



An Introduction to Limited Equity Cooperatives in Boston



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A Cooperative is:

an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.



Cooperative Principles

1. **Voluntary and Open Membership**
 - Open to those willing to accept responsibilities of membership.
2. **Democratic Member Control**
 - Controlled by the members, for the benefit of all members.
 - Members actively participate in making decisions and electing the directors.
3. **Member Economic Participation**
 - Members allocate surpluses for the benefit of the cooperative as a whole.
4. **Autonomy and independence**
 - Autonomous self-help organizations.
5. **Education, Training, and Information**
 - Directors and members, alike, have access to information and training
6. **Cooperation among Cooperatives**
 - Working together for the common good.
7. **Concern for Community**
 - Ensuring sustainability of communities.
- [DEIJB]





How does a limited equity cooperative work?





Membership Benefits:

- Hold the right to perpetual occupancy of their unit
- Enjoy affordable, below-market housing with limited equity building;
- Voice ideas, issues, and concerns to board members & property management;
- Vote on matters placed before the membership of the cooperative;
- Petition to call for special meetings / votes of the members;
- Join a committee to help steer cooperative governance or operations;
- Vote to elect cooperative directors (one household, one vote);
- Run for a seat on the board of directors.



Membership Responsibilities:

- Stay current on monthly carrying charges and any other fees owed to the cooperative
 - Example: must be up-to-date on all payments at least 16 days before any member meeting / election in order to participate / vote.
- Follow existing rules/requirements (occupancy agreement, etc.)
- Be cooperative. Be informed. Stay involved.
 - Know what is happening so that you know how to vote (and you know what your elected leaders are doing)



Board Responsibilities:

The Duty of Care

Being fully informed of matters before any scheduled board vote.

The Duty of Loyalty

Act in the best interest of the cooperative at all times, putting the cooperative's well-being above all other interests.

Disclosure all conflicts of interest and refrain from using the position for personal dealings.

The Duty of Obedience

Ensuring cooperative & directors follow the bylaws and all legal commitments.




Board Responsibilities:

- Governance
- Financial oversight and long-term asset management
- Member engagement, selection, orientation
- Oversight of property management's daily operations and maintenance

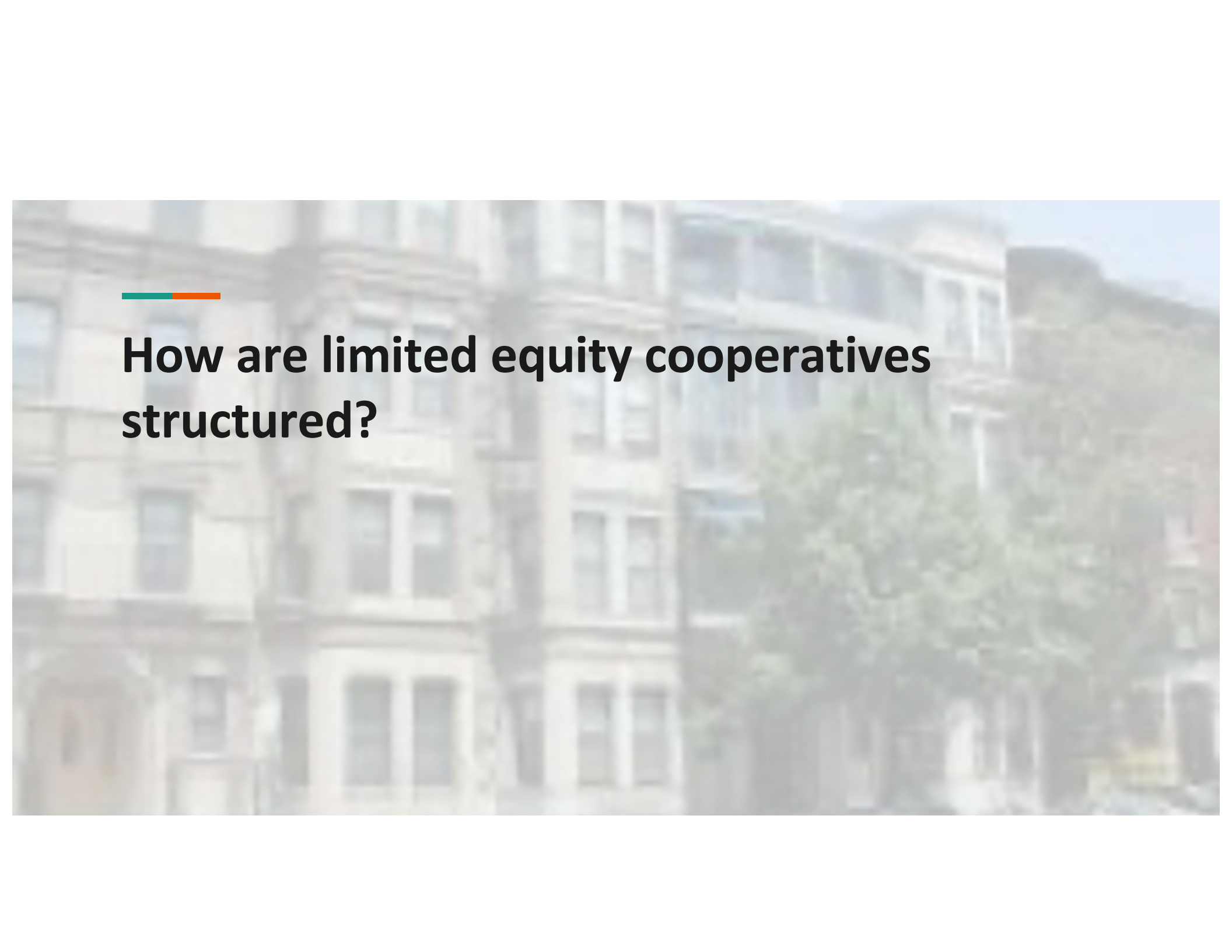
COMPARISON OF BENEFITS OF DIFFERENT HOUSING OWNERSHIP MODELS

	SINGLE-FAMILY HOME	CONDO	MARKET RATE CO-OP	LAND TRUST CONDO	LIMITED EQUITY CO-OP	RENTAL APARTMENTS
No Restrictions on Making Changes to Your Unit	•					
Resident Earns Full Equity	•	•	•			
Resident Required to Get Bank Loan	•	•	•	•		
Resident Gets Tax Benefits of Ownership	•	•	•	•	•	
Resident Gets Long Term Stability	•	•	•	•	•	
Resident Earns Partial Equity				•	•	
Permanently Affordable				•	•	
Democratic Management		•	•	•	•	
Flexibility to Move to Larger or Smaller Unit			•		•	•

Borrowed from Maine
Cooperative
Development Partners



How are limited equity cooperatives structured?





Typical LEC Ownership Structures

- Cooperative corporation owns and operates the land and the buildings (most typical set up).
- Residents own homes, cooperative corporation owns and operates land and buildings (ROC).
- Cooperative corporation owns and operates the buildings, leases land long-term from a third party (sometimes a CLT).
- Cooperative corporation operates buildings, is a GP with / or has lease with partners who own the land and buildings.



LEC Equity Structures

- Zero or near-zero equity, with small buy-in fee.
- Annual Cost of Living Adjustment (COLA) to buy-in fees.
- Annual COLA plus unit contributions towards mortgage payoff accrue over time, can be collected on move-out.
- [COLA plus additional – such as equity share funds invested in revenue-generating venture/fund]
- Sweat equity (generally paired with one of the above)



LEC Start-up Processes

- Convert an existing building by organizing residents who incorporate as a cooperative.
- Start with a group of people who are interested in forming a cooperative and living together, but who need assistance with acquisition/ rehabilitation /new construction.
- Start with an acquisition / new construction without occupants.



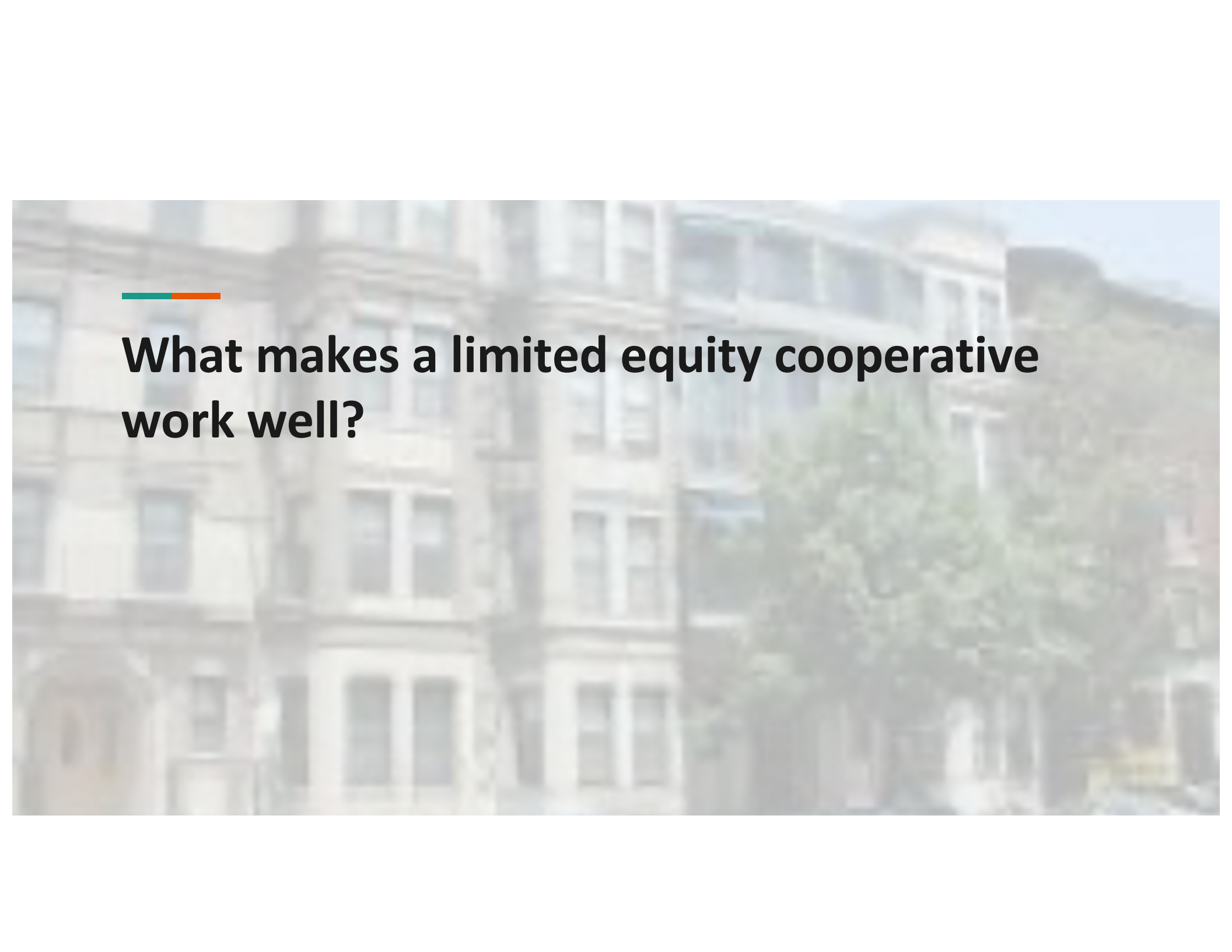
Starting from Scratch

- Advertise
- Get equity buy-in from future shareholders
- (Optional: Member input on building design)
- Form Interim Board of Directors to work on (and get member vote on):
 - Articles of Incorporation, Bylaws, occupancy agreements, member selection procedures, hiring property management.
- Members elect permanent board of directors
- Extensive board training and support throughout (& after).



Conversions

- Organize residents to gauge interest
- CNA and proforma creation to gauge feasibility
- Form Interim Board of Directors to work on (and get member vote on):
 - Articles of Incorporation, Bylaws, occupancy agreements, member selection procedures, hiring property management.
- Get equity buy-in from future shareholders
- Member vote on whether to purchase/convert
- Members elect permanent board of directors
- Extensive board training and support throughout (& after).



What makes a limited equity cooperative work well?



Ongoing Board Training and Support!

- Fiduciary responsibilities
- Individual officer roles and responsibilities trainings and support
- Board financial oversight and asset management
- Board-property management relations
- Board meeting best practices
- Key policies and procedures
- Member engagement and communications
- Committees



Good Organizational Structure / Functioning

- Clear and clearly understood:
 - Governing documents
 - Roles and responsibilities
- Written policies and procedures and agreements that:
 - Clarify how things are intended to work, who is point person for each project, who performs what role
 - Ensure that the policies and procedures are followed, and that exceptions are supported by governing documents (and are well-documented)



Good Communication!

- Between board and property management
- Between board and membership!
 - Regular member meetings
 - Regular updates on key matters
 - Board policies and procedures
 - Budget matters
 - Capital needs
 - The opportunity to be social and celebrate successes!



What are the common challenges faced by limited equity cooperatives?



Common Challenges of LECs

- Funding / financing capital improvements
- Board-property manager relationships
- Member engagement, orientation, selection
- External threats of gentrification, navigating complicated agency processes
- Equity-building
- Access to training and support when/as needed
- Share loans for qualifying members
- Possible periods of member (or board) apathy



Additional Resources

Share loans:

- Symphony Area Renaissance Trust (SART) received some funds a couple of years ago to provide share loans.
- CFNE offers revolving lines of credit (to cooperatives, not individuals), which cooperatives could loan out to incoming members (not ideal).

Other developers doing co-ops from scratch:

- [Maine Cooperative Development Partners](#) (Maine)
 - Contact: Liz Trice
- [Raise-Op](#) (Maine)
- [HomeSight](#) (Seattle)
 - Contact: Uche Okezie
- [Frolic](#) (Seattle)
- [UHAB](#) (NYC, Chicago)



Additional Resources

Some Cooperative-Friendly Funding Sources:

- HUD – 213, 221(d) (cooperative housing mortgage insurance), 236;
- National Cooperative Bank
- CDFIs
 - CFNE, LEAF, Share Capital Cooperative, Rochdale Capital . . .
- Mayor's Office on Housing
- CEDAC -- EOHLC (mainly new construction)
- Other possible sources
 - Massachusetts Housing Partnership (MHP), Federal Home Loan Bank, Centennial Mortgage, USDA, Boston Impact Initiative, Boston Ujima Project, CDF . . .
- CDBG, ARPA



Ask me anything.

