



Cooperative Fund of New England
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Information for Loan Applicants

The Fund

The Cooperative Fund of New England is a charitable and educational organization which has supported cooperative development in New England since 1975. CFNE provides loans and technical assistance to a wide variety of cooperatives, nonprofits, worker-owned businesses and community groups. Our services are intended to assist groups that are in need of short to moderate term financing but are otherwise sound and promising.

CFNE maintains a “collateral pool” within the Fund. This is a cooperative capital investment fund that is intended to provide collateral support. These funds are available in a limited manner, and are used to offer partial security to a loan on an as-needed basis.

Funds for lending are provided by low-interest loans from individuals, religious groups, cooperatives and other organizations seeking socially responsible uses for their investment dollars. CFNE is managed and directed by persons who are experienced in financial and developmental issues affecting our borrowers. They are actively involved in cooperatives and non-profits throughout New England.

Eligibility Standards

Eligibility

Financial assistance from the Cooperative Fund is available only to organizations operating on either a cooperative or nonprofit basis. Applicants must also be located within the New England states of Massachusetts, Vermont, New Hampshire, Maine, Connecticut and Rhode Island or within the adjacent parts of New York state. Eligible organizations include all types of cooperatives or nonprofits performing any kind of community service or business function. Applicants do need to be incorporated.

Definition of nonprofit

Nonprofit status will be presumed for any applicant organized under a nonprofit incorporation statute. In addition, the applicant must not be controlled by or for persons who merely provide equity capital, nor may investors be permitted to realize more than a limited monetary return for the use of their money. The norms will automatically be met by most organizations that meet the below characteristics of a cooperative.

Definition of cooperative

To be considered as operating on a “cooperative basis,” an applicant organization must exhibit each of the following characteristics:

- its purpose is supportive of the common good;
- its membership is open to persons who will use its services and accept its responsibilities;
- its membership policies are not applied to discriminate in any arbitrary manner;
- its activities are broadly participatory by its members;
- its governance is democratic or consensual;
- its monetary return on invested capital is strictly limited; and
- its earnings are either equitably used within the organization or distributed on the basis of patronage.

Proof of eligibility

If the applicant’s status as cooperative and/or nonprofit is not evident from the organizing documents submitted with the application form, the applicant should provide an explanation of how it meets the eligibility criteria. The applicant should also enclose relevant supplementary materials such as membership agreements or policy statements.

Priorities

The financial assistance provided by the Cooperative Fund is intended primarily to benefit cooperatives and non-profits with the greatest need. We thus accord priority to low-income co-ops and to other applicants for whom needed financial resources are not reasonably or readily available from the organization's membership or from commercial sources. We approve loans to other eligible organizations only if our available funds clearly exceed the expected demand of co-ops in more need.

Low income co-ops

Low income co-ops are provided a number of benefits and prerogatives. In addition to being given priority over other applicants to available funds, they are also given the lowest available interest rate on loans. As resources permit, they may also be provided technical assistance on a low-fee or gratis basis.

Referrals may also be made to other providers, whether specializing in cooperatives or in other aspects of business.

Meaning of low income

Low income status may be established under any one of the following standards:

- The co-op serves an economically disadvantaged community and this relationship is reflected in the membership and patronage of the organization;
- More than half the co-op's members consist of low income persons (see definition below); or
- The organization itself has, through unusual and unavoidable circumstances, suffered a significant economic adversity which exceeds the ability of itself and its members to rectify.

Definitions

An applicant may use any accepted meaning of the terms "economically-disadvantaged" and "low income". As to the third standard, the adversity referred to is not intended to include losses occasioned by normal operations, mismanagement or lack of diligent action. Information in support of low income status must be included with the application form.

Terms of Loans

Amount and terms

Loans from the Cooperative Fund are presently limited to \$1,000,000 per applicant. This limit is subject to change since it is based on 10% of the sum of CFNE's investment base. It is best to verify the limit before submitting an application. The term of the repayment is normally on a monthly basis although other terms, such as quarterly or seasonal repayment, are available as appropriate. The interest rates range from 4.5% to 7% and are negotiable.

Loan agreement

When the loan is approved, the borrower will enter into a loan agreement with CFNE which sets out the repayment terms, security arrangements and other important terms and conditions of the loan. While not as restrictive or obtrusive as most commercial loan contracts, the agreement is nevertheless a detailed and comprehensive one.

Specific obligations

Particularly important among the provisions of the loan agreement are the obligations to provide financial and organizational information to CFNE on a regular basis. Financial statements must be submitted within two months after the end of each fiscal quarter. Monthly minutes of meetings of members and directors may be requested. The co-op is also under a continuing obligation to immediately inform CFNE of any significant developments adversely affecting the business. It is also required to provide other information relevant to the terms of the loan agreement which may be specifically requested by CFNE including updated financial projections.

Application Form

General instructions

In responding to the generalized questions in the application form, **the applicant should be sure that the information supplied is complete, although not necessarily lengthy**, and that it is responsive to the circumstances of its organization. Materials prepared for other purposes may be used in place of or to supplement answers to any questions-- especially for history and goals, activities and financial information. Documents such as pro-

motional or marketing literature, brochures for prospective members and materials from other recent loan applications are particularly useful for this purpose.

Financial information

Financial statements, capital budget and projections of net income and cash flow are of considerable importance and are usually emphasized by the Loan Committee. Financial data should therefore receive a large amount of the effort put into the preparation of the application.

Financial Projections

Projections of net income and cash flow are likely to be the most difficult part of the loan application, but usually they are also the most interesting and rewarding to the applicant. Financial projections are particularly important because they provide information concerning the need for the requested loan and the coop's ability to repay it. They should be carefully prepared and conservatively estimated. Instructions and model formats can be supplied on request by CFNE.

Lending standards

All of the information required with the application form is carefully considered. But as a guide to placing detail and emphasis in the application, the applicant should keep in mind the standards that CFNE uses in evaluating loan applications. These include the following:

- the viability of the organization;
- the commitment and support of its members;
- the effectiveness of its management;
- the adequacy of its capitalization system;
- its current and prospective financial condition;
- the adequacy of available collateral; and
- the ability of the applicant to repay the loan.

Collateral

General requirements

Applicants are required to provide adequate collateral as security for their loan. In the case of nonperishable inventory, the collateral value must be 1.5 times the loan amount; for most other types of property, excepting real estate, the collateral value must be 2 times the value of property to be acquired with the loan proceeds. Real estate loans

will generally be made for up to 80% the value of the property to be purchased.

The applicant must identify any lien or mortgage on the property which is already held by another person or funder and must submit copies of the related documents to the CFNE office. The collateral is also required to be adequately insured unless prior arrangements are made for substitute collateral.

Inventory

If any part of the collateral is to be inventory, the co-op must commit itself to maintaining a stated minimum level of inventory expressed in terms of its cost.

Equipment

All equipment offered as collateral must be identified by general description, manufacturer or brand name, if applicable. The applicant must also show for each item the date of acquisition, original cost, present condition, depreciated book value and estimated current value. If any of the equipment is or will be attached to realty and not easily removable, we will need to know the name or description of the building, its location and the owner of record. If the coop is not the owner, it will also have to obtain from the record owner a written disclaimer of any interest in the equipment. If any mortgage interest in the related realty is already held by another person, the co-op will also have to obtain a written subordination agreement from such person.

Recording the secured interest

A secured interest in the collateral must be recorded with certain government offices. For inventory and equipment, CFNE will prepare the necessary documents but the applicant must pay the filing fees. If a mortgage deed is required, the applicant must obtain the legal services necessary for its execution and recording.

Implications of pledging collateral

Pledging property as collateral **will prevent the co-op from taking certain actions with respect to the collateral without the prior consent of CFNE.** The co-op may not sell or transfer the collateral

except for inventory sold in the normal course of its business. Without prior consent, it may not move the collateral to a new location, convert it to a different use or fail to pay taxes or assessments which could result in a lien on the collateral. As to the inventory collateral, the co-op may not grant any "purchase money secured interest" since this could undermine the security interest granted to CFNE. In short, the co-op must take special care to keep the collateral intact and available as security for the loan.

Application Process

Application fee

Applicants are required to pay a **\$100 application fee** to cover the costs of processing the application. It is not refundable if the loan application is not approved. There is a **one point funding fee** on a loan approved and disbursed.

Submitting the application

When the application is completed, it should be emailed to the appropriate CFNE loan officer. The application should be accompanied by all attachments requested in the application form, including a copy of minutes of the meeting which approved the application or a certification by your corporate Secretary or Clerk that this action was taken at a specified meeting.

The application fee of \$100 should be mailed to the CFNE office at P.O. Box 970 in Watertown, MA 02471.

The loan officer will share the application and all attachments with the Executive Director and all members of the CFNE Loan Committee. If the loan request does not exceed \$20,000, the application will be shared only with the CFNE office and the Chairperson of the Loan Committee, and can be considered at any time, outside of the loan committee schedule .

Follow-up procedures

Soon after the application form is submitted, the applicant may receive a list of questions or additional information needed. These questions may require additional written materials. Copies of responses and supplementary information should

always be sent to the Loan Officer, who will share them with all Committee members. In most cases we will also visit the co-op to discuss the application, observe the facilities and offer assistance. Our site visitor will make a report and a recommendation to the full Committee.

Approval process

The loan committee meets as needed using telephone conference calls. **When the application is considered by the Loan Committee, we usually request that a representative of the applicant be available.** The entire process normally takes no longer than one month from the time we receive the application.

Assistance available

We are always available to applicants who have questions or need assistance in preparing or submitting the loan application. Applicants should contact the loan officer in their area.

Loan Servicing

After the loan is approved, terms are agreed upon, and disbursement of proceeds follows the borrower's executing a loan agreement and forms for recording CFNE's secured interest in the collateral.

The applicant is then expected to strictly adhere to the repayment schedule, periodic reporting requirements and other agreed upon terms of the loan. The borrower is expected to keep CFNE fully informed of any need for variances. If unexpected difficulties arise, we are accommodating to our borrowers and flexible in renegotiating terms provided we are kept fully informed of changing circumstances. CFNE is also a continuing and reliable source of information and any assistance that may be needed.

The success of the alternative financing provided by the Cooperative Fund of New England is vitally dependent on the continuing relationship of mutual trust between CFNE and its borrowers. A spirit of cooperation is vital to this process.