

A person wearing a vibrant, multi-colored patterned sweater is holding a white document. The document features a donut chart with segments in yellow, red, blue, green, and orange. The person is standing in a room with a white wall and a metal structure in the background.

**Centar za novo stambeno zadrugarstvo:
Šta je recept za ukusan zadružni budžet?**

Basic Cooperative Qualities

- A Cooperative is a unique form of home ownership in that a **non-profit cooperative corporation holds title to the dwelling units** and **directly assumes the mortgage, tax and other obligations** necessary to finance and operate the development.
- Members support the corporation through occupancy agreements, eliminating need each member to be an individual mortgager
- Each member pays his proportionate share of the **annual cost** to operate the corporation and **debt service** on the blanket mortgage for the property.
- Each member is entitled to their proportionate share of real estate taxes and interest of the corporation for their personal income taxes.
- Members have the **right to vote** on how the corporation conducts its business and participate on the board of the cooperative



The Financing Spectrum for housing coops

- Debt financing
 - Public (government) lending
 - Social purpose lending
 - Patient capital
 - Multiple lenders
 - Development grants/subsidies
 - Member equity investments (shares)
 - Voluntary member contributions
 - Collective financing
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- Corporate bond market
 - Community bonds/shares
 - Blended financing
 - Shared equity models
 - Crowdfunding
 - Microfinancing
 - Revolving loan fund
 - Indirect financing support

Who are the actors?

- Coop members
- Coops
- Lenders → conventional, institutional, social purpose
- Community
- Peer-to-peer investors
- Donors
- Levels of government
- Any or all of these in combination



Sources of Financing

Debt financing – standard mortgage lending from banks, credit unions, and other financial institutions

- Predictable, low risk, fixed terms, market interest rates
- interest rates may be lowered if there is a mortgage guarantee
- on its own, often not an affordable option

Peer-to-peer lending (coop to coop) – a form of social purpose lending

- through loan stock or community share coops
- involves a direct investment by one coop in another
- can involve share issuance, operational oversight role

Public lending – direct lending to housing coops and their developers by a government financial institution or agency

- typically involve a non-market rate of return
- the purpose is to achieve housing / social policy aims

Social purpose lending – unsecured finance with fewer restrictions than bank finance that connects potential investors with social enterprises to address social problems by funding preventative interventions

- must be able to pay some return to investors
- investors may be willing to accept a below-market return to support coop housing development
- instruments may include social purpose bonds
- investors may include pension funds and other actors seeking opportunities for impact investing

Patient capital – longer time horizon for a return on capital provided by social purpose lenders

- the intention is to maximize social impact over a return to investors
- permits postponement of loan repayment until refinancing becomes more affordable

Development grants and subsidies – can come from government or philanthropic sources, or a combination of the two

- may be in the form of direct assistance or grant-of-use land contributions from various levels of government

Multiple lenders – two or more sources of financing that complement each other;

- may involve a combination of conventional, social purpose and government lending

Blended financing – the use of more than one type of lender to achieve greater debt service capacity

- g., a blend of social purpose / patient capital lending with government or conventional lending

Indirect financing support – mechanisms that make debt service more affordable

- government financial support that assists with debt repayment
- grant-of-use of government lands held in community land trusts, land-bank foundations with nominal leasing rates
- mixed commercial/residential development
- mixed tenure rental/ownership, sale of ownership units reduce financing costs for rental component

Member equity/shares – members purchase shares in the coop

- can significantly reduce coop borrowing requirements depending on the amount of the purchase
- members can save for their share purchases through the housing coop or coop lenders

Collective financing – groups approach lenders together;

- lending risk can be spread among multiple projects
- land trusts with multiple projects are ideal candidates for collective financing

Crowdfunding – the practice of funding a project by raising many small amounts of money from many people, via the internet.

- can be used for small-business development purposes or in the case of housing to support the development of a home, typically in stages.

Voluntary member contributions – members provide donations / unsecured loans to the coop

- assists with liquidity

Corporate bond market – A corporate bond is debt issued by a larger organization for raising capital. An investor who buys a corporate bond is effectively lending money to the organization in return for a series of interest payments;

- only available to large-scale providers or to intermediary housing finance corporations
- long-term lending to providers financed by bond issues from the intermediary
- uses conventional bond market actors to rate and issue the bonds

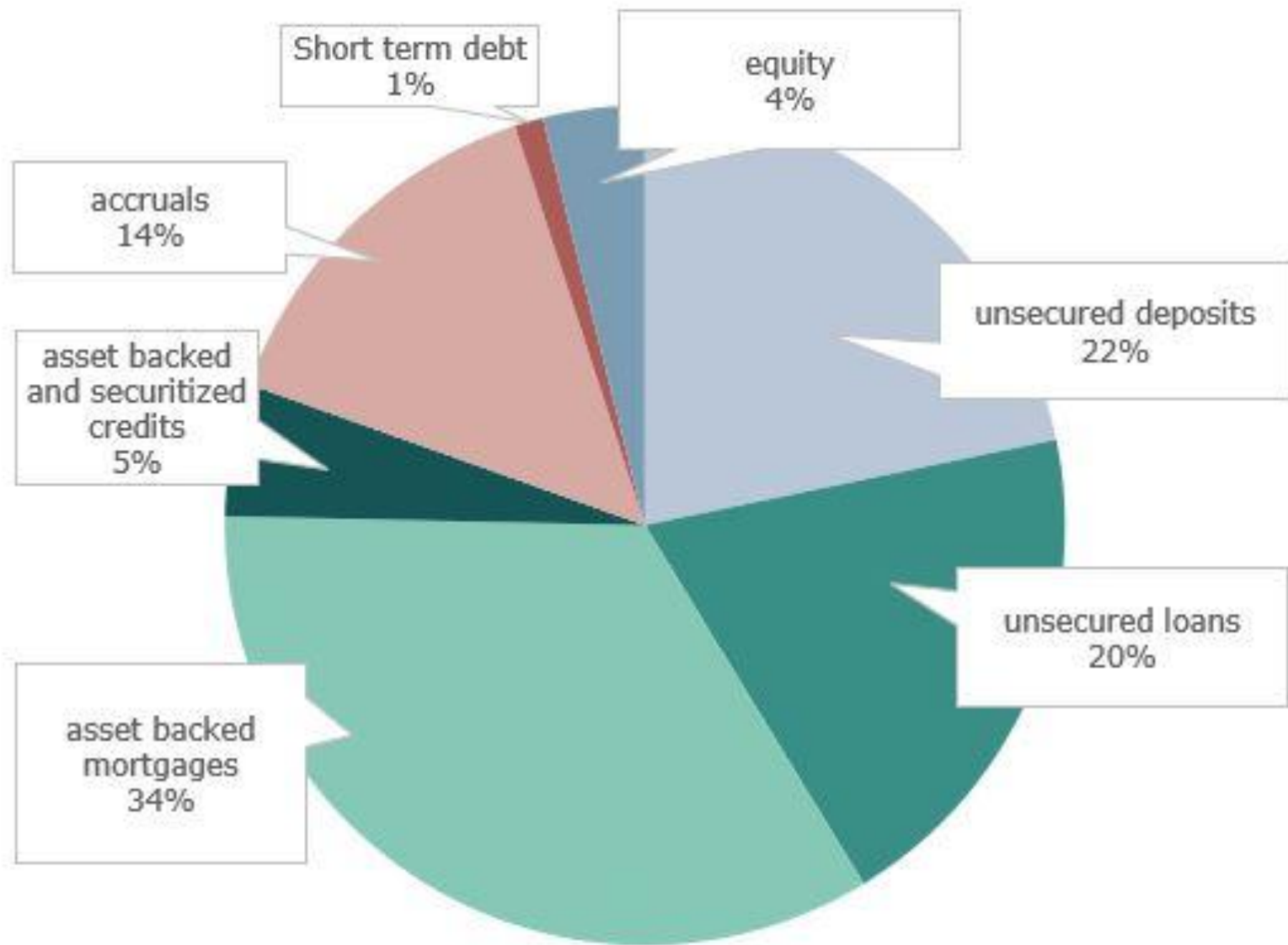
Community bonds – social-finance instruments that can be used by charities, non-profits, and cooperatives to finance socially and environmentally impactful projects;

- beginning to find use in community housing development
- issued on behalf of borrowers by a social-purpose intermediary to investors wishing to invest in an interest-bearing investment with a social-impact purpose
- also known as participatory bonds but not to be confused with standard business participation bonds used for investing in commercial and industrial properties

Revolving loan fund – a pool of funds available for micro-financing purposes as a gap financing measure primarily used for development and expansion

- a self-replenishing pool of money, utilizing interest and principal payments on old loans to issue new ones.
- borrowers are given small, short-term loans to pay for the construction of a home
- when the loan is repaid it goes back into the loan fund enabling further borrowing
- borrowers can take out successive loans to enable expansion of the home, typically built one room at a time





Lending Criteria

$$\text{Loan to value ratio (LTV)} = \frac{\text{the amount of the loan}}{\text{the value of the property}}$$

- a lender will want the loan to be less than the value by a certain percentage that may vary depending on a lender's risk tolerance

$$\text{Debt coverage ratio (DCR)} = \frac{\text{coop's debt service (mortgage payment)}}{\text{the amounts to a coop's net operating income (NOI)}}$$

- NOI is the net revenue of the coop after operating costs but before debt service and reserve contributions
- a lender will want NOI to exceed debt service obligations by a certain percentage that may vary depending on a lender's risk tolerance

Mortgage insurance and guarantees – from government or private

- can impact both LTV and DCR by allowing coop to borrow more as these ratios are subject to less risk

Financing Structure

Can you repay the investment after a few years?

No

Yes

Can you pay a certain sum
(interest, dividend) in each year?

No

Yes

Can you pay a certain sum
(interest, dividend) in each year?

No

Yes

Donations

Equity
Capital
(„Patient
Capital“)

Non-
repayable
Hybrid
Capital

Equity
Capital

Debt Capital
(Interest-free
loans)

Repayable
Hybrid
Capital

Debt Capital

Mezzanine
Capital

MOBA, Central Eastern Europe

PILOT PROJECTS IN 5 COUNTRIES

MOBA members are developing pilot housing cooperative developments in five countries. The projects vary in type and scale but all follow the "MOBA model". In the future, organizations from other countries may join MOBA.



- Affordable housing solution for East European states where all previous social housing was privatized
- Limited equity rental coop model
- Developing a common pool of skills, resources, and tools
- Broad professional support network (e.g. architects, project managers, finance experts)
- Government (EU) support
- MOBA [website](#)

• **Financing tools used**

- Membership contributions on entry
- Network collective borrowing
- Access to EU pilot project financing
- Withdrawable shares issue
- Shares investments use as a revolving loan fund
- A pool of fund investors with MOBA as an intermediary
- Crowdfunding and fundraising

La Borda, Barcelona

La Borda began as a squatters' site

Relies upon very active member participation

A good example of combining and blending wide range of financing sources

Grant of use model (to residents)

Government support

La Borda Coop [website](#)

• **Financing tools used**

- Personal member contributions
- Contributory (external) member contributions
- Sale of participatory titles through crowdfunding
- Social purpose (ethical) loans
- Public subsidies including tax forgiveness
- Member participation in the construction



Difficulties with Developing and Managing Cooperatives

Memberships requires education – membership in cooperative is a unique form of home ownership and typically requires that the developer provide education on the benefits and drawbacks to potential members.

Market Acceptance – Certain markets readily accept housing cooperatives making them easier to sell. However, if it is not a typical form of home ownership, gaining market acceptance can be difficult.

Pre-sale requirement – Under the most typical development model, financing only becomes available after a certain level of pre-sales are completed. This will require a fairly significant investment from the developer of time and money to market the property

Equity comes from Pre-sales – The difference from the total development cost and the blanket mortgage, equity, comes from the members and/or the developer. This requires that funds be collected prior to construction start, unless the developer is funding equity, which can present difficulties in marketing memberships.

Ongoing management decisions – Since members of a cooperative have a significant say in the ongoing management of the property, differing opinions and experience levels among members can cause significant tension and decision making delays.

Ongoing education is key.

Hvala na pažnji
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