

# Land in Common

*building a collective land base for just & resilient futures in Maine*

www.landincommon.org

## What is Community Financing?

Community financing is an alternative way to purchase land and buildings without the use of banking institutions. It's a financing system based on community participation, trust and accountability. The Community Financing model has been used informally for generations, and in more recent years cooperatives and community organizations have begun to formalize the practice and make it legally viable for all participants. Land in Common has adapted our model from the practices of the [Walnut Street Co-op](#) and the [Los Angeles Ecovillage](#).



We initiated our community financing program in 2008 to acquire our first parcel of land, now home to the [Wild Mountain Cooperative](#). The land was purchased with the collective power of generous donors, a partial owner-financing arrangement, and 14 community lenders (including people who helped refinance loans along the way) providing a total of \$117,000 in loans. These loans have been repaid consistently over the past 12 years and repayment will be completed to all lenders by 2028. We are excited to extend this financing model in support of new Land in Common projects, and to share this financing structure with other groups seeking alternatives to conventional, for-profit lending.

## Goals and Values

Land in Common's community financing practice has a number of interconnected values-based goals:

- To create a viable model for grassroots, relationship-based financing that eliminates the involvement of for-profit banks in the ownership of land and housing.
- To offer an ethical investment and savings option for people in our wider community who want their money to do good work while also retaining reliable value over time.

- To grow a financing model that builds genuine community and connection rather than reinforcing isolation and division. Each element of our model is designed with these goals in mind, and we are committed to learning and improving our structures as we go forward.

## **Community Financing: How It Works**

### ***Where does the money come from?***

Loans come from people in our community who have savings that they would like to invest in support of our work, or who are seeking alternatives to conventional market-based investments.

### ***How much do people lend?***

Loans can range from \$2,000 to much higher, depending on both the lender's preference and the project. Each lender selects the amount that suits them, and we encourage a mix of both smaller and larger loans. We generally don't accept loans smaller than \$2,000 due to the administrative work associated with each loan, though we might consider smaller amounts for specific projects.

### ***What is the duration of a community financing loan?***

Our loan terms are for 5, 10, 15, 20, 25 or 30 years with the option to renew the loan at the end of each selected term. Our lenders choose which term is best for them.

Thirty years is a typical term for a standard home mortgage from a bank– this allows people with limited incomes to pay large amounts over time. Unlike a bank or another institutional lender, most individuals cannot predict the course of their lives 30 years ahead and therefore are not prepared to commit their assets for that long. This is why our loan system is different. When someone lends to Land in Common, we pay their loan back for the selected term *as if* it were a full 30-year loan (meaning smaller regular payments than if it were calculated as, for example, a five-year loan). At the end of the selected loan term, we provide the lender with three options: they can extend their loan for another term, they can request full repayment of the remaining balance of your loan (this is called a “balloon payment”), or they can donate all or part of the balance of the loan to as a tax-exempt gift to Land in Common.

We pay balloon payments by refinancing with other lenders. It's like a "relay race" of community support, with one lender passing the baton to the next. In this way, members of our community can "take turns" in the 30-year financing process without binding up their investments for the entire 30 years.

***What are the interest rates on these loans?***

We understand that many people may see their loan as a financial investment, and are choosing between lending to Land in Common or investing this money elsewhere. We also know that many people are seeking investment options that prioritize social benefit over high returns and would gladly put their money into a program that does good work in the world if they can be assured that their money will retain its value over time in the face of inflation. We offer custom interest rates for each loan, ranging from 0% to 5%, so that lenders can balance these needs and values for themselves. We also encourage lenders to consider the many nonfinancial "returns" that come from participating in the success of Land in Common and its collaborators.

***How often are loan payments made?***

To minimize administrative work, we generally pay back community financed loans with two annual payments (via a check sent by mail)—one on June 1<sup>st</sup>, and one on December 1<sup>st</sup>.

***How is the loan secured?***

Each loan is secured by a formal, notarized loan agreement defining all terms and conditions precisely. We do not put up the land as collateral. Ultimately, as our loan agreement states, "the security of the Loan is based on trust, on the integrity of relationships with Land in Common and its Board of Directors, and on the legal power granted to this Loan Agreement under the laws of the United States and of the State of Maine."

***An Example of a Hypothetical Loan***

Land in Common seeks funds for a land purchase. A supporter of Land in Common offers to loan \$10,000 at 2% interest for a 10 year period. Land in Common enters into a formal loan agreement with the lender, specifying these terms. On June 1<sup>st</sup> and December 1<sup>st</sup> of every year, then, Land in Common mails a check to the lender for \$221.76 (\$443.52 per year). At the end of the ninth year, the lender is given the option to extend the loan for another period (with the same or revised terms) or to be repaid in full. If the lender chooses this balloon repayment, Land in Common pays them the remaining \$7,041.54 of principal (the amount of loan still unpaid) with funds borrowed from a new round of lenders. In total, the repaid lender will have received \$11,885.24 from Land in Common, resulting in a net gain of \$1,885.24 from interest.

If the lender decides to extend the loan for another ten year period at the same interest rate, Land in Common will refinance the loan at \$7,041.54 and continue by paying \$155.40 twice annually following ten years. At the end of this second loan period, the lender would again have the option to extend the loan or to receive the balloon payment (in this case, \$4,933.49). This process of lending and loan renewal could continue, at the lender's discretion, until the end of the 30 year period over which the loan payments are calculated.

## What about the SEC?

The Security and Exchange Commission (SEC) regulates the sale of “securities” in the U.S. Their definition of “security” is [really long and dense](#), but essentially a security is any form of investment (stocks, bonds, loans, etc.) that has a financial value and involves some kind of ownership claim. Companies or organizations that “offers” securities have to register their activity with the SEC. Registering is very time-consuming and expensive, so it's best to avoid having to do it unless it's absolutely core to your operations (as in, for example, [East Bay Permanent Real Estate Cooperative](#)). This could include grassroots organizations seeking community financing loans, but thankfully there are [exceptions](#) to the rule. Here are two ways to avoid having to register.

**1. Do everything in-state.** The SEC's [“intrastate exemption”](#) allows organizations that operate primarily in one state to get loans from an unlimited number of people who also live in that state. Each loan agreement must be accompanied by a written statement from the lender certifying that they are a resident of the state in which the organization has its primary operations.<sup>1</sup> This is the clearest and easiest form of exemption, and is probably the one that most organizations should pursue first.

**2. Use “Rule 504.”** Here, [under Rule 504](#), the SEC allows an organization to gather up to \$10M in loans over a 12 month period, as long as: a) the “offer” of loans is not advertised publicly, but is instead spread via pre-existing relationships and networks; b) no more than 35 “non-accredited” investors are involved<sup>2</sup>; and c) a notice is filed with the SEC within 15 days after the first loan is made.

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<sup>1</sup> The following language also has to be placed into the loan agreement: “Offers and sales of these securities were made under an exemption from registration and have not been registered under the Securities Act of 1933. For a period of six months from the date of the sale by the issuer of these securities, any resale of these securities (or the underlying securities in the case of convertible securities) shall be made only to persons resident within the state or territory of [identify the name of the state or territory in which the issuer was resident at the time of the sale of the securities by the issuer].”

<sup>2</sup> An accredited investor is someone whose net worth (not including their primary residence's value) is over \$1M. Everyone else is “non-accredited.”

There are other exceptions, particularly [“Rule 506,”](#) but these are all more complex and require much more paperwork and resources to pull off. Land in Common’s current default community financing model uses option 1 described above. We limit our lenders to people who are permanent residents of the State of Maine. If, at some point, we’re unable to adequately finance a particular project drawing on lenders from within the state, or if we meet a particularly enthusiastic lender from out of state who is willing to support us in making our first SEC filing, we will explore possibilities for pursuing option 2 described above.

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Further questions? Please get in touch! Email: [info@landincommon.org](mailto:info@landincommon.org).