

Cooperative Fund of New England

LOAN APPLICATION

Applicant:

Boston Community Cooperatives, Inc. (BCC)

Address:

102 Morrison Avenue, #2 and #3

County: State: Zip:

Somerville, MA 02144

Phone:

617 718-9285 or 617 718-9373

Representative for this application:

Nirmal Trivedi, Micha Josephy

Minutes of authorizing meetings are:

Included, in summary form.

Application fee of \$100 is: x enclosed

Amount of loan requested:

\$ 130,000, 8.0% annual interest rate with monthly principal and interest payments, 10-year amortization

Use of loan proceeds:

We will use the loan to finance the down payment in order to purchase a permanent home for the Millstone Cooperative, an unincorporated housing cooperative. This will be the first residential property owned by BCC, a Massachusetts non-profit corporation dedicated to fostering neighborhood stability, civic engagement, and residential, affordable, democratically controlled cooperatives.

Need for and benefits of proposed expenditures:

Greater Boston is experiencing an acute shortage of affordable housing, forcing much of the population into unstable residential situations. This loan from CFNE will help BCC to develop stable, cooperatively owned and managed, housing for approximately fifteen community-members, known as Millstone Co-op. BCC will then have a foundation to support further development of cooperatively-owned, affordable housing in Greater Boston.

Collateral:

Real Estate

This application and all attachments are believed to be correct and complete in all material respects.

LOAN APPLICATION ATTACHMENTS

Please provide, as attachments to this application, the following and any other that you consider relevant and important information:

- ORGANIZATION INFORMATION

1. Eligibility. Attach copies of your governing documents (such as Articles of Incorporation and By-laws). Include any other documents or explanations needed to establish the cooperative or non-profit character of your organization. If you are claiming low-income status, provide the information supporting your claim.

Please see attached documents: BCC Articles of Incorporation, Attachment A to Articles, BCC By-Laws.

We have just submitted our incorporation documents, and are waiting for receipt confirmation from the Commonwealth. We are currently looking into the application process for 501(c) 3 Tax-Exempt status.

2. History and Goals. Provide a brief history of the organization and development of your co-op or non-profit including relationships to other cooperatives. Describe any specific

goals and current financial or operational planning efforts of your organization.

The purpose of Boston Community Cooperatives (BCC) is to encourage the formation of community and affordable, stable housing in the Greater Boston Area. We are incorporated as a non-profit that seeks to acquire and manage real estate in the Greater Boston area and lease it to groups living together cooperatively. By removing these properties from market speculation and by basing the monthly rent on a fixed mortgage payment, BCC will keep housing costs low for its members, encouraging neighborhood stabilization.

Millstone will be the first of many co-op houses to be purchased by BCC. As the organization's assets appreciate and the principle on its loan is repaid, accumulated equity will finance the acquisition and management of new co-op houses.

The roots of Millstone go back five years (1996) to a group of seven Millstone founding members who lived together in 2D, a 40-person vegetarian co-op at Princeton University. Development discussions for the creation of BCC started in earnest in September of 1998. Members of Millstone (Somerville, MA) started living together in June of 1999.

3. Operations. Describe in reasonable detail the major business or community service activities of your co-op. For business operations, include descriptions of purchasing, production and distribution functions or service delivery systems. Describe your market area, marketing strategy and major competitors. Explain any major strengths or weaknesses of the co-op in regard to any of the above.

Since its inception, Millstone has been involved in the larger community, providing meeting space, free website hosting, and support to a number of local bicycle advocacy, affordable housing, food security, and bulk food ordering organizations. Millstone has fostered the development of the Boston Cooperative Network, an organization facilitating communication and collaboration among residential cooperatives in the Boston area. Millstone also hosts regular public potlucks and discussion groups, and is currently organizing a series of free movie nights, all to further a sense of community and investment in the neighborhood. Millstone has also

supported local activism; for example, Millstone prepared and delivered vegan meals to students participating in the Harvard Living Wage Sit-in, and hosted visiting speakers for a local conference on the environmental risks of genetically engineered crops. Millstone is also developing a system by which nearby co-op houses can purchase food collectively from Northeast Cooperatives, a distributor of organic produce and natural foods.

4. Member participation. Describe your membership and their participation in and patronage of the co-op. Describe your member capitalization program including its history and future prospects.

Currently, all BCC members either live in the Millstone rental units, or anticipate moving in when space becomes available. As BCC acquires more cooperatively-run houses, its membership will include the residents of those co-ops as well. Our current membership includes, but is not limited to students, non-profit staff, and professionals interested in living cooperatively. Members are primarily in their twenties or thirties though we anticipate being a diverse community of various ages who share the core values: vegetarianism, open communication, creativity, environmental sustainability, communal ownership of property, and social justice. At this time, we are holding weekly meetings, alternating between the board meetings of BCC and house meeting of Millstone.

BCC recruits through outreach to existing co-ops and community organizations dedicated to community and cooperative development, and to the general community. We have built a relationship with the SCC (Somerville Community Corporation), NASCO (North American Students of Cooperation), CCDC (Campus Cooperative Development Corporation), Northeast Cooperatives, and several cooperatives nationwide.

Locally, we have held weekly guest nights and monthly potlucks to expand the network of those interested in the BCC project. The response has been overwhelmingly positive, largely because Somerville has a densely populated student and activist community which shares our concern over spiraling rents and gentrification due to market speculation and condominium development at the cost of affordable housing. Our outreach has built interest in BCC by four-times our

capacity. We are encouraged by this response, as this foundation of interest will sustain BCC's development in the years to come.

We are drawing from several sources to finance the house for Millstone. In order to maximize the cooperative's autonomy, most of this financing is being structured as debt. The equity portion of the financing is limited to the member shares, which will be priced between one and two months rent and will not appreciate (likely to be \$10,000-\$20,000). As members turn over, their share will be repurchased by the cooperative and sold to incoming members at the original purchase price, adjusted for inflation. Keeping member shares affordable is a high priority for this project. Over the long term, equity that accumulates from appreciating property values and repaid loans will be used to finance further cooperative development.

Our primary lender, the bank, will have the first lien on the property and will provide the majority of the financing. We're expecting the bank will provide approximately 80% of the purchase price. We are in discussions currently with Medford Co-op Bank and Wainwright Bank regarding their potential role as our primary lender. We have had positive initial responses from both.

Loan fund lenders, including CFNE, will have the second lien, and we expect to raise most of the remaining money from these sources. Personal loans from members and the greater co-op community will be deeply subordinated and essentially function as non-controlling equity with a fixed rate of return. Parties making personal loans are aware that, in the event of a default, their balance will only be repaid after all other creditors are satisfied.

Members of the greater co-op community such as the Oberlin Student Cooperative Association (Ohio), Madison Community Cooperatives (Wisconsin), and the Spirit of '76 House (Medford, Massachusetts) have all expressed interest in participating in financing this project, and we expect to finalize negotiations with these co-ops over the next few weeks. We are also in preliminary discussion with approximately six other student or housing co-ops around the country.

5. Personnel. List all persons serving your co-op as directors and managers. Indicate important business or organizational skills which they possess as well as any necessary skills presently unavailable to your co-op.

Please see attached documents: Personnel List.

6. Collateral. Describe in detail the property offered as collateral for this loan. Include information as to any existing lien or mortgage and how the property is insured. (Refer to instructions for specific information required).

Please see attached documents: Example Property.

FINANCIAL INFORMATION

Financial Statements. Attach copies of your financial statements for the last two full years (preferably by fiscal quarter) and any subsequent interim statements. As to all liabilities in your most recent balance sheet, list all creditors and terms of payment.

Please see attached financial documents: Financial History and Budget, Development Budget/Pro-Forma, Monthly Member Charges, Operating Budget.

Our “Repair/ Operating Costs” expense in the Pro Forma is based on the following assumptions:

- Depreciation is set by the standard formulation: $-\$27.80/\text{month}/\$10,000.00$.
- Our replacement reserve is a fixed percentage (2%) of the yearly member charge, based on replacement reserves at other housing cooperatives. Since the reserve money and the vacancy money (also a fixed percentage based on what other coop's find to work) has already been collected, or so we assume, this sum is subtracted from the total needed to compensate for depreciation.

You will see that the loan percentages add up to over 100%. We do not intend to raise money beyond our expenses and necessary reserves. Unfortunately the guesses for these quantities are

sketchy on the 1% level. We decided to quote round numbers to our potential funding sources rather than making the math work perfectly.

Capital budget. For new organizations or major expansions, submit a capital budget showing estimated capital needs and the sources from which those needs are expected to be met. Indicate to what extent funds sought in this loan application are available from other sources.

Please see attached financial documents: Financial History and Budget, Development Budget/Pro-Forma, Monthly Member Charges, Operating Budget.

Financial projections. Submit projections of net earnings (savings) and separate or combined cash flow projections by fiscal periods (preferably monthly) for the ensuing year. Explain your assumptions regarding major items in these projections.

Please see attached financial documents: Financial History and Budget, Development Budget/Pro-Forma, Monthly Member Charges, Operating Budget.