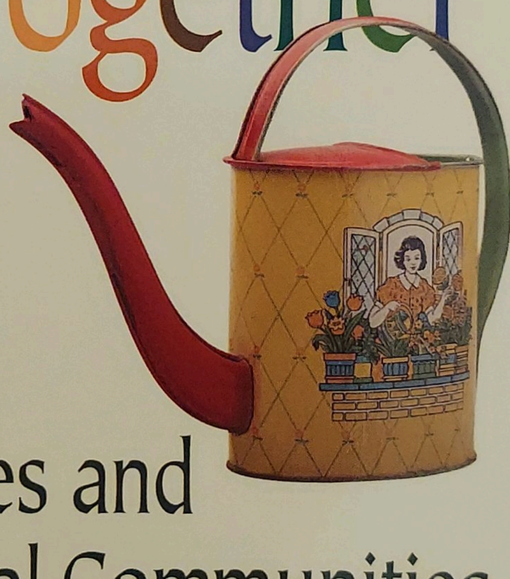
Creating a Life Together

Practical Tools to Grow Ecovillages and Intentional Communities



Diana Leafe Christian

Foreword by Patch Adams

dress, and ask to speak *only* with the executive vice president (or to the president in the absence of the executive vice president). If the executive vice president is busy, wait or come back. If a secretary wants to shunt you off to one of the bank's loan officers instead, insist in a nice way on making an appointment with the executive vice president, saying it's about a business loan.

What's the significance of the executive vice president? This is the person who runs the place, Bob says, and if he or she likes your group, you're in. (Remember to avoid terms such as "intentional community" and "ecovillage.") The executive vice president can usually poll the bank's loan committee or board of directors by phone. Besides, the authorized loan-commitment limits for the executive vice president or the president are almost always greater (if not unlimited) than those of other loan officers. And finally, if the executive vice president doesn't want to give you a loan, other loan officers aren't going to get it approved either.

When you meet with the executive vice president give him or her:

- Your one-page loan application document
- The appraisal for your intended property and other comparables and marketing data that supports the appraisal
- Documentation on how you'll repair or renovate the place (estimated costs, timetable, etc.), if applicable
- Documents for your legal entity
- Any approvals or permits from the county or municipality about zoning variances, use permits, or subdivision
- Brief resumes, net worth statements, and credit reports for everyone who'll co-sign on the loan.

7. **Negotiate simultaneously with more than one bank.** Some banks dislike this, feeling they are being "shopped," and they are. Nevertheless, you are taking a position of power. A bank will know you're talking to other banks because they'll order credit records of each co-signer (even though you've given them copies), and they'll see in these records that other banks have recently sought credit information also. You might avoid this by applying to all banks on the same day and providing all the documentation that each bank needs.

If you believe that these steps may be overly assertive, Bob Watzke points out that the your bank will most likely require that everyone in your group, and perhaps even your family members and/or officers of the companies any of you work for also become co-signers and guarantee the loan. This means if you were unable to continue making payments for some reason and the bank couldn't recover its loan by selling your property, it could go after each community member's other assets, or those of anyone else co-signing the loan. If you're risking this much to buy your property, you might as well tailor the loan to your specific needs and requirements. "Move as assertively as you feel comfortable without being overbearing," advises Bob.

Drawing on the Cohousing Model

Unlike the founders of most non-cohousing communities, cohousers sell housing units on the open market and build all their infrastructure and housing at once. Some cohousing groups have developed their communities themselves, or one or more members of their core group has served as their developer. But an increasing number of cohousing core groups have partnered with professional real estate developers, and such partnerships are often quite successful in acquiring, financing, and developing their property. In exchange for a percentage of profit (usually relatively small, compared to the profit margins developers are used to), the developer supplies expertise, an entrepreneurial "sixth sense," some of the up-front money, an intimate knowledge of the local real estate market, and established working relationships with local planning officials and lenders, architects, engineers, and building contractors. Group members are actively involved in the design process and in marketing the project.

If your group plans for members to hold title to individual lots or housing units (whether you plan to sell them on the open market or only to your own members), you might benefit from adapting some of these cohousing methods or working with a cohousing developer. (See Resources.)

Here is a brief overview of one version of this model, based on how groups have worked with Wonderland Hill Development Company in Boulder. The groups use three sources of financing: funds raised by themselves and the developer, the construction loan, and individual mortgages.

1. Funds raised by the group and the developer. Before the project breaks ground, the group raises at least ten percent, and sometimes considerably more, of the total cost of the finished project from assessments to themselves (with new people joining and contributing money at all stages of the process), sometimes supplemented by short-term loans from members of the group who might have more money, or from cohousing lenders. The developer usually also contributes funds, management, and overhead, and will be reimbursed later. These up-front funds are used for what Wonderland Hill calls the feasibility phase and pre-construction phase of their process.

In the feasibility phase, the group creates site criteria, a preliminary budget, and a legal entity for buying the land (usually an LLC). Group members each get pre-qualified for mortgages on their individual housing units. The group chooses a likely property, puts a 60- to 120-day option on it, and arranges a feasibility study to determine whether this parcel of land will work for them. They pay for legal fees, promotional expenses, land-search costs, and the option fee.

In the pre-construction phase, they conduct the feasibility study, pay for any tests, surveys, permits, and fees, and get any necessary zoning changes. If they decide to buy the property, they usually pay a certain amount down and arrange with the seller to pay the balance when they secure a construction loan, which can be up to a year later. Some sellers are willing to owner-finance this pre-construction phase. (If a seller requires all cash, the group usually doesn't pursue the property, but keeps looking until they find one whose seller could work with these terms.) The group hires architects and engineers to design the site plan and buildings specifically for this property, tests the market to see if the housing units will sell at the projected prices per the current budget (and adjusts the prices and/or the budget accordingly); and advertises and promotes the project in order to attract additional group members and continue raising money.

2. The construction loan. This loan pays off the seller and funds the "hard" development costs — grading the site, hooking up utilities, and building roads and parking lots — as well as all construction costs for the common house and individual housing units.

A construction loan is granted only after the group has acquired property and met all legal requirements to develop it, has produced professionally-designed site and building plans, and has had everyone in the group pre-qualified for a mortgage. To get a construction loan the group approaches local banks with their developer partner. "Banks are much more likely to give construction loans if a well-known local developer is leading the charge," notes cohousing consultant Zev Paiss.

3. Individual Mortgages. These are usually standard 30-year mortgages at current interest rates, set into motion when construction is complete. Money from the individual mortgages pays off any private loans from individual group members or cohousing funding organizations, the developer's contribution (plus profit), and the construction loan. Money credited towards everyone's mortgages immediately pays off any private loans for the up-front costs and any money contributed by that developer plus a certain amount of profit. Each individual member household now owes the bank the balance of the sale price of their own housing unit, which they

IS COHOUSING CHANGING THE WAY WE FORM COMMUNITY?

As of this writing, cohousing is not cheap. As of 2002, buy-in fees for studios to two-bedroom units and a share in the common infrastructure can range, depending on property values in the area, from the low \$100,000s to the high \$200,000s. Three-and four-bedroom units and detached homes with shared common infrastructure are often in the \$300,000 to \$400,000-plus range. And yet, while cohousing communities are usually the most expensive of all communities to join, since the housing units are individually owned, banks do give homeowners loans for them. And developer-assisted cohousing communities do get construction loans. So, paradoxically, buying in to a cohousing community can sometimes — in terms of initial cash outlay anyway — be comparable to buying in to a non-cohousing community with shared land ownership, if you consider the cost of joining fees, site-lease fees, and building your own house without a bank loan. (See Chapter 14.)

As of 2000, there was one Christian cohousing community in North America, at least two with straw-bale houses and off-grid power, and in the forming stages, a vegan cohousing group, a Jewish cohousing group, and a group exploring self-financed, exceptionally affordable buy-in costs. I believe that increasing numbers of forming communities with specific shared lifestyles or common purposes like these — with spiritual, religious, or ecological goals; even aspiring ecovillages — will choose the cohousing model, rather than attempting the arduous, do-everything-yourself model we've seen in these pages. These forming community founders will prefer private ownership of their individual housing unit and shared ownership of common facilities, developer involvement, and bank loans, rather than trying to leap the land-purchase, zoning, financing, and development hurdles entirely by themselves. The successes of the developer-assisted cohousing model might just be influencing forever the way we go about creating intentional communities.

pay off like any other mortgage holder, through monthly payments of interest and principal.

Other developers who partner with cohousing groups do it somewhat differently. Chris ScottHanson of Cohousing Resources recommends that the core group first acquire the property and get the site and buildings designed, then work with a developer to build it for them. "The *only* reason to use a development partner," he says, "is to have the developer locate, acquire, and guarantee the construction loan financing."

What about Grants and Donations?

A common misconception among forming community groups is that philanthropists or grantmaking foundations would want to fund a group's land purchase, but this isn't usually the case. Wealthy people and foundations do, however, often give money to groups or organizations whose vision and mission for a better world matches their own, who have a demonstrated track record of accomplishing their goals, and whose principal players have shown through past accomplishments that they use money responsibly. If your group is just starting out and you have inspiring plans to benefit the environment or serve people or serve spiritual goals — but so far no history of accomplishments as a group — it's unlikely you could get grants or donations to help you get started.

But by all means seek grants and donations after you've bought your property, have created a 501(c)3 non-profit for receiving tax-deductible donations, and have demonstrated for several years how you've benefited the environment or people, or achieved some service goals. Seek grants and donations for a particular project with a particular budget, timeline, and measurable goals. If you're an aspiring ecovillage, for example, and you want to teach others about alternative building construction or off-grid power, seek a grant for construction funds of your classroom teaching facility, or for work-scholarship funds, so that potential students can come as interns and offer free labor to help build the facility. If you get a grant or donations, spend the money the way you said you would, and keep accurate records. Send photos and the records of how you spent the money to your donors, with thanks. If your donors like what you've done, they may consider you for future funding requests.

Sowing Circle/OAEC got private loans of \$40,000 and \$25,000 with generous terms, because the founders were well-known to the philanthropist lenders, and were their colleagues in environmental activism. For getting grants, donations, and friendly loans, there's nothing like knowing your donors or lenders through shared activist work and having a good reputation with them already.

Refinancing Your Property

If you don't think it will be easy to live with your financing terms but it's the only way you can secure the property, consider how you might refinance it later. (Remember, avoid loans with early repayment penalties.) You can't live too long with high monthly payments, or with interest-only payments that will skyrocket as soon as you begin paying the principal, or with onerous terms and lenders who'd readily repossess. Earthaven, Lost Valley, and Sowing Circle/OAEC all successfully refinanced their properties and their members are now breathing easier because of it.

We saw how Earthaven's founders refinanced the year after they bought the property, creating the EarthShares fund to pay off their owner-financers and get control of their entire property. It was a good thing they did. The founders overestimated the number of new members who'd join in the next few years, and the resulting cash shortfall meant that for the next three years they couldn't afford to both develop the property and make their interest-and-principal payments. So they made interest-only payments for three years in order to build

HOW FINANCING AFFECTS OWNERSHIP AND DECISION-MAKING

Presumably, months before you seek financing, you'll have decided whether founders will make financial contributions toward the purchase, and what the relationship will be of each member's contribution to basic aspects of community ownership and governance. Here are some points to consider in determining these issues:

1. Will each founder be required to contribute an equal amount towards the purchase?
2. Will founders be allowed to contribute different amounts toward the purchase?
3. Will the amounts each founder contributes confer equity in the property, and is the amount of equity commensurate with the contribution?
4. Will the amount of contribution be tied to ownership rights and responsibilities, and to decision-making rights?
5. Will some make loans to the community that others pay back over time?
6. Will incoming new members contribute the same amount as the founders did? Will they contribute more, based on increasing property improvements and rising property value? How will founders be reimbursed?
7. Will the founders' (or members') contributions be reimbursed if they later leave the community? Where will the money come from to reimburse them?

In every community whose purchase we've examined, founders have had equal rights and responsibilities for the entire property and equal decision-making rights. But it doesn't have to be so: for example, a community could have contributors to the property purchase, but not others, make decisions affecting property value, with all members making all other decisions together. If the original contributions were loans, other community members could pay the loans back over time, and thus earn the right to make decisions affecting property value. But while this scheme would solve issues of some contributing money and others not, it raises issues of possible resentment or imbalance of real or perceived power in the group. As we saw earlier, Hank Obermeyer, as sole founder of Mariposa Grove, paid for the property himself. However, when it's refinanced as a limited equity housing co-op, each shareholder/member will have ownership and decision-making rights.

Dancing Rabbit and Lost Valley, in which only some founders contributed loans or gifts, different ways have been worked out for non-contributing founders and new members to reimburse the contributing founders. Dancing Rabbit members don't pay a joining fee, but pay a fee for the amount of square footage they lease from the property, which pays back their loans. Lost Valley members pay a joining fee and pay rent to the community for their cabins or housing units, which reimburses the community for their current (refinanced) loans. Incoming Earthaven members pay a $4,000 joining fee, and a site lease fee, which has increased by $1,000 every year since the founding. In 2002, the site lease fee was $17,000.

the necessary roads and buildings. They could never have done this with their original owner-financers.

And as we saw in Chapter 1, for its first two years Lost Valley made no payments on its two $100,000 loans from founder Kenneth Mahaffey, and for the next four years reimbursed him $30,000 annually — $20,000 in interest and $10,000 toward the principal. This meant that by 1995 they'd paid $120,000 total, but had reduced the loans by only $40,000. At this point, Kenneth was far less involved in the community and no longer living there, and preferred to be cashed out if at all possible. So in 1995 the community secured a $125,000 loan from Cascadia Revolving Loan Fund, and a private loan for $150,000 from friends who were members of their board of directors. With this $275,000 they paid off part of the $160,000 in principal they still owed Kenneth, and used the rest to make additional improvements on the property. In 1998, they refinanced a second time, borrowing $161,000 from three friends and supporters, and paid off the balance they owed Kenneth as well as the Cascadia fund. They still made annual payments, but their loan was in the hands of people who thoroughly supported what they were doing and were unlikely to repossess the property if the community ran into hard times. Since that time they've borrowed more funds for development and renovation. As of 2002, they owe $360,000 in total to approximately 15 different lenders, and pay $3,500 monthly in principal and interest.

Sowing Circle/OAEC began with a $700,000 owner-financed first mortgage at 6.7 percent interest, and two private loans of $40,000 and $25,000 at 5 percent interest each. All three loans allowed interest-only payments for the first five years. For four years, the community paid approximately $37,500 a year on these loans, but as they approached the fifth year they realized they'd better refinance before their annual payment increased dramatically in 2000. They got an appraisal and learned the property had increased in value to about $1,400,000 (by 2002 it was probably double that amount). By this time OAEC had been offering classes and workshops for four years in organic gardening, seed saving, permaculture design, and other aspects of sustainable living, and had gained quite a loyal following in the region. Many workshop participants returned frequently, and some became friends of the center and regular volunteers for their monthly garden tours and biannual plant sales. Dave Henson asked one of these friends about the possibility of becoming more closely involved by providing a refinancing loan. The friend was glad to do so, and she and Dave worked out a refinancing loan of $1,000,000, to be paid back over 30 years at 6.85 percent interest. The community used this money to pay off the $765,000 still owed on all three mortgages, and designated the remaining $235,000 for further capital improvements and a contingency fund. Their monthly land payments were then $5,565 a month, split between 11 people, so after refinancing they paid $515 per person per month towards the refinanced mortgage.

In Chapter 13 we'll look at the common challenges of the development process, and how some communities developed their land.