
UNITED STATES DEPARTMENT OF LABOR

L. B. Schwellenbach, *Secretary*

BUREAU OF LABOR STATISTICS

A. F. Hinrichs, *Acting Commissioner*

Organization and Management of Cooperative and Mutual Housing Associations



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Letter of Transmittal

UNITED STATES DEPARTMENT OF LABOR,
BUREAU OF LABOR STATISTICS,
Washington, February 4, 1946.

THE SECRETARY OF LABOR:

I have the honor to transmit herewith a pamphlet setting forth the proper methods of procedure for the organization and management of cooperative and mutual housing associations. The present report is a revision of the Bureau's Bulletin No. 608, bringing the subject matter into conformity with present practice.

Many persons within and without the cooperative movement, qualified by experience and training, have contributed to this manual. Their number includes housing experts, architects, and attorneys, as well as cooperators who have participated in one or more housing projects. In addition to Florence E. Parker and Alexander Findlay of its own staff, the Bureau wishes especially to acknowledge the valuable contributions and suggestions of Dale Johnson, Huson Jackson, Dorothy Kenyon, and Udo Rall.

A. F. HINRICHS, *Acting Commissioner.*

Hon. L. B. SCHWELLENBACH,
Secretary of Labor.

Preface

The present bulletin is a revision of Bulletin No. 608, issued in 1934 at the request of the Consumers Advisory Board of the National Recovery Administration. It was one of a series of three pamphlets dealing respectively with the organization and management of consumers' cooperatives in general, cooperative petroleum associations, and cooperative housing associations.

The Bureau of Labor Statistics, in pursuance of the directive under the law creating it, to "acquire and diffuse * * * useful information on subjects connected with labor in the most general and comprehensive sense of that word," had for many years been collecting information on the consumers' cooperatives. This information covered, among other things, statistics of membership and business, methods of operation, and causes of success or failure.

The Bureau's studies had shown that one of the most prolific causes of failure of cooperative associations was failure to organize on a proper basis, with an understanding of best methods and sources of help.

To provide such information Bulletin No. 608 was issued. For the material in that bulletin the Bureau was especially indebted to the late Agnes D. Warbasse, then secretary of the Cooperative League. At that time apartment buildings were the only form of cooperative housing in this country. The pamphlet was therefore drawn up with them in mind. Since then several cooperative housing projects have erected individual dwellings, which involve their own problems; protection of both member and lender has become available through Government insurance of mortgages; and mutual ownership of publicly built housing has developed.

The present report therefore revises the former one, bringing it into conformity with current conditions and practices. It covers certain aspects of planning, construction, financing, and operation which go beyond the single step of cooperative ownership of real estate. Model bylaws, together with explanations (where necessary) of the reasons why certain provisions are desirable or important, are given. A model lease and a member's share subscription agreement are also included.

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Organization and Management of Cooperative and Mutual Housing Associations

Introduction

THE chief purpose of consumers' cooperative and mutual housing is to furnish the participating members with the best possible housing for the cost, under conditions which will insure the maintenance of community values. These aims are facilitated in part by the nonprofit nature of cooperative or mutual enterprise, in part by the elimination of unnecessary expenses, wastes, or profits, in part by good planning, and in some cases by increasing the owner's opportunity to furnish a part of the labor or materials required for his dwelling. The economies are not sought at the expense of labor, as cooperative enterprises should expect to pay the prevailing wages applicable to construction in their vicinity. The members' motivation lies in the desire to obtain housing for their own use, without expectation of speculative profits to themselves from the sale or rental of their dwellings to others. Although fully cooperative housing does not provide for outright individual ownership of a particular dwelling, it offers the virtual equivalent—security of possession and occupancy—at a saving to the family budget which more than makes up for the largely illusory advantage of being able to display a title deed to the dwelling unit occupied. This bulletin deals in some detail with the suggested solutions for many of the problems which will confront groups seeking to apply the principles of consumers' cooperation to the field of housing.

Housing is one of the most important family needs. Next to food it looms largest in the budget. Ownership of a dwelling is probably one of the most widespread family ambitions. Cooperative housing therefore represents a field offering great potentialities, but it is one in which as yet comparatively little has been done in this country. The European countries, in which housing associations form an important part of the cooperative movement and in which not only individual dwellings but whole communities have been built cooperatively, illustrate what can be done.

In the United States, until a few years ago, the only cooperative housing consisted of apartment dwellings which cooperatives had bought or constructed in Greater New York. In the few years immediately preceding the Second World War, several housing projects were started for the construction of individual dwellings and in two cases an entire new community was formed. Some of these groups, for reasons set forth later, have been unable to proceed on a thoroughly and consistently cooperative plan. Their activities and the plans of others were halted by the war and the building restrictions that were imposed.

Indications are that the housing field will witness considerably increased cooperative activity, if some of the outstanding difficulties can be overcome. Some of these difficulties are inherent in the nature of the building industry; others stem from the economic uncertainties and temperamental characteristics of American wage earners. The building industry is one in which prices of materials continue high even in times of depression and otherwise falling prices, in which hourly wage rates are high (though annual earnings are comparatively low, because of seasonal unemployment), and in which technological improvement has thus far been slight, resulting in the continuance of costly hand methods.¹ The resulting high cost of dwellings has been the first and probably the greatest bar to home ownership. The wage earner faces in many cases the prospect of unemployment, inability to meet his payments, and possible foreclosure with loss of equity. Further, Americans are a restless people, moving about in search of work or change of environment; many hesitate to tie themselves to any one spot by investing their savings in a house, not recognizing that such a tie can be cut with less trouble and less risk of financial loss if legal ownership is vested in a cooperative association instead of an individual householder.

Major barriers to housing on a *cooperative* basis have been lack of knowledge and information about the essential principles of cooperative housing in its broadest sense, and the reluctance of some lending agencies to grant mortgage loans to cooperative associations, especially on detached residences which have usually been financed by an owner-executed mortgage. It is possible also that cooperative housing in the United States has been retarded by a mental attitude based on an overvaluation of the benefits of speculative individual ownership and an inadequate understanding of the advantages offered by nonspeculative cooperative ownership to the family concerned primarily with obtaining the best possible housing for every dollar spent.

Nevertheless, the diverse and numerous benefits which can accrue to the consumers of housing through cooperative techniques have prompted the organization of dozens of groups seeking to use this approach to the fulfillment of their needs. One of the chief purposes of this pamphlet is to assist such groups in studying the subject of cooperative housing. The field is complex, dealing as it does with the numerous problems of group action, land purchase, planning, construction, financing, and operation and maintenance of housing accommodations. With relatively so little published regarding the cooperative principles or solutions which have proved themselves in successful use, it is understandable why there have been such diverse policies and thus far so few accomplishments in the field of cooperative housing.

General Characteristics of Cooperative Housing

Genuine democracy is essential to the effective functioning of a cooperative housing association. Except as necessitated by the space limitations of available or projected housing facilities, by the cooperative's obligations to its members to safeguard their investments, and by its obvious responsibility to promote a harmonious community, membership should be open to any persons desiring to participate.

¹ Techniques of mass production and prefabrication promise some alleviation of this difficulty.

Each member or family should have one vote, regardless of the amount of stock owned. Safeguards should be provided against speculation.

In a completely cooperative housing association, the member does not receive title to any individual apartment or dwelling. He owns shares equivalent to the amount of the equity required for the apartment or dwelling he occupies. His evidence of ownership consists of a stock certificate which indicates the amount of his investment and entitles him to lease his apartment or dwelling from the association. Legal ownership of the apartment or dwelling is vested in the association as a whole. A member, in withdrawing, gives his association due notice that he wishes to dispose of this equity and give up his apartment or dwelling. The withdrawing member is entitled to the fixed par value of his paid-up shares (minus any debts due his association for rent, damages or the like) provided this is permitted by law and is possible without endangering the financial position of the association. If additional funds have been deposited with the association, or if the member has amortized the indebtedness against his dwelling more rapidly than the property has depreciated, this account should also be settled. In some types of projects, especially in single-family residences, the individual may have made significant permanent improvements for which an adjustment might be allowed. *In no case, however, should the increased value resulting from the group's activity from the benefits of cooperative principles, or from fluctuation in the real-estate market, be a basis for a withdrawing member's claim.*

The corporate earnings of the association, after establishing such reserves as may be required by law or prudent business practices, are usually paid to the members as a patronage or rent refund (this is also called a "savings return"). The effect of this disbursement is to reduce the members' net payment for the housing accommodations to the actual cost involved, and to reduce the corporation's net earnings.

These policies are followed in consumers' cooperative housing associations because the purpose of such associations is not to make money but to obtain for the members desirable dwelling units on a service basis, thereby giving the members full value for their payments. If a member elects to withdraw from the group and its benefits he may do so in a manner which is fair to him. However, members of a genuine consumers' cooperative housing association should recognize that the primary purpose of the association is to furnish the members, in their capacity as consumers, good housing at cost. *No member is entitled to claim an individual financial profit from any phase of the association's operation.*

Cooperative Principles

The following are the specific cooperative principles to which housing associations should conform:

1. Democratic control; one vote only for each member, regardless of the amount of stock owned. Responsibility for administration to rest with the board of directors elected by the owners. This means decentralized control for purposes of democracy and centralized administration for purposes of efficiency.

2. Any interest paid on invested capital to be at a fixed rate not exceeding the current legal rate. However, if the ratio of capital investment to value of occupied dwelling is the same for all members,

the payment of interest on shares becomes not only superfluous but undesirable. This is explained on page 35.

3. Legal ownership of the property to remain vested in the association.

4. Shares in the association's capital stock to be nontransferable except with the consent of the association, and never at more than par value.

5. Surplus savings accruing from the association's operations, which are not used for expansion or collective purposes, to be returned to the tenant-members as savings returns in proportion to the amount of their patronage or monthly payments.

6. Neutrality, on the part of the association, as regards political, religious, and other extraneous matters on which the members may entertain differing opinions.

DEVIATIONS FROM STANDARD COOPERATIVE PRACTICE

Many organizations in different parts of the world, which are called "cooperative" but are not entirely so, deviate from the above policies in one or more respects, enumerated below. From the standpoint of genuine and complete consumer cooperation, such practices are undesirable and should be avoided if at all possible. They tend either to increase the ultimate cost of housing to the consumer or to have a divisive effect on the housing community by destroying the identity of self-interest with community interest and stressing the former at the expense of the latter.

1. Some associations build cooperatively but sell homes or apartments outright, giving title to the property owner. Such a policy, allowing individual sale of the home at a profit, obviously encourages speculation, promotes instability of residence, and destroys the cooperative aspects of the enterprise. This deviation has been adopted in some cases because the members have never thoroughly agreed with the fundamental aims of cooperative housing. In others, especially in projects involving individual houses, the association found it necessary to give members title, in order to obtain the required financing. As a measure of protection to the project some associations under these circumstances require the member to execute an option, permitting the association to have first opportunity to buy back the dwelling at a price previously agreed upon.

2. Some associations which do not give title to the property nevertheless allow the members to sell their shares to the public at their own valuation. This also makes speculation not only possible, but inevitable. Ultimately the cooperative plan is destroyed. This policy, which is widespread among the so-called "cooperative" apartment houses sponsored by real-estate interests, subjects the incoming member to the risk of buying at inflated prices and perhaps of having to sell later at greatly depressed prices.

3. Some associations own the land cooperatively but give the individual member a 99-year lease on which he may build his own home and sell it at his own price. This practice also fails to provide against speculation.

4. Some allow voting by shares instead of limiting the vote to one per member. In such cases investment—ownership of property—determines control.

5. Some associations observe all other rules of cooperation except that they permit their members to sublet their apartments or dwellings at a profit which the member is permitted to keep. Properties have been completely emptied of owner-members as a result of such a policy. Subleasing should not be permitted except for brief periods of an emergency character, as it effectively eliminates the association's control of its facilities.

6. Some societies rent as many as half of their dwellings to non-members, at a profit which they apply to the reduction of the members' monthly payment, thus exploiting the tenants for the benefit of the members. Renting apartments to nonmembers should be considered only if vacancies compel this action; if renting is resorted to, it should be with a view to recruiting the tenants as members.

7. Some accept philanthropic grants or funds from civic bodies and permit the grantors to control and administer the property. Mutual ownership (later described), as originally proposed, gave Government and public representatives two-thirds control. Generally it would be better for the association to stand on its own feet, and retain control of its activities. However, the election or appointment of a cooperative housing expert to serve on the board of directors, perhaps without vote, might be of considerable help to the association.

8. In some cooperative associations there is no safeguard against dissolution of the association for the purpose of enabling the members to realize their pro-rata interest in the association's assets. This has destroyed some cooperative associations. Mutual housing associations and the limited-dividend housing laws provide that, upon dissolution of an association, all gains beyond an authorized return on capital must be paid into a public agency such as a housing authority. Several of the more recent consumers' cooperative laws also contain provisions designed to meet this situation.² Cooperative housing associations which are willing to assign, for the promotion of cooperative housing, any net value above shares at the time of dissolution should communicate with the Cooperative League of the U.S.A., 343 S. Dearborn Street, Chicago 4, Ill. The League is willing to handle, as trustee, any such funds a dissolving association may assign to it.

Advantages and Disadvantages of Cooperative Housing

The advantages of living in a cooperative housing development vary with the degree of utilization of cooperative techniques and the wisdom of the members' decisions. Through cooperative housing, members should be able to live in well planned and constructed dwellings, in better communities with a measure of security and neighborliness, and at a fairer cost than in housing operated for profit to investors.

ADEQUATE PLANNING

A cooperative group, being assured in advance of the demand for and rentability of the housing which it is going to create, need not seek the most convenient or fashionable location, for competitive commercial

² Thus, the laws of the District of Columbia, Maine, and New Mexico provide that after payment of the association's debts and par value of shares (including shares partly paid up), any money remaining must be divided "in either or both of the following ways as the articles [of incorporation] may provide: (a) Among those patrons who have been members or subscribers at any time during the past 6 years, on the basis of their patronage during that period; (b) as a gift to any consumers' cooperative association or other nonprofit enterprise which may be designated in the articles."

advantage. It can safely choose lower-cost land, with consequent savings and more plentiful space. Likewise, better utilization of the site and better planning are possible when the housing is created to be lived in rather than to be sold or rented at a profit.

The buildings erected in New York City by the Amalgamated group are examples of well-planned apartment dwellings with adequate space for light, air, recreation, gardens, and lawns. The Crestwood, Wis., project exemplifies not only excellent selection of site to provide afternoon shade, shelter from north winds, and natural drainage, but also wise lay-out of straight dead-end streets, which discourages through traffic and provides quiet and safety besides avoiding the extra expense for longer sewer lines and utility connections entailed by winding streets.

Greater value to the member-occupants in cooperative projects can also be achieved through the architectural design and other architectural services. Any well-advised housing association will make a careful choice of the architects for its housing units, its other buildings and the site lay-out, and as a result obtain architectural services well above common standards for promotional building. Since good value starts with design appropriate to its purpose, meeting the needs of the occupants, and using space and materials efficiently, this is a valuable advantage. Furthermore, the architect for the houses is free from any requirement to include unwise and unbalanced features in order to increase sales appeal. Expensive materials and ornamental features (commonly included in small houses built for sale) are provided only at the expense of features of much greater value (over-all size, ample closet space, a heating plant large enough for economical operation, etc.). In specifying the materials and equipment to be used, the architect, who has a professional knowledge of the field, is free to select minor brands whenever those give a real saving; there is no restriction to the leading brands which are emphasized so greatly in sales effort.

OPPORTUNITIES FOR SAVINGS

Cooperative effort, resulting in the provision of housing accommodations—either apartments or individual houses—for a group of families, makes possible considerable savings in cost of land, construction, operation, and maintenance. Speculative profit of the real-estate promoter, amounting generally to 10 percent and often more, is eliminated, as are also large salaries paid to landlords or agents. Construction of a group of houses simultaneously is more economical than construction of one house at a time and makes possible substantial savings through bulk purchase of materials as well as interior fittings. In one possibly unusual case, it is reported, a 10-percent saving in construction cost was effected on a group of 5 dwellings built simultaneously. It has been found in large-scale enterprises in New York City, in which the full benefit of low cost in purchase, construction, and maintenance is obtained, that at least 12 percent can be saved in annual operation and maintenance costs. Some cooperatives' contracts have specified that any savings over a given amount or percentage of the estimated construction costs shall be divided equally between the contractor and the

cooperative. In one case a crew of expert building mechanics was hired on such a basis and was guaranteed annual employment.³

In a large project some economies in maintenance cost might be effected by the hiring of all-round full-time workers to service all the dwellings, thus spreading the maintenance work evenly throughout the year. In that way the workers would have full-time employment, the individual dwelling would receive continuous service, and the individual owner would be spared the hiring of workers for sporadic jobs, at hourly rates set high in order to compensate for off-season unemployment. The National Housing Agency notes that continuous employment is to labor's advantage and that in some cases "incentive wage scales" as much as 30 percent below current hourly rates have been established in consideration of guaranteed full-time employment.⁴

Instead of rents increasing steadily, it is the general experience that the monthly charges for cooperative housing decrease each year. Thus, a cooperative association on whose homes the original carrying charge is \$50 a month may estimate that, at the end of 20 years when all loans are repaid, the carrying charge may be as low as \$22.50 per month.

Cooperators are usually permanent residents. This eliminates a high turn-over in tenancy. Vacancies are a great waste and a cause of added costs in any sort of housing. As cooperators take a greater interest in their homes than do rental tenants, the property does not deteriorate so fast as it does under usual tenancy. The losses from rent receivable are extremely low in cooperative housing projects, as the member's shares serve as collateral for his debts to his association. In some cases combined losses from vacancy and rent defaults have been less than 20 cents per room per year.

Additional savings for the members are possible through contributions of their time and labor. Although in apartment-house construction, much self-help is not feasible, on the erection of individual dwellings many small jobs can be done by the members. Members have effected economies in cash costs by excavating for foundations and basements, doing rough concrete work, carpentry, painting, sanding and varnishing floors, etc., and in several cases even by building the entire dwelling on a labor-exchange basis. Many variants of the self-help method are possible. In Tulsa, Okla., under a nonprofit arrangement worked out by one of the building-trades unions, FHA accepted 20 percent of the property loan valuations in labor, and a local lending agency supplied a loan of 80 percent of the appraised valuation in cash. In a California town, FHA-insured mortgages also permitted the purchaser to make his own down payment (at least 10 percent of the purchase price plus closing charges) in labor; this was a plan developed by private promoters, but is adaptable to cooperative methods. In some cases (for example, at Iona, Idaho, Penn-craft, Pa., and Nova Scotia) practically the entire construction was done by the members, working on their own and other houses in the project.

Some or all interior and exterior maintenance by members is also feasible (see p. 29).

³ This experiment was carried on for nearly 3 years, being then interrupted by the war. Its sponsor states that the results were "most promising"; he emphasized, however, the necessity for "very competent managerial and professional leadership."

⁴ National Housing Bulletin No. 2: Housing Costs, Where the Housing Dollar Goes, Washington 1944 (p. 30).

ELIMINATION OF SPECULATION

A variety of legal methods may be employed to eliminate the element of speculation. Without such provisions, the charge for the housing will be inflated by speculative profits taken by members selling their shares above par, or subleasing at more than the maintenance charges, and will operate to remove the housing facilities from the reach of the moderate- or lower-income group originally to have been served. In eliminating the possibility of incoming members' buying at speculatively inflated prices, cooperative housing removes one of the principal hazards prevalent in home ownership. If a member is to forego potential gains, he is entitled to increased security against loss. This can be achieved partly by establishing reserves for this purpose, and partly by the fashioning of sounder legal, financial, business, and administrative policies than prevail under profit-seeking institutions.

SAFEGUARDS FOR MEMBERS AND ASSOCIATIONS

The member is safeguarded by incorporation of the association, which thus limits his personal liability to the amount of his share subscription;⁵ by the terms of his lease, which give him the right to occupancy of the dwelling he selects, as long as he is acceptable to the other members of the association and fulfills the obligations set forth in his lease; by the opportunity, given him and the other members collectively, to build up a reserve in the association to cushion against times of depression or unemployment; and by the maintenance of the long-term value of the property at a high level through a policy of proper upkeep of the buildings. If the members so desire they may have the further protection of inclusion in the mortgage of a provision releasing individual dwellings from the mortgage as they are paid for, and of insurance protecting the family in case of the breadwinner's death or disability.

The association and the property as a whole are safeguarded by retention of legal ownership of the property by the association, by control over the land and facilities devoted to community purposes, and by the execution of members' options, giving the association the right to repurchase a withdrawing member's equity. Legislation pending in Congress would safeguard the association further by permitting extensions of mortgage loans, in case of "unemployment, economic conditions, or misfortune" beyond the mortgagor's control, up to a total of 3 years.

COLLATERAL COOPERATIVE ACTIVITIES

Cooperation is not just a way to save money; it is the basis of a better way of life. Wherever people of similar circumstances and interests live in a close-knit group, that fact makes possible many joint enterprises. Among them may be cited such activities as housekeeping service for working couples; repair of radios, washing machines, refrigerators, and other electrical appliances; laundry service; nursery schools for the children and classes of various kinds; commercial enterprises (stores, garages for automobile storage service and repair, bakeries, etc.); joint purchase of utilities (water, gas, electricity, telephone, etc.); and buying clubs for furniture, and electrical and other

⁵ When his share subscription is paid in full, he has no additional liability; his paid-in funds then represent his total liability.

household appliances. The ground space (generally larger than in a comparable profit-making enterprise) can be utilized for lawns, gardens, athletics, and recreation of various kinds. Such activities can be financed through use of surplus savings resulting from the monthly charges or through one or more share-capital associations formed for the purpose. These collateral activities offer an opportunity heretofore little utilized in this country, although their advantages have been widely recognized in Sweden and other European countries where many such services are provided in connection with housing projects.

DISADVANTAGES

Most of the disadvantages of the genuinely cooperative method, as regards housing, arise from members' incomplete acceptance of that method. It is important to recognize that membership in a cooperative housing association is for those who desire continued security of occupancy of a dwelling rather than title to a particular dwelling. The person who is by nature a transient and a "renter" is not a good prospect; neither is the person who wants to invest in real estate for speculative profit, since participants in a housing cooperative specifically waive the right of making a profit on enhanced values resulting from the association's activities.

A real disadvantage that may eventuate unless reserve "cushions" are provided is that, under the accepted Rochdale practice of retention of title by the association, with the tenant-member merely owning stock to the value of the equity required for his dwelling, all members sink or swim together. Thus, in a cooperative apartment house, one member may be able to finance the purchase of his own apartment, but the whole project may fail (with consequent loss to all) if a sufficiently large proportion of the members, through unemployment or other misfortune, are unable to maintain their payments. This risk is greater if all or most of the members are engaged in the same industry than if the source of income of the members is more diversified. In a project consisting of individual dwellings, severance of one or more houses whose purchasers were solvent and current might be possible, but this might necessitate individual titles.

Desirable Prerequisites for Successful Cooperative Housing

The Membership Group

Preferably, the prospective members of the cooperative housing association should have certain common interests which will help to give cohesion to the association. Many of these interests can be developed in the process of planning, building the houses, and living in the community being created. Generally it is desirable to have a fairly representative sampling of age and family groups, which will tend to provide a varied supply of housing accommodations adapted to the continuing needs of the group. If almost all of the members are young newlyweds, for instance, most of the group will be needing larger accommodations at about the same time, and will later cease to need them at about the same time. In a representative group, families needing larger accommodations may lease vacancies which occur in the larger quarters, and vice versa. This eliminates a rather important waste

prevalent in single ownership of homes (that of expanding into what is later too large a house) and can be accomplished with very little expense and no loss in a well-planned cooperative or mutual development.

It is also highly desirable that the economic base of the group be as diversified as possible. This is necessary to minimize the impact of seasonal, cyclical, or industrial unemployment upon the association. No form of home ownership, either single or cooperative, should be regarded as financially sound, as long as the ability of the owners to maintain their mortgage payments rests upon the employment furnished by a single industry. There may be some exceptions to this rule if the industry itself is exceptionally strong and stable. Even in this situation, protracted strikes or lock-outs may have a devastating effect on the housing association.

The facilities furnished by the association should serve a moderate-income group. Then, if members are forced to withdraw in times of economic depression, there are potential new members from higher-income groups who would probably find the association's housing within their economic reach. Housing associations serving the relatively small proportion of families in higher-income groups are likely to be hit very seriously by withdrawals in times of economic depression.

Tolerance of the views of individual members is important in a cooperative association. The organizers of the housing association should keep in mind the traditional neutrality of cooperative organizations as regards extraneous divisive issues.

From the viewpoint of the individual member, a number of factors should be considered in advance. He should bear in mind that (1) the total cost should not exceed from $1\frac{1}{2}$ to $2\frac{1}{2}$ times the annual family income, and the monthly charges for shelter rent should not exceed 20 percent of the income, (2) the fixed charges continue, inexorably, in bad times as well as good, and generally at the same rates, unless reserves have been established which may be utilized to help meet the monthly payments, (3) he should have reasonably good prospects for an income steady enough to insure ability to make payments over a long period of years, and (4) he should have a reasonable likelihood of being able to remain indefinitely as a resident.

Preliminary Exploratory Study

Prior to the holding of the first organizational meeting, a small group of prospective cooperators should have studied the possibilities and difficulties inherent in the cooperative solution of their housing problems. Though an association may adopt the essential principles of cooperative housing, the variety of legal, financial, site and building planning, construction, and income factors will very likely require that each group arrive at its own unique solution to the whole problem. Members of this nucleus ought to have some conception of the various closely related problems involved in carrying out a cooperative housing program, and possible solutions to these problems which would help furnish the members better, more secure, or more reasonably priced housing than would otherwise be possible. The degree of success of a cooperative housing association will be influenced by each of a great many decisions. *A group working collectively must make wise*

decisions, and carry on its business activities on a sound basis, or it faces the same reckoning as an ill-advised individual. The cooperative character of the housing program is, of itself, no guaranty of success. Hence, it is advisable that this original nucleus include individuals with a grasp of the various problems mentioned above, or if that is not possible, that such persons be available in an advisory or consultative capacity.

Prospective members should be queried to ascertain the number of persons in the family, the type and size of housing desired, the average cost they could meet, and preferred location. Preliminary group discussions would amplify the data on these points and bring about a meeting of minds. A primary point to be settled would be a choice between apartments and individual houses. A large project could combine the two, but might not be possible for the average group.

Considerations of Site and Type of Project

At an early stage a temporary housing association should be formed and one or more committees appointed to investigate and report on land sites if new buildings are to be erected, or to find desirable buildings if existing structures are to be purchased and remodeled. These preliminary investigations should be made with discretion, to prevent a speculative mark-up in price by the owner or his agent.

It is important that care be taken to buy property whose value has not been inflated and whose future character, from a residential and social standpoint, is reasonably secure. The advice of experts on real-estate values and on regional and site planning is desirable at this stage.

After a satisfactory site has been found, the title should be searched (this will reveal any existing mortgages, liens, or assessments against the property). The committee should also inquire as to all the types of taxes (local, county, and State) to which the property will be subject and any contemplated improvements in the neighborhood that might result in additional levies. The association should then incorporate under a suitable law, the required shares should be paid in, and the purchase completed; in this process it is desirable that the services of an attorney be obtained.

Purchase of Existing Building

In buying an existing building, costs can usually be determined rather accurately in advance, which in turn permits very close estimation of the initial investment and the monthly charges. This information should be obtained by a small investigating committee, for full and detailed report to the prospective members. However, purchase of a building erected or being sold under profit auspices should be undertaken only when the members of the association are convinced that the purchase offers a good long-term value for the cost. Inexperienced buyers need to be cautioned not to overlook the possibility that major repairs and replacement of plumbing, heating, and wiring systems may be impending in an old building offered for sale. Such repair costs should be taken into consideration in arriving at a purchase price. Purchase and renovation of existing buildings from which profits have been eliminated by obsolescence or depression constitute

an economic gamble unless the whole of a block or neighborhood can be acquired (which requires greater financial strength than the average housing cooperative can muster). In any case, appraisal by a disinterested expert is desirable. Purchase at an unduly high price will handicap the association throughout its life, and may be a major factor in determining its ultimate success or failure. If the members are satisfied that the building meets their needs and is reasonably priced, they may then proceed to purchase.

Suburban Residential Projects

In case the association plans to buy undeveloped or partially developed land in a suburban location, research should include prospective costs of the many factors entering into the total eventual cost of the housing. A knowledge of these costs and of prevailing and long-term land values will help in setting the association's budget for land in its various stages of development. In some instances it may be possible for a group to buy lots sold at tax foreclosure, or a subdivision available at a reasonable price. This, however, may become a serious handicap in progressive planning of the site development, and could conceivably subject the cooperative housing association to the severe obsolescence resulting from previous poor planning.

In any event, a land-purchase committee should be formed to study and investigate potential sites. In large urban areas where a large number of sites might be under consideration, several such committees might be formed. Many factors such as suitability of land for housing use, its cost, the cost and availability of transportation, schools, community and shopping facilities, water, electricity, and perhaps gas and sewer connections, the rates of assessment and taxation, and the probable costs of roads may enter into site-selection considerations.⁶ The number of families to be served by the association, and their land requirements, the zoning requirements relating to land use, plus any land reserved for community use or for expansion, will affect the amount of land to be bought. It is likely that land costs will rise in the vicinity of any new development, cooperative or otherwise, as speculative landholders see the possibility for sale of land for residential or commercial use. It is therefore desirable, at the beginning, to select a site suitable for the probable maximum size and long-term needs of the group, if these can be determined. In many cases, it may be desirable not to improve the complete site immediately, but to concentrate on that portion necessary to fulfill the needs of the immediate members plus a small expansion. Such partial development may have the slight disadvantage of imposing smaller-scale developmental operations, with possibly a slightly higher unit cost, but the expense of making improvements for all of the site will be a very heavy burden on the original members. The continued expense of interest and increased taxes on the improved and subdivided land have bankrupted many land speculators.

In connection with the development of outlying land, it should be borne in mind that the advantage gained from lower initial tax rates will be transitory; when the area attains urban density of population,

⁶ Costs may sometimes be cut where land can be obtained at farm-land rates; in such cases the housing cooperative must be able to undertake the subdivision of the land, lay-out of streets, installation of utilities (water, sewer, gas, electricity).

urban services will be demanded and urban tax rates become necessary. Also, the full cost of community improvements (water supply, sewer system, school buildings, etc.) must be borne by the local property owners, of which the cooperative would ordinarily be the largest, whereas in adjoining city property a large part of the improvement cost will already have been paid. Outlying property within city limits usually is worth serious consideration. It has city services (fire and police protection, etc.), city rather than suburban utility and transportation rates, protection of city zoning laws against the intrusion of shanties, hog farms, night clubs, and the like; although new investment is needed for site improvements such as sewer, water, paving, etc., these will be used in connection with parts of the system already installed and probably already largely paid for, such as water source, pumping and filtration plant, and sewage-treatment plant.

If an option is obtained on the approved parcel of land, sufficient time should be allowed for completing the incorporation of the association, the registering of securities (which may be required under State laws), their sale to the members, and perhaps a promotional campaign to enlist sufficient members. It is conceivable that certain landowners might be found who would be so friendly to the idea of assisting in the development of a cooperative housing project that they would be willing to handle the sale in a manner wholly acceptable to the association.

Urban Redevelopment Projects

The initial steps of a third type of cooperative housing endeavor, utilizing urban redevelopment laws, would be more complicated. The steps involved may be illustrated by the experience of the first cooperative housing project in the United States to proceed under urban redevelopment laws—i. e., the East River Cooperative Apartments in New York City. The New York State Redevelopment Companies Act permits certain types of investing institutions to own 100-percent equities in redevelopment projects; thus, the investing institution may engage in some of the preliminary work. In the association under discussion a waiting list of several hundred applicants for apartments in an earlier project was circularized on behalf of the board of sponsors for the new development; of these, a sizable number filed applications for the new project and made the required \$100 deposit to indicate their good faith. A preliminary agreement was arrived at among the leading spirit in the enterprise⁷ (on behalf of the applicants and sponsors), the representatives of the savings banks willing to make the 80-percent first-mortgage loan, and the city of New York. The agreement established a 4-month period during which the attempt was to be made to obtain a large percentage of the tenant-cooperators' stock subscriptions as well as subscriptions from such other civic or cooperative agencies as might be willing to assist in the financing of the new development. When approximately two-thirds of the total subscriptions were in hand, the investing banks proceeded to incorporate the redevelopment company and make application for city approval (preliminary studies of the site and building plans must be prepared for submission to the city before final approval is granted).

⁷ A man of 20 years' experience in cooperative housing.

The interest of the investing banks will eventually become the first-mortgage loan.

The redevelopment technique, as above described, offers many opportunities for urban cooperative housing associations, but is the most difficult of all forms. Since it is essential that such projects be undertaken on a scale which re-establishes the desirable character of the community, it seems probable that cooperative projects of this type would have to be promoted in connection with existing cooperative, limited-dividend, philanthropic, public, or mutual housing enterprises. Such agencies have in most cases a surplus of applicants for housing, which could be referred to the cooperative association. They also have a background of business and administrative experience which qualifies them to undertake this complex approach to cooperative housing. The redevelopment legislation usually provides a method for the acquisition of the site, through condemnation if necessary, and in some States permits writing down the charge for the land to that consistent with its residential or apartment-house use.⁸ Sometimes the assistance takes the form of a tax exemption on the increased value of the redeveloped area for a fixed period of years (up to 25 in New York). In most cases, some public supervision is provided, and an upper limit is set on the rentals to be charged. The possibilities of utilizing the urban redevelopment legislation, State and Federal, are worth investigating for any group which wants to rebuild a "slum" area to provide good housing for a moderate-income group.

Mutual Home Ownership

A fourth approach to group housing is provided by the technique of mutual housing.

After the inauguration of the defense housing program a plan was formulated whereby permanent housing projects could be acquired, after the end of the emergency, by the residents under a mutual ownership arrangement. The plan now operates as follows: In a project the residents in which vote for mutual ownership, a Mutual Ownership Corporation is formed. It then takes over the operation of the project for a transition period of 2 years, with an option to purchase at the end of that time. If, at the end of the period, the association exercises its option, a purchase agreement is drawn up giving it 45 years in which to amortize the sale price (fixed by joint appraisal by an appraiser appointed by the FPHA and one appointed by the association), by regular monthly payments including 3-percent interest on the unpaid balance. The tenant-member in turn receives a contract from the association, entitling him to perpetual use of a dwelling unit; he makes a monthly payment to the association covering his share of the operating expenses and of the total purchase price. The members are expected to pay off their debt in 30 years, and at a somewhat higher rate of interest than that paid by the association. The margin provided by this and by the tenant's relatively larger amortization provide a reserve cushion from which the association can buy up the equity of members who must withdraw and can assist members over periods of hardship.

⁸ The market price of blighted property is ordinarily so much greater than a reasonable use value that an urban redevelopment project would start with an excessive debt burden unless a large part of the deflation loss were met from public funds.

Eight projects were built with the idea of their postwar disposal under the mutual housing plan. In six of these, mutual ownership corporations have been formed; the other two are operated by FPHA managers. Of the first six, the 2-year transition period has elapsed in two and negotiations are under way for a purchase contract.

The mutual housing plan is also applicable to several hundred other permanent war housing projects built under the Lanham Act, which must be disposed of within 2 years after the end of the war emergency.⁹ A mutual housing association, as a consumer body, would be given preference over groups or individuals offering to buy the project for investment purposes. Its application must be signed by occupants or prospective occupants of the dwellings representing at least 25 percent of the total units in the project. To be eligible to purchase, the association must demonstrate that the occupants or prospective occupants who are members of the association equal at least two-thirds the number of dwellings in the project.

The sale regulations¹⁰ require a cash down payment of at least 5 percent, with the balance secured by a mortgage for no longer than 40 years and bearing interest at the rate of 3½ percent per year.¹¹ If the tenants are not interested in buying the accommodations, they may be offered to a local housing authority, a limited-dividend corporation (which conceivably might also be a cooperative housing association), and finally to private bidders on sealed bids. If the appraised value is excessive, the tenants might be able to buy the property at public sale.

Advantages of the plan, from the purchasers' point of view, are that a down payment of 5 percent or less is required,¹² all the initial capital is furnished by the Government, and all the planning and construction are done by it; the members of the association are familiar with the property, know the employment situation in the neighborhood, and know within close limits the purchase price, investment and monthly charges. It is possible, also, that under tenant administration the costs could be held at a lower level than under public housing.¹³

This mutual-ownership type of approach has received a great deal of support from organized labor as one solution for furnishing new housing for working-class groups. Postwar housing legislation (S. 1592) introduced by Senators Wagner, Ellender, and Taft would make specific provisions for financing mutual cooperative housing associations or nonprofit corporations building small houses for the middle-income groups not served by public housing or private enterprise. The text of the portion that relates to mutual housing is as follows:

⁹ Details regarding the mutual-housing plan may be obtained from the Federal Public Housing Authority, Washington 25, D. C., or the Director of the Research and Information Service of the Cooperative League of the U.S.A., 726 Jackson Place, Washington 5, D. C.

¹⁰ Manual of Policy and Procedure, 3555:2 (National Housing Agency, Federal Public Housing Authority, Washington, 1946).

¹¹ It is probable, however, that these terms will be changed to conform to the provisions of the General Housing Act of 1946.

¹² However, one cooperative housing expert regards this as a disadvantage from the association's standpoint, because members with only a small stake (or none) in the enterprise have less concern in its success. It is his belief that the member's equity should in no case be less than 20 percent.

¹³ Testimony before the Senate Subcommittee on Housing indicated monthly per-dwelling operating costs of \$5.14 and \$5.19 in two mutual housing projects, as against \$10 in a nearby public housing project.

Mutual Ownership and Rental Housing

(A) A mortgage with respect to a project to be constructed in a locality or metropolitan area where, as determined by the Administrator, there is a need for new dwellings for families of lower income at rentals comparable to the rentals proposed to be charged for the dwellings in such project which without the insurance provided hereby cannot adequately be met by privately financed new dwellings currently produced in such locality or metropolitan area may involve a principal obligation in an amount not exceeding 90 percentum of the amount which the Administrator estimates will be the value of the project when the proposed improvements are completed; and

(B) A mortgage with respect to (i) a project of a nonprofit mutual ownership housing corporation the occupancy of which is restricted to members of such corporation, (ii) a project constructed by a nonprofit corporation organized for the purpose of construction of homes for members of the corporation, or (iii) a project undertaken by a mortgagor coming within the provisions of paragraph numbered (b) (1) of this section to meet a need (that the Administrator finds would not otherwise be met) for new dwellings for families of lower income in the locality or metropolitan area at rentals comparable to the rentals proposed to be charged for the dwellings in such project, may involve a principal obligation in an amount not exceeding 95 percentum of the amount which the Administrator estimates will be the value of the project when the proposed improvements are completed; * * * except that with respect to mortgages insured under the provisions of the second proviso of paragraph numbered (2) of this subsection, which mortgages are hereby authorized to have a maturity of not exceeding forty years from the date of the insurance of the mortgage, such interest rate shall not exceed $3\frac{1}{2}$ per centum per annum.

Mutual housing, as usually proposed, utilizes a Government housing agency or local housing authority to handle the numerous technical aspects of planning, site acquisition, and construction of dwellings. The buildings are sold to the tenants' association under the mutual-ownership plan. The advantage of this approach is the greatly lessened burden upon the initiative and ability of the leaders of the mutual association, as compared to a cooperative association which must make its own decisions from start to finish.

Considerations Relating to Community and Architectural Planning

Community Planning

One great advantage of cooperative or mutual housing is the possibility of achieving a well-planned community. Too often, in the past, residential design has had little or no relation to the neighborhood in which the dwelling should be an integral part. In this planning of the community, a cooperative may gain an increased long-term value for its property, which is seldom possible under usual land subdivision with each property held in separate, single ownership. In connection with the development and planning of the site and community, forward-looking architectural and engineering talent is essential. The choice of the architect best qualified to undertake the particular project is one of highest importance; for that reason it is important that the association have consultation service prior to his selection. One association also had its committee talk with 8 or 10 architects before final choice was made.

In large-scale projects the provision of space for a community shopping and service center, owned by the association, should be part of the advance planning. In this way the cooperative will be able

to insure architectural harmony, adequate facilities, and control over the character of commercial activities, which otherwise might develop along altogether unsuitable lines.

Building Design

In the design of the building or buildings, several factors deserve serious consideration. The relatively near future promises continued development of standardized, mass-produced building elements, with increased processing and some degree of increased assembly of materials at manufacturing plants. Prefabrication of complete houses is entirely practical, but its cost-saving advantages are not yet established to the satisfaction of numerous authorities. Sound architectural planning for moderate-income families will take advantage of new materials and assemblies when they are serviceable and reasonably priced. Custom-built housing will continue to be out of reach of all but the higher-income families. In view of the prospect of irregular or inadequate supplies of some of the basic building materials, full consideration should be given to utilizing local or readily available building materials, incorporating them into a well-planned structure.

With the increased cost of postwar construction, associations seeking to serve moderate-income families might explore the possibilities of construction, site-improvement, and maintenance economies to be attained in various types of multifamily dwellings. The duplex or semidetached unit might serve families unable to afford a single, free-standing residence. A properly planned row house for from 4 to 8 families may offer economies of construction, utility installations, and heating which deserve serious consideration. Such multifamily dwellings can provide privacy and recreation facilities comparable to the single-family dwelling.

In an association in which there may be a hundred or more families needing diverse accommodations, the development might include single-family and duplex residences, row houses, and perhaps some apartment units. Such an arrangement offers the possibility of consolidating portions of the site for recreational, agricultural, or community use in a manner not possible under individual ownership, while realizing significant economies on roads, utilities, building construction, and maintenance. Zoning laws have seldom contemplated this method of utilizing a site, and frequently make no provision for such a mixed development. However, if the project would house no more families in the given area than would have been housed under prevailing zoning, approval could probably be obtained from municipal authorities.

Much might be said on the subject of architectural design. Sound planning and forward-looking architectural design are important factors in determining the long-range value of both the individual dwelling and the community. Good architectural design utilizes today's building materials in a straightforward, truthful, and functional manner, to create buildings well suited to serve their intended purpose. The use of available or native building materials, site and plan considerations, the variety of types and sizes of dwellings needed, and other design and construction requirements or limitations should give each development a character of its own.

Construction Operations

The prevailing practice in the construction of residential dwellings is for a speculative (or "operative") builder to buy a tract of land, subdivide it into lots, and construct individual dwellings for sale at the highest price the market permits. This builder uses stock plans and usually employs some of the tradesmen directly, but often he awards most of this work to subcontractors. This type of operation has tended to put land subdivision and construction under one profit-seeking entrepreneur, instead of the two which formerly existed, and in so doing has probably resulted in a slight cost reduction to the ultimate consumer.

If the owner has some control in the construction program, an architect is usually commissioned to prepare the working drawings and specifications for the buildings to be built. These are then submitted to such acceptable general contractors as may be interested in bidding on the work provided in the plans and specifications. In this process, the contract is generally awarded to the general contractor who puts in the lowest lump-sum bid. The owner is thus enabled to know his total cost in advance, and the contractor guarantees the price. Of course, if plans or specifications are not sufficiently detailed or complete, the final cost may turn out to be considerably higher than the contract price. In competitive bidding, a contractor cannot afford to include in his bid any work or items omitted from plans or specifications, regardless of how essential the omitted items may be. This means that the owner will have to pay extra for such work. Likewise, a contractor, who finds that his original bid will not enable him to make the hoped-for profit, is likely to try to make up for his miscalculation by raising his price on the extras. The best way to avoid extras is to employ a competent and conscientious architect.

The contractor's profit depends upon how cheaply he may be able to buy the specified materials, how much his labor cost will be, and the extent of possible contingencies which would increase his costs. A general contractor, in bidding on an early postwar job, sees prices rising and increased labor costs or possible strikes in the offing. Most contractors will not have current construction costs to assist them in their bidding. Consequently, a general contractor in bidding on a construction job will "play safe" in his estimates of materials costs, labor costs, and possible increased expense which might absorb his prospective profits. In addition to this, each of the subcontractors who is required to give a lump-sum bid on his portion of the work goes through the same process of setting his labor and material estimates high enough to cover the worst situation that he thinks at all likely, and still pay his overhead and profit.

It is probable, in this situation, that lower bids are likely only when this vast risk element is greatly reduced by competitive pricing of materials, proven output of labor, and the elimination of some of the need for such sizable contingency funds to offset prospective price increases. During the rising market of the early forties, many general contractors would bid on construction jobs only on a cost-plus-fixed-fee basis. This eliminated the risk of the guaranteed price inherent in the lump-sum bid, provided for a specific payment to the contractor for overhead and profit, and virtually put the contractor on a pro-

essional rather than commercial basis. Under a competent and faithful contractor, such a contract would probably furnish greater dollar-for-dollar value than a lump-sum contract, but since the total price is not guaranteed the owner assumes a greater risk and should establish a contingency fund for this purpose. However, the contractor, who is assuming less risk, is generally willing to take such a contract on a narrower margin than he would a lump-sum contract. This cost-plus-fixed-fee method of building does not bring about the cross-interests of builder and owner which exist in the usual lump-sum contract. Cards and figures are face up on the table, and the contractor has no incentive to cut quality in order to gain additional profit. It should also be recognized that if the fee is fixed at a percentage of cost rather than at a definite amount, the contractor may be less diligent in his effort to keep costs down than the owner has a right to expect.

Frequently, in residential construction, there are architects who have constructed residences on the basis of supervising subcontractors. Such an architect acts on behalf of the owner, takes and tabulates the bids, recommends to the owner the acceptance of the desirable contracts, schedules the work, supervises (not superintends) the workmanship and the materials, approves bills for payment, and generally handles all the details of construction. Most subcontractors in residential work have the equipment they need for their part of the work. Under this plan the architect does not guarantee the price of the building, and the owner consequently assumes a greater risk, but with the prospect of a considerably lower cost; in this case also a contingency fee should be established for use if any of the costs overrun bids or estimates.

Under these two arrangements above cited, the architect or contractor becomes, to a far greater extent than is usually the case, the professional servant of the owner.

Thorough Utilization of Cooperative Techniques

With the high construction costs in prospect for the latter half of the forties, it is important that dwellings erected during this period shall not have a monthly carrying cost too greatly above that of pre-war houses. Dwellings on which these monthly charges are greatly in excess of other sound housing of good design will be at a competitive disadvantage when vacancies begin to appear in essentially competitive housing. It is therefore important that as "good buys" as possible be made at each stage of creating this new housing. The principal decisions will relate to land purchase, land planning and improvements, building design, construction methods and costs, financing, maintenance, and administration. *Since, in a consumers' cooperative housing association, the users of the dwellings will have gained a degree of control of the housing process which they have not ordinarily had, it is highly desirable that they utilize this control wisely to bring the best housing possible within the reach of moderate-income families previously not adequately served by profit-seeking enterprise.* The economies or gains from utilizing cooperative principles for just one aspect in the procurement of housing, such as land subdivision, or administration, are likely to be relatively small. It is highly desirable

that cooperative housing associations use the techniques of consumers' cooperation in as many of the phases of this process as have promise of furnishing better housing for the money. Otherwise, dwellings built in the early postwar years may be priced entirely out of reach of the moderate-income families seeking them.

Starting the Association

Incorporation of Association

The type of development planned may have a great deal of bearing on the type of incorporation which is most desirable. For a suburban residential type of development, incorporation under the local cooperative statute might prove to be entirely satisfactory if the terms of the law are broad enough to cover cooperative housing associations.¹⁵ In the event that the State in which the group expects to operate has no cooperative law or an inadequate one¹⁶ a possible alternative is incorporation under the District of Columbia Cooperative Law, whose terms are broad enough to permit incorporation under it by cooperative groups in other States; in such cases, however, an attorney should be consulted in order to ascertain any disadvantages that might accrue, under State laws, to associations of such "foreign" incorporation.

Many cooperative housing associations may qualify for incorporation under a limited-dividend housing law,¹⁷ or in some cases an urban redevelopment law.¹⁸ In most cases of this sort, there are specific benefits, generally in the form of partial tax exemption or assistance in site acquisition in slum or substandard areas, which may be of material value to the association. The supervision by the State's housing director may require furnishing detailed information from time to time about the association's fiscal activities, but such limitation or regulation should not be onerous to a genuine cooperative housing association. Associations incorporating under housing laws must provide for their own cooperative operation, taking care of this as far as possible in their articles of incorporation and in their bylaws. Even though associations incorporating under the housing law may function as cooperatives, most State laws prohibit inclusion of the

¹⁵ The consumers' cooperative laws of Maine, New Mexico, New York, North Dakota, Pennsylvania, Vermont, and the District of Columbia specifically authorize building; those of the first four also authorize operation of buildings, and that of Vermont authorizes any services in connection therewith. The carrying on of "any lawful business" is authorized in Alabama, California, Colorado, Florida, Michigan, Nebraska, Oregon, Washington, and Wisconsin (in Wisconsin with certain exceptions not applicable here). Kansas law permits cooperatives to carry on "any business or industrial pursuit," Massachusetts any business, Montana any branch of industry, and Idaho any business not conducted for pecuniary profit. In Nevada the types of business are not specified, but the association is authorized to "carry on any and all operations necessary or convenient in connection with the transactions of any of its business." The District of Columbia law authorizes all types of services for the benefit of the members as ultimate consumers.

¹⁶ There is no consumers' cooperative law in Arizona, Delaware, Georgia, Indiana, Louisiana, Maryland, New Hampshire, Rhode Island, Texas, Utah, West Virginia, and Wyoming. The types of business specified in Illinois, Missouri, and Ohio are not broad enough to cover housing cooperatives, and in Tennessee the single section providing for cooperatives merely authorizes the incorporation of "non-profit cooperative associations." In New Jersey, housing is not included in the pursuits authorized; the enumerated powers of a cooperative association formed under the act include those of "owning, leasing and improving real estate and erecting buildings," but whether this would be construed to authorize housing activities is uncertain. It also seems doubtful that cooperative housing associations which construct (manufacture) dwellings, could qualify under the "manufacture" clause of the Arkansas, Connecticut, Iowa, Kentucky, Minnesota, North Carolina, Oklahoma, South Carolina, South Dakota, and Virginia laws.

¹⁷ Such laws are on the books in at least 13 States (Arkansas, California, Delaware, Florida, Illinois, Kansas, Massachusetts, New Jersey, New York, Ohio, Pennsylvania, South Carolina, and Texas).

¹⁸ About 20 States have such laws. (See Comparative Analysis of the Principal Provisions of State Urban Redevelopment Laws, published by National Housing Agency, 1945.)

word "cooperative" in their name if they are not incorporated under the cooperative statute.

Incorporation under the State nonprofit corporation law (if such exists) may be worth investigating. In some States the terms of these laws may permit incorporation by genuine consumers' cooperative societies, which operate as a type of nonprofit enterprise,¹⁹ and also by mutual housing corporations.

Incorporation should precede the purchase of the property, as it usually prevents individual liability for the debts or obligation of the association. In an incorporated association each member is, in the majority of States, liable only to the extent of the total amount (paid or unpaid) of his share subscriptions,²⁰ whereas in the absence of incorporation he is liable for the full amount of the association's indebtedness.

Articles and Bylaws of the Association

The articles of incorporation establish the legal status of the association. The law under which incorporation takes place will specify the essential information which is required in these articles. Although most of the cooperative statutes specify what the articles must contain, their final drafting is a job for an attorney familiar with laws governing cooperative corporations.

It is generally easier to amend the bylaws than the charter (articles of incorporation). For this reason, cooperatives sometimes specify in the charter certain provisions considered essential to assure sound cooperative functioning, even though the law may not require them to do so. This is particularly worth considering if incorporation must take place under a law which does not make adherence to consumer cooperative principles mandatory. It also offers some protection against hasty, ill-considered changes in the bylaws, since no bylaw amendments may be adopted which are in conflict with charter provisions. However, the charter should not be so detailed that it will prevent the amendment of bylaws in minor matters as may be found expedient for reasons of practicability.

The bylaws²¹ are the common rules governing the relations of the members, their officers, and their employees. They bind the members together as an association. The bylaws should contain all the cooperative provisions applicable to the association, whether or not they are in the articles of incorporation.

The chief points to be covered in the bylaws are the following:

Name and location of association.

Purpose.

Membership.—Rights, limitations, duties, and responsibilities.

Fiscal year.

Capital.—Total amount authorized, interest to be paid, value of the share, how subscribed and paid, how transferred, etc.

Meetings.—Date, how called and conducted, quorum, special meetings, etc.

Directors and officers.—Number, how elected, duties, disqualifications of, vacancies, meetings, etc.

Voting.

Surplus savings.—How distributed.

¹⁹ The Michigan cooperative law makes specific provision for nonprofit enterprises.

²⁰ He may also, of course, lose what he has already invested if the association should liquidate at a time when its debts exceed assets.

²¹ See Appendix A (p. 42) for suggested bylaws.

*Management.**Committees.*—Designation of and duties.*Bookkeeping and auditing.**Miscellaneous provisions*, such as amendments to bylaws, dissolution of association, etc.

Bylaws have certain limitations as to the degree to which they bind the members. Provisions relating to the transfer of stock must in most States be printed on the stock certificate to be binding. Bylaw provisions are not adequate to require that a member who owns (i.e., has title to) his dwelling (as is the case in some associations only partially cooperative) shall offer it to the association before trying to sell it to an outsider or nonmember; in such case an option must be executed. The provisions of the lease also are not covered in the bylaws. In these latter two cases a separate legal instrument must be drawn.

Financing the Enterprise

Initial Expenses

The expenses connected with the purchase of the property are generally five in number, as follows:

1. Incorporation charge; this varies in the different States (in New York State it is \$40). There will also be attorneys' fees in connection with incorporation²² and purchase of land and other real estate.
2. Payment to close the contract of sale, usually an amount ranging from one-twentieth to one-fifth of the purchase price must be paid.
3. Fee for examination and insurance of the title. This also varies in amount but is usually not large.
4. Payment to close the title. The remaining amount of the contract price must be paid in full, or such other payments must be made as are arranged for directly with the owner.
5. Commission on the sale of property. If a real-estate agent is employed, there will be a commission for his services; generally the upper limit is regulated by the State law or standard real-estate practice.

The National Housing Agency estimates the closing fees and commissions at about \$100 on an individual \$5,000 house. The "closing charges" for a single purchase of a group of buildings could be reduced very materially from this figure.

Mortgage Procedures

A variety of mortgage procedures is open. The association may elect to obtain (1) a single large mortgage, with minimum amortization over a long period, (2) a very small mortgage with rapid amortization, or (3) a combination of first and second mortgages. All have advantages and disadvantages.

Of late years the widespread use of the single long-term, low-interest mortgage has largely eliminated the older method of placing both first and second mortgages against the property. This first and only mortgage may run as high as 66⅔ to 80 percent of the value of the

²² Assistance on incorporation may be obtained from the nearest regional cooperative league or wholesale association. For list of such organizations, see Appendix F (p. 59).

property when made by banks or insurance companies. The exact amount will depend upon applicable legislation controlling the lender, the method of appraising the property, and the willingness of the lender to make the maximum loan.

The Federal Housing Administration will insure mortgage loans to cooperative housing associations only if they can qualify under the title applying to rental housing. It has been unwilling to insure the mortgages on the individual-dwelling type of cooperative development on a basis comparable to the terms the individual home owner could get. Nevertheless, it is possible for a cooperative to obtain FHA insurance on a blanket mortgage covering a number of dwellings, the title to which is held by the cooperative association.

Legislation introduced in the U. S. Senate in the fall of 1945 provides for the insurance of mortgages of mutual housing associations, or nonprofit corporations financed on a long-term low-interest basis. If this legislation (previously mentioned) is enacted, suitable financing would probably become available for building new cooperative and mutual housing.

Another potential source of mortgage financing is that of the savings and loan associations. The United States plan, in use by some savings and loan associations, provides for prepayment if desired by the mortgagor, establishes cushions or grace periods in the case of default, and calls for a decreasing interest rate as the principal is reduced. The maximum mortgage may be limited, requiring separate mortgages on each parcel of property.

Mutual savings banks and insurance companies are also potential mortgagees. Trust funds or endowments or other sources of capital might be available for mortgage financing of cooperative housing enterprises. However, each of these sources of funds has certain limitations which affect the mortgages upon which it can make loans.

Ideally, a mortgage-financing system for cooperative housing associations would provide for a maximum debt equivalent to 90 to 95 percent of the original appraised value. This mortgage should establish the maximum indebtedness permitted at any time during its life, based on a long-term depreciation factor. This schedule might be the monthly schedule of balance due, based on a 25- or 30-year level annuity or on a uniform amortization schedule, or a combination of these, depending upon whatever maximum loan the mortgagee was empowered to make.

In order to increase the security of both the borrower and the lender, this ideal mortgage-financing system should make provision for the exigencies of the business cycle. To be specific, it seems likely that within the life of such a mortgage there will be one or more periods of economic depression in which the incomes of home owners will be so drastically curtailed as to prevent their keeping abreast of payments, with the result that, under prevailing formulas of ownership and mortgaging, there will be widespread foreclosures. The proposed General Housing Act of 1945 (S. 1592) would meet such a situation by providing for specific extensions of the loan up to a total of 3 years.

With the privilege of unlimited prepayment of mortgage indebtedness, and the above-mentioned schedule of permissible mortgage debt (permitted by FHA in its Letter to Mortgagees of September 6, 1944) it would be possible for cooperative housing associations to build up a

reserve or cushion between the actual debt and the debt permitted. This could be done in several ways. The stock subscription required of each member might be 5 to 10 percent greater than that actually required under the financing. The mortgage would be taken in the maximum amount, perhaps as much as 90 to 95 percent of the value. However, the additional paid-in shares would be used to prepay the mortgage and to develop this emergency cushion immediately. This prepaid reserve should be further increased by scheduling the amortization payments over a period 5 to 10 years shorter than that permitted by the mortgage. A sizable saving in total interest cost is possible through the more rapid amortization.²³

The Federal Housing Administration is also willing to have the following provision incorporated in FHA-insured mortgages:

In the event of a prepayment of principal, no default shall be construed to exist by reason of the nonpayment of the principal portion of any monthly payment thereafter due so long as the actual unpaid principal balance of the debt is not more than such balance would have been without taking into account such prepayment or nonpayment.

If it is within the financial ability of the members, their payments to principal should be made on a uniform monthly basis, amounting to 4 to 5 percent per year. Although this has the slight disadvantage of increasing the payments during the first 40 percent or so of the loan over the "uniform interest plus amortization payment" popularized by FHA, the uniform-amortization schedule greatly reduces the total interest payments made in repaying the loan. Under the level-annuity plan, the payments on principal do not keep pace with depreciation in the early years of the mortgage, while the total monthly charges in the later years of the loan may exceed the rental value of the dwelling.

Reduction of period of amortization is especially important in a group containing some middle-aged members. It is essential that amortization be completed by any family before the retirement of its principal earner, as continuance of amortization payments will ordinarily be a serious burden for families dependent on retirement income.²⁴

Under the system of uniform monthly payments on principal, the actual costs drop each month as interest is paid on a dwindling amount of debt. In the last years of the loan, the interest payments become very light, keeping the carrying costs of the dwelling well within its prospective rental value.

It is also appropriate to incorporate in the mortgage a provision for the release of particular dwellings from the blanket mortgage as the debts against these properties are paid off. Such prepayment and release would be subject to approval by the mortgagor and to appraisal by the FHA of the property involved, at the time of release. The methods for handling these prepayments, or complete payments of the mortgage debt, are dealt with in more detail on page 35.

²³ One cooperative housing expert doubts the feasibility of the prepayment device, believing that prepayment provisions will not readily be accepted by the usual financing agencies. However, in view of the patent advantages to members and mortgagees alike, as a safeguard against times of hardship, the adoption of the prepayment plan is advisable if at all possible.

²⁴ This difficulty would be overcome to some degree if the association makes provision allowing such families to exchange their dwelling for another more suited to their dwindling size and family income. Nevertheless, a very long amortization period is a real risk.

Initial Financing

MEMBERS' SUBSCRIPTIONS FOR SHARES

The cash for the equity financing (i.e., the ownership interest above the mortgage debt) is raised through the purchase of shares by the members of the association. A subscription agreement²⁵ is signed by each tenant-member, binding him to the purchase of a stated amount of the shares or debentures of the corporation. The amount of these shares or debentures is established in a manner to furnish the equity required by the corporation for the dwelling or apartment the individual is to lease.²⁶ *It is not recommended that a subscription to shares be executed in the amount of the total value of the property.* To do so has the effect not only of increasing the member's liability to the value of his equity plus mortgage, but also of making the member responsible on his lease for the payments necessary to service the mortgage. The limitation of personal liability through incorporation is destroyed to the extent that the member is required to sign a subscription agreement in excess of the equity required. Even in mortgage financing, the trend of progress is away from the increased liability of the homeowner as represented by deficiency judgments. Only if all of the cost is to be raised through share subscriptions and none through a mortgage (or other borrowing) should subscriptions equal the total value of the property.

In the case of buying land, raw or improved, it is desirable that the members' subscriptions be in an amount great enough to pay for the land and the improvements necessary to make the land useful for housing. A variety of difficulties may be encountered in developing mortgaged land and then releasing sites for building purposes. The land must be free of mortgage encumbrances when the first-mortgage building loan goes into effect; it is suggested that this initial and minimum subscription required of each member be adequate to bring the land to this developed stage. If this subscription amounts to more than the minimum required under the mortgage-financing plan, it is suggested that the maximum mortgage loan be taken, but that this excess equity be used to prepay the mortgage as elsewhere suggested.

In case a cooperative acquires a much larger tract of land than is needed for the original housing development, the burden of financing can be eased by lifting the mortgage only on the parcel of land to be used at once. The remainder can then be paid for more gradually. Such an arrangement, if adopted, should be specifically provided for in the sales contract; otherwise the cooperative may later find it difficult to obtain the consent of the seller of the land.

In the case of an association buying a completed building, it is necessary that the equity paid in through the purchase of shares be at least equal to cost above the mortgage. It is far better if it is in excess of the equity required, and if a portion of the shares is used to prepay the mortgage; this procedure starts the association with a reserve fund which can be used to buy in the shares of outgoing members. The funds are obtained by simply withholding amortization payments on the loan. This is made possible by the prepayment credit obtained by pre-

²⁵ For sample agreement see Appendix B (p. 48).

²⁶ "Desirability" factors (location, view, extra-fine plot, etc.) may be reflected in the total by imposing additional flat amounts for each factor involved.

paying the mortgage. This also enables the association, if necessary, to lend an incoming member a portion of the funds necessary to buy the shares of an outgoing member.

Assume, for example, that the members plan to build \$5,000 homes, this being the total value of land and buildings. Under a 90-percent loan, the first-mortgage loan would amount to \$4,500, and the minimum paid-in equity \$500. In most cases, the land, plus cost of roads, sewers, utilities, etc., will exceed \$500. It will probably run nearer to \$750 to \$1,000 per improved dwelling site. An association should therefore set its minimum share subscriptions at the \$1,000 mark, if this will actually cover the cost of the land and improvements. After the buildings are erected, the dwellings and land will be eligible for a \$4,500 loan. It is suggested that the loan be sought in this upper amount, but that this overlapping \$500 of equity actually not required under the \$4,500 loan be used to prepay the mortgage (taking care, of course, to see that the maximum indebtedness permitted at any time under the original mortgage be retained).

The use of second-mortgage financing to raise any portion of the cost is not advised. Second-mortgage financing is very expensive because of the mortgagee's risk.

BOND ISSUES

Bonds are essentially a part interest in a primary or secured indebtedness of the corporation. They may be utilized to raise a portion of the funds for financing a project, but this type of financing should not be necessary under the high-percentage single-mortgage loan. Bonds might be sold to raise the funds for development of land for the portion of the site not originally taken by the members. However, bonds bear interest, which adds materially to the cost of improvements financed in this way. Compelling contractors or material firms to take bonds for a portion of their contract is likely to result in a higher cost than could have been obtained if payment had been in cash.

PREFERRED STOCK

Preferred stock represents an ownership interest entitled to its interest return and repayment prior to any settlement to common stockholders. Interest paid on both preferred and common stock is taxable. Sale of preferred stock has been used to finance cooperative corporations, the stock generally being issued to a limited number of members, friends, or associations willing to invest a portion of their capital in the development. However, cooperative organizations whose members expect to deduct, from their taxable income, the pro-rata interest and tax payments made by the association on their behalf should not utilize preferred stock. (See section on taxation, p. 37.)

DEBENTURES

A debenture is a bond or note, forming one of an issue. As a debt which the corporation is pledged to pay, it takes its place along with the other claims on the corporation and has preference over common stock. The interest payments on a debenture do not constitute a taxable distribution of the corporation, for such costs are regarded as a business expense, just as if the money were borrowed from a bank and interest paid on the debt.

PERSONAL LOANS OBTAINED BY MEMBERS

Because of the reluctance or inability of some mortgage-lending sources to make construction loans, it is sometimes necessary to arrange separate financing for the construction of the building. Generally it is advisable to utilize the services of a financing agency which can make the construction loan, but if this is not possible it may be necessary to resort to personal loans obtained by the members. The cost in such cases is usually high. Any agency empowered to make FHA-insured loans and most savings and loan associations will also make a building loan. In the event that construction loans may not be available, the members might raise a revolving fund by the purchase of additional stock or depositing funds with their association to build the various dwellings. Then, as each building was placed under the first-mortgage financing, the association's revolving fund would be repaid.

The Member In Relation To the Organization

Ownership of Shares, Not of Dwelling

The member of a cooperative housing association does not own his house or apartment; he owns shares in the cooperative association. The ownership of these shares entitles him to a renewable or permanent lease of the dwelling which he occupies. This gives him most of the advantages of home ownership, the sense of security and of permanency, and also an interest in improving and keeping up the property, just as though he were a private owner. He is the private owner of the stock of the housing association.

The legal ownership of the property, however, should at all times be vested with the association as a whole. The member does not have individual title to the property he occupies. The property is never divided up among the tenant-members. They all own it together. *Experience shows that this is the only way to keep cooperative housing cooperative.* When members can obtain individual title to their dwelling unit, they often sell or rent it for personal profit. This introduces speculation, one of the evils which cooperation seeks to remove. If cooperators obtain homes on a cooperative, nonprofit basis and then dispose of them for profit outside of their group, the cooperative principle is destroyed. Not only do cooperators desire the advantage of securing a home cooperatively, but they want to keep that advantage by permanent ownership and administration of their homes in a cooperative manner.

If financing or other compelling reasons make necessary the giving of individual titles to the members,²⁷ safeguards such as the following should be imposed: A recorded option whereby the association reserves the right to buy the property at any time at a stipulated price, minus depreciation computed according to a stipulated formula; a recorded agreement (embodied in the option) that no sale to any other person or organization may be made until a specified time after the association has been notified of intention to sell; an agreement that premises shall not be rented to nonmembers except with the permission of the board

²⁷ Such a procedure does have certain advantages, among which might be cited (1) easier financing, (2) avoidance of foreclosure risk to members able to continue payments or having high equities during a time of general distress when many members might be delinquent in their accounts with the association, and (3), as a consequence of (2), less difficulty in obtaining members.

of directors of the housing association and under terms specified by it, and in no case for longer than 6 months or 1 year; and provision in charter and bylaws that in the event of dissolution of the association, all property shall be sold through it, with any surplus of funds realized in excess of actual investment, minus depreciation, to be distributed in some form entailing no profits to individual members (such as by donation to housing authority or State board, or to a fund for promoting the cooperative movement).

Member's Lease

As already stated, the member receives a certificate for the amount of his paid-in stock and a lease which entitles him to the continuing occupancy of one of the dwelling units. This lease in form is like an ordinary lease. In it the tenant-member agrees to pay a stated "rental" per month to meet expenses for the period of the lease. The lease may be for lifelong occupancy or 99 years, or it may be a 2- to 3-year renewable lease which can be extended for similar periods. The latter method has been in successful use over a long period of time in Amalgamated Dwellings and Amalgamated Housing Corporation in New York City. It has the advantage of making more feasible the expulsion of members who have become obnoxious to the rest of the community, which is very difficult to do under a lifetime or 99-year lease. The renewable lease also limits the member's rent liability to a short period, instead of the longer period provided in the lifelong or 99-year lease. In any case, the lease should permit its being transferred to the member's heirs or family upon his death, provided the heirs continue to occupy the house, and provided the usual conditions and obligations of a tenant-member are fulfilled.²⁸

Rental Charges or Monthly Maintenance Payments

Besides the amount invested by the member in shares of the association, he must pay a monthly "rental" or maintenance charge to cover the fixed charges and operating expenses of the property. The monthly charge is usually determined by the association's board of directors²⁹ and is incorporated in the lease each member signs.

Fixed charges.—The fixed charges include interest on share capital, if any is to be paid; interest on any bonds, preferred stock, or debentures issued by the association; interest on mortgage indebtedness; amortization payment at least as large as the depreciation on the property (otherwise the shares lose their value); taxes; mortgage insurance (if FHA-insured); and fire and liability insurance.

Life and disability insurance are not included under the insurance item above, but the provision of group disability and group life insurance is not an extremely heavy charge, and is worth investigating. The Credit Union National Association³⁰ writes a type of life and disability insurance for borrowing members of credit unions which might be available to members of cooperative housing associations. The value

²⁸ For model lease, see Appendix C (p. 49).

²⁹ But if the association is incorporated under the State housing law, these charges must conform to the provisions of that act. Thus, in Arkansas, California, Delaware, and Kansas, the rentals are set by the State Housing Board; in Illinois, New Jersey, New York, Ohio, South Carolina, and Texas the State Housing Board sets maximums which must not be exceeded.

³⁰ The address of the association is Raiffeisen House, Madison 1, Wis.

of this type of insurance is that the benefits payable on death or disability of the member enable his family either to pay off the mortgage charge on the dwelling, greatly reducing the subsequent cost, or prepares it better to meet the monthly charges on the dwelling. This insures continuity of the association.

A reserve or contingency fund is set aside for special purposes, such as purchase of members' shares, for emergencies, or for the development or expansion of the enterprise. Under a suitably drawn plan, a large part of this fund could be used for mortgage-prepayment purposes.

Operating expenses.—These may vary according to the type of development planned. The operating expenses include wages of janitors, helpers, office and administration expense; cost of fuel; cost of electricity and power; cost of water; repairs, renovating, painting, etc.; elevator expense; cost of garden; insect-extermination expense; fees, legal and accounting; miscellaneous operating expenses; and cost of equipment and supplies.

In single-family dwellings on a spread-out plot, it may be less costly to have individually fired heating equipment. In such case, it would seem advisable to let the individual directly assume responsibility for his fuel bill, gaining such economies as may be possible through cooperative purchasing. It would seem wise also to furnish electricity and power on a metered basis, with the cooperative buying at a wholesale rate, and furnishing the electricity to the members at such saving as it can effect. If the use of water is likely to be excessive by some members, it too could be metered. An individual family is likely to be less wasteful of metered services than if they are furnished as part of the rent.

One of the definite advantages of cooperative ownership is that by providing for proper maintenance of the dwellings, the long-term value of the residences and the neighborhood can be maintained at a high level. This policy of maintenance justifies the amortization of the mortgage over a longer period of time than when no provision is made for keeping property in good shape. It further increases the security of the members' investment. It is highly desirable that a cooperative association make provision for all necessary exterior painting, roof repairs, pointing of masonry, maintenance or replacement of worn-out gutters, etc., in order to keep its property in neat and sound condition. Consequently, a charge should be levied to insure that funds for this essential maintenance are available.

The interior decoration of the dwellings could either be met directly by the tenants, or provided for in the monthly charges. In many developments, it might be feasible to allow the budgeted sum to the individual cooperator upon satisfactory completion of the redecorating, or the exterior painting. The necessary supplies might be bought by the association and furnished to the members.

Public halls and stairways, elevators, walks, public or community space, plumbing and heating equipment, ranges, and refrigerators, and the structure of the building will have to be kept in sound repair and good condition by the association. The approximate cost figure used for all heating, administrative, and maintenance costs is \$4.50 per room per month for dwelling in a multifamily or elevator apartment building requiring janitor service. This figure may be reduced considerably

when developments are so planned as to put the responsibility for much of this maintenance directly upon the members, as it is when property is held in single ownership. In such cases, members might be given cash credit for work of this kind. Equipment (ladders, paint brushes, putty knives, etc.) and supplies could be furnished by the association. Upon completion of the job, the members would be credited with the standard labor charge. If such a practice is adopted, the association should take out liability insurance, to cover possible accidents to members doing such work.

General price policy.—To allow for safety and for contingencies, the cooperative association should set its budget a little above the estimated costs. It is uncertain and hazardous to budget in advance the exact cost of running an enterprise. Cooperatives which attempt to operate on a cost basis in their charges are on very risky ground. One of the basic Rochdale practices, which has proved itself in practice, is sale at market prices. Through the annual rent refund any overcharge is automatically returned, thereby reducing the member's charges to the net cost. At the end of each year, when all operating expenses, heat, light, taxes, interest, debt service, etc., are known and paid, and the proper reserves provided for, the accounting can be made of the earnings available for the rent refund. It is not wise to base any general readjustment of charges, at least if the adjustment is downward, on less than several years' operating experience. In case income is insufficient to cover all expenses, an assessment based on the monthly charges will have to be voted by the members.

Voting Power

Each member of the genuinely cooperative housing association has one vote and no more regardless of the number of shares owned. This is in contrast with profit business; in the latter each share of stock carries with it one vote, so that if a person owns 100 shares of stock he has 100 votes, and if he owns a majority of the shares he casts a majority of the votes and controls the organization. Democratic control, which is a basic principle of cooperatives, is usually provided for in the cooperative laws, but may not be required or even permitted if the association incorporates under other statutes. However, as pointed out elsewhere, it may be possible to include in the articles of incorporation provisions for democratic control even though the statute does not require them.

Withdrawals of Members

If a member of a cooperative housing association wishes or is forced by circumstances to withdraw from the association, he may do so, but his shares must be offered to the association first and at the par value which he paid for them. The shares are bought back by the association at par value, less any amount owing the association for rent or for damages to the property. If the member has allowed his savings return or the interest on share capital to remain in the association's treasury, this amount is also due him. When the member has paid amortization on the loan at a rate significantly greater than the rate of depreciation, some arrangement should be worked out to return such increased equity interest. The incoming member, under such an arrangement,

should match the share investment and the increased equity of the withdrawing member.

The association should purchase the shares of a member within as short a period as possible, providing the finances of the society are not jeopardized. The place of a retiring member should be taken whenever possible by the next prospective member on the waiting list for that particular type of housing unit.

Usually the bylaws provide for the repurchase of the member's shares in such cases, and a reserve fund is set aside for this purpose. The payment of the incoming member may be used to repay the withdrawing member. In some associations the reserve fund is held in a separate corporation which is authorized to purchase the shares of withdrawing members and sell them to the incoming member. The reserve fund, under such an arrangement, can be built up by having members assign a portion of their rent refunds for this use. The mortgage-prepayment cushion, described elsewhere in this pamphlet, can serve as the source of funds for buying in the shares of the outgoing member, by the device of withholding interest and amortization payments on the mortgage and letting the debt increase. Shares of outgoing members should not be redeemed when this process jeopardizes the financial stability of the association. In such case, a program for making regular partial payments in settling the account might prove feasible, the shares of the withdrawing members being sold to incoming members and a partial loan being granted to the new members to complete their initial purchase.

In the event that none of the prospective replacement members can make the investment required, some arrangement should be developed whereby the incoming member may borrow a portion of the funds necessary to pay for his shares, under some agreement whereby the shares themselves become security for the loan. This loan should be repaid with interest and amortization by the member, on a monthly basis; this has, of course, the effect of adding to the member's maintenance charges.

If it becomes absolutely necessary for the association to rent an apartment or dwelling to a nonmember because there is no member applicant for it, the rental set should be high enough to pay interest on the association's equity in the rented dwelling, especially if the common shares carry no interest and the maintenance charge does not include interest on the shares.

If at the expiration of a year, or such other period as is provided for the repurchase of the shares by the association, the board of directors has not bought back the shares or transferred them to a new member, the member himself shall have the right of sale. This right of sale should be limited to a new tenant-member, acceptable to the association, who signifies his intention of occupying the property. All transfers of shares should be made on the books of the cooperative association.

Much of the economic pressure which tends to cause withdrawals from cooperative housing ventures in depression times could be eliminated by the establishment of a tenant's deposit account. The operation of such an account is described in further detail on page 35.

Administration and Management

Administration of the Association

The affairs of the association are administered by a board of directors, elected by the membership in general meeting. The directors serve without pay, and decide and act upon all general and fiscal policies. In most cases, the directors in turn elect from their own number the officers—generally president, vice president, secretary, and treasurer. In genuine cooperative associations, the nominees for the board must be members of the association. In the case of limited-dividend and mutual housing associations, which may otherwise operate as a cooperative enterprise, the board members might not all be drawn from the membership.

Management of the Property

The directors employ a bonded manager, whose duties are to collect the rents, keep the accounts, handle deposits, authorize disbursements, keep the property in good order, and make recommendations to the board on policy. He may also manage some or all of any other cooperative enterprises connected with the enterprise. The success of a cooperative housing association is largely dependent upon the ability and efficiency of the manager, and upon his understanding of cooperative aims and principles. Beyond this, a good manager needs a knowledge of business principles and law and the ability to work amicably with people. One of his duties is minimizing or eliminating friction which can be injurious to the well-being of the association.

If the management is not satisfactory to the membership, the election of more capable directors or the appointment of a more capable manager is one possible solution. The membership might even decide to turn the administration of its property over to a central cooperative housing authority, such as the administrative bureau of a cooperative housing federation, to a cooperative league, to a State or municipal housing authority, or to a properly bonded real-estate-management company. However, such relinquishment of control implies some degree of failure by the association to manage its own affairs properly. The ideal solution might be to have available, perhaps through a central cooperative housing federation, league, or wholesale, expert advisory and supervisory personnel which could assist the manager or board in working out solutions to troublesome problems.

Committees

A wide variety of member-sponsored activities is possible when the members are awake to ways and means of meeting their common needs collectively. Some boards of directors (especially if not all of the directors are elected from the membership) may authorize a house committee to handle many of the decisions that confront the association, such as approving new members, handling problems of group discipline, formulating recommended rent-refund policies, etc.

A separate committee on cooperative services, or a separate cooperative corporation might handle the distribution of electricity

or other utility services, the distribution of milk, the operation of stores, central kitchen, restaurant or dining room, bakery, laundry, children's nursery, library, recreation of various kinds, barber shop, beauty shop, shoe-repair, gasoline station, automobile storage or repair, and other services needed by members. A first-aid hospital or dispensary might be justified in some developments. Joint arrangement might be made for the part-time service of maids, cleaners, seamstresses, and children's nurses or teachers, if the members desired. The financial administration of some or all of these activities may be assigned to the manager of the cooperative housing association.

An education committee is highly desirable. In all live cooperative associations an education committee of the members performs the function of keeping up interest in the whole cooperative movement—what it is doing and aims to do—by holding meetings, forums, and classes, by giving plays and pageants, and by carrying on activities to keep members interested in the larger possibilities and achievements of cooperation. Some larger societies employ a full-time educational director. A news sheet may be published, with the educational director serving as editor.

Beyond these more or less official committees or organizations, there should be a bond of sympathy and brotherhood which prompts the members to grapple collectively with problems of common concern. In some cases, this group thoughtfulness might apply to helping those known to be in need, whether members or not.

Another group activity which is carried on in many cooperative associations is a credit union. The financial and educational value of these small cooperative banks, operated within the membership of the association, should not be overlooked. *The reserves they represent, and the aid they can render in an emergency may, in times of economic depression, make the difference between success or failure of a hard-pressed association.* Credit unions may be of great assistance in helping new members to purchase their housing shares, or enabling members to meet emergency expenses which might otherwise have prevented the payment of rental or maintenance charges. The business training obtained by the officers of a credit union is also an excellent preliminary to greater participation in housing matters.

Policies

SUBLETTING OR SUBLEASING TO NONMEMBERS

The basic function of cooperative housing is that of supplying dwelling accommodations collectively, for the members, on a non-profit or service basis. Subletting or subleasing, as a regular policy, should not be permitted. Ordinarily a member who does not desire to reside in his dwelling unit should turn his apartment or residence back to the association for leasing to a new member on the waiting list. In such case the outgoing member's shares are transferred on the association's books, and the new member makes the investment necessary to repay the withdrawing member.

If a tenant-member finds it necessary to sublet his dwelling, there should be certain regulations relating to this matter. The period of subleasing should be only for a short period of time—perhaps a

few months to a year.³¹ The proposed tenant should be acceptable to the board of directors, or to the committee that handles membership. The rental charged should not include a profit to be collected by the lessor, but might reflect interest on the investment and the rental value of the furnishings, minus the rent refund for the rental period. In fixing the rental charges the association should conform to any regulations by price-control agencies (if incorporated under limited-dividend housing laws) or by the housing authority or supervisor charged with regulation of the housing enterprise.³² In genuine cooperative housing associations neither the maintenance charge ("rental") nor the investment required is subject to the wartime rent-control regulations, because of the nature of the cooperative ownership.

Several methods of obviating subleasing or vacancies in times of lessened demand are possible: (1) Arrangements could be made for incoming members to borrow, from either commercial sources or the association's reserves, a portion of their share-capital requirements so that their shares could be paid for in full at once, the debt (with interest) being paid up over a period of years. The member could pledge the shares so purchased as collateral for his loan.³³ (2) Vacant quarters could be rented by the association at a rate which would pay the interest return to the association on its equity in the apartment. With this source of revenue, the association might justify borrowing from outside sources if necessary, since the renting nonmember would be paying the necessary interest costs. (3) The best policy of all would be to maintain the prices for the association's properties sufficiently low, for the facilities offered, to insure that the dwellings would remain "good buys" regardless of hard times. In such a situation, a long waiting list could probably be maintained, keeping a ready source of new members.

Widespread subleasing or rental to nonmembers by the association is destructive of the underlying principles of consumers' cooperative housing, and is not recommended. Any profits realized by an association (beyond the interest return on its equity) in renting to nonmembers, should be devoted to the benefit of the whole association or, if possible, to enabling the nonmembers to purchase their shares.

RENTAL OF COMMERCIAL PROPERTY

In a large project in which space has been provided for a community shopping and service center, the association will properly act as landlord, renting the facilities at rates high enough to cover costs plus a reasonable margin. Such practice is justified, in that the commercial value is the result of the housing development itself, and should inure to the association. The properties should preferably be let to cooperative associations formed to carry on the needed services; as soon as these associations are in financial position to do so, they should be allowed to become members of the housing association and owners of shares entitling them to leasehold of the premises they occupy, on the same terms as other members.

³¹ The association might eliminate much of the demand for subleasing if members who left the city for a year or so at a time were retained on the membership rolls; they would then have priority over new applicants for any vacancies.

³² See footnote 29, p. 28.

³³ This system was employed by Amalgamated Dwellings, Inc., to enable new members to come into this development, which was built at the onset of the depression of the thirties.

INTEREST ON SHARE CAPITAL

Interest may or may not be paid on share capital, as has been mentioned previously. *If it is possible to apportion the member's subscription to the shares to the cost of this dwelling, as by a per-room basis or a percentage of the total cost, it is desirable to have the common shares noninterestbearing.* Interest, if paid, is largely of illusory benefit: In order to pay interest on shares, additional funds must be collected from the member in his maintenance charge, only to pay them back to him. Also, the interest payment on shares constitutes a taxable distribution of earnings, since it is paid out in proportion to the stock ownership. The member must therefore be charged for both taxes and interest, in order that he be paid the interest. A person, in estimating the total cost of his own housing, may calculate the interest his share investment might otherwise earn, but the individual who owns a house individually does not actually charge himself interest on his investment and then pay it to himself.

If, nevertheless, the members decide that interest be paid, it should not exceed the current market rate, nor should it vary with either the value of the property or the earnings of the association.³⁴

If it is necessary or desirable that some members or friends contribute capital beyond their pro-rata portion, subscribed in shares, such oversubscription should preferably be handled as a loan. It might be deposited with the association, lent to the association on an interest-bearing note, or paid on a subscription or a debenture bond. This method of obtaining auxiliary financing does not involve needless taxation of the association, nor does it disqualify the association under certain other regulations of the Internal Revenue Code relating to cooperative housing.

MEMBERS' DEPOSIT ACCOUNT

In an association which has been able to secure a mortgage loan which gives full credit in time as well as debt for prepayments on the amortization of the mortgage loan, it would be feasible to establish a members' deposit account. Essentially and simply, this would be a type of savings account in which the members could deposit their refunds, or other savings for the chief purpose of prepaying the mortgage. Such a deposit account should probably make a small interest payment comparable to that of a savings bank for the balance maintained in the account. The funds would be used primarily to reduce the higher-interest-rate mortgage loan, thereby effecting a savings in interest to the association.

It would be desirable to have this account available for other deposits besides the refunds which members might leave with the association. The conditions for repayment or withdrawal of these funds might be somewhat restricted in order to insure their use for helping to meet the member's maintenance or "rent" obligations. Conceivably, if all members of an association simultaneously sought to use their deposits to make their rent payments, restrictions might have to be imposed permitting withdrawal of an amount equivalent to one-third or one-half of the monthly rent.

³⁴ The State housing laws limit the rate of interest on share capital to 6 percent, except in Illinois where 6½ percent is allowed and in Delaware where 8 percent is allowed.

The chief purpose of the deposit account is the establishment of a financial reserve upon which the member could draw to supplement the funds he might have in order to make his monthly payments. The association would have to withhold amortization payments, and perhaps let the interest accrue on its mortgage, utilizing its mortgage-prepayment reserve to offset the member's withdrawals. With the deposit account entirely depleted, the association's mortgage would have grown to the amount provided in the original schedule of mortgage payments.

Properly utilized, such a deposit account could have the effect of encouraging members' savings in inflationary periods, lowering their housing costs in times of economic depression or unemployment, and greatly increasing the financial security of the association.

EFFECT OF INCREASE OR DECREASE IN PROPERTY VALUES

In a cooperative housing association the members do not profit financially by any increase in the value of the property or of the capital stock; there are no stock dividends and no extra bonuses, as is customary in ordinary stock corporations. An increase in the market valuation of the property as a whole does not result in stock revaluation. It may increase taxes. When the market value of the property declines, the members are equally not affected, except as they may enjoy lower taxes. This is true because the cooperators are members of an association which collectively owns homes for residence purposes and not for sale or speculation.

The antispeculative controls previously suggested are techniques for eliminating profit-taking at the expense of consumers of housing. It is also important to find ways to meet the deflationary challenge which an association must expect to face during its lifetime. It is almost axiomatic to say that families will not want to move out of a cooperative development any sooner than financial considerations compel them to do so. The soundest way to prevent such withdrawals is for the association to build up as large a reserve as possible, preferably in the form of mortgage prepayments, upon which a family may draw for a fairly long period, to supplement the rent payments it can make. The advantage of the mortgage-prepayment method is that such prepayments reduce the interest cost on the mortgage. Such funds, if invested in other ways, might not be available to meet mortgage payments in the event of another economic debacle, and certainly are not likely to bring any more interest than is being paid on the mortgage.

A lengthy period of partial unemployment might exhaust such reserves, especially if the association's reserves were small to begin with. The members whose rent-receivable accounts may be growing have actually secured that debt up to the amount of their investment in shares, yet unless the mortgagee is unusually sympathetic, or unless there is in effect a moratorium on foreclosures, an association as a whole is no more able to convert its equity to rent than the individual family owning a mortgaged house. Money might be borrowed on these rent-receivable accounts to help make mortgage payments.

Tax Status of Cooperative Housing Associations

One unique feature of cooperative housing is its nature as a non-profit, nonspeculative, corporate type of group home ownership. As long as the net earnings of a cooperative housing association are disbursed as a rent refund, rather than as interest or dividend to stockholders, the effect of this distribution is to reduce both the taxable income and reserves held by the association and the cost of housing for the members. (This would be true in any corporation, whether cooperative or otherwise; however, the usual corporation is in business to pay its earnings not to its customers but, rather, to its stockholders.) Earnings not refunded, but held as reserves or paid out as a dividend to stockholders, are subject to taxation.

Many cooperative statutes require that a percentage of the earnings be set aside until the reserve equals a certain proportion (usually 30 to 50 percent) of the value of the stock outstanding.³⁵ The funds paid into this reserve are probably taxable since they would eventually accrue to shareholders of the association in proportion to ownership.³⁶ A reserve satisfactory to the cooperative laws could probably be established from the outset by requiring that the members' paid-in subscriptions exceed the minimum equity required for financing, and then utilizing this additional capital to build up a prepayment reserve or cushion in the mortgage-amortization schedule.

Some associations have built up a reserve from which to buy in their shares, by returning virtually all of their earnings to their members as a patronage refund on rent. The members, either at the annual meeting or by action of their board, have previously agreed to assign or donate a portion of this refund to a special housing fund. This fund might be held by a separate corporation, preferably the one charged with buying in and selling the shares of the housing association to incoming members. In this case, the reserve is built up by donations or loans of the members to the fund, not by a taxable withholding of reserves.

Individual taxpayers, owning property in single ownership, are permitted to deduct their real-estate tax and interest payments from their income subject to taxation. As the internal revenue laws make a similar provision for the cooperative ownership of real estate, the member may deduct his pro-rata portion of the taxes and interest payments made on his behalf by his association. However, if a housing association has more than one kind of stock outstanding, or if any of its earnings are paid out as profits, or if more than 20 percent of the stock is owned by nonresident members, the members of the association will be disqualified from this income-tax deduction. (See Internal Revenue Code, Regulation 111.)

Use of Surplus Savings

If the laws of incorporation permit, there are many uses to which the surplus savings, which accrue from collecting from the tenant-members more than the net costs, may be put. Thus—

³⁵ The housing laws, on the other hand, set a maximum (generally 15 percent), which may not be exceeded.

³⁶ However, "equity reserves" earmarked for individual members have been held to be non-taxable to the association.

- (1) They may be used for more rapid amortization of the mortgage.
- (2) They may be returned to the members directly in cash, as savings returns, in proportion to their monthly rental or maintenance charges.
- (3) They may be returned to the member as a rent refund, but in two portions, part in cash to the member and part as payment to be assigned to a reserve or housing fund.
- (4) They may be returned to the members as a rent refund under a plan whereby part or all of the refund would be deposited to the member's account with the association, for withdrawal by the member upon need (as to pay his monthly charges). A small interest payment, comparable to that on a savings account, would be justified on this sort of deposit, especially if these funds were utilized to prepay the interest-bearing mortgage indebtedness under the prepayment provisions discussed previously.
- (5) A portion of these surplus savings might be spent for further improvement of the property, beautification of the premises, developing additional recreational facilities, meeting and game rooms, theater, summer camp, etc., to build up a library, or to purchase additional equipment not otherwise provided. It is strongly recommended that, before distribution of the surplus savings, a portion be set aside for social or community purposes.
- (6) A portion of these funds might become the working capital for other *self-supporting* cooperative services, such as distribution of food and dairy products, furnishing a barber shop, a shoe-repair shop, a medical clinic, or a nursery school and kindergarten, or other services needed by the community.³⁷ In case these services were to be undertaken by a separate service cooperative, these savings could be refunded to members to use for purchasing their shares in the service cooperative.
- (7) The savings return may be authorized for payment under a plan which defers the actual payment for a period of years. This in effect is a type of loan from the member, which increases the working capital in the association. This method of maintaining a revolving fund of capital in addition to share capital has become very popular among agricultural cooperatives in recent years. It has been subjected to criticism from organizations opposed to cooperative enterprise, but the Federal courts have ruled that deferment of patronage refunds does not make a cooperative liable to the payment of Federal income tax on the amounts so deferred.
- (8) These surplus savings might be partially utilized for educational work in expanding the usefulness or scope of cooperative housing. Lack of even minimal financial support for this type of work, usually provided by most Rochdale cooperatives, has been a major deterrent in the development of a widespread program of cooperative housing.
- (9) These surplus savings might become the working capital for other cooperative wholesaling or manufacturing organizations which would furnish necessary building materials, supplies, or appliances for cooperative housing associations.

³⁷ In a large association it would be desirable at the start, to provide space for community stores and services. One of the first measures after the dwellings were occupied could then be the formation of one or more cooperative associations to operate such enterprises.

Before making a decision on the uses to which the surplus savings shall be put, the association should study the provisions of the law under which it is incorporated, to insure the legality of its decision.³⁸

Dissolution of Association

If the requisite proportion of the members vote in general or special meeting to dissolve,³⁹ dissolution should become effective.⁴⁰ The dissolution and sale of the property for the personal gain of the members should be discouraged; for it permits those who chance to be the final members to reap the benefits of the joint efforts of all who preceded them, thus violating the nonprofit feature of the enterprise. Provision may be made in the bylaws, at the beginning, that shares shall remain at par, and that any increase in the value of the property shall be used as a fund for the further development of the cooperative movement or of cooperative housing. Thus, if for some reason it seems necessary to disband the association, the property is sold as a unit. In the case of detached residential buildings, the dwellings might be sold to individual owners by the association. No member should receive for his shares more than he has invested. If no interest has been paid on the shares, payment of such interest conceivably might be permitted. If the association is operating under a housing law which restricts returns to the owner of the stock, the limited dividend established in the law would apply in this settlement.

In the event that the equity interest sells for more than the capital invested (plus, perhaps, the uncollected interest), it would be highly desirable that the association use this "profit" for some valid community purpose, such as the establishment of a park or library, or assign it to a fund for the financing or guidance of other cooperative associations.⁴¹

If, at the time of dissolution, the value of the property has decreased, the members receive such percentage of their shares as has been realized by the sale of the property. This loss may be attributable to putting the association's property on the market at a time of low real-estate values; obviously, dissolution should not be undertaken at such times if any alternative plan is possible. This potential loss upon dissolution may also be traceable to charging off depreciation at an insufficient rate, resulting in a reduction of the share capital because maintenance charges were not set high enough to include a proper depreciation. The loss in value of the shares, in this instance, would already have been offset by the gain the members obtained through too-cheap rent.

³⁸ Any of the above uses would be legal under practically all of the consumers' cooperative laws. Some of the limited-dividend housing laws, however, sharply limit the purposes for which surplus earnings may be used. Thus, if receipts exceed operating and other expenses, the balance must be applied to a reduction of rent in Illinois and Kansas; also in New York, Ohio, South Carolina, and Texas, unless the amount is too small. In Massachusetts the surplus earnings may be used for the renovation of the property or to provide other facilities, in the discretion of the housing board.

³⁹ Proportion varies in the various State cooperative laws but (when specified) is generally a majority or two-thirds of the entire membership.

⁴⁰ Associations formed under State housing laws are often required to obtain the approval of the State housing board before they may dissolve. This is the case in Arkansas, Florida, Illinois, Kansas, New Jersey, New York, Ohio, Pennsylvania, South Carolina, and Texas.

⁴¹ Under the housing laws of Florida, Kansas, New York, Ohio, South Carolina, and Texas, any excess above par value of shares must be paid over to the State unless the State housing board approves some other means of disposal.

Central Cooperative Housing Organizations

Supervisory Agency and Cooperative Housing Fund

In order to make adequate information and technical guidance available to groups desiring to undertake a cooperative housing venture, it would be highly desirable that a consultative, advisory, or supervisory service be established. Such assistance should be available through critical early years when the association must make important decisions, in order to bring the experience and knowledge of other cooperative groups to bear on the problems of each association.⁴²

In addition to this service, the creation of a housing fund to assist in the development of cooperative housing associations would likewise be desirable. This fund should be available for (1) loans to individual cooperators who have not sufficient funds to subscribe to the full amount in the beginning for their purchase of shares, and (2) loans to cooperative housing associations to finance their original development or to meet their temporary financial needs. Such a fund could be raised by subscription for bonds or shares. Possible subscribers for such bonds would include cooperative associations; foundations and philanthropic organizations; insurance companies, banks, and other business institutions; individuals; and municipal, State, and Federal Governments. This fund would be administered by a board of directors elected by the shareholders, or it might be administered by a cooperative housing federation when such exists.

Federated Activities of Cooperative Housing Associations

Cooperation between associations is useful in the same way that cooperation between individuals is useful. Two or more housing associations may unite for their mutual advantage, forming what is comparable to the cooperative wholesale or league among the store associations. The members of this federation would be associations, not individuals, with votes in proportion to the membership of each constituent organization.

The federation would be financed by the subscription of shares by the member associations.

It would engage in large-scale educational, service, or commercial enterprises, which are more effectively performed thus than by a single association. Possible activities might include a central architects' bureau, facilities for building and contracting, and manufacturing or wholesale dealing in roofing materials, lumber, sash, frames, doors, paint, plumbing supplies, and other housing needs. Some of these supplies are already available through cooperative wholesales.⁴³ The utilization of relatively standardized items by various cooperative housing associations would permit efficient large-scale buying, and in some cases, manufacturing, in order to help keep the costs down, and still maintain quality and specification standards. Cooperative

⁴² The Eastern Cooperative League, 44 West 148rd Street, New York City, is experimenting with such a service as a means of helping prospective cooperative housing associations. As other league offices often have a staff member who is well informed on housing matters, housing associations would be well advised to get in touch with the league or wholesale nearest them. (See list of such bodies in Appendix E, p. 59.)

⁴³ Or the project might operate as an affiliate or subsidiary of National Cooperatives, Inc., at Chicago.

societies contemplating a building program should keep in touch with the nearest wholesale about building materials and appliances.

Certain surplus funds of the member associations might be invested in a federation to be used for the financing of other cooperatives, and for loan funds to help individuals become tenant-members. In the case of loans from the funds to individual cooperators, the applicant for a loan should have funds of his own amounting to at least 40 percent of the amount he requires to subscribe for his home. He should try to amortize his loan at the rate of 20 percent a year, so that within 5 years the fund would be restored to its original amount.

The federation might also take over the administration of individual cooperative housing associations, if the members of such housing associations voted for the transfer of the administration to such federation, or might become part owner of the properties of the member associations in order to prevent the dissolution of associations, in the event of a great increase in the value of the real estate and its possible sale by the members for their own profit.

Another possibility for organized effort in the housing field is the formation of service associations created to provide maintenance service for housing projects within a given region.

Appendix A.—Model Bylaws for a Cooperative Housing Association

ARTICLE 1.—*Name and Location of Association*

SECTION 1. The name of this association is _____
Its principal office is located in _____.

ARTICLE 2.—*Purpose*

SECTION 1. The purpose of this association is to provide its members with housing on the cooperative plan and to engage in such related activities as the members may determine.

ARTICLE 3.—*Membership*

SECTION 1. *Membership qualifications.*—The association shall consist of the present membership and all other persons who hereinafter may be admitted to membership.

Any person approved by the association may become a member of this association by agreeing to comply with the provisions of these bylaws, purchasing _____ shares of its capital stock, applying for a dwelling,² and agreeing to subscribe for additional shares proportioned to the cost of the dwelling he is to occupy.

SEC. 2. *Rights and duties of members.*—Every member must agree to obey the rules of the association as set forth in these bylaws, or elsewhere, and the decisions of the general membership meeting or of the board of directors. He must also do his utmost to promote the aims and purposes of the association, the success of its operations, and the welfare of its members.

The books of account, stock book, and transfer ledger of the association shall be available for inspection daily at reasonable hours by any member of the association who has been a member for at least 6 months prior to his demand.

SEC. 3. *Withdrawal or expulsion from membership.*—A member wishing to terminate his membership shall make written application to the board of directors, which shall have the right to establish the terms according to which the repurchase of his stock and other equity, if any, may take place, subject to the provisions of article 5, section 3.

At any time the board of directors may prefer charges against a member if the board is of the opinion that such member has violated any of the provisions of these bylaws, or that he has been guilty of conduct detrimental to the association. Subject to the provisions of article 5, section 3, his lease may be canceled by notice, upon tender of the par value of his stock and other equity, if any, minus his proportionate share of any deficit, as determined under article 5, section 3, and his membership shall be terminated.

ARTICLE 4.—*Fiscal Year*

SECTION 1. *Fiscal year.*—The business period of this association shall begin with _____ of each year and end on _____.

ARTICLE 5.—*Capital*

SECTION 1. *Capital stock.*—The capital stock in this association shall be _____ dollars, divided into _____ shares at a par value of _____ dollars each.³

SEC. 2. *Member's shareholdings.*—The number of shares to be held by an individual member shall be based upon the equity required by the association in relation to the cost of the dwelling he is to occupy.

SEC. 3. *Transfer or repurchase of shares.*—It shall be the policy, when requested, to redeem the capital stock owned by the members whenever this can be done without jeopardy to the association. A member wishing to withdraw shall be required to give 60 days' notice of such intention. The association may

¹ Either "Inc." or "Incorporated" should appear in the name of the association as an indication that the liability of the members is limited. If the association is not incorporated it functions as a company in which each member is liable for the entire obligations of the organization.

² This provision insures that the members and tenant-owners shall be an identical group.

³ Cooperative shares never go above par value. This provision is inserted here mainly to comply with the technicalities of legal procedure.

Some States set the value of the individual shares of stock for societies which incorporate under the general cooperative law, and the State law under which incorporation takes place should be consulted before the value of the share is fixed.

redeem shares at an earlier date if the board of directors decides that they may be withdrawn without injury to the association. Every effort shall be made to accommodate members leaving the community or in distress.

Transfers of shares shall be subject to the approval of the board of directors. The issue and transfer of all shares must be registered on the books of the association. No shares shall be transferred until all claims of the association against the owner of such shares shall have been paid.⁴ The board of directors may purchase any share or shares from the reserve fund of the association.

The association shall have an absolute lien on the shares, loans, or deposits of any member for any debt due the association by him, and any sum credited to such member may be applied on or toward the payment of such debt.

The association shall have the first option on any shares of stock offered for sale. Shareholders desiring to withdraw from membership or to dispose of surplus shares must first offer their shares to the association, through its board of directors.

The amount to be paid for such stock shall be determined by the board of directors, by the following computation: The par value of his paid-up stock, minus the proportionate share of the deficit (if any) based on total stock outstanding. This computation shall be made as of the end of the fiscal year, the date of which is nearest to the date of acceptance of the member's withdrawal. The deficit figure used in this computation shall be that figure found in the annual report of the fiscal year used, after the board of directors has taken action in accordance with section 5 of this article.⁵

If the association, through its board of directors, is unable or refuses to redeem such shares, the shareholder shall then have the right to dispose of them to any person eligible to membership in the association.

Transfers of the shares of this association shall not be binding until made upon the books of the association with the approval of the board of directors, and no transfers shall be completed until the old certificate or certificates have been endorsed and surrendered and a new certificate issued in the name of the purchaser.

The board of directors, also, shall at all times have the authority to repurchase the shares of stock and to cancel the membership of any shareholder (1) who has died, (2) who has failed to meet his payments on stock subscriptions within the specified period or time, or (3) who has, for any other reason, been judged unfit for membership. *Provided, however*, that such member shall have the opportunity to appear in his own defense before the next regular or special meeting of the association and that the board of directors is sustained in its action by a majority vote of the members present.

The board of directors shall not repurchase the shares of any withdrawing member nor of any other member when in its judgment such a reduction of the association's capital would in any way endanger the financial condition of the association.⁶

SEC. 4. Loan capital.—The association may accept loans from its members or from nonmembers when in the judgment of the board this is to the best interest of the association, *provided, however*, that the total amount of such loan capital shall at no time exceed _____ percent of the total paid-in share capital, and *provided, further*, that any loans to be used for capital improvements or for financing new activities must first be authorized by vote of the membership. Notes or other evidences of indebtedness shall be given by the association for such loans, but no such note shall be for a period of less than 90 days.⁷

⁴ Many an association having no rule such as this, has felt itself obliged to redeem the capital stock of a withdrawing member. Not only should there be such a provision in the bylaws, but it should be scrupulously followed.

⁵ The redemption price of shares is often regulated by the laws of the State. Some States compel redemption at par value, regardless of the fact of a deficit or surplus on the books of the association, others at book value.

⁶ It would seem that this provision is so obviously sensible that it is not needed in the bylaws. However, many a board of directors has acted directly contrary to its own best judgment in the face of persistent demands on the part of some strong-willed shareholders. A clause such as this in the bylaws will help to stiffen the backbone of a board of directors, and a resolution by the board expressing its judgment and the reasons therefor would probably meet the situation.

⁷ Wherever agreeable to the depositor, these notes should be made for longer periods of time—6 months or 1 year, or 2 years or more; they could be redeemable "90 days after demand." Notes or bonds running 20 years or more are advisable where the money is used for building. Bonds are safer than short-term notes, because they insure a longer loan, and they have a definite maturity date. Most cooperative associations will not undertake to issue bonds, but they should try to give these notes something of the same stability. Of course, as long as this form of capital is needed, members should be urged to renew their notes well in advance of the date of expiration.

SEC. 5. *Returns on share and loan capital.*—Any return on share capital shall not exceed _____ percent per annum⁸ and shall be paid only from earnings. Such return shall not be cumulative.

Loan capital shall receive interest at a rate fixed by the board of directors, but shall not exceed _____ percent per annum; such interest may be cumulative.⁹

SEC. 6. *Death.*—Upon the death of any shareholder leaving heirs or assigns, the association shall, upon request, redeem at par value within 1 year such shares as are held in his name, if permitted by law or if possible without jeopardizing the financial position of the association.

ARTICLE 6.—*Disposal of Net Savings*

SECTION 1. The board of directors shall at the end of each fiscal period provide for the distribution of the net savings remaining after expenses have been met, according to the following method:

(a) *General surplus reserve.*—From the net savings shall be allocated to the general reserve account a sum not less than 10 percent of such savings until the reserve is equal to the amount of paid-in capital; and thereafter not less than 5 percent.¹⁰ The general surplus reserve shall consist of money especially allotted to it from net savings or earnings of the business, initiation fees, fines, contributions from individuals, and any other funds appropriated to it by action of the board of directors or the general membership meetings. This reserve shall be used to absorb operating deficits of unsuccessful years, losses caused by fire, theft, or other reasons; for the extension of the association as a consumers' cooperative; or for other developments directly associated with the cooperative movement, upon vote by a general meeting of the membership.¹¹

The general surplus reserve shall be the indivisible property of the association as a whole.¹²

(b) *Educational fund.*—From the net savings a sum not less than 5 percent thereof shall be allocated to an educational fund. In addition, this fund shall receive the amounts of patronage refunds standing to the credit of nonmembers who have failed to become members within the period specified in paragraph (c) of this section.

This fund shall be placed at the disposal of the educational committee of the association, to be used for purposes of education among the members and the public.¹³

(c) *Patronage refunds.*—Subject to determination by the membership meeting, the sum remaining after paying the return on share capital and after providing for the reserve and educational fund, as provided in section 1 (a) and (b) above, shall be used collectively for social purposes or be divided among the members who are not in arrears, in proportion to the amount of their monthly payments during the fiscal period;

Provided that these savings returns or patronage refunds may be paid immediately in cash, or in certificates of indebtedness, or may be placed in a revolving fund upon the books of the association to the credit of the patron members, to be paid at some future date at the discretion of the board of directors; and

⁸ In no case should the maximum rate here specified exceed the current rate. However, see discussion relative to returns on share capital (p. 35).

⁹ Loan capital is entitled to its interest before share capital. In fact, the interest on it should be charged to operating expenses, whereas the return on share capital must come out of net surplus savings; it cannot lawfully be paid from the general reserves.

¹⁰ Before the amount to be placed in the reserve is determined, the State law under which the association is incorporated should be consulted, as some of the laws have a definite provision on this point.

¹¹ Under this section it is possible for the association to make an appropriation to the central, national, or district cooperative educational body. Generally, however, such appropriations should be made out of current surplus savings or earnings. Funds should not be appropriated from the reserve as donations to organizations or causes outside the consumers' cooperative movement; such action establishes a precedent from which it is difficult to disentangle the association in the future; furthermore, it may cause disagreement and division in the membership. Donations to pure philanthropies by unanimous vote of the membership should be the only exceptions to this rule.

¹² The indivisibility of the reserve fund is important. Its meaning should be made clear to the membership, for this is one particular in which the cooperative business differs radically from profit business. Many associations have made the mistake of crediting each shareholder with "his share" of the general surplus reserve and actually turning this over to him in the form of cash when he withdraws. In other associations, the membership meeting has voted to divide the reserve. Either practice is objectionable, for it allows such persons to profit from the funds built up from patronage of previous members and is in violation of that Rochdale principle which requires that cooperative shares shall never exceed the par value. Monetary benefits to members of cooperatives should be the result of patronage, not of the investment.

¹³ Some associations regard educational work as part of the regular operating expenses and do not, therefore, make a definite appropriation at the end of the fiscal period.

Provided, further, that in case of a patron who is not the owner of shares sufficient to qualify for membership in the association, patronage refunds shall be credited to the payment of such stock.

If a nonmember fails to become a member within _____, the amount to his credit shall be transferred to the educational fund.

No patronage refunds shall be declared or paid for any period in which there was an operating deficit, nor as long as the association has a general deficit.

ARTICLE 7.—*Subleasing of Dwellings*

SECTION 1. A member may sublet his dwelling at the regular rate plus a nominal charge for furnishings. Subletting shall be permitted for a period to be decided upon by the directors.¹⁴ Members subletting shall be responsible to the association for payment of rent. Persons renting must meet with the approval of the directors.

ARTICLE 8.—*Meetings of Members*

SECTION 1. Regular meetings of the members shall be held quarterly. The first regular meeting of the year shall be the annual meeting at which time the general business of the association shall be transacted, directors elected, etc.¹⁵ Notice of regular meetings shall be posted prominently in the association's place of business and shall also be sent to the address of every member as registered on the books of the association at the time the notices are sent. Notices shall be sent at least 6 days before the date set for the meeting.

SEC. 2. A special meeting of the members may be called by the president whenever he shall deem it necessary or as directed by resolution of the board of directors or upon a petition signed by 10 percent of the members.¹⁶ Such meeting shall be called by a notice published 10 days before the meeting.¹⁷ Such notice shall specify the time and place and object of such meeting and no business other than that specified shall be transacted thereat.¹⁸

SEC. 3. Twenty percent of the members, or 50 members, whichever is less, present in person shall constitute a quorum for the transaction of business.

SEC. 4. At all meetings of the members and the board of directors the order of business and parliamentary practices shall be governed by Roberts' Rules of Order, Revised.¹⁹

¹⁴ This practice is to be allowed only in cases of necessity, and there should be a definite time limit to the period for which subletting is to be permitted.

¹⁵ "Third Thursday of January" is the way one association designates the date of meetings. The cooperative laws of some States (New York is one) demand that the exact day be designated in this way. Others permit the directors to use their discretion in each instance. If the State law does not require this, it may be left out and in its place may appear the words "on such date as may be determined by the board of directors." The date should, however, be at least 1 month, preferably 6 weeks, after the end of the fiscal period.

¹⁶ The right to initiate a call for a special meeting should be recognized in every cooperative association. A very small association should probably require the signature of 20 percent of the members, whereas a very large association might require only 5 percent or even less.

¹⁷ 10 days' instead of 6 days' notice is suggested here because of the extraordinary nature of the occasion. The members usually are not expecting a call to such a special meeting, as they are at the time of a regular meeting, and they should, therefore, have more time to prepare for it.

¹⁸ This last paragraph is a legal requirement in many States, and it should be required in every cooperative association. A special meeting generally has some special purpose, and this purpose must be clearly stated in advance. And then, once the meeting is in session, no person present should be permitted to surprise the meeting with some other business, the nature of which the members may not be prepared to discuss. In fact there might be many members absent from the special meeting whose interests would be vitally affected by the "surprise" business and who would not be absent if they knew it was to be discussed. Special meetings must be sharply restricted to the specific purpose for which they are called.

¹⁹ The order of business at regular membership meetings may well include the following:

1. Reading of minutes of last regular or special meeting.
2. Unfinished business left from previous meetings.
3. Report of president.
4. Report of secretary.
5. Report of treasurer.
6. Report of manager.
7. Report of audit committee.
8. Report of education committee.
9. Report of membership committee. (It is very easy for a meeting to confine itself exclusively to business matters. Therefore, it is essential that a place be definitely allotted on the agenda for discussion of education and membership. It is important to have a sound educational policy as well as a sound financial policy. Expansion and development of the membership are as essential as expansion and development of the business.)
10. Report of other committees.
11. Election to fill vacancies on board of directors or committees, for the unfinished term, and of new directors and committee members.
12. Action on distribution of net savings. (The board of directors should always present its recommendations on the distribution of the net savings, giving the reason therefor. The meeting is then ready for a worth-while discussion of the whole matter and may accept the recommendations, modify them, or reject them.)

Continued on p. 46.

Sec. 5. *Rights and limitations of the membership meeting.*—The membership meeting has both the right and the responsibility to elect directors or members of committees and to remove them from office if and when they are derelict in their duties; to hear and pass upon the reports of officers and the manager of the association and of any committees which are responsible to it; to determine the method of dividing the net surplus or earnings; to make the final decision regarding any drastic changes in the financial policy; to act as final arbiter in any disputes or disagreements which may arise between the board of directors and any committees or individual members; to determine what amendments shall be made in the bylaws; and to exercise its final authority in all other matters vitally affecting the association as a cooperative fraternal body and as a business organization.²⁰

Sec. 6. *Participants in membership meetings.*—Every member who has met his full obligations as regards share capital, as specified in article 5, section 2, and who has not in other respects been judged by a membership meeting to be delinquent or acting contrary to the interests of the association, shall be qualified to vote and to participate in the meetings of the association.²¹

Sec. 7. *Voting rights.*—Election of directors and members of committees shall be by ballot unless unanimous consent is given to a vote by show of hands. Action on all other matters shall be by ballot, by an "aye" or "no" vote or by a rising vote, as the majority of members present may decide. Each member shall have one vote on all voting occasions, and never more than one vote,²² and there shall be no voting by proxy.²³

At the discretion of the board of directors, or upon the presentation of a petition signed by 10 percent of the membership, the secretary shall, along with the notice of meetings, include a copy of any specific proposal to be acted upon by the meeting. A member unable to be present at any meeting shall have the right to cast his vote on such specific measures by mail, *Provided*, that his vote shall be signed by him and shall be received by the secretary in time to be counted at the meeting.

ARTICLE 9.—*Management, and Duties of Officers*

SECTION 1. *Directors and officers.*—The responsibility for the management shall be vested in a board of directors consisting of 7 (or 9) members. The directors shall serve for terms of 2 years, half of the board being elected at each annual meeting. They shall be eligible to serve until the election of their successors.²⁴

The board shall elect its officers—a president, a vice president, a secretary, and a treasurer—from its membership, and shall be authorized to appoint an executive committee. The office of the secretary and treasurer may be combined.

²⁰ *Continued.*

13. Action on other recommendations of board. (Other matters to be presented may cover a wide range of subjects, such as proposed amendments to the bylaws, construction of new buildings, the undertaking of some new cooperative activity, expulsion of a member, authorizing the sending of a delegate to a national or district convention, etc.)

14. Other new business.

²⁰ At first glance this section may seem unimportant; it is not. Many associations have been seriously crippled because the membership meeting did not have its duties clearly defined; therefore, it neglected some of its most important duties (such as selecting the proper people for the board of directors or not holding them strictly to account after they were elected), or, on the other hand, handicapped the board's effectiveness by interfering with its work.

²¹ Even if the board of directors has already decided that any member should be expelled, the offending member should not be disqualified from participating in the meeting unless the meeting has approved the action of the board. The board should not be placed in such power as to make it possible for it to determine who may or may not vote at a meeting. This power should rest with the membership only.

²² The 1-vote rule should be enforced under all circumstances, unless the State law contains specific provision to the contrary. It is one of the fundamental principles of consumers' cooperation.

²³ Proxy voting should not be permitted in cooperative associations because it may be used to defeat democratic control, and it should not be adopted as a compromise under any circumstances, unless the requirements of the State law make this unavoidable (as in Illinois and North Carolina, providing for written proxies, but in the latter State proxy voting is allowed only in case of sickness or unavoidable absence, and no member may be permitted to vote more than 1 proxy).

If the State law requires vote by mail under certain circumstances, a provision to that effect should be inserted. (In California, District of Columbia, Illinois, Michigan, Minnesota, Missouri, Montana, New York (stock), New York (nonstock), North Carolina, North Dakota, South Dakota, Washington, and Wisconsin, an absent member may be permitted to vote by mail if notified in writing of the question to be voted on and if a copy of the motion is attached to the vote; all the States except New York (nonstock) and District of Columbia require that the vote be signed, and Minnesota requires that it be certified by the voting member.)

²⁴ Some societies do not allow more than 2 consecutive terms, requiring that candidates retire for 1 term before they become eligible for further service. The board of directors and all other committees should always be an odd number.

The board is authorized to fill the position of a director who resigns before his term expires, such appointee to serve until the next regular election only.

Sec. 2. Duties of board.—The board shall administer all business carried on by or on account of the association. The directors shall in all their actions be under control and direction of any regular or special meeting of the members.

The board shall hold a regular meeting each month. Special board meetings may be called by the president and shall be called by him on request of any three directors.

At meetings of the board a majority shall constitute a quorum.

The directors shall act for the association and be responsible to it for the performance of the following duties:

1. To watch closely the financial condition of the association and the operating results of its business, and to take action required to keep these in a healthy condition.

2. To appoint the following officials and to assign their duties and determine their salaries:

(a) A manager or general manager to assume administrative control of the business.

(b) An auditor or auditing agency, as soon as the affairs of the association require and the finances permit the employment of a paid auditor. The board should consult the auditing committee in making this appointment, but the paid auditor shall be appointed by and be directly responsible to the board.

Nothing in this provision shall be interpreted to prevent the board from making other appointments if and when the welfare of the society makes this necessary, but the filling of these two positions shall at all times be the direct responsibility of the board.

3. To require the manager and all officers and employees charged with responsibility for the custody of any of its funds or property to give adequate bonds.

4. To provide adequate insurance of the property of the association and adequate insurance against liabilities.

5. To determine and supervise the more important policies of the organization, insuring the conduct of its affairs in accordance with the bylaws, with fairness to members and employees; to provide the best possible conditions of labor consistent with other requirements of these bylaws while demanding equivalent results in efficiency and faithfulness.

6. To decide upon the major steps in business activity and expansion, including the investment of reserve funds; borrowing money, subject to article 5, section 4; making important financial commitments and entering into new fields of business enterprise.

7. To maintain at all times an active program of cooperative publicity and education; and to maintain relations with other cooperative societies, federations, leagues, and wholesales aimed to promote the best interests of the association and of the cooperative movement.

Sec. 3. The board shall make a comprehensive report at the annual meeting of the association and shall submit a budget or an approximate estimate of the income and proposed expenses for the coming year. A copy of the proposed budget shall be sent to every member together with a notice of the annual meeting.

Sec. 4. Duties of president and vice president.—The president shall act as chairman at all meetings of the association and of the board of directors, but should he be absent the vice president shall take the chair; should he also be absent the officers and directors present shall elect one from among themselves to act as chairman on that occasion. The president, or chairman acting in his absence, shall sign all contracts.

Sec. 5. Duties of secretary.—The secretary shall attend all meetings of the association and of the board of directors, and shall record the names of all the directors present and the minutes of their proceedings; he shall also countersign all contracts sanctioned and entered into by the board; he shall likewise receive all proposals for admission into the association. He shall attend to all correspondence, keep the accounts, documents, and papers of this association in such a manner and for such purposes as the directors may appoint. He shall prepare the regular statement of the association's affairs. The secretary shall on all occasions in the execution of his duties act under the superintendence, control, and direction of the board of directors.

Sec. 6. Duties of treasurer.—The treasurer shall be required to attend all the regular meetings of the association and of the directors. He shall be responsible for such sums of money as may from time to time be paid into his hands by the

secretary or by any other person on account of the association and for the investment of the same under the authority of the directors. He shall be responsible for having adequate financial reports presented to the board at regular periods or as the board may direct.

SEC. 7. *Election and duties of auditing committee.*—An auditing committee of 3 members shall be elected by the members of the association. They shall each serve for _____ and shall at all times have access to the books, vouchers, and accounts of the association; shall examine and audit the same and every balance sheet of the receipts and expenditures and effects of the association at least every 3 months; and shall report to the membership meeting, with recommendations. The auditors shall be responsible for the daily and perpetual accounting system kept by the manager and shall check same periodically.

ARTICLE 10.—*Merger with Another Association*

SECTION 1. Upon affirmative vote by the members of the association, the board of directors may arrange for the consolidation of this association with another recognized cooperative in the same or nearby territory, if it appears that this action would prevent duplication of activities, promote efficiency, or otherwise be in the interest of the cooperative movement.

ARTICLE 11.—*Amendments*

SECTION 1. These association bylaws may be amended, repealed, or otherwise changed by a two-thirds vote of the members at any regular or special membership meeting, due notice of which has been given in advance. *Provided*, That no change shall be made in article 5, section 1 (c) and article 7, section 7, unless such change is approved by a vote of two-thirds of the entire membership present or voting by mail, and *provided, further*, that no amendment of the bylaws shall be valid if it violates a statute or the articles of incorporation.

ARTICLE 12.—*Dissolution of Association*

SECTION 1. *Dissolution.*—At any regular or special meeting, due notice of which has been given in advance, this association may be dissolved by a two-thirds vote of the entire membership, present or voting by mail.²⁶

SEC. 2. *Disposal of reserves.*—Upon such dissolution duly authorized, any reserves of the association in excess of the outstanding financial obligations shall be turned over to such recognized cooperative organization as the membership may determine; or to some Government or other public agency, to be used for some social purpose; or be distributed among those patrons who have been members or subscribers at any time during the past 6 years, on the basis of their patronage during that period, as the membership may determine.²⁷

Appendix B.—Sample Share Subscription Agreement

Subscription Agreement²⁸

The undersigned, having read and approved the plan of purchase and organization of _____ Cooperative Housing Association, for one dollar (\$1) in lawful money of the United States to him in hand paid, and for other valuable consideration received, and in consideration of the mutual agreement herein contained, each for himself agrees to and with the members of the _____ Cooperative Housing Association and with the _____ Cooperative Housing Association, Inc., to purchase _____ shares of capital stock at \$5 per share of this cooperative corporation, and to pay for same at the full value thereof in cash, amounting to _____ dollars (\$_____), said payment to be made by cash, money orders, or check, delivered as follows:

First payment: to the order of the _____ Cooperative Housing Association, _____ dollars (\$_____), of the subscription upon subscribing to this agreement.

Second payment: To the order of the _____ Cooperative Housing Association, _____ dollars (\$_____), of the said subscription on or before _____ 19____.

²⁶ But some State housing laws also require permission of the State Housing Board (see p. 39).

²⁷ The purpose of this provision is to prevent the dissolution of the association solely for the purpose of dividing the reserves among those who happen to be members at the time, and thus bar them from profiting from the results of the activities of previous stockholders.

²⁸ Should be modified to conform to circumstances of individual cases.

Third payment: To the order of the _____ Cooperative Housing Association, _____ dollars (\$ _____), of the said subscription on or before _____ 19____.

Fourth payment: To the order of the _____ Cooperative Housing Association, _____ dollars (\$ _____), of the said subscription on or before _____ 19____.

It is further understood and agreed by and between the undersigned, the members of the _____ Cooperative Housing Association, and the _____ Cooperative Housing Association, Inc., that the undersigned is to pay the additional sum of _____ dollars (\$ _____), payable simultaneously with the first, second, or third payments as aforesaid, said additional sum to cover fees, carrying charges, management and organization charges, and minor repairs incident to acquiring title to premises _____ Cooperative Housing Association, for which said additional payment it is understood and agreed no capital stock is to be issued to the undersigned.

_____ payment: To the order of the _____ Cooperative Housing Association _____ dollars (\$ _____) of the said subscription on or before _____, 19____, to be paid in _____ monthly installments, the payment to be applied to the retirement of the _____ mortgages on premises.

The _____ payment is a charge included in the rental as set forth in the lease executed between the undersigned and the association.

In consideration of said first, second, third, and fourth payments made as aforementioned by this member, the said subscriber shall receive a certificate from said corporation of _____ shares of its capital stock of the par value of \$5 each, and shall receive a lease for the term of 99 years²⁹ on premises No. _____ at the annual monthly charges set forth in said lease.

In consideration of said _____ payment made as aforementioned by this member, the said subscriber shall receive a second certificate from said corporation of _____ shares of its capital stock of the par value of \$5 each.

But if said subscriber shall default in any of the payments called for in this subscription, and such default shall continue for 10 days after notice to pay sent by registered mail by the _____ Cooperative Housing Association to said member at address as given below, then, forthwith at the option of the _____ Cooperative Housing Association, said member shall lose any and all rights to said certificate and to said stock, and to receive the same, and shall forfeit any and all right to a lease on or to continue occupancy of the premises _____ Cooperative Housing Association, and the deposit shall, at the option of the _____ Cooperative Housing Association, be returned, less the subscriber's proportionate share of the expenses incurred in the negotiation for the purchase of the property, in search, insurance and passing title; in the maintenance of such property after it is purchased, and any other expense reasonable in these premises. The _____ Cooperative Housing Association may, at its option, waive the foregoing obligation of the subscriber in the event that he shall secure an assignee of said subscription satisfactory to the association, who will assume each and every obligation herein contained.

Name _____ [I.S.]
Home address _____

Dated _____
In the presence of _____

Appendix C.—Model Lease for a Cooperative Housing Association

This lease made the _____ day of _____ 19____, between the _____ Cooperative Housing Association, Inc., a domestic corporation hereinafter called the "cooperative", and _____ residing at _____, hereinafter called the "tenant."

²⁹ Or "a lease renewable at the end of each [2 or 3] year period."

Whereas, the cooperative has been incorporated for the purpose of owning and operating dwelling properties in the _____, city of _____ and State of _____, known as Nos. _____ Street, _____, hereinafter called the properties, upon a cooperative basis, with the intent that the stockholders of the cooperative shall have the right to lease and occupy dwellings therein under the terms and conditions hereinafter set forth, as long as they, respectively, are stockholders; and

Whereas, the tenant is the owner and holder of _____ shares of common capital stock of the cooperative of the face value of \$_____, and is entitled by reason thereof to a lease of the dwelling hereinafter described, subject to the bylaws of the cooperative;

Now, therefore, in consideration of the premises and the covenants, conditions, and agreements herein contained, the cooperative hereby lets to the tenant and the tenant hereby hires from the cooperative the dwelling, now known as _____, hereinafter called "the dwelling", consisting of _____ rooms and _____ baths to be occupied strictly as a private dwelling by the tenant and the family of the tenant, except as hereinafter provided, for the term of _____ years and _____ months,¹ beginning on the _____ day of _____ 19____, and ending on the _____ day of _____.

The parties hereto mutually covenant and agree as follows:

1. The tenant shall pay a monthly rent of \$_____ in advance on the first day of each month of the said term, subject to increase and decrease as hereinafter provided. Such monthly rent may from time to time be increased to such amount as the board of directors of the cooperative, by the unanimous vote of all the directors, may determine, provided the rents of all the other cooperative tenants are increased proportionately according to the basic percentages of the present rentals of all the dwellings as the same appear on the rent schedule hereto attached. If said board of directors shall not be unanimously in favor of an increase in the monthly rent, an increase may nevertheless be approved by vote of two-thirds of the stockholders of record of the cooperative, expressed either in writing or at a meeting duly called for the purpose of considering the same, in which event such increase, pro rated as above prescribed, shall become fully operative from such time as may be determined by such vote.

Such monthly rent may from time to time be reduced if in the judgment of a majority of the board of directors of the cooperative such reduction is justified, provided the rents of all the other cooperative tenants are also reduced proportionately as above prescribed.

2. In consideration and on condition that the tenant will pay and perform the rents, conditions, covenants, and agreements in this lease contained, the cooperative covenants that the tenant may, at all times during the said term, peaceably have and enjoy the dwelling.

3. The cooperative shall maintain and manage the properties on a high level, with a suitable manager or janitor, supply proper and sufficient amounts of cold and hot water and furnish steam or other heat to warm the premises during the heating season.² The cooperative reserves the right to stop the above supplies and services at such times as may be necessary by reason of shortage of labor, accidents, or alterations or repairs deemed desirable by the cooperative. The cooperative shall not be held responsible for interrupted supplies or services caused by any reason whatsoever, nor shall there be any diminution or abatement of rent on account of such interruption.

4. The cooperative shall keep in good repair the foundations, sidewalks, roofs, gutters, cellars, chimneys, cornices, boilers, pumps, tanks, heating system, and all plumbing intended for general service,³ it being agreed that the tenant shall give the cooperative prompt notice of any accident or defect requiring such repairs to be made, and shall at all reasonable times allow the agents of the cooperative to enter and inspect the dwelling in order to ascertain what such repairs are needed and to make such repairs and upon reasonable notice to remove such portions of the walls, floors, and ceilings of the dwelling as may be required for the purpose of making such repairs, which portions, so removed, the cooperative shall, as soon as such repairs can reasonably be finished, replace in as good condition as before such removal, all such repairs to be at the

¹ May be either a lifelong (99-year) lease or one renewable every 2 or 3 years (see p. 28).

² Should be modified to conform to individual situation of association.

³ If an apartment house, the words, "fire escapes, entrances, main halls and stairways" should also be added.

expense of the cooperative unless the same shall have been rendered necessary by the act, negligence, or carelessness of the tenant, or of any member of the family, guests, or employees of the tenant, in which case the expense is to be borne by the tenant.

5. The tenant shall during the term of this lease keep the interior of the dwelling and all fixtures and plumbing and other appurtenances belonging thereto in good order and repair, and make all decorations therein, and the cooperative shall not be held answerable for any repairs or decorations in and to the dwelling, except as hereinbefore specifically provided, and in case of the refusal or neglect of the tenant during 10 days after notice in writing from the cooperative to make such repairs, or to restore the dwelling to good condition, such repairs or restoration may be made by the cooperative, and any expense incurred thereby by the cooperative shall be immediately due and payable from the tenant to the cooperative, and shall be deemed to be additional rent for the dwelling. The tenant shall not without the written consent of the cooperative make any alterations, additions, or improvements. Any alterations, additions, or improvements which may be made by the tenant in, to, or upon the premises shall be the property of the cooperative and shall remain upon and be surrendered with the premises at the termination of this lease, without disturbance, molestation, or injury; provided that movable furniture and fixtures put in at the expense of the tenant may be removed by said tenant but that any injury caused by moving said furniture and fixtures in or out shall be repaired by the tenant.

6. The tenant shall promptly comply with and execute all laws, ordinances, rules, orders, and regulations of the Federal, State, county, and city governments, and of the board of fire underwriters, and of all other authorities, and of their departments and bureaus, applicable to the dwelling, or concerning any matter in, upon, or connected with the dwelling, except such as require structural changes or repairs. If the tenant shall fail promptly to comply with and execute any of the foregoing requirements the cooperative may, upon 5 days' written notice to the tenant, enter in and upon the dwelling and comply with and execute the same for the account of the tenant and any expense thus incurred by the cooperative shall be immediately due and payable from the tenant to the cooperative, and shall be deemed to be additional rent for the dwelling. The tenant shall not do anything or suffer anything to be done in or about the dwelling which will increase the rate of fire insurance upon the property, or which may be deemed extra or specially hazardous by the usage of fire insurance companies.

7. The tenant shall notify the cooperative in writing of any leakage of the roof coming to his notice, and shall hold the cooperative guiltless therefrom unless the cooperative shall fail, within a reasonable time after such written notice is delivered to it, to repair the roof. The tenant shall hold the cooperative free from liability for any damage to person or property in the dwelling or in the apartment house, caused by gas, steam, electricity, rain, snow, water from the tanks, pipes, plumbing work, vault light or any other sources or by sewerage, falling plaster or any other cause whatsoever; the tenant shall hold his property in the dwelling or anywhere else in the properties at his own risk, and shall hold the cooperative free from any liability for any damage thereto from any cause arising.

8. In case of damage by fire or the elements, the tenant shall give immediate notice thereof in writing to the cooperative. The cooperative shall repair same with all reasonable dispatch at its own cost and expense. If the damage shall be so extensive as to render the dwelling wholly untenable, the rent shall cease from the time the cooperative is notified of such damage until the dwelling is restored to tenable condition, and thereafter shall begin to run and to be payable as before. In case the properties generally (though the individual dwelling may not be affected) be substantially destroyed by fire or the elements, or be so injured or destroyed that the cooperative shall within a reasonable time decide to rebuild or reconstruct the properties, the rent shall be apportioned pro rata and paid up to the time of such destruction or injury, and upon such payment being duly made by the tenant, this lease and the term herein granted shall cease and come to an end.

No claim for compensation shall be made by the tenant by reason of inconvenience, damage, or annoyance arising from the necessity of repairing any portion of the dwelling or apartment house, however the necessity may occur.

9. If the property or the plot of land on which it stands, or any part thereof, be condemned or taken for public use or quasi-public use, the cooperative shall

be entitled to and shall receive any award that may be made to or for the account of the tenant for the value of the unexpired term of this lease. The tenant hereby expressly assigns to the cooperative any award that may be so made to or for account of the tenant for any damages to the term hereby demised. In no event, however, shall there be any abatement or apportionment of the rent because of such condemnation or taking. The tenant hereby further agrees that for the purpose of obtaining such award or awards, and for all other purposes, all the alterations, additions, and improvements now on or which may hereafter be made in and to the premises herein demised are the sole and absolute property of the cooperative.

10. The tenant shall, at the option of the cooperative, purchase from the cooperative, or from any person or corporation designated by the cooperative, such electric current as may be required by the tenant for use in the dwelling upon condition that the rates charged therefor by the person or corporation furnishing said electric current shall not, at any time, exceed the rate fixed for the district by the Public Service Commission for a like amount of current measured in the same manner as current would be measured by the Public Service Commission. The tenant agrees to pay for such electric current upon presentation by the cooperative of a bill for such current, and upon the failure of the tenant to pay for such current, the amount so due shall be added to the installment of rent next becoming due hereunder, and such amount shall become a part of the said rent and shall be collectible in like manner.

11. The basic percentages of the present rentals of all the dwellings in the property may be changed to be effective in any year following the year in which a new building shall have been completed or an existing building converted to nonresidential purposes on any lot adjoining the property or across the street therefrom, but only subject to the following provisions: A petition for such change signed by at least three tenants shall be filed with the president and with the secretary of the cooperative at least 3 months before the proposed effective date of the change. A meeting of the stockholders of the cooperative shall at once be called for a general discussion of the proposed change. The board of directors shall then in their discretion either reject the proposed change or propose a new schedule of basic percentages. In either event their determination or failure to act shall be reported, at least 2 months before the proposed effective date of the change, to a meeting of the stockholders. The stockholders may then take such action as they see fit, provided, however, that any change in the basic percentages to be effective must receive the affirmative vote of at least 65 percent of the stockholders of record of the cooperative, at a stockholders' meeting duly called for that purpose.

Such action of the stockholders shall be final unless within 20 days thereafter there be filed with the president and secretary of the cooperative a written request signed by at least three stockholders, asking for arbitration. In that case arbitrators shall be appointed as in paragraph 29 hereof provided. Their determination shall be final.

Such final determination by the stockholders or by the arbitrators shall fix the basic percentages of rentals of all the dwellings for the period beginning the following January 1 and continuing until such percentages shall again be changed as provided in this section.

12. The cooperative reserves the right to make such rules and regulations as in its judgment from time to time may be needed for the safety, care, and cleanliness of the properties, and for the preservation of good order and comfort therein, and the tenant agrees faithfully and punctually to observe and comply with such regulations and further agrees that all persons living in or visiting in the dwelling will also punctually observe and comply therewith.

13. This lease is and at all times hereafter shall be subject and subordinate to the lien of any mortgage or mortgages now affecting the premises of which the dwelling forms a part, or which may at any time hereafter be placed thereon, and further the tenant agrees to execute, at the cooperative's expense, any instrument which the cooperative or any lender may deem necessary or desirable to effect the subordination of this lease to any such mortgage, and the tenant hereby appoints the cooperative the tenant's attorney in fact, irrevocable, during the term hereof, to execute any such instrument on behalf of the tenant.

14. For default by the tenant in the payment of any sum payable hereunder, the cooperative shall have the same remedies as for default in the payment of rent. The various rights, powers, remedies, options, and elections to the cooperative reserved, expressed, or contained in this lease are cumulative and no one

of them shall be deemed exclusive of the others, or of such other rights, powers, remedies, options, or elections as are now or may hereafter be conferred upon the cooperative by law. For any breach or threatened breach of this lease, the cooperative shall be entitled to restrain the tenant by injunction.

15. No surrender of this lease or the term hereby demised, whether by parole or act, shall be valid or binding upon either party, unless such surrender shall be in writing duly signed by both the parties hereto.

16. All notices may be delivered to either party personally or by registered mail, addressed to the cooperative or to the tenant respectively at the property.

17. The failure of the cooperative in any one or more instances to insist upon the strict performance of any of the covenants of this lease, or to exercise any option herein conferred, shall not be construed as a waiver or relinquishment for the future of any such covenants, conditions, or option, but the same shall continue and remain in full force and effect.

18. The tenant shall not, without first obtaining the written consent of the cooperative in each and every case, under penalty of forfeiture and damages:

(a) Either assign, mortgage, or otherwise encumber this lease, in whole or in part, or any interest therein;

(b) Or sublet the dwelling or any part thereof;

(c) Or occupy or permit the dwelling or any part thereof to be occupied except for dwelling purposes;

(d) Or permit anyone other than the tenant or a member of his family to occupy the dwelling or any part thereof.

Upon the tenant's default with respect to any of the foregoing, the cooperative shall have the option to give the tenant 15 days' written notice of the cooperative's election to end the term of this lease and, upon the expiration of such 15-day period, the term of this lease shall terminate and come to an end and all right of occupation hereunder on the part of the tenant shall cease, with the same force and effect as though the term originally reserved herein had terminated, and the tenant shall quit and surrender the premises to the cooperative.

The cooperative hereby consents to the tenant's subletting the dwelling upon the following conditions solely:

A. The tenant may sublet the dwelling for a term of not more than 1 year, subject to the prior approval in writing of the proposed subtenant by the cooperative, which approval shall not be unreasonably withheld, provided further, that the rent shall not exceed a sum equivalent to the rent payable by the tenant to the cooperative, plus 25 percent of such rent (to compensate for cost of repairs) plus, if the dwelling is sublet substantially furnished with the furniture of the tenant, an additional 25 percent of such rent, plus an amount equal to 6 percent per annum on the amount of stock of the cooperative stated on page (1) hereof as being owned and held by the tenant. Such sublease shall not be renewed except with the express prior approval in writing of the cooperative, which approval shall not be unreasonably withheld.

B. Application for leave to sublet under subdivision A of this paragraph shall be made on a form to be provided by the cooperative and shall contain the name, address, and occupation of the proposed subtenant. It shall also contain a statement that the tenant has not received nor been promised any consideration or thing of value, directly or indirectly, from the proposed subtenant or any other person for the making of the proposed sublease or as subrental therefor except what is mentioned in said application. Such application shall also contain such further information pertinent thereto as the cooperative may require.

C. Any sublease made hereunder shall be in a form to be provided by the cooperative and shall contain a suitable provision that such sublease shall terminate in case at any time the cooperative shall determine that because of objectionable conduct on the part of such subtenant or of persons dwelling in or visiting the apartment the tenancy of such subtenant is undesirable, and upon 5 days' written notice of such determination.

D. It is understood by the tenant that it is one of the cooperative principles and purposes which the cooperative was incorporated to accomplish that no tenant shall derive a profit directly or indirectly from the making of a sublease and the tenant agrees that he will not at any time take any profit. A breach of this covenant shall entitle the cooperative to terminate this lease as provided in paragraph 19 hereof.

19. The granting of this lease and the term herein demised are conditioned that at the cooperative's option, upon the happening of any of the events men-

tioned in subdivisions A to G, both inclusive, of this paragraph, the cooperative may give the tenant at least 15 days' written notice of the cooperative's election to end the term of this lease, and upon the date specified in such notice the term of this lease shall terminate and come to an end, and all right of occupation hereunder on the part of the tenant shall cease, with the same force and effect as though that were the date originally set in this lease for the termination thereof, and the tenant shall quit and surrender the dwelling to the cooperative, unless before the expiration of such period the condition which was the basis for such notice shall have ceased to exist. In the event of such termination the cooperative shall have the right to reenter the dwelling, either by force or otherwise, and dispossess and remove therefrom the tenant or other occupant thereof and their effects. The tenant shall, however, remain liable to the cooperative for any expense that the cooperative may be put to in reentering or reletting the dwelling and for any deficiency between the equivalent of the rent hereunder and the sum or sums received by the cooperative on a reletting of said premises for a period of 3 years after such termination. The tenant shall pay to the cooperative, on account of such deficiency, on the first day of each and every month during such period the then current monthly rental for the dwelling less any sums then actually received by the cooperative on account of such reletting, if any. Separate actions may be maintained from time to time to recover such respective amounts, without waiving the right to maintain further actions to recover such respective amounts subsequently accruing. The tenant hereby expressly waives all right to redeem the premises under sections 1437 and 1438 of the Civil Practice Act,⁴ or otherwise, after a warrant to dispossess shall have been issued, or to a second and further trial after an action in ejectment.

The conditions herein referred to are the following:

A. In case at any time during the term of this lease the tenant shall cease to be the owner of the shares of stock issued to him and standing in his name on the books of the cooperative, to which stock this lease is appurtenant, or this lease shall pass by operation of law, or otherwise, or be assigned to anyone who is not then the owner of the said stock, except that, if upon the death of the tenant, this lease, together with the tenant's stock, pass by will or intestate distribution to any person or persons not exceeding three in number (or if to more than three in number such lease and stock pass by assignment among themselves to colegatees or codistributees not exceeding three in number) such legatees or distributees may, by assuming the terms of this lease in writing within 15 months after the tenant's death, become the tenant hereunder, without, however, releasing the estate of the deceased tenant from any liability under this lease, provided, however, that such estate shall not be liable for any liability accruing after 3 years from such date of death. In any event, this condition shall be suspended for a period of 15 months from such date of death;

B. In case the tenant becomes or is adjudicated insolvent or a bankrupt, or makes a general assignment for the benefit of creditors, or takes the benefit of any insolvency or bankruptcy act, or in case a receiver, trustee, or assignee is appointed for the tenant's property, or in case an execution or attachment issues against the tenant's property whereby the dwelling or any of the tenant's rights under this lease or said share of stock shall be levied upon, advertised for sale, or sold by operation of law or otherwise, or in case said share of stock is sold pursuant to the terms of an agreement whereby said stock shall have been pledged as collateral security;

C. In case of any assignment of this lease, or of any subletting hereunder, without the consent hereinbefore required, except as herein expressly allowed; or in case of any misrepresentation in any application for leave to sublet;

D. In case at any time the cooperative shall determine, upon the affirmative vote of at least 75 percent of the stockholders of record, at a stockholders' meeting duly called for that purpose, that the tenant has violated any of the provisions of its bylaws or has been guilty of conduct detrimental to the cooperative, or that because of objectionable conduct on the part of the tenant or of persons dwelling in or visiting the dwelling, the tenancy of the tenant is undesirable;

E. In case the tenant shall default, for a period of 90 days, in the payment of the rent or of any other proper charges against him, or in the payment, either before or after the commencement of the term hereof, of any install-

⁴ Relates to New York; in any other State the appropriate citation of the State law should be made.

ment of his subscription to the stock of the cooperative appurtenant to this lease;

F. In case the tenant, either before or after the commencement of the term hereof shall be in default in the performance of any other covenant, condition, or agreement hereof, for 30 days after written notice of such default shall have been given to the tenant by the cooperative;

G. In case this lease is made to a janitor or superintendent, upon the discharge of such janitor or superintendent by the board of directors, with or without cause, or upon the termination of his employment in any other manner.

20. In case at any time the cooperative shall determine, upon the affirmative vote of at least 75 percent of the stockholders of record, at a stockholders' meeting duly called for that purpose, to sell the properties, the cooperative may terminate this lease by written notice of such intention on its part, which notice shall be given at least 60 days before the date at which such termination is specified to take effect in such notice, and upon the date specified in such notice of termination the term of this lease shall terminate and come to an end and all right of occupation hereunder on the part of the tenant shall cease with the same force and effect as though that were the date originally set in this lease for the termination thereof, and the tenant shall quit and surrender the dwelling to the cooperative on such date.

21. Should this lease be terminated as provided in sections 18, 19, and 20 of this lease, then the tenant shall deliver this lease and a duly executed and acknowledged surrender thereof to the cooperative, and deposit with and surrender to the cooperative, duly endorsed, the tenant's shares of stock appurtenant to this lease, receiving a receipt therefor. In that event said stock shall be taken up and paid for by the cooperative at the face value thereof, less any arrears of rent and any other proper counterclaim, at any time or times after such deposit when the cooperative may in its discretion decide that its financial position is such that it is wise to do so.

Should the tenant fail to make the deposit provided for in the above paragraph, then the cooperative shall have the option at any time upon 10 days' written notice to the tenant to cancel said stock and the same shall thereafter be void and of no effect. The cooperative, however, shall remain liable to the tenant for a sum equivalent to the face value of said stock, less any arrears of rent and any other counterclaim, which sum shall be payable only at the time it would have been payable had the tenant made the deposit above provided for, and in no event before 3 years after such termination of this lease.

22. At any time the tenant may make to the cooperative a written offer to surrender the lease and to resell all the tenant's stock appurtenant thereto. Such offer shall be filed by the cooperative and a list of the name of the tenant and of all other tenants who have made like offers shall be compiled by it in the order of receipt of such offers, which list shall be known as the tenant's priority list. All repurchases of such appurtenant stock by the cooperative shall be made from such list in the order of priority of the names appearing thereon.

The cooperative shall set aside out of its surplus the sum of \$_____, to be known as its revolving fund for the repurchase of tenants' stock, that part of its surplus which on _____, was invested in stock of the cooperative appurtenant to dwellings_____

_____ having a par value of \$_____, being the part so to be set aside for the purpose. The cooperative agrees that, as and when the stock appurtenant to each such dwelling is sold, the moneys realized from such sale or sales shall constitute the aforesaid revolving fund and, immediately upon receipt of each installment of such moneys, shall be applied to the repurchase of the stock of tenants whose names appear on the aforesaid tenants' priority list, all such repurchases to be made in the order in which such tenants' names appear on said list (the stock of the tenant whose name appears first on the list to be paid for in full, less any arrears of rent and any other proper counterclaim, before any payments whatever are made for the stock of any other tenant on said list). Each repurchase of such stock is to be accompanied by acceptance by the cooperative of the tenant's offer to surrender back the lease appurtenant to such stock, such acceptance to take effect and the tenant to be released from all further liability on said lease when and only when such repurchase is completed by payment in full as aforesaid for said stock.

The revolving fund as thus reinvested in stock of the cooperative shall still be deemed the revolving fund for the repurchase of tenant's stock as aforesaid, and, as and when such stock is resold to new cooperative tenants, the moneys therefrom shall once again be applied to the repurchase of stock of tenants whose names appear at such time on said priority list in the order of their priority; it being the intent of the parties that this fund shall be and remain a permanent revolving fund and that as each investment of it in stock of the cooperative is released it shall immediately become available for reinvestment so that there shall be at all times \$_____, either in cash or in stock of the cooperative, available for the purpose; provided, however, that if at any time and to the extent that the total surplus of the cooperative falls below \$_____ said revolving fund shall likewise fall to the same extent below \$_____.

At any time after the tenant shall have made written offer of surrender of this lease and of resale of the stock appurtenant thereto the tenant shall allow the cooperative's agents to show the dwelling to persons wishing to hire the same.

23. Simultaneously with or prior to the execution hereof the tenant has executed a subscription for _____ shares of stock of the face value of _____ in the cooperative, the terms of which are more particularly described in said subscription agreement. If the said stock is not fully paid for at the time of the execution of this lease, then the tenant shall pay all of the installments called for in said subscription agreement according to the terms hereof.

24. It is expressly understood and agreed that this lease is appurtenant to the shares of stock of the cooperative purchased by the tenant and that the sale or transfer of said stock by the tenant shall terminate any and all of the tenant's rights in and under this lease except as herein otherwise expressly provided.

25. If this lease is made to more than one tenant, then such persons shall be deemed liable hereunder jointly and severally. One of such persons may assign his interest in the lease and in the stock appurtenant thereto to the other co-owners of this lease or to one of them, but not otherwise, except as hereinbefore otherwise provided. Under no circumstances shall this lease, or the tenant's stock appurtenant thereto, be held or owned by more than three persons.

26. It is understood that one or more dwellings may be let for a doctor's or dentist's office or to a cooperative operated on Rochdale principles, upon a cooperative lease similar to this lease, except that the uses therein named may be such uses as the cooperative may agree upon with such tenant. Such tenant shall be a stockholder of the cooperative, and shall in all other respects be upon the same basis and hold upon the same terms as though it were an individual tenant holding such dwelling or dwellings under a cooperative lease.

27. The tenant shall always, in good faith, endeavor to preserve and promote the cooperative principles and purposes which the cooperative was incorporated to accomplish.

For the purposes of this lease a cooperative operated on Rochdale principles shall be deemed to be a cooperative—

(1) That conducts its business primarily for the mutual help and benefit of its consumer stockholders or members without profit;

(2) That limits the annual dividends upon its stock, if a stock company, to 6 percent or less;

(3) That either sells its goods or services substantially at cost, and/or retains and uses its net earnings (exclusive of dividends) and its savings in whole or in part for the needs of its business and/or in furtherance of the general economic movement known as the Rochdale cooperative movement, and/or distributes such net earnings in whole or in part among its consumer stockholders or members upon the basis of the amount of business done by it with each such consumer stockholder or member;

(4) That permits no profit to be taken by its stockholders or members, whether by sale of its stock and/or, if a housing corporation, by assignment or subletting of leaseholds, or otherwise;

(5) That limits the voting power of its stockholders or members (regardless of the amount of capital stock held by each) to one vote per individual, if such stockholder or member is an individual, or in its discretion, if such stockholders or members are corporations, ratably in proportion to the membership of each such corporation.

28. The tenant shall quit and surrender the dwelling at the termination of this lease in as good order as it was at the beginning thereof, reasonable wear and damage by the elements excepted. If the dwelling be not surrendered at the termination of this lease, the tenant shall reimburse the cooperative for all damages which the cooperative may suffer by reason thereof, and shall indemnify the cooperative against any and all claims made by any succeeding tenant against the cooperative as a result of the tenant's delay in delivering possession of the dwelling.

29. It is understood that, upon the death of a tenant-member, his family or heirs may continue to occupy the dwelling, his rights thereto being transferred to them upon their fulfillment of the usual conditions and obligations required of a tenant-member.

30. All disputes and differences arising out of this lease shall be settled by arbitration as follows: Either party may, by written notice to the other, appoint an arbitrator. Thereupon, within 10 days after the giving of such notice the other shall by written notice to the former appoint another arbitrator, and, in default of such second appointment, the arbitrator first appointed shall be sole arbitrator. When any two arbitrators shall have been appointed as aforesaid, they shall if possible agree upon a third arbitrator and shall appoint him by notice in writing, signed by both of them in triplicate, one of which triplicate notices shall be given to each party hereto; but if 10 days shall elapse after the appointment of the second arbitrator, without notice of the appointment of a third arbitrator being given as aforesaid, then either party hereto or both may apply to the _____ court, county of _____, to appoint a third arbitrator. Upon the appointment of the third arbitrator (whichever way appointed as aforesaid) the three arbitrators shall meet and shall give opportunity to each party hereto to present his case and witnesses, if any, in the presence of the other, and shall then make their award. The award of the majority of the arbitrators shall be binding upon the parties hereto, and judgment may be entered thereon in any court having jurisdiction. Such award shall include the fixing of the expense of the arbitration and assessment of the same against either or both parties.

In witness whereof, the parties hereto have set their respective hands and seals the day and year first above written.

In presence of:

----- [L.S.]
Tenant,
----- [L.S.]
Tenant,
----- COOPERATIVE
HOUSING ASSOCIATION, INC.,

----- Secretary.
By ----- President.

STATE OF _____,
County of _____, ss:

On this _____ day of _____, 19____, before me personally came _____ to me known and known to me to be the individual described in and who executed the foregoing instrument and he duly acknowledged to me that he executed the same.

STATE OF _____,
County of _____, ss:

On this _____ day of _____, 19____, before me personally appeared _____ to me known, who, being by me duly sworn, did depose and say: That he resides in _____; that he is the _____ of _____ Co-operative Housing Association, Inc., the corporation described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed thereto is such corporate seal; that it was so affixed by order of the board of directors of said corporation and that he signed his name thereto by like order.

NOTE: If desired, the association might incorporate many of the provisions of the lease, given above, in a set of operating rules available for inspection by the members. This would shorten and simplify the lease, which could then specify that such rules as were adopted by board or membership should be binding on the tenant.

Appendix D.—Citations of Laws

Cooperative Laws

- Alabama*.—Code, 1940, title 10, section 168.
Arkansas.—Statutes, 1937, sections 2262 to 2278.
California.—Statutes, 1939, chapter 808, as amended by Acts of 1941, chapters 1216 and 1277.
Colorado.—Michie's Statutes, 1935, chapter 41, sections 210 to 214.
Connecticut.—General Statutes, revision of 1930, title 35, chapter 193, sections 3508 to 3517.
District of Columbia.—Public Act No. 642 (76th Congress, 3d session), chapter 397.
Florida.—Statutes, 1941, section 611.33, as amended by Acts of 1941, page 136.
Idaho.—Code, 1932, title 29, chapter 10, sections 29-1001 to 29-1005, as amended by Acts of 1945, chapter 70.
Illinois.—Smith-Hurd's Revised Statutes, 1943, chapter 32, sections 305 to 331.
Indiana.—(The cooperative law of Indiana—Statutes, 1926, sections 5282 to 5288—was repealed in 1935.)
Iowa.—Code, 1939, chapter 390.1, sections 8512-01 to 8512-60.
Kansas.—General Statutes, 1935, sections 17-1501 to 17-1515, as amended by Acts of 1939, chapter 137, section 1.
Kentucky.—Revised Statutes, 1944, sections 272.010 to 272.050 and 272.990.
Maine.—Acts of 1943, chapter 253.
Massachusetts.—General Laws (Ter. Ed.), 1932, chapter 157, sections 1 to 9.
Michigan.—Compiled Laws (Mason's 1940 supplement), sections 10135-98 to 10135-117, as amended by Acts of 1941, No. 237, and Acts of 1943, No. 211.
Minnesota.—Statutes, 1941, sections 308.01 to 308.42, as amended by Acts of 1943, chapters 304, 317, 318, and 438, and Acts of 1945, pp. 320 and 878.
Missouri.—Revised Statutes, 1939, sections 14406 to 14424.
Montana.—Revised Codes, 1935, sections 6375 to 6396.
Nebraska.—Revised Statutes, 1943, sections 21-1301 to 21-1306.
Nevada.—Compiled Laws, 1929, sections 1575 to 1595, as amended by Acts of 1941, p. 329.
New Jersey.—Revised Statutes, 1937, sections 34:17.1 to 34:17.18.
New Mexico.—Statutes, 1941, sections 54-1401 to 54-1445.
New York.—Cahill's Consolidated Laws, 1930, as amended by supplement of 1931-1935, chapter 10-a, articles 1 to 9, Acts of 1937, chapter 172, and Acts of 1938, chapter 458.
North Carolina.—General Statutes, 1943, sections 54-111 to 54-128.
North Dakota.—Revised Code, 1943, sections 10-1501 to 10-1525, as amended by Acts of 1945, chapter 152.
Ohio.—Baldwin's Revision Throckmorton's Code, 1940, sections 10185 and 10186.
Oklahoma.—Statutes, 1941, title 18, sections 421 to 436.
Oregon.—Compiled Laws, 1940, as amended by Acts of 1941, chapter 219, and Acts of 1943, chapter 52.
Pennsylvania.—Purdon's Statutes, 1936, title 14, chapter 1, sections 1 to 28, and chapter 4, sections 191 to 193.
South Carolina.—Code, 1942, chapter 158, article 1, sections 8137 to 8149.
South Dakota.—Code, 1939, chapter 11.11, as amended by Acts of 1945, chapter 29.
Tennessee.—Code, 1932, section 4146 (10).
Vermont.—Public Laws, 1933, chapter 239, section 5791, as amended by Acts of 1943, No. 142.
Virginia.—Code, 1942, chapter 148, sections 3855 and 3855a.
Washington.—Remington's Revised Statutes, 1931, sections 3904 to 3923, as amended by Acts of 1943, chapter 99.
Wisconsin.—Statutes, 1943, sections 185.01 to 185.24.
Wyoming.—(The Wyoming cooperative law, Wyoming Compiled Statutes, 1920, sections 5119-5134, was repealed in 1931.)

General Housing Laws

- Arkansas*.—Digest of Statutes, 1937, sections 12243 to 12269.
California.—General Laws, 1943, Act No. 3481.
Delaware.—Revised Code, 1935, sections 5424 to 5452.
Florida.—Florida Statutes, 1941, sections 424.01 to 424.22.

- Illinois*.—Revised Statutes, 1943, chapter 32, sections 504 to 549.
Kansas.—General Statutes, 1935, chapter 17, article 23.
Massachusetts.—Acts of 1933, chapter 364, as amended by Acts of 1935, chapter 449.
New Jersey.—Revised Statutes, 1937, title 55, chapter 15.
New York.—Acts of 1939, chapter 808, as amended by Acts of 1940, chapters 148, 393, and 444.
Ohio.—Baldwin's Revision, Throckmorton's Code, 1940, chapter 14A.
Pennsylvania.—Acts of 1937, No. 181, page 704.
South Carolina.—Code, 1942, sections 5271-4 to 5271-30.
Texas.—Vernon's Statutes, 1936, articles 1524b to 1524k and 1528a.

Appendix E.—Cooperative Leagues and Wholesale Associations

- California :**
 Associated Cooperatives
 817 Lydia Street
 Oakland 7
- District of Columbia :**
 Potomac Cooperative Federation
 2621 Virginia Ave., NW.
 Washington 7
- Illinois :**
 Central States Cooperatives
 1535 S. Peoria Street
 Chicago 8
- National Cooperatives
 343 S. Dearborn Street
 Chicago 4
- Cooperative League of the U.S.A.
 343 S. Dearborn Street
 Chicago 4
- Indiana :**
 Indiana Farm Bureau
 Cooperative Association
 47 S. Pennsylvania Street
 Indianapolis 9
- Massachusetts :**
 New England Cooperative
 Federation
 53 Farnsworth Street
 South Boston
- Michigan :**
 Farm Bureau Service
 221 N. Cedar Street
 Lansing 4
- Minnesota :**
 Midland Cooperative Wholesale
 739 Johnson St., NE.
 Minneapolis 13
- Minnesota Farm Bureau
 Service Co.
 101 E. Fairfield Street
 St. Paul 1
- Farmers Union Central Exchange
 Box G
 St. Paul 1
- Missouri :**
 Consumers Cooperative
 Association
 318 E. Tenth Street
 Kansas City 13
- Nebraska :**
 Farmers Union State Exchange
 39th & Leavenworth Streets
 Omaha 5
- New Jersey :**
 Cooperative Federation of
 New Jersey
 843 Broad Street
 Newark
- New York :**
 Cooperative League of the U.S.A.
 167 W. 12 Street
 New York 11
- Eastern Cooperative League
 44 W. 143 Street
 New York 30
- Eastern Cooperative Wholesale
 44 W. 143 Street
 New York 30
- Ohio :**
 Farm Bureau Cooperative
 Association
 246 N. High Street
 Columbus 16
- Oregon :**
 Oregon Grange Wholesale
 1135 SE. Salmon Street
 Portland
- Pennsylvania :**
 Pennsylvania Farm Bureau
 Cooperative Association
 3607 Derry Street
 Harrisburg
- Philadelphia Area Cooperative
 Federation
 1429 Spruce Street
 Philadelphia 2
- Texas :**
 Consumers Cooperatives Associated
 1517 E. Third Street
 Amarillo
- Utah :**
 Utah Cooperative Association
 155 Pierpont Avenue
 Salt Lake City
- Vermont :**
 Vermont Cooperative Council
 Montpelier

Washington:
Grange Cooperative Wholesale
3104 Western Avenue
Seattle 1

Pacific Supply Cooperative
P. O. Box 1004
Walla Walla

Wisconsin:
Wisconsin Cooperative Farm
Supply Co.
744 Williamson Street
Madison

Central Cooperative Wholesale
1901 Winter Street
Superior

Appendix F.—Where the Housing Dollar Goes

Tables 1 and 2, which follow, are taken from National Housing Bulletin No. 2: Housing Costs, Where the Housing Dollar Goes, published by the National Housing Agency. These tables show the cost of various items that enter into house construction as percentages of the total of a dwelling, and the effect that a 20-percent reduction in costs would have upon the purchaser's monthly payments on a \$5,000 dwelling.

TABLE 1.— *Distribution of Housing Costs, by Item*

Item	Percent of total cost of house and land represented by—				
	Cost of manufacture	Cost of distribution	Cost of transportation	Combined profits	Delivered price
Cost of materials at site.....	20.90	14.80	3.90	6.10	45.70
Lumber.....	4.19	4.64	1.42	1.60	11.85
Masonry.....	2.17	.73	.30	.25	3.45
Concrete and mortar.....	1.70	.86	.33	.44	3.33
Plaster, lath, and wallboard.....	1.31	1.54	.46	.96	4.27
Insulation.....	.11	.06	.03	.04	.24
Roofing.....	.62	.32	.10	.21	1.25
Flooring.....	1.35	1.02	.24	.34	2.95
Millwork.....	2.88	3.10	.38	1.00	7.36
Paint.....	.88	.34	.04	.15	1.41
Finish hardware.....	.29	.29	.03	.10	.71
Plumbing.....	3.63	.90	.35	.60	5.48
Heating.....	.89	.30	.09	.14	1.42
Electrical.....	.39	.40	.05	.14	.98
Miscellaneous.....	.49	.30	.08	.13	1.00
Cost of construction labor at site.....					29.50
Contractor's and subcontractors' overhead and profit.....					12.30
Total cost of house.....					87.50
Value of unimproved land (including profit on land).....					7.00
Cost of land improvements (including profit).....					5.50
Total capital cost.....					100.00

TABLE 2.—Monthly Cost to Purchaser and Effect on Monthly Cost of 20-Percent Reduction in Various Items of Cost

Assumes total cost (house and land) of \$5,000, down payment (90-percent mortgage) of \$500, and \$100 in closing fees and commissions]

Item of cost	Normal monthly cost			Reduction in monthly cost assuming 20-percent reduction in normal cost		
	First 25 years	Next 15 years	Average for 40 years	First 25 years	Next 15 years	Average for 40 years
Interest (5 percent) _____	\$11.81			Percent 5.4	Percent 0	Percent 4.3
Amortization (25 years) _____	15.00			¹ 4.5	0	— 6.5
Loss of interest on cash payments (3 percent) _____	1.50	\$1.50				
Taxes (2½ percent) _____	10.42	10.42		4.4	9.9	5.6
Hazard insurance (0.2 percent) _____	.83	.83				
Maintenance (\$100 per year) _____	8.33	8.33		3.5	² 7.9	4.4
Capital cost _____				² 16.4	² 11.9	² 15.4
Total _____	47.39	21.08	\$37.52			

¹ Savings per month over 31¼ years (term of loan) under 20-percent reduction.

² Represents saving entailed by reduction of total cost of house and land from \$5,000 to \$4,000.

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