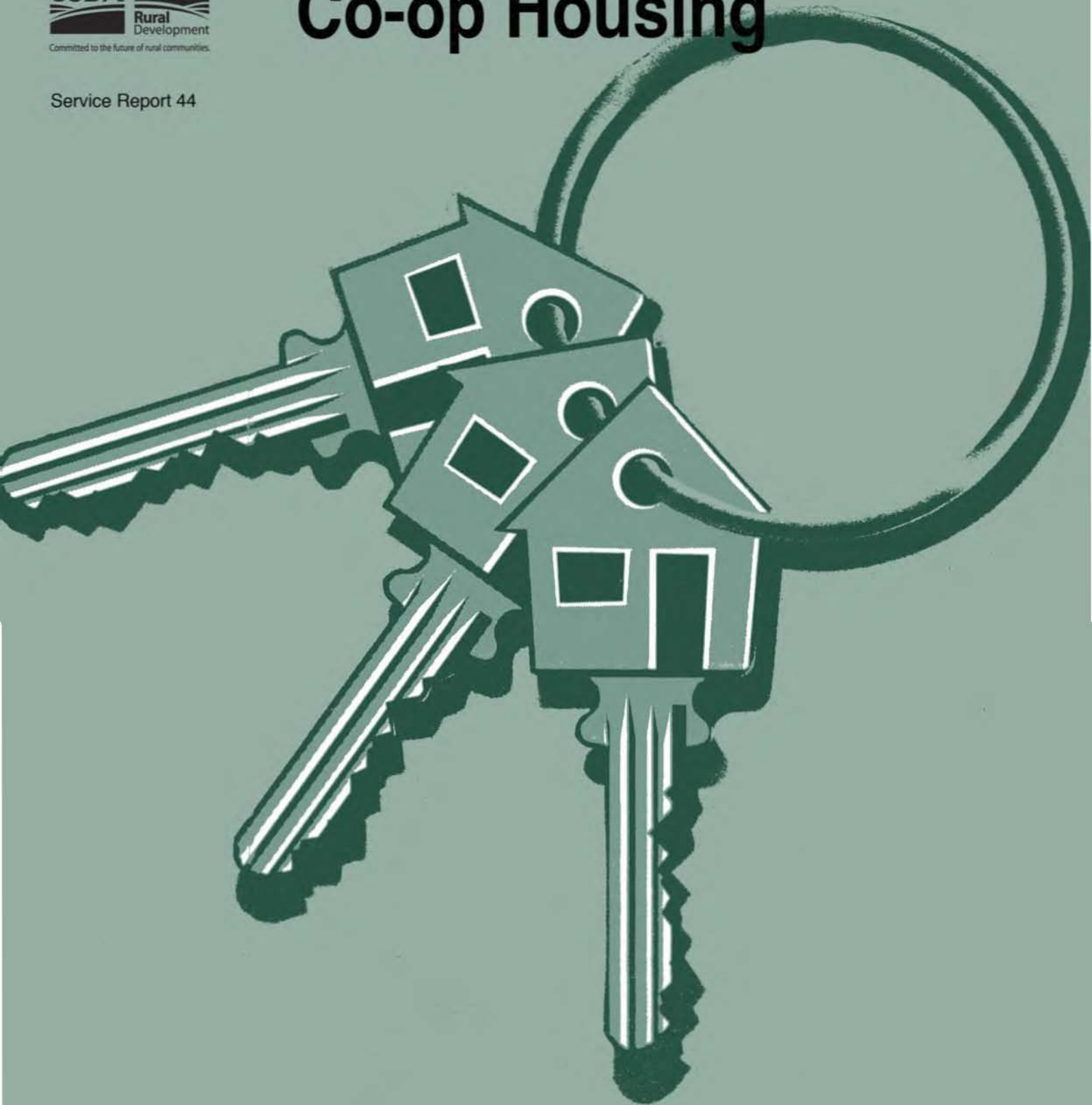


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Keys to Successful Co-op Housing

Service Report 44



Abstract

Successful housing cooperatives usually have key operating practices and philosophies in common. These include a need for understanding some basic cooperative concepts such as the joint ownership and user-owner nature of the cooperative form of business, as well as at-cost operation and democratic control processes. In addition, a sound background in management, operational, and financial aspects of cooperatives aids in ensuring the success of new or existing housing cooperatives.

Key words: cooperative, housing cooperative

Keys to Successful Cooperative Housing

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Preface

In the following pages some practices and attributes associated with successfully developing and operating a housing cooperative are reviewed. Included are practices useful in planning and organizing cooperatives, as well as policies and procedures to help established housing cooperatives remain financially sound and responsive to member needs. Although this guide was written with cooperatives geared toward low-income residents in mind, these keys to success can be applied to any type of housing cooperative.

The purpose of this guide is to highlight some methods practiced by successful housing cooperatives. It is not intended as a comprehensive manual. More detailed information about the operation of cooperative housing can be found by contacting the sources listed on page 11.

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Keys to Successful Cooperative Housing

Introduction

Ensuring that a housing cooperative will be a success begins long before the foundation is poured and continues throughout the life of the cooperative. Successful cooperatives usually have key operating practices and philosophies in common.

In the following pages, some practices and attributes associated with successfully developing and operating a housing cooperative are reviewed. Included are practices useful in planning and organizing cooperatives, as well as policies and procedures to help established housing cooperatives remain financially sound and responsive to member needs. Although this guide was written with cooperatives geared toward low-income residents in mind, these keys to success can be applied to any type of housing cooperative.

This guide highlights some of the methods practiced by successful housing cooperatives. It is not intended as a comprehensive manual. For more detailed information about the operation of cooperative housing see the source list on page 11.

Understanding The Cooperative Concept

Persons considering a cooperative as a housing option must understand cooperative structures and how they differ from other types of business and housing.

KEY: Joint Ownership

Cooperatives are a form of joint ownership. In a housing cooperative, people join to form a nonprofit

cooperative corporation that owns the buildings in which they live. Purchasing a share in the cooperative entitles each member to lease and occupy a dwelling unit from the cooperative and to participate in its governance and operation.

KEY: The User-Owner Nature of Cooperatives

The cooperative form of business provides services to the people who own and use it. By comparison, investor-owned companies exist to provide a return on the investment of stockholders. The user-owner aspect of cooperation has important implications for the way cooperatives are operated and governed.

KEY: Operation at Cost

Cooperatives exist to provide services to user-owners, rather than returns to investors and operate on an "at-cost" or "not-for-profit" basis. Because there is no profit line in the cooperative budget, costs are often lower than in noncooperative businesses. It is important to understand, however, that the fees cooperatives charge members are often competitive with noncooperatives. This ensures that the cooperative has enough capital available to meet its obligations. At the end of the year (or other period), fees that exceed expenses are returned to members as patronage refunds. This is the way cooperatives operate "at-cost."

KEY: Democratic Control

Cooperatives are controlled by the people who own and use them—the residents in a housing cooperative. Members elect a board of directors from among themselves. Each member has one vote in deciding the affairs of the cooperative.

KEY: Cooperative Structure

Structure refers to the way members' equity or ownership interest in the property builds. Two main types of housing cooperatives are *market-rate* cooperatives and *limited-equity* cooperatives.

In a market-rate cooperative, members benefit from any appreciation in the value of the property and are allowed to sell their shares for whatever the market will pay. People who consider homeownership an investment will usually choose this type of cooperative.

Limited-equity cooperatives limit the price of membership and control resale values to keep the housing affordable for low- and moderate- income residents. Formulas for setting resale prices vary. In some cooperatives, the resale price is based on the initial share price plus a small amount; say 1 percent per year, for appreciation. In cooperatives geared toward very low- income residents, members may receive only their original share price when they move out.

KEY: Cooperatives and Other Types of Homeownership

Housing cooperatives are different from condominiums in that residents do not own or hold title to their individual dwelling units. Instead, residents own shares of the whole cooperative corporation. The corporation holds title to the property. Housing cooperatives differ from rental housing in that residents' ownership of shares entitles them to a voice in running the association.

Housing cooperatives are usually multi-family or apartment-type dwellings. However, single-family homes located close together and even trailer parks can be operated on a cooperative basis. They can consist of just a few units—or have a large number. Co-op City in the Bronx, New York, houses more than 60,000 families. Cooperative housing can be new construction or renovated, existing housing.

Planning and Organizing a Housing Cooperative

Planning and organizing a housing cooperative is a complex task that can take several years to complete. Throughout the process, organizers—which will include sponsors, advisers, and prospective residents—will learn about many facets of financing, construction, and management of multi-family housing. The process is made even more complex by the cooperative nature of the project and the need to make deci-

sions as a group. Therefore, having a sponsor or access to those with experience in developing cooperatives can go a long way toward simplifying the process and ensuring success in establishing and operating the cooperative.

KEY: Getting a Sponsor and Other Assistance

Most groups wanting to form a housing cooperative will need a sponsor or technical assistance adviser to help them throughout the planning and development process. The sponsor or adviser might be a private or public community-based organization, a non-profit developer, a private organization, or housing consultant.

How much technical assistance? Cooperatives usually need more technical assistance during the development stage than during ongoing operations. In this early stage when plans are developed and financing arranged, the experience of the sponsor is of greatest benefit. As members become more familiar with cooperative housing, the level of technical assistance required will decrease, especially after the cooperative is operating and the start-up problems are worked out.

What does the sponsor/adviser do? The mission of the sponsor or technical assistance adviser is to foster the education, independence, and overall development of the cooperative being formed. Ideally, the sponsor should have some background in housing or in organizing housing cooperatives, or have access to such expertise. The range of services that the sponsor or adviser may provide in starting a housing cooperative includes:

- Provide information on housing options.
- Facilitate focus group sessions with potential members to help define interests and needs and determine what people consider affordable.
- Help obtain financing through Government, commercial, and community sources.
- Help mediate with governmental agencies.
- Help with incorporation and other legal documents.
- Assist with feasibility studies.
- Help develop business plans.
- Develop up educational programs for members and the board of directors.

Avoid Too Much Dependence on the Sponsor/Adviser. It is important to avoid over-dependence on the sponsor or housing consultant. Often, inadequately prepared groups end up being run by their sponsors or the experts they hire. The sponsor must understand

the limits of its own advisory role and stress that decisions come from the members. To this end, the sponsor or housing consultant should:

- Affirm trust in people's abilities to manage their own affairs and make good decisions on solid information.
- Provide an atmosphere that encourages discussion and works toward consensus.
- Listen sensitively to the expressed needs and desires of the members, and help them to express their views in a nonthreatening environment.
- Draw on the skills of members.
- Provide honest feedback to the group and avoid paternalism.
- Be patient during the development process. It's time consuming, but necessary that the sponsor be committed to serving for the long haul.
- Design any assistance so it becomes obsolete. This allows the cooperative to mature and reduce its dependence on outside assistance.
- Maintain momentum of the project, particularly during planning and construction phases.
- Balance the time between the pursuit of goals, the structure of the organization, and the needs of individual members. Members have to feel that they are part of an effort that will yield positive results for them.

KEY: Keep Members Involved

The cooperative should be organized by those whom it will serve. Members must work with the sponsor as much as possible, especially if they plan to manage the cooperative themselves.

Members should also be involved on some level during the construction phase. Although building contractors will prefer to deal with a single contact, usually the sponsor, members can supply input on selection of appliances, furnishings, interior decor, and landscaping. As future residents, members should also be consulted when significant design changes are required. These and other tasks can be delegated to committees. Committees allow more members to become involved, help them develop group decision-making skills, and enhance their knowledge base.

Provide signs of progress. The year or two involved in planning and building the housing facility can seem even longer to members awaiting their new homes and prompt some to pull out of the project. To overcome this feeling of delay, clear guidelines should be established to keep members informed of progress as the project moves toward completion.

KEY: Avoid Unrealistic Expectations

A group of people interested in a housing cooperative can meet either at the invitation of the sponsor or on their own initiative. The sponsor or technical adviser should present an overview of available housing options, including cooperatives, along with the realistic chances for participating in any of them. Prospective residents should be versed in the benefits and challenges of each option and in the process required to carry out the option chosen. Taking the time to provide the initial overview can minimize potential disappointments and unrealistic expectations common during the planning and construction phases. In addition, planning for contingencies by building flexibility into the process effectively fosters more realistic expectations.

KEY: Instill Member Commitment

The success of any type of cooperative depends on the commitment of its members. Commitment is the acceptance of a set of responsibilities necessary to insure that the cooperative meets its objectives. As owners, it is in the best interests of members to support the cooperative through participation in the decision-making processes, to abide by house rules, and to provide financial support through timely payment of carrying charges.

During the cooperative's development phase, potential members are usually required to show their commitment by making a down payment or paying a membership fee.

Management and Operation of the Cooperative

Occupancy of the housing unit brings the planning and development phase to a close. A management plan should be in place and directors should have received adequate training, particularly about cooperative finances, building operations, and member relations.

KEY: Roles and Responsibilities of Directors and Managers

The board of directors is the democratically elected decision-making body of the cooperative association. Boards vary in size but most have between six and nine directors. Traditionally, cooperatives require that all directors be members of the cooperative.

However, some states allow housing cooperative boards to include nonmember directors who represent the community, a sponsor group, etc.

The board sets the general policies of the cooperative. Unless the cooperative is self-managed, the board is also responsible for hiring and overseeing the performance of a professional manager. The manager carries out the policies set by the board and handles the day-to-day business activities of the cooperative. If the cooperative is self-managed, it is the board's responsibility to handle day-to-day management functions as explained in the next section.

Directors and managers must understand their differing responsibilities. Clearly written policies, procedures, and job descriptions can help avoid confusion and conflict over the division of responsibility.

While the board of directors assumes most responsibilities as a group, each director should know what is required in contributing to board decision-making. This includes:

- promoting the association's purpose and programs both in the cooperative and in the community,
- attending the association's meetings and events,
- participating actively in meetings and decision-making,
- asking questions,
- keeping well-informed about what the organization does and how, and,
- helping develop resources (i.e., increase membership or financial resources).

Directors should take these individual responsibilities seriously. This helps avoid too large a workload falling on a few directors. Directors who fail to be diligent in their duties let down the cooperative and the membership whose interests they were elected to represent.

KEY: Roles and Responsibilities in Self-Managed Housing

Smaller cooperatives with limited resources may operate without a hired manager. In small cooperatives of less than 20 units, for instance, complete self-management by the association membership may be feasible because of the small size of the building to be maintained and its simpler finances.

In self-managed housing, the board of directors and various committees assume responsibility for day-to-day management tasks such as bookkeeping and building maintenance. While the board may delegate

some tasks to committees, it maintains ultimate responsibility. The board monitors the performance of these functions by requiring that periodic reports from committees assigned to carry out those functions. In a self-managed cooperative, there should be a clear rotation or other system for assigning tasks so the work is evenly divided among members. It is also important that committee members receive some form of recognition or credit for carrying out their assigned tasks. This helps instill a sense of accomplishment and appreciation, and provides an incentive for members to remain active and interested. Often, simply thanking committee members through the newsletter is ample recognition.

In some cases, it may be appropriate to provide financial incentives or penalties to ensure that members shoulder their share of responsibility. Some cooperatives issue credits that reduce the members' monthly payments. Others add penalty payments for members who fail to perform their assigned tasks. A stay-at-home member may be assigned bookkeeping tasks for which the cooperative will pay a small fee to supplement a limited income. It should be remembered, however, that the purpose of self-management is to conserve financial resources. Financial incentives should be determined accordingly.

Provide sufficient education and training. Self-management requires sufficient training and preparation. Members should receive adequate instruction on bookkeeping and cooperative finance and become familiar with the maintenance needs of buildings and equipment, as well as basic grounds keeping requirements. In addition, members should have a thorough understanding of their own roles and responsibilities as well as those of the board of directors.

Whether a professional company is used or residents take on management tasks, responsibilities should be clearly outlined in the cooperative's operating policies. An annual contract between the board of directors and the professional management company should specify the manager's duties.

KEY: Operating Policies and Practices

While many issues surface in managing cooperative housing, some issues may be recurring. To save time and promote consistency, clear policies should be developed on how to deal with these matters. While some of these rules may be included in the bylaws, usually they will appear as policies in the house policy manual.

The purpose of house rules and policies is not to put unnecessary burdens on individual members.

Rules and policies create expectations of how the cooperative will consistently deal with individual members in certain situations. They replace arbitrary treatment with due process. House policies need not be excessive or inflexible. Because members set the rules for themselves, they are not likely to impose unnecessary hardships or requirements, but come to understand why some policies are needed. House policies are enforced consistently and fairly.

What house policies cover. Although the cooperative may decide what issues to include in its house policies, several important areas should be covered either in the bylaws or house policies. This includes the responsibilities of the board of directors, its officers, and certain committees. Other topics include new member selection, occupancy restrictions, maintenance requirements, late payment of fees, resale of units, supervision of children, garbage and trash disposal, use of common areas and laundry facilities, parking, insurance, and grounds for eviction.

KEY: Maintenance Policies and Plans

Cooperative members want buildings, grounds, and equipment kept in good repair and maintained attractively. Physical maintenance is important to members' sense of well-being and comfort and critical to the financial stability of the cooperative. The association's building and grounds are its primary assets. Members' investments in these assets must be protected through a systematic approach to repairs and regular preventive maintenance.

Two things contribute to a cooperative's success in maintaining the physical condition of its facilities: (a) a long-term maintenance plan that budgets for replacement of major items, and (b) a regular maintenance program to ensure that both regular and emergency maintenance are handled efficiently and quickly.

Long-term maintenance planning. A sound maintenance policy requires long-term planning to decide how and when to replace heating, water, and electrical systems when they wear out. One suggestion is to use a 5-year plan to forecast what capital improvements will be required in the future. A comprehensive preventive maintenance and staged replacement plan is essential for a well-run cooperative.

Major replacements are best paid from reserve funds that have been accumulated over a period of years for that express purpose (see page 7). In some cases, however, the cooperative may require outside financing to cover major replacements or, in extreme (and unpopular) cases, may have to collect an "assessment" from members to pay for the repair.

Regularly scheduled maintenance programs. The best maintenance programs provide for quick and effective response to problems as they arise and for regular preventive maintenance to minimize unanticipated repairs.

The board must assume ultimate responsibility for the maintenance of the cooperative's physical facilities. In large cooperatives, the on-site manager oversees daily maintenance. For smaller cooperatives without a manager, the board can delegate some responsibility in this area to a committee that investigates potential problems and suggests a course of action.

No matter how responsibilities and duties are divided, a priority system should be put in place to ensure that emergency repairs are handled first, followed by those things damaging to the building. Lowest priority is given to cosmetic repairs such as painting and patching. A good tool to avoid a sudden backlog of needed repairs is to survey the members regularly on possible future repair needs in their units.

KEY: Fee Collection Policies

Individual monthly carrying charges or fees are usually based on a member's equity or financial interest or on the size of unit occupied. The collections policy should specify the schedule for payment, penalties for late payment, and procedures for collecting delinquent fees or initiating legal action. Occupancy by individual members is protected by a proprietary lease. But, members are considered in violation of the lease if they fail to make payments. The lease should include the legal remedies available to the cooperative to pursue payment and to evict the nonpaying member.

The most common collections problem occurs when members have temporary financial difficulties and fall behind on payment of carrying charges. The cooperative should have a procedure for assessing interest or late charges in such situations and a timetable to begin legal action.

Some housing cooperatives cut down on delinquency rates for monthly assessments by assessing relatively high penalty charges. However, in a cooperative with low-income residents, the collection policy requires some flexibility to cover extenuating circumstances. How much flexibility to allow, however, is a tough balancing act because one must also consider those members who make timely monthly payments.

KEY: Resale Policies

A housing cooperative has three basic objectives in setting restrictions on resale: (1) ensure the continued financial stability of the cooperative by controlling turnover; (2) ensure that all debts are settled by the departing member; and (3) ensure that the new member moving in will be a positive addition to the cooperative membership. Limited-equity cooperatives have an additional objective of ensuring future affordability.

Some cooperatives have an *unrestricted resale* policy that allows members to sell membership interest privately. The cooperative board of directors retains only the right of approval or disapproval of the prospective buyer. These "market rate" cooperatives are most common in New York City and other urban areas.

Cooperatives often retain a *right of first refusal*. The member may sell privately, but the cooperative retains the right to purchase the membership at a scheduled price, determined either by market value or formula. If the cooperative repurchases, it can select a buyer. This method is most common among limited-equity and subsidized cooperatives.

Other cooperatives have an *automatic repurchase* policy. The cooperative automatically repurchases the membership interest from the departing member and conducts its own search for a buyer. Many subsidized cooperatives use this approach. Although some cooperatives legally have only the right of first refusal, in practice they exercise that right with every sale.

Cooperatives may face financial jeopardy if member turnover is high, particularly during the first 2 or 3 years, when reserves are still low. Consequently, some cooperatives have prohibited resales during the early years, except in cases of death, mandatory job relocation, or extreme personal financial hardship. Still other cooperatives have resale rules that severely penalize the early seller, much like a bank penalizes early withdrawal from high-yield accounts.

Cooperative Finances

The owner-user and owner-controlled aspects of cooperatives have special implications for cooperative financing that must be understood if the cooperative is to be operated in the best interest of members.

KEY: Cooperative Capitalization

Cooperative capitalization includes financing provided by outside sources such as banks, government loan programs, and other grants and assistance,

as well as the internal sources of funds from membership fees or stock purchases and monthly carrying charges each member pays to occupy his or her home. Whatever the source, a cooperative's financial well-being will only continue if a budgeting program is in place that accounts for probable revenues and expenses that will occur during the cooperative's fiscal year.

Finding outside funds. Housing cooperatives are usually financed by a blanket mortgage on the entire property, based on the value of the buildings, etc. Sources of this external financing come from banks, savings and loans, and Government programs at the State and Federal level. Other potential sources include foundation grants and rental subsidy programs. A lack of funds from commercial banks has been an obstacle for housing cooperatives. Banks, especially those outside areas where cooperative housing is common, are often reluctant to finance cooperative housing because they are not familiar with the cooperative form of business or the blanket mortgages typically used to finance cooperatives. The sponsor helping the cooperative often plays an important role as an advocate and facilitator in applying for financing.

Private foundations with grant programs and community development agencies with seed money or revolving fund programs can be sources of working capital to cover pre-development costs while awaiting Government or bank financing. In addition, local sponsors can be encouraged to donate in-kind services.

Applying for loans and grants. There are several things the prospective cooperative should do to prepare its case for loan or grant approval. The basis of any proposal must include a solid business plan that includes accurate projections of income and expenses over the first several years. The business plan also includes a detailed explanation of the cooperative system of management. Cooperative management has two components: physical management of the building and property, which are the assets that secure the loan; and fiscal management, which includes a sound policy of revenue collections, accounts management, and fiscal overview.

KEY: Internal Cooperative Finances

Internal financing refers to member charges to cover the cooperative's operating expenses once it is operational. Member purchases of ownership shares are the cooperative's initial source of internal funds. In market-rate cooperatives or limited-equity cooperatives geared more toward moderate-income households, residents may purchase their shares outright or

obtain share loans from outside lenders to obtain their shares. In limited-equity cooperatives geared more toward a low-income audience, share prices are set at an extremely low level to bring them within reach of prospective residents.

However, the primary source of internal financing is the monthly carrying or occupancy charge paid by each member. This monthly fee covers the cooperative's operating costs, including mortgage payments, taxes, maintenance, utilities, and insurance as well as contributions to the *reserve fund*. This fund is saved for various contingencies such as an unexpected building repairs or a default by a member.

When occupancy charges exceed expenses, these savings are either returned to members as patronage refunds or kept in the cooperative as a source of capital, or both. Boards, members, and managers should become familiar with the tax implications of this aspect of cooperative finance.

KEY: Cooperative Budgeting

A budget is a plan for the cooperative's expected resources and expenditures over a given period. Operating budgets are usually developed for a 1-year period, while capital budgets are more long-range.

Operating budgets involve expenses normally related to the day-to-day operation of the cooperative. Expenses typically included in a housing cooperative's operating budget are: repayment of debt, real estate taxes, insurance, utilities, administrative costs, management fees, supplies, maintenance and repairs, security, and operating reserve funds set aside for emergencies such as higher fuel bills because of a very cold winter.

Capital budgets deal with major expenditures expected in the future, such as major replacements (for example, roof or elevator) or for additions to the property (a new building, playground, etc.).

A housing cooperative's budget is developed by its treasurer, the finance committee, the board and manager, and sometimes the entire membership. Approval of a cooperative's annual budget usually rests with the board of directors, although in some cooperatives, members may approve the budget based on a recommendation from the board.

KEY: Fee Adjustment Policies

Developing sound fee adjustment policies involves realistic budgeting and a balance between keeping members happy and ensuring the financial soundness of the cooperative. No one likes a cost increase and it is not uncommon for a board to

appease members by keeping monthly fees artificially low. This is a dangerous precedent and sets the stage for a much larger fee increase once it becomes apparent that the cooperative is underfinanced. To avoid large fee increases, some cooperatives raise fees by a small amount, 1 to 3 percent each year. Others place a cap on the amount fees may be raised each year. Financial auditors often recommend a minimum annual increase in fees to keep pace with inflation.

KEY: Reserve Funds

Once the cooperative is fully occupied and operational, it must begin accumulating sufficient reserves to take care of contingencies. Unexpected breakdown of equipment, uninsured property losses, a sudden increase in the property tax bill—all lead to expenses for which cash reserves are needed. Sound financial planning calls for adequate financial reserves to be built up year by year, so that as a building's plumbing, roof, or other systems wear out, the cooperative can afford to replace them.

One attribute of a well-managed cooperative is the willingness to maintain a high enough level of monthly fees so that a sufficient amount can be allocated for reserve funds. Reserves are built up through planned contributions based on the operating budget. A good rule of thumb is to establish a policy that provides for a percentage of the monthly carrying charge to be applied to the reserve account. Local property management specialists, auditors, or the cooperative's lender can provide useful information on the appropriate level of reserves.

Some cooperatives may resort to cutting operating costs by reducing or eliminating regular contributions to reserve accounts. The simple answer to this is "don't." If money is so tight that a cooperative cannot afford operating reserves and replacement reserves, then it will certainly not be able to afford those unpredictable and extraordinary expenses that are bound to happen a few years down the road. The effort expended by members in establishing the cooperative should not go to waste because one failed boiler, one leaking roof, or a similar emergency forces the cooperative into default or forces members to pay expensive "assessments" to cover the costs of repairs.

Cooperative Membership

KEY: Keep Cooperative Members Involved and Informed

The involvement of members does not end with the development process. Members have both a right and a responsibility to be informed about and involved in the operation of their cooperative.

Solicit input. Although directors have the authority to make many decisions on behalf of the members who elected them, they should not act autonomously. Directors should work with members in developing a consensus or vision on how the cooperative is to be run. This contributes to the education and general awareness of all members as to how the cooperative is operated. Directors might solicit input from members when developing budgets; when assessing the condition and maintenance needs of building and grounds; and when soliciting participation in committee assignments. By addressing these questions, the cooperative is spurred to develop clearer goals and objectives, which may or may not be formalized in the bylaws or house policies. This dialogue between members and the board should be repeated occasionally so that the cooperative can evolve and continue to be responsive as the needs of its members change.

Communicate. It is important that cooperative boards maintain a two-way channel of communications with members. A cooperative's bylaws usually obligate the board of directors to meet regularly (usually monthly); to notify all members well before the meetings; and to conduct an open meeting at which cooperative members can attend and be heard. Time should be allotted at meetings for member concerns. The bylaws should also require that minutes be kept and distributed to all members.

In addition, many cooperatives have a monthly newsletter that keeps members informed of what is happening in their community. A newsletter is a good vehicle for distributing board meeting minutes and announcing elections, volunteer opportunities and social events, and offering friendly reminders about following house rules.

Use Committees. Cooperative boards of directors are often assisted in the association's operation by committees. Committees are made up of cooperative members and may or may not include a board member.

Cooperatives may have to overcome initial apathy to get members involved in committee work. As with the board of directors, there is a danger of much

of the workload falling on a few individuals. However, all members should be encouraged to get involved, because committees are a good way to get members active and interested in the operation of the cooperative. Committees encourage members to interact. This provides a framework for interdependence and mutual support, and a way to pool the resources of members. Further, committee work provides members the opportunity to work together to achieve solutions directly affecting their living situations. It also can be personally rewarding and a good training ground for future directors.

Self-managed cooperatives are likely to rely more heavily on committees. These committees usually have responsibility for some or all of the following functions or tasks: member communications, maintenance and groundskeeping, finance, and social activities. Committees in cooperatives having professional management might be responsible for developing rules and regulations or for evaluating certain projects such as the need for playground equipment or additional parking spaces.

Selection for committee assignments can be based on random allocation, rotation, or job-specific reasons. The last method is probably the best option because members are more likely to volunteer for jobs in which they have a talent or special interest—for example, carpentry or landscaping.

KEY: Member Education Is Critical

Another prerequisite for a successful cooperative is that members and directors receive adequate training. The process of developing and operating a cooperative can be complex and in and of itself educates members. Finance (annual audits, monthly financial statements, finance mechanisms for housing); management (parliamentary procedure, personnel matters); and the philosophies of cooperation are but a few areas in which members should have some knowledge. Training programs must also make members aware of their rights, responsibilities, and obligations within the cooperative organization as expressed in the articles, bylaws, and house policies.

Cooperative sponsors should take the lead in arranging suitable education and training for cooperative members. During the development or conversion process, prospective members can learn about building systems or key elements of the operating budget as the sponsor puts the loan package together, as well as about the cooperative's legal structure as the bylaws are drafted.

After the development phase, residents (especially board and committee members) should continue to receive training. Future board members should be schooled in the scope of their duties in managing the cooperative, delegation of authority, and the types of decisions that will be required in regarding building management and maintenance, financial oversight, and membership matters. Education and training should continue as an ongoing process even after the members move into the cooperative. Formal instruction may be coupled with information provided through the cooperative newsletter.

Ongoing training must be built into the cooperative's operating budget and can be obtained through the cooperative's participation in local, regional, or national cooperative housing association meetings and seminars, as well as from other sources.

Member orientation. Some cooperatives have a pre-purchase orientation meeting for prospective members. The particular aspects of cooperatives (both positive and negative) are reviewed so that prospective members will have an understanding of both the responsibilities and advantages that come with living in a cooperative.

For the existing cooperative that has to orient only a few new members at a time, it makes sense to work the orientation into the cooperative's regularly scheduled business and social events. One California cooperative reported that it has regular potluck dinners for its 25 members on the first Sunday of each month, after which the membership meeting is held. When there are new members, they begin an orientation session in the afternoon, and then they are formally introduced to the membership at the potluck dinner.

Member handbook. Prepare a manual that includes the articles, bylaws, and house policies for easy access and reference by members. Another handout should be prepared that summarizes the key bylaws, rules and other policies in a question/answer format.

Newsletter. Continuing education can also be accomplished indirectly through appropriate articles in the cooperative's newsletter. A newsletter is also a good place to note recent actions by the board, the quarterly summary of financial condition, schedule of committee meetings and assignments, and other helpful information on such things as preventive maintenance.

Newsletters are often the primary means of communicating with members. It is a way to keep the association's mission, vision, and values out front. For cooperatives too small to have a regular newsletter,

educational material and newsletters can be obtained from national or regional housing cooperative organizations.

Interact with other housing cooperatives. Make contacts with other housing cooperatives in the area to exchange information on mutual interests and problems. Consider forming a local cooperative council. Also consider joining regional or national trade associations representing housing cooperatives to take advantage of the various educational resources they offer.

Trainers within the cooperative. In one large cooperative, the management staff doubles as cooperative trainers, using all public meetings as a forum for providing instruction on cooperatives. In a small cooperative, the board could delegate a similar role to the education committee to plan events that include both training and social activities.

Survey members. Members may take the initiative to let the board know what they think about the cooperative. However, a survey can more effectively enlist opinions from all members. Surveys should be done in such a way to encourage feedback about member needs and interests. It can also be a way to learn what aspects of the cooperative the members do not fully understand and, therefore, need further education on.

Social. Provide opportunities for members to interact in a relaxed atmosphere by scheduling social activities such as picnics, barbecue, or holiday parties. Bringing members together for social events helps create a strong sense of community. From this face-to-face communication, board members can learn what members expect of the cooperative, and members can get to know their elected representatives.

Conclusion

Housing cooperatives offer a viable alternative to some of the housing problems faced by rural residents, including low-income families. Though they require a significant commitment from members, cooperatives are one solution to the need for affordable housing and a living environment tailored to meet members' needs and interests.

These key practices and philosophies can facilitate the successful planning, development, and operation of a housing cooperative, but only if accompanied by a high level of member commitment and a willingness to be flexible. A key factor in helping members understand this is early education. Once members better appreciate the process and what results it can

achieve, they will find that the commitments associated with living in cooperative housing can actually be a source of self-satisfaction and reward.

Other Sources of Information About Cooperative Housing

National Association of Housing Cooperatives
1707 H Street, NW Suite 201
Washington, DC 20006
202/737-0797
www.coophousing.org

National Cooperative Bank
1725 Eye Street NW, Suite 600
Washington, DC 20006
202/336-7700 800/955-9622
www.ncb.coop

National Cooperative Business Association
1401 New York Avenue NW, Suite 1100
Washington, DC 20005
202/638-6222
www.ncba.org

NCB Development Corporation
1401 Eye Street, NW Suite 700
Washington, DC 20005
202/336-7700 800/955-9622
www.ncbdc.coop

NCB Savings Bank
139 South High Street
Hillsboro, OH 45133
513/393-4246

Senior Cooperative Development Network
NCB Development Corporation
15 South 5th Street, #720
Minneapolis, MN 55402
612/338-2777
www.seniorcoopnet.org

U.S. Department of Agriculture
Rural Development
Cooperatives Program
1400 Independence Avenue SW
Washington, DC 20250
202/720-7558
www.rurdev.usda.gov/rbs/coops

U.S. Department of Agriculture
Rural Development
Housing Programs
1400 Independence Avenue, SW
Washington, DC 20250
202/720-4323
www.rurdev.usda.gov/rhs

U.S. Department of Housing and Urban Development
451 7th Street, SW
Washington, DC 20410
Telephone: (202) 708-1112
<http://www.hud.gov/offices/hsg/mfh/progdsc/coop213.cfm>

University of Wisconsin Center for Cooperatives
427 Lorch St.
Madison, WI 53706
www.wisc.edu/uwcc

References

National Cooperative Business Association, *Cooperative Housing: A Development Primer*, Washington, D.C

U.S. Department of Agriculture, Agricultural Cooperative Service, *How to Start a Cooperative*, Cooperative Information Report 7, revised September 1993

U.S. Department of Agriculture, Farmers Home Administration, *A Guide to Cooperative Housing*, Program Aid Number 1483, September 1992

Eden, Ernie, *Housing Cooperatives, How Local Officials Can Help*, National Association of Housing Cooperatives

Coughlan Jr., William and Monte Franke. *Going Co-op: The Complete Guide to Buying and Owning Your Own Apartment*, Beacon Press, Boston, MA, 1983

U.S. Department of Agriculture

Rural Business-Cooperative Service

Stop 3250

Washington, D.C. 20250-3250

Rural Business-Cooperative Service (RBS) provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The cooperative segment of RBS (1) helps farmers and other rural residents develop cooperatives to obtain supplies and services at lower cost and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees, and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs. RBS also publishes research and educational materials and issues *Rural Cooperatives* magazine.

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