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ONE PURPOSE
ALIGNING CAPITAL WITH JUSTICE
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An Introduction to Financing Cooperative Businesses

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Cooperatives & Community Development

Mark Fick
Chicago Community Loan Fund
& Center for Workplace Democracy

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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

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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

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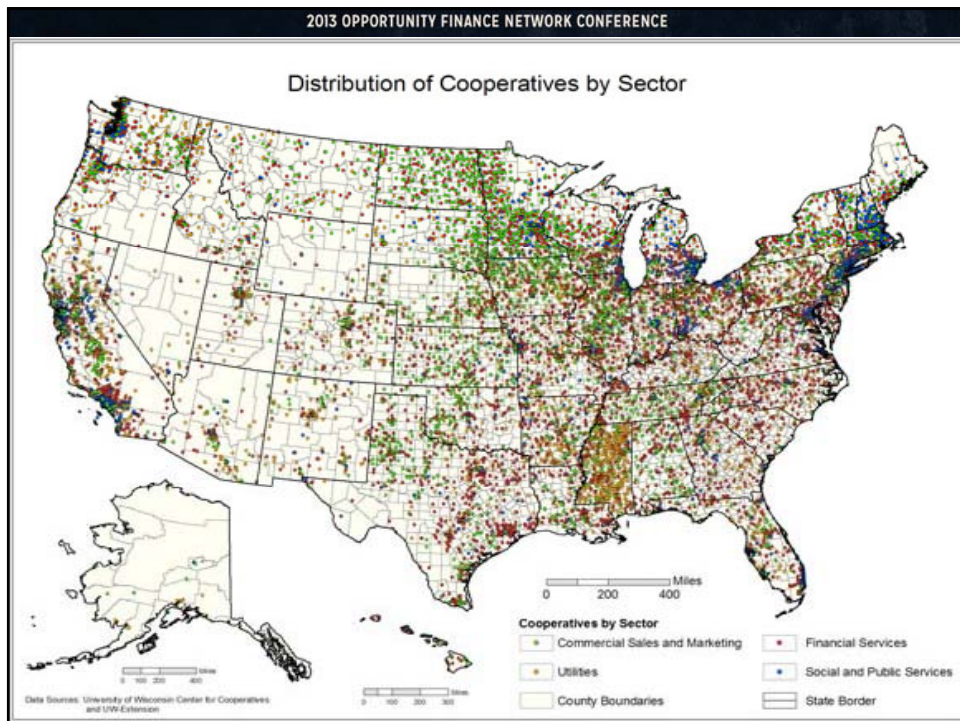
Variety of Structures/Types/Uses

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

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Cooperatives as Community Development

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

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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

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Underwriting A Business Cooperative



Margaret Lund, Co-Opera Co. Consulting

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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

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Understand the Cooperative

- ★ Purpose
- ★ Membership
- ★ Governance
- ★ Benefit/Patronage

- ★ *Using your business analysis and nonprofit analysis skills*

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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

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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

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Case Study Food Cooperative Finance

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

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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.

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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

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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

Sources		Uses	
Cash Reserves	\$ 214,000	Leasehold Improvements	\$1,112,211
Member Equity & Loans	\$ 975,000	Equipment	\$ 608,456
Owner Contribution	\$ 1,189,000	Inventory	\$ 137,000
		Total Collateralized Uses	\$1,857,667
NCDF	\$ 379,600	Working Capital (1 st yr)	\$ 150,000
PCG	\$ 379,600	"All Other"	\$ 277,168
LEAF	\$ 280,800	(fees, promotions, staffing, site/holding costs)	
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		
MANY CDFIs	TOTAL SOURCES \$2,501,000	TOTAL USES	\$2,501,000

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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).

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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).

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The ribbon cutting ceremony

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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.

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A woman with curly hair, wearing a green shirt, stands in a grocery store aisle. She is holding a white sign with handwritten text. The sign reads: "I became an owner Because... I believe in a Strong Community." The background shows shelves stocked with various grocery items.

**I became an owner because...
I believe in a strong community**

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Case Study SBA for Cooperatives

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

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Cooperative Fund of New England MISSION

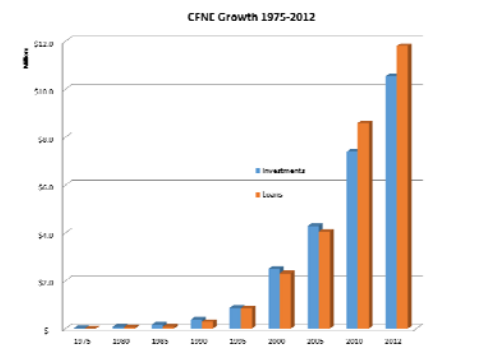
- ★ CFNE advances community-based, cooperative, and democratically owned or managed enterprises with preference to those that serve low income communities through:
 - Provision of prompt financial assistance at reasonable rates;
 - Provision of an investment opportunity that promotes socially responsible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

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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



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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).

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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.

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SIMPLE DIAPER

Sources		Uses	
Equity		Washer/Dryer	\$37,000
Member Equity (cash portion)	\$1,500	Leasehold Improvements	\$20,000
Crowdfunding	\$11,115	Diapers	\$15,500
Debt		Furniture/Equip.	\$6,600
CFNE	\$28,000	Advertising	\$5,000
CCF	\$40,000	Wipes	\$4,000
Friend/Family	\$12,000	Website	\$4,000
Holyoke G&E	\$6,200	Inventory	\$2,000
		Working Cap.	\$4,715
TOTAL	\$98,815	TOTAL	\$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

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