

**CONSULTATION PAPER ON THE
FEDERAL CO-OPERATIVE
HOUSING PROGRAM**

Canada Mortgage and Housing Corporation

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TABLE OF CONTENTS

1.	PURPOSE.....	1
2.	INTRODUCTION.....	2
3.	ISSUES FOR CONSULTATION	
3.1.	What Should be the Role of Co-operatives within the Framework of National Policy Directions?.....	6
3.2.	Federal Assistance to Non-Core-Need Co-operative Members.....	8
3.3.	Attainment of Social Housing Objectives Through Co-operatives.....	20
3.4.	Financing Co-operative Housing.....	24
3.5.	Program Delivery and Administration.....	31
4.	CONCLUSION.....	37

1. PURPOSE

This consultation paper is intended to foster discussions on the current and future nature of any federal involvement in co-operative housing. The current Federal Index Linked Mortgage (ILM) Co-operative Housing Program was approved by Cabinet in 1985 as a five-year experimental program, to be submitted at the end of five years to a full evaluation and consultation process. The process is to culminate in recommendations to Cabinet regarding the future direction of the program.

The paper poses specific questions to interested parties concerning co-operative housing and the rationales for and methods of federal government involvement, in order to provide a sound basis upon which any future policies and programs in this area can be developed.

A draft Evaluation Report has been completed and provides an understanding of the extent to which these programs have achieved their objectives and where problems exist. The draft Evaluation Report is available upon request.

The consultation process begins with the distribution of this paper, along with an invitation for written comments by October 19. The consultation team will also meet with key groups to provide an additional opportunity for those groups to present their views.

2. INTRODUCTION

Historical Background

The Beginnings of Co-operative Housing in Canada

In general terms, co-operation means "working toward the same goal". Any group of households choosing to pool their collective resources to secure housing could therefore be considered a co-operative.

The first co-operative housing group was launched in 1937, in Nova Scotia. Within several years of its emergence in Nova Scotia, the co-operative housing movement began to spread to Quebec, Newfoundland and Ontario. Most of these co-operative groups were sponsored by government agencies or by churches.

In 1953, insured loans became available to co-operatives under the National Housing Act (NHA). Under this program, federal funds were provided to provinces, who, in turn, provided co-operative groups with construction loans. Participating provinces were Nova Scotia, P.E.I., New Brunswick and Saskatchewan. The last loans under these arrangements were made in 1978.

In the early years of the co-operative housing movement and leading up to the mid-1960's, virtually all co-operatives were "building" co-operatives. These co-operatives were a group of people who formed a co-operative for the purpose of jointly constructing their own homes. After their homes were built, each household would take possession, although the co-operative would typically continue to repay a common mortgage. As such, building co-operatives were essentially a type of homeownership venture which is quite distinct from the nature of the more recent "continuing" co-operatives, which continue as co-operative organizations, owning and managing the property as a co-operative after completion of construction.

The "continuing" co-operative movement began in the early 1960's, with the completion of Canada's first continuing housing co-operative for families in Manitoba, in 1965.

In 1968, the Co-operative Union of Canada, the Canadian Labour Congress and the Canadian Union of Students jointly founded, with CMHC assistance, the Co-operative Housing Foundation of Canada.

In 1970, the federal government introduced a low-cost housing fund, meant to finance innovative ways of providing affordable housing. Under the direct homeownership loan provision of the Act, financing was extended to co-operatives at below-market rates of interest. These co-operatives agreed to administer

an arrangement in which surcharges from higher-income households would be used to provide occupancy charge subsidies for lower-income residents.

Federal Programs for Continuing Co-operatives from 1973 Onward

Most co-operative housing in Canada - and the type which is eligible for assistance under the Federal Co-operative Housing Program - is continuing co-operatives. It should be noted that these are not-for-profit co-operatives. These are incorporated associations which exist primarily to provide housing for their members. Such co-operatives are termed "not-for-profit" because members are not entitled to sell their membership at a profit. A member may leave a co-operative and be replaced by a new member, but the housing is still owned by the association.

It is argued that continuing co-operative housing offers advantages to members via the collective nature of the group. Put generally, all members take part in the management of the co-operative, and in return gain the benefits of reduced dollar costs relative to private rental accommodation and some of the advantages associated with homeownership, such as enhanced security and control over their living environments.

The first federal program aimed specifically at co-operative housing was introduced in 1973. The stated objectives of this program were: to provide modest, affordable housing appropriate to the needs of low- and moderate-income families and individuals; to house mainly families whose incomes may be too high for public housing; and to encourage the integration of families and individuals of varying incomes.

The original program, under Section 61 of the NHA (1), provided assistance through direct CMHC provision of 100 per cent preferred financing plus 10 per cent capital contributions, along with surcharges to higher income households to subsidize lower income households. Subsequently some provinces agreed to cost share rent supplement assistance for low income tenants for up to a maximum of 25 per cent of the project's units. A total of 223 projects comprising 6,913 units were produced under this program.

1. Changes to the numbering of all NHA sections were effected on Dec. 12, 1988. All references to the NHA in this paper use the new section numbers. The sections of the NHA referenced in this paper and corresponding old section numbers are:

Old NHA Section	New NHA Section	Subject
34.18	61	Pre-1979 Co-op
56.1	95	Post-1978 Co-op

Amendments to the NHA in 1978 led to a new program, now under Section 95 of the NHA. The objectives of this program were to: provide modest, affordable housing appropriate to the needs of low- and moderate-income families and individuals; and to encourage approved lenders to provide capital for low- and moderate-income housing needs. Under this program, 100 per cent financing, was arranged with lenders. The annual CMHC assistance consisted of a mortgage interest rate subsidy to bridge the gap between cost and revenue at low-end-of-the-market rents in the first year, and to create a pool of funds to further subsidize the rents of low income tenants on a rent geared to income basis in a minimum of 15 per cent of the project's units (where the subsidy pool was sufficient). A total of 1,124 projects comprising 39,577 units were produced under this program.

In 1985, the government reached the decision to no longer pursue initiatives involving stimulation of the private housing market via supply assistance. In the same year the decision was also taken to fully target all social housing expenditures to income tested households (2). Co-operatives could continue to provide housing for low income households under this Federal/Provincial (F/P) Non-profit Housing Program.

In the same year the current Federal ILM Co-operative Housing Program was introduced on a five year experimental basis. The objective of the program is first and foremost to provide security of tenure for households unable to access homeownership, through a program based on Index-Linked Mortgages, and then in addition to assist income tested households through the use of rent supplement assistance.

The Index-Linked Mortgage guarantees lenders a real rate of return on their investment for 30 years. This is intended to allow a saving for borrowers of the risk premium otherwise charged for inflation and allows lower repayments by borrowers in the early years of the mortgage. Federal assistance under the Federal Co-operative Housing Program is available to bridge the remaining difference between economic and market rents i.e. the shortfall of breakeven rents relative to rents which can be charged, given market conditions.

Additional assistance to low income households takes the form of federal/provincial cost-shared Rent Supplement payments, for a minimum of 15 per cent per project and an average of 30

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2. Eligible households are those in core housing need, which means they must must spend 30 per cent or more of their gross income in order to obtain housing which is suitable, ie. not overcrowded, and adequate, ie. satisfying health and safety standards.

percent of units per project in each province. This has been subsequently increased to 50 percent in some provinces.

Up to August 1990, 371 projects comprising 11,794 units had been committed under the ILM Co-operative Housing Program.

What is to be Examined?

The consultation focuses on the issue of whether and/or how to proceed with a federal co-operative housing program, and will culminate primarily in recommendations to that end. The experience gained with all past versions of the continuing co-operative programs since 1973 will be examined, in order to identify the advantages and disadvantages of housing co-operatives. Examination of the experience with past federal co-operative programs may, additionally, provide insights as to how the existing stock of co-operative housing from those programs can be best managed.

What is to be Asked?

Questions are grouped, in this paper, into four separate areas.

The first area concerns the role and benefits of co-operative housing within the framework of national policy directions, to whom these benefits should be targeted and what the involvement of the federal government in co-operative housing should be. Sections 4.1 and 4.2 cover these issues.

The second area concerns the role of co-operative housing in the provision of social housing and how this role can be fulfilled most effectively. These issues are covered in Section 4.3.

The third group of questions covers the financing of co-operative housing in the current program. This section keys on the Index-Linked Mortgage, in order to analyze its performance in reducing costs and thus the need for assistance to co-operatives, and on related features which reduce the risk of the ILM in order to enhance its attractiveness to investors. Answers to these questions will bear not only on the continued use of the ILM for the Federal Co-operative Housing Program but on the instruments' future usefulness in other areas. These issues are addressed in Section 4.4.

The final group of questions concerns issues of administration and efficiency in the delivery and management of co-operative housing under the federal programs, which include issues and implications for the existing stock under previous programs as well as for the current program. Section 4.5 contains these issues.

3. ISSUES FOR CONSULTATION

3.1. What Should be the Role of Co-operatives within the Framework of National Policy Directions?

Federal government housing policy has two broad thrusts. These are:

(a) a role as advocate and facilitator to ensure that initiatives and innovative measures can be efficiently developed and implemented by governments and suppliers of housing to ensure that markets work efficiently, to provide affordable and stable accommodation and ease access to homeownership.

Initiatives being undertaken by the government under this role include:

- mortgage insurance
- mortgage backed securities
- leadership in the search to eliminate impediments (the regulatory reform initiative-"Affordability and Choice Today" (ACT))
- research/demonstration
- information/technology transfer
- public/private partnerships
- promotion of security of tenure through the co-operative housing program

(b) the direct provision of shelter assistance for those who are unable to meet their housing needs in the market (approximately 15% of households)

Initiatives being undertaken under this role include:

- social housing expenditures through the array of social housing programs
- providing a supportive environment where people can be assisted when in need but have opportunities to become more autonomous (e.g. self help, tenant participation)

Among the ways co-operatives have helped in the fulfillment of these thrusts are through:

- (i) providing security of tenure
- (ii) supplying a means for the provision of assisted housing, i.e. through rent supplement assistance or fully targeted F/P non profit co-operative housing projects.
- (iii) providing a self help environment for all residents which can reinforce a sense of confidence and self worth for income tested recipients.

One of the ancillary benefits achieved through co-operatives is the provision of affordable housing, although present federal government policy does not pursue the objective of the provision of affordable housing using supply assistance through the private market.

Assistance to co-operatives through the different programs has been provided to two clienteles. The first group are the non-income tested clientele who receive benefits through assistance provided to bridge the gap between market rent (or low end of market rent in the 1973 and 1978 programs) and economic (break even) rent. The second group are low income tenants who receive further assistance on a rent geared to income basis.

Present support to co-operatives differs from other support provided by the federal government in that non income tested individuals receive assistance. In light of the decision to target funds to income tested households and the priority for fiscal restraint the appropriateness of this assistance must be examined.

Others have argued that the secondary benefits of co-operative housing projects are sufficient to merit the support provided. This case and evidence from the Evaluation Report relevant to it is discussed below.

The question is how co-operatives can support the federal government in the attainment of its housing objectives.

3.2 Federal Assistance to Non-Core-Need Co-operative Members

Key Issues:

The central rationale for the present co-operative housing program was to provide security of tenure for households unable to access homeownership. Clearly, if there is a general security of tenure problem in the market then there are different means at the disposal of governments to address it. These include regulatory mechanisms governing relations between landlords and tenants, by-laws relating to conversion and demolition, controls on rents, and program solutions such as the co-operative housing program.

While security of tenure is the clearly stated objective of this program, this document asks if there are other benefits provided by co-operative housing that should be taken into account in determining what role co-operative housing can play within the framework of national housing policy.

It is in these two contexts that the provision of federal assistance to non-income tested individuals via co-operatives will be assessed.

The assistance is available over 30 years. The cost of this assistance, in discounted value terms, is estimated at an average of \$24,831 per unit for the 11,417 units committed in between 1986 and 1989 under the Federal Co-operative Housing Program for a total present value cost of \$283.5 million (this amount does not include rent supplement costs) using a discount rate based on a real rate of 7.5 percent and assumed inflation of 5 per cent (3).

If the decision is to continue assistance, subsidiary decisions will relate to changes that could be made to improve the program and make it more effective.

Background:

This section enumerates the objectives and benefits claimed for co-operative tenancy for individuals not in receipt of income tested assistance, i.e. non core need individuals, and the reasons for federal assistance of this aspect of co-operative housing. Evidence from the evaluation relating to the achievement of these potential benefits is discussed.

3. The discounted value (or "present value") of a stream of revenues over a period of time in the future is that amount which, if invested today at the assumed interest rate (or "discount rate") would result in the same stream of future revenues. This measure allows comparisons to be made in terms of "dollars today".

Several points should be noted before discussing the objectives and benefits of co-operatives for non-income tested clients.

First, it should be kept in mind, when comparing co-operative and private rental accommodation, that to the extent that these alternative suppliers serve the same clientele, assistance to co-operatives may "crowd out" private accommodation. On the other hand, co-operatives may provide an alternative form of housing for which there is demand but which is not supplied by the private market. In an evaluation survey, 31 per cent of renters surveyed said that they would move into a co-operative unit if one were available and 14 per cent of renters had actually enquired into the possibility.

Secondly, given that co-operative housing is offered to individuals who also have market rental alternatives, the question must be asked as to what standard of units should be provided. The choice of a standard must reflect this fact, while on the other hand, balance the desire to ensure that federally funded housing meets but does not exceed general standards for social housing units, so that the most units possible can be provided within a given budget. Finally, in determining the standard, it may be appropriate to consider the present standard of accommodation of others who do not receive benefits because the budget is limited.

Thirdly, given the government priority on fiscal restraint, the scope for developing housing co-operatives which require less or no federal assistance should be considered. The potential for generation of funding or other sources of capital for co-operatives should be examined, including ways to generate equity. It must be recognized that many of the possible financing alternatives may deviate from a model of co-operative housing which avoids or minimizes the use of tenant or investor equity.

Benefits Claimed for Co-operative Housing:

Security of Tenure:

Security of tenure may be defined variously as derived from legal occupancy rights and control of housing management policies, or as depending on the ability to maintain rent payments. By these definitions, it has been argued that co-operative housing may increase security of tenure, relative to that found in private rental accommodation because: members cannot be evicted by a landlord, but only by the co-operative itself; members collectively control decisions as to the future of the co-operative; members have the incentive to control costs; increasing market capital values are not

reflected in rents of existing projects; and because of the Security of Tenure Fund (4).

With regard to the objective of security of tenure, the data suggests that security of tenure problems are experienced to some extent in the private market.

In a survey conducted for the evaluation, tenants and homeowners were posed the question: "How likely do you think it is that you will have to move out of (your home) within the next year because of a loss of income or increases in housing costs?" The results of the survey are summarized in Table 1. Of tenants in private rental accommodation surveyed, 21 per cent felt it was very likely or somewhat likely that they would have to move within a year. The results suggest that residents of Section 61 (pre-1978), Section 95 (pre-1986) and post-1985 Non-Profit Program co-operatives felt, on average, somewhat more secure than their private rental counterparts, with the corresponding percentages ranging from 10.6 to 14.5. ILM co-operative residents felt, on average, about as secure as private rental residents.

While the co-operative housing program instrument appears to provide more security of tenure, the evidence from residents' perceptions based on the evaluation survey is that co-operatives do not provide significantly more security of tenure than is provided by private rental accommodation.

Further, while the control of decisions on the affairs of the project may reduce the scope for arbitrary decisions by landlords and the vagaries of the marketplace, it should be noted that these problems are also addressed by various laws, such as those regarding landlords and tenants and regarding rent increases and allowable cost pass-throughs. Any improvement in security of tenure would have to be above that which is already afforded by the law. Secondly, in the context of considering the basis for federal support, if a general market problem relating to security of tenure exists, it can be asked whether a program solution which benefits only co-operative program clients is the correct way to deal with it.

4. Security of Tenure Funds are maintained by each co-operative and funded by resident contributions, for use by households in making rent payments in the event of temporary income difficulties.

Table 1

Resident Perception of Likelihood of Having to Move

(Percent)

Co-operative Residents	Very Likely	Somewhat Likely	Not Very Likely	Not At All Likely
ILM	8.9	12.8	40.0	38.3
Post-1978	3.7	7.8	39.2	49.2
Pre-1979	2.4	8.2	39.4	50.0
Post-85 NP	6.6	7.9	40.8	44.7
General Population				
Owners	3	4	15	77
Renters	11	10	20	59

It is claimed that there are other benefits for society and individuals that may provide reasons for the government to provide assistance to co-operative housing. These are examined below.

1. Creation of a Pool of Affordable Housing:

It has been argued that government investment in co-operative housing represents an efficient approach to producing low-income housing over time. Co-operative housing has been described as part of the third-sector, which creates a pool of housing units which are protected from market forces. Co-operatives are insulated from the market, to some extent, since the property is held by the collective and is not subject to periodic sale and recapitalization and the attendant pass-through of higher capital costs to residents. This pool of housing remains affordable and, over time, may increasingly serve to provide housing for those with low to moderate incomes, as long as the housing remains in its current usage. To the extent that these units would house individuals who would otherwise be in core housing need and thus qualify for social housing assistance, benefits to society over and above the benefits directly to the individuals so-housed would be obtained. On the other hand, if this does not occur, then the ongoing benefits would simply accrue to the individuals living in the project, without an additional benefit to society.

The evaluation presents some supporting data to the assertion that co-operatives provide a long term pool of modest cost housing in which occupancy charges (the monthly cost to co-operative residents) continue to trend below the market. As of 1989, average occupancy charges for co-operatives (pre-1986) were lower than average private market rents across metropolitan areas.

Whether this will be the case in the long run with the present co-operative housing program will depend both on the extent to which co-operatives are able to achieve operating cost savings, and the relationship between increases in financing charges under the ILM and market rent increases.

It has also been suggested that over time, the income profile of co-operative housing residents becomes more and more modest as higher income residents move out and are replaced by those of modest income. Since income data are not collected for non-income tested residents, data on income profiles within projects over time is not available from administrative files to test this hypothesis. Some evidence does however exist from the special resident surveys carried out for the present evaluation and a previous evaluation. This data shows that whereas in 1981, 45.8 percent of residents from the post 1978 program were above the average income for all renters, this number had fallen to 39.4 percent in 1989.

A further measure of the extent to which the older co-operative housing stock is providing accommodation for low income households over and above that provided for income tested residents can be seen from examining the incidence of households below the core need income thresholds (CNITs) (5). In the oldest program (the pre 1979 program), 32.4 percent of non-income tested households presently have incomes below CNITs. The corresponding percentage is 22.7 percent on the post 1978 program and 20.2 percent in the present program.

2. Affordable Housing for Those Unable to Afford Homeownership:

It is claimed that co-operatives may increase access to and affordability of housing for those who cannot access homeownership in the private market and that housing co-operatives may also provide a transitional vehicle, from which individuals may go on to purchase their own homes. Clearly, the net benefits provided by co-operatives in this regard depends on the extent to which the private rental market does not adequately meet the needs of these households.

5. CNITs, which vary by market, are those income levels at which households would need to spend 30 percent of their income to obtain suitable and adequate housing i.e. would be in core need.

Table 2

**National Income Distribution of Co-operative Residents
(1989)**

(\$ Thousands)							
Annual Household Income	<\$10	10	20	30	40	50	60+
		-19.9	-29.9	-39.9	-49.9	-59.9	

(Per Cent)							
ILM							
Income tested	33.2	50.7	12.5	1.7	1.3	0.5	0
Non-inc. tested	4.3	14.8	19.7	29.8	17.9	8.3	5.3
Canada total	14.6	26.2	17.5	20.7	11.8	5.4	3.7

Post 1978

Income tested	20.2	37.9	25.4	9.7	3.9	1.8	1.3
Non-inc. tested	4.5	15.6	20.9	24.8	17.2	10.4	6.7
Canada total	13.6	28.4	23.6	16.0	9.5	5.4	3.5

Pre 1979

Income tested	17.4	34.6	21.2	12.3	6.6	5.4	2.6
Non-inc. tested	7.8	17.1	21.5	23.5	15.5	8.1	6.6
Canada total	12.2	24.6	22.0	18.6	11.1	6.9	4.6

**F/P Non-
Profit (post 1985) (6)**

Income tested	20.8	44.8	25.0	5.6	3.3	0.5	0
Non-inc. tested	5.8	11.9	16.1	20.8	26.4	9.6	9.5
Canada total	14.3	32.3	23.0	12.6	10.2	3.9	3.8

Regarding the objective of providing a tenure option for those modest income households unable to afford home ownership, the evaluation found that close to 55 per cent of non income tested residents are in the low to moderate income category (below the second quintile income by province for all Canadian families). Table 2 provides detail on the distribution of household incomes in co-operatives. Moreover, a majority of these households were found to be unable to afford home ownership. This is illustrated in Table 3, which shows the

(6) The non income tested co-op residents are from F/P projects in Ontario. The cost of bringing the occupancy charge down from economic rent to market rent is borne by the province.

number of non-income tested co-operative households that would not be able to afford to make monthly principal, interest and property tax (P.I.T.) payments on a modest home (7).

Table 3

Incidence of Non-income tested Co-operative Housing Residents Who Could Not Afford Monthly P.I.T. Payments for Homeownership

(Percent)

	Mortgage Interest Rate		
	10%	12%	14%
ILM	43.9	53.6	63.9
post 1978	67.2	76.4	83.0
pre 1979	60.0	70.5	77.1
F/P Non-Profit (8)	76.0	83.5	93.5

The data therefore indicates that co-operatives are being used by the target group. Some evidence exists that these households are better off in terms of shelter costs. "Affordability" was one of the positive characteristics of co-operatives most often chosen by respondents to a co-operative resident survey conducted for the evaluation.

In addition, the evaluation found that rents are generally lower in the co-operative housing stock than in the private rental market. As indicated, whether this will be the case in the long run with the present co-operative housing program depends on operating cost savings that co-operatives achieve and the relationship between market rent increases and increases in financing charges under the ILM.

In comparing the relative positions of homeowners and co-operative residents, it is relevant to consider the capital gain that the homeowner realizes. While the co-operative resident benefits immediately from the reduced shelter costs made possible by the subsidy, the homeowner's benefit from the capital gain is deferred.

7. Based on a matching of regionally disaggregated data for prices of houses insured under the NHA (approximately 60% of NHA purchasers are first time buyers) and on co-operative occupant incomes, and assuming a mortgage with a starting loan to value ratio of 90 per cent and a 25-year amortization period.

8. These statistics cover F/P Non-Profit residents in Ontario only.

The results of any comparison to determine who is "better off" in the long run are highly sensitive to the rate of appreciation in real estate. Under reasonable assumptions regarding the annual rate of interest, increases in costs to co-operative residents and increases in house prices, homeowners and co-operative tenants would bear about the same net housing costs when house prices increase by around 10 per cent per year. At higher rates of house price appreciation (holding inflation and occupancy charge increases to 5 per cent per year), the homeowner is better off due to the higher capital gain. At lower rates of house price increases, the co-operative household fares better.

3. Operating Cost Savings:

It has been argued that co-operative housing provides both the incentive and the organizational structure to achieve savings in operating costs. Volunteer labour, to the extent that it replaces the need for management fees and payment for other services, can result in reduced operating costs. The incentive to reduce costs exists because non income tested tenants benefit when reduced costs allow lowered occupancy charges.

Some evidence exists on the proposition that co-operatives allow reductions in operating costs through tenant participation and control. Operating costs under the co-operative programs are generally about 40 per cent lower, for example, than in public housing and about 25 per cent lower than under the pre-1986 Non Profit Program.

4. Lifestyle and Social Factors:

A number of other benefits of co-operative housing to individuals not in receipt of income tested assistance are claimed. As with all the benefits identified, the extent to which their achievement produces benefits to the society over and above those to the individuals is a matter for consideration.

Lifestyle and social factors, such as the ability to control the affairs of a project, providing enhanced control over one's living environment, have been cited as benefits of ongoing tenancy in a co-operative, providing residents with some of the benefits of homeownership.

Co-operatives may also foster community development activities within the project and between the project and the surrounding community. As noted in the Evaluation Report, local residents may be involved in project development and planning; the community-level scale of co-operative groups may allow for sensitivity to community needs and conditions; and co-operative projects may develop services for members which are available for other local residents.

With regard to the involvement of co-operative residents in the community, the percentage who said that they had actively been involved in the development of services in the broader community ranged from 37 per cent in ILM co-operatives to 57 per cent in pre-1979 co-operatives.

It is also noted in the Report that co-operative housing may yield benefits to society as a whole by fostering pride of place, encouraging responsibility and hence maintenance, and encouraging the development of skills by residents, leading to more harmonious and self-sufficient communities.

Some indirect evidence on the achievement of social benefits is supplied by the data on skills development. A generally high degree of participation in management was noted in the evaluation for both income tested and non-income tested residents. In general, and including all programs, about 70 per cent of co-operative households devote from 1 to 10 hours per month to co-operative activities. Approximately 20 per cent of resident households spend more than 10 hours per month on co-operative activities, while 10 per cent of resident households reported that they spend no time whatsoever in this way.

Over half of residents reported the development of some skills via participation in co-operative activities, with a higher proportion of income tested occupants reporting skill development. The abilities developed were mostly in skills such as interpersonal relations and in self-confidence. Other skills developed included bookkeeping, financial management and trades.

Social benefits may also be delivered by income-mixing in co-operatives, as this may increase social integration and enhance community acceptance of social housing. Co-operatives may be particularly apt vehicles for income-mixing since all members have equal rights and participate in project management.

Income mixing has been achieved. The evaluation found that a majority of residents across all federal co-operative housing programs live in projects which are income-mixed.

Co-operatives may deliver social benefits by providing supportive housing environments for single parents, women with housing problems, the handicapped and for new immigrants. Co-operatives may help members with special needs via support services and by helping them to better integrate with the surrounding community.

Finally, co-operatives may offer potential for innovations in housing. This has occurred in such examples as self-help management, flexible income-mixing and in the development of the Index Linked Mortgage.

5. Equity considerations relating to the tax system:

It has been argued by some that direct assistance to co-operatives is appropriate to put them on an equal basis with private rental owners and home owners who receive certain tax advantages which are not available to co-operatives.

Thus, private rental projects syndicated for investors provide tax sheltering for the investor in the early years through the deduction of "soft costs". These costs include such items as rental guarantees, initial leasing costs and certain other fees and expenses. The present tax rules do not require such costs to be capitalized. They may thus be treated as rental expenses to reduce rental income for tax purposes. As a result the investor may be able to show significant losses for tax purposes in the early years which may be deducted against other sources of income, reducing tax revenues for the government.

In addition, some have argued that since rental owners benefit from capital cost (depreciation) allowances which can be deducted from rental income for tax purposes and are not available to co-operatives, some offsetting benefit should be provided to co-operatives.

These tax benefits to rental investors have an impact on co-operatives through increasing the price of available land zoned for multiple purposes. This is because the price developers are prepared to pay for such land depends on the profitability of its end use, and this profitability is increased due to the tax provisions. The price of suitably zoned land which has not been taken up for condominium development thus has the value of the rental developers' tax benefits capitalized into its price, increasing its cost for co-operatives.

On the other hand it is argued that since both soft costs and depreciation are legitimate expenses of doing business, the provision for rental investors and owners to deduct them is not in question and has no bearing on the matter of whether the government should provide direct assistance to co-operative housing projects.

It should further be pointed out that immediate deductibility of certain soft costs incurred during the period of construction, now available to corporations whose principal business is real estate, is being phased out and will no longer be available as of 1992. From this date these costs will need to be capitalized.

It has also been argued that an inequity exists since co-operatives do not benefit from the capital gains exemption provided to homeowners. The tax treatment of homeowners has

in fact attracted considerable debate in the past, with suggestions that homeowners should be considered as renting to themselves and taxed on imputed rent. This, however, would imply the need for deductibility of costs, including mortgage payments.

It has been argued, on the other hand, that co-operative housing residents do receive equivalent non taxable benefits to the extent that savings, or what would be operating profits, are used instead to reduce occupancy charges. This could conceptually be viewed as a non taxable distribution of profits to the shareholders (co-operative members).

Questions:

1. The Role of Co-operatives in National Housing Policy

- Is there a security of tenure problem in the marketplace?
- If so, what are the measures through which this problem should be addressed?
- Have co-operatives effectively achieved the objective of providing security of tenure?
- What other benefits of co-operative housing are there that could merit the provision of direct federal assistance?
- If there are benefits from co-operative housing through provision of security of tenure and other effects, then what is the appropriate level of federal assistance to co-operatives, and who should be the beneficiaries?
- What would be the best way to assist co-operatives to further the governments national housing agenda?

2. Cost-effectiveness of the Assistance

- What minimum and maximum housing standards should apply to co-operative units produced with federal support?
- Can the cost of providing co-operative housing be reduced? If so, how? (examples may be changes in management and development practices, or in the type of housing produced). How can this be done in such a way as to improve the cost-effectiveness of co-operative housing?
- What other alternative approaches or program modifications are suggested?

3.3 Attainment of Social Housing Objectives Through Co-operatives

Key Issues:

Co-operative housing provides a vehicle for delivering social housing assistance. A review of the rationales for, and benefits and costs of the delivery of social housing through co-operatives will provide the basis for decisions on the place of co-operative housing in the social housing policy mix. Subsidiary decisions would relate to how assistance could be better and more cost-effectively delivered.

Background:

Social housing benefits, directed to income-tested households, are delivered through co-operatives under the Federal/Provincial Non-profit and ILM Co-operative programs. Under the Non-profit program, all tenant households subsidized by the federal government must be income tested. Assistance to Non-profits is provided through a subsidy equal to the difference between eligible operating costs and revenue. Under the ILM Co-operative program, a minimum of 15 per cent of all units in a project must be made available for Rent Supplement assistance. Previous to 1988, up to 30 per cent of co-operative units in a province could be used for delivery of Rent Supplement at the discretion of the federal government. In 1988, this figure was revised to allow for up to 50 per cent of all units per project in all but three provinces.

Several advantages may exist in delivering social housing assistance through co-operatives, both as a vehicle for Rent Supplement delivery on a portion of the units and, in fully targeted projects, alongside regular non-profit housing under the Non Profit Housing Program. As in the previous section, any benefits which do exist must be considered in the context of their cost-effectiveness in comparison to other actual or possible alternatives, and their appropriateness in the context of public funding.

Use of co-operatives for delivery of Rent Supplement assistance may offer several advantages:

The supply of Rent Supplement units in co-operatives may be more stable in the long run than those in private buildings. With co-operatives, agreements are in place for 30 years, while agreements with landlords are typically in place for 4 or 5 years. More than one quarter of the stock of Rent Supplement units are in co-operatives.

In some markets, particularly in markets where supply is tight, there have been difficulties in finding suitable market rental units to lease on the private market. In such markets, it could be necessary to pay a premium to maintain the same

total number of new Rent Supplement commitments within the private market. Even in stable markets, landlords have not provided long-term access to units for Rent Supplement purposes. Therefore, a premium could also be incurred.

Secondly, the co-operative format may offer advantages in terms of quality of life to social housing clients, due to emphasis on tenant self-help and management and high interaction with other residents. As indicated in the previous section, evidence exists that such benefits do flow from co-operative living, and that through participation in management of the project, residents do gain life skills and have an enhanced opportunity for social interaction.

A third benefit may be reduced long term Rent Supplement costs if co-operative occupancy charges increase over time less than market rents. As indicated earlier, factors rendering this possible are (i) savings in operating costs achieved in co-operatives (ii) some insulation from market dynamics due to the non profit nature of co-operatives. As indicated earlier, some evidence from the evaluation on rents supports this. As was also pointed out, an additional factor determining whether this will occur in ILM co-operatives will be the relationship between increases in market rents and increases in the financing costs.

With regard to the benefits of using the co-operative format for fully targeted projects under the Federal/Provincial Non-profit Program, the evidence is limited. This is because the delivery of co-operatives under this program has been almost entirely in Quebec and Ontario. Further, in Ontario the province has provided additional funds to provide non income tested units in these projects in order to achieve an income mix.

It has been argued that the benefits of co-operative living would apply equally in fully targeted co-operatives. Co-operatives under the Federal/Provincial program benefit from the expertise and support of the co-operative sector in planning, developing and managing projects, and co-operative members take part in the management of their projects, as they do under the federal program. Others have argued, however, that the savings in operating costs attributed to co-operatives may not be obtained in fully targeted projects. This is because residents have less incentive to work to reduce costs since they are on rent-geared-to-income scales, and will not reap any benefit from cost savings. This does not appear to be borne out in practice for the fully targeted projects in Quebec. Of the small number of projects in Quebec for which information was obtained, most were managed by residents on a voluntary basis. It should be borne in mind, however, that the Quebec projects noted are relatively small. It may be the case that the level of voluntary management

found in these projects would be more difficult to achieve in the larger projects found elsewhere.

Some have argued that an income mix is an essential attribute of a co-operative, helping to define its character, and that the existence of higher income residents better ensures the mix of skills to make the co-operative work as it should. It can be argued however that an income mix can be obtained within the core need income thresholds.

Questions:

- What social housing goals are achieved via ILM co-operatives, and are there more cost-effective ways of delivering social housing benefits?
- Should co-operatives be free to choose who should be the residents.
- What advantages and disadvantages exist in the use of co-operatives in providing 100-per-cent-targeted non profit housing?
- Can the co-operative infrastructure provide additional organizational skills and means to enhance the living environment of income-tested co-operative residents?
- What alternate approaches or program modifications are suggested?

3.4 Financing Co-operative Housing

Key Issues:

The Index Linked Mortgage (ILM) has been used in the current co-operative housing program on a trial basis. The ILM was chosen because it was believed that it would provide savings in direct government expenditures compared to financing arrangements used previously. Given the experience to date, the decision must be made as to whether or not to continue the use of the ILM for any continuing federal co-operative housing program, and whether or not to modify the instrument and other key components including the Stabilization Fund and mortgage insurance.

Background:

The ILM was designed to offer a contract which, in effect, produces approximately the same constant stream of real payments to the borrower and lender, regardless of the realization of anticipated or actual inflation. The problem of "tilt", ie. higher real payments in the early years of a mortgage compared to those in the later years of the mortgage, which is experienced with the Equal Payment Mortgage (EPM), is therefore reduced. Moreover, the risk to lenders of unanticipated inflation and thus erosion of their real return is avoided by the indexing feature.

Under a generic ILM, the initial payment is based on a real rate of interest, which determines the interest to be paid, plus a factor for expected inflation. The payment amount changes with the rate of inflation. This feature results in a stream of payments which are initially lower than those usually experienced under an EPM and which then increase in nominal value, keeping the real rate of interest on the loan constant. The balance grows in the early years of the mortgage as the early payment amounts are not sufficient to cover all of the incremental interest each period, but then begins to decline after approximately the mid-point of the amortization period as principal constitutes an increasing percentage of the payments, until the loan is retired.

Under the ILM Co-operative Housing Program, federal assistance is provided in year one of the amount required to cover any shortfalls between occupancy charges (set initially according to local market rents) and costs. In subsequent years, assistance is increased at a rate tied to the Consumer Price Index just like the monthly payments. Under the CMHC program there is an assistance reduction feature that applies during the latter half of the amortization period if increases in market rents run significantly above the general Consumer Price Index.

Because the ILM involves an increasing loan to value ratio during approximately the first half of the amortization period, it involves a higher risk of default than does the EPM and, in the event of a default, it involves a higher cost to the Mortgage Insurance Fund (MIF) administered by CMHC. For this reason, a number of "safety features" were designed into the ILM Co-operative Housing Program.

First of all, a 2 per cent "tilt" was built back into the mortgage payment stream, by revising the nominal payment, not by the rate of inflation, but by the rate of inflation less 2 per cent. Secondly, a Stabilization Fund was established, to which all ILM co-operatives contribute a one-time payment of 3 per cent of capital costs, to provide resources to temporarily assist projects experiencing viability difficulties. Thirdly, a Security of Tenure Fund is established in each project which provides occupancy charge assistance to households in temporary difficulty. Fourthly, it is possible to extend the amortization period from 30 to 35 years for projects experiencing difficulties. Fifthly, ILM's are insured by CMHC, in order to protect lenders. This is a last resort, and prior to becoming a claim on the fund, the project must first have resorted to borrowing from the stabilization fund and where possible, increase its percentage of Rent Supplement units. A mortgage insurance premium of 3 per cent, equal to that charged for insurance of private rental properties, is charged in order to cover the risk to the MIF. Losses may be incurred by the MIF, up to the amount contributed to the Fund in the course of the Co-operative Housing program. A potential cost to the federal government exists, as the government assumes liability in the event that claims exceed the coverage of that portion of the MIF.

The characteristics of the ILM result in several advantages for borrowers.

First, because payments start lower under the ILM than under the EPM, the profile of co-operative's nominal payments will be better matched to the profile of their nominal revenues, so that the real burden of the mortgage is more evenly-spread over the amortization period. As a result, the need for federal subsidies is reduced in the early stages of the mortgage, as compared to the EPM. On the other hand, because of rising nominal debt repayments, projects financed with the ILM are more likely to require assistance farther into the future than would EPM projects.

Secondly, the ILM, because it is a long-term mortgage, with payments indexed, in the case of the ILM Co-operative, at two percentage points below the rate of inflation, allows the borrower partially to avoid the potentially large nominal and perhaps, real, interest increases that EPM's are often subject to at the time of each periodic roll-over. On the other hand,

nominal and real interest rate reductions will correspondingly not be fully captured.

The evaluation sheds light on the performance to date of the Index-Linked Mortgage in the context of the Federal Co-operative Housing Program.

The government made a commitment to provide annually \$5 million (indexed each year) for federal assistance to bridge the gap between economic and market rent. Under the assumption that required assistance per unit was \$1,000, this would have led to the development of 5,000 ILM units per year.

The \$1,000 assistance figure was based on the assumption that real rates of 4 percent would be attained (along with an assumption regarding other costs).

In practice, due to the fact that real rates of 4 percent were not attained and that costs were higher than anticipated, the budget has allowed for only half the units that were expected, i.e. an average of approximately 2,500 per year.

Except for ILM's provided by the Government of Manitoba in 1986 and 1987, the real rates of return realized under the ILM were never as low as the 4 per cent upon which the program budget and production targets were predicated. In fact, the annual average real rate of return remained within 25 percentage points of 5 per cent for all quarters from 1986 to 1990.

While the real interest rates realized on the ILM so far have been higher than those originally expected, on the basis of historical real rates of return on other investments of comparable risk, the rates realized on the ILM over the 1986-1990 period have generally been lower than the rates of return on comparable investments. Therefore, the failure to obtain a 4 per cent real rate can be attributed to the state of the market, rather than to the instrument. Table 4 presents the real rates of return on Treasury Bills, Government of Canada bonds, and 5-year mortgages over this period, compared to the rates of return on ILM's.

A total of 16 lenders made loans under the ILM, with 3 lenders accounting for close to 65 per cent of the loans.

Table 4

**Real Rates of Return on T-Bills, Canada Bonds and Mortgages
1986-1989**

Year	91-Day T-Bill	6-Month T-Bill	Bond Average 1-3 Yrs	Bond Average 10+ Yrs	5-Year Mortgage Rate	ILM Ave. Real Rate
1986	4.90	5.70	4.86	5.14	6.84	5.14
1987	3.79	7.65	4.97	5.47	6.66	4.88
1988	5.36	9.24	5.14	5.69	7.07	5.06
1989	7.00	7.02	5.70	4.91	7.04	4.85

A survey of lenders and the investment community identified a number of characteristics of the ILM which could affect its popularity, competition for the business and hence, influence the interest rate obtained.

The most often-cited reasons for investing in the ILM were its usefulness in matching future indexed liabilities, and the NHA mortgage insurance guarantee. Other factors often cited were the fixed real rate of return, the attractive (by historical standards) long term real rate and its usefulness in diversification of investment portfolios.

Four factors were cited predominately as areas in which the instrument could be improved in order to increase investor interest. First, the government's perceived non-commitment to the ILM, as an experimental program feature, creates uncertainty. Second, a guaranteed stream of payment would remove the risk of early payment via the MIF in cases of default. Third, a higher volume and improved liquidity, for example, through securitization, would be favoured. Finally, improved information, external review of the ILM and improved targeting of marketing to those who generate investment strategies or policies on a long term basis, such as pension fund managers and trustees, mortgage brokers and administrators of employee benefit plans, would increase interest in the instrument.

The evaluation also addresses questions as to the adequacy of the Stabilization Fund, the risk to the MIF, the liability to the government and the sensitivity of the adequacy of this protection to changes in program design and economic circumstances.

A specialized model was constructed to predict both the number and cost of claims to the two funds. Claims to the MIF could occur where a project defaults on its loan, after taking the following default avoidance measures: reamortization to 35

years; taking a loan from the Stabilization Fund; and filling 50 per cent of its units with Rent Supplement clients. Upon default, the project would transfer from the MIF to the social housing portfolio, at market price, with any loss then borne by the MIF. Losses on loans made by the Stabilization Fund to projects in difficulty could occur where either a project is still viable but unable to repay the loan, or where a project defaults.

It should be pointed out that the model did not take into account the possibility of default for reasons other than market causes, such as default due to poor management or due to mishaps such as fires.

Three sets of hypothetical economic circumstances were used: scenario 2, in which market rents increase on average at the same rate as the CPI; scenario 1, in which market rents increase faster than the CPI; and scenario 3, in which market rents increase more slowly than the CPI, with greater volatility and regional variation. Other economic circumstances were also altered for each scenario. Three alternative program designs were examined under these scenarios. The first design was the current program. The second design was the current program without the 2 per cent tilt, which would lower initial payments somewhat and increase the rate at which subsequent payments would increase. The third was the current program without tilt and with the index for calculation of federal assistance changed to the local index of market rents, rather than the national CPI. This would have the effect of protecting co-operatives in situations where local market rent increase are lower than the increase in the national CPI.

Under scenario 2, losses to the Stabilization Fund were within the coverage of its 3 per cent premium, with the exception of the program with no tilt. On the other hand, losses to the Stabilization Fund were above the premium coverage for all three program designs under scenario 3.

No defaults occurred for the current program under scenario 1. Some defaults occurred under scenario 2, but claims to the MIF fell well within the coverage afforded by the 3 percent premium level for all 3 program designs. Under scenario 3, however, defaults increased significantly and claims to the MIF exceeded the coverage of the 3 per cent premium level for all three alternative program designs. This would result in losses to the MIF, and potentially, a cost to the government itself over and above budgeted program costs.

For further detail on the structure and findings of the model and the assumptions used, the reader is referred to the Evaluation Report. The reader is cautioned that actual experience may be different from these simulation results, and

is invited to provide views on the likely default experience under the ILM.

Questions:

- Should the ILM continue to be used as the mortgage instrument for housing co-operatives? What benefits has it delivered?
- Are there any alternatives to the ILM which should be considered for financing co-operatives?
- What modifications to the ILM could be considered to reduce the need for assistance in bridging the gap between market and economic rents?
- What modifications to the ILM could be considered in the context of the Co-operative Housing Program to improve the instrument from the borrowers' point of view?
- What modifications to the ILM would broaden investors' acceptance? Are there ways of reducing the real rate obtained?
- What modifications to the Stabilization Fund and mortgage insurance provisions could be considered? Are the premiums appropriate?

3.5 Program Delivery and Administration

A number of issues relating to the delivery and administration of the Co-operative Housing Programs can be identified which do not fall under the preceding broad categories. Some of these issues are related to the ILM program alone, while others apply to the ongoing administration of the stock from the current and previous programs.

Client and Project Selection

The current model used to allocate co-operative units across provinces is based on the profile of renter households in each province. As such, the model somewhat inaccurately addresses the target population of the Co-operative Housing Program, i.e. households unable to afford homeownership. Recalibration of the model may be desirable. However, this would create the following dilemma: closer adherence to allocation of units based on affordability problems would tend to result in the targeting of more units to relatively high-cost areas. While this would achieve closer adherence of the program to the target group, fewer units would be delivered, given fixed budgets. The issue of how far to go in the tradeoff between units delivered and targeting to those with affordability problems should be resolved.

The evaluation found that virtually all co-operatives conduct screening of applicants. The predominant method has been by personal interview. Fewer co-operatives rely on the Local Housing Authority (LHA) to screen lower-income applicants. Furthermore, those clients who are referred by the LHA are further screened by the co-operatives, who may not select the LHA's first referral. Selection of occupants is undoubtedly important to the achievement of goals such as providing service to disadvantaged individuals and groups with special housing needs. The process should therefore be improved if possible. One improvement could be the development of criteria for client selection.

Security of Tenure Fund

Security of tenure in ILM co-operatives, as well as overall financial viability are intended to be enhanced by the existence of security of tenure funds maintained by each co-operative. The funds draw a yearly contribution, currently \$46 per unit, which is eligible as a cost in the calculation of the federal contribution. Disbursements are made to cover some of the occupancy charge for non-Rent Supplement occupants experiencing temporary financial difficulties. The extent to which the funds have been used and whether or not they have been necessary, adequate or excessive should be assessed. In this connection, the evaluation survey of co-operative

residents found that of all co-op residents reporting financial difficulties, those in ILM co-operatives were less likely to have received financial assistance than those in the older versions of the program.

Competitive Financing and Renewal Process

Along with the introduction of the ILM program in 1986 as a means to reduce the federal funding cost associated with co-operative housing, the Competitive Financing and Renewal Process (CFRP) was introduced in 1988. Under this process, pre-1986 Section 95 co-operatives whose mortgage terms expire must competitively refinance through CFRP in order to realize the lowest possible market interest rate.

Some evidence exists regarding the success of the CFRP to date. Prior to the CFRP, few social housing loans renewed at a mortgage rate below the midpoint of the prevailing range for market NHA loans, the maximum rate acceptable. The first full year of renewals of social housing mortgages under the CFRP, 1989, saw the average rate on renewed social housing loans fall to .83 per cent below the NHA midpoint interest rate. Data for 1990 indicates that this result continues to be obtained. Reductions in rates on financing for co-operatives were similar to those for social housing and approximately the same as for public and private non-profit projects.

At issue is whether any potential improvements or alternatives exist for this process.

Co-operatives, Resource Groups and Federations

The ILM Co-operative Housing Program is delivered by CMHC. About 81 co-operative housing resource groups and 14 federations throughout the country act as consultants to housing co-operatives, who wish to establish a project, providing their expertise and guidance on proposal development, development of the co-operative organization, and financial and property management.

The evaluation found that, overall, both CMHC and resource groups were rated by each other as generally effective in delivery of co-operative housing most of the time.

The primary question is where resource groups should be concentrating their efforts in terms of project development and member education to improve project management.

Regarding project development, resource groups identified a number of areas for improvement.

Two major problems noted were associated with the levels of market rents and the administration of the Rent Supplement component. Several respondents noted the "gap" between core

need income thresholds and market rent levels and the inflexibility of the program to meet the needs of people with moderate incomes who cannot afford market rents. Comments were also made about higher rent levels which are not necessarily matched to more amenities and create problems in marketing market rent units.

Another improvement might be yielded through the identification of what number of units delivered through a resource group are necessary in order for the group to work efficiently. In some areas, resource groups may be under-utilized, while in other areas, resource groups may be over-utilized, or may not exist at all.

Other areas of potential improvement in the development process should also be identified. One potential improvement in the approvals process may be to look for more evidence of co-operative member participation before commitment of funding.

Regarding member education for project management, resource groups identified a need for improvements.

Finally, on the subject of provincial involvement in the Rent Supplement component of the current program, several resource groups noted the loss of control to the province over the allocation of a portion of the rent supplement units.

Proposal Development Funding

Proposal Development Funding (PDF) is provided in the form of loans to co-operatives developing proposals under the ILM program. The maximum PDF loan is currently \$500,000 per project, with the actual amount determined according to the size and complexity of the proposed project. Proposals which eventually result in selection for a commitment must repay the interest-free PDF loan, amortized within the mortgage amount, upon disbursement of the first mortgage loan advance. If a proposal does not proceed within three years, the PDF loan is forgiven.

The evaluation shows that budget limitations are cited most often by resource groups and CMHC branches as the former major limitation of the PDF program. This concern, however, was addressed in virtually all cases by the new PDF limit. While a number of problems with the PDF process were cited, those mentioned most frequently related to the application process (too long and onerous in advance of any funds), amount of paperwork (too much) and the phasing of disbursements (should be disbursed faster and earlier).

Management and Maintenance of the Stock of Co-operative Housing

Good management of the stock of housing under all versions of the co-operative housing programs, past and present, including financial management, maintenance, repair and improvements and policies on member participation, can yield cost savings to the government in funding and administering the portfolio.

The evaluation reports that in the opinion of co-operative managers, the management tasks which could be most improved are resident education, resident relations and community relations. A number of co-operatives (between 17 per cent and 25 per cent of projects, depending on the program) reported having experienced varying degrees of financial difficulty and many reported inefficient management as a contributing cause. This was the predominant factor in the case of projects under the 1978 and 1973 programs. On the other hand, of the 29 co-operatives (less than 1 per cent of the co-operative housing stock) experiencing sufficient financial difficulties to undergo the "workout" process (deferred payment arrangements with lenders or direct assistance by CMHC in order to avoid default) in the period of 1988-1990, only 2 cited lack of management skills as the reason. Most co-operatives undergoing workout had problems or combinations of problems with deferred maintenance and construction or structural deficiencies. The default-avoidance procedures are working successfully to date with these co-operatives (only one of the co-operatives in workout has defaulted), although none have yet concluded the five-year process.

The evaluation also found that, controlling for age, the cost of needed repairs of co-operative housing projects are comparable to those of public housing and owner-occupied housing.

Co-operatives are required to fund replacement reserves in order to generate the future capital required for major capital replacements due to building deterioration. Under the ILM program, an first year contribution of 0.65 per cent of the capital value of the project is used as a guideline for the funding of replacement reserves, and indexed in subsequent years. The reserve fund contribution is an eligible expense for federal contribution. According to the evaluation, 55 per cent of co-operative units are in projects with inadequate reserve funds, leaving these co-operatives with contingent liabilities. For projects with inadequate reserves, the average deficit is \$2,800 per unit in pre-1979 projects and \$1,353 in post-1978 projects. In such cases, rents should be increased in order to increase the reserves, to the extent that this is possible. Two co-operatives undergoing the workout process indicated that their replacement reserves were

depleted, although 9 in total had taken loans or further encumbrances to fund repairs.

Future Use of Units

Provision of program financing is currently contingent on the co-operatives' observance of a set of conditions on the use, operation and upkeep of their units, as set out in Operating Agreements. It is nevertheless possible that projects will be lost to the program at some point. Any measures to avoid such an occurrence, in order to ensure the availability of the stock for national housing policy objectives, should be considered.

After 35 years, the Operating Agreements will expire, and CMHC will no longer exert control over the use of the units, raising the issue as to the long term availability of the co-operative housing stock for national housing policy objectives. It will be necessary to consider whether provincial legislation regarding the winding up of non-profits will be adequate, or whether other measures will be required. Undertakings may be made to provide some assurance of ongoing use of the stock for such purposes. Another potential approach is the establishment of land leasing arrangements, under which either a level of government or the co-operative housing sector would obtain freehold of the buildings and land and lease the projects to co-operative groups. The appropriateness and feasibility of this and other options should be examined.

Questions:

- What improvements can be made to the mechanisms for selecting projects and the distribution of projects across regions?
- What improvements can be made to mechanisms for selecting clients, including the selection and referral of social housing clients from local public housing authority waiting lists? Do any features of the program, such as fees, present barriers for particular clients?
- What groups are best served by social housing assistance via co-operatives?
- What improvements could be made to the present approach to helping tenants experiencing temporary difficulties, i.e. the Security of Tenure Fund approach?
- What improvements can be made to the CFRP for pre-1986 projects? Are there any alternatives?
- What improvements can be made to the delivery and management of co-operative housing by co-operative resource groups?
- How can the Proposal Development Funding mechanism be improved in support of Co-operative Program objectives?
- How can the management of Co-operative housing projects be improved?
- What should be done to maintain and improve the existing stock of co-operative housing?
- Are any changes required to ensure sufficient reserve funds to provide major replacements of projects in the future?
- Should steps be taken to ensure that the co-operative housing stock continues to meet the objectives for which it was designed when the operating agreements expire?

4. CONCLUSION

This paper represents a formal invitation by Canada Mortgage and Housing Corporation to all those interested in the Federal Co-operative Housing Program to participate in the consultation process. Your written responses to the questions raised in this paper, as well as any other concerns you may wish to raise, are requested by October 19, 1990. These comments should be sent to:

Mr. E.A. Flichel
President
Canada Mortgage and Housing
Corporation
682 Montreal Road
Ottawa, Ontario
K1A 0P7

Your comments will be used to set the parameters within which program or policy changes will be made. Your input is important if we are to achieve our goal of making the most effective use of the housing funds available. We thank you in advance for your participation in this important process.