UHAB | URBAN HOMESTEADING ASSISTANCE BOARD

Affordable Co-ops at a Crossroads:
How HDFCs Benefit from
Reasonable Regulation and Oversight
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While UHAB has been fighting to preserve the city's community of low-income housing cooperatives for 44 years, we do not believe that New York City's proposed new regulatory agreement, in its current state, is the best way to accomplish this. The recommendations of the department of Housing Preservation and Development (HPD) for increased regulation and oversight are extremely controversial among both HDFC shareholders and the organizations that serve them. The reasons for the uproar vary, however, and many reactions are fueled by inaccurate information. Let's take a quick look at some of the issues involving assisting HDFC co-ops in retaining or regaining their financial and physical stability while maintaining their affordability for the lower-income New Yorkers they were designed to serve:

Why Is HPD's Proposed Regulatory Agreement So Controversial?
The proposed regulatory agreement has implications for hundreds of HDFC co-ops across the city, so it's not surprising that there have been varied reactions. Some shareholders of these Housing Development Fund Corporations have felt left out of the City's process of creating the new agreement. Others are resentful that, after paying little attention to this housing stock for decades, the City is now offering a punitive-seeming proposal instead of gratitude and support to residents for stabilizing these once-distressed buildings and neighborhoods. Some residents believe that price caps on re-sales are unfair and that some of the City's proposals are overbearing or paternalistic. Other shareholders are questioning the need to have any regulation or oversight at all.

Why UHAB Opposes the City's Current Proposed Regulatory Agreement
While we at UHAB do not agree with the City's proposed regulatory agreement in its current form, we do believe in the principle of increased regulation to benefit all shareholders and as a tool for preserving HDFCs. (See UHAB's stance on the City's proposed HDFC co-op regulatory agreement.) Most affordable housing that receives government subsidies operates under a regulatory agreement to ensure that the residents, the community, and the taxpayers benefit from the housing. These HDFC co-ops should be no different.

HDFC Co-ops Are Required to Provide Housing to Low-Income Households
Since they are special purpose corporations incorporated under Article XI of the Private Housing Finance Law, HDFC co-ops are legally required to provide housing to low-

income people. In exchange for complying with income restrictions, HDFCs have been eligible for ongoing tax breaks, grants for renovations, low-interest loans, and technical assistance, all paid for by taxpayers. These affordable co-ops have been key to improving distressed neighborhoods and keeping them stable. Preserving strong HDFCs benefits people of *all* incomes, because stable housing means an improved city for all of us. We at UHAB work daily to help HDFC co-ops remain a great place to call home for current and future shareholders.

"Why not just increase oversight of troubled HDFC co-ops?"

Monitoring has proven to be a useful and proactive way for organizations like UHAB to work with HDFCs to help their boards and other shareholders devise and maintain sound fiscal and leadership strategies, whether they need to sustain healthy co-ops or to turn their buildings around.

Running an affordable co-op takes a lot of effort, and residents of most HDFCs have done an impressive job undertaking that work. They deserve a renewed, deeper tax break and a clearer set of expectations to keep them on solid ground for the decades to come. For the HDFCs that have been performing well, reporting their success to monitors should not be a problem. Without this reporting, there would be no way to determine whether or not a co-op is healthy. We certainly support measures to make this process as hassle-free as possible, such as having a provision for these HDFCs to self-report their financial and organizational information each year.

Clearly, there are other HDFCs that do face financial and organizational trouble: They can't meet expenses or keep up with repairs. They don't create financial reports or have regular board meetings. They are governed by shareholders who allow non-transparent apartment re-sales and other secretive actions. For these co-ops, monitors are effective in promoting solutions that push them back on the right track.

Reasonable Oversight and Guidance Help Keep HDFCs Strong

We can all agree that we want HDFCs to be fiscally strong, current on their taxes and other bills, as well as organizationally sound, while employing the cooperative principles of democracy and transparency. Of the 150 buildings with regulatory agreements that UHAB monitors, less than 1% have serious financial or organizational problems while 27% of the un-monitored and unregulated HDFC co-ops are in financial distress. So we know that monitoring works.

The trouble is, monitoring is not City-funded and neither UHAB nor other organizations can perform this service for free. Currently, the buildings themselves pay for their monitoring; UHAB charges as little as we can for this service. A deeper tax break in exchange for signing the new regulatory agreement, however, could more than cover the cost of monitoring. Alternatively, the City could decide to directly fund monitoring, so that buildings would not be charged for it.

“Why shouldn’t I be able to sell my apartment for a market-rate price?”
One of the most important things to understand about living in an HDFC co-op, as well as in other income-restricted co-ops such as Mitchell-Lamas, is that residents do not have to wait until they sell their apartments before they realize the greatest benefits. With monthly HDFC maintenance often just a fraction of the rent for nearby market-rate apartments, shareholders enjoy the value of HDFC co-ops every single day that they live in this housing.

Re-sale prices are a critical component of maintaining HDFC co-op affordability, so that these buildings can remain an option for future lower-income residents. More than 90% of HDFC co-op apartments are owned by the people who originally purchased them—for only $250. There is no question that shareholders are entitled to (and will clearly receive) a substantial return on their initial investment when they sell and move out. It is essential, however, that whatever profit people make as they leave these HDFC co-ops does not interfere with the ability of the next generation of New Yorkers in need to afford these apartments.

Affordable HDFC Co-ops, an Affordable Future for the City
As the City’s Independent Budget Office report on HDFC co-op re-sales indicates, most units have sold at affordable prices. But increasing numbers of sales of these apartments have been at market-like prices—prices that are totally unaffordable to the very households that HDFCs are legally required to serve. The loss of this affordable housing threatens the current and future stability of all affordable co-ops in New York City, including the nearly 30,000 HDFC co-op apartments and more than 61,000 units of Mitchell-Lama co-ops. The residents of one Brooklyn Mitchell-Lama co-op recently voted to reject privatization and high re-sale prices. As a shareholder put it, “Why would you not want to leave somebody the blessing that you were given?”

Questions? Comments? Contact

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