

Moreover, due to lower vacancy and collection losses, the reserves for these items accumulate as additional assets for the cooperative.

5. Cooperatives require compliance with income limits and preferences for persons displaced by urban renewal or other governmental activities. However, cooperatives also have credit requirements and downpayments. This tends to attract membership from those lower and moderate-income families who are more industrious and frugal and who take pride in maintaining their credit rating.

6. There is greater stability in cooperative housing since it is a form of homeownership. Residents do not regard themselves as transient occupants. However, there is a normal turnover among families who improve their economic status to the point where they want larger and better homes. This makes it possible to use the housing as a continuing source for other lower and moderate-income families. At the same time it is important to maintain a permanent community environment, so that families whose incomes increase (after initial occupancy) are permitted to remain, but they are required to pay higher monthly charges commensurate with their increased incomes.

7. Under the cooperative program financed with below-market interest rates of section 221(d)(3), initial occupancy and admission to the project is limited to those whose income limits do not exceed the amounts prescribed by FHA, with a preference to persons who are displaced by urban renewal or other governmental actions. When on periodic reexamination of income after initial occupancy it is disclosed that incomes of member residents increase, they are required to make increased payments commensurate with the increases in their incomes up to the point where they would pay the full economic monthly charge. Since a cooperative program involves downpayments and credit approvals and a form of homeownership, it has always been recognized that cooperative members would be permitted to remain in occupancy if their incomes rose after initial admission, if they paid increases in monthly charges which were commensurate with their increases in incomes, as provided in an FHA-approved cooperative plan. This policy and practice is sound as a matter of national housing policy and accords with the provisions and objectives of the cooperative program as approved in existing legislation.

8. To carry out these purposes of the cooperative program, cooperatives have adopted FHA-approved plans which provide for the reexamination of income of cooperative residents at the intervals for renewal of their occupancy agreements (unless required earlier by FHA) and which further provide that families whose incomes increase may either vacate or pay proportionately higher occupancy charges. If upon such a periodic reexamination of income the member's income has increased, he is required to pay a surcharge representing a stated proportion of the increase in his income (except for increases in income which do not exceed 5 percent). In no event is the total amount of the surcharge to exceed an amount equal to (i) the regular monthly carrying charges for the unit, plus (ii) the additional carrying charges which would be attributable to the unit if the interest on the FHA-insured mortgage balance on the project was recomputed at the market rate of $5\frac{1}{4}$ percent, plus an FHA insurance premium of one-half of 1 percent. This maximum monthly carrying charge is regarded as the "economic occupancy charge." The surcharges are paid into a special reserve, with expenditures permitted only for such purposes as are approved by FHA. If upon reexamination there has been a change in family composition after initial occupancy, the FHA income limits and surcharges which are applicable are based upon the revised family composition at the time of reexamination.

9. Every cooperative member is required to make a downpayment so that he will have a financial stake in his cooperative home and community. The downpayments are kept within the financial reach of the lower- and moderate-income families. Generally, such downpayments do not exceed 2 percent of the mortgage amount and these funds are used as working capital, which constitutes an additional reserve for the cooperative. By having an investment in the cooperative project, the residents develop a sense of pride of ownership and take better care of the property.

10. Cooperative members develop a feeling of self-respect and self-reliance in contrast to the paternalism that sometimes characterizes rental operations by churches or other institutions.

11. When people work together in the cooperative ownership of housing, they tend to work together in undertaking other cooperative activities, including nursery schools, kindergartens, adult education, recreational and community