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Housing Cooperative Financing Guide

Financing a cooperative (co-op) involves securing funds for the purchase, development, or maintenance of property or assets, while adhering to the cooperative's principles of shared ownership, member involvement, and long-term sustainability. Financing a co-op is distinct from traditional financing models because of its structure, where members collectively own the property or business and share responsibilities.

This resource book offers valuable information, resources, and tools to help you effectively structure and support your housing cooperative. It serves as a comprehensive reference guide for organizing and maintaining your cooperative.

Financing A Co-op Purchase

Financing a cooperative involves multiple sources, including member contributions, cooperative and conventional loans, government grants, and partnerships. In housing or worker cooperatives, members invest initial capital, creating shared ownership. Cooperatives can also secure loans from credit unions or cooperative banks, which offer flexible terms suited to their collective structure.

Cooperatives can also apply for conventional loans from banks or traditional financial institutions, although securing these loans may be more complicated due to the structure of the cooperative. Lenders typically require proof of financial stability, steady income, and a well-thought-out repayment plan, as cooperatives may not have the same assets or collateral as for-profit entities. Government grants and subsidies can also be vital sources of funding, especially for cooperatives that focus on affordable housing or community development. There are several federal, state, and local programs to support cooperative housing and other cooperative enterprises, providing grants, low-interest loans, and tax incentives.

Partnerships with other organizations (such as nonprofit groups, local governments, or even for-profit developers) can offer additional funding and resources, especially for larger projects. These partnerships allow cooperatives to tap into broader networks, providing financial backing and expertise that might otherwise be inaccessible. For example, housing cooperatives can partner with a nonprofit that specializes in affordable housing development or enter into a joint venture with a private developer to leverage both financial resources and development know-how.

Additionally, crowdfunding and community fundraising initiatives have become increasingly popular for cooperatives looking to raise capital, especially in their early stages. These alternative funding sources can help build community support and commitment, while securing necessary financial resources. Cooperatives that operate as nonprofits may also have access to tax-exempt financing or bond issues, which can provide them with lower interest rates and better repayment compared to conventional loans.

Securing financing for a cooperative starts with a solid financial plan—one that lays out the budget, operating costs, expected revenues, and long-term sustainability. A well-thought-out plan not only attracts external funding but also keeps the cooperative financially stable.

Transparency and member involvement are key. When members actively participate in financial decisions, it builds trust, accountability, and a shared commitment to the cooperative's success. Clear communication about financial goals, regular updates, and open reporting ensure that everyone understands where the cooperative stands and how they can contribute.

By combining smart financial strategies, responsible money management, and strong member engagement, cooperatives can secure the resources they need—not just to survive, but to truly thrive.

A housing cooperative **share loan** is a type of loan used to help finance a member's purchase of shares in a housing cooperative (co-op). In a housing cooperative, members collectively own the building or property and purchase shares that represent their interest or ownership in the cooperative. These shares are often accompanied by the right to occupy a specific unit or apartment within the property.

A housing cooperative share loan works as follows:

- **Co-op membership**

When you become a member of a housing cooperative, you purchase shares of the cooperative. The shares give you the right to live in the cooperative's housing unit and can be traded or sold according to the cooperative's rules.

- **Purpose of the loan**

If you are unable to pay for the shares outright, a housing cooperative share loan can help. The loan provides the funds needed to purchase these shares, and the loan is often secured by the value of the cooperative's shares or the property.

- **Repayment**

The loan is paid back over time, often with monthly payments that may be lower than traditional mortgage loans. The repayment schedule and interest rates vary depending on the terms set by the lender.

- **Cooperative structure**

In some cases, the housing cooperative itself may help provide the loan or assist in arranging financing with lenders. Additionally, some cooperative housing loans are available through the government or nonprofit organizations.

When purchasing a share of a housing cooperative, members typically need financing to help cover the cost of their capital investment or stock purchase. There are several types of loans available for this purpose, and the specific type of loan used may depend on the structure of the cooperative and the financial institutions involved. The most common types of loans used to purchase a share of a cooperative are:

Cooperative Share Loan (or Co-op Loan)

A cooperative share loan is a specialized loan used by individuals to finance the purchase of shares in a cooperative. These loans are like traditional home like differ in that they are specifically designed for cooperative share purchases rather than the outright purchase of real estate.

How it works

The borrower takes out a loan to purchase their share of the cooperative, and the cooperative holds the mortgage on the entire property. The loan is secured by the borrower's share in the cooperative, which entitles them to a leasehold interest in a specific unit.

- **Approval process**

Lenders typically require the borrower to undergo a thorough application process, including credit and income checks. Co-ops may also have their own approval process for new members, and the lender often coordinates with the co-op board to ensure the buyer meets the co-op's eligibility requirements.

- **Terms**

Co-op share loans typically have fixed or adjustable interest rates and repayment terms like conventional mortgages, typically lasting between 10 and 30 years.

Loans approved by cooperative lenders

Many cooperatives have agreements with certain lenders, such as local banks or credit unions, to offer cooperative-approved loans to prospective buyers. These loans are specifically tailored to the needs of the cooperative's members and are usually structured to meet the cooperative's particular requirements.

How it works

The cooperative and lender work together to provide a loan that meets the needs of both parties. The terms of the loan may vary, but the cooperative's board is usually involved in approving the lender and structuring the loan.

- **Approval process**

Buyers must meet the requirements of both the lender and the cooperative's board, which may include background checks, financial reviews, and approval by cooperative members.

Home Equity Loan or Line of Credit (HELOC)

In certain situations, buyers may be able to use a home equity loan or line of credit (HELOC) if they already own property and want to use the equity in their current home to purchase a share in the co-op.

How it works

The borrower uses the equity in their current home to obtain a loan or line of credit. This loan can then be used to finance the purchase of a share in the co-op.

- **Approval process**

The approval process for this type of loan depends on the value of the borrower's current property and their creditworthiness.

Member contribution

A member contribution generally refers to the ongoing financial obligations that cooperative members must meet structure and sustain the cooperative's day-to-day operations. These contributions are essential to covering the cooperative's operating expenses. There are two main types of member contributions:

Initial member contribution

When a member first joins the cooperative, he or she is required to make an initial contribution, often referred to as an entry fee. This fee can vary in amount depending on the cooperative and its financial structure and is often used to cover administrative costs or provide a base funding pool for the cooperative's operations. This contribution does not necessarily give the member an ownership stake in the cooperative, but it does help fund the cooperative's activities and operations.

Monthly or Regular Maintenance

Fees Once a member is part of the cooperative, he or she is generally required to pay monthly maintenance fees or service charges. These dues are intended to cover the ongoing costs of the co-op, such as building maintenance, utilities, property taxes, insurance, and staff salaries. The amount each member pays is typically based on the size of their unit or their share of the co-op. While these contributions ensure the functionality and upkeep of the community, they are not refunded if a member decides to leave.

When members contribute, they help keep the co-op running, but they do not represent ownership or equity in the co-op's property or assets. They are considered operating costs rather than investments.

Capital Investment

Capital investment is the financial commitment that members make to the cooperative, reflecting their ownership stake in the cooperative. It is usually a one-time or upfront payment (although some cooperatives allow for staggered payments over time) and is distinct from regular member contributions. Here's what capital investment typically entails:

Capital investment in a cooperative typically includes:

Upfront Payment

Members make a one-time or initial payment to purchase shares in the cooperative, which represents their ownership stake.

Ownership Stake

The capital investment reflects the member's share of ownership in the co-op, giving them the right to occupy a unit and participate in decision-making.

Staggered Payments (if applicable)

Some cooperatives allow members to make the capital investment over time, rather than all at once, but it still contributes to the member's ownership.

Not an Operating Fee

This investment is separate from regular fees or monthly dues that cover the cooperative's operational costs (e.g., maintenance, utilities, and management).

Potential for Refund

If the member decides to leave the co-op, the capital investment may be refundable, depending on the co-op's rules and the resale value of their shares.

Summary of differences

Member contributions are regular payments (ownership but entrance fees or maintenance fees) that fund the operating costs of the cooperative. These payments do not represent ownership but are essential to the day-to-day operation of the cooperative.

Capital investments are one-time or occasional payments that represent a member's ownership stake in the cooperative. These contributions provide the financial basis for the cooperative's ownership and assets, and members who invest have an ownership stake and a potential return on that investment if the value of the cooperative increases.



Together, these contributions allow the cooperative to operate efficiently, maintain its ownership, and provide a framework for democratic ownership and governance.

Financing the purchase of a co-op housing unit is important for several reasons:

Affordability: Many people may not have the full amount of money up front to purchase a co-op housing unit. Financing allows people to pay their share in manageable installments, making homeownership more accessible to a broader range of people.

Lower entry costs: Co-op housing typically has lower upfront costs than traditional homeownership (such as a mortgage for a single-family home). Financing the purchase of shares in a co-op can make it even more affordable, lowering the financial barriers to homeownership.

Long-term stability: Financing can help ensure that people have stable housing over the long term. By purchasing shares in a co-op, members can often avoid rising rents, while still benefiting from a sense of ownership and community.

Greater Access to Housing: Co-op homes are typically larger than market-rate rental properties, especially in high-demand areas. Financing allows more people to have access to these housing options that might otherwise be out of reach.

Equity Building: Just like with a traditional home mortgage, financing allows people to build equity over time as they pay off the loan. This helps them move toward full ownership of the co-op's shares and provides potential financial benefits down the road.

Financing the purchase of a co-op housing unit allows more people to access affordable, stable housing and helps build equity over the long term.

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TRP's mission is to build trusting relationships and empower individuals, immigrants, and families to achieve their social and economic aspirations, stable homes, and equitable participation. Housing cooperatives offer an alternative to traditional homeownership. They empower residents with shared ownership and responsibility in their housing community.



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