



From Tenant To Owner

*An Introduction to
Resident Owned Communities*

CONTACT:

Adam Poeschl
ROC Program Specialist
NeighborWorks Montana
Great Falls, MT / Missoula, MT / Helena, MT
(406) 220-2361
apoeschl@nwmt.org
www.rocusa.org and www.nwmt.org

Table of Contents

Introduction 3

Resident Owned Community 4

Characteristics of Resident Owned Communities..... 5

Why Not Remain as Tenants?..... 6

Frequently Asked Questions 7

ROC USA® and your ROC USA® CTAP 8

ROC USA® Network: What does it mean?..... 9

ROC USA® Capital: Where Does the Loan Fund Get Its Money?
..... 9

CTAP Assistance to Cooperatives 9

Getting Organized..... 10

Closing Thoughts..... 11

Introduction

This booklet is for homeowners and residents of manufactured housing communities who would like to learn how to purchase their community and form a resident owned community. If you join with your neighbors and are successful in buying your community, you will be able to:

- Control lot rents
- Keep the community well maintained
- Develop and enforce practical rules
- Be better positioned to gain access to better home financing terms
- Remove the danger of the community being sold or closed

To purchase the community, the tenants form a non-profit corporation operated on cooperative principles. The members are equal owners and the corporation owns the land and manages the community. The members continue to own their own homes individually. NeighborWorks Montana as a ROC USA® Certified Technical Assistance Provider (CTAP) will help homeowners in your community to organize and find financing, buy the community, develop policies and procedures for managing the community, and provide on-going training.

The members elect a Board of Directors who appoints committees to do different tasks and manage the day-to-day operations of the organization. NeighborWorks Montana provides you with a management guide and teaches you effective ways to run your cooperative. This includes, but is not limited to, how to set up a financial record-keeping system and how to use resources to improve the roads, water, electric and waste-water systems.

Today, even though you own your home, the community owner controls your lot rent and the community rules. He or she also has control over the condition of the community – including roads, water, electric, waste-water systems and landscaping. Each time your community is sold to a new owner, your rent is likely to increase.

The theory is that if you don't like how the community is being managed, you can move your home out. But "mobile" homes these days are not very mobile. Many homes could not withstand the move. Affordable lots are hard to find. If the community owner wants to double the rents or close the community, and you can't move your home, you will lose it.

Over the last 30 years, residents in over 200 manufactured housing communities across the country have gotten together, formed corporations and purchased their communities. People just like you are now effectively managing these communities for themselves.

Resident Owned Community

A resident owned community is a group of resident homeowners organized for the purpose of owning and operating a community for the benefit of its members, usually on a not-for-profit basis. Each member-household owns one membership interest in the corporation. These corporations are democratically managed: one home, one vote. Members elect a Board of Directors who manages the day to day operations. The corporation gives a mortgage on the land, collects the lot rent, makes the mortgage payments, pays the property taxes on the land, pays the bills, does the bookkeeping, and maintains the property. The corporation is responsible for insurance, upkeep, and major repairs to the community, such as replacement of worn-out waste-water systems.

There are many benefits to living in a cooperative, which include control of monthly lot rent and repairs and improvements, lifetime security against unfair eviction, liability protection (members are not personally liable for co-op loans), and a strong sense of community. Every member has a say in the way the community is run, and major decisions are made by democratic vote.

Resident owned communities are successful when these procedures are followed:

- The Board of Directors keeps members informed of its actions (through meetings, newsletters, etc.)
- The community maintains adequate cash reserves for emergencies, replacements, and repairs;
- Prospective members are screened with a credit check, background check, and an interview and are educated about the co-op;
- The Board of Directors and members take advantage of training opportunities available from NeighborWorks Montana and ROC USA®.
- Renting of homes is restricted to cases of hardship; and
- Members participate actively in the community.

By becoming a Resident Owned Community, you will join forces with other co-ops throughout the state and have access to a number of member benefits through your ties to ROC USA®. Our focus has been in delivering excellent community and leadership training services and improving home mortgage financing. At present, four manufactured home loan programs are exclusively available in Resident Owned Communities: New Hampshire Housing Finance Authority's First Time Home Buyer Program, the Loan Fund's Cooperative Home Loan Program, and USDA-RD's 504 Home Repair program, and a pilot program through Fannie Mae. Ongoing efforts are being made to attract this kind of financing to owners of manufactured homes in Resident Owned Communities across the country.

Characteristics of Resident Owned Communities

Group Ownership

Residents form a corporation and, as much as possible, operate it as a cooperative, that owns the land and manages the community. Each owner-occupied household owns one vote of the corporation. The homes are still individually owned, but the collective members of the corporation control the land underneath as a single parcel.

Democratic Control

Each member household has one vote and major decisions are made by majority vote. The members elect a Board of Directors that makes the day-to-day decisions. This way decisions may be made efficiently and in the best interest of the group. The co-op may hire out certain management tasks (including rent collections, bill paying, snow plowing, well testing, etc.) Contractors and employees work under the direction of the Board.

Open Membership

All owner-occupied households are welcome to join the corporation as long as they pay the membership fee. Members are entitled to a lifetime lease or “proprietary” on their lot (Occupancy Agreement), provided that they pay their rent, abide by the community rules, and do not endanger the effective operation of the corporation. If a household decides not to join, they may remain as tenants. Instead of paying an investor landlord, they pay rent to the resident owned corporation. Because non-members have not paid a membership fee nor contributed their time, their rent is generally set at a higher rate or what is determined to be a “market rate.”

Limited Equity

Once the community is owned by the corporation, any new resident moving into the community must become a member. The cost of the membership certificate is fixed and earns no interest. If a member leaves the community, his or her membership fee is returned, less any monies owed to the corporation.

Participation

The intent of “cooperative” style of ownership is for each member to contribute his or her own time and talent to the co-op. Members are the co-op’s greatest resource and it helps everyone when they put their talents to good use.

Why Not Remain as Tenants?

When a landlord owns a manufactured housing community, it's a for-profit business. Your monthly rent pays for more than just operating costs; it also pays for the landlord's profit, which he or she (or it) likes to increase over time.

When residents form a "cooperative" or other membership corporation, it is operated as a not-for-profit. The main purpose of the corporation is to keep housing affordable for the residents, so 100% of your rent goes back into the community.

A Cooperative Gives You Control

Your Security: With the rise in land values, many communities are being dismantled to make room for more profitable ventures. Under most state laws, when a community owner wants to sell the community to someone else or close a community and change its use, tenants must find another place for their home. Some state laws provide some protection by requiring landlords to give some period of notice for tenants to move or lose their homes. However, the high cost of land and restrictive zoning can make finding a place for a manufactured home nearly impossible. In a resident owned community, once the residents own the land, no investor can sell it from under you.

Your Rent: Soaring land prices have resulted in soaring rents. Each time a community is sold, the new landlord must pay off a larger mortgage, so it is no surprise that rents often go up after a sale. Unfortunately, there are no laws in most states that limit the size or frequency of rent increases. However, if a homeowner corporation buys the community, the land is taken off the real estate market. It is not likely to be sold again.

Maintenance and Improvements: A quality community requires regular maintenance and improvements. When a landlord makes these decisions, the homeowners are only involved to pay the bill through rent increases. In a resident owned community, only the members decide what maintenance system to use and when to make improvements. Also, through their Operations or Maintenance Committee, they can do some of the work themselves and keep costs down. The residents decide on what improvements they want, and how to spend their money on community infrastructure such as sewer, water, and roads and other amenities such as a community center or a playground.

Community Rules: Community rules impact your day-to-day life. When a landlord makes the rules, there is nothing homeowners can do unless a rule violates the law. Even then, the homeowners may have to hire an attorney to get an illegal rule changed. A landlord's rules often do not reflect the desires of the homeowners, but in a resident owned community the members develop and vote on their own rules.

Frequently Asked Questions

Q. How can we afford to buy our community?

A. The corporation borrows the money to purchase the community from financial institutions, such as banks and a special non-profit lender established for this purpose, ROC USA® Capital. Your combined rents may pay the costs to operate the community, and make the mortgage payments on the community. An operating budget is prepared and engineering studies of the community are used to determine what you can afford. If you think the cost is too high, you don't have to buy it.

Q. Who would collect the lot rent and pay the bills?

A. The elected Board of Directors will be responsible for collecting lot rent and paying the bills. To accomplish this, the board will hire a management company and a paid bookkeeper. Unusually large expenditures must be approved by the entire membership.

Q. What does it cost to get things started?

A. There are some up-front costs: the filing fee for incorporating with the state (\$20), signing a technical assistance contract with the CTAP (\$50), and retaining an attorney. Resident groups usually set a "joining fee" to cover these expenses. If the cooperative does not buy the community, only the joining fee is at risk. By having many members pay a small amount, the group spreads and minimizes the risk. However, if the cooperative is successful in buying the community, the joining fee becomes the initial payment each new member makes toward his or her full membership fee.

Q. What is the risk to me after the resident-controlled corporation purchases the community?

A. Members of a corporation are not personally liable for the corporation's mortgages or other debts. The corporation will also carry liability insurance to cover other risks.

Q. What are my individual expenses if we own the community?

A. Each member household pays two charges. The first is the lot rent that is collected monthly to pay for operating expenses like taxes, insurance, trash collection and the corporation's mortgage payments. The second charge is the one-time membership fee. Both the rent cap and the Membership fee are set by the Members. When the membership fee is fully paid, the member only pays lot rent.

Q. How can I become a member if I can't afford to pay the membership fee?

A. Residents who choose to become members before the community is purchased can pay a minimum amount towards their membership fee each month (usually something like

\$10, \$20 or \$30, as set by the members). As a member paying over time, you have full voting rights.

Q. What if you decide you do not want to become a member?

A. You may remain a tenant and pay rent to the corporation. Since members pay the membership fee and participate in the work of the cooperative, non-member tenants may pay a higher rent than members and you will not have a vote in the operations of the community.

Q. How is the cooperative different from a tenants association?

A. A tenants association is organized in a landlord-owned community to negotiate in response to rent increases, community maintenance issues, injustices, or to buy the community. A resident owned community is a corporation organized for the purpose of owning and operating the community.

Q. I do not plan on living here forever. Can I move?

A. Yes. You can sell your house as you otherwise would. When you sell your home your membership certificate is bought back by the corporation. The buyer of your home must become a member of the corporation and pay the membership fee up front.

Q. How does the corporation manage the community?

A. Management may be done on a voluntary basis using members' time or a contracted management company. Members participate on either the Board of Directors or on one of the committees to manage the community and over see any management company. Typical committees are maintenance, finance, social, membership and rules enforcement. Members participate at membership meetings, where major decisions that affect the community are made. Some communities just hire a bookkeeping service to collect the lot rents and pay the bills. Most co-ops contract for trash and snow removal, while larger communities hire office and maintenance staff.

ROC USA® and your ROC USA® CTAP NeighborWorks Montana

ROC USA® is the service mark of ROC USA, LLC which is non-profit organization whose mission is to make resident ownership of manufactured home communities nationwide. It does this by doing two things, creating ROC USA® Network which organizes a national network of well trained and Certified Technical Assistance Providers (CTAPs) and by developing ROC USA® Capital to provide the kind of niche financing needed for homeowners to become community owners. ROC USA draws on 30 years of experience in resident owned communities developed in New Hampshire.

ROC USA® Network: What does it mean?

Your CTAP, NeighborWorks Montana, has been Certified and Trained by ROC USA to assure that they too have the benefit of 30 years experience and over 200 resident ownership conversions. Being part of the ROC USA® Network means that you may apply for financing from ROC USA® Capital and having the kind of quality know-how that is needed to handle just this type of transaction with your community owner. ROC USA chose NeighborWorks Montana to join its Network of technical assistance providers because of its demonstrated abilities and dedication.

NeighborWorks Montana creates sustainable opportunities for homes Montanans can afford. In the past ten years, NeighborWorks Montana (NWMT) has assisted over 5,000 families to become homeowners in over 200 Montana cities and towns. NWMT works with partners throughout the state to deliver homeownership services.

ROC USA® Capital: Where Does the Loan Fund Get Its Money?

ROC USA® is not a state or federal agency. It depends on individuals and private organizations such as churches, foundations and businesses for its loan resources. By lending and contributing to ROC USA, investors large and small direct their savings toward socially responsible investing. These funds are re-loaned to community groups to preserve affordable housing and create economic opportunity.

NeighborWorks Montana Assistance to Cooperatives

When a community is for sale, NeighborWorks Montana informs the residents of the possibility of organizing a resident owned community and making an offer to purchase the community. An initial meeting with the residents is held to describe the process of forming a cooperative.

NeighborWorks Montana acts as a facilitator to the homeowners, assisting with things like researching all the information involved in operating the community, preparing for negotiations with the seller/owner, developing a budget, and establishing a bookkeeping system. The corporation members do the legwork and make the decisions.

The corporation hires its own corporate attorney to assist with the purchase and ongoing management of the community and corporation. The corporation will hire a company to collect rents, write checks, and do bookkeeping. An accountant will also be hired by the co-op for auditing and tax services.

NeighborWorks Montana also helps the corporation to assess the condition of the community's roads, water and waste-water systems. A forgivable pre-development loan is available, so the corporation can hire an engineer to complete a property condition report prior to deciding to buy the community. NeighborWorks Montana may help the corporation apply for grants or Rural Development loans, when they are available, to upgrade these systems and to formulate a long-range Capital Improvement Plan.

NeighborWorks Montana also has staff to train and support the Board of Directors of the corporation, to set up good systems so that the community can run smoothly. Assistance is provided to help clarify the roles and responsibilities of members and board officers, to develop effective committees, recruit volunteers, and to develop Bylaws, Community Rules, and Board Policies.

NeighborWorks Montana will strive to help develop an effective decision-making process within each community so that the members can make informed and responsible decisions as a group to deal with problems and opportunities. NeighborWorks Montana's goal is to build a self-sufficient resident owned community that responds effectively to the needs of its members. As the capability of the community builds, the need for our assistance diminishes.

Getting Organized

Community residents decide to organize as a resident owned community for different reasons. Some find out their community is for sale through the CTAP inquiry with or call from the community owner, in some states in the country the homeowners receive a "Notice of Intent to Sell" from their community owner. Others receive an "Eviction Notice" for a change in land use of the community. Still others hear about another group that formed a cooperative and purchased their community.

You can organize a corporation to purchase your community whether or not the community is for sale. The community owner may be willing to sell the community to you if the sale will financially benefit him or her. The ideal situation is one where both parties win; both the purchaser *and* the seller benefit from the sale. Some sellers have needs besides monetary ones. For example, take the case of an elderly couple who were community owners. They sold their community to the residents at a discount, with the stipulation that they could lease their lot rent-free for life.

At the start, residents often ask: *"Where do we begin? How do we find out if buying our community with other tenants is feasible? How do find out if any other tenants might be interested?"* Start by gathering information and getting out and talking with your neighbors.

NeighborWorks Montana will meet with your group to provide information about resident owned communities, highlight the services that we can provide, as well as how we may

assist you in becoming resident owners. You can ask questions, voice your concerns, brainstorm how to proceed, and set a date for a follow-up meeting.

It is not necessary to have every tenant interested and involved in a resident corporation purchase to proceed with the purchase. Often a core group starts organizing and interest grows along the way as other homeowners see the benefits.

How long the purchase process will take varies according to each community's circumstances. Corporations have been formed and tenants have purchased communities in as little as 60 days, but most take longer. Sometimes it is a slow process – this can be due to stalled negotiations, court battles, title problems or misunderstandings with the town or state. It took one group of corporation members three years to purchase their community.

Whatever your situation, do not give up! There are co-ops all over the country who have been through this process. They now own their communities, control their rents, and feel secure knowing that they will never be forced to move their homes.

Closing Thoughts

“People cannot be developed; they can only develop themselves. For while it is possible for an outsider to build a person's house, an outsider cannot give the person pride and self-confidence. Those things a person has to create in himself by his own actions. He develops himself by making his own decisions, by increasing his understanding of what he is doing and why, by increasing his own knowledge and ability, and by his own full participation—as an equal—in the life of the community he lives in.”

- Julius Nyerere

“Freedom and Development” (October 1968)

We at ROC USA® and NeighborWorks Montana hope this guide provides you with an overview of resident owned communities, as well as the services that NeighborWorks Montana has to offer. NeighborWorks Montana, your ROC USA® CTAP, has been chosen for their commitment to work as hard for you as you work for yourselves. If you would like more information about resident owned communities, ROC USA®, and/or NeighborWorks Montana please contact Adam Poeschl at NeighborWorks Montana.