

January 2020

Memorandum of Understanding between Quaggy Mutual Home Ownership Society and current or former members of the society

Purpose

This Memorandum of Understanding sets out how members of Quaggy Mutual Home Ownership Society (“Quaggy MHOS” or “the Society”) accumulate 'ownership' of a portion of the assets of the Society. In particular it clarifies how making 'rent' payments leads to members accumulating value.

Furthermore, this Memorandum of Understanding sets out the processes and procedures by which members of Quaggy MHOS are to be repaid the value they have accumulated in the Society should they leave the Society and cease to be members.

Scope

This Memorandum applies to all Resident Members of Quaggy MHOS. Resident Members are defined to be members of the Society who have entered into a lease or tenancy agreement of property owned or managed by the Society.

The Memorandum also applies to Resident Members after their tenancy has ceased and they are no longer members, until all obligations between the former member and the society have been settled.

1. Equity Units

Over the course of their membership of the Society members will accumulate Equity Units, which represent their ownership of a stake of the Society's assets. Each Equity Unit shall have the value of £1.

It is possible that at any given time the sum of Equity Units held by all members of the Society will be less than the total value of property owned by the Society. When this is the case, the remainder of the value of the property is considered to be equity held by the Society itself.

2. Equity Cap

Each member of the society shall have an Equity Cap assigned to them. A member's Equity Cap represents the maximum amount of Equity Units which that member can acquire. Initially a member's Equity Cap is set such that all Equity Caps will add up to the purchase value of the property, and vary between members in proportion to the variation in Minimum Monthly Charge being paid by members.

Any new members who join the society replacing a leaving member will take on the Equity Cap of the leaving member they replace.

Equity Caps may change, but only in the following instances:

- If a departing member has their equity uprated (see below), all other members' Equity Caps will be increased as outlined in section 5 below.
- By agreement of the Society to reflect the cost of purchase or construction of additional properties or of work done to existing property which would increase the value of the Society's property.
- If the minimum monthly charges of members change relative to each other (e.g. if two members swap rooms; or if the total number of rooms/members changes)

3. Monthly Charge

Society members pay a Monthly Charge, set at 35% of the member's net income. This would be called the rent amount in more conventional housing situations, but the term isn't used here because of the unique aspects of this model. The Society will also set a Minimum Monthly Charge for each member which may require them to pay over 35% of their income. It will be set such that the sum of Minimum Monthly Charges for all members is enough to cover the Society's costs on a monthly basis.

If the Society's costs increase, the Minimum Monthly Charges for all members will need to increase as well. This could be due to mortgage interest rises, issuing additional loanstock, or for any other reason decided by the Society.

Each member will pay a Monthly Charge according to the following formula:

- *if the member does not hold Equity Units to the value of their Equity Cap –* Whichever is greater of 35% of their net income and their Minimum Monthly Charge
- *if the member holds Equity Units to the value of their Equity Cap -* Whichever is greater of 10% of their net income and their Minimum Monthly Charge

4. Accumulating Equity Units

Members of the Society will acquire Equity Units in the following ways:

- The deposit paid on becoming a Resident Member will become Equity Units up to the maximum of their Equity Cap.
- Following 6 months of Resident Membership, and so long as the total value of Equity Units they hold does not exceed their Equity Cap, a portion of a member's Monthly Charge will be converted into the equivalent value of Equity Units according to the following formula:

- 50% of their Monthly Charge, approximately representing the proportion of the Monthly Charge going to the society's capital accumulation rather than interest repayment or maintenance (over the lifetime of the society's debts).

Please note: If a member needs to claim housing benefit in order to meet their housing costs, they will switch to rental tenancy (to enable them to claim). While on a rental tenancy, a member will be expected to pay their Minimum Monthly Charge but will not accumulate Equity Units.

- Through the purchase of Equity Units from departing members as described in section 6 below, so long as this would not take their total Equity Units above their Equity Cap.
- If a member needs to sell some of their Equity Units, they may do so with the approval of the Society (by general meeting) providing another member is willing and able to purchase them and would not exceed their Equity Cap by doing so. Equity Units must be sold for their original value. Equity Units may in the same way and with the same caveats be "bought back" by a member who has previously sold them in order to return to a more balanced distribution of equity. The Society will not normally prevent a sale of Equity Units between members unless it would jeopardise the financial stability of the society.

Once a member has accumulated Equity Units to the value of their Equity Cap, they can acquire no further Equity Units even though they will still be paying a Monthly Charge.

5. Uprating / downrating of Equity Units on leaving

If a member leaves after 5 years or less of paying monthly payments, they are entitled to be repaid the total value of their Equity Units, provided that there has been no decrease in local wages or property values. If there has been, their Equity Units will be downrated in the ratio of whichever has seen the largest decrease.

If a member leaves after more than 5 years, the value of their Equity Units will be up- (or down-) rated in the ratio of whichever is the lower of: change in average London property prices or change in average London wages.

If a departing member has the value of their Equity Units uprated (not downrated), the Equity Cap of all remaining members and of the incoming member who replaces them will be increased. The total increase in value resulting from the uprating will be divided between the members in proportion to their Monthly Charge, and this amount will be added to the Equity Cap of each member.

6. Reimbursement of value of Equity Units on leaving

The Society will purchase the Equity Units of a departing member through the following mechanisms, in descending order of preference. The amount of Equity Units purchased by each mechanism will be a matter for negotiation between the Society and the departing member.

1. Equity Units are bought by the incoming member who moves in to replace the leaving member.

2. Equity Units may be bought by existing members, if they can afford to and if this would not take their total equity units above their equity cap.
3. Equity Units may be bought by the Society using any money which may be available in a dedicated fund to be established for this purpose.
4. Money to pay to the leaving member may be raised through a new loan stock offer to non-members. The departing member should be prepared to take the lead in the process of sourcing this loan stock, although all members will need to agree on the terms of repayment.
5. Any remaining money owed is converted to loan stock held by the departing member with repayment terms agreed based on what is sustainable for the society. The society will not agree to equity repayment schedules that compromise the viability of the society.

7. When members leave and their lease ends

This MoU also covers the period after the lease has ended. Specifically, the former member agrees to be bound by all agreements made about equity and repayment of equity during their tenancy and after it, until all equity is repaid to them. Such agreements are made according to the rules laid down by the Society.

8. Dissolution of the Society

If the Society is dissolved it is understood that the mortgage provider has first charge on the property. Remaining assets will in the first instance be divided between loanstock holders who are not members, in proportion to the size of their holdings. Any further remaining assets will be used to repay members for the Equity Units and/or loanstock they hold, divided among them in proportion to the relative size of their Equity Unit and/or loanstock holdings.

9. Equity inheritance

Upon the death of a member, or former member to whom equity is owed, the Equity Units may be inherited only by the named beneficiaries in the society's Register of Beneficiaries. By default the society itself shall be named as the beneficiary. The member must properly notify the society in accordance with the rules in order to change the beneficiary.

The member is responsible for ensuring that any will or testament they write is in accordance with the Register of Beneficiaries. Where there is a conflict between a former member's will and the Register of Beneficiaries, the Register will take precedence, being a legally binding agreement between the members of the society. The co-op will exercise full discretion over the schedule of repayment to nominated beneficiaries in accordance with the rules of the society.

9. Amendment and Termination Provisions

This Memorandum can be amended for current members by a two-thirds majority vote of the society. It cannot be altered for former members to whom it still applies.

The Memorandum is only terminated if all parties agree that all obligations between signatories have been settled.

MOU Effective Date (ensure on same day or pre-dates lease signing):

Signature:

Signature of Chair of Quaggy Mutual Home Ownership Society: