors and committees is clear to board, members, prospective members, and management.
   - Knowledgeable and fair legal advice is readily available when needed.
   - Creative conflict resolution techniques, including mediation and arbitration, are familiar to and agreed to by members as the policy for handling disputes.

2. **Management**
   - There is an open and known process for choosing professionals, such as certified public accountants, property managers, trainers, developers, attorneys, and contractors.
   - The board members are trained to update their knowledge regarding management and financial matters.

- There is an on-going commitment to recruit and train other members on management and financial issues.

- There is a commitment by board leadership to provide clear reporting to the members on management and financial issues.

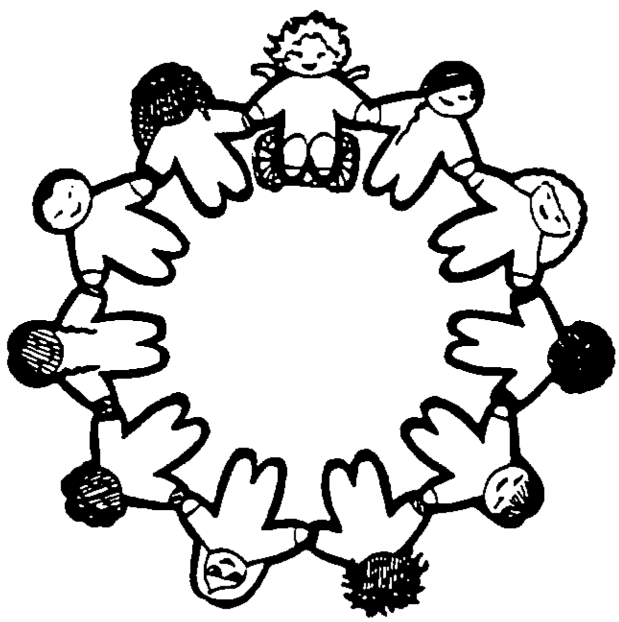
- The board provides on-going opportunities for both old and new members to develop the technical skills essential for good management (e.g., overseeing professional management companies, tax issues, preparing budgets, understanding bylaws and various legal documents, building maintenance and repair issues and processes, etc.).

3. **Education is on-going, helping members to develop**
   - Critical judgment.
   - The ability to ask good questions.
   - The ability to make informed decisions.
   - The willingness to contribute to a regular newsletter.

4. **Training is ongoing for board and membership in areas such as**
   - Decision making.
   - Collaborative living and ownership.
   - Rights and responsibilities.
   - Communicating in community.
   - Conflict-resolution techniques.
   - Effective meeting process.
   - Environmental sustainability.
   - Development of management and financial skills.

5. **Economic Training. Board and members understand basic co-op**
   - Accounting and disclosure.
   - Tax breaks for cooperatives.
   - Reserve fund analysis.
   - Assessments.
   - Limited return on investment.

6. **Existing and emerging cooperatives are being helped by**
   - Providing resources and advice.
   - Networking for mutual aid and advocacy.
   - Being active in regional and national co-op federations.



PART IV

Financing

Chapter **19**

Private Financing

Most new cooperative housing developments are privately financed. The funding, like the cooperative, is usually a collaborative venture between the lenders, the property owners, and the group of future residents.

Any group planning to develop cooperative housing is advised to retain an experienced cooperative financing consultant from the onset of the planning process. The amount, source, and conditions attached to the financing of real estate more often than not control the size, timing, and constituency of the cooperative.

Three umbrella groups comprised of cooperatively minded developers, organizers, and consultants can provide assistance in finding a qualified consultant. In Northern California, contact the Non-Profit Housing Association of Northern California at (415) 495-2273. In Southern California, contact the Southern California Association of Non-Profit Housing at (213) 480-1249. Also, the California Mutual Housing Association specializes exclusively in cooperative and non-profit resident-controlled housing. They can be reached in Berkeley at (510) 548-4087, in San Jose at (408) 291-8560, and in Los Angeles at (213) 661-1398.

This chapter suggests a few sources of financing for different kinds of cooperative housing projects. See also *California's Lower-Income Housing Cooperatives*, by the Agora Group (Center for Cooperatives, U.C. Davis, 1992, $10) for more detailed information on co-op housing finance.

NATIONAL COOPERATIVE BANK

The National Cooperative Bank (NCB) is an established lender to cooperatives. Founded in 1978 by the U.S. Congress, the Bank became privatized in 1982 and is a major lender to all other types of co-ops in addition to housing. The bank is now owned by its borrowers as a co-op.

In cooperative housing, a corporation owns the real property. The corporation usually obtains a mortgage loan, known as a "blanket mortgage," which finances the whole property. Individual cooperative members own shares of stock—or membership certificates referred to as "shares"—in the cooperative corporation, giving them the exclusive right to occupy a specific unit. (Each unit of housing represents one share only.)

NCB provides construction and permanent loans at competitive interest rates to eligible cooperatives, secured by liens against real property or other collateral owned by housing cooperatives and their members.

NCB funds may be used to develop, purchase, construct, rehabilitate, or refinance cooperatively-owned (or leasehold interests in) real estate. This may include housing cooperatives, mobile home communities, retirement facilities, and commercial real estate ventures such as shopping centers and marinas that are cooperatively structured.

NCB offers the following types of financing:

- Blanket mortgages for capital improvements and/or refinancing.
- Financing that enables mobile home owner associations to purchase park real estate as a cooperative.
- Short-term credit lines for capital improvements.
- Short-term credit lines for capital needs.
- Second mortgage financing for repairs and maintenance.

For a detailed list of NCB financial products available for housing development, contact the NCB Real Estate Division at (800) 955-9622.

NCB DEVELOPMENT CORPORATION

NCB Development Corporation is the development finance affiliate of the National Cooperative Bank. NCB Development Corporation's role is to foster the growth of new cooperative enterprises nationwide to help ensure the long-term strength and dynamism of the cooperative business sector. Below-market-rate loans can be arranged through NCB Development Corporation, especially for low-income co-op housing groups and other kinds of low-income co-ops.

The NCB Development Corporation leaders believe that the cooperative form of ownership, broadly defined, can be an ideal vehicle for individuals, businesses, and communities seeking to gain control over the things that matter most: housing and jobs, food and health care, access to markets and sources of supply, and even the general quality of life. Cooperation is particularly favored because of its emphasis on self-help.

For real estate borrowers NCB Development Corporation offers a range of financial services that can take a project from its earliest stages of pre-development through to occupancy. NCB Development Corporation can finance acquisitions of occupied and vacant buildings in situations where construction and take-out financing may not be committed. The Development Corporation is able to finance gaps in construction finance when local lenders are unable to make loans in the full amount needed. And in some situations where long-term mortgage credit is not available the Development Corporation can also provide bridge loans.

Whenever possible, NCB Development Corporation arranges for permanent financing upon full occupancy of the project, through affiliation with the National Cooperative Bank.

For all borrowers, NCB Development Corporation also offers a unique financial service unavailable from any other lending institution. It is called a business planning advance (BPA), and it is designed to fund a portion of a new venture's pre-development costs, such as feasibility studies and other planning expenses. Business planning advances are extended on a matching-basis. If a proposed venture goes forward, the BPA is folded into the final loan package. However, repayment is waived if the venture fails to reach fruition.

NCB SAVINGS ASSOCIATION

NCB Savings Association is a provider of cooperative share loans (see Glossary for definition of "share loan"). In most states, ownership interests are treated as personal property and few lenders have been willing to make share loans. NCB Savings Association aims to fill this need, to ensure the continued vitality and growth of the cooperative housing sector. They now offer competitively priced adjustable and fixed-rate mortgages for buyers and members of participating cooperatives.

For more details, a letter of interest may be sent from the housing co-op board president to NCB Savings Association, P.O. Box 669, Hillsboro, Ohio 45133, Attention: Project Underwriter. The following information should be included in the letter:

1. Size and location of project.
2. Current type and scope of share loan.
3. Whether you are a cooperative approved by the National Cooperative Bank or Federal National Mortgage Association (Fannie Mae).
4. A recent annual report and/or financial statement.

After the above information is received, NCB Savings Association will work through the project approval process with you. Upon actual or imminent approval, NCBSA will issue a project approval, and then a local processing agent will accept loan applications from prospective members.

The NCB is committed to lending for affordable housing, which it sees as a key component of its charter. The Bank has invested a lot of time and money in learning how to excel in affordable-housing lending, and it is a market the Bank believes is ideally suited to cooperative principles.

Since 1980, NCB has originated more than $200 million in loans for approximately 20,000 units of owner-occupied or community-owned housing projects.

REVOLVING LOAN FUNDS

A revolving loan fund is a self-perpetuating financing source whereby the repayment of interest and principal on retiring loans is used to fund new loans. For instance, the Low Income Housing Fund (see Resource Directory) makes direct short-term loans, using flexible underwriting to assist projects from predevelopment to acquisition, rehabilitation, and construction, and sometimes into the first few unsteady years of operation.

Usually, loan funds bridge the financial gap at the high-risk predevelopment phase. Groups such as LIHF combine these loans with training programs for emerging nonprofit housing developers. For an interesting example about how the Northern California Community Loan fund assisted in financing some special-needs housing, see Chapter 11, "Special Needs."

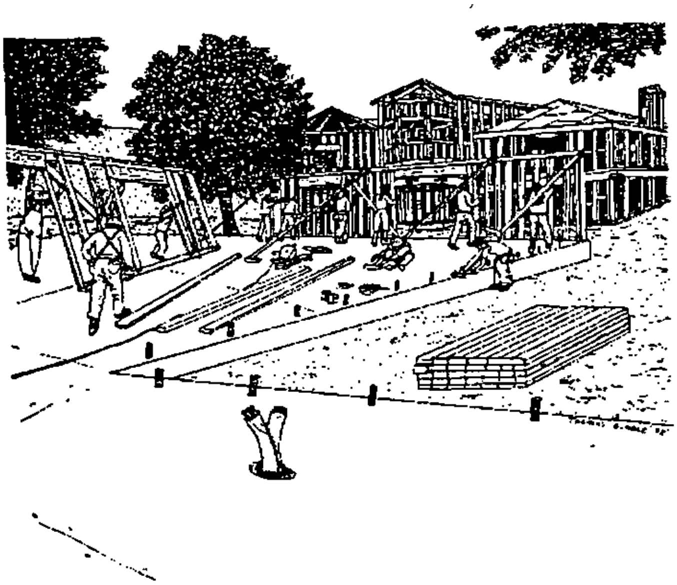
The National Association of Community Development Loan Funds (NACDLF) is a federation of community groups across the country that lend extensively to housing cooperatives and community land trusts serving primarily low and moderate income persons. Contact the NACDLF in Philadelphia at (215) 923-4754. The Institute for Community Economics provides a manual on how to form community revolving loan funds. See Bibliography for *The Community Loan Fund Manual.*

CONSORTIUMS

Many lenders have found security in numbers and have pooled loan review and processing resources into consortiums. The most prominent private lending group in California is the Savings Associations Mortgage Company, Inc. (SAMCO). SAMCO is a consortium of savings and loan banks that make direct loans to nonprofit and private developers for permanent financing. SAMCO's purpose is to narrow the gap between housing and the number of people who need it. SAMCO lends to cooperatives (see Resource Directory).

NATIONAL ASSOCIATION OF HOUSING COOPERATIVES (NAHC)

With the advent of the Affordable Housing Act of 1990, NAHC has been working toward taking advantage of the substantial opportunities presented by the RTC, HOPE, Preservation/Prepayment, HOME, and SHARE programs. The NAHC has organized the Center for Cooperative Housing (CCH) as a subsidiary, which will provide technical assistance to those interested in sponsoring housing cooperatives, especially to take advantage of new federal programs. CCH will serve as a critical link between localities and those entities developing national cooperative housing programs. CCH is available to provide several levels of services, ranging from program information to technical assistance to development services to sponsorship, all of which will facilitate the creation of housing cooperatives, depending upon local circumstances and needs. For more information, contact NAHC (see Resource Directory).



PRIVATE LENDING INSTITUTIONS

The most commonly used form of financing is a loan commitment from a local lending institution. It is not a simple process, and cooperatives often have trouble walking in cold with a completed loan application. This section points out several helpful factors.

There is an old saying that it is not what you know but who you know that gets you to the top. So if a co-op group is trying to get a private loan they should find out who among their members has an established relationship with a lending officer. If that relationship is not there, they should establish such a relationship or find a financing consultant to handle this phase.

An interesting article on ecological lending written by Carl Hanson, MBA, in the book *Sustainable Cities: Concepts and Strategies for Eco-City Development* (see Bibliography), makes a number of recommendations for those seeking to create innovative cooperative-style living communities.

If the cooperative-style housing to be developed includes a large number of units for low and moderate income households and/or is community-based, then bank loans may be more accessible through application to local banks for meeting their Community Reinvestment Act (CRA) mandates. Banks are required by this federal law to allocate a certain percentage of their loan activity at the local level for affordable housing and other socially responsible activities. In the 1980's and 1990's the CRA's focus was on financing affordable housing development and mortgages for first-time home buyers. Community-based developers can work with federal resources like the low-income housing tax credits, to fulfill a local requirement to assist the community in which the branch is actually located. Virtually all banks have CRA lending commitments, which cooperatives can take advantage of.

AFFORDABLE HOUSING PROGRAM OF THE FEDERAL HOME LOAN BANK

These loans are for the development of affordable rental units, including leasing co-ops, stock co-ops, and home-ownership programs. The loans, authorized by the Financial Institutions Reform Recovery and Enforcement Act of 1989 (FIRREA), enable the Affordable Housing Program (AHP) of the Federal Home Loan Bank of San Francisco to provide a subsidy fund designed to encourage and assist housing finance lenders in the development of affordable housing in their communities. To facilitate such activities, the Bank provides subsidized advances (loans) or direct subsidies to member institutions engaged in lending for long-term, very low, low, and moderate-income housing projects. Both owner-occupied and rental projects may be eligible for funding at subsidized interest rates.

The community investment staff of the Federal Home Loan Bank of San Francisco (FHLB) is available to provide technical assistance and information to the bank's member institutions, local governments, and community organizations interested in participating in the bank's affordable housing program. For assistance, call the Community Investment staff at (415) 616-2542.

PENSION FUNDS

The AFL-CIO affordable housing division has stepped up to HUD's table and has offered to use at least $500 million in pension funds to build urban housing in 20 U.S. cities. In California, about $75 million would go to Los Angeles as part of a commitment that the labor federation made after the 1992 civil uprisings. Oakland will also receive an undetermined amount of new housing under the overall plan to develop 10,000 low to middle income units. This joint housing effort may become a source of funds for new construction of cooperative housing projects.

PRIVATE LENDING POOL

Of course, groups who want to purchase or develop cooperative-style housing can form a private lending pool. Legally this is called a "private offering" and is guided by a written agreement. A private offering is a particular type of partnership, sometimes referred to as a joint venture or pool. Regardless of the term, when groups use this arrangement as a funding source for cooperative-style housing, the members of the partnership commit to save and/or contribute money that is pledged exclusively as a funding source for the housing. Participants in the funding pool may or may not be those who will reside in the housing. For example, the Eco-Village at Ithaca purchased 177 acres of land with $400,000 borrowed from a nine-member funding pool, all of whom were friends of the nonprofit development organization but only two of whom plan to live in the Eco-Village.

A WORD ABOUT THE FUNDING PUZZLE

Whether a group is purchasing an existing home or building or developing a new cooperative-style community, the most important thing to remember about financing is that it is like a jigsaw puzzle. It rarely comes from one source. Often you don't know how all the pieces are going to fit together. Initial financial commitments will leverage other financial commitments, and sometimes they won't. A group has to learn to live with that uncertainty. Commitments can be all lined up, then interest rates may plunge and a group may find itself wanting to start all over again. No matter how carefully developed the plans, a group should always be ready for a roller coaster ride. If it turns out that it was all easy—though there will always be much more paperwork than anyone wants to deal with—that will be frosting on the co-op cake.

This chapter was written by Lottie Cohen.

Chapter **20**

Government Financing

PUBLIC HOUSING

Gone is the trend whereby public agencies constructed, owned, and managed their own housing stock. Nowadays, public agencies encourage the private development and ownership of housing affordable to low and moderate income households. Federal state and local housing agencies make their economic contributions to affordable cooperative housing through the utilization of grants, bonds, credits, tax incentives, low-interest loans, and special benefits to developers such as density bonuses.

The latest trend by HUD is to provide funds with which tenant groups or others can convert previously built HUD public and subsidized housing to privately-owned projects or cooperatives. The HOPE 1, 2, and 3 programs, the HOME program, and the Preservation/Prepayment program are described below in an edited version of an article by Hebert T. Levy, Executive Director of the National Association of Housing Cooperatives (NAHC). These programs will prove especially useful for tenant groups and nonprofit developers seeking capital to convert, rehabilitate, or construct cooperative dwellings in the 1990's.

For a more detailed description of government financing available to low and moderate income cooperative housing, please see *California's Lower Income Housing Cooperatives*, by The Agora Group (Center for Cooperatives, U.C. Davis, 1992, $10). Also see *How to Preserve and Protect Your HUD Subsidized Housing: A Manual for Tenants, Tenant Associations, and Housing Advocates* (Community Economic Development Unit, The Legal Aid Foundation of Los Angeles, 1991).

This chapter includes a description of certain public sources of funding available for use by private developers. Examples include development or linkage fees, federal and state tax credits, and state and local bonds.

THE RESOLUTION TRUST CORPORATION (RTC)

With these financial tools in place, the stage is set for a large-scale replicable cooperative housing creation program. One major opportunity for such a program emerges from the Financial Institutions Reform Recovery and Enforcement Act of 1989 (FIRREA), which created the Resolution Trust Corporation (RTC) to deal with the assets of failed savings and loan institutions. Among these assets are multi-family housing developments. Title V(c) of FIRREA requires the RTC to dispose of eligible residential properties by providing opportunities for persons of moderate, low, and very low income.

This provision, the Affordable Housing Disposition Program, provides a 90-day period to allow qualifying purchasers a first right of refusal to purchase single-family properties valued at $67,500 or less and certain affordable multi-family properties. Qualifying purchasers of multi-family buildings include limited-equity cooperatives as well as public agencies, nonprofit organizations, and private sponsors who commit to maintaining the affordability of the units.

Of the initial approximately 27,000 properties in the RTC receivership and conservatorship inventory, RTC estimates that about 10,000 of these properties will be eligible for the Affordable Housing Disposition Program. The RTC inventory provides numerous opportunities to create limited-equity cooperatives. Residents in existing properties who wish to form co-ops must have qualifying net income which can support the debt service. In this fashion, families who can afford the current rent will be able to afford the cooperative's carrying charge.

The RTC inventory includes a number of multifamily properties across the nation. These properties can be accessed through the RTC's computerized database by zip code, city, state, or region and by commercial or residential type. Up to 150 property listings can be obtained free of charge. Property listings can be obtained by calling (800) RTC-3006. Other RTC information, including auction dates and locations and how to do business with the RTC, can be obtained at their general information number, (800) 348-1484, or their "Brochures" number (800) 431-0600.

THE AFFORDABLE HOUSING ACT OF 1990

The National Affordable Housing Act of 1990 contains three programs that can be used to create housing cooperatives: the HOME program, the Preservation/Prepayment program, and the Homeownership and Opportunity for People Everywhere (HOPE) program.

The Home Program

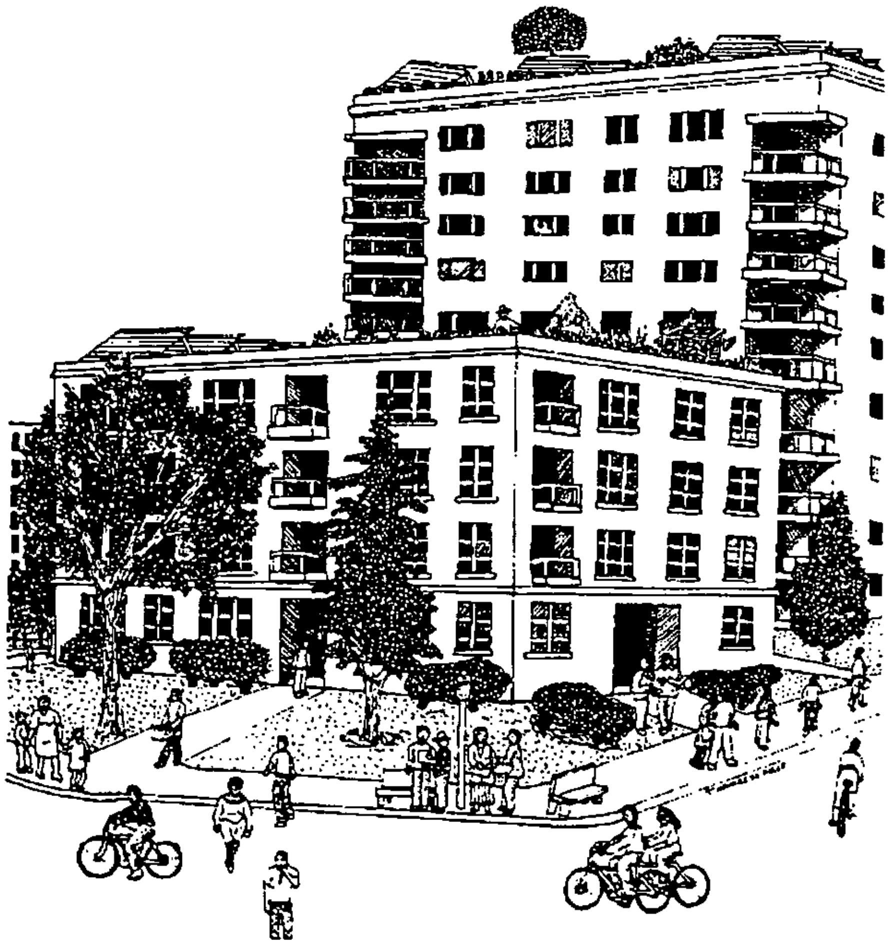
The HOME program is the production element of the new law. It will supply funds to states and certain local jurisdictions to expand the supply of affordable housing. Formula funding will permit flexible use of the funds to meet locally defined housing priorities. Funds can be for acquisition, construction, and rehabilitation that promote affordable rental and ownership housing, including cooperative housing. There is a preference for rehabilitation, and a requirement that funds for new construction be restricted to communities where there is a shortage of affordable rental housing or a shortage of substantial housing suitable for rehabilitation. Other similar restrictions apply. Housing established with HOME funds will be limited to households and individuals eligible for Section 8 certificates.

Specific allocations of HOME funds for a particular neighborhood are based on a formula using criteria such as the vacancy rate of affordable housing, the amount of substandard housing, the cost of housing production, the number of units needing rehabilitation, and the number of families in poverty. States will receive 40% of the available funding, and local governments will be allocated 60%. States will receive a minimum of $3,000,000 (with an additional $500,000 if no local government within the state receives a direct allocation). Local governments can receive a direct allocation if their formula amount is $500,000 or more. Funds must be matched by 50% for new construction, 33% for rehabilitation, and 25% for rental assistance. State and local government matches can be met by cash from non-federal sources, real property, infrastructure improvements, or taxes and fees that are abated or deferred. A minimum of 15% of the funds set aside for all participants must be set aside for 18 months and first offered for use by nonprofit community development organizations for sponsorship or development of housing. If no such groups are able to use the funds within the time period, they become available to the general development community.

Prevention/Prepayment

Nearly one million units of housing were produced in the 1960's using the Section 221(d)(3) below-market interest rate program and the

Section 236 Mortgage Insurance program, which provided interest rate subsidies to sponsors of low and moderate income housing and rent subsidies for tenants who were income eligible. About 60,000 cooperative housing units were built with Section 221.d.3 and 236 assistance. While the mortgages on these developments were made for 40 years, at rates of 1%, 3%, and 6%, owners can prepay their mortgage after 20 years, removing them from HUD restrictions and from the affordable housing stock. The National Housing Act creates an assistance program that can facilitate cooperative conversion of the approximately 40,000 at-risk units in California.



In such instances, a notice of intent must be filed with HUD by owners who wish to change the terms of their contract. Such changes might include prepayment, sale to a purchaser who will retain the affordable use of the property, or taking advantage of government incentives that make it viable to continue the present use of the property. Tenants, as well as the local or state jurisdiction and mortgage, must be notified of the owner's intent. Within nine months of filing the notice of intent, HUD will provide the owner and the tenants an appraised preservation value (which is a ceiling above which the property can't be sold to a qualified purchaser), a preservation rent (based upon 8% return after debt service, rehabilitation, operating expenses, and reserves), and appropriate federal cost limits. Owners can file a plan of action within six months of receiving information from HUD. If the plan is to prepay the mortgage, there is a 12-month right-of-first-refusal, which can be exercised by either a resident council organized to create homeownership, or by state or local agencies or nonprofit organizations that will retain the property as affordable for the rest of its remaining useful life.

Assistance can be provided to enable the residents to acquire the property for a price no greater than the preservation equity, to pay debt service, to meet operating expenses of the project, to receive reimbursements for transaction expenses, and to cover training and counseling costs. Section 241(f) financing can be used to acquire the project. A grant equal to the present value of the projected Section 8 existing housing fair market rents for 10 years (or longer if necessary) can be received to make project acquisition feasible for current residents.

Hope

The HOPE program provides funds for planning and implementation grants to create homeownership programs for low-income persons. Implementation grants must be matched. The HOPE program can assist in the creation of cooperatives from the public and Native American housing stock and from properties owned or held by HUD, properties that are HUD insured or have HUD-held mortgages, or properties owned or held by the Department of Agriculture, the Resolution Trust Corporation, or state or local government.

For public and Native American housing, planning and implementation grants can be awarded to cooperatives, public and Native American housing authorities, resident management corporations, resident councils, nonprofit organizations, and public agencies/instrumentalities. At least half of the project residents must be able to afford homeownership, paying no more than 30% of their income for housing, for the project to be eligible for a HOPE grant. Planning grants up to $200,000 will be available, based on a national competition, to develop homeownership programs. Among the items for which grant money can be used are providing training and technical assistance, performing feasibility studies, preliminary architectural and engineering work, getting appraisals, planning for economic development to increase the community's self-sufficiency, and preparing applications for implementation grants.

Implementation grants can be used to fund a variety of activities. They are also available through national competition, and one-quarter of the grant amount must be provided as a non-federally funded match (from such sources as in-kind contributions of administrative fees or tax abatement or deferral). Grants can be used for such items as acquisition, rehabilitation, professional fees, counseling and training, and funding operating reserves to assure long-term affordability, as well as the purposes previously mentioned in the discussion of eligibility for planning grants. There are restrictions that limit the equity on unit resale for the first twenty years.

For other multi-family units, planning and implementation grants will be available, based on national competition, for the same purposes as outlined for public and Native American housing units. One-third of the implementation grants must be provided as a match, using non-federal funds. Families eligible for assistance must have incomes no greater than 80% of the area's median income.

SHARE (SOLDIERS' HOUSING AND RETIREMENT EQUITY)

The United States Army will conduct the pilot test of the SHARE program, which will develop limited-equity cooperatives on government land for Army families. The Army's ability to meet the housing needs of the families of their personnel under current programs is declining, owing to reduced construction budgets, aging Army-owned housing, and inadequate housing allowances for the 60% of Army families who don't live in government quarters. Army families move twice as often as their civilian counterparts, on the average of once every two years, and each time they may have to wait as long as six months before permanent housing they can afford becomes available. SHARE would become a national mutual housing association, facilitating the availability of housing. The Army will lease federal land to SHARE at a long-term nominal cost. In all key respects, SHARE will function in the same manner as any limited-equity cooperative, with owners benefitting from mutual ownership through reduced operating and financing costs, the pass-through of appropriate income tax deductions, streamlined ownership transfer, and the accumulation of deductions and of limited-equity. SHARE could eventually "privatize" much of the Army's family housing. The Army believes that ownership, through SHARE, will be an incentive for recruitment and re-enlistment.

The Army has conducted feasibility studies at five locations to test the affordability of the SHARE concept and the willingness of Army personnel to participate. Their analysis showed that, for the target group, SHARE is affordable. The locations with the most potential for success are those in high-cost areas. Of the service population actually targeted for SHARE, 81% were interested in participating immediately. The next step will be to create a pilot program.

HUD FINANCING

HUD financing provided to cooperatives or to potential owner occupants may be obtained not only from the above-described federal programs, but also in the form of HUD mortgage insurance and financing. These opportunities include mortgage insurance for cooperative financing Section 203(n), Section 213, and Section 221(d)(3). The financing and cooperative development programs are constantly changing, and it is recommended that the continued economic viability of these programs be verified before a cooperative relies upon any of these programs. Three types of HUD housing built in the past are described below. Many of these publicly financed cooperatives are now paying off their mortgages and converting to limited-equity or market-rate cooperatives.

Section 213

Under Section 213, HUD insured mortgages by private lending institutions on cooperative housing buildings that were occupied by members of non-profit cooperative ownership corporations. Thirty-five housing cooperatives were created in California utilizing the 213 mortgage insurance program. However, since the program required no resale controls these units are market rate and not affordable to lower income households.

Section 221(d)(3)

Under Section 221(d)(3), HUD insured mortgages for construction or substantial rehabilitation of rental or cooperative detached, semi-detached, row, walk-up, or elevator-type structures.

Section 203(n)

Under Section 203(n), HUD insured financing to help individuals/families purchase corporate certificates and occupancy certificates in cooperative housing projects covered by mortgages insured under the National Housing Act.

DEVELOPMENT FEES

Some cities and counties extract development fees, or linkage fees, from builders of residential or commercial properties, to be allocated for affordable housing. Local governments retain broad authority to impose development fees that are reasonably related to the impacts of proposed developments. The pool of linkage fees may then be tapped by cooperative housing developers, among others, to satisfy local housing needs.

FEDERAL AND STATE TAX CREDITS

These credits can be used in the development of housing cooperatives. Established in 1986, the federal low-income tax credit is a tax shelter and a lucrative source of funds for investors in affordable housing development. It is a complex process that can be costly and time consuming. See *California's Lower Income Housing Cooperatives* for additional information and resources. Also, contact the Non-Profit Housing Association of Northern California or the Southern California Association of Non-Profit Housing for additional resources. The National Association of Housing Cooperatives' Publications Catalog lists the publication by Joseph Guggenheim, *Tax Credits for Low Income Housing*, 7th ed. (147 pp., $55).

Table 20.1 1992 HUD Sampling of Family Size and Income Guidelines for California

		1 Person	2 Person	3 Person	4 Person	5 Person	6 Person	7 Person	8 Person
Anaheim-Santa Ana, CA FY 1992 MEDIAN FAMILY INCOME: 52700	VERY LOW-INCOME LOW-INCOME	18450 27000	21100 30900	23700 34750	26350 38600	28450 41700	30550 44800	32650 47850	34800 50950
Los Angeles-Long Beach, CA FY 1992 MEDIAN FAMILY INCOME: 42300	VERY LOW-INCOME LOW-INCOME	16400 26250	18750 30000	21100 33750	23450 37500	25350 40500	27200 43500	29100 46500	30950 49550
Oakland, CA FY 1992 MEDIAN FAMILY INCOME: 46800	VERY LOW-INCOME LOW-INCOME	16400 26200	18700 29950	21050 33700	23400 37450	25250 40450	27150 43450	29000 46400	30900 49400
Sacramento, CA FY 1992 MEDIAN FAMILY INCOME: 39700	VERY LOW-INCOME LOW-INCOME	13900 22250	15900 25400	17850 28600	19850 31750	21450 34300	23050 36850	24600 39400	26200 41900
Visalia-Tulare-Porterville, CA FY 1992 MEDIAN FAMILY INCOME: 29600	VERY LOW-INCOME LOW-INCOME	11050 17650	12600 20150	14150 22700	15750 25200	17000 27200	18250 29250	19550 31250	20800 33250

STATE AND LOCAL BONDS

Propositions 77 (rehabilitation funds), 84 (new construction), and 107 (combination) provided for funds that can be used for a variety of collaborative housing arrangements. Contact the State of California Department of Housing and Community Development for funding availability and other new programs that are funded from time to time. The best source of information on the latest State funding is from the newsletter *Capitol Gains*.

OTHER RESOURCES

There are several other important state and local financing sources from which cooperative developers may seek financing. The sources include city and county trust funds, community development block grant funds, redevelopment housing set-aside funds, tax credits, and special programs offered through the California Department of Housing and Community Development and the California Housing Finance Agency. Many of these funding sources change from year to year, depending on the political and economic climate of the various jurisdictions. For funding sources currently available in your area, contact your local nonprofit housing development organizations and federations (see Resource Directory).

Also, for a more detailed discussion of some of these funding sources, please see *California's Lower-Income Housing Cooperatives* (1992).

A NOTE ABOUT AFFORDABLE HOUSING

Many ask what affordable housing means. Although there are many interpretations of this expression, for the purposes of those who develop housing for low and moderate income households, very specific guidelines are provided by HUD. These guidelines are based on household income for families of various sizes. Generally, "affordable" refers to the ability of a specific size household to pay no more than one-third of its gross monthly income for its housing costs. The family size and income guidelines for a sampling of California regions are included here as Table 20.1. The guidelines are updated annually by HUD.

For example, for a household of four with gross income of $37,500 in the Los Angeles area (representing 80% of median income for the region), affordable housing means that the family would pay no more than 33% of their monthly household income, or $1,031 ($37,500 annual gross income × .33 divided by 12 months).

Moderate-income households are generally those whose gross annual income is between 80% and 120% for the region. For additional information on regions not listed here, contact HUD's economic market analysis staff in San Francisco at (415) 556-5242.

This chapter was written by Lottie Cohen.

Chapter **21**

Equity Sharing

Equity sharing, also called shared appreciation or homeownership co-investment, is a financing method whereby the lender provides the borrower funds to pay for the down payment on the purchase of property in exchange for a portion of the future appreciation in the value of the property or a portion of rents, or both. Lenders in this type of financial leveraging arrangement are generally individuals (whether family members or investors) and special equity-sharing companies.

A shared appreciation loan is a loan that gives the lender a contingent deferred interest, the parameters of which are documented and recorded as either a deed or deed of trust. There is good flexibility in this debtor/creditor relationship for the lender to secure a profit and the borrower to buy or build where they could not otherwise afford to do so.

Caveat emptor! Right off the bat, buyer beware about equity-sharing entrepreneurs. The fees and value extracted by some equity-sharing dealers should be avoided. The transaction is exempt from usury laws and the restrictions on interest rates or changes in interest rates applicable to variable, adjustable, or renegotiated interest rate loans. Always seek legal advice on all financial arrangements, particularly shared appreciation loans.

The California Civil Code defines share appreciation loans (see California Civil Code sections 1917 through 1917.005). There is also provision for equity sharing between low and moderate income buyers and certain public entities for the purpose of making housing more affordable. The California Department of Housing and Community Development has published an equity sharing workbook on this subject. The workbook contains a summary of pertinent points concerning equity sharing by public agencies.

In the area of community development, equity sharing shows promise as a housing finance tool for providing assistance in a time of limited resources. Under this concept, a public agency invests in private housing development while providing a subsidy for the developer, which gets passed through as affordable rents to lower income tenants. This investment, whether it be in the form of a loan or co-ownership, enables the agency to recapture its subsidy plus a share of the property appreciation at time of sale. By indexing its repayment to property values, the agency is able to maintain a constant level of housing assistance over time.

Equity-sharing programs have several features in common:

1. Public or private funds are co-invested with those of the prospective home buyers, enabling them to purchase a house or multi-family building.

2. Repayment of all or part of the co-invested funds is deferred until the property is sold, the household is able to refinance or make full repayment, or until some other specified time.

3. The co-investors each share in the property's appreciation.

The above elements can be combined with local resources and administrative structures in numerous ways. The variations are limited only by legal constraints and by the imagination of the program planners, the lenders, and the community. For instance, any self-employed person or company with an ERISA plan can invest their funds into equity sharing.

There is also a method by which seniors can benefit from equity sharing. The California Civil Code provides guidelines for loans to persons at least 65 years of age, which are for one to four dwelling units. One of the dwelling units must have an owner-occupant senior who is the borrower (see Civil Code sections 1917 through 1917.711). This may be a way elderly people can receive a financial benefit from the equity they have accrued on their property. Cooperatives and mobile homes, as well as condominiums, can be financed this way, although the loan must be made by a public benefit corporation. The best aspect about equity sharing for cooperatives is that cooperative members can financially leverage the purchase of their housing with the assistance of family, friends, or private investors. The persons investing capital will be glad to do so because their money will be secured by the real estate. The members of the newly-purchased housing will be heartened that they will not have to pay interest on the downpayment. The cooperative members can apply their incomes to pay the mortgage. Eventually, the housing cooperative can decide to buy out the equity-sharing investor pursuant to the terms of a recorded contract.

There are two good books on the topic of equity sharing: *Equity Sharing*, by Anderson and Lamb, and *The Equity Sharing Book*, by Ball and St. James (see Bibliography).

This chapter was written by Lottie Cohen.

PART V

Future Trends