An Introduction to Financing Cooperative Businesses

Cooperatives & Community Development

Mark Fick
Chicago Community Loan Fund & Center for Workplace Democracy
Chicago Community Loan Fund
★ $35MM CDFI
★ $90MM across 290 loans over 22 years
★ Housing-Facilities-Commercial Retail-Social Enterprises
★ $7.7MM in financing to 17 housing cooperatives
★ $400K to worker-owned business

Center for Workplace Democracy
★ Training, Public Education, Development Assistance to Worker Cooperatives in Chicago area

Cooperatives are democratically controlled businesses
★ Voluntary and open membership
★ Democratic member control
★ Member economic participation
★ Autonomy and independence
★ Education, training, and information
★ Cooperation among cooperatives
★ Concern for community
Variety of Structures/Types/Uses

- Consumer Cooperatives
- Credit Unions
- Food Cooperatives
- Buying Clubs
- Housing
- Utility Companies
- Mutual Insurance
- Producer Cooperatives
- Agriculture
- Worker-Owned Businesses
- Multi-Stakeholder Cooperatives
Cooperatives as Community Development

- Anchor business in place
- Build Wealth
- Economic Democracy
- Leadership Development
- Employment Stability
- Encourage Civic Participation

Active Development Models across the United States

- Cooperative Development Centers
  - NY, PA, OH, CA, TX, MA, VT, WI, IL
- Peer - Democracy at Work Network
- Top Down - Evergreen Cooperatives
- Bottom Up - Arizmendi Bakeries
- Union - US Steelworkers
- Cross Sector - NCBA
Underwriting A Business Cooperative

Margaret Lund, Co-Opera Co. Consulting

Margaret Lund

- 20+ years of experience in lending to cooperatives enterprises
- Former OFN board member
- Former board member National Cooperative Business Association
- Over two dozen past and present CDFI clients
Understand the Cooperative

★ Purpose
★ Membership
★ Governance
★ Benefit/Patronage

★ Using your business analysis and nonprofit analysis skills . . . .

Underwriting Co-ops: What’s the same, what’s different?

★ The 5 C’s of Credit (with a 6th one thrown in)
★ Capacity
★ Capital
★ Collateral
★ Conditions
★ Character

- and another one . . .
★ Communication
A look at one sector: Food Co-ops

How they differ from conventional grocery stores
★ Gross margin
★ Labor costs
★ Member services
★ Mission
★ Little pockets, big growth potential

How they differ from each other
★ Start-ups vs. existing stores

Case Study
Food Cooperative Finance

Brenda Pfahnl
Loan Officer & Program Mgr,
Sustainable Food Systems Financing
Northcountry Cooperative Development Fund
Northcountry Cooperative Development Fund (NCDF)

"Investing in Economic Democracy Through Cooperative Enterprise"

- Northcountry Cooperative Development Fund (NCDF) is a cooperatively-owned CDFI committed to fostering economic democracy by investing in cooperative enterprises.
- Based in Minneapolis, Minnesota, NCDF currently serves more than 175 co-op members in 30 states, including natural food, consumer, producer, housing and worker-owned cooperatives.

NCDF: Food-related Lending History

- Total Loans to Food Cooperatives: 265
- Smallest loan: $5,000
- Maximum Loan Size: $400,000
- No investor has lost their investment
- Financing available for start-ups, expansions (in-store), moves, new store development, working capital, equipment, and LOCs.
- Over the past 5 years 80% of NCDF’s loans (by amount) to small businesses have been to healthy foods businesses, primarily to retail grocery cooperatives, but also some lending to small and mid-size producer (growers) cooperatives
Common Ground Food Cooperative  
(Urbana, IL)  
Expansion Loans, 2008 & 2012

- In 2008, financing from NCDF allowed Common Ground Food Co-op to take a giant leap, moving from the church basement it occupied to be an anchor tenant in a shopping center that was part of a redevelopment initiative of a low-income neighborhood.

- By 2012, with sales growth at 33% per year, a new $2.5 million expansion project was completed at its current site.

- The cooperative borrowed just over $1 million from NCDF & two other CDFIs, with 47% of the project costs financed by its consumer-members.

- “The co-op’s relocation and expansion have created high-quality jobs, increased access to healthy, fresh foods for the surrounding community and supported small, local farmers and producers who have an expanded market for their products.”
  
  - Jacqueline Hannah, General Manager

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Sources & Uses

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<th>Sources</th>
<th>Uses</th>
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<tbody>
<tr>
<td>Cash Reserves $214,000</td>
<td>Leasehold Improvements $1,112,211</td>
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<tr>
<td>Member Equity &amp; Loans $975,000</td>
<td>Equipment $608,456</td>
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<tr>
<td>Owner Contribution $1,189,000</td>
<td>Inventory $137,000</td>
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| CDFI / Senior Debt: $1,040,000| Overrun Allocation (10% of project costs) $216,165 |
| City (TIF) & County funds $245,000| Total Uncollateralized Uses: $643,333 |
| Free Fill $27,000              |                                              |

| Subordinated Debt/grants: $272,000|                                              |

TOTAL SOURCES $2,501,000  TOTAL USES $2,501,000
Loan details
- The buildout costs (actual vs. estimate) went up by approximately $500,000.
  - Owner Contribution went up by $250,000 in more member loans.
  - Senior debt (CDFIs) matched the new member investment and increased the loan amount by $250,000.
- Three CDFIs jointly provided $1,040,000 loan. NCDF was the lead lender with the other two CDFIs participating in the loan.
- 7% rate & 5 year term. First six (6) months interest-only.
- Landlord waiver required. (Food cooperatives are often in leased space.)
- Funds dispersed for invoiced equipment & for construction draws. CDFI funds in last (after other sources already in).

Underwriting Considerations
- The cooperative used a professional who specializes in food cooperatives to conduct a market study;
- The cooperative used a professional consultant who specializes in food cooperatives to do expansion planning and help make key financial assumptions (around project costs & sales, key performance targets, etc.);
- The Champaign/Urbana marketplace didn’t have a bank willing to be a senior lender. (This isn’t always the case.)
- NCDF generally collateralizes new equipment at 75%, used equipment at 50%, and inventory/leasehold improvements 25%. Minimum coverage (after determining collateral value) is 75%. We have used other “creative collateral” to fill coverage gaps when a project warrants it (often leased space/leasehold improvements is tough to finance).
The ribbon cutting ceremony

Update on Common Ground today

- Sales: $1.6 million in 2009 → over $4 million in 2013.
- Sales of locally grown/produced food went from $160K in 2008 → over $1 million in 2013.
- The Cooperative has expanded its education program from just one class each year to more than a dozen each month. It has also implemented a healthy foods access program called “Food For All.”
- Tripled its square footage from 2,000 s.f. to 6,000 s.f.
- Expansion planning for a second store in Champaign, IL has begun.
I became an owner because...
I believe in a strong community

Case Study
SBA for Cooperatives

Betsy Black, Loan & Outreach Officer,
Cooperative Fund of New England
October 16, 2013
Cooperative Fund of New England
MISSION

★ CFNE advances community-based, cooperative, and democratically owned or managed enterprises with preference to those that serve low income communities through:
  – Provision of prompt financial assistance at reasonable rates;
  – Provision of an investment opportunity that promotes socially responsible enterprise; and
  – Development of a regional reservoir of business skills with which to assist and advise the above groups.

CFNE: Track Record

★ Total Loans to Date: 631
★ Total Loaned To Date: $29.7 mil
★ Annual loans 2012: $3.8 mil
★ Smallest loan: $400
★ Largest Loan: $800,000
★ Loan repayment rate: 99.1%
★ New investments 2012: $3.9 mil
★ No investor has lost a penny
SBA INTERMEDIARY LENDING PILOT PROGRAM

- Recipients lend directly; underwriting, due diligence, & responsible for repaying SBA.
- 2011 - $20 mil to 20 comm. lending org’s - U.S.
  - $1 million, 20 years, 1% interest, amortizing yr 2.
- 2012 - round 2 funded. 2013 allocation, not approved.
- Start-up, newly established or growing business.
- Allowance for producer and worker cooperatives; caveat - no consumer or marketing co-ops
- No requirement of personal guarantees b/c intermediary (historically a barrier for SBA lending to co-ops).

CFNE’s SBA AWARD

- CFNE can lend as low as 5.5% (typical 6-7%)
- Since receipt, 100% deployed.
- Highlight One Eligible Borrower - Simple Diaper & Linen Service
  - Co-op conversion, very small co-op currently.
  - Loan $28,000, 6% interest, 5 years; $12,000 line of credit backed with member pass through loans.
  - Second $40,000 loan through a separate patient capital fund - interest only until 6/2017.
**SIMPLE DIAPER**

**Sources**

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<tr>
<th>Equity</th>
<th>Uses</th>
<th>Amount</th>
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<tr>
<td>Member Equity (cash portion)</td>
<td>Washer/Dryer</td>
<td>$37,000</td>
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<tr>
<td>Crowdfunding</td>
<td>Leasehold Improvements</td>
<td>$20,000</td>
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<td>Diapers</td>
<td>$15,500</td>
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**Debt**

| CFNE         | Advertising      | $5,000  |
| CCF          | Wipes            | $4,000  |
| Friend/Family| Website          | $4,000  |
| Holyoke G&E  | Inventory        | $2,000  |
|              | Working Cap.     | $4,715  |

**TOTAL**

| $98,815 | $98,815 |

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**Examples of Other Loans Made w/ SBA Funds**

- Green Mountain Spinnery, Putney, VT
- Catamount Solar, Randolph, VT
- Collective Copies, Amherst, MA
- Brattleboro Holistic Health Center, VT
- Deep Root Organic Co-op, Johnson, VT
- hOurworld, Portland, ME
- Toolbox for Education & Social Action, Holyoke, MA
- Artisan Beverage Co-op, Greenfield, MA
- Boston Tech Collective, Boston, MA
- Local Sprouts, Portland, ME
- Pelham Auto, Amherst, MA
- Dedham Artist Co-op, MA
- Warren Street Architects, Concord, NH
- Energia, Holyoke, MA
- Fertile Underground, Providence, RI