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RESEARCH REPORT

NO. 8
OCTOBER 1992

CALIFORNIA'S LOWER-INCOME HOUSING COOPERATIVES

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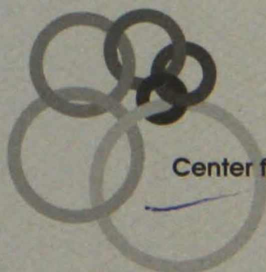

Center for Cooperatives • University of California, Davis

CALIFORNIA'S LOWER-INCOME HOUSING COOPERATIVES

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October 1992

The research leading to this report was financed by the
University of California, Center for Cooperatives
as a part of its Competitive Grants Project

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CALIFORNIA'S LOWER-INCOME HOUSING COOPERATIVES

The Agora Group

PART 1: OVERVIEW OF COOPERATIVE APPROACHES

I. SCOPE AND PURPOSE OF THE STUDY

A. Introduction

For more than a generation, a group of housing cooperatives has proven how public housing subsidies can be effectively used to create affordable home ownership for lower-income California households. Originally financed under federal assistance programs, these housing cooperatives have maintained a low default record, while keeping their monthly payments below comparable rents. Many are now halfway to retiring their mortgages, at a time when their privately-owned, subsidized rental counterparts risk being converted to market rate apartments or condominiums.

Despite this record of stability, some of the federally assisted housing cooperatives experienced problems. As with other forms of affordable housing, many co-ops required additional subsidies to avoid default and nearly all depend upon ongoing rental supplements to retain affordability. Several now also have entry fees that are no longer affordable to new lower-income members. Moreover, in many, resident participation and control, which are key cooperative principles, have been weak or nonexistent due to an absence of ongoing funds for training and support.

The development of new cooperatives has also been severely restricted by the disappearance of direct federal financing and technical support. This has led to a system of low income housing development which depends on often complex private/non-profit partnerships and a patchwork of funding sources that does not favor cooperatives. In particular the significant use of tax credit-generated private investment has required increasing reliance on a form of non-ownership cooperative structure. Added to this have been recent state and federal regulations which limit some of the features that made cooperatives attractive models for lower-income home ownership.

B. Study Objectives

This study was prepared under contract with the Center for Cooperatives at the University of California, Davis under consultant agreement CAJ-803. It reviews the financing mechanisms that have led to successful cooperative housing projects for lower-income residents in California and it evaluates what options are most viable for expanding affordable cooperative home ownership in the future. Specifically, the study has five objectives:

1. To analyze the various approaches to limited equity and restricted equity cooperatives in California in comparison to each other and to market-rate cooperatives;
2. To identify and summarize past and current methods for financing lower-income housing cooperatives in California;
3. To identify the comparative impacts of the major financing methods for cooperative housing;
4. To identify current impediments in the financing and regulation of low-income housing cooperatives and to recommend changes that will address them; and
5. Finally, the study examines alternative organizational structures that would assist cooperative housing to overcome existing obstacles and to better use available financing methods.

C. Study Methodology

The study relied primarily on phone interviews with approximately 45 of the estimated 63 lower-income cooperatives in California listed in the appendices. Also interviewed were practioners in the field of housing finance, including representatives of dozens of public and private funding sources. In addition, the study drew on prior studies, particularly the survey work conducted by Coulter (1980) for the California Department of Housing and Community Development, Heskin et al (1989) for the California Policy Seminar, and the California Housing Partnership (1991) which compiled an inventory of United States Department of Housing and Urban Development (HUD) housing projects in the state. Other important reference material can be found in Part 5 of this report.

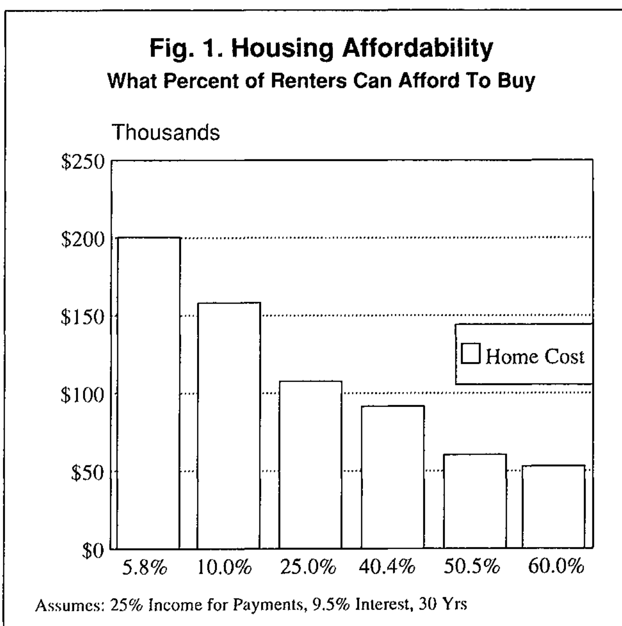
II. AFFORDABILITY AND COOPERATIVE HOME OWNERSHIP

A. The Crisis in Housing Affordability

The need for affordable housing in California has never been more urgent. In 1991 approximately 80% of all households in the state could not afford a new median-priced home, assuming they dedicated no more than 30% of their gross income to the monthly payments plus other home ownership costs such as utilities, insurance and taxes. The plight of prospective first-time buyers who now rent is even worse. Renters are the poorest of California households, earning only 65% of the median homeowner income. Even if they can afford the new house payments, first-time buyers may find the downpayment requirement prohibitive given their lack of carryover equity from an existing home. Moreover, with a smaller savings reserve, lower earning power and a generally poorer credit history than existing homeowners, first-time buyers face more critical scrutiny from lenders.

In 1991, a household earning the median renter income in California could afford a house costing approximately $70,000 — assuming such a house existed in their area, and that they could produce the $7,000 required for downpayment. As illustrated in Figure 1, the affordability drops precipitously as home prices approach the state median. Forty percent of renters, for example, could afford payments on an $85,000 home, one quarter could afford a $115,000 home, and only 6% could afford a $200,000 house — the median price for a new California home in 1990.

Fig. 1. Housing Affordability
What Percent of Renters Can Afford To Buy



Assumes: 25% Income for Payments, 9.5% Interest, 30 Yrs

At the same time that the prospect of homeownership has grown dim for most Californians, the financial reality of renting has become more burdensome. Between 1970 and 1989, renters in the state have been squeezed by rent increases that rose 100% faster than their median income. Particularly hard-hit have been the state's more than 3.5 million lower-income households. A majority in this group now pay between 50 - 70% of their income for rent, making them especially vulnerable to eviction and homelessness.

B. Advantages of Lower-Income Cooperatives

For low to moderate income renters, housing cooperatives can offer a unique bridge between the insecurity of renting and the benefits of homeownership. Some of these social and financial benefits can include:

- Affordable monthly costs resulting from pass-through of subsidized funding, economies of scale in construction and exemptions to local and state subdivision filing requirements.
- Federal and state income tax deductibility of a proportionate share of the interest on the blanket mortgage and any real estate taxes.
- A homeowner reduction or in some cases a complete exemption on property taxes.
- The security of long-term affordability.
- A modest build-up of the equity downpayment.
- Direct participation in managing and operating the housing.
- The potential for mutual social support, leadership growth and community development
- Finally, the right to pass on the unit to heirs.

C. Characteristics of Housing Cooperatives

Housing cooperatives differ significantly from other forms of home ownership. Members of cooperatives, for example, do not own their individual unit. Instead, each member has a common interest in the entire housing development as well as the right to possession of an individual unit in the project. Residents own shares or memberships in the non-profit or mutual benefit corporation which does own the buildings and generally owns the land. The member share represents an ownership stake in the entire cooperative. Shares can be transferred to new co-op members more simply than in other home ownership sales where new mortgages must be initiated.

Moreover, the increase in value of the shares can be

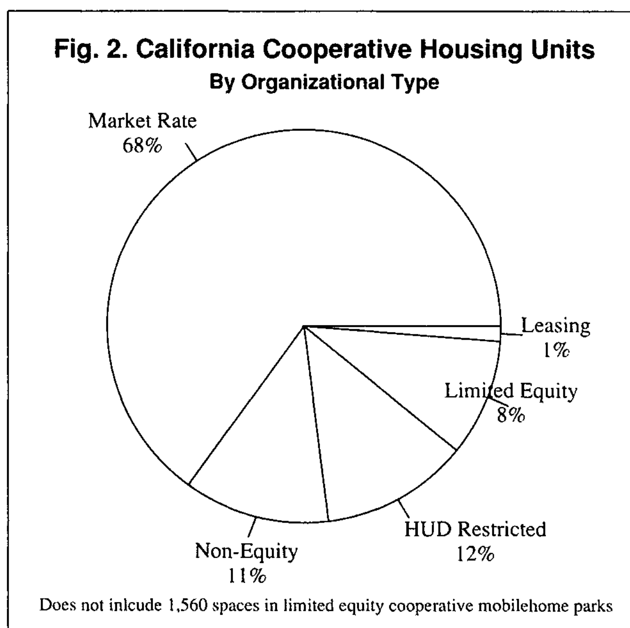
restricted to insure its future affordability to new members. In place of rent or mortgage payments, the co-op member-owners pay monthly charges that represent their proportionate share of the blanket mortgage and operating costs for the entire complex, including all common areas. Most often cooperatives are built much like condominiums as multi-family attached buildings on a single site, although they can also consist of separate buildings at scattered locations.

In a housing cooperative each household member has a single vote in the co-op's governance. This contrasts with other corporations where votes are proportionate to the amount of investment controlled by the stockholder. Self-governance and democratic decision-making are key elements of the Rochdale principles of cooperation that have traditionally guided the development and operation of housing and other cooperatives for over a hundred years world-wide. Other Rochdale principles include open membership, limited return on capital and a dedication to furthering cooperative living and ownership.

III. TYPES OF COOPERATIVES

A. Lower-Income Housing Cooperatives

California has nearly 25,000 housing units in approximately 200 cooperatively owned developments. As illustrated in Figure 2 these housing cooperatives represent five organizational forms which can be distinguished by how the initial entry investment or member equity can increase in value over time. This factor plays an important role in long-term affordability since it determines the cost to future households of gaining entry into the co-op when a member leaves.



Restriction on member equity growth was one of two factors used in this study to define lower-income cooperatives. The second factor was the restriction of entry income levels for prospective cooperative members. In most cases, this restriction is set by the funding source; however, the organizational form of the cooperative critically determines what funding sources can be used.By this criteria, market-rate cooperatives fail to qualify as lower-income since the value of the member equity is unrestricted except by the local real estate market.

Moreover these cooperatives are open to anyone of any income level who can afford membership. Despite their low member cost, the no-equity cooperatives were disqualified since they generally serve special purpose or restricted memberships such as students. As shown in Table 1, the three cooperative types that do qualify as lower-income are restricted-equity, limited-equity and leasing cooperatives. Altogether this group represents about 20% of the total number of cooperative units in the state.

B. Market Rate Cooperatives

More than 16,000 co-op housing units — the great bulk of the state's total — were developed in the 1960's and 1970's as stock or market cooperatives. Most of these are part of two large leisure and retirement complexes: the 10,210-unit Golden Rain cooperative in Seal Beach near Los Angeles and the 3,348-unit Walnut Creek Mutual Homes co-ops which are part of the larger 6,000-unit Rossmoor retirement complex in eastern Contra Costa county.

Market rate cooperatives permit the members share to increase in value with the real estate market, much like comparable condominiums. In fact, these co-ops predated the refinement of condominium law in California and their development was seen as the most expeditious means available at the time for building multiunit dwellings for individual ownership. For developers, they now offer few advantages over condominiums and consequently few have been built since the early 1970s. And for prospective low-income members, these housing coops remain unaffordable.

C. No-Equity Cooperatives

At the other end of the spectrum to the market-rate cooperative is the no-equity co-op. In this case, the new

TABLE 1. SUMMARY OF TYPES OF COOPERATIVES BY EQUITY TREATMENT

Cooperative Type	Equity Restriction	Description
Stock Cooperative	Market Rate	Similar to Condos
No Eauity	Fixed Member Fee	Student Co-ops
Restricted Equity (Restrictions Limited to Term of HUD Mortgage)	Principal Paydown + Improvements + Inflation	HUD-Subsidized Cooperatives
Limited Equity (Permanent Restrictions)	Maximum 10%/Year + Improvements	Subsidized Low/Moderate Income
Leasing Cooperative	Percent of Member Share	Consumer Co-op: No Ownership

member joins by paying a simple fee which is reimbursed when the member leaves. The fee can be adjusted by the Board of Directors, but is generally very low and its value remains unchanged during the member's tenure. This arrangement works best where the term of occupancy is short and hence the primary use of this cooperative in the state is for college student housing. California has thirteen student housing co-ops providing more than 2,500 units to students near colleges and universities in Berkeley, Davis, Irvine, San Francisco, Los Angeles, Rohnert Park and Santa Cruz.

Among the largest is the University Students Cooperative Association which operates 1,250 co-op units in 17 scattered sites near the Berkeley campus of the University of California. Each co-op house is self governed with an executive board presiding over the entire group. The costs to the students, paid per semester, is approximately 50% less than comparable dorm housing. In return, the student co-op members commit to 5 hours of work per week and an initial $60 application fee of which $50 is refundable when they leave.

The study excluded this type of cooperative from consideration because of its specialized and transient membership, and its lack of targeting guidelines for lower-income members.

D. Restricted Equity Cooperatives

Twenty-seven housing cooperatives in California, representing more than 2,800 initially lower- and moderate-income households, were developed in the 1960s and 1970s with the active assistance of the Department of Housing and Urban Development (HUD) and its subsidiary agency the Federal Housing Administration (FHA). Under its Section 221(d)(3) and Section 236 loan subsidy programs, HUD placed restrictions on the transfer value of the co-op member shares which remain in place through the life of the underlying 40-year mortgage. The restrictions prohibit the sale of member shares at market-rate value, but they do permit the initial member equity to grow by a formula that includes the units' proportionate share of principal paid on the blanket mortgage plus an annual cost of living adjustment. This can lead to rapid buildup of the share value as the mortgage matures and the portion of the payment going to principal increases.

E. Limited Equity Housing Cooperatives (LEHC)

The projected, eventual unaffordability of restricted equity cooperatives raised concerns among California housing advocates in the 1970s who lobbied for a new form of subsidized low-income cooperative with permanent caps on share increases. Their efforts culminated in 1978 with the passage of state legislation (AB 1364) by Assemblyman Tom Bates creating the limited equity housing cooperative (LEHC). The law defines the limited equity housing cooperative as a new type of stock cooperative that is financed in whole or part by the state, federal or local government for the provision of housing to low and moderate income families. It is codified as Section 11003.4 of the California Business and Professions Code and Section 3307.5 of the Health and Safety Code.

Under the 1978 law, the LEHC is organized as a nonprofit public benefit corporation which makes a clear distinction between corporate and member equity. Corporate equity is the current fair market value of the cooperative's property, less the sum of the current transfer values of all member shares and any outstanding loan balance. Corporate equity can only be used for the benefit of the corporation including improvements and expansion, or for a public benefit or charitable purpose. Similar rules apply if the corporation is dissolved or the property sold. In this case, the corporate equity can only be used for three purposes: (1) to pay off any outstanding debt, (2) to reimburse the transfer value of member shares, or (3) to benefit a public or

charitable entity.

Member equity is the membership share which the resident initially pays and which is allowed to increase in value according to strict limitations. The law requires that the initial share value not exceed 3% of the value of the unit. When the unit is resold its transfer value cannot exceed the original membership payment plus: (1) the value of any authorized improvements to the unit installed at the expense of the occupant, and (2) an annual appreciation in the initial equity that cannot exceed 10%.

The limited equity cooperative structure has also been adopted in the conversion of mobilehome parks from private to resident ownership. In this case, the cooperative members own the land and the common facilities while the mobilehomes themselves remain privately owned. This arrangement closely resembles a condominium or a community land trust, an alternative ownership form discussed in a later section. Since enactment of AB 1364, 41 limited equity cooperatives have been formed; 30 are multi-family housing representing approximately 2,000 units and another 13 are mobilehome parks representing around 1,560 spaces.

F. Leasing Cooperatives

In recent years, a non-ownership form of housing cooperative has emerged to take advantage of income tax subsidies and outside investor equity. The first was the University Avenue co-op in Berkeley, which was formed in 1981 using at least $500,000 in private investment funds. Since 1990, three other leasing cooperatives have been built or are presently being built. Each uses equity from corporate investors who receive the benefits of federal low-income housing tax credits.

In this arrangement, the cooperative typically leases the property from a limited partnership consisting of a non-profit housing developer acting as the general partner and private tax credit investors as the limited partners. The cooperative itself is controlled by the residents who constitute its membership. But since the co-op members remain renters, they cannot benefit from mortgage interest or real estate deductions from their federal and state income taxes. The members can accrue appreciation on their membership share which is usually very small, equal to typical rental deposits. The co-op itself accrues no equity in the property.

G. Alternative Housing Forms

The study examined two other forms of housing ownership which resemble cooperatives in many respects: the Mutual Housing Association (MHA) and the Community Land Trust (CLT). It also looked at cohousing which, though not an ownership form, has emerged as a vital new approach to participatory housing development and cooperative-style living, particularly in California. More detailed discussion of these alternatives can be found in Part 4.

Briefly, both the MHA and the CLT are umbrella organizations which purchase and develop housing for low and moderate income residents. They emphasize resident participation in management, technical support to existing projects and ongoing development of new projects. Both can also operate at a larger scale as a coordinating entity for a group of individual housing cooperatives. The two differ in several respects, most notably ownership. In the MHA, residents are renters, with much the same status as leasing co-op members. In CLT's, residents own their own homes or units, but not the land.

Cohousing, on the other hand, is not tied to a particular ownership form. While current California projects are planned or already built as condominiums, cohousing projects could also be built as cooperatives. Cohousing is unique in two respects. First, residents participate throughout the planning, acquisition, development and operation of the project. Secondly, the site is designed for resident interaction and cooperative living, usually including a large common house with shared kitchen and dining facilities.

PART 2: MAJOR FINDINGS

I. COOPERATIVE FORM AND AFFORDABILITY

A. Restricted-Equity Cooperatives

1. The restricted equity housing cooperatives remain very affordable to current residents.

Based on data from 18 pre-1979 cooperatives, the study found that the monthly carrying charges for this group have remained very low at a time when rental cost increases in California have outpaced increases in income. As shown in Table 2, carrying charges at the co-ops have increased at an average annual 5.3% rate since 1970, compared to 7.9% for median state rents for the same period. Moreover, the average 1990 carrying charge for the studied co-ops was $401; this represented approximately 15% and 24%, respectively, of the income of a low-income and very low-income median family, based on HUD standards and the aver-

TABLE 2.
COOPERATIVE MONTHLY CARRYING CHARGES VERSUS MEDIAN CALIFORNIA RENT (1970-1991)

	1970	1980	1990
Avg Co-op Carrying Charges (1)	$141	$236	$401
Average Annual Increase	---	5.3%	5.3%
Percent of Low Income	17.7%	18.3%	15.1%
Percent Very Low Income	28/4%	29.4%	24.2%
Median California Rents	$113	$252	$561
Average Annual Increase	15.7%	23.3%	24.4%
Percent of Low Income	25.0%	35.3%	33.9%
Average Income Increase:			
HUD Median Family Income	$11,940	$19,260	$39,820
Weighted for Sample			
State Median Household	$10,830	$18,240	$34,450

1. BASED ON DATA FOR 18 LOW-INCOME COOPERATIVES ORIGINATED BETWEEN 1963-1980. 2. LOW & VERY LOW INCOME = 80% & 50% OF APPROPRIATE MEDIAN INCOME HUD MEDIAN FAMILY INCOME ADJUSTED BY PROJECT IN SAMPLE FOR HOUSEHOLD SIZE.

age family size in the studied group. The comparable percentages for the median state rent of $561 were between 60% and 70% higher

2. As mortgages mature, the transfer value of member shares has accelerated beyond the affordability of prospective low-income members in many older restricted-equity cooperatives.

Those co-ops that chose to follow HUD's equity formulation have seen their share values increase dramatically in recent years as the mortgage matures and the amount of principal paydown accelerates. Most notable is Saint Francis Square, which is nearly 30 years into its 40 year mortgage and has current share values of between $25,000 and $65,000 — well beyond its initially affordable range of $260 to $420 per unit. This San Francisco co-op is relatively unique in the use of an inflation multiplier which compounds the equity beyond the simple paydown of principal.

In the interest of maintaining affordability, most other co-ops have adopted equity formulas that result in more gradual increases. As illustrated in Table 3, these formulas vary widely. Clifford Manor in Watsonville, for example, keeps its membership share at the equivalent of one month's carrying charge, or no more than 30% of the resident's income. And three Sacramento cooperatives have kept their share values unchanged at $130 to $165 per unit since their inception. More typically, restricted co-ops add the proportionate amount of the mortgage principal payments to the accumulating equity shares. The transfer shares for this group ranged in value between $2,000 and $6,000.

TABLE 3.
EXAMPLES OF RESTRICTED EQUITY FORMULAS, HUD-SPONSORED CO-OPS

Cooperative	Share Value Formula	Current Share Value
Florin Gardens East #2 (Sacramento)	No Equity Buildup	$163
San Jerardo (Salinas Valley)	Approved Improvements + Value of Labor	$8,000 +
Southgate Town & Terrace(Sacramento)	Amount of Principal Paid Down on Mortgage	$3,000 - $5,000
Saint Francis Square (San Francisco)	Principal Paydown + Improvements x Inflation Index	$25,000 - $68,000

Overall, the co-ops surveyed for this study had a current average share value of approximately $11,800. This value represents nearly 60% of the annual median income of a very low-income family (see Table 4).

Obtaining a fair return on member equity versus continued affordability has become a serious issue in these co-ops as the federally subsidized mortgages approach term. The Twin Pines Cooperative in Santa Clara, for example, was started about the same time as the Saint Francis. Yet it has kept its share value down to the $3,700 -$4,400 range by allowing modest 6% annual increases on the initial share value. Recently, though, Twin Pines residents have mounted a campaign to change the equity formula to reflect their contributions to principal. If the changes are voted in, the share transfer values will increase to as much as $43,000.

The growing high cost of new membership in most restricted equity cooperatives has not been a serious problem primarily because there has been little membership turnover owing to the attraction of low carrying charges and other project amenities. When openings do occur, it is generally up to the prospective member to finance the membership share. Most do so by pooling family resources, although a few lending institutions

TABLE 4.
AVERAGE YEARLY MEMBER SHARE INCREASE SELECTED HUD COOPERATIVES 1963-1980

	1970	1980	1990
Membership Share Value	$240	$3,787	$11,817
Average Annual Increase	---	31.2%	20.4%
Percent of Low Income	2.5%	24.6%	37.1%
Percent Very Low Income	4.0%	39.4%	59.4%

NOTES: AVERAGES WEIGHTED BY NUMBER OF PERSONS IN EACH PROJECT FOR INCOME VALUES. BASED ON DATA FOR 19 LOW-INCOME COOPERATIVES.

offer co-op share financing. In a few cases, such as the Northridge Cooperative in San Francisco, the co-op has created a revolving loan fund to finance new memberships. Others such as the Loren Miller co-op in San Francisco and the Capitol Manor in San Jose, discontinued share lending after experiencing collection problems.

B. Limited Equity Cooperatives

1. The statutory restrictions of the limited equity cooperative make it more permanently affordable than other forms of privately-developed housing.

Table 5 compares the relative affordability of equivalent restricted equity, limited equity and market-rate housing cooperatives each hypothetically formed in 1970. For this comparison, the share value of the restricted equity co-op was assumed to increase according to the HUD-approved formula of principal paydown plus a modest 5% inflation multiplier. The limited equity coop share increased by the maximum permitted 10% compounding annually, and the market rate co-op followed the historical real estate price increase through 1990 and then an assumed 5% annual increase thereafter.

By the year 2010, the point of mortgage expiration, the limited equity co-op's share transfer value of $10,860 had remained one third that of the restricted equity co-op. More significantly, after the year 2010, the LEHC's share will continue to be capped by law, while the original HUD affordability requirements on the restricted equity cooperative would terminate. This frees the restricted equity cooperative to revert to a market-rate cooperative if it chooses, pricing its share value at nearly $415,000.

2. Historically, limited-equity cooperatives have further increased affordability by using modest annual increases.

While state law permits up to 10% annual increase

TABLE 5.
MEMBER SHARE INCREASE BY COOPERATIVE TYPE

Type of Co-op	1970	1980	1990	2000	2010
Restricted Equity	$240	$4,933	$11,063	$19,333	$30,493
Limited Equity	$240	$622	$1,615	$4,188	$10,862
Market Rate Downpayment	$1,848	$7,920	$15,640	$25,476	$41,498
Market Price	$18,480	$79,200	$156,400	$254,759	$414,976

NOTES: 1. WEIGHTED AVERAGE; 2. 80% OF MEDIAN SINGLE FAMILY HOME FOR 1970-1990 WITH 5% INFLATION ADDED THEREAFTER.

TABLE 6.
EXAMPLES OF LIMITED EQUITY FORMULAS

Cooperative	Equity Formula	Initial Share Cost
Heron Court	Cost of Living + Improvements	$1,600 - $2,600
La Buena Esperanza	5.5% Simple $1,600 Annual Interest	
Cabrillo Village	Approved Improvements	$1,000
Sparks Way Common	Bank Interest Rate: (6-8%)	$350 - $1,200
Pilgrim Terrace	Bank Interest Rate	$100 - $200

in member share value, few of the LEHCs surveyed by the study applied this maximum inflation multiplier to their equity build-up (see Table 6). For example, Cabrillo Village cooperative in Ventura only increases the share value to reflect the cost of Board approved improvements. Others allow the equity to appreciate by a low fixed rate or by the actual rate of return the funds could earn in a bank account, for instance. The equity formula used by the Heron Court cooperative in Redwood City includes a cost of living adjustment (COLA) and any improvements to the property subject to value depreciation of 1% per month.

3. Limited-equity cooperatives enjoy regulatory advantages not afforded other cooperative or privately developed subdivisions.

Under certain circumstances limited equity cooperatives have been granted a significant waiver from the reporting requirements of the state Department of Real Estate (DRE). Under the Subdivided Lands Law, any person who intends to offer subdivided lands within the state for sale or lease must apply to the DRE for a public report. This application must include detailed information on the proposed subdivision covering such areas as the planned disposition of the property, provision of public utilities, project indebtedness, soils and geologic reports, any contractual arrangements or limitations on the use of occupancy of the land. Payment of a fee, typically $1,500 plus $10 per unit, must accompany the application to the DER which then goes through a period of review before issuing its authorization in the form of a public report.

For the limited equity housing cooperative to be exempt from this process a legal opinion must be submitted determining that the project meets a set of conditions specified in Section 11003.4 (b) of the California Business and Professions Code. The major provisions of this section include:

Government Subsidy. 50% of the total construction cost, or $100,000, whichever is less, must be directly financed or subsidized by any combination of the following government agencies: HUD, FmHA, the National Cooperative Bank, the California Housing Finance Agency, the California Department of Housing and Community Development, or the local jurisdiction.

Share Investment. No more than 20% of the total development costs of a LEHC mobilehome park, and not more than 10% of the total development cost of other limited equity housing cooperatives can be provided by purchasers of membership shares.

Regulatory Agreement. The limited equity housing cooperative must have a regulatory agreement with one of the specified agencies for a term at least as long as the duration of the permanent financing or subsidy. This agreement must contain assurances concerning completion of common facilities, ongoing fiscal management, means of organizational governance and financial disclosure information to prospective members.

Most lower-income limited equity cooperatives have little trouble meeting these regulatory terms. The exceptions are the smaller scale rehabilitation or cooperative conversion projects which may not meet the $100,000 or 50% subsidy rule. The planned conversion of Berkeley's Ninth Street Coop fails to meet this minimum and must therefore comply with the Department of Real Estate requirements at an estimated cost of $12,000-15,000. As a result the project developers may choose another ownership structure.

4. Current regulations impede limited equity cooperatives from qualifying as tax-exempt organizations.

Internal Revenue Code Section 501(c)(3) tax-exempt status is important for eligibility for several funding sources including 501(c)(3) tax-exempt bonds and as a precondition for a property tax exemption. Another advantage concerns the treatment of nonmembership income that is in excess of costs. This can include income from laundry facilities, but more importantly has been interpreted by the Internal Revenue Service as also including interest on accounts held in reserve for future repairs and replacement. Under Sections 216 and 277 of the Internal Revenue Code, nonmembership income is treated as a business separate from the nonprofit cooperative and is therefore taxable at the corporate, for-profit rate. However, for 501(c)(3) organizations, these income sources would be exempt from taxation except in circumstances where they were unrelated business income or debt-leveraged income.

In 1990 the state Franchise Tax Board ruled that in order to qualify for tax-exempt status, limited equity cooperatives must restrict the original member share to a "nominal" amount. This has been interpreted to be equivalent to a month's additional carrying charges. This places the entry affordability of limited equity cooperatives on a par with rental property that require a deposit equal to the last month's rent. The Board ruling also places in question the allowable percentage increase in equity appreciation formulas. The effect is to dilute the advantages of cooperative membership over rental housing.

5. Limited equity cooperatives may be exempt from Article 34 compliance.

Article 34 of the California Constitution mandates voter approval of any "low rent housing project" that is developed, constructed or acquired by any "state public body" including cities, counties and redevelopment agencies. Since an election is costly and adds delay and uncertainty to the project, local governments can be wary of any project that might trigger Article 34 compliance.

The reluctance is somewhat justified by the broad interpretation of what constitutes project development. It can, for example, take the form of a loan to a low rent housing project if the loan term contains any of a number of conditions including:

1. Assessment of project economic feasibility.
2. Review of management plans.
3. Review of location, design and construction plans.
4. Restrictions on rent and occupancy.
5. Certification of tenant incomes on an annual basis.
6. Implementing financial standards.
7. Monitoring relocation requirements.
8. Inspecting buildings and records.
9. Supervising construction, operation and maintenance.
10. Designation of a tenant grievance procedure.

State legislation has exempted several types of developments from Article 34 voter approval. The most significant exemption is housing that is intended

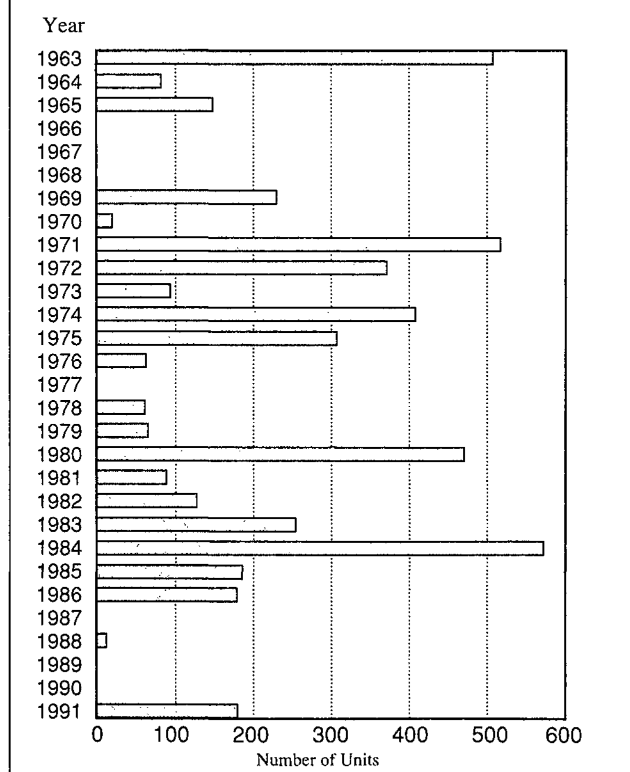
for ownership rather than rental occupancy. This implies that while leasing cooperatives must comply with Article 34 provisions, limited equity ownership cooperatives are exempt. While this presumption has not been legally tested, it suggests that the limited equity cooperative structure can be a potentially valuable vehicle for creating low-income housing in areas where Article 34 compliance is an issue.

C. Leasing Cooperatives

1. The leasing cooperative is the only housing cooperative form that can access the private investment capital made available by the federal and state low-income housing tax credits.

Access to this major financing source, which is discussed in more detail in a later section, has become a critical factor in the development of low-income housing. The resulting renter status of the co-op members has its disadvantages including less democratic control and the inability to claim income tax deductions for their share of mortgage and property tax payments.

On the other hand, the leasing cooperative holds the promise of later transformation into an ownership cooperative. Most leasing cooperatives operate with long-term leases of 55 years or more with the co-op having the option to purchase the property at the expiration of the tax credit benefits for the private investors in 15 years. In some instances this arrangement is beneficial since it allows time for the non-profit sponsor to prepare the low-income residents, who may have no background in cooperative living and management, for eventual project ownership.



2. Leasing cooperatives are more certain to receive property tax exemption than limited equity cooperatives.

Under Section 214 (g) of the State Revenue and Tax Code public benefit corporations or a limited partnership of which the public benefit corporation is the general partner that provide low-income rental housing can be granted a property tax welfare exemption. Particularly in high-cost urban areas, this can result in as much as a 30% savings in operating costs. In some cases the savings is significant enough to bring project rents, or approximately 10% of total annual costs including financing, down to an affordable level.

Leasing cooperatives created under a 501(c)(3) non-profit sponsor clearly meet the requirement for the property tax waiver. Until recently, limited equity housing cooperatives structured as 501(c)(3) organizations have also presumed to qualify for this important exemption. However, recent interpretation of the law by the State Board of Equalization has questioned the eligibility of LEHCs for the welfare exemption on the grounds that they provide ownership rather than rental tenure. While the matter has not been resolved, the current ambiguity has led at least one non-profit organization, the Santa Cruz Community Housing Corporation to structure its Lagoon Beach Co-op under the leasing model as a means of qualifying for property tax exemption.

II. AFFORDABILITY IMPACT BY FINANCING SOURCE

A. Overview

1. The development of lower-income housing cooperatives has closely followed the availability of federal and other funding sources.

Each year between 1963 and 1991, approximately 170 cooperative units have been built in California. This growth has been characterized by fits and starts as public funding sources disappear and are replaced by

others. As illustrated in Figure 3, cooperative housing development stalled between 1965 and 1969 as HUD's 221(d)(3) below-market interest rate funds dried up; production resumed in 1969 with the advent of the Section 236 program.

In turn, the subsequent eclipsing of this program led to a drop off in cooperative construction during the late 1970's. This was followed by another strong growth period as cooperatives took advantage of the rent supplement Section 8 New Construction and Moderate Rehab programs as well as new state funding sources. After 1986, production stopped dramatically as HUD funds came to a virtual end and the Tax Reform Act created a tax credit program that could only be applied to rental housing. The resurgence of co-op construction in 1991 reflects the creation of new leasing cooperatives that can utilize tax credit investment.

2. Income-level restrictions mandated by funding sources have resulted in cooperatives that serve increasingly poorer households.

HUD 221(d)(3) projects originally required that residents earn no more than 95% of median income. This was later revised to 80% of median income. Cooperative housing members who went on to earn above that level were required to pay market-rate carrying charges, generally set at 10% above the base monthly charges. Current legislation will require these over-income members to pay 30% of their income for carrying charges. Over the years, co-op members who initially earned moderate or even low incomes have seen their wages increase beyond the initial qualifying levels. As a result some cooperatives no longer serve the originally-targeted lower-income group. In several, such as John Muir Homes in Martinez and Ammel Park in San Francisco, the majority of members in fact now pay market rate rents.

More recent funding sources have required much lower income levels for entry residents of lower-income housing projects. Section 8 now requires a 50% median income threshold and, as shown in Table 7, the federal tax credits require that eligible projects have at least 40% of its units affordable to lower income residents, defined as those earning 60% or below of median income, or 20% very low-income, defined as those earning 50% or less of median income. And the state Rental Housing Construction Program (RHCP) requires that two-thirds of its assisted units be set aside for households earning 35% or less of median income. The remainder is set aside for those who earn between 35% and 60%.

TABLE 7.
INCOME RESTRICTIONS BY SELECTED FUNDING SOURCES

Program	Income Restriction
HUD Section 8	Original: 80% of median income Current: 50% of median income
Federal Tax Credits and Tax-Exempt Bonds	20% of units priced for 50% of median income, **or** 40% of Units priced for 60% of median income.
State Rental Housing Construction Program	Two-thirds of assisted units priced 35% at most of median income **and** one third of units priced for 60% of median income.
Federal Home Loan Bank (11th District)	20% of units priced 50% at most of median income, and remainder of units priced 80% at most of median income.
Savings Association Mortgage Company (SAMCO)	50% of units priced for 80% of median income.

3. No major source of financing funds initial or ongoing training of residents in cooperative management.

A major financial obstacle for housing cooperatives is the lack of funding to cover a cooperative's initial and ongoing organizational development needs, including the training of its membership and Board. On their own, most housing co-ops cannot afford to cover these costs out of their operating budget. Non-profit housing developers are often reluctant to develop housing cooperatives either because of their lack of direct experience with the ownership form or because of the additional long-term difficulty in training low-income residents for eventual ownership and control.

Financial disincentives may also play a role in cases where the non-profit developer has a property management division and requires a certain number of units to financially support its management operations. The rural non-profit housing developer, CHISPA, for example, which operates its own management company, estimates they spend tens of thousands annual funds in additional staff time needed for cooperative training and management. As a result, two of their cooperatives have experienced operating losses which the organization must cover internally. For this reason, CHISPA has decided not to develop its future low income projects as cooperatives.

However, a few resources do exist. The National Association of Housing Cooperatives has begun an expansion of its Comprehensive Education and Training Program to help develop local expertise in coopera-

tive management. This program, though, does not provide the ongoing site training required for developing new housing cooperatives. The Rural Community Assistance Corporation, which historically has assisted farmworker cooperative housing development, continues to work with low-income mobilehome park conversions using the community land trust model. In addition, a limited amount of "human development" grant funds for initial training and organizational development can sometimes be obtained, but none that will subsidize ongoing organizational work.

The situation may change with the implementation of new federal funding programs, notably HUD's HOME Investment Partnership Program. Under interim rules published in December, 1991, HUD is authorized to allocate HOME funds to community housing development organizations for "education and organizational support assistance." These funds can be used to help educate and counsel low-income homeowners and tenants, as well as to cover operational expenses and such other expenses related to training, technical, legal and engineering support. Part 3 of this report provides a summary of the HOME program.

4. The complexity and cost of financing continue to favor larger scale co-op housing projects.

While the size of housing cooperatives being developed in the state has declined in recent years, the average size still remains nearly 80 units per project. The complexity of the financing and organizational structure can demand a level of capital investment and expertise that are best suited for larger projects. Moreover, most financial institutions are reluctant to lend to small projects without an established record. Although not strictly a financial consideration, another important factor that lends itself to larger scale is the number of members required to develop effective participation and leadership. A smaller co-op may have more difficulty engendering and maintaining the active participation necessary for successful co-op operation over the long run.

TABLE 8.
SUMMARY OF CALIFORNIA HUD-ASSISTED COOPERATIVES (1963-1986)

HUD Program	Years	Co-ops	Units	Sec 8
Section 221d(3) Below Market	1963- 1971	9	930	181 (20%)
Section 236	1969-1976	13	1,288	452 (35%)
Section 221(D)(3) Market Rate	1971-1984	8	1,213	887 (73%)
Section 8 New Construction	1978-1984	6	391	274 (70%)
Section 8 Moderate Rehab	1982-1986	6	307	215 (70%)
HUD-Assisted Project Total:		**42**	**4,129**	**2,009**

Sources: Coulter (1980), Heskin (1988), California Housing Partnership (9191)

B. HUD-Assisted Cooperatives

1. Nearly all of California's lower-income cooperatives were formed with the assistance of HUD.

More than 80% of the state's nearly 5,000 lower-income cooperative units received subsidies from HUD assistance programs between 1963 and 1986. The earliest of these federal programs combined federal insurance coverage with mortgage interest rates that were as low as one percent. Later HUD assistance to cooperatives took the form of project-based rent subsidies to eligible tenants. Almost half of all units in these HUD-assisted cooperatives have authorized rental subsidies (see Table 8).

2. Housing cooperatives funded by HUD's early subsidy programs have fared better than their non-cooperative counterparts.

The study uncovered no defaults in California for 221(d)(3) co-ops and only one Section 236 co-op, Sun Terrace in Los Angeles which defaulted in 1974 and is currently held by HUD. On a national level, 221(d)(3) co-ops financed under the below market interest rate program have had the lowest default rate among all ownership types, although the early market rate co-ops, which did not have rent subsidies, fared worse (see Table 9). Nationally the claim rate for all Section 236 projects has been 18.5%, compared to the 8% rate represented by the Sun Terrace default.

3. Section 8-funded cooperatives have kept their operational costs below those of other comparable housing projects.

Researchers on the effect of ownership on housing operating costs reported in a 1988 study that Section 8-assisted cooperatives had 16% lower variable expenses than comparable Section 8 housing. The national study,

TABLE 9.
DEFAULT CLAIMS FOR HUD-ASSISTED HOUSING

Mortgage Holder	Number	Claims	Percent
Non-Profit	399	197	49.4%
Limited-Dividend	726	215	28.2%
Profit-Motivated	16	12	75.0%
Management Co-op	367	69	18.8%
Total:	1,544	493	31.6%

Note: 221(d)(3) projects originated between 1961-1972. Source: Mortgage Banker, June, 1985.

which included a group of San Francisco Bay Area cooperatives, found savings in every operational expense category except building grounds, with the largest savings in the repair and maintenance category (see Table 10). The savings follow from the common desire of the co-op members to keep their monthly costs low and their greater capability as resident-owners to control the operational expense categories.

Because the co-ops studied were subject to the same HUD inspections of other Section 8 housing, the level of maintenance and upkeep was the same as the non-cooperative housing. Instead, the study attributed the operational cost savings to several factors including the responsiveness of the cooperative structure to reports of problems, the greater willingness of residents to perform minor repairs themselves, better screening of applicants by members and the use of volunteer labor for adminstrative tasks.

4. Because they are ineligible for mortgage prepayment, the HUD Section 236 and 221(d)(3) co-ops represent even greater savings to the tax payer.

Privately-held 236 and 221(d)(3) apartments have the option in most instances to prepay their federally-subsidized mortgages after twenty years, thus releasing them from HUD's affordability restrictions. The federal legislative response to this issue has resulted in the creation of HUD programs to protect low-income residents and maintain the future affordability of the at-risk property. The programs will be costly, involving incentive offerings to property owners, additional Section 8 rent subsidies to tenants, as well as grants and below-market interest loans for priority purchasers.

By contrast, the thirty existing Section 221(d)(3) and Section 236 co-ops will not require this additional substantial federal financial subsidy to protect their lower-income members who already enjoy the benefits of resident empowerment and ownership. Part 3 of this report provides a summary of HUD's interim Prepayment Program regulations.

TABLE 10.
BREAKOUT OF OPERATIONAL COST SAVINGS SECTION 8 HOUSING CO-OPS VS. NON-CO-OPS

Expense Category	Savings Percent
Repair and Maintenance Janitorial, plumbing, electrical, painting, decorating, other.	11.2%
Administrative Bookkeeping, audit, payroll, management, marketing.	1.2%
Security and Protection Security guards, electronic equipment, locks and keys.	0.9%
Routine Operational Expenses Pest control, janitorial service, garbage collection	2.8%

Source: Parliament, Claudia, et al., "The Effects of Ownership on Housing Operating Costs: Cooperative Versus Rental, *Cooperative Housing Journal*, 1988.

C. Lender Financing Programs

1. Cooperatives that assumed adjustable rate mortgage loans experienced serious financial problems.

Several cooperatives found this volatile form of mortgage, offered through the National Cooperative Bank, one of the few options available when HUD assistance waned in the late 1970's and early 1980's. During the early 1980's when interest rates rose rapidly, the financing costs became particularly onerous. During this time, the interest rates for project mortgages rose to 13.25% at Santa Rosa Creek Commons, 13% at Las Casitas de Voluntario in Santa Barbara and 12.5% at Twin Pines in Davis. In many cases the increase in the debt service threatened to consume all the project financial reserves. At Las Casitas the tight budget was augmented by lots of volunteer labor. At Twin Pines, the high mortgage costs priced some units above market rate. Many co-ops that were financed by the National Co-Op Bank have since recovered financially by renegotiating more favorable loan terms.

TABLE 11.
FINANCING GAP FOR A LOWER-INCOME COOPERATIVE BY MORTGAGE INTEREST RATE

Interest Rate	Monthly Mortgage/ Unit	Financing Gap/ Unit/Month
10.0%	$702	-$402
9.0%	$644	-$344
8.0%	$587	-$287
7.0%	$532	-$232
6.0%	$480	-$180
5.0%	$429	-$129
4.0%	$382	$-82
3.0%	$337	-$37
2.0%	$296	-$4
1.0%	$257	+$43
0.0%	$22	+$78

The same is true of local bond financing. The gap between project based revenues, derived from monthly member payments, and the required mortgage payments is especially large where the target income-level for the project is 60% or less of median income. As illustrated in Table 11, the mortgage interest rate must be at 2% or lower before revenue from this income level group could pay the mortgage on an $80,0000 per unit project.

2. With the disappearance of operational subsidies, lower-income cooperatives cannot solely rely on shallow subsidy programs.

Spurred on by the requirements of the Community Reinvestment Act and other legislative mandates, many California individual lending institutions and lending consortia now offer below-market interest rate loans for qualifying lower-income housing projects. However, without new Section 8 or similar rent support, current lower-income cooperatives cannot generate sufficient revenues to meet the mortgage payments using only shallow subsidy programs which may lower the mortgage interest rates by only 1 to 4 percent.

D. Current State and Federal Programs

1. Successfully financed lower-income cooperatives must compete for limited sources of deep capital subsidy, while piecing together financing from a host of other sources.

No single source for funding and support for lower-income housing has emerged since the decline of HUD subsidy programs in the 1980's. Instead, non-profit developers have learned during this decade to finance cooperatives by piecing together funds from combinations of state, local, federal and private sources (see Table 14). Of these, there are currently only two major sources of deep capital subsidy widely used in the state: the federal low-income housing tax credits, allocated on the state level, and state bond-authorized funding programs administered by the California Department of Housing and Community Development. Redevelopment agency revenues can also be used for deep subsidies, but generally are not.

Along with these critical sources, financing assistance has taken many forms: predevelopment loans and grants, technical help, land write-downs, as well as low interest first, second and even third or fourth mortgages. The most successful combination of cooperative financing now consists of 30% - 50% tax credit equity and 25% from the state's Rental Housing Construction Program (RHCP) or the California Housing Rehabilitation Program (CHRP).

Typically, the remainder is made up of a low loan to value ratio conventional first mortgage from a private lender or lending consortia such as Savings Association Mortgage Corporation (SAMCO) and the Federal Home Loan Bank"s Affordable Housing Program (AHP), along with local subsidy funds derived from Community Development Block Grants or the housing set-aside funds of the local redevelopment agency. This financing model is well-illustrated in Table 12 which breaks out the financing sources used to develop Neary Lagoon cooperative in Santa Cruz.

TABLE 12.
EXAMPLE OF MULTIPLE FUNDING SOURCE
Neary Lagoon Cooperative

Funding Type	Funding Source	Amount
1st Mortgage	Savings Association Mortgage (SAMCO)	$1,200,00
2nd Mortgage	California Rental Housing Construction Program	$3,700,000
3rd Mortgage	City of Santa Cruz	$700,000
Land Grant	City of Santa Cruz	$0
Equity	Private Tax Credit Investors	$2,400,000
	Total Project Financing:	$8,400,000

2. The low-income housing tax credit has created an historical shift to non-ownership leasing housing cooperatives.

Most new lower-income projects require that outside equity capital be raised through use of the federal and state tax credits. For cooperative developments this type of investment precludes a true ownership structure and also creates additional layers of organizational complexity. The residents of the project retain membership and control of the leasing cooperative, but actual ownership resides with the limited partnership. As a result, the members remain renters who cannot benefit from homeownership tax deductions. While a complex master lease can be set up to enable future buy-out, the leasing cooperative must make diligent plans for the organizational phase-in to an ownership cooperative.

The end result has been a major historical shift towards a weak form of housing cooperative which, lacking true ownership, has little internal incentive for self-management and in most cases simply resembles a rental project.

3. Present sources of funding for lower-income cooperatives remain tenuous.

The state's CHRP fund, which is based on a non-renewing bond issue authorization, is near depletion, while the RHCP fund, derived from similar origins, will reach its limit in early 1992. As of July 31, 1991, the California Department of Housing and Community Development had allocated $365.5 million of its $550 million share of Propositions 77, 84 and 107 funds.

Moreover, Congress continues to authorize the

federal low-income housing tax credit only on a year-by-year basis, making it vulnerable to continuing political pressure and the vagaries of the budget process. This tenuous position affects the continuance of the state tax credit, which is tied to renewal of the federal credit.

4. Emerging federal programs remain unproven.

With their emphasis on resident ownership and affordability, the new HUD programs created by the 1990 Affordable Housing Act hold promise for future funding of lower-income cooperatives. These programs, described more fully in Part 3, include: HOPE, aimed at facilitating home ownership of publicly-held property; HOME, a matching grant program designed to expand the supply of new affordable housing; and the Prepayment program which offers incentives to qualifying tenant groups and others for purchase of currently at-risk subsidized housing.

The success of all of these programs depends critically upon two factors. First, they must receive adequate funding authorization by Congress which to date has not been forthcoming. Secondly, they must offer streamlined funding procedures, something not currently provided in the complex and time-consuming implementation process in the proposed regulations.

E. Local Funding Sources

1. Local redevelopment housing set-aside funds have become an instrumental and highly flexible source of gap financing.

About 130 local redevelopment agencies now generate approximately $200 million annually of low and moderate income housing. These state mandated funds are extremely flexible. They can be used outside the

TABLE 13. MAJOR FUNDING SOURCES FOR LOW-INCOME HOUSING

Federal Programs	**Lender Programs**
Housing and Urban Development (HUD)	Federal Home Loan Bank (FHLB)
Community Devel Block Grant (CDBG)	Community Investment Fund (CIF)
Hope Program	Affordable Housing Program (AHP)
Home Investment Partnership Program	Savings Assn Mortgage Corp (SAMCO)
Prepayment Program	Cal Community Reinvestment Corp (CCRC)
241(f) Financing Program	National Cooperative Bank
Federal Low-Income Tax Credit	Individual Lender Programs
State Programs	**Secondary Market**
Calif Housing Finance Agency (CHFA)	Fannie Mae
Multi-Family Residential Loan	Freddie Mac
Interest Buy-Down Program	Gennie Mae
Small Multifamily Loans	Local Initiative Managed Assets Corp
Housing & Community Development (HCD)	**Housing Tax-Credit Investment**
Rental Housing Const Program	California & National Equity Fund
Calif Housing Rehab Program	Enterprise Foundation
Farmworker Housing Grants	Fannie Mae
Mobile Home Park Assistance	Public/Private Partnerships
Predevelopment Loan Fund	Private Placements
State Low Income Tax Credit	Corporations/Corporate Funds
Local Funding Sources	**Other Private Sources**
Tax-Increment Set-Aside Funds	National Association of Housing Co-ops
Development-Linkage Funds	Low-Income Housing Fund
Housing Trust Funds	Local Initiatives Support Corp (LISC)
Bond Financing	National Com Development Initiative
Qualified Redevelopment Bonds	Community Loan Funds
501(C)(3) Nonprofit Bonds	Institute of Community Economics (ICE)
Multi-Family Revenue Bonds	**Mutual Housing Assn Assistance**
General Obligation Bonds	Neighborhood Reinvestment Corporation
Taxable Bonds	Neighborhood Housing Services (NHS)
FHA 223(f) Mortgage Insurance	Cooperative Services Inc. (CSI)

redevelopment district and at all stages of project development including predevelopment, construction, permanent lending and even for operational expenses. This marks redevelopment agency funding as a pivotal piece of overall project financing in California.

Often the funding provides a start-up grant as in the case of the Turning Point Commons project which received $207,000 from the Chico Redevelopment Agency. Typically the redevelopment financing provides the necessary leverage to obtain other financing. The land acquisition grant provided by the Sacramento Housing and Redevelopment Agency to Glen Ellen Estates, for example, allowed the project to secure a loan under the state rehabilitation program.

Similarly, the 114-unit Parkview Commons found lenders wary of their unique ownership arrangement in which the co-op members owned the building, but the school district owned the land. They obtained financing after the redevelopment agency set aside funds as a loan guarantee. In another creative arrangement, the University Avenue Co-op used Berkeley Redevelopment Agency funds to pay the interest on an interim loan.

In Santa Barbara, the Coronel Place, which was a housing cooperative until financial restructuring in 1991, provides a good example of redevelopment tax-increment funds used as a component of permanent financing. The redevelopment agency provided $550,000 as one of three mortgages secured by the project. The loan was structured with a level amortization at 6% interest-only with the residual due in 30 years. The terms permit the co-op to pay the interest based on the calculation of the previous year's net income.

TABLE 14.
EXAMPLES OF USE OF TAX INCREMENT FUNDS FOR LOW INCOME AND MODERATE INCOME COOPERATIVE HOUSING

Cooperative	Description of Redevelopment Fund Use
University Avenue	Payment of interest on interim loan
Parkview Commons	Funds set aside as loan guarantee
Turning Point	Start-up development grant
Colton Palms**	Major grant and guarantee of repayment of local revenue bond
Coronel Place*	Low-interest load at 6% fixed interest
Northridge	Initial share financing fund
Pacific Family	Development grant and share financing fund
Glen Ellen**	Land acquisition grant and no-interest interim loan

* No longer structured as a cooperative
** A mutual housing association

2. Local tax-exempt bond financing is costly and highly dependent on lender support.

While tax-exempt bonds offer lower interest rates, this advantage must be weighed against the difficulty and cost of obtaining credit enhancement which can currently add 1.5% or more initially and then annually to the total bond cost. Credit enhancement is a form of financial guarantee of payment performance which bond rating agencies often require to obtain a high credit rating. Because they represent lower investment risk, the higher rated bonds typically carry lower interest rates. One way to avoid the cost of credit enhancement is to issue an unrated bond. This was the strategy employed by the Santa Barbara Community Housing Corporation which benefitted from a $7 million 501(c)(3) bond issued on its behalf for a group of lower-income housing projects, including cooperatives. This resulted in a higher bond interest rate, but the whole package was less costly than it would have been to enhance the credit standing of the bonds to obtain a rating.

Another strategy is to forge purchase agreements with a lending institution in advance of bond issuance. In this way, the Santa Cruz Housing Corporation was able to bypass many of the issuance and placement costs of a 501(c)(3) bond by negotiating its entire purchase to a local bank, Pacific Western. The bank then provided a loan to the project at a favorable 8.5% interest rate as part of its Community Reinvestment Act program. In the end the bond issuance cost only $25,000 or less than 2 points for the entire $1.3 million with no ongoing enhancement costs.

3. State constitutional requirements on local general obligation bonds greatly impede their use.

Though potentially a significant source of local lower-income housing funds, these bonds require a two-thirds vote of the electorate. The difficulty of meeting this condition was demonstrated by recent low-income housing bond issue elections in Alameda County and the city of Los Angeles, both of which obtained strong majority votes, but failed to achieve the required two thirds of the electorate by a small margin. These bonds would have provided $200 and $100 million, respectively, in deep subsidy funds respectively for affordable multi-family housing, including limited equity cooperatives.

III. STUDY RECOMMENDATIONS

Any recommendations directed at assisting the financing of lower-income housing in general will also benefit the financing of lower-income cooperatives. This is particularly true for support of deep subsidy programs including the permanent extension of the federal tax credits and the issuance of new state bonds to replenish the diminishing low-income housing funds authorized by Propositions 77, 84 and 107. In addition, the study recommends the following actions as means of specifically assisting cooperative lower-income housing:

1. Support current efforts to force expeditious expenditure of local redevelopment agency housing set-aside funds.

The study found redevelopment funds among the most flexible and potentially accessible sources of financing for lower-income cooperatives. Presently, the total redevelopment funds that have been set-aside by law for lower income housing have reached a few hundred million and continue to accrue at $200 million per year. Yet few cooperative projects have utilized this source, in part because many agencies in the state have been slow to apply the set-aside funds to local housing development projects. Among current efforts to rectify the situation is legislation by state Assemblyman Friedman which would force a greater and more expeditious use of the funds.

2. Support the amendment of the state constitution to allow passage of local general obligation bonds by a simple majority of the electorate for the provision of permanent lower income affordable housing.

The narrow defeat of the general obligation bond issues in Alameda County and the city of Los Angeles demonstrated the widespread support for public funding of affordable housing projects. It also underscored the difficulty that concerned communities must overcome in obtaining locally-secured financing to address their housing problems.

This recommended action will set the requirement for passage of local general obligation bonds equal to the majority passage requirement that already exists for state general obligation bonds. In so doing, it creates the potential for transforming these locally-issued bonds into a major financing source with many unique advantages. Because they are secured by tax revenues, rather than project revenues which are less secure, general obligation bonds enjoy a higher credit ranking and the ability to offer deeper subsidies than other bond financing sources.

3. Support the creation of a state mortgage bond insurance program that will provide credit enhancement for local affordable housing bond issues, particularly for 501(c)(3) and redevelopment bonds.

Currently credit enhancement of these tax-exempt bonds is generally secured by private financial institutions which guarantee payments in case of a default. This security removes significant risk to bond purchasers who are then willing to accept lower interest rates on their investment. The resulting lower cost of financing can be an important factor in a lower-income housing project. But credit enhancement can be a time-consuming and costly process: even if a willing financial institution can be found, their fee for the insurance may equal 2% or more of total bond cost and 1.5% or more annually thereafter. The creation of a state mortgage bond insurance will ensure the marketability of locally-issued bonds for affordable housing with less uncertainty, difficulty and expense.

4. Support state legislation to ensure that lower income housing cooperatives can obtain property tax exemption on a par with lower income nonprofit rental housing.

Under state law, affordable housing projects can be made exempt from local property taxes. This financial advantage is significant given the limited budgets of lower-income projects and it helps to ensure that rents are kept affordable. However the eligibility of limited equity cooperatives for this exemption currently remains unclear, despite the fact that these co-ops serve the same lower-income residents.

5. Support the revision of state Franchise Tax 501(c)(3) eligibility regulations on limited equity housing cooperatives to reflect the state Limited Equity Housing Cooperative statutory definition for allowable member share value.

The state agency interpretation of 501(c)(3) eligibility effectively restricts the member share value in a limited equity cooperative to a nominal amount and also places in doubt the allowable increase in share value. These limitations create major disincentives to co-op membership by threatening to remove one of it major attractions: the sense of ownership that members receive when their initial share investment becomes more valuable over time. The state legislation creating limited equity cooperatives clearly recognized the im-

portance of this feature when it allowed a limited initial share value equal to no more than 3% of the original unit value and also permitted its annual appreciation value to increase at a rate not to exceed 10%.

6. Support on-going efforts to create a state-enabled regional and state-wide organization, based on the Mutual Housing Association model, which will be committed to ongoing training, technical support and expansion of permanently affordable lower-income housing cooperatives. The organization should be structured to facilitate the use of a full range of public and private funding sources and to develop over time its own equity and loan pools as well as a substantial asset base.

The major reasons for the decline of lower-income cooperatives have been the lack of institutional support and funding necessary for their construction and the follow-up training of members. A Mutual Housing Association can provide the organizational focus for addressing these issues. Efforts already underway have marshalled the resources of existing cooperative members and supporters from throughout the state. Their objective is to create a structure that will provide a network of ongoing support for present cooperative members while attracting financing for the acquisition and construction of new lower-income cooperatives in the state following various structural forms.

PART 3: COMPENDIUM OF FINANCING MECHANISMS

I. FEDERAL PROGRAMS

The importance of the federal government and particularly HUD in past low-income housing construction cannot be overstated. As late as 1980, nearly all new low-income housing and virtually all cooperatives outside of New York received funds from HUD. Since then HUD funding for new construction of low income housing has been cut by 90% while funding for all low-income programs has been reduced by 70%. This section reviews the important HUD and Farmers Home Administration (FmHA) programs that assisted the creation of low income cooperatives. The final part of this section reviews the potential emerging from new federal initiatives including the HOPE and HOME programs created by the National Housing Affordability Act of 1990.

A. Section 213: Cooperative Housing Insurance and Assistance

This provision of the Housing Act of 1936 placed cooperatives on the same level with other FHA insured forms of housing ownership and also gave the agency a special role in encouraging cooperative formation. It provides mortgage insurance for two types of cooperative developments: "management projects" where the non-profit corporation develops the housing directly for its membership (98% insurance coverage) and "investor-sponsored" projects where a for-profit developer builds the housing and then sells to the non-profit cooperative corporation (90% coverage).

Under Section 213 FHA provided only the insurance coverage; the actual mortgages were provided by private lending institutions. While the removal of default risk to the lender resulted in somewhat lower rates, neither HUD nor the FHA subsidized the mortgages and consequently imposed no income or resale restrictions on the co-op projects. As a consequence few of the approximately 35 housing cooperatives in California that obtained Section 213 insurance are lower-income projects.

The Section 213 legislation also authorized the FHA to furnish technical advice and assistance in the organization of cooperatives and in the planning, development, construction and operation of cooperative housing projects. This provision led to the creation and distribution in the early 1970's of a number of HUD handbooks and other publications on the formation of housing cooperatives and guidance on the use of Section 213 insurance and Sections 221(d)(3) and 236 programs.

B. Section 202: Disabled and Elderly Housing

This section of the Housing Act of 1959 authorized up to 100% financing with low-interest loans for housing projects for low and very low income residents who are either over 62 years old or disabled. Significantly, the program carries 100% Section 8 rental subsidy on the units. Originally intended for rental units, the Section 202 program was later extended to cooperative housing. The first California example was Pilgrim Terrace, a 1984 Santa Barbara senior citizen co-op. Santa Barbara Community Housing Corporation developed this 84-unit limited equity cooperative which sets aside 10% of its units for disabled members.

Another active Section 202 participant has been Cooperative Services Incorporated (CSI,) a Michigan-

based organization which has constructed and operates projects in Berkeley, Colton Palms and other California cities. Not separately-owned housing cooperatives, the CSI projects are, however, democratically-run rental units which operate as a Mutual Housing Association.

New regulations issued in May 1991 continue Section 202 as a grant program for housing assistance to the elderly including the frail and very frail. It also establishes a separate program, Section 811, to serve the disabled population. Cooperatives are specifically excluded from 811 sponsorship.

C. Interest Rate Subsidies for Low-Income Multi-Family Housing

For cooperatives serving low-income members HUD first introduced the Section 221(d)(3) program in 1961, followed in 1968 with its Section 236 program. Like Section 213, both programs provided FHA-insurance at 98% to 100% of project development costs. But these programs also provided a major subsidy initially in the form of below market interest rate loans and later as project-based rent subsidies. As shown in Table 5 thirty California low-income cooperatives have been financed through these HUD programs.

1. Section 221(d)(3)

As an amendment to the Housing Act of 1954, the Section 221(d)(3) program was originally intended to assist residents who had been displaced by urban renewal clearance. At first, the eligibility target was aimed at moderate income households: residents who earned 95% of median income or less. Residents who earned more than this were required to pay only 110% of the basic rent. Presently, new members must meet HUD low income requirements, now set at 80% of median or less.

Section 221(d)(3) had two versions. The Below Market Interest Rate (BMIR) program subsidized the loan interest rate to a fixed 3% over a 40-year term. Private lending institutions initiated the BMIR loans after preapproval by HUD (or HUD's predecessor agency prior to 1965). They were then sold on the secondary market originally to the Federal National Mortgage Association (Fannie Mae) and later to the Government National Mortgage Association (Ginnie Mae), at market value. Nine cooperatives in California representing 930 units were originally financed under the Below Market Interest Rate version of Section 221(d)(3), primarily during the 1960's.

The second version of the 221(d)(3) program insured loans at Market Interest Rates (MIR). After 1965, it also provided rent supplements for eligible residents. The rent subsidy initially represented the difference between 25% of the resident's adjusted income and the fair market rent determined by HUD. These rent subsidy contracts which remain in effect for the life of the mortgage were also provided to some BMIR projects. Most of the rent subsidy contracts have since been converted to project-based Section 8 rent subsidies after that program became operational in 1974. Eight cooperatives in the state were financed under the Section 221(d)(3) MIR program in the 1970's and early 1980's. They represent more than 1,200 units, approximately 75% of which initially received rental subsidies.

2. Section 236

Similar in many respects to the 221(d)(3) BMIR program, Section 236 differed in a few key areas. It lowered eligibility to 80% or less of median income and initially subsidized the loan interest rate to an even deeper level — as low as one percent in some cases. HUD also regulated the rents to no more than 25% initially of tenant income and established for the first time the schedule of fair market rents for each area. Most projects also contracted for rent (now Section 8) subsidies for the term of the loan. Between 1970 and 1976, thirteen Section 236 cooperatives formed in California. Approximately one third of their nearly 1,300 units received rent subsidy authorization.

D. HUD'S Section 8 Programs

Section 8, HUD's rent subsidy program created by the Housing and Community Development Act of 1974, played an important role in assisting cooperative housing through the mid 1980's. Unlike previous interest-rate reduction programs, Section 8 is an actual rent subsidy to households whose incomes are less than 50 percent (originally 80%) of the area median income. Eligible tenants must pay at least 30 percent of their gross income in rent less an allowance established for standard utilities. The subsidy represents the difference between this established amount and the fair market rent for the area. Not only did Section 8 replace the earlier rent subsidy programs that were added to 221(d)(3) and 236 projects, but it often came packaged with new financing programs utilized by later co-ops.

For example, the New Construction and Substantial Rehabilitation programs, which operated until 1984,

provided low-interest, long-term financing and mortgage insurance along with 15 to 20 year project-based Section 8 contracts for eligible tenants. Again, Ginnie Mae purchased these below market interest rate mortgages from the originating lender at market rates. Six California co-ops were built under this program including: Las Casas de Madera in Salinas, developed by CHISPA in 1981; Savo Island, the 57-unit Berkeley co-op built in 1978; and Heron Court, a 104-unit Redwood City cooperative which was built in 1983 and housed 100% Section 8 coop members.

This project also received a 7.5% fixed rate 40-year loan — extremely favorable terms for the time under the 221(d)(3) Market Rate program. Presently, rents at the cooperative, which is located in the high cost San Francisco Bay Area, have risen to $800 for single bedroom units and $1,060 for three bedroom units. However, Section 8 members, who now make up about half the total residents, continue to pay only 30% of their income.

A second Section 8 program was created in 1979 for moderate rehabilitation of low-income multi-family housing. The program continues in a much reduced form, although new funds that target earthquake-damaged dwellings have recently been allocated. Unlike the New Construction Program, the Moderate Rehab program financed the repair and conversion of existing rental buildings to cooperative use. Six limited equity cooperatives in California have been formed using this source, representing a total of 307 units.

Unlike the early Section 8 programs which tied eligibility to the particular housing project, later Section 8 employed a voucher system. Eligible Section 8 voucher recipients are free to seek rental units of their choosing from participating landlords or owners, including housing cooperatives. No new vouchers have been authorized since 1981, although existing ones continue to be funded. In some cases, co-op members in the older 221 (d)(3) and 236 cooperatives have qualified for Section 8 vouchers. In all instances where Section 8 subsidies are used in restricted equity cooperatives, the equity share is allowed to increase but only to the extent of the member's unsubsidized contribution to principal reduction.

E. HUD Residential Rehabilitation Program

Starting in 1984, HUD began granting rental rehabilitation grants to communities and counties based on a block grant approach with the local jurisdiction in turn distributing the funds to eligible projects. The owner of the property must fund 50% of the cost, although the city or other non-federal sources can contribute to this share. The locality must allocate at least 70% of its grant funds to benefit low-income renters and 70% for units that are larger than two bedrooms.

The program sets an initial rent ceiling for what the landlord can charge after the rehabilitation. This rent cap preempts other local rent control or affordability cap regulations. This condition restricts program funds from use with other affordable housing funding sources. Both HUD Rental Rehab and a related HUD 312 rehab loan program were terminated at the end of 1991. The state's program will continue 2 to 3 years longer, channelling funding to smaller communities.

F. The Community Development Block Grant Program

The same act that created Section 8 in 1974 also created HUD's CDBG program which was designed to provide funds to cities and counties for economic development, neighborhood revitalization and improved public facilities and services. This program was supplemented between 1977 and 1989 with the Urban Development Block Grant program which was targeted to economically distressed urban communities.

As other HUD funding has disappeared, CDBG has become one of the most flexible sources of supplementary funding for housing, often providing the initial piece that gets a low-income project off the ground. CDBG grants, for example, provided $115,000 in start-up funding for the Vista de la Terraza farmworker coop in 1985 and $400,000 to the University Avenue cooperative in 1981. And in Santa Monica, the Ocean Park cooperative received CDBG money structured as a third mortgage with deferred payments as long as project affordability is maintained. The National Affordable Housing Act of 1990 authorized CDBG funding for homeownership assistance programs through 1992 as a bridge until the HOME programs become operational.

G. Home Ownership and Opportunity for People Everywhere (HOPE)

The HOPE program, created by the National Affordable Housing Act of 1990, aims at facilitating homeownership of public "distressed" property. This

includes properties owned or held by HUD through foreclosures, 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 governments. The program offers planning and implementation grants for the following eligible activities:

- Technical assistance
- Acquisition and repairs
- Project operation and debt service
- Planning (up to $200,000)
- Non profit sponsor fees

For multi-family property the regulations permit the use of the funds for the formation of cooperatives. After the 1992 fiscal year allocation, one third of the implementation grant must be matched by other nonfederal sources, which can include in-kind services. The program is designed for low-income owners initially, as all the project residents must earn 80% or less of the area median income. The resale value of units in funded projects is restricted for 20-years.

H. HUD's Home Investment Partnerships Program

The HOME Investment Partnerships Program was created by Title 2 of the National Affordable Housing Act to expand the supply of new affordable housing, including cooperative housing, for both renters and owners. The form of assistance can be either grants or loans. Funded projects must remain affordable to low income households for the remaining useful life of the property. The interim regulations emphasize is on rehabilitation and reconstruction, but funds can also be used for new construction under the following conditions:

1. Official HUD Preapproval.

The participating jurisdiction is on HUD's approved list to be published in the Federal Register as soon as funds become available. A jurisdiction that is not on this list may petition HUD for inclusion by providing documentation of local need. This evidence must show that:

A. The area has experienced a long-term, low rate of vacancy,

B. It has a high growth rate of renters compared to production of rental units,

C. It is experiencing large increases in rental costs due to a supply shortage, and

D. A significant portion of households either do not have Section 8 certificates or vouchers, or otherwise cannot find adequate housing.

2. Neighborhood Revitalization.

HOME funds can also be used for new construction as part of a HUD-recognized neighborhood revitalization program. The jurisdiction must show that the revitalization program include a substantial rehabilitation component, but that new construction is nevertheless required to meet neighborhood requirements for cost-effective affordable housing.

The project must also be in a distressed, low-income area with large tracts of vacant land and abandoned buildings, and the new housing must be developed, owned or sponsored by a community housing development organization or public agency.

3. Special Needs Housing.

Another new construction funding category under the proposed HUD HOME regulations include housing that is built to serve the special populations and special needs listed below. In this instance, the jurisdiction must not only document that the special need is a high priority in the area, but that it cannot be met with the current supply of affordable housing, nor by rehabilitation of existing stock.

A. Housing for families of five or more persons;

B. Housing for persons with disabilities;

C. Single-room occupancy housing;

D. Housing that is necessary to further the desegregation of housing within the jurisdiction pursuant to a court approved settlement agreement or other agreement approved by HUD. The jurisdiction must prove in this case that tenant-based assistance is not sufficient.

For cooperative ownership, the HOME rules specify that the purchase price for a cooperative share may not exceed the balance remaining after subtracting from the HUD single family mortgage limit the units' proportionate share of the blanket mortgage covering the cooperative. The prospective co-op household must be a first-time home-buyer who meets HUD's low-income criteria. Subsequent purchasers must also be low-income families earning 75% of area median or less, and pay a price deemed appropriate by HUD. The payments must also remain affordable over the subsequent 20 years: no more than 30% of income, including payments, insurance, taxes and interest.

States will receive 40% of HOME funds with the remainder allocated to local jurisdictions that meet housing needs criteria as defined by a locally prepared

Comprehensive Housing Affordability Strategy (CHAS). The new program will replace the current Community Development Block Grants (CDBG) after a transitional two-year period. Approximately $1.46 billion has been allocated for fiscal year 1992, of which California will receive about $185 million. The state will receive $42.7 million of this total with the rest distributed among 63 cities and counties. Local 1992 HOME allocations range from just over the program $500,000 minimum to $35.6 million for the city of Los Angeles. Appendix D provides a complete breakout of this distribution.

After the 1992 fiscal year allocation, HOME funds must be matched by other non-federal sources at a 50% level for new construction, 33% for substantial rehabilitation and 25% for tenant-based rental assistance, moderate rehab projects and acquisition. Significantly, the program mandates that 15% of the funds be set aside for the first 18 months for use by non-profit community development organizations for sponsorship of housing development projects.

I. HUD Prepayment Program

This proposed HUD program offers an important opportunity for the conversion of thousands of privately owned HUD-subsidized properties to limited equity cooperatives. As of January, 1992, HUD had issued interim rules for the program following the Low-Income Housing Preservation and Resident Home Ownership Act (LIHPRHA), Title 6 of the National Affordable Housing Act. This act established the criteria for mortgage prepayment of private low income multifamily property developed under HUD's 221(d)(3) and 236 subsidized mortgage programs.

Under existing contracts, the private owners have the option to prepay the HUD 40-year low-interest mortgage at the end of 20 years, thus removing them from HUD's affordability restrictions. California has approximately 40,000 HUD subsidized apartments that fall into this category — they have or will soon reach the 20 year mark — placing them at risk of conversion to market rate housing.

The new legislation reduces the risk of losing the affordable housing and also creates an opportunity for its permanent continuation as a cooperative or other resident ownership form or as a nonprofit rental project. The proposed procedure under LIHPRHA requires owners to file a notice of intent either for incentives to retain the property or to sell it. HUD then establishes the appraised worth of the project and a preservation rent based on a maximum 8% return on the calculated owner equity.

If HUD can offer sufficient incentives to provide this return, while staying within federal cost guidelines, the owner has the option to either accept the incentives to retain the property or to offer it for sale. If the funds necessary to provide an 8% return exceed federal cost guidelines, HUD cannot offer incentives to keep the property and the owners must offer it for sale. There then follows a 60-day period during which residents and state and local governments can comment on the proposed sale. Over the next 6 months the property must be offered for exclusive sale to residents either as part of a resident home ownership program, a resident-owned limited equity cooperative or a resident-designated community-based nonprofit organization. The potential purchasers must produce a deposit which is the lessor of (1) 1% of transfer preservation value, (2) $50,000 or (3) $500 per unit.

If no sale is made within the first six months by a resident group, over the next six months the owner can offer the property for sale to other qualified buyers including nonprofit organizations, and state or local government. Under both the incentive and sales options, the housing must remain affordable to low and moderate income tenants for its remaining useful life, or at least 50 years. If after 12 months no successful offer has emerged, the owner can accept an offer from any qualified buyer over the next three months. Finally, if owners receive no acceptable offer, they can prepay the mortgage. In this case, current rents are frozen for three years for original tenants who remain in the building while all low-income tenants receive portable Section 8 certificates or vouchers.

To assist priority purchasers in acquiring eligible prepayment property, Section 241(f) of the National Affordable Housing Act provides insurance for acquisition loans at 95% of equity plus closing costs and other expenses. Subject to funding availability, priority purchasers would also be eligible for financial assistance in the following areas:

1. Acquisition of property at a level no greater than the calculated preservation value.
2. Debt service on the federally-assisted mortgage and any rehabilitation loans.
3. Operating expenses including contributions to reserves.
4. Transaction costs.
5. Training in the case of an approved home

ownership program, including: resident council homeownership counseling and training; the fees for the nonprofit entity or public agency working with the resident council; and costs related to relocation of tenants who opt to move. Costs are limited to the smaller of $500 per unit or $200,000 for the entire project.

Under the proposed HUD regulations, the resident council must represent at least 75% of all occupied units and 50% of all units interested in home ownership. The resident council or its nonprofit sponsor would have to acquire the property within eight months of approval of the plan of action and then transfer it to home ownership within four years. The form of ownership can be a limited equity or other cooperative form, or a condominium or fee simple private ownership form. The initial owners must have income levels that are lower are at most proportionate to the mix of income levels that existed on January 1, 1987. The projected resident carrying charges cannot exceed 35% of their adjusted gross incomes.

For all its emphasis on homeownership, the program poses several difficulties for tenants and nonprofit groups seeking to acquire the property. The first obstacle is the sheer cost of the projects which, given California real estate market, have increased substantially in value. To purchase these properties and still maintain affordability will require large subsidies. Yet additional HUD incentive funding for the program is not secured, and all current federal subsidies end after sale of the property. Residents councils, for example, cannot assume the original below market interest rate mortgage, nor can residents continue to receive Section 8 subsidies after becoming owners. Moreover, HUD's current policies and procedures preclude the use of tax credit investment to help finance the project.

Unlike the 50-year affordability provision of the other prepayment options, properties purchased by resident councils have no requirement for long-term affordability. During the first five years, the regulations permit the resident buyer to recoup the value of their equity defined as the sum of the following: 1. the initial downpayment; 2. principal paydown; 3. improvements to the property; and 4. appreciation based on the Consumer Price Index. From years six to twenty, the regulations further allow the reduction of the amount due on the loan by 1/168 per month. The effect is to permit the housing projects to increase in value making it less and less affordable for future lower income buyers until by year twenty, the units can be sold at market rate with no restrictions. These resale rules, of course, do not apply to property purchased by a resident council organized as a limited equity cooperative, which has permanent affordability restrictions on share transfers defined by statute.

J. Farmers Home Administration: Farmworker and Rural Coops

Sections 514-516 authorize the FmHA to provide 33-year loans with one percent interest rate to units occupied by farm laborers. The program favors lower income families, but the highest priority is given to those residents with the greatest proportion of income derived from farm work. For example, a moderate income family with 100% farm income would get preference over a low-income family with 50% farm income. The FmHA loans do not cover rehabilitation work. As a result, farmworker coop projects that convert a labor camp to permanent co-op housing will require additional sources of funding. For example, the financing for Cabrillo Village co-op's rehabilitation of 80 units came from private foundations and state agencies. However when it later built an additional 79 units it was able to cover 90% of its cost with an FmHA 514-516 loan.

This mixture of funding sources with separate eligibility criteria has created some friction at the Cabrillo Village cooperative since more affluent members must move out when their incomes rise above the eligibility criteria, but only if they live in the FmHA-funded units. A related FmHA program, Section 515, provides one percent interest rate, 50-year loans to rural (not necessarily farmworker) rental projects that serve very low income households. Although unlikely at the present time, the FmHA did finance a few housing coops under 515, including the 60-unit San Jerardo cooperative in the Salinas Valley.

II. LOCAL HOUSING FUNDING SOURCES

A. Redevelopment Housing Set-Aside Funds

1. Tax-Increment Financing

Local redevelopment agencies now generate approximately $200 million annually for developing low and moderate income housing — making them one of the most significant potential sources of such financing in the state. They acquire their operating budget by a system of tax-increment funding in which they first identify and designate a "blighted" area based on such

factors as substandard or abandoned buildings, vacant land and property tax delinquencies. The agency develops a redevelopment plan for the area which is then adopted by the jurisdiction. This action freezes the property tax base for the redevelopment area. From that point on, the Redevelopment Agency captures any additional property taxes generated above the base by new construction, rehabilitation or ownership transfer. However, the set-aside funds can be used outside the redevelopment district, although still restricted to the local jurisdictional area.

These captured "tax-increment" funds can be applied to a wide range of uses, but by state law at least 20% of the monies must be set aside to help finance the provision of low and moderate income housing. Moreover, the funds cannot be stockpiled indefinitely and any excess surplus must be spent or transferred to the local housing authority. Excess surplus is defined as the greater of: (A.) $500,000 or (B.) the total amount of deposited set aside funds currently accumulated.

2. Affordability Restrictions

Tax increment set-aside funds have a few restrictions on their use to insure project affordability:

1. The project must provide units for moderate income (80 - 120% of median), low income (50 - 80%) and very low income (<50% median) households in the same proportion as the local housing needs estimate, as defined in the Housing Element of the General Plan of the local jurisdiction.
2. The monthly payments must currently be less than or equal to 25% of household income. This will change to 30% of household income in 1992.
3. Affordability must be maintained for a minimum of 15 years for rental housing and 10 years for owner-occupied housing.

Along with these affordability restrictions, the redevelopment agency will sometimes add others. The Sacramento Housing and Redevelopment Agency, for example, required that Glen Ellen, a Mutual Housing Association rental project, grant the agency first right of refusal to purchase any unit that becomes vacant. Set-aside funds can be used both for new construction, acquisition and rehabilitation of cooperative units, provided they meet the affordability criteria. However, they cannot be used for conversions of pre-existing low-income rentals to co-ops, since no new low-income housing units will be created.

B. Housing-Development Linkage Programs

A few California cities have established Housing Trust Funds based on developer fees linked to the construction of new commercial buildings. The oldest developer linkage program is in San Francisco where the City Planning Commission established the Office-Housing Production Program in 1981, later reorganized as the Office-Affordable Housing Production Program (OAHPP) in 1985. The program requires developers of downtown buildings that are larger than 50,000 square feet to build new housing, rehabilitate existing housing or contribute gap financing to a housing development project that would make the units affordable to low and moderate income households.

The developer's housing obligation is proportionate to the size of the office building; it is determined by a formula that accounts for the project's impact on the need for additional housing. Initially, the program did not specify the income target for the housing, but it did offer a greater inducement to developers who chose to produce or subsidize low and moderate-income housing. It now requires that 62% of the assisted housing be low and moderate income. A third alternative, added in 1985, allows the developer to contribute an in-lieu fee of approximately $5.50 per square foot to a city-administered affordable housing fund. Prior to that, city staff estimated that the developer cost for meeting its housing obligation averaged $3.06 per square foot or only 1.2% of total development costs.

In November 1986 San Francisco voters passed Proposition M which placed growth restrictions on downtown office buildings. Since then few office buildings have been built and the OAHPP has seen activity trickle to a stop. In 1989, for example, the city agency received $2.5 million in developer funds, another $3 million in 1990. As of July, 1991 no funds had been received. However, between 1981 and 1985, the program assisted in the creation of 5,431 housing units — more than any other public sector program. Approximately 3,400 units, or two-thirds of the assisted units, were affordable to low and moderate income households.

Other developer-linked housing trust funds have been created in Santa Monica, San Diego and in Sacramento. In the latter case, the program imposes fees ranging from five cents to $1.04 per square feet on new commercial development. The fund is expected to raise $3.6 million annually or about nine percent of the estimated $42 million cost to build housing for lower income households. The potential for expanding this

approach to other cities was boosted by an August 1991 9th U.S. Circuit Court of Appeals ruling on the legality of the Sacramento fee (Commercial Builder v. City of Sacramento). The court found "the burden assessed against developers ... bears a rational relationship to a public cost" for low-income worker housing.

This connection, or "nexus", if upheld by later court challenges, creates an important basis for the design of other developer-housing fee structures. The City of Los Angeles, for example, has been awaiting the Sacramento decision before going forward on its proposed low-income housing fee originally planned to take effect in February, 1992. That fee is substantially larger, ranging from $1 to $6 per square foot on new commercial development.

III. BOND FINANCING

A. Tax-Exempt Bonds

Local jurisdictions, including local redevelopment agencies, can also raise revenue by issuing bonds. The interest on these bonds can be exempt from federal and state income tax provided the bonds comply with restrictions in current federal tax law, specifically the Internal Revenue Code of 1986. Tax exempt bonds are often preferable because they offer interest rates which generally start a half a percentage point below the yields on 30-year Treasury bonds.

However, the cost of the bond issue and any necessary credit enhancement can be high. As a result, bonds are generally cost-effective only for larger scale projects or for a pool of smaller projects. Another disadvantage is that federal tax law reduces the low-income tax credit rate from 9% to 4% when tax-exempt bonds are used, and for 501(c)(3) bonds, the tax credit can not be used at all. This is usually sufficient to discourage the project from pursuing tax credit syndication.

Finally, locally-issued tax-exempt bonds, with the exception of 501 (c)(3) bonds and general obligation bonds, must compete for allocation approval by the California Debt Limit Allocation Committee. This agency oversees a limited fund which is annually renewed at a total of $50 per state resident per year.

All bonds not strictly used by a government agency for a direct public purpose are classified as private activity bonds, defined by federal tax code as bonds which substantially benefit private users and are substantially repaid with revenues provided by private users or by the facilities being financed. Normally these bonds cannot be tax exempt, since public subsidy will be used to benefit private parties. However, the law does "qualify" certain private activity bonds for tax exemption if they meet certain legally determined general and programmatic criteria. For cooperative housing construction, the three most relevant categories that qualify for tax exemption — aside from general obligation bonds — are: (1) Redevelopment Bonds (2) Multi-Family Revenue Bonds and (3) 501 (c)(3) NonProfit Bonds.

B. Qualified Redevelopment Bonds

The Qualified Redevelopment Bond is a type of tax-exempt private activity bond that is secured with tax increment funds from a redevelopment area. They are also known as tax-increment bonds or tax allocation bonds. These bonds must meet some of the same preconditions as tax-increment funding: the redevelopment area must be identified and the redevelopment plan written and adopted. However, the specific federal definitions of blight and the size and shape of the project area differ in several respects from those in the state Community Redevelopment Law (CRL).

It is therefore best for the Redevelopment Agency to update its blight findings before issuing these bonds. Also unlike the CRL, the federal law strictly requires that 95% of the proceeds be used solely within the redevelopment area. These funds are further limited to the following uses:

1. The acquisition of property by a government agency with the power of eminent domain;
2. The clearing and preparation for redevelopment of the property acquired by the agency;
3. The rehabilitation of the acquired property; and
4. The relocation of occupants of the acquired property.

Any property that is purchased with qualified redevelopment bond proceeds can be sold to private entities such as non-profit developers or cooperatives at a "fair market value." This value can be restricted to the conditional use of the property specified in the agreement of sale made between the agency and the purchaser. If the covenants restrict the property to low income housing, for example, the purchaser will only pay the fair market value for this use rather than for the property's potentially highest and best use.

Redevelopment bonds are a common means of leveraging the flow of tax-increment funds to obtain large amounts of up-front capital for projects. However, they may not be readily marketable if the redevel-

opment area is newly created or the revenue flow is otherwise not well established. Moreover, funds raised with these bonds are much more restricted in their use for affordable housing than the direct use of tax-increment revenues.

C. Multi-Family Residential Rental Project (MRRP) Bonds

This type of qualified private activity bond is designed to fund the construction of low-income rental housing. Limited equity cooperatives, as defined in Section 216 of the IRS Code, are specifically eligible and treated as residential projects. Unlike tax increment bonds, MRRP bonds are secured by the revenues from mortgage payments. To qualify the bonds as tax-exempt, the benefitting projects must meet the following income restrictions under the federal tax code:

1. The project must provide at least 20% of the units for residents who earn 50% or less of area median income, or
2. It must provide at least 40% of the units for residents who earn 60% or less of the median area income, and
3. This proportion of low-income tenancy must be maintained until the bonds have been retired, or 15 years after half the units are first occupied, whichever is longer.

Las Casas de Madera is an example of a low income cooperative which benefitted from the local issuance of an MRRP bond by the City of Salinas. Built in 1981 under HUD's Section 8 New Construction program, the cooperative used its 20-year HUD contract to back up the bonds.

A more recent example is Colton Palms, a 100-unit mutual housing project developed by Cooperative Services, Inc. for elderly residents. The City of Colton issued a $6.5 million MRRP bond for the $10.8 million project with most of the remaining costs covered by a grant from the Redevelopment Agency using tax-increment set-aside funds. Repayment of the bond is secured by rental revenues but with the Redevelopment Agency acting as guarantor. Essentially, this arrangement results in an ongoing operational subsidy to the project since the redevelopment agency will cover any difference between low-income rents and the debt service as long as the project maintains affordability. Currently, the project serves a mix of income levels with 25% very low, 25% low and the remainder moderate and high income.

The qualified MRRP bonds have several disadvantages. Members of limited equity coops that have an MRRP-financed mortgage cannot claim mortgage interest and property tax deductions from their federal income taxes during the qualified project period for the bond issue. And their use, as with qualified redevelopment bonds, also reduces the tax credit rate to 4% which again effectively excludes syndication as a financing source. In addition, like all bonds with high initiation costs, the MRRP bonds are costly for small projects, which discourages their use by local agencies. As a result most MRRP bonds originate at the state level with the California Housing Finance Agency (CHFA).

D. State Issued MRRP Bonds: California Housing Financing Agency

The California Housing Finance Agency (CHFA) was created in 1975 by the state legislature specifically to finance affordable housing to low and moderate income households. It is self supporting on the revenues of loan repayments. CHFA issues the bonds periodically for a pool of projects with the size of each issue generally between $20 and $30 million. Bond proceeds finance the agency's multifamily rental program which offers long term (30-40 year) permanent loans at below market rates for new construction or substantial rehabilitation.

The agency considers loan requests on a continuing basis. To qualify, twenty percent or more of the units must be occupied by persons having an income of 50% or less of the county median income adjusted for family size. Another 29% must be affordable to low income households who earn less than 80% of median income. CHFA also requires that low income residents spend no more than 30% of their income in rent or monthly co-op payments.

In addition to its loan program, CHFA has created a Housing Assistance Trust (HAT) to further subsidize low-income rental housing. The maximum amount for this grant is $500,000 or $5,000 per unit. HAT funds can also be used for mortgage loans of up to $1 million for small multi-family projects that have "exceptional community development attributes". These can include the following:

1. Local government financial contribution to the project of at least 10%;
2. An inner city redevelopment location;
3. A high percent of lower income units of at least

10% very low income and 10% low income, and
4. Preservation of existing housing stock.

Several cooperatives have used CHFA financing in the past. Among them is Turning Point Commons I, a farmworker limited equity coop which borrowed $963,000 under the CHFA loan program in 1984. Others include the Oak Center Cooperative Homes, an 89-unit Oakland project serving mostly very-low income residents, and the University Avenue Coop which was funded in large part by two CHFA loans in 1981. A current applicant is the Sacramento Mutual Housing Association which seeks CHFA funding for its planned Norwood Estates 44-unit development. Otherwise there has been little current use of the agency's funds for low-income housing primarily because of the lower tax credit availability.

E. Tax-Exempt 501(c)3 Bonds

The Qualified 501(c)(3) bond is a tax-exempt private activity bond issued by a government agency on behalf of a qualified non profit organization which receives 95% of the bond proceeds. Traditionally these bonds have benefitted schools and hospitals but recent legislation expanded the range of eligible 501(c)(3) non-profit groups to those involved in other charitable activities including low-income housing development. This group includes traditional non-profit housing developers, Mutual Housing Associations, Community Land Trusts (CLTs), and housing cooperatives that either are set up as a 501(c)(3) organization themselves, or structured as a leasing coop under ownership by a qualifying non-profit organization. Most California limited equity cooperatives have been organized as 501(c)(3), but a 1990 ruling by the state Franchise Tax Board has made this designation more problematic.

A major disadvantage is that these bonds cannot be used in conjunction with any state or federal tax credits, including the alternative 4% federal credit. When 501(c)(3) bonds are used to acquire existing multifamily housing, the project must meet the low-income requirements for qualified multifamily bonds discussed in the previous section. But if the bond proceeds are used to finance new construction or substantial rehabilitation, they may only have to meet the requirements set by the tax-exempt organization for low-income housing. However, this factor is subject to legal interpretation and meeting the low-income requirements for other bond issues would be the safest approach.

In contrast to other project-specific tax-exempt bonds, the 501(c)(3) bond is exempt from state allocation. Instead, the local government agency can issue up to $150 million in total outstanding debt for each 501(c)(3) organization or group of entities under common management and control.Also interest on these bonds is not subject to the federal alternative minimum tax and thus command a lower interest rate than equivalent revenue bonds. Local control makes the use of 501(c)(3) bonds preferable if the project needs a faster turnaround than under the state allocation approval system. It also is a clear advantage if the city or state is close to its allowable debt allocation. This was the case in Santa Barbara where the local housing authority issued a $7 million 501(c)(3) bond on behalf of the Santa Barbara Community Housing Corporation for a pool of projects. The bond provided a 30-year below market rate loan at a fixed 7.9% for the two mobile home parks which operate under a cooperative arrangement, though they are not yet structured as limited equity cooperatives.

F. Other Bond Financing Sources

1. Single-Family Mortgage Revenue Bonds

This tax-exempt mortgage revenue bond has been used to provide low-interest loans largely to moderate-income first-time home buyers. At least 95% of the bond proceeds must finance mortgages of persons who have not owned a principal residence in the past three years. The income of families of three or less cannot exceed 100% of area median; the maximum is 115% of median income for a family of four or more. Higher percentages apply for targeted "economic distress areas" and for high housing cost areas. This bond type was used to finance a cooperative in San Francisco where the city issued the single-family bond as a first mortgage for condominium owners that later restructured their project into the Amancia Regina Cooperative. For low-income limited equity cooperatives, the MRRP bond serves as a more appropriate financing vehicle.

2. Taxable Bonds

There may be times when taxable bonds are the preferred means of generating revenue. Taxable bonds do not require state allocation or approval by the electorate — unless they are general obligation issues — and can be used with the 9% federal housing tax credit. And their cost of issuance is generally much less than equivalent tax-exempt bonds. However, these

taxable bonds sell at a higher interest rate to bondholders than tax-exempt bonds, so their use results in higher interest costs for potential housing projects. But they can be viable when combined with other sources of subsidy.

3. General Obligation Bonds

These tax-exempt bonds are backed by the full faith and credit of the local or state government and therefore enjoy higher credit standing and lower interest rates than revenue bonds. Since payment of the bond debt service comes from taxes, rather than project revenues, the general obligation bond can be used as a source for deep subsidy. Their principal drawback is that they must be approved by a ballot measure. On the state level, general obligation bonds require a majority vote to pass, while cities and counties need a two thirds vote. While housing bond measures have passed at the state level, the difficulty of achieving successful passage has discouraged the use of general obligation bonds at the local level. But as awareness of the housing affordability problem grows, this financing means may be a good source of subsidy for low-income housing in the future. In 1990, for example, affordable housing general obligation bond issues received a majority of the votes both in the city of Los Angeles and the county of Alameda but failed by a narrow margin to achieve passage by the required two-thirds of the electorate.

4. Federal Housing Administration Insurance

The Federal Housing Administration (FHA) 223(f) mortgage insurance program can be a useful means of reducing the cost of bond issuance by providing credit enhancement. The program insures up to 85% of the cost or value of the full project after any rehabilitation. The initial origination fee is 4 points, with an additional fee of half of one percent per year on the outstanding loan balance.

IV. OTHER STATE FUNDING SOURCES

A. The Rental Housing Construction Program (RHCP)

On the state level, a general obligation bond election authorized the funding of the Rental Housing Construction Program (RHCP) which has become a major source of subsidy for affordable new housing since its inception by state-wide Proposition 84 in 1988. Importantly, while the program was authorized to a general obligation bond, it does not use the tax-exempt funds at this time. Instead it was issued as a taxable bond; this arrangement allows the RHCP program funds to be used in conjunction with the full 9% tax credits.

The program, administered by the California Department of Housing and Community Development, has loan terms so favorable they resemble a grant: 3% simple interest, with payment of both principal and interest deferred. The full principal plus any unpaid interest is due as a balloon payment at loan maturity which is 40 years at the minimum, but may be extended in additional 10-year increments; most low-income non-profit projects assume these loans mature in 55 years.

The main provision of this program is that the project is bound by RHCP affordability criteria during the full term of the loan. These criteria, which are already stricter than most other funding sources, are enhanced by the strong competition of applicants who compete under a point ranking system. At a minimum, RHCP will fund no less than 30 percent of all units in a project. At least two-thirds of these assisted units must be for very low-income residents, defined as those earning 35% of median income or less. The remaining one-third must be for low income residents who earn 60% of the median or less.

Initial rents for assisted units cannot be more than 30 percent of the applicable median income for low and very low units. In addition, project applications receive points for the following:

1. Percent of very low income units.
2. Length of loan agreement term.
3. Percent of units with three or more bedrooms.
4. Local need for low income housing.
5. Financial assistance by local jurisdiction.
6. The number of non-RHCP lower income units.
7. The economic viability of the project.
8. Development and ownership capability of the sponsor.
9. Readiness of the project to start constructio
10. The project's competitive cost of construction.

RHCP loans can provide permanent financing or a combination of construction and permanent financing. However, many projects choose to use the program only for permanent financing since its use for construction financing requires adherence to the state's prevailing wage standards. Generally, RHCP funds are used as a secondary gap loan that is subordinated to a first mortgage. This was the case with both RHCP loans to the William Byron Rumford and Neary Lagoon co-ops where many additional sources of funds were em-

ployed. In a few cases though, RHCP is the primary source of financing. The Sparks Way Common cooperative in Hayward, for example, was entirely funded by RHCP and Vista De La Terraza farmworker cooperative received 85% of its development cost under an earlier version of the program.

B. The California Housing Rehabilitation Program (CHRP)

This state program can be a major secondary source of funding for cooperative conversions where substantial rehabilitation is required. State bond propositions authorized CHRP funding to provide low interest loans for rehabilitation of rental projects, including cooperatives, that serve low and very low income residents. Two recent cooperative projects that received CHRP funding are the Washington Street and Lagoon Beach Cooperatives.

Like RHCP, the proceeds are derived from non-tax exempt sources and so do not carry the restrictions attached to tax-exempt bond issues. It provides a deep subsidy, a 3% simple interest rate loan.

For rehabilitation only projects the minimum term is 20 years; for rehabilitation and acquisition projects the term is 30 years. In each case, the term can be extended in 10-year increments. Only the interest must be paid; the principal is deferred until loan termination. For nonprofit groups, the loan can be as much as 100% of the after-rehabilitation value as determined by appraisal.

The program limits the amount of the loans for multi-family units to $25,000 per unit for dwellings smaller than 3 bedrooms and $35,000 per unit for larger dwellings. For projects that involve both rehabilitation and acquisition, the limits are $10,000 per unit higher. However, HCD regularly approves higher amounts per unit. Maximum rents for assisted units are calculated at 30 percent of 60 percent of the area median for low income residents and 30 percent of 50 percent of area median for very low income residents. After the initial operating year, the rents for the assisted units may be adjusted for operating cost increases due to inflation or additional debt service on adjustable rate loans.

The project need not have 100% assisted units but funds can only be used for costs associated exclusively with assisted units or a share of the cost for common items that cannot be otherwise allocated. CHRP evaluates loan applications in a two-stage process. In the first stage, summarized below, the applicant must score at least 60 percent to qualify for advancement. The second stage evaluation closely follows the eligibility criteria used by RHCP.

TABLE 15.
FIRST STAGE EVALUATION CRITERIA

California Housing and Rehabilitation Program	Maximum Points
1. Ability to maintain fiscal integrity and affordability for loan term	30
2. Experience in ownership, rehab, and operation of rental housing;	25
3. Suitability of the site including access to services and amenities;	15
4. Any required relocation plans minimize cost and magnitude;	10
3. Suitability of services for households with special service needs;	10
6. Majority of costs will be for correcting health and safety defects.	10

C. Mobilehome Park Resident Ownership Program (MPROP)

One of the most active areas of low-income coop development in California in recent years has been the conversion of mobile home parks to cooperative ownership. Mobile home parks are an important source of low-income housing that has come under increasing development pressure to convert to more lucrative uses. One of the leading groups that has responded to this threat is the Rural Community Assistance Corporation (RCAC) which works with resident associations to purchase the mobilehome park. The group was instrumental in creating the Corporation for Affordable Communities and Housing, or COACH, a San Diego non-profit organization which is currently working to stop the conversion of a 90-space mobile home park from condominium conversion.

Following the model recommended by RCAC, COACH will act as a land trust (see section on Community Land Trusts) purchasing the park and leasing the land to a cooperative made up of the park residents. However, most mobile home parks have converted to a variation of the limited equity cooperative in which the mobile homes themselves remain individually owned and financed by the residents while the land is in common ownership.

Obtaining funding for the purchase of mobile home parks has been problematic because conventional lenders have been reluctant to loan on land without fixed assets. For qualifying low-income projects, the main source of funding has come from the State's Mobilehome Park Resident Ownership Program (MROP), formerly known as the Mobilehome Park Acquisition Program. This program offers 30-

year loans at 3% interest with up to 10 years deferred interest and principal payments. The loans cover up to 95% of the total costs of acquisition and conversion, proportioned on the share of low-income residents, defined as households who earn less than 80% of median income or pay more than 30% of their income for rent.

As a resident's income increases over the low-income threshold, the deferred loan payment for their allocated space is activated. Permanent affordability is not mandated and all restrictions terminate once the loan is paid off. Mobile park limited equity cooperatives continue to preserve affordability through their bylaws and share restrictions. In fact, the equity shares have no or little equity increases since membership only covers the value of the land. Except in a few cases where redevelopment money is used, the residents have no resale restrictions on their mobile homes.

The state MROP funds are very limited and many mobilehome parks have had to look elsewhere for financing. RCAC has successfully obtained financing from the National Cooperative Bank for three mobilehome conversions: Santa Helena in Soledad, Pacific Family Cooperative in Santa Cruz and, tentatively, for Gulf Green in Sacramento. These loans are at variable rates that adjust each 3-5 years and usually run for a 15-year term. In the case of Gulf Green, the proposed financing is a $4 million loan from Bank of America State Bank $3 million of which can then be resold to the National Co-operative Bank. Another source of funds has been 501(C)(3) bond financing which has been used by two mobile home park cooperatives developed by the Santa Barbara Community Housing Corporation as well as by the El Rio Mobile Home Park developed by the Santa Cruz Community Housing Corporation (see section on 501(c)(3) bonds).

The use of housing set-aside monies from the local redevelopment agency has proven difficult because the contingent affordability criteria do not match the unique ownership form of mobile home parks. Since the agency is only financing the land purchase or common infrastructure improvements it is not possible to mandate affordable housing cost restrictions on the separately owned mobile homes. While this compliance problem has discouraged the use of redevelopment funds for mobile home conversion it has not eliminated them. The Santa Cruz County Redevelopment Agency, for example, provided a rehab grant and share financing loan pool to the Pacific Family Cooperative, a 30-space mobile home conversion. But they did so by placing resale restrictions on the mobile homes themselves. The residents, all very low income, agreed to the terms; in return, they were allowed a higher rate of appreciation (6%) on their limited equity shares.

V. LENDING INSTITUTIONS

A. Federal Home Loan Bank

1. Community Investment Fund

The 11th District Federal Home Loan Bank of San Francisco is a member organization of savings and loans and savings banks serving California and other western states. It provides its member lending institutions with two sources of below-market rate financing for housing: the Community Investment Fund (CIF) and Affordable Housing Program (AHP). The CIF has $500 million which it can advance on a continuing basis as loans to members at .20% below market rate. The loans must be passed on as mortgages for residents that earn 115% or below of the area median income. The purchase and conversion of Seminole Springs mobile home park to a cooperative was financed using CIF funds provided through Home Federal Savings of San Diego. Because of its shallow discount and moderate income target group, this fund is a significant financing source for low-income housing only when used in conjunction with other deep subsidy sources such as RHCP and tax credits.

2. Affordable Housing Program

Offering a more substantial subsidy is the Affordable Housing Program (AHP), created by federal law in 1989, which subsidizes loans for moderate and low-income housing purchase, construction or rehabilitation. As a deep-discounting program interest rates can be reduced by as much as five percentage points. The average subsidy has been equivalent to about $5,000 per unit; it can take the form of either a principal buydown of the mortgage to lower the project debt or as an interest rate reduction over the first ten years of the project.

Member institutions differ in their subsidy preference. First Nationwide Bank, for example, uses the AHP program almost exclusively for principal reduction. This eliminates the inherent risk of a large interest rate hike in ten years which is likely to occur with the ten year interest subsidy. On the other hand, Citibank Federal Savings and SAMCO (see following section) use the interest rate reduction.

The program operates as a biannual competition

with the project nominated by the local lending institution member. Leasing coops are considered rental projects under AHP and limited equity coops can fit either rental or ownership categories. At a minimum, ownership projects must be 100% low income (80% of median income) and rental housing projects must have at least 20% of the units affordable for very low income households (less than 50% of median income). However, because of the competitive demand for AHP funds, successful projects always exceed the minimum income requirements. In the Spring, 1991 competition, for example, 60% of the total units winning AHP awards were affordable to very low income households.

Initial judging and selection is carried out by the 11th District Bank with final review and approval in Washington. In addition to the very low-income requirements there are several other federally prescribed criteria for weighting competitive projects. These are listed below:

- Projects that provide permanent housing for the homeless;
- Projects that provide a greater than required share of very low income units;
- Projects that purchase or rehab federally-owned property, such as those held by HUD and the Resolution Trust Corporation;
- Projects that "empower the poor through resident management";
- Projects that promote long-term retention, community involvement and community stability.

Through 1993 AHP financing will come from 5% of the Federal Home Loan Bank's net income for the previous year. While the actual amounts vary, the Spring 1991 11th District competition awarded $8.9 million in subsidized loans and direct subsidies for more than 1,300 affordable housing units. In 1994 the percentage of net income available to the program will increase to 6% and then 10% for subsequent years.

The local district has awarded AHP subsidies to the two cooperative projects shown below, both sponsored by the Santa Cruz Community Housing Corporation. Both are also rehabilitation and conversion projects that are structured as leasehold cooperatives. More recently, Cabrillo Economic Development Corporation was awarded AHP subsidy through Citibank Federal for its 21-unit Montgomery Oaks leasing cooperative for low and very low-income families in Ojai in Ventura County.

1. Lagoon Beach a 31-unit project received $483,000 through San Francisco Federal Savings and Loan in October 1990. This AHP subsidy lowered the original 8.086% interest rate to 6.0%. The loan is amortized over 30 years, but, like all AHP interest buydowns, it adjust to 1.5% over the bank's cost of funds in 10 years. The project has 17 units for very low-income residents, with the remainder for low-income.

2. Washington Street Coop is a small 8-unit cooperative conversion project that received an AHP interest subsidized loan at 6.5% again for 30 years, to be adjusted in 10 years. All of the residents are either low or very low income.

B. Lending Consortia

1. The Savings Association Mortgage Company (SAMCO)

SAMCO is an association of more than 50 California savings and loan institutions which was founded in 1971 to assist in the financing of affordable housing. It has become one of the most sought after sources of reasonably priced first mortgage financing. Working with the 11th District Federal Home Loan Bank, SAMCO offers two types of below market rate loans for affordable housing projects: its standard Community Investment Fund (CIF) loan and an Affordable Housing Program loan.

In April, 1991, SAMCO's CIF 30-year term loan was fixed at a rate that was 1 5/8% above the 11th District cost of funds for the first ten years. After that, the loan is adjusted each ten years until maturity, with a lifetime cap of 4%. To qualify for the CIF loan, the project must have at least 50% of the units affordable to low-income residents. It uses a maximum loan to value ratio of 75%. SAMCO almost always requires that its loans be in first position, but they have made seconds in some cases and have provided bridge financing of the phased investor payments in some tax credit projects.

SAMCO's other loan type is essentially a pass-through of the Affordable Housing Program (AHP) funds it receives from the Federal Home Loan Bank during the semi annual competition. During the Spring 1991 funding round, for example, SAMCO received approximately one million dollars which it will use to fund an estimated 350 low and very low income units. The FHLB subsidy allows SAMCO to offer AHP loans at a much deeper subsidy than its standard loan. In April 1991, SAMCO's AHP loans were set at one half

percent point below the 11th District Cost of Funds for the first ten years, or about two percent lower than their standard loan rate. The loans are adjusted every ten years at 1.5% above their cost of funds with a 6% lifetime cap.

Unlike using a member institution for the FHLB's AHP program, SAMCO does not offer a principal buydown option and so the borrower must still plan for a likely large rate increase in ten years. But SAMCO's AHP process has the advantages of a quicker response time and more continuous, though still competitive, availability than the individual member option.Among the low income cooperatives that have taken out SAMCO loans are the Dayton Heights and Fourth Street cooperatives in Los Angeles, Neary Lagoon in Santa Cruz and the proposed William Byron Mumford and Ninth Street Housing Cooperatives in Berkeley.

2. California Community Reinvestment Corporation (CCRC)

The California Community Reinvestment Corporation is a non-profit consortium of commercial banks created in 1989 with the help of the Federal Reserve Bank of San Francisco. Its membership includes many of the state's largest banks such as Bank of America and Wells Fargo Bank along with many medium and small-size institutions. The CCRC has established a $100 million state-wide pool to provide long-term financing for affordable housing developments. In this respect it differs from SAMCO which has no pool of mortgage funds and shops its loans to member institutions after approval. The CCRC differs from SAMCO in several other key respects:

1. Market Rate Financing. Loans are not subsidized and are at or close to market rate. The intent is to create a large volume of loans that can be sold at full value through the secondary market to continually have new monies available for lending. The fund also hopes to attract less established nonprofit developers that do not presently have access to permanent financing at more favorable terms.Current loans are at fixed rates ranging from about 9.0% to 9.5% for 10, 20 or 30 year terms. They carry a 2-point initiation fee and a $1,000 application charge. Lending is limited to no more than 80% of the value of the project, with a 1.10 debt service ratio.

2. Full Member Participation. When the CCRC review committee approves a loan, the consortium draws the funds from each member bank in proportion to its size. This permits ready availability of precommitted funds on a continuing basis.

3. Secondary Market Sales. Perhaps CCRC's most distinctive feature is its intent to sell its loans on the secondary market to investment institutions and pension funds. This frees the loans from the member bank portfolios, creating additional capital for continuing investment in affordable housing developments.

As with all lenders, the consortium favors project sponsors with strong fiscal and management experience. This requirement will be even greater for non-profit sponsored cooperative or mutual housing projects.

C. Conventional Lender Programs

1. The Community Reinvestment Act

Apart from the efforts of the Federal Home Loan Bank and other lending consortia, several banks and thrift institutions have chosen to establish their own funding programs for affordable housing. The impetus comes largely from the 1977 Community Reinvestment Act (CRA) which requires lending institutions to demonstrate that they are identifying and meeting the credit needs of low and moderate-income neighborhoods in their service area. The law was strengthened with reform amendments to the 1989 Financial Institutions Reform, Recovery and Enforcement Act.

At regular intervals the performance of the lending institutions in satisfying their CRA obligations are ranked by examiners from the appropriate regulatory agency: the Office of Thrift Supervision for savings and loans, the Federal Reserve for member banks, the Comptroller of the Currency for national banks, and the Federal Deposit Insurance Company for state-chartered banks. The results of the examination must be made available for public review and poor CRA performance can be used to deny applications by the lending institution for expansion, restructuring or acquisition.

The structure, availability and magnitude of CRA-oriented loan programs will vary by lending institution. Here are current examples of programs by some of the more active lenders.

2. First Nationwide Bank

First Nationwide offers primarily permanent financing for affordable housing under its Community Investment Fund (CIF) program. Their 30-year mortgages are adjustable every 10 years based on an interest spread of 1 to 1.5% above the CIF index, with a lifetime cap of 4%. They require a first position, with all affordability restrictions set by the junior lien. While

they have not yet made loans to cooperatives under the program, they are open to lending to those cooperatives with strong and long-term support from a non-profit organization (10-15 years). First Nationwide also participates in the Federal Home Loan Bank's AHP program.

3. Citibank Federal Savings Bank

Citibank's Community Lending Program makes loans to non-profit developers of affordable multi-family housing. The non-profits must have at least five years experience, and especially strong management expertise. The program offers 30-year loans which adjust every 10 years with no cap, based on 1.5% interest above their community investment fund rate. The maximum loan to value ratio is 75%, with a debt service coverage of 1.10 and an initiation fee of between 1.5 and 2.0 points. Some of these terms may be flexible and subject to negotiation depending on the project.

4. Wells Fargo Bank

Presently the largest and most active CRA lender, Wells Fargo has more than $100 million in loan commitments in low-income projects throughout the state. The bank primarily provides construction loans at three-quarter to one percent point above their prime lending rate and about a one percent origination fee plus other initial charges which can add considerably to this fee. Their loan to value ratio is 75% to 80%, although they have shown flexibility in some cases.

5. Bank of America

In December, 1991, the BankAmerica Corporation announced its decision to invest $70 million in the California and National Equity funds to be used for the development of low-income rental housing in seven Western states. The two funds are administered by the Local Initiatives Support Corporation (LISC) as investment capital in affordable housing projects that utilize the federal and state low-income housing tax credits (see Section VI). LISC estimates that the $70 million investment will assist in the construction of 2,600 units of housing, the bulk of them in California.

In addition, Bank of America does direct lending for low-income housing projects through its wholly owned subsidiary, the Bank of America State Bank which was formed in 1989 to provide funds for community development and restoration. The Bank has made available $50 million annually for short term construction loans on affordable housing projects primarily in California. Loan terms are 6 months to 1.5 years and the loan amounts can range from $250,000 to $10 million, with a maximum loan-to-value ratio of 75%. Interest rates vary on a case-by-case basis and are generally prime rate plus one or two percentage points. Fees also vary by project and typically range between 1% and 2%.

The bank requires that the project have at least 50% of its units affordable for low-income residents, i.e. those earning 80% or less of median income. Their underwriting criteria also stresses the experience of the applicant, based on the scale and track record of past projects. Developers can be non-profit organizations, government agencies or private developers who have the support of the local community. The bank is more circumspect in its evaluation of cooperative housing projects which it regards as having more structural and financial complexity, and hence more risk, than traditional nonprofit affordable housing. Currently, the bank is involved in financing one cooperative project in California, the 1990 conversion of the Gulf Green Mobilhome Park in Sacramento to a limited equity cooperative.

The bank also serves as an FHA-approved lender, processing loans for government-assisted housing programs including the 241(f) loan insurance program. This program acts as an assist to HUD's Prepayment Program and provides for the refinance of low and moderate income, HUD-assisted apartments by non profit organizations, including limited equity cooperatives representing existing residents.

The merger of Security Pacific with Bank of America has made the fate of the former bank's CRA-related programs unclear. Security Pacific originally had created a small $10 million funding pool at very favorable rates for low-income housing. Called the Focused Funding Program, it targets small nonprofit rental projects where the residents of all the units earn less than 60% of median income. The financing must combine construction and permanent loans. The terms are 6% fixed interest with 30-year amortization, due in 15-years.

D. National Cooperative Bank

The National Cooperative Bank (NCB) provides housing cooperatives with permanent loans on blanket mortgages, short term start-up loans through its NCB Development Corporation, and share financing through its NCB Savings Association.

The bank has no income restrictions on its perma-

nent loans, although currently 80% of its loan portfolio is low and moderate income housing projects. Generally, the loans carry variable interest rates that are tied to 3 or 5-year Treasury Bills. The typical loan term is 15 years, amortized over 20 to 30 years. Current fees are three points, two of which go for purchase of membership shares in the bank. These shares can be redeemed at the end of the loan term. Three California lower-income cooperatives were financed during the 1980's by the National Cooperative Bank: the 17th Street Commons in Sacramento, the Santa Rosa Commons in Santa Rosa and the Twin Pines Co-Op in Davis. The bank's west coast lending office operates through the John Stewart Company in San Francisco.

The NCB Development Corporation, a Washington-based affiliate of the bank, provides capital for newly forming cooperatives. Interim or bridge loans are considered on a case by case basis with the terms generally ranging from 6-months to 3 years. The corporation also advances shorter term funds of up to $25,000 for predevelopment activity, and it will consider a limited number of construction loans and some permanent loans that can be refinanced or resold to the National Cooperative Bank. In all cases the applicant must have already acquired site control and have developed detailed financial projections on the project. The corporation also lends to other low-income housing financing intermediaries including the Housing Assistance Council and the Low-Income Housing Fund.

The NCB Savings Association is a federally insured depository institution which is wholly owned by the National Cooperative Bank. It provides share loans to prospective co-op members which are then sold to Fannie Mae. The association is located in Hillsboro, Ohio.

VI. SYNDICATION/LOW-INCOME HOUSING TAX CREDITS

A. Overview of the Federal Tax Credit

The federal low-income housing tax credit, created by the Tax Reform Act of 1986, has become one of the most powerful vehicles for attracting private investment in the acquisition, construction and rehabilitation of affordable housing. The credit is one of the last lucrative tax shelters available. Generally, a qualifying development provides annual credits of up to 9% of the depreciable basis of the low-income units in the property. This means that over their ten- year life, the tax credits can total 90% of the cost of buildings and improvements. And since 1990 most areas of California are eligible for a 30% federal credit bonus for a ten-year total that can equal 112% of a new low-income project's cost, excluding land price. For the investor, a tax credit deal can yield a highly profitable after-tax annual return of between 15% and 30%.

For the non-profit developer, a partnership with outside private investors brings in needed capital that can account for as much as 50% of the total project cost. Moreover, unlike past federal programs, the tax credit regulations insure that the housing beneficiaries are truly low-income households. Eligible projects must set aside a minimum of either 20% of total units for households that earn 50% or less of median income, or 40% of units that earn 60% or less of median income, with rents limited to 30% of the chosen income level. These affordability restrictions must remain in place for at least 30 years. The act has many more restrictions, summarized in Section D, that can make its use complicated, costly and time-consuming. Nevertheless, housing tax credits have become one of the best sources of filling the financing gap for many post 1986 leasing cooperative projects.

B. Overview of the State Low-Income Housing Tax Credit

California is the only state that has enacted its own tax credits to work in tandem with the federal credits. First authorized in 1987, the state credits are intended to provide additional subsidy to projects in the high-cost California housing market. These credits are generally equal to one-third of the federal credits, but are taken over the first four years of a project as opposed to the federal ten year period. They must be used in conjunction with federal credits, but can not be taken in addition to the federal 30% bonus. Virtually all tax credit projects in California now use either the 30% federal bonus or the 30% state credit to realize feasibility.

C. Partnership Structure

Cooperatives cannot profitably take advantage of the tax credits since a co-op generates little or no taxable income. Nor can cooperatives pass on the credits to their members. Use of the tax credits, therefore, requires the cooperative to give up direct ownership of the property by the resident members, at least during the first 10 to 15 years. This condition has led to

a major shift away from limited equity cooperatives to leasing cooperatives in California.

The typical ownership structure in a tax-credit financed project is a limited partnership in which the general partner is the non-profit developer. The other partners are the private investors who typically receive 99% of the tax credits and a similar proportion of any depreciation and losses. Increasingly, investors are corporations which can best utilize the credits as well as tax deductions from depreciation and "paper" losses. The investment in the project can be either a lump sum or a series of staged payments annually over five to seven years.

The partnership owns the project which can then be rented directly to low-income residents or to a leasing cooperative which assesses its members monthly rents based on debt service, operational expenses and reserve account payments. This master lease establishes the responsibilities of the two parties. The partnership makes the major decisions on expenses, management contracts and structural changes. The coop generally retains the operating control and in rare instances even serves as the general partner.

The partnership agreement most often includes the option for the non-profit general partner or cooperative to purchase the project from the private investor partners after the expiration of the tax credit benefits or the tax compliance period in 10 to 15 years. This paves the way for the eventual conversion of the project to an ownership cooperative. With this goal in mind, the partnership structures a variety of means to minimize the cost of the future investor buy-out. The most common is the use of a ground lease.

In this arrangement, a non-profit organization or the cooperative itself retains ownership of the land which it leases to the limited partnership. The partnership then makes monthly ground lease payments only when the project produces net revenue. Since this may not occur for several years, the ground lease debt will accumulate so that the total debt may closely approximate the value of the project at the time the option to purchase is exercised. The nonprofit or cooperative must still assume the outstanding debt in the project and often must also insure that the investors receive compensation at least equal to their capital gains tax if any at sale.

D. Major Low-Income Tax Credit Provisions

1. Status

Originally legislated to expire in 1989, the credits have been renewed on an annual basis. Once allocated, the federal credits can be claimed each year for ten years, regardless of future legislative action. A permanent extension of the credits now pending is expected to be enacted to take effect sometime in 1992. The California enabling legislation is tied to the federal and has been renewed whenever the federal is renewed.

The federal credits are set at $1.25 per capita per year which equals about $375 million in total ten year allocation per year for California. In addition there are federal credits tied to the issuance of state allocated multifamily housing revenue bonds which increase the total to potentially well over $400 million per year. State credits add approximately another $30 million to the total.

2. Eligible Projects

Eligible are new residential construction and the rehabilitation cost of existing property. Building acquisition may also be eligible in a rehabilitation project if the property has not changed ownership in the past ten years. In special cases, acquisition without rehab which has changed hands in less than ten years may also qualify.

3. Credit Basis

The qualified cost basis for the credit is generally equal to the product of: the total development cost including equipment and soft costs, less land costs, multiplied by the ratio of eligible low-income units.

4. Amount of Federal Credit

The federal "nine percent credit" actually varies each month based on a complex formula tied to Treasury securities, although it has been very close to 9% since program inception. To receive this level of credit, projects cannot receive a federal subsidy such as tax-exempt bond financing. Section 8 rent subsidies and most CDBG loans, however, do not disqualify a project. Rehabilitation projects must expend a minimum of $3,000 per unit. Projects that are federally subsidized and eligible building acquisition costs qualify for the "four percent" federal credit. Again, the exact percentage of this credit also varies a bit monthly based on a formula similar to that which determines the 9% credit.

As long as a rehabilitation project is separately financed, it can qualify for the 9% credit even if the project is federally subsidized under HUD 236, 221(d)(3) or similar programs. However, projects that receive funds under HUD's Moderate Rehabilitation loan program are ineligible for any tax credits. Also an

eligible acquisition and rehabilitation project could have a 4% credit on the building purchase and a 9% credit on the rehabilitation. If a building is officially designated as an historic structure it might also receive the 20% historic restoration credit which does not have tenant income restrictions and can be applied to any commercial use not just residential rental. State credits can be combined with any of these variations.

5. The 30% Federal Bonus

A 1990 change in the federal tax credit legislation allows for a 30% increase in a project's eligible basis in counties which are found by HUD to be difficult development areas or are in particular low-income census tracts. Thus the 9% credit becomes an 11.7% credit per year, and the 4% acquisition credit becomes 5.2% per year. However, there still is a question as to whether the 4% credit for federally subsidized projects can receive the bonus.

6. The California Credits

These credits are structured to be available over a four year period. They are set to match the annual amount of the basic federal credit for the first three years with whatever remains taken in the fourth year. The 30% credit is tied to the 9% federal credit and the 13% credit is tied to the 4% federal credit. The state credit cannot be used with the federal bonus. Therefore in difficult development area counties, or designated low-income census tracts, a developer can choose to take the state credit in lieu of the federal bonus. A complex formula is used which adjusts both the state credit and the basic federal credit in a way intended to make the federal/state combination worth more than the federal bonus and therefore preferable.

7. Affordability Requirements

Twenty percent of the units must be set aside for households who earn 50% or less of median area income, adjusted for household size. Alternatively, 40% of the units must be set aside for households who earn 60% or less of median area income, adjusted for household size.

In either case, the rents are limited to 30% of the chosen income limit, less utilities. Rents assume 1.5 persons per bedroom. Household income cannot rise more than 140% of the qualifying income level. Project owners are specifically bound to the affordability limits for fifteen years, but also agree to a "long term commitment" to low-income housing which effectively extends the period to 30 years.

However, in California the competitive award system set up by the Tax Credit Allocation Committee in the state Treasurer's office makes these restrictions much more severe. In order to get the maximum points needed to receive credits a higher percentage of the units must generally be set at a lower income level for a much longer time period — at least 55 years. Also, three or more bedroom units are given a priority over all other unit types.

E. Placement

Sale of the tax credits through syndication of the low-income project to private investors requires compliance with complicated legal and securities regulations. One form of syndication is the public offering to individual investors which is regulated by the Securities and Exchange Commission (SEC), a federal agency. This public placement offers the potential for reaching the broadest market of individual investors. But it is also the most costly and time-consuming syndication method and is therefore only feasible for very large projects or a major pool of projects. It also does not generally offer the highest equity amount to the low-income project, though the payments are usually made upfront. Some very large national funds have been marketed this way by such investment houses as Boston Financial and brokerage firms such as Merrill Lynch and Dean Witter.

Less costly and complicated syndication can be facilitated by private placements with corporate investors, eliminating the need for SEC regulations designed to protect individual investors. Corporations, particularly widely-held C-corporations, can benefit the most from tax credits since they are not subject to the passive loss limitations for individuals, have higher tax rates and often much greater need to shelter income.

The largest and most available source of syndication funds in California comes directly from major corporations which have set up investment programs specifically to take advantage of tax credit opportunities. In California the three most active corporations — Southern California Edison, Chevron, and the Federal National Mortgage Association or Fannie Mae — have committed over $100 million each in equity. Of the three only Southern California Edison pays up front while Fannie Mae pays over three or four years and Chevron over 6 years. And only Chevron will buy state credits. They all have paid more than 50 cents on the credit dollar, significantly more than public funds.

Projects can also be privately placed with pools of corporate investors, such as those created by the nonprofit Enterprise Foundation and the Local Initiatives Support Corporation (LISC). Among the largest is the National Equity Fund and its state affiliate, the California Equity Fund, both established in 1987 by LISC as corporate conduits for tax credit participation in low-income housing. One of the funds' largest contributors is the Federal Home Loan Mortgage Corporation (Freddie Mac) which has pledged to match one dollar for each two raised elsewhere. Through 1990, the National Equity Fund raised $120 million while the California affiliate had raised $27 million from more than 20 corporations state-wide.

Another estimated $30 million was raised in 1991. The decision by the BankAmerica Corporation to invest $70 million in the California and National Equity funds represents a major boost in the ability of these funds to assist state and regional low-income housing in 1992. These funds generally pay about 50 cents on the credit dollar and can usually arrange for an upfront payment. The California Equity Fund is structured to buy state credits, but unfortunately gets oversubscribed quickly and has a very restrictive geographic area.

Neary Lagoon in Santa Cruz is a good example of a recent leasing cooperative being developed with $2.8 million of tax credit equity from a Southern California Edison. Another is William Byron Rumford, a 43-unit proposed leasing co-op being developed by the 501(c)(3) South Berkeley Community Housing Development Corporation (SBHDC) as a general partner in a tax-credit limited partnership. The project will receive $950,000 in investor equity over the next two years from Advest AI, a small public investment fund. The city of Berkeley owns the land which it leases to the SBHDC. Other funding sources include a SAMCO AHP loan through Wells Fargo and city loans from its CDBG and General Funds.

Private placement can also be done with numerous individuals through brokerage firms. This is generally done for smaller or more difficult projects, or ones assisted by the Farmers Home Administration (FmHA). Payment is generally staged over 5 to 7 years which can be a significant disadvantage for project financing. Another is the amount that can be raised. Of all the placement methods, this one provides the least equity since the private investors can only use the tax credits and not the tax loss deductions.

VII. OTHER FUNDING SOURCES

A. Secondary Market

Since 1981 the Federal Home Loan Mortgage Corporation (Freddie Mac) and since 1984 the Federal National Mortgage Association (Fannie Mae) have been authorized to purchase cooperative housing blanket loans from approved lenders. In California, Fannie Mae has approved six lenders to initiate cooperative loans for their purchase. These lenders must meet certain administrative requirements and also adhere, at a minimum, to Fannie Mae's underwriting guidelines for cooperative projects. Briefly, these require that:

- The structure be sound;
- No more than 20% of the project be for commercial use;
- The operating budget accounts for the corporation debt and real estate obligations;
- Prudent levels of reserves be in place for operation and replacement.

Purchase of cooperative blanket mortgages is potentially useful because it frees the lender of the risk of retaining the mortgage in its portfolio. This usually results in more favorable terms, although these must be balanced against the secondary purchasing agent's charges for loan review and approval. Aside from blanket mortgage purchases, both Freddie Mac and Fannie Mae purchase share loans.

These are limited to market rate cooperatives except in the case of Fannie Mae which will purchase share loans initiated by the National Cooperative Bank. Another Fannie Mae function is credit enhancement of 501(c)(3) and other revenue bonds. Finally, perhaps one of the most significant contributions to low-income housing by these profitable secondary market institutions has been their investment in tax credit project syndications.

B. Low Income Housing Fund

The Low Income Housing Fund is a national nonprofit organization which maintains its primary California office in San Francisco and another regional office in Los Angeles. It works closely with charitable institutional investors as well as participating lending institutions to provide financing assistance to nonprofit affordable housing developers. Its work is 75% self-supported through fees, the remainder coming from charitable contributions. The Fund has four basic programs.

1. Financial Intermediary.

In this capacity, the Fund will act on the behalf of the nonprofit developer, preparing the project's loan submittal documents and shopping for suitable financing from conventional lenders. The Fund's service charge varies, but as a policy it keeps its fee and that charged by the lender under 2.5 points.

2. Revolving Loan Fund.

Nationally, the Fund manages its own $9 million fund which was initially capitalized from foundations and financial institutions. This fund is largely loaned out, but ongoing repayment of the loans is used to finance supplemental interim and gap financing for predevelopment and construction. Loans from this fund range between $10,000 and $200,000.

3. Mortgage Banking Pools.

Two years ago, the Low Income Housing Fund helped created a northern California pool of funds which now has 19 lending institutions as members. Another banking pool has been established in southern California with 8 participating lenders. The Fund acts as an agent for the pool, presenting loan requests to a Loan Committee made up of 5 members from the participating lending institutions. If the committee approves the loan, the funds are shared among the lenders based on their participation agreements.

The Fund then serves as the overall administrator of the loans with the Bank of the West as the lead lender. The program offers short term (6 month to 5 year) predevelopment, acquisition and construction loans. The amount of the loans range between $250,000 and $1.5 million, with a higher ceiling currently under consideration. Rates are based on comparable Certificate of Deposit (CD) rates averaged for the charter member banks and are generally lower than for conventional loans. Fees vary with the project starting with a minimum 1%. The Low Income Housing Fund has helped finance several housing cooperatives throughout the country. In California, they have provided financial assistance to the Tennessee Street Cooperative, still in formation in San Francisco.

C. The Local Initiatives Support Corporation (LISC)

The Local Initiatives Support Corporation is the largest non-profit community development support organization in the country. Besides its National and California Equity funds, discussed earlier, LISC offers recoverable grants of under $50,000 and low interest loans at 6-8% interest for amounts under $250,000 to eligible non-profit housing sponsors. The fund covers project predevelopment costs, acquisition and short-term construction.

LISC has also joined with the Enterprise Foundation in the management of the National Community Development Initiative (NCDI) a funding consortium created in early 1991 to provide funding to community development corporations for locally sponsored affordable housing projects. The fund was initially capitalized with $62.5 million from a group of charitable foundations and the Prudential Life Insurance Company of America. It will provide loans, grants and technical assistance to community-based development partnerships in LISC participating communities. In California, this includes Los Angeles and the San Francisco Bay Area.

Another LISC project is the Local Initiatives Managed Assets Corporation (LIMAC). This is LISC's secondary market arm which works very closely with Freddie Mac to purchase mortgages for multi-family projects that will be developed under the new NCDI program guidelines. Freddie Mac has committed $100 million to the LIMAC fund for this purpose. LIMAC will also act as a secondary market conduit for tax-credit project bridge loans originated by non-profit financing agencies.

PART 4.
ALTERNATIVES TO TRADITIONAL HOUSING COOPERATIVES

I. MUTUAL HOUSING ASSOCIATIONS

A. Structure

Like limited equity cooperatives, the Mutual Housing Association (MHA) is a means of creating permanently affordable housing with resident management and control. Long established in Europe, where their scope extends far beyond housing, MHAs in the United States have been formed primarily in the east coast. California currently has two active MHAs: the Cooperative Services Inc (CSI), a Michigan-based organization which operates several senior housing projects in the state, and the Sacramento Mutual Housing Association. The MHA can follow several organizational models. In one alternative, the MHA is set up as an umbrella development and technical assistance organization providing services to member cooperatives.

This is the model for the MHA of New York which acts as a federation of cooperatives. A similar structure is being currently developed for cooperatives in northern and southern regions of California.

More commonly, the MHA develops, owns, and manages affordable, resident-controlled rental housing. This is the model followed by the Sacramento MHA and Cooperative Services Inc. As with a leasing coop, MHA residents do not own their own unit, although they do have the right of lifetime occupancy and the ability to pass along their unit to household members. Residents join the MHA through a membership fee, which is treated as a security deposit rather than a share of equity in the corporation.

The MHA is committed organizationally and financially to resident participation and empowerment in the form of ongoing technical assistance and training for its members. Resident participation and control is built through the local Resident Council, and majority resident representation on the MHA Board of Directors. In addition, the MHA actively continues to develop new affordable housing units, drawing upon the resources of its existing assets as well as its professional staff and Board of Directors. Here it differs from cooperatives which usually are built and then later operated in isolation from other projects. The MHA parent organization seeks to create a family of independent but interdependent housing communities that can assist each other and continue to grow. The Sacramento MHA, for example, has completed the rehabilitation of its first project, and is now at work on acquiring and constructing three more projects which will add nearly 150 more units to the association (see Table 16).

TABLE 16.
SACRAMENTO MUTUAL HOUSING ASSOCIATION STRUCTURE AND PENDING PROJECTS

Glen Ellen	Project Description (1989)
Developer:	Sacramento Mutual Housing Association
Description:	36-unit low-income multifamily rental apartment complex, purchased as a HUD foreclosure and completely rehabilitated.
Affordability:	100% of units priced for 80% of median income.
Rents and Fees:	$1,000 initial fee. Monthly charge for two-bedroom apartment is $350.
Management:	SMHA Board consists of 8 residents and 7 nonresidents. The Glen Ellen Resident Council is 100% resident controlled.
Pending Projects	**Description**
Norwood Estates	New 44-unit low-income apartment to be developed as joint venture with private developer using tax-credit financing.
Village Park	50-unit new multi-family rental being developed in partnership with the Rural California Housing Corporation.
Evergreen Estates	57-unit apartment rehab project.

B. Financing

As a 501(c)3 organization, an MHA can access many of the financial mechanisms which are unavailable to co-ops such as property tax exemption and 501(c)(3) tax-exempt bonds. A dramatic example of the latter was the $10 million 501(c)(3) bond issued by the Anchorage Housing Authority on behalf of the local MHA for a single housing development.

Mutual Housing Associations can also form limited partnerships to access tax credit syndication equity, although this arrangement can create a temporary compromise in the MHA's desired self-management ideal. This situation is being addressed by the Sacramento MHA which will develop its Village Park project as a limited partnership through the non-profit Rural California Housing Corporation. Legal counsel has advised the MHA that direct election of residents to the Board of Directors of the new partnership or even bylaw provisions mandating a certain percentage of residents on the Board may be unacceptable to the tax credit investor partners. As a result the MHA will adopt an intermediate governing form in which residents can be appointed to the Board.

On the East Coast, some MHA's have been successful in obtaining financing from sources not previously available to cooperatives. In fact the earliest MHA's secured enough up-front capital to reduce the overall project debt service, create affordable rent levels and set aside a portion of rental income toward production of new units. For example, the MHA in

TABLE 17.
FINANCING STRUCTURE, GLEN ELLEN ESTATES, SACRAMENTO MUTUAL HOUSING ASSOCIATION

Funding	Funding Source	Terms	Amount
1st Mortgage 5 buildings	Savings Assn Mortgage Co.	9.17% fixed (1st 10 yrs)	$340,000
1st Mortgage 4 buildings	Neighborhood Housing Services Assn	8.5% fixed 25 years	$323,000
2nd Mortgage	State HCD Rehab Loan Program	3.0% deferred 30 years	$170,000
3rd Mortgage	HUD Rental Rehab Program	No interest 15 years	$319,000
Land Grant	Redevelopment Agency		$0
		Total:	**$1,152,000**

Hartford, Connecticut, for example, raised 100% of the total cost of its $4.2 million project through grants from private insurance companies and the State. Connecticut MHA's also benefit from state bond loan financing issued under specific pro-MHA legislation. Another MHA located in New York City's Lower East Side received $4.2 million in grants, or a full 87% of the rehabilitation and development costs of its first project through the New York State Housing Trust Fund.

C. Neighborhood Reinvestment Corporation

Many of the newest MHA's in this country were developed under the umbrella of the Neighborhood Reinvestment Corporation (NRC). Congress chartered this public non-profit corporation in 1978 as a means of revitalizing low-income neighborhoods. It offers predevelopment grant funding for the start-up of MHA's formed under NRC's "Neighborworks Network". For existing MHA's in their network, the predevelopment grants must be taken out with loans. There is also a limited pool of capital grants ($700,000) on a national level. Additional financing is available through the Neighborhood Housing Services of America (NHSA), which was established jointly under the Neighborhood Reinvestment Act in part to attract financing to NRC-supported MHA's.

The NHSA currently offers 3 types of financing to MHA's:

1) First mortgage loans with fixed interest rates and 25-year terms. The actual rate depends upon on cost of funds. The loan amount is up to 90% of value with a debt service ratio of 1.1-1.5 and no initiation points. This loan pool is very small: only $3.5 million, initially capitalized from the Neighborhood Reinvestment Act. NHSA is seeking to expand its pool by attracting pension funds and social investment funds that will be collateralized by mortgages.
2) Second mortgage/equity loans amortized over 10-15 years at an rate of 8%. This fund is even smaller and has no permanent investors.
3) Construction/Predevelopment loans, offered through a line of credit with National Cooperative Bank Development Corporation.

Given limits on its own funding, NHSA's long-term goal is to assist MHA's in accessing other sources of financing, in particular utilizing 501(c)3 tax-exempt bonds. Because the issuance of 501(c)(3) bonds require sufficient scale, this could be done either by assembling enough projects through MHA's and refinancing them with the bond issue, or putting together a single large-scale deal.

D. Cooperative Services Incorporated (CSI)

Originally begun as a consumer cooperative in 1945, CSI began developing low-income elderly housing in the 1960's and is now the largest senior housing consumer cooperative in the country. It has 22 senior housing projects in four state, most structured as 501(c)(3) consumer cooperatives. The organization functions as a mutual housing association with the Michigan-based parent owning all the projects and providing accounting services, continuing education and training programs and other management services.

Each housing project in turn is self-managed with its own set of bylaws and its own budget. Voting members can be residents or non-residents, although residents make up the majority of Board members. CSI's most recent California project is Colton Palms in the City of Colton near San Diego. A 100-unit mixed income senior citizen complex with 10% of the units reserved for handicapped residents. Much of its financing has come from the Colton Redevelopment Agency through grants, loans and a $6.8 million Multi-Family Residential Rental Project (MRRP) bond.

E. Project Share: Soldier Housing and Retirement Equity

This new program created under the 1990 Affordable Housing Act is another example of federal interest in the Mutual Housing Association model. Still in its developmental stage, SHARE will be a national non-profit mutual housing association which will lease land from the U.S. Army and either develop new housing or assume ownership of existing base housing, much of which is in urgent need of rehabilitation. SHARE will "facilitate" housing for posted families through cooperative ownership in which the soldiers' households will benefit from homeowner tax deductions and accumulate limited equity. The Army has already tested the idea successfully at five base locations.

II. COMMUNITY LAND TRUSTS

A. Ownership Structure

Community Land Trusts provide another alternative housing development and ownership structure

which empowers residents and provides for permanent affordability. Like the MHA, a Community Land Trust is a 501(c)3 umbrella organization which owns the land, provides technical and management assistance, and undertakes new construction, rehab or conversion of housing for low and moderate income members. Also like the MHA, it can access a broader range of financing sources than individual cooperatives. However, unlike most MHA's, which basically operate as resident-controlled rental projects, the Community Land Trust model is based on resident ownership of the housing itself. This mixed ownership form can foster the development of cooperatives as members of the land trust.

The Community Land Trust model was developed as a way to transfer land from the speculative real estate market to a community-controlled trust, which holds the land in perpetuity. The Community Land Trust leases the land to individual families or cooperatives, who own the buildings and all improvements on the land. In this way, individual or cooperative homeowners hold the title and mortgage of their housing, with ownership rights of transfer and sale — subject to ground lease provisions and equity build-up determined by each Community Land Trust. Member-owners of Community Land Trusts can either be single-family homeowners or cooperatives. Community Land Trust cooperatives are structured a variety of ways, including limited equity cooperatives.

B. Organizational Model

The general Community Land Trust organizational model has been developed and promoted principally by the Institute of Community Economics, located in Springfield, Massachusetts. The Board consists of one-third residents, one-third general community membership and one-third public or institutional representatives. Like Mutual Housing Associations, membership extends beyond the residents to include nonresidents with real estate or development expertise. The Institute of Community Economics provides technical assistance to potential, new and existing Community Land Trusts in organizational development, financing, management and training. The institute estimates there are more than 100 land trusts in 23 different states, with over 1600 units, a quarter of which are owned by cooperatives.

Most of the land trusts are new, with the majority still working on their first project. The model has spread more rapidly on the East Coast, due to the Institute of Community Economics' location. However, the 1990 opening of a West Coast office has spurred formation of new Community Land Trusts in California including COACH in San Diego (see section on mobile home parks). Another older Community Land Trust organization, unrelated to the Institute of Community Economics, is the Northern California Land Trust which holds a few parcels in trust and has recently initiated an acquisition program.

C. Financing

Financing sources for Community Land Trusts are generally the same as other non-profit developed housing, with some exceptions. They have better access to grants because of permanent affordability ensured by resale restrictions in the ground lease. Community Land Trusts have also been skeptical about using low-income housing tax credits with limited partnership, since Community Land Trust resale restrictions could be considered "prior restraint" to investors. With more liberal interpretation by the Internal Revenue Service, some land trusts have begun to consider low income tax credit syndication as a means of helping to fund new projects.

Unlike limited equity cooperatives, California community land trusts with cooperative or single-family ownership of units cannot qualify for the California Housing Finance Agency's (CHFA) multifamily rental program or for tax-exempt Multi Residential Rental Program, although Community Land Trusts with rental property would be eligible. Nationally, most Community Land Trusts are not getting property tax exemptions, except in areas such as New York City where resale value is so much greater than cost that it places an undue tax burden on residents. Generally, the land trust pays taxes with the portion on improvements passed on to the residents.

A local Community Land Trust may operate their own revolving loan fund, similar to regional community loan funds. The capital generally comes from socially-responsible investors with short term investment requirements. As a result, the loans are often used to bridge other financing sources over 0 to 5 year period. Loans are structured based on needs of each project, with 3-9% interest rates, usually amortized on a 20-30 year schedule with balloon payments due at term.

III. COHOUSING

A. Organizational Model

Cohousing is a form of resident-developed housing that emphasizes shared facilities and cooperative living. The general concept has deep roots primarily in Europe where it has taken the form of intentional communities. The best contemporary models are found in Denmark where nearly 70 cohousing communities have been built with many others in planning stages. In this country, the cohousing model has been introduced and promoted by architects Kathyrn McCamant and Charles Durrett through their Berkeley-based Cohousing Company.

The first cohousing community to be completed in the United States is Muir Commons, a 3-acre project in Davis which began occupancy in the summer of 1991. Several California projects are in various stages of development including the 26-unit River City Cohousing in Sacramento, the 12-unit Doyle Street Cohousing Community adjacent to Oakland in Emeryville and the 27-unit Benecia Waterfront Commons on the Carquinez Straits east of San Francisco.

What makes cohousing unique is the level of its democratic resident involvement from the inception and design of the project through site acquisition, project development, construction and ongoing operation. Residents essentially act as developers: hiring the architect and builder; obtaining financing; and sometimes assisting with construction and landscaping. This aspect resembles the self-help or sweat equity housing projects more common in rural areas and some inner-city neighborhoods.

The cooperative participation is continued after occupancy with a resident-elected Board and democratic allocation of group chores and responsibilities. Although each dwelling unit is self-contained, the entire project is designed for social interaction. Generally, parking is kept at the periphery to facilitate the creation of common space and facilities, including a group kitchen and dining hall where residents share communal cooking and eating. Other shared facilities can include gardens, childcare centers, music rooms, teen centers or overnight guest accommodations.

B. Ownership Structure

Prior to 1982 most Danish cohousing developments were structured with individual ownership of the units, similar to condominiums. Since then nearly all projects in that country have organized as limited equity cooperatives to take advantage of favorable government loan programs. By comparison, all of the California cohousing projects to date have chosen to develop as condominiums although some originally gave consideration to the cooperative form of ownership. There have been three basic reasons for this decision.

Firstly, the cohousing groups have tended to attract moderate and above moderate income households who could have purchased a more conventional home, but were attracted to the project by its community-orientation and participatory aspects. This income mix makes it difficult to qualify for the government subsidies of low-income projects that are a necessary precondition for organization as a limited equity housing cooperative.

Secondly, even if the group could qualify as a limited equity cooperative many prospective cohousing residents felt restrictions on equity growth could be burdensome in the future given historical California real estate trends. In particular, young, mobile households who anticipated the need of larger quarters for a growing family or the potential relocation to another area for employment, wanted the assurance of an equity buildup that kept up with the surrounding market and that could be applied to a conventional home purchase elsewhere. Finally, the option of market rate stock cooperative ownership was seen as having no particular advantage over condominium ownership and carried the potential disadvantage of unfamiliarity to the lending institutions.

Nevertheless, cohousing projects organized as condominiums can incorporate a mix of units that include lower income residents. River City Cohousing in Sacramento has structured the income levels of its residents to comply with an agreement with the local Housing and Redevelopment Agency. For its part, the Agency has offered to write down the cost of a 1.3 acre site and to provide attractive loan terms. In return River City Cohousing agreed to internally subsidize 25% of its units to make them affordable for low-income owners. The reduced cost of the site would also allow the group to keep the condominium prices low: current estimates range from $60,000 for a single bedroom to $134,000 for a four-bedroom unit. Resale restrictions imposed by the redevelopment agency would keep these units affordable for the length of the agreement. As of January, 1992, the terms and conditions of the agreement were still in negotiation.

The cohousing model has even broader possibilities when used in combination with other ownership forms. For example, the Northern California Land Trust is currently considering developing a group of seven cooperative housing projects built around the cohousing concept.

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APPENDIX A
HUD—ASSISTED CALIFORNIA COOPERATIVES 1963-1986

HUD PROGRAM/COOPERATIVE	LOCATION	YEAR	OTHER FUNDING	UNITS	SEC 8	%
SECTION 221(D)(3) BELOW MARKET PROGRAM						
ST FRANCIS SQUARE	SAN FANCISCO	1963		299	0	0.0%
CAPITOL TOWNHOUSE	SAN JOSE	1963	HUD Flex Loan	82	0	0.0%
COLDWATER NORTH	N HOLLYWOOD	1963		132	66	50.0%
TWIN PINES	SANTA CLARA	1964		90	0	0.0%
OAK KNOLLS	MARIN CITY	1965	HUD Flex Loan	48	0	0.0%
SOUTHGATE TOWN & TERR	SACRAMENTO	1965		104	0	0.0%
FLORIN GARDENS COOP	SACRAMENTO	1969		72	55	76.4%
JOHN MUIR I	MARTINEZ	1969		53	0	0.0%
HEATHERDALE HOMES	N HOLLYWOOD	1971		60	60	100.0%
SUBTOTAL:		**9 COOPERATIVES**		**930**	**181**	**19.5%**
SECTION 221(D)(3) MARKET RATE PROGRAM						
MAYFAIR GOLDEN MANOR	SAN JOSE	1971		210	210	100.0%
EASTERN GARDENS	SACRAMENTO	1972		112	40	35.7%
CLIFFORD MANOR	WATSONVILLE	1972	HUD Flex Loan100	100	100.0%	
REDDING GARDENS	REDDING	1974		120	48	40.0%
PONDEROSA ESTATES	MARIN CITY	1980		56	56	100.0%
SUBTOTAL:		**5 COOPERATIVES**		**598**	**454**	**75.9%**
SECTION 236 PROGRAM						
FLORIN GARDENS EAST #1	SACRAMENTO	1969		112	83	74.1%
FINLEY SQUARE	LOS ANGELES	1970		18	18	100.0%
CAPITOL MANOR	SAN JOSE	1971		85	33	38.8%
SUN TERRACE*	SUN VALLEY	1971	Defaulted (1974)	104	20	19.2%
VOORHIS VILLAGE	LOS ANGELES	1971	HUD Flex Loan	64	9	14.1%
LOREN MILLER	SAN FRANCISCO	1972	HUD Flex Loan	107	6	5.6%
FLORIN GARDENS EAST #2	SACRAMENTO	1972		52	52	100.0%
UNITY HOMES	SAN FRANCISCO	1973		94	50	53.2%
FREEDOM WEST I	SAN FRANCISCO	1974		192	63	32.8%
AMAR PLAZA	LA PUENTE	1974		86		0.0%
FREEDOM WEST II	SAN FRANCISCO	1975		190	63	33.2%
AMMEL PARK	SAN FRANCISCO	1975	HUD Flex Loan	120	55	45.85
JOHN MUIR II	MARTINEZ	1976		54	0	0.0%
SUBTOTAL:		**13 COOPERATIVES**		**1,288**	**452**	**35.1%**
SECTION 8 NEW CONSTRUCTION PROGRAM						
SAVO ISLAND	BERKELEY	1978	Redevelopment	57	55	96.5%
ML KING/M GARVEY	SAN FRANCISCO	1980	221(3)MR/Flex	211	211	100.0%
HERON COURT	REDWOOD CITY	1983	221(3)Market	104	104	100.0%
NORTHRIDGE	SAN FRANCISCO	1984	221(3) Market	300	118	39.3%
UNIVERSITY AVENUE	BERKELEY	1981	CHFA/Redev.	47	47	100.0%
PILGRIM TERRACE	SANTA BARBARA	1982	SEC 202	83	83	100.0%
OAK CENTER HOMES	OAKLAND	1983	CHFA/CALTRANS	89	89	100.0%
LAS CASAS DE MADERA	SALINAS	1984	Revenue Bond	75	75	100.0%
VISTA DE LA TERRAZA	SALINAS	1984	HCP/LISC/CDBG	40	40	100.0%
SUBTOTAL:		**9 COOPERATIVES**		**1006**	**822**	**81.7%**
SECTION 8 MODERATE REHAB PROGRAM						
LAS CASITAS DE VOLUNTA	SANTA BARBARA	1981	SEC 312 Loan	13	13	100.0%
LE RHONDE	LOS ANGELES	1982	SAMCO	33	19	57.6%
DAYTON HEIGHTS	LOS ANGELES	1985	SAMCO	31	22	71.0%
FOUR STREETS	LOS ANGELES	1985	SAMCO/CALTRAN	97	76	78.4%
SLIVERLAKE	LOS ANGELES	1985		42	18	42.9%
ALEXANDRIA	LOS ANGELES	1986		38	28	73.7%
MARATHON	LOS ANGELES	1986		66	52	78.8%
SUBTOTAL:	**7 COOPERATIVES**			**320**	**228**	**71.3%**
TOTALS:	**43 COOPERATIVES**			**4,142**	**2,137**	**51.6%**

*No longer a housing cooperative

APPENDIX B
NON HUD—ASSISTED LIMITED EQUITY HOUSING COOPERATIVES
CALIFORNIA 1979-1991

COOPERATIVE	LOCATION	YEAR	OTHER FUNDING	UNITS
FARMERS HOME ADMINISTRATION SECTION 515				
SAN JERARDO	SALINAS	1979	RENT SUBS	60
LA BUENA ESPERANZA	KING CITY	1980	RENT SUBS	40
CABRILLO VILLAGE II	CABRILLO	1980	RENT SUBS	79
STATE LOAN PROGRAMS				
CABRILLO VILLAGE I	CABRILLO	1980	HCD	80
WASHINGTON STREET	SANTA CRUZ	1988	CHIRP	8
SPARKS WAY	HAYWARD	1983	RHCP	45
TURNING POINT COMMONS	CHICO	1984	CHFA/RHCP/REDE	40
RIVER COMMUNITY	ARCATA	1984	CHFA	40
LAGOON BEACH	SANTA CRUZ	1991	CHIRP/REDEV	31
LOCAL REDEVELOPMENT AGENCY				
CORONEL PLACE*	SANTA BARBARA	1983	501(C)(3) BOND	20
NATIONAL COOP BANK				
17TH STREET COMMONS	SACRAMENTO	1984		25
TWIN PINES	DAVIS	1986		60
SANTA ROSA COMMONS	SANTA ROSA	1981	RHCP	27
TAX CREDITS				
NEARY LAGOON	SANTA CRUZ	1991	RHCP/AHP	95
OCEAN PARK	SANTA MONICA	1991	CDBG/HODAG	43
PRIVATE FINANCED				
EL VERANO	EL VERANO	1984		16
WALNUT HOUSE	BERKELEY	1982		22
TOTAL COOPERATIVES:	**17**	**TOTAL UNITS:**		**757**

MOBILE HOME PARKS	LOCATION	YEAR	SPACE
SANTA ELENA	SOLEDAD	1981	100
CASA MOBILE	BELL GARDENS	1984	56
CHEROKEE	ANAHEIM	1987	173
SEMINOLE SPRINGS	AGOURA	1987	215
VILLA SANTA CRUZ	SANTA CRUZ	1987	121
CREEK SIDE ESTATES	FAIRFIELD	1988	414
EL RIO	SANTA CRUZ	1988	93
OAK CREST	FALLBROOK	1988	105
GULF GREEN	SACRAMENTO	1990	185
SAFARI	UKIAH	1990	69
PACIFIC FAMILY	SANTA CRUZ	1991	30
TOTAL MOBILEHOME PARK	**11**	**TOTAL SPACES:**	**1,561**

*No longer a housing cooperative

APPENDIX C
HOW HUD FIGURES INCOME LEVELS

HUD annually provides schedules of income limits by dollar amount and family size for each Metropolitan Statistical Area and nonmetropolitan county. The income levels are based on an estimate of the median income for a family of four. In 1991 this figure was $442,700 for the state of California as a whole. Using this base, HUD then make adjustments for varying family sizes and income levels. The table below provides an example of how the income levels would be distributed for the state. In addition, HUD makes further adjustments in the following situations:

1. 50% of the state non-metropolitan family income level is used in place of 50% of the area median family income if the state value is higher. Other values are adjusted accordingly.
2. The 80% median value for a family of four cannot exceed the U.S. median family income set at $38,000 in 1991. Six California areas were subject to the cap in 1991: Oxnard-Ventura, Anaheim-Santa Ana, San Francisco, San Jose, Santa Barbara-Santa Maria and Santa Cruz.
3. In areas which have high rents relative to median income, HUD replaces the 50% median income level with an income of which 35% would pay for a two-bedroom unit at 85% of the area's existing fair market rent as determined by the agency. All other income categories are adjusted accordingly, unless subject to the $38,000 cap. In California, the HUD income levels of 31 of the 49 listed areas have been adjusted upward in this manner because of unusually high rents. They include some very populous MSA's such as Los Angeles, San Francisco and Bakersfield, but also a large number of rural counties.
4. Finally, HUD makes adjustments where housing costs are unusually low relative to income. However, none of the areas in California meet this condition.

HUD FAMILY MEDIAN INCOME
STATE OF CALIFORNIA, FISCAL YEAR 1991

# in Family:	ONE	TWO	THREE	FOUR	FIVE	SIX	SEVEN	EIGHT
ADJUSTMENT:	7.0%	80.0%	90.0%	100.0%	108.0%	116.0%	124.0%	132.0%
INCOME LEVEL AS PERCENT OF MEDIAN*								
35.0%	$10,462	$11,956	$13,451	$14,945	$16,141	$17,336	$18,532	$19,727
40.0%	$11,956	$13,664	$15,372	$17,080	$18,446	$19,813	$21,179	$22,546
50.0%	$14,945	$17,080	$19,215	$21,350	$23,058	$24,766	$26,474	$28,182
60.0%	$17,934	$20,496	$23,058	$25,620	$27,670	$29.719	$31,769	$33,818
80.0%	$23,912	$27,328	$30,744	$34,160	$36,893	$39,626	$42,358	$45,091
100.0%	$29,890	$34,160	$38,430	$42,700	$46,116	$49,532	$52,948	$56,364
120.0%	$35,868	$40,992	$46,116	$51,240	$55,339	$59,438	$63,538	$67,637

*HUD DETERMINED MEDIAN INCOME FOR A FAMILY OF FOUR SOURCE: HUD, APRIL, 1991.

APPENDIX D
FISCAL YEAR 1992 ALLOCATION OF HUD HOME INVESTMENT PARTNERSHIP FUNDS TO CALIFORNIA CITIES

CITIES	ALLOCATION	CITIES	ALLOCATION
Alhambra	$601,00	Oceanside	$616,000
Anaheim	$1,437,000	Ontario	$561,000
Bakersfield	$810,000	Oxnard	$819,000
Berkeley	$1,416,000	Pasadena	$1,198,000
Burbank	$669,000	Pomona	$779,000
Chula Vista	$748,000	Richmond	$734,000
Compton	$1,012,000	Riverside	$1,176,00
Costa Mesa	$647,000	Sacramento	$2,222,000
El Cajon	$649,000	Salinas	$663,000
El Monte	$995,000	San Bernadino	$1,095,000
Fresno	$2,157,000	San Diego	$7,157,000
Fullerton	$611,000	San Francisco	$8,206,000
Garden Grove	$691,000	San Jose	$3,569,000
Glendale	$1,408.000	Santa Ana	$1,620,000
Hawthorne	$534,000	Santa Barbara	$764,000
Huntington Beach	$881,000	Santa Clara	$536,000
Huntington Park	$838,000	Santa Monica	$1,091,000
Inglewood	$1,186,000	Santa Rosa	$632,000
Long Beach	$3,929,000	South Gate	$769,000
Los Angeles	$35,621,000	Stockton	$1,331,000
Lynwood	$569,000	Sunnyvale	$586,000
Modesto	$712,000	Torrance	$652,000
National City	$576,000	Vallejo	$550,000
Oakland	$4,282,000		

APPENDIX E
FISCAL YEAR 1992 ALLOCATION OF HUD HOME INVESTMENT PARTNERSHIP FUNDS TO CALIFORNIA COUNTIES AND STATE GOVERNMENT

Counties	Allocation	Counties	Allocation
Alameda	$3,105,000	Sacramento	$2,663,000
Contra Costa	$1,599,000	San Bernardino	$2,506,000
Fresno	$1,549,000	San Diego	$1,910,000
Kern	$1,786,000	San Joaquin	$1,181,000
Los Angeles	$13,149,000	San Mateo	$3,176,000
Marine	$1,257,000	Santa Clara	$1,386,000
Orange	$2,555,000	Sonoma	$1,253,000
Riverside	$2,331,000	Ventura	$922,000
		State of California	**$42,694,000**
		Total California Allocation:	**$185,287,000**

ABOUT THE CENTER FOR COOPERATIVES

The Center for Cooperatives was established by the California Legislature in 1987 as a Center in support of research, education, and extension activities to "advance the body of knowledge, concerning cooperatives in general and address the needs of California's agricultural and nonagricultural cooperatives..."

The Center's objectives are to promote:

- EDUCATION. The Center offers formal and informal educational programs to those involved in cooperative management and develops teaching materials for all levels of interest.
- RESEARCH. To help the state's cooperatives reach their objectives, research is conducted on economic, social, and technical developments. A practical aspect of this research: the provision of competitive research grants, and studies for government agencies on how cooperatives can help achieve public policy objectives.
- OUTREACH. The Center informs the public on cooperatives and their significance to the economy of California.

Located on the University of California, Davis campus, the Center is a University-wide academic unit. Its teaching and research resources are drawn from expert professionals from all University of California and state university campuses, other colleges and universities, as well as sources indigenous to the cooperative business community.

The Center has established an endowment fund to receive gifts and contributions from the public, foundations, cooperatives and other like sources.

For more information about the Center or its programs and publications, call 916-752-2408—FAX 916-752-5451 or write: The Center for Cooperatives, University of California, Davis, CA 95616.