Low–Equity Cooperatives = Housing Solutions

As federal housing policy continues its journey into the twilight zone, and the housing needs of low–, moderate–, and now middle–income households become more acute, programs that supported low–equity cooperatives, the most successful federal housing programs in the nation's history, continue to lie dormant.

High costs didn't undo them. Unlike the subsidy programs that produced high rates of foreclosure, default rates for low–equity cooperatives created under Section 213 of the Housing Act of 1950 were so low that HUD returned over $32 million in mortgage insurance dividends to Section 213 cooperatives since 1970 (in its first 20 years, Section 213 produced 2,033 low–equity cooperative developments with 115,796 units). It was politics that did in the low–equity cooperative programs under Section 213 , Section 221(d)(3) of the Housing Act of 1961, and Sections 202 and 236 of the Housing Act of 1968, because they did their job too well. They put taxpayers' money directly into housing rather than into the pockets of the housing middlemen: developers, realtors, title insurers, landlords, lawyers. Sidestep this powerful lobby and few in Congress or the White House will go to bat for you. Even though these many of these programs are still on the books, the Executive Branch has chosen to curtail their implementation and funding.

Low–equity cooperatives control housing costs by keeping the single largest cost of homeownership, mortgage debt service (30 to 50 percent of the landlord's monthly ownership costs), constant even when units change hands. Households that purchase a share in a cooperative association comprise the association which actually owns the cooperative. This share entitles a household to occupy a dwelling unit and pay a monthly "rent." The cost of a share can range from a few dollars as it does in some Canadian limited–equity cooperatives, to a few thousand dollars. The only difference between market rate cooperatives and limited–equity coops is that the limited–equity's bylaws limit increases in resale price to some rate typically less than the of rate inflation. This form of ownership can be applied to both multifamily and single–family housing, on a single site or scattered site.

When an apartment building, house, or condominium is sold, a new mortgage loan is issued, invariably for a higher amount and, until recently, nearly always at a higher interest rate. Consequently, rents must rise to cover the higher monthly mortgage bill. But when a low–equity cooperative changes hands, the mortgage on the building is not affected since only a share in the cooperative association is sold. This form of ownership keeps the single largest component of ownership costs constant. Housing designed for, say, low–income households, continues to be affordable to low–income households, without additional government subsidy.

To illustrate, consider a 22–unit apartment building built in 1959 with an initial $139,354 mortgage at 6.25 percent ($84 per unit each month) and monthly rent of $111 per unit. Realistically assume that as a rental, the building will be sold every five years in an active market. By 1975, the building will carry a 9.5 percent $358,838 mortgage loan that costs $278 per unit each month to service. In 1980 the last sale will result in a 13.5 percent $432,000 mortgage costing $434 per unit each month. To cover this increased debt service, rent would have to rise to at least $352 in 1975 and $538 in 1980.

But, as a low–equity cooperative the monthly payment to cover the cost of that mortgage remains at $84 per unit, even 20 years later, since the original mortgage still exists. Rents will have increased from $111 in 1960 to all of $188 in 1980 to cover increased operating costs and property taxes. No other type of homeownership generates such savings.

Housing vouchers and programs such as Section 8 that retain conventional forms of ownership, continue to treat housing as a shelter from taxes for developers and other investors. Not only do we pour direct federal subsidies into these programs, but the federal treasury loses income tax revenues due to the tax shelters they provide for the housing middlemen.

Low–equity cooperatives have been the most successful housing program in U.S. history.

It is time to return government-supported housing to its most basic function: shelter from the elements. By treating housing as shelter from the elements, the District of Columbia's Tenant Purchase Assistance program has repeatedly shown that the conversion of rental units to low–equity cooperatives requires only an average one–time $3,000 per unit government subsidy. Section 8, which still treats housing as an investment vehicle, often costs taxpayers $3,000 per unit, *each year*. It's time to put the limited funds available for housing where the need really is and get the most bang for our bucks.

Planners are just about the only actors on the housing scene who represent the public interest. We'd only be doing our job, and doing it well, if we work to persuade elected officials at all levels of government to make limited equity cooperatives a cornerstone of our nation's housing policy for low–, moderate–, and middle–income households. While we may lack the funds to provide a decent home and living environment for every American, we can at least turn the tide for millions more if we revive the most successful housing programs this nation has ever known.

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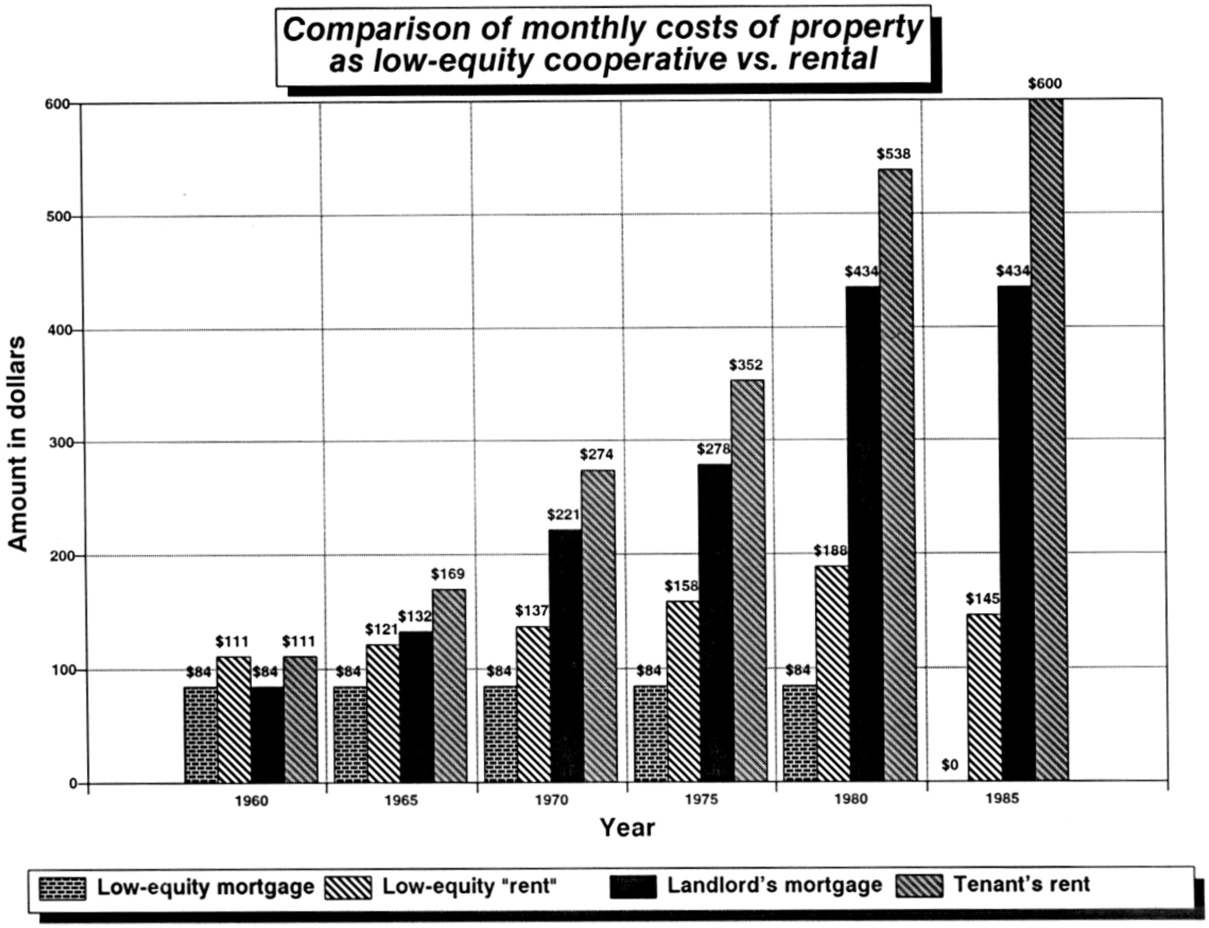

Assumptions

Total Construction Costs: $ 174,193 • 22-unit building built in 1959 • 20-year mortgage

Rental property mortgages

Year	*Interest Rate*	*Mortgage Amount*
1960	6.25 %	$ 139,354
1965	6.50 %	$ 212,515
1970	9.50 %	$ 285,677
1975	9.50 %	$ 358,838
1980	13.50 %	$ 432,000

Low-equity cooperative mortgage

Year	*Interest Rate*	*Mortgage Amount*
1960	6.25 %	$ 139,354

Graph adapted from ***Rethinking Rental Housing***, by John I. Gilderbloom and Richard P. Applebaum, Temple University Press, Broad & Oxford Streets, Philadelphia, PA 19122. 304 pages. $14.95 paperback. $34.95 hardcover. 1988.

For additional information or assistance:

For a detailed account of the ingredients for success in converting low–income rentals and public housing to low–equity cooperatives, read *From Rental to Cooperative: Improving Low and Moderate Income Housing*, by Jonathan Zimmer (1977, 68 pages; Sage Publications, 2455 Teller Road, Thousand Oaks, CA 91320.805-499-9774; www.sagepub.com).

For a clear explanation of how rentals are converted to low–equity cooperatives, see *The Cooperative Housing Conversion Toolbox* from the **Northcountry Cooperative Development Fund**; 219 Main St. SE, Suite 500; Minneapolis, MN 55414; 612/331-9103; www.ncdf.coop).

For more details on the soundness of low–equity cooperatives as a tool for preserving affordable housing, see ***Rethinking Rental Housing*** referenced immediately below the graph.

Organizations to Contact:

- For links to a slew of organizations nationwide, visit the website of the **National Association of Housing Cooperatives** (1701 H St., NW, Suite 201, Washington, DC 20006; 202/737–0797; www.coophousing.org)
- **Urban Homesteading Assistance Board** (120 Wall St., 20th Floor; New York, NY 10005; 212/479-3300; www.uhab.org)
- **Chicago Mutual Housing Network** (2418 W. Bloomingdale Ave.; Chicago, IL 60647; 773/278-9210; www.chicagomutual.org)