

Fifty + ways to finance cooperative housing

by Ernie M. Eden

The main obstacle to creating affordable cooperative housing, some folks say, is the lack of financing. The problem is stated as if everyone understands and agrees that if only financing were available, we could create more housing.

This so-called unavailability of financing is not the problem. Financing is available all around us. The trick is figuring out how to use the financing that is available for our particular housing development and keeping all the moving parts going in the right direction until the transaction is completed. Financing can come from a variety of sources and a cooperative developer must research which financing will work best for each project. Listed on the next page are financing sources and programs that can be used to create cooperative housing, including not only financing itself, but also enhancements that may make financing easier.

It is important to note that I define cooperative housing as housing that generally follows the spirit of the cooperative principles. I distinguish this from the Internal Revenue Service's definition of a housing cooperative, which merely describes how U.S. federal tax law is applied to a housing cooperative and its tenant stockholders, as defined by the IRS. Using the cooperative principles as the touchstone broadens the possibilities for organizing cooperative housing ownership entities so as to take advantage of the widest range of financing methods. Developers and members or prospective members may or may not find it advantageous to organize within the confines of the IRS definition of a housing cooperative, when weighed against the broader concerns of the group.

In some cases the sources listed may provide only one layer of the multiple layers of financing needed to complete any housing development, especially housing that is affordable to low- and moderate-income families. The list should give you an idea of the multitude of sources available to finance your transaction. Keep in mind also, that there may be uses of the funds that can be sliced off, to make it easier for a specific funder to help you and your development take a small step in the right direction. Examples of these include the following:

- Predevelopment funding typically is a grant or short-term loan to complete feasibility studies, engineering reports, environmental reports, architectural plans, or an appraisal. This type of funding can also provide option money or an earnest money deposit required to get the property under option or under contract.
- Property development can include grading, sewers, utilities, streets, and sidewalks.
- Resident and board training and educational opportunities are needed as part of the creation of the cooperative. Some communities have identified program areas they call housing counseling, home-ownership training, or

- economic self-sufficiency training for which grant funds might be available for a low- or moderate-income population.
- Funds to make an existing property more energy-efficient can be used for caulking, weather-stripping, adding insulation, installing storm windows, or replacing windows.

Gap financing provides financing for the difference between the permanent mortgage and the total funds required. This is usually necessary, because most conventional lenders will lend only up to 75 or 80 percent of the appraised value or the total development cost of the project. Gap financing can be provided through the use of a second or third mortgage on the real estate. A second or third mortgage (sometimes called a soft loan) is subordinate to the first mortgage and is riskier to the lender; therefore, many conventional lenders do not provide this type of lending. Many of the intermediary lenders and local and state sources of financing are willing to lend their funds as soft loans, thus providing gap financing.

Share loans are borrowed by the member, putting up as collateral the membership certificate or share of stock and occupancy agreement evidencing the rights the member has to live in the cooperative's unit. Share loans can be used to shoulder some of the financing burden, and could be obtained, for example, by a seller taking back share loans from members, from a credit union, or from a local government making available down-payment assistance funds to the members. These down-payment assistance loans could be secured with the members' shares or membership certificates.

This layer-cake approach to financing doesn't make it easy to finance your transaction, but it may make it possible. The secret is to figure out how to get ownership or control of the property as one of the initial steps, so you don't lose the property in the process of putting the whole thing together.

Who can you call for help? In addition to the phone numbers listed above, in your community you can find a public library, and perhaps a county or city community development department, or housing and economic development office, where folks can begin to answer some of your questions. In your state, you can find a HUD/FHA office, a USDA office that deals with rural development, and your state housing finance agency. In your region, you can find one of the twelve Federal Home Loan Banks, and one of the Foundation Center Libraries. Most of the larger intermediary nonprofit organizations listed above have several regional offices around the country. The Internet is a tremendous resource, if you or someone you know has access to the World Wide Web. Remember that the National Association of Housing Cooperatives can connect you with people around the country who have experience with financing.

When you start asking these questions, keep in mind that many people have never heard of cooperative housing. Usually you have to show those on the other

end of the conversation how your project is eligible, explain why it is a good idea, and describe how it accomplishes the goals, objectives, and priorities they have set out for their organization.

I hope I have offered a sense of the possibilities to those of you who thought that there was no way you could finance a new cooperative housing community.

Good luck in your search.

Ernie Eden is a cooperative development consultant in Atlanta, Georgia.

Contact information:
Ernie M. Eden, CCIM
Eden Realty Services
1340 Berwick Ave.
Atlanta, GA 30306
404-874-8740
fax 404-892-6437
eeden@ccim.net
www.edenrealtyservices.com

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