

# A 'How to' guide For Housing Co-ops



**A workers co-op, registered company number 2738104**

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# Things to Remember Upon Registration

## At Your First Meeting

- Decide an admissions procedure for new members (as simple or as complicated as you like!) and minute it.
- Resolve to make an issue of loanstock (if you want/need to raise private loanstock? (see loanstock guidelines)

## Bank Account

As a limited body corporate, a bank will give you a mandate when you want to open a bank account for the Co-op. This will include a wording of a motion which a co-op general meeting will need to pass.

## Approval for Tax Relief

If you registered your co-op with Catalyst using RRFM Rules, your co-op is a fully mutual housing co-operative [only tenants or prospective tenants can be members and only members can be tenants]. As such, it enjoys tax advantages and it is very important that you apply for these as soon as possible.

It is eligible for tax relief on all rental income. In other words, it does not pay any tax on rents paid to the co-op. [If your co-op's bank interest is £480 or more in your accounting year you are obliged to fill out a corporation tax return, but you will only pay tax on non-rental income. Check whether the interest has been paid with tax deducted or not, you do not want to pay twice.]. This is a major advantage of the mutual structure, enabling the co-op to save up to carry out major improvements or buy another house. With a conventional worker co-op or company, any income that is not spent is taxed [to put it very simplistically].

It is eligible for exemption from all capital gains taxation. For example, this means that if you buy a house for £60,000, and then sell it a few years later for £100,000, the capital gain of £40,000 [less inflation] is not taxable, as it would be if the co-op was a workers' co-operative/company/ non-mutual body.

Before your co-op becomes active, in that it starts to have money moving in or out of its bank account you will need to write a letter to your local tax office asking to be granted approval for tax relief stating that your company is entitled to exemption from corporation tax under the CTA 2010 act section 642. As accompanying evidence enclose a copy of your fully mutual rules, your registration certificate and your occupancy agreement. They may send you a form to fill in and send back.

After filling in the form and sending it back to the tax office, they should send you a certificate.

Show copies of all this to your accountant if you have one. This is particularly important if your accountant is not experienced in dealing with housing co-operatives, as s/he may not know about the tax relief.

We don't have experience as to whether the same is true for co-ops in Scotland and Northern Ireland, please contact us if you do so we can improve our information.

# Job Lists

Some co-ops use job descriptions, others don't, but when there is a dispute it can help to have something in writing which makes it clear who was supposed to have done what! We've taken job descriptions from one housing co-op which uses them, and condensed them to a list of jobs which each officer ought to try to ensure are done. [See also the section 'Guidelines for the Secretary' for more details about some of the jobs a Secretary needs to ensure are done].

## **The Secretary**

- To keep an up to date Register of the Issue of Shares [we combine this into one with the Register of Members, since shares are only issued to members] and to issue shares to new members.
- To keep Copies of the Co-operative's Rules and issue these to new members.
- To issue Occupancy Agreements to tenants (members).
- To keep up to date the Register of Officers, which ought to include: the name of the officer, office held, address, date assumed office, date vacated office.

## **The Treasurer**

- The Treasurer is responsible for the Finances of the co-op, and we would suggest that a meeting of the co-op agrees how often and in what form the members want to be informed about the state of the co-op's finances.
- Perhaps a report of the balance of the bank accounts at each meeting would suffice, or quarterly management accounts. Despite all the goodwill & co-operation, it is not completely unknown for a co-op member or treasurer to defraud their co-op, so it is important for members to be kept informed and to keep an eye on things!
- Some co-ops have it that the Treasurer has to sign each cheque [as one of at least two signatories].
- The management of the Loanstock scheme will be a joint responsibility between the Treasurer and the Secretary. Collecting rents might be made the responsibility of the Treasurer, or you might make it the responsibility of another member of the co-operative.

# Guidelines for the Housing Co-op Secretary

## Records

The law states that the records kept [e.g. register of members] must be in a bound book, or that other methods are in place to safeguard against falsification and to detect such.

We recommend that on registration, you purchase a hardback bound book which you divide into two sections for records of members and shares, and uses of the seal. Another book or folder should contain the official record of the minutes of the co-op's general meetings. You may wish to have a separate document in which you extract items of long-term significance from the minutes – the 'policy document' or 'secondary rules'.

As part of this registration pack, you will find draft pages for all these records, so you know what details are important.

All important contracts of the Co-op should be kept in a safe place.

## Financial Year End

The FCA will send you an annual return. On it you need to fill in the details of your committee – in a co-op run by general meeting this means all the members. There are two sections to the annual return, you only need to fill in the first AR19A, if you are sending in a copy of your accounts.

## The Registered Office

The full name of the co-operative should be displayed on a notice above the front door of the registered office.

The register of members must be kept there.

The latest balance sheet and auditor's report for the co-operative should be hung up at all times in a conspicuous place at the registered office.

## The Register of Members

This should record

- a. members' names and addresses;
- b. when they joined and left the co-op;
- c. the date on which they paid for their £1 share. {see our draft document in this pack}

Those are the legal requirements. It is also advisable to keep in this record: their date of birth, and any other directorships they hold [are they a director-member of any worker co-ops, etc]. The reason for this is that this information is required for the Annual Return to the Financial Services Authority, and it makes life easier for the Secretary if all the necessary information is in one place.

Note: it is the responsibility of each member to inform the Co-op Secretary of any change in address. *"Any requirement ... in the Rules of the co-operative that a notice be served on the member shall be satisfied if notice has been delivered to the address given in the register."* [Rule 7b]

As each new member joins, the Secretary should provide them with a copy of the Co-op's Rules and a Share Certificate (sample on page 12).

## Loanstock

This will mainly be the responsibility of the Treasurer, but the Secretary must sign and Seal all the loanstock certificates.

(further info on Loanstock is provided in this pack)

**Letterheads**

The co-op's full name [including 'Ltd'] must be displayed on all letterheads, invoices, etc.

It is usual practice to also include the registered office address, registration number, and 'Registered in England and Wales' or 'Registered in Scotland' [as appropriate]. The latter are actually not a legal requirement for Industrial & Provident Societies, but it is law for companies, and those who you do business with may not know the difference, and may be suspicious if the details are not there.

**Membership numbers**

If the number of members falls below 3, this should be rectified as quickly as possible. If the number is less than 3 for 6 months, the remaining members lose their limited liability, and can be held personally liable for the debts of the co-op. The FCA may also cancel the co-op's registration.

**Meetings**

Proper notice of all general meetings should be given to all members registered in the register of members, and to the auditor, if your co-op has one [discuss this with your auditor as they may have more specific requirements, eg only wanting notice of meetings where certain issues are discussed]. (In practice, the requirement to give notice to the auditor is often ignored, but discuss it with your accountant).

The Annual General Meeting must be called as specified in the Rules of the Co-operative.

**Dealing with the Financial Conduct Authority**

As well as the annual return {see above}, you may need to do the following:

- Inform the FCA of any change of registered address
- Register and release any charges on the co-op's assets with Registrar [Form A1] (this will apply if you have a mortgage, or a RR loan).

### Annual dates for Co-ops

	Due when?	Deadline if year end is 31 <sup>st</sup> December
Hold AGM	Within 3 months of year end	31 <sup>st</sup> March
File FCA annual return with accounts	Within 7 months of year end	31 <sup>st</sup> July
Pay any corporation tax due	Within 9 months of year end	30 <sup>th</sup> September
File corporation Tax return CT600 (unless you have received a long term exemption from your local tax office)	Within 12 months of year end	31 <sup>st</sup> December

## Guidelines for the Housing Co-op Treasurer

The main advice to give to a treasurer is the same as to the treasurer of any organisation really: you need to know how to keep good records, and how not to be afraid of upsetting people!! The role of Treasurer is often that of trying to persuade others to be more careful about spending money or getting receipts for money they have spent, and can lead to a bit of conflict, but in a co-operative setting people should be more willing to co-operate!

Apart from that, the information needed is to be found in the **Audits** section, and the job list [page 3].

## Audit Requirements

An audit is a check that you have kept proper accounts, performed by an accountant who has been approved as an auditor by the government. In recent years the requirements have been relaxed, and it means that many small housing co-ops will not now need an external audit. In practice, many still have their accounts prepared by an accountant – it is often useful – but this will be up to the members to decide, and you won't necessarily need to use an accountant who has been approved as a registered auditor.

At the end of the financial year you must complete, & send to the registrar, an annual return, which is now in two parts – the simple return [which you can fill in and send with a copy of your accounts], and the supplementary return which you use if you haven't prepared accounts in the standard format (it asks for the information which would be in the accounts). If you can understand and fill in this supplementary return without too many problems, then you might not need to employ an accountant, or you may be able to find a friendly person with book-keeping knowledge to help you with the accounts and annual return.

**A vote must be taken every year** by the members to decide whether or not to have a full audit. This resolution must be passed with a larger majority than your usual resolutions. The details are that

- a. less than 20% of the total votes cast are cast against the resolution, **and**
- b. less than 10% of the members of the society entitled to vote cast their votes against the resolution.

Thus, for example, in a small co-op of less than 10 people, any one vote against can force the co-op to have an audit. This is fair enough, since an external audit is a good way of guarding against possible

fraud, and can be useful in terms of assessing how the co-op is doing financially. Accounts/audits are useful tools, not just a chore to do for others, but should be valuable for the co-op's members/tenants.

Also, the FCA can force any co-op to have an audit.

**The options are:**

**Societies with turnover less than £90,000**

do not need to be audited; their accounts and annual return can be signed by the secretary and committee members.

**Societies with turnover between £90,000 and £350,000**

will need a report. This must be completed by a registered auditor, but is not as comprehensive as a full audit and thus will cost less.

**Societies with**

**a. turnover in excess of £350,000**

**b. a balance sheet in excess of £1.4 million or**

**c. registered with the Housing Corporation [or the Scottish/Welsh equivalents]**

will need a full audit.

**Lay Audits**

If you are a small co-op, or if you haven't acquired property yet, you may be exempt from the auditing requirements, and simply need a lay audit (provided your rules allow it). This means that two persons who are not qualified auditors and not members or officers of the society, or partners, employees or employers of officers can inspect the accounts and declare them to be sound and sign them.

This applies to societies with:

**a. receipts and payments in aggregate not exceeding £5,000**

**b. no more than 500 members**

**and**

**c. aggregate value of assets less than £5,000**

This can occur quite often; perhaps the co-op will be set up and plans for buying etc, then either fall through or take longer than expected. If your co-op has been inactive for a year, then you will probably satisfy the above conditions.

Lay auditors have to be completely separate from the co-op [no members, or relations of members], and you need at least two of them. Basically, prepare a summary of your accounts for the year and then the lay auditors should have a look at them and if necessary check things with your records for the year. When they are satisfied that the summary is true, they should sign an 'auditors report' such as:

*"We have audited the accounts of \_\_\_\_\_ Housing Co-op Ltd, and confirm that the above is a fair and true statement of income and expenditure for the period \_\_\_\_\_, and of its financial standing at the end of that period, and is in compliance with the requirements of the Industrial and Provident Societies Act 1965 and the Friendly and Industrial and Provident Societies Act 1968."*

This should then also be signed by the co-op secretary and two members and sent in with your Annual Return.

# Closing down your housing co-op.

Not everyone who registers a co-op manages to go on to buy a house – sometimes, the needs of the group change over time and it no longer become appropriate for them to try to do so. As directors, you are still liable for fines as a result of non-filing of returns, so if you are sure that nothing further will be done with your co-op, you should ask the FCA to wind it up.

You can do this in two ways – you can request to cancel, or you can apply for a dissolution.

## **Request to Cancel**

This is the most straightforward, and you can use this if the society hasn't ever really been active, has no debts or assets, and you wish to close it down. To cancel a society, take the following steps

- 1 Hold a General Meeting and agree (at least  $\frac{3}{4}$  of members must agree) to cancel the society.
- 2 Prepare accounts showing that the society has no assets or debts
- 3 Fill in the form available from the FCA web-site.
- 4 The Secretary of the organisation must sign this (in black ink)
- 5 Send all 3 things to the FCA.

You should keep records including the cancellation document – ideally for 7 years.

## **Request for a dissolution**

If your co-op has built up assets, then you must use a request for a dissolution, which is more complex. To close down a society with assets, you must:

- 1 Have a meeting whereby at least  $\frac{3}{4}$  of your members agree to wind up the society
- 2 Decide a date of dissolution (this should be the recent past – i.e. after any transactions occur)
- 3 You need to fill in the 'request for dissolution' form available on the FCA web-site.
- 4 You must get at least  $\frac{3}{4}$  of the members to sign a form. You can use a special form if the member is not present at the meeting (appendix 3)
- 5 You must decide what to do with any assets the co-op has (this mustn't conflict with the rules of the co-op)
- 6 You must get 3 members, including the secretary, to sign the form in front of a solicitor or notary public.
- 7 Send the form, along with all the signatures of the members, to the FCA.

For more details of either of these, you can check out the FCA web-site, or phone Catalyst for advice.

# Notes to Documents in this Registration Pack

## **Occupancy Agreement** (Example on page 11)

This is a standard agreement for a housing co-op renting rooms in a house which it owns. If the co-op is renting a house from a landlord, then the agreement may need to be for a set term, e.g. six months, and you may wish to insert another clause to cover you if the landlord ends the agreement prematurely: e.g. if the letting agreement dictates 28 days notice from the landlord:

- *“this Agreement can be terminated with 14 days notice if the Owner of the property has given notice to end the Co-op’s letting agreement.”*

Or even just:

- *‘this Agreement can be terminated with 14 days notice.’*

This will give enough time for a General Meeting to be called [with the standard 7 days notice].

## **Register of Members and Shares** (Example on page 10)

Along with the Record of Uses of the Seal, we recommend you keep this in a bound, hardback book. The reason is that this type of book is the hardest to fraudulently alter, since it is usually noticeable if a page gets ripped out. Since you won’t need that many pages for each, you can keep them in the same book, perhaps along with –

## **Record of Uses of the Seal** (Example on page 10)

This can also double as a record of loanstock [by adding a few more columns], if so desired, since you have to Seal the loanstock certificates, but you may prefer to keep track of the finances separately.

# Occupancy Agreement

between

Any Housing Co-operative Ltd. [Register No. \_\_\_\_\_]

(hereinafter known as 'the Co-op') and \_\_\_\_\_(hereinafter known as the 'occupant')

for the provision to the occupant of accommodation at

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## WHEREBY IT IS AGREED AS FOLLOWS

Occupancy of the property under this agreement starts on ..... (including that day) and shall continue on a month to month basis by the payment of £..... in rent due on the ... of each month.

1]a] the co-op agrees to provide

i] \_\_\_\_\_ bedroom[s] for the use of the occupant

ii] kitchen, living room, bathroom and other communal facilities shared use with other occupants.

b] the co-op agrees to improve and maintain the accommodation provided, to the standards agreed by General Meetings of the Co-op.

2] the occupant agrees with the Co-op as follows:

a] not to assign charge or transfer the occupancy to any person or body other than the Co-op and not sub-let the accommodation or any part of to any other person/body

b] to ensure that the property and fixtures are not damaged in anyway that the property is kept clean and tidy and that a co-op member may inspect the property at reasonable times and with prior consultation

c] not to do or suffer to be done on the property anything which shall become a nuisance or an annoyance to the Co-op or owner/occupiers of neighbouring lands

d] that all water, gas and electricity consumed is paid for by the occupants

e] that the occupants report any major defect arising at the property

f] to co-operate with other occupants to maintain a mutually acceptable living environment with regard to the general upkeep of the premises, disturbance caused by noise and the use of shared facilities

g] either party may terminate this agreement by giving one month's written notice to the other.

3] If any term of this agreement is not upheld then the matter shall be referred to the general meeting of the Co-op to consider appropriate action.

4] The parties to this agreement acknowledge that the common principles of fairness and co-operation will be upheld in the interpretation and operation of this agreement.

Signed \_\_\_\_\_ [the occupant] \_\_\_\_\_ Date

Signed \_\_\_\_\_ [for the Co-op] \_\_\_\_\_ Date

\_\_\_\_\_ Housing Co-operative Ltd. Reg. No. \_\_\_\_\_

## Record of Use of Seal

Date of Use	Document Sealed	Secretary's Signature

\_\_\_\_\_ Housing Co-operative Ltd. Reg. No. \_\_\_\_\_

## Register of Members and Shares

Name	Address	Date of Birth	Other Directorship	Date Joined	Date Ceased to be a Member	Date Paid for £1 share

Certificate number \_\_

Shareholder number \_

\_\_\_\_\_ Housing  
Co-op Ltd

Registration Number 12345 R

Registered under the Industrial and Provident Societies Act, 1965

Issued in accordance with and subject to the provisions of the society's  
registered rules

=====  
Share Certificate  
=====

This is to certify that \_\_\_\_\_ is the registered holder of One  
Share of One Pound (£1) in the above mentioned society subject to the  
rules of that society.

The common seal of the society was affixed on the  
\_\_\_\_ of \_\_\_\_\_, \_\_\_\_\_

Member of co-operative.....

Secretary.....

# Sources of mortgages for housing co-ops:

*We contacted many head offices, asking their policies – the response was depressingly negative but at least now we have an idea of who will consider lending to Housing Co-operatives. If you have any more contact or up-to-date info, please tell us!*

'Good Bets' include:

**Ecology Building Society:** have supported many housing co-ops, particularly eco-friendlier projects. 18 Station Rd, Cross Hills, Keighley, West Yorkshire, BD20 7EH. Tel: 0845 674 5566, email: [info@ecology.co.uk](mailto:info@ecology.co.uk), website: [www.ecology.co.uk](http://www.ecology.co.uk);

**Triodos Bank:** almost definitely the most supportive lending institution for Radical Routes Co-ops Brunel House, 11 The Promenade, Clifton, Bristol, BS8 3NN, 0800 3282181, local rate: 0845 769 7239, fax: 0117 973 9303 email: [mail@triodos.co.uk](mailto:mail@triodos.co.uk), website: [www.triodos.co.uk](http://www.triodos.co.uk);

**Unity Trust Bank:** also supportive of co-ops, and offer free ethical banking for co-ops Nine Brindleyplace, 4 Oozells Square, Birmingham, B1 2HB, tel: 0121 616 4101 email: [utb@unitygroup.co.uk](mailto:utb@unitygroup.co.uk), website: [www.unity.uk.com](http://www.unity.uk.com);

**Nationwide:** Usually only consider Co-ops managed by CDS/Co-operative Homes. Contact Portfolio Team, Housing Department, tel: 01604 8541854

**Co-op Bank:** Have recently started offering housing co-ops mortgages again, contact them through Paula Brown, tel: 0161 8295412.

Some of the above information may now be out of date. We should be surveying financial organisations again at some point in the future.

Another organisation that Housing Co-ops may be able to borrow money from, is ICOF (Industrial Common Ownership finance Ltd). Although this organisation, which has specific funds for worker co-ops and community businesses, has not made many loans to housing co-ops, they are open to receiving requests from more co-operative housing projects in the future and might look more kindly on your application than other lenders without ICOF's commitment to common ownership.

ICOF Ltd, 227c City Road, London, EC1V 1JT, tel: 0207 251 6181, email: [icof@icof.co.uk](mailto:icof@icof.co.uk), [www.icof.co.uk/](http://www.icof.co.uk/)

# Business Plans for Housing Co-ops – a quick guide

In the next pages, we outline the different areas that need to be covered within your business plan. Some of the details are left to two appendices.

## The Business Idea

Producing a 'Business Plan' is often seen as a carefully balanced blend of fact and fiction: there are many who make their living weaving carefully chosen words and mercilessly manipulated statistics into impressive tomes to thump onto the bank managers' desk. For a conventional business a large part of the Plan is made up of market research to convince potential lenders that the market is there and the business idea will succeed. This, and its associated [ab]use of statistics, etc, is not really necessary for most housing co-operatives: the 'market' is people who need/want to rent accommodation, and this will always be there. Forecasts of sales volumes, etc, are not needed because you should know how many rooms there are in the house, and what the market rent levels are, so you know how much income the co-op will have. Hence, a business plan for a housing co-op is a simpler affair.

Begin the plan with a piece on the reasons behind setting the co-op up. Real life examples are – lack of accommodation available for people with children/single parents; desire to integrate housing and workspace for crafts/arts/rural skills based businesses; or just simply a desire to take control of housing after years of sub-standard renting! This will demonstrate that there is a demand for this type of housing, and even if the original members move on, there will be new people to replace them.

## Skills and Knowledge

Another part of a conventional business plan is the CVs and expertise of the personnel involved. If your housing co-op is going to be large, with maybe a worker or two running things, then being able to demonstrate that some of the members have experience of financial management, property management etc, will undoubtedly help. For a smaller co-op this will not be so important. The key point is to demonstrate that members have skills relevant to the project: for a large co-op these will include management skills; for a financially tight co-op planning on buying cheap run-down property and renovating it themselves, these will include DIY, building skills, etc. A short section dealing with this should suffice.

## The Finances

This section is also quite a bit simpler than for a conventional business Plan. The income of a co-op is relatively stable with time if the rooms are all being rented out all the time. The first thing to do is work out an **Income and Expenditure Analysis** for a year, with the regular ins and outs the co-op will incur. This gives you a general idea of whether the co-op can afford the house it wants, but for a long term view of how the co-op will survive you need to take these figures and put them in a **Year-by-Year Cashflow**. Into this you can then add, into Year 1, the initial expenses of setting the co-op up and buying the house, and perhaps other one-off expenses such as replacing the flat roof in 10 years time. All this is covered by the model spreadsheet supplied by Catalyst.

The advantage of looking at a long-term cashflow can be seen in the situation where you find that although the co-op can afford all of the repayments necessary year by year, it won't be able to save enough to replace the flat roof by Year 10. However, put in the Year 10 expense, and check if the balance looks healthy again, by, say, Year 15. If so, then what it shows you is the need to raise some more loanstock before the end of Year 10, which can be repaid in Year 15 [as in the Example A cashflow].

## Income and Expenditure Analysis

Most Housing Co-op income will only be from Rent and Bank Interest.

**Expenditure** may vary a bit depending on the project, but the following categories will be in there:

Mortgage Repayments; Accountant's Fee; Set-Aside to Repay Loanstock; Admin costs; Routine Maintenance; Emergency Maintenance Reserve; Buildings Insurance; Council Tax; Miscellaneous [could include subscriptions to networks of co-ops, travel to meetings, etc.]

**Maintenance Costings** If your cashflow includes specific figures for extensive repairs or renovation, it is essential to include a breakdown of the work involved and details of estimates received. This is particularly important for the initial work. For instance, the intended property may be in a state of disrepair, or need to be made accessible for a disabled member, or need converting to individual flatlets. As well as the expense of the work, this may mean that some rooms cannot be rented out straight away, and the cashflow will show whether this needs to be compensated for.

**Council Tax** is a confusing issue: different local authorities seem to have different interpretations of the law regarding who is liable to council tax. The guidance we have received from the DoE is that the co-op is liable for council tax on properties where there are more than one household living in them. So if a single person and a single parent live in a house and they rent their rooms separately from each other, the co-op is liable for the Council Tax, but if a similar house is rented in its entirety by a family, they personally are liable to Council Tax. The co-op would probably charge the former people higher rents accordingly.

**Loan Repayment** figures are calculated automatically by the spreadsheet.

**Accountant** Most small housing co-ops will no longer need to get their accounts audited, and thus might not employ an accountant. You do still need to keep a check on your finances [!] and produce accounts to file with the bureaucrats, so if you don't want an accountant then you'll need someone with book-keeping experience. Accountants fees should be about £600 or £700. Also, if you are a co-op with a larger number of members who won't be involved with the finances, or a number of significant outside investors, then having the books checked or audited by an accountant may reassure them.

Also, under Expenditure include a figure for **Voids**. This is the technical term for rooms which are empty and thus not bringing in rental income. There will always be a changeover period when one member leaves and the search for a new member takes place, so you need to budget for this. Co-ops with only a few rooms might work this out by, for example, presuming that one member may leave each year, and it might take four weeks to find a new member, so the Voids figure will equal four weeks rent. Other co-ops with more rooms often use a figure of 7% or 4% of the rental income as a guideline.

## Year-by-Year Cashflow

Take the figures from the analysis and insert them into a cashflow such as the ones we provide. If you're applying for a Radical Routes loan there is a strong preference that this model be used.

## Raising the Finance

There are two main types of loan your co-op will use to raise the money to buy its property [see a later page for details of how to work out repayments for both types].

### **Mortgage Type**

These are repaid by regular instalments – often monthly. You can negotiate mortgage-type loans with anyone, including individuals, and it is wise to do this if someone wants to lend a large sum of money, as they work out a lot cheaper in the long run. However, you cannot publicly advertise for this type of loan. Mortgages are secured by a ‘charge’ on the property [*the building society can then ‘call in’ this charge and take over the property if you default on the loan*]. Mortgage-type loans from individuals can also be secured if the investor requires and the loan is large enough to warrant it – if you have a commercial mortgage they will need to be consulted and will want the ‘first charge’ – contact us for more details.

### **Loanstock Type**

These are not repaid until the end of the loan term. The full ‘principal’ amount is earning interest all the time, unlike a mortgage-type loan where this outstanding capital is gradually being repaid. Thus, the loanstock type loan works out more expensive. They are known as ‘bullet’ loans, because if you forget they are due to be repaid, when they mature they kill you! Despite this disadvantage, loanstock is essential to privately financed co-ops, because you can publicly advertise for it, since it is a specific type of finance specifically exempted under the various laws. Also, since people are investing with you directly, cutting out financial middle-men, you can pay them a rate of interest comparable to what they would receive from a deposit account and still be paying a lower rate than on your mortgage from the bank/building society. If your project has a specific ethic, then supporters with the same ethic may well be prepared to help you by taking a very low rate of interest on their loanstock [*More detailed sheets on loanstock are included later in this pack*].

Your business plan will need to clearly show how you foresee raising the money, including details of any loans already promised to the co-op.

# Loanstock

'Loanstock' is the term we use to describe a system operated by the co-op to enable outside people and members to invest their money in the co-op and thus help it raise the finance it needs. Other forms of loans from supporters are possible, but as we explain below the 'loanstock' system is convenient and has its advantages.

There have been changes in the way loanstock schemes are run, so if you've read previous information, please read on as the information has been updated. If any of the information seems unclear, please ring us, but bear in mind that the relevant law itself is not very specific and is untested. This is one of the problems associated with being pioneers of new and radical ideas in the creation of a more sustainable, co-operative future!

## How Loanstock Works – the basics

The system is one of 'fixed-term' loans. In other words people lend money to your co-op for a set period – we usually recommend five years. The co-op pays interest to the investor ['loanstock holder']. Usually this is either paid direct to the investor at the end of each year, or an extra loanstock certificate is issued to cover this interest. At the end of the set period, the investor is paid back in full.

## The Advantages

### Advertising

The major reason we developed this system within Radical Routes was because we saw the need for co-ops to be able to publicly advertise that they are seeking financial support – for instance on leaflets, or within articles in magazines, etc. The Financial Services Act [and other legislation] governs such affairs to supposedly protect the public from unscrupulous con-merchants. Usually this means that bodies seeking to advertise for investment must draw up a complicated and expensive prospectus, but loanstock overcomes this. In short:

*'Housing co-operatives are exempt from both advertising and prospectus requirements for loanstock issues since they are housing associations registered as industrial and provident societies. The co-op must use the money for its objectives [housing members]. The rules must contain a power to issue loanstock, and care must be taken to ensure that no misleading statements are made in any literature or advertisements.'*

*Stuart Field, Radical Routes, Sept 1995*

If you wanted more info you could always look up these references:

1. The Financial Services Act 1986 [Investment Advertisements][Exemptions] Order 1995 [S.I. 1995 No. 1266]
2. The Financial Services Act 1986 [Investment Advertisements][Exemptions][No. 2] Order 1995 [S.I. 1995 No. 1536]
3. The Public Offers of Securities Regulations 1995 [S.I. 1995 No. 1537]

### Administration

Using the loanstock system for all or most of your supporters means that its all a lot easier to administer – all loans are subject to similar conditions, earn interest at the same time, and use the same paperwork. So it's less workload to deal with than a whole collection of individually negotiated loans.

## Points to be Aware Of

There is a specific procedure to follow [outlined below] which ensures that you are not 'acting like a bank'. Two key points are not to offer advice and not to take money on deposit. These are explained in the 'Dos and Don'ts' below. Again, it's not possible to be as specific as we might like, since the Bank of England is responsible for interpreting the Banking Act and no one has enough money to fight a court case with them to get a definitive judgement about it.

In the past, some co-ops have in effect been open to receive loanstock all the time. Current advice is that this is no longer possible, so the procedure below must be followed even if it appears a bit restrictive. Remember these restrictions enable you to advertise publicly, so they are a small price to pay.

## How Loanstock Works – the detailed procedure

The co-op has to 'make an issue of loanstock' which has an opening date and a closing date. Only in between these dates can the co-op accept money and issue the loanstock. It's not totally clear how long these periods can be, but what shouldn't happen is that one issue opens immediately after the next, and so on, effectively meaning the co-op is permanently open to loans.

The following course of action would appear to be a suitable one:

- Initially, produce publicity which advertises that "we will be issuing loanstock for supporters to help our project become reality" [or some such wording] and invite people to pledge in writing that they will indeed wish to buy some of this loanstock. Keep track of these people!!
- Then, when the co-op is really getting going, registered and actively seeking a house, perhaps when a suitable house has been identified, have a meeting to make an issue of loanstock. Set the opening and closing dates, agree the possible rates of interest, etc. Choose an opening date which is not going to be too late to get the money in in time. Send application forms to those who made pledges and continue to advertise the existence of the loanstock. As an alternative to asking for pledges, once you've set a date you could also ask people to send post-dated cheques with their application forms making clear you will bank them when the issue is open.
- As the opening date approaches, chase up people who have pledged money and get them to send in their cheques and application forms. Then, when the issue opens, you can bank the cheques and issue your supporters with their certificates. Make sure they are all individually numbered, filled in correctly and signed and sealed. Then take a photocopy for your own records. Also, your co-op should have a 'Record of the Uses of the Seal' and this is as good a place as any to keep a record of the certificates issued.
- Should the first issue not raise sufficient money, or should you need more money at some time in the future, it is possible to make further issues. However, and new issues of loanstock need to **be different from each other**. Each issue could have a specific and distinguishing feature. For example, different issues could be made to raise the deposit on different houses, or to carry out renovation or conversion work. Also, it would seem that one discrete issue after, say, four or five years to raise new capital to repay the soon-to-mature initial issue of loanstock would be OK.

## Dos and Don'ts for Housing Co-ops running a Loanstock Scheme

- YES** you can run a loanstock scheme – provided your rules allow it (standard ones do).
- YES** you can pay interest on loanstock, either cash or in the form of additional loanstock certificates – BUT check your Rules to see if they specify a maximum rate of interest (some older Rules specify 1% over base rate of 6.5%, which ever is higher; our models allow whatever rate is necessary to be paid).
- NO** you do not need to deduct tax from this interest – BUT you should tell loanstock holders that it is their responsibility to declare the interest in a tax return. If anyone receives more than £250 interest in a year, you need to make a special declaration to your local tax office – though this rule is so obscure they may not have heard of it!
- YES** you should use up to date model loanstock forms in preference to modifying another co-op's forms, unless you know all the legal requirements.
- YES** you can advertise your scheme – if you are an Industrial & Provident Society [housing co-ops generally are, most workers co-ops are not].
- NO** you don't need to be registered under the Financial Services Act – BUT, there are some things that you can't say to investors:
- NO** you can't "offer advice on other schemes" [technically a criminal offence]. This includes recommending another co-op, or claiming your loanstock scheme is better than another option!
- NO** you can't "keep an eye on" someone else's investment in another co-op, or invest money "for" them.
- NO** loanstock is NOT "secured on property" – and you should also avoid saying that it is "a secure investment". But you can describe how the co-op would always be able to sell up as a last resort and should thus be able to repay, barring all but the worst case scenario.
- YES** you can offer to consider early repayment to people [e.g. after a period of notice] – BUT no housing co-op can "guarantee" to repay money "at any time" and you should have a note in your conditions of issue [see models from Catalyst] which says that you normally aim to pay people back on request subject to a period of notice, but under some circumstance you might not be able to do this.
- NO** your housing co-op should NOT loan money to individuals or other organisations. Check your co-op rules to see what you are allowed to invest in.

## Notes to the Model Loanstock Documents

Included in the information pack are a model loanstock application form and certificate. Simply insert appropriate details:

- your co-ops name, address, registered office, registered number [*on the front of the documents*]
- the dates of the opening and closing of the issue, and of the meeting of the co-op at which it was decided to make the issue [*these will be found on the front and in the 'Conditions' on the back*]

## FCA

Housing Co-ops, and other 'mutual' organisations are regulated by the Financial Conduct Authority (FCA). You can contact them on:

Tel (switchboard): 020 76761000

Tel (IPS Registrar): 020 76769850

Website: [www.fca.gov.uk](http://www.fca.gov.uk)

Address: The Financial Conduct Authority, 25 The North Colonnade, Canary Wharf, London, E14 5HS

Housing Co-ops pay an Annual Periodic Fee, these are dependent on your assets. Contact the FCA for more information on how much this will be.

Housing Co-operative Ltd  
Loanstock Application Form

Issue of £500,000 Unsecured Loan Stock maturing 2008

I/We

.....

.....(full name in BLOCK CAPITALS)

of

.....

.....

.....

..... (address in BLOCK CAPITALS)

wish to apply for ..... pounds of loanstock from *(Your co-op's name)*  
Housing Co-operative Ltd. at the following rate of interest – {please circle} [Loanstock is issued in  
units of £10, minimum subscription £50].

**0% / 1% / 2% / 3% / 4%**

I/We have read and accept the Conditions overleaf.

A cheque payable to \_\_\_\_\_ Housing Co-operative Ltd for £ .....  
is enclosed with this form.

Signatures(s)

.....

.....

Date .....

Please send the form and cheque to:

\_\_\_\_\_ Housing Co-operative Ltd  
*Your Address*

N.B. Offer opens 1<sup>st</sup> January 2003 and closes 5<sup>th</sup> January 2003.

\_\_\_\_\_ Housing Co-operative Limited is incorporated under the Industrial and Provident Societies  
Acts 1965 to 1978.

Registry Number \_\_\_\_\_R

Registered Office: *(Your co-op's registered address)*

Housing Co-operative Ltd  
Loanstock Certificate

Issue of £500,000 Unsecured Loan Stock maturing 2008

ISSUED PURSUANT TO THE RULES OF \_\_\_\_\_ HOUSING CO-OPERATIVE LTD. & A  
RESOLUTION OF THE GENERAL MEETING PASSED ON \_\_\_\_\_ (date).

CERTIFICATE NUMBER ###

AMOUNT OF LOANSTOCK: £ ####.## ( \_ amount in words \_ )

Rate of interest #% p.a.

This is to certify that \_\_\_\_\_

of \_\_\_\_\_ (the lender

is the holder of £####.## fully paid of the Loanstock which is subject to & has the benefit of the  
Conditions set out overleaf.

Given under the Common Seal of \_\_\_\_\_ Housing Co-operative Ltd.

This ##th day of \_\_\_\_\_ 2003

The Common Seal of \_\_\_\_\_ Housing Co-operative Ltd  
was affixed in the presence of:

\_\_\_\_\_(member of the co-operative) and

\_\_\_\_\_(member of the co-operative)

N.B. Offer opens 1<sup>st</sup> January 2003 and closes 5<sup>th</sup> January 2003

\_\_\_\_\_ Housing Co-operative Ltd

(*Your co-op name*) Housing Co-operative Limited is incorporated under the Industrial and Provident  
Societies Acts 1965 to 1978.

Registry Number \_\_\_\_\_R, Registered Office: (*Your address*)

# Conditions

## **1. Interest**

Interest shall be paid on the Loan Stock at the annual rate specified overleaf.

## **2. Payment of interest**

The interest shall be calculated on <closing date> Each year. Interest shall be credited to each lender by the allotment of further Loan Stock provided that no amount less than £1.00 shall be credited by way of Loan Stock and in any such event the amount of any interest not credited as further Loan Stock shall stand as a debt of any Housing Co-operative Ltd to the Lender and be added to further interest payments. In the case of Loan Stock repaid in full as described in 3(2) below, outstanding interest to the date of repayment shall be added to the principal amount outstanding.

## **3. Repayment of Loan Stock**

(1) The Loan Stock shall be repaid in full on <closing date>.

(2) Any housing co-operative Ltd. may at its discretion, accept applications for early repayment of Loan Stock subject to the following conditions:

(a) a written notice stating the amount requested to be repaid should be sent to the Secretary of the co-op together with the Loan Stock Certificate

(b) repayment of loanstock will normally be made within the following periods of time after proper notice has been received

up to £100 – one week;	£101 to £300 – two weeks
£301 to £500 – four weeks;	£501 to £1000 – two months
£1001 to £3000 – three months;	over £3000 – four months

(c) Any Housing Co-operative Ltd shall always give priority to applications from persons who are not members of Any Housing Co-operative Ltd in repaying Loan Stock.

(3) Where only part of the amount outstanding under a Loan Stock Certificate is being repaid, Any Housing Co-operative Ltd shall issue to the Lender a new Loan Stock Certificate in respect of the principal amount outstanding to the Lender.

## **4. Repayment on Default**

any Housing Co-operative Ltd shall repay the Loan Stock in full immediately, if Any Housing Co-operative Ltd:

(a) is in breach of these Conditions; or

(b) is overdue on any payment by 21 days or more; or

(c) passes a resolution for winding up or goes into liquidation or has an administrative receiver appointed over any of its assets or has an administration order made against it or an effective instrument of dissolution is made by the members of Any Housing Co-operative Ltd..

## **5. General**

(1) These Conditions shall not give the Lender any rights to attend meetings or participate in any way in the management of Any Housing Co-operative Ltd, other than those they would have as a member or director of Any Housing Co-operative Ltd. if s/he has such status.

(2) Loan Stock may be transferred by the Lender with the consent of any Housing Co-operative Ltd.