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A consumer's guide to **Mutual Home Ownership**

A new way of owning a stake in your own home

THIRD DRAFT

A consumer’s guide to **Mutual Home Ownership**
A new way of owning a stake in your home

Mutual Home Ownership (MHO) is a new way of owning a stake in the housing market. It is designed to bring the bottom rung of the property ladder back within reach of households on modest incomes in areas where they are priced-out of the housing market. It is also designed to remain permanently affordable for future generations.

Mutual Home Ownership treats living in a home and its value as a consumer durable. It does not treat a home as a speculative capital investment. It treats a home like a long-life car or washing machine that has a value to the user for each year of durable life.

Instead of owning an individual property, or a percentage share of the value of an individual property, residents own equity shares in a mutual property trust owned by them and other residents. The number of shares you own depends on what you can afford. The more you earn the more equity shares you can afford to finance. A Mutual Home Ownership Society is, in effect, is a resident owned property unit trust. As your income rises you can buy more equity shares. Also if your income falls, rather than lose your home, you can sell equity shares if there is a willing buyer or, in specified circumstances such as loss of employment or disability, convert to a standard rental tenancy.

The purpose of this guide is to explain how Mutual Home Ownership works and to answer the most common questions asked by people who may be interested in the possibility of living in a Mutual Home Ownership housing development.

Whilst this guide is intended to give a simple introduction to how Mutual Home Ownership works, it is recommended that anyone interested in living in a Mutual Home Ownership housing project should find out more about the way it works, and the rights and responsibilities they would take on, by face to face discussion with the local Mutual Home Ownership provider. Any person wishing to become a member and live in a Mutual Home Ownership development will be required to seek advice from an independent financial advisor to ensure that they fully understand the financial commitments they are undertaking and that Mutual Home Ownership is the right housing choice for them. Prospective members are also advised to take their own legal advice to ensure that they understand their rights and responsibilities of resident membership of a Mutual Home Ownership society.

How does Mutual Home Ownership work?

The key to bringing the cost of housing within reach of households on modest or average incomes is to take the land on which it is built out of the market. The land is held as a community owned asset by a locally accountable, democratically controlled community land trust (CLT). This immediately reduces the cost of the housing by up to fifty percent of the open market price[1]. The CLT is a not for profit 'benefit of the community' society that cannot sell its assets but must use them for the benefit of a defined geographical community. The nature of a CLT is now legally defined in section 79 of the Housing and Regeneration Act 2008.

"The CLT is a not for profit 'benefit of the community' society that cannot sell its assets but must use them for the benefit of a defined geographical community. The nature of a CLT is now legally defined"

Instead of residents owning an individual property, the homes built on the land owned by the CLT are owned by a Mutual Home Ownership Society (MHOS). The MHOS is registered as a co-operative controlled by its members. Its members are the residents who live in the homes it provides. Each member has a lease which gives the right to occupy a specified house or flat owned by the MHOS. Membership of the MHOS also gives residents the right to democratically control the housing community in which they live. The most important aspect of this is the members' right to control the budget and finances of the MHOS.

The cost of building the homes owned by the MHOS is financed by a single mortgage loan[2] from a long term investor. Under the terms of their lease, each member makes monthly payments to the MHOS which, after the deduction of management, maintenance, insurance and service costs (such as cleaning, lighting of common parts, and grounds maintenance) pays the interest and capital to the investor.

The cost of building the homes owned by the MHOS financed by the mortgage is divided into equity shares. Each equity share, which has a face value of £1,000 on the date on which it is issued, is owned by a member and financed by the payments the members make each month. So, for example, a development of fifty homes costing £100k each to build would have a portfolio value of £5m. This would be divided into 5,000 equity shares, each worth £1,000.

How many equity shares would I own and how much will I pay each month?

The payments you make each month, and the number of equity shares you own and finance, depends on how much you earn.

Monthly payments, which are geared to be affordable, are set at between 35% and 40% of your net take home pay (after tax, NI and other deductions)[3]. The more you earn the more equity shares you own. The table on the insert to this guide shows the likely costs of a project in your area for different household incomes at current rates.[4] However, as a guide, if you were to meet the full £126k cost of building a two bedroom house the cost would be £703 per month inclusive of management, structural maintenance, insurance and service costs. You would be financing 126 equity shares in the mutual worth £1,000 each at the date of issue. However, if you cannot afford this you could still buy into the

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[1] The precise cost of providing the homes in relation to their market value depends on the cost of developing the site and providing the necessary infrastructure such as roads, sewers, gas and electricity services etc.

[2] If a Mutual Home Ownership Society develops more than one site it may have more than one mortgage loan, but this does not affect the principles on which the scheme operates.

[3] The higher 40% limit will be charged where projects are built to very high sustainable design and construction standards which keep fuel, maintenance and running costs low because this allows for a higher percentage of income to be devoted to meeting the cost of higher building standards.

[4] Actual costs will depend on the cost of development of a specific project and the interest rates which apply at the time a Mutual Home Ownership project is completed and the long term finance used to fund the project. The costs given in this guide are indicative only.

scheme. You would pay the same management, maintenance, insurance costs but would fund fewer equity shares. Grant from the government's new Homes and Communities Agency, if received, would also reduce average costs for members buying into a Mutual Home Ownership Society.

Does this mean that some members will be paying different amounts each month for living in similar properties? Is that fair?

Yes to both questions. Because monthly charges are geared to income to ensure that members can afford a home in the scheme, it means that some members will pay different amounts for living in similar properties. And, yes it is fair – 'equitable' is the word we prefer to use – because the more you pay the more equity shares you own and the bigger housing investment you have. And, of course, members pay the same management, maintenance and service costs irrespective of the number of equity shares they are financing.

Also, if you think about it, the same happens on the open market, in social housing and even in the private rented sector. On the open housing market, owners lucky enough to have been able to afford to buy ten years ago now pay less than someone buying a similar house next door at its current market price. In social housing and the private rented sector, those eligible for housing benefit pay less out of their net income for renting their home than those whose incomes are higher and are not entitled to housing benefit.

In developing MHO we have been concerned to ensure that its arrangements are equitable. Openness, honesty, accountability and equity are a very important part of our Co-operative Principles and Values[5]

Will my monthly payments increase each year?

Yes. But the amount by which they increase will depend on how your particular MHO home has been financed.

Management, maintenance and service costs are likely to rise in line with inflation each year. But remember, because residents democratically control the MHO project in which they live, these costs are within the control of you and other members. This helps you to ensure that you get quality services at a reasonable price and, if you want to take on some of this work yourselves, such as grounds maintenance and cleaning of common areas, you may be able to make savings on these costs. Also, the community ownership of housing in an MHO means that you have a structure for making other savings. For example, it may be cost effective for the members of an MHO to buy one quality lawnmower that everyone can book to use than for each house to buy their own cheaper less energy efficient one.

Of course, the biggest element of cost is the cost of servicing the cost of financing the construction of your and other member's homes. How this finance is arranged will determine how much your monthly payments rise each year, but our plan is to raise this money from long term investors such as pension funds and life assurance companies. They look for a guaranteed return that matches their pension and life assurance liabilities. This means that we can structure repayments of their investment over a long, 60 year, prepayment term. This makes it cheaper for you and subsequent members.

[5] A full statement of our Co-operative Principles and Values, approved by the International Co-operative Alliance, can be found on our website at www.cds.coop. The International Co-operative Alliance is the global representative body for co-operatives. Its members represent 800 million members in different types of co-operatives in 88 countries. Based in Geneva, it is officially recognised as a consultative body by the United Nations and by the International Labour Organisation. For more information about the ICA see its website at www.ica.coop

Our standard financing model allows for management, maintenance, insurance and service costs to rise in line with increases in RPI. This is because that is what will have most impact on these costs. But remember, it is you and fellow resident members who will control the budget for these costs. Repayment of the capital costs of building your home (the costs financed by the long term investor) are geared to rise at RPI minus at set percentage. We call this set percentage below RPI the 'tilt' of the loan repayment. This tilt means that you have certainty about your repayment obligations and can afford them because they will rise at RPI minus the tilt. Average earnings tend to rise by RPI plus a percentage. Over recent years they have risen, on average, by RPI plus 2% but with the current economic downturn this trend is not guaranteed. However, our standard model for MHOS gears repayment of the capital cost of building your home to RPI minus a tilt of 1% means that MHO is less risky for you.

The precise way your MHOS is funded will depend on the conditions and availability of finance in the capital markets at the time the money needed to build your home is borrowed. The decision on what finance package to take will be made by the founder members of your MHOS, which will include potential members who will live in the homes it will provide.

Providing finance for the development of MHOS is, potentially, a very attractive investment for pension funds or other investors looking for an ethical investment secured on the value of residential housing. Being an attractive ethical investment could assist in reducing the MHOS's borrowing costs.

Will the cost of financing my home be more than if I had a personal mortgage loan?

We don't think so. Financing a MHOS ought to be cheaper than borrowing a personal mortgage loan for the following reasons:

- Firstly, as a corporate borrower a MHOS can repay capital costs over a longer term. Our standard term is 60 years rather than the standard 25 years of a personal. This closely matches the planned (and standard) 65 year life of the building after which it will need to be completely refurbished or replaced.

- Secondly, a corporate finance to a MHOS is less risky and involves less management costs than lending money individually to residents owning an equity stake in other ways.

- Thirdly, with the benefit of a guarantee provide by the Co-operative Housing Finance Society Ltd[6], the risk of repayment default is reduced which reduces interest rate margins.

- Fourthly, the loan to asset security ratio is high (because the CLT facilitates the arrangement of the loan by permitting a lender to place a security charge on the land as well as the buildings owned by the MHOS).

- Finally, our aim is to bring new sources of finance into the provision of affordable housing, finance that you as an individual would not be able to access.

I am a member of the Islamic faith community that prohibits the payment of interest. Is Mutual Home Ownership compatible with Islamic Law?

[6] The Co-operative Housing Finance Society Ltd is a not for profit financial intermediary that provides 12 month mortgage guarantees, cash-backed by the Co-operative Bank plc, to lenders lending to co-operative and mutual housing projects.

When we were doing the research we wished to ensure that Mutual Home Ownership was accessible to all sectors of our culturally rich and diverse society. Our researchers from the New Economics Foundation consulted experts in Islamic finance to ensure that Mutual Home Ownership was accessible to members of the Islamic faith community who have particular constraints on the finance products they can use because their faith prohibits the direct payment of interest on loans to buy homes.

"We wished to ensure that Mutual Home Ownership is accessible to all sectors of our culturally rich and diverse society"

We were advised that Mutual Home Ownership is compatible with Islamic law because it is the Mutual Home Ownership Society, rather than the individual member, which pays the return to the investor on the capital cost of building your home. If you are from the Islamic faith community and have any doubts about this, please consult an Islamic financial expert or your Imam.

What happens if interest rates rise?

The structuring of the repayment of capital invested long term in the development of your home means that you have a degree of protection from interest rate rises. The annual return to the investor (what is called the 'true yield') is fixed for the duration of the 60 year repayment term. Each year the amount paid to the investor is the true yield plus the increase (or decrease) in RPI. While RPI will vary, your repayments will not because these are fixed at RPI minus the tilt, as we explained above. But your capital and interest payments remain geared to RPI minus 1%. This means that your home should remain affordable irrespective of what happens to interest rates.

Of course, your payments will be affected by inflation. If inflation, as measured by RPI, increases your payments will increase too by RPI minus 1%. But again, assuming incomes are rising at least in line with RPI, your Mutual Home Ownership home should remain affordable.

What happens if I don't meet my lease obligations to pay my monthly payments?

Like any other home owner as a Mutual Home Owner **you risk losing your home if you do not make your monthly payments due under your lease.**

Ok, so who controls the Community Land Trust and the Mutual Home Ownership Society?

The CLT is registered as a not for profit, benefit of the community society. Its job is to steward the land asset for the benefit of the wider community. It is controlled by a Board elected by its three constituent stakeholder groups of members. The first group are the organisations that made the land available as an asset for community use. The second group are the community members, membership being open to any person or organisation that lives in the geographical community in which the CLT works. The third constituency group are the residents of homes or users of other CLT assets. A third of the Board is elected from each constituency group although, following the experience and structure of CLTs in the United States, the rules of the CLT are written to prevent any one constituency group dominating the governance and the decision making of the CLT.

"The MHOS is controlled by its members who live in the homes it owns"

The MHOS is controlled by its members who live in the homes it owns. They elect the Board of Directors which controls the day to day management of the MHOS within policy set by members in general meeting.

It is however fundamental for CLTs and your MHOS to sign-up to and abide by proper codes of conduct and a code of governance that sets high standard of democratic governance and accountability.

This sounds quite a responsibility? Will we receive governance training and management support?

From over thirty years of successful experience developing and supporting co-operative and community ownership, we at CDS Co-operatives consider that good governance of both the CLT and MHOS to be fundamental to success. We therefore make provision for funding member governance training and development as part of the costs of developing and running your MHOS.

Lenders providing the mortgage finance will require the MHOS to appoint a managing agent to help the MHOS to manage its homes. This is a core service that we provide under the terms of a standard management, financial and governance service agreement. The agreement makes it clear that we must be fully accountable to your MHOS Board and members for the efficiency and quality of service we provide. The choice of service agency is yours and could be a local housing association rather than CDS. However, whoever you choose, you must make sure that they are an efficient service provider and respect your MHOS's right to control its own affairs within a framework of best governance practice.

Can I increase the number of equity shares I own and finance if my income rises?

Yes. Not only can you buy more equity shares as your income rises, you will be expected to do so if your income rises by more than the increase of RPI built into our standard MHO financial model.

Where will these additional equity shares I buy come from?

They will be sold by members who are moving on and leaving the project.

This is how MHO remains affordable for new incoming members. When a member leaves, some of their equity shares can be sold to existing members whose incomes have risen and who wish to increase the portfolio of equity shares they own. This will help them step-out into the open housing market if they wish and can afford to do so.

So, what if nobody is planning to leave and my income has risen and I want to increase my housing investment?

It will be possible for the Community Land Trust (CLT) to release more equity into the scheme. This can be done by the CLT releasing some of the land value and recycling the money it gets for releasing additional equity to the MHOS into buying other sites and developing more homes. Alternatively, if the MHOS develops more homes in partnership with the CLT, some of the added value of the new homes it builds can be taken-up as additional equity shares by existing members. This will help make new homes even more affordable for new members who need them. This is why we have designed this equity share arrangement because it is very flexible and can help create more affordable housing.

If I fall on hard times, can I sell some of my equity shares and stay in my home?

Yes, but only if there is another member who is a willing buyer and only in the specific circumstances, such as relationship breakdown, which means that the income of your household is permanently reduced. The circumstances in which you can voluntarily sell some equity shares and reduce your monthly outgoings will be set out in your lease.

What happens if I become, disabled, suffer permanent ill health or are unemployed and cannot get another job, will I lose my home?

No. In such dire specified circumstances in which you can no longer afford to make the monthly payments needed to finance the equity shares you own you can opt, with the consent of the MHOS, to freeze your equity share portfolio[7] and convert to a monthly contractual tenancy. If this happens, you will be eligible for housing benefit on the rent you pay (subject of course to normal housing benefit rules). The rent you pay will need to be sufficient to enable the MHOS to continue to pay the mortgage you were paying on your equity share portfolio. If that rent is more than the local housing benefit reference rent, some of your shares may be sold to other members willing to buy them so that the rent you pay will be within the local housing benefit reference rent limit.

If you convert to a rental tenancy with the consent of the MHOS you will still be able to remain a member and take a full part in the democratic management of your housing community.

If my income rises, will I be forced to buy additional equity shares?

Not forced, but positively encouraged to do so when the opportunity to buy additional shares from an outgoing member becomes available.

You will be required each year to make a confidential statement to your MHOS's managing agent disclosing your income so that it is known who can afford to increase their investment in equity shares. This is a key driver in ensuring that the benefit of the land owned by the CLT goes only to those who need it and that the scheme remains affordable for future generations of residents. But you cannot be required to buy equity shares that increase your housing costs beyond the set 35 – 40% of your net household income.

The MHOS will have a reserved right to place additional equity shares with members who can afford to buy them in order to maintain affordability for incoming members and the ability of outgoing members to move if existing members are reluctant to buy additional shares.[8]

Is there any limit on the number or value of the equity shares I can own and finance?

You cannot own more equity shares than you can afford to finance. But apart from this the only limit on the value of the equity shares you can own is the open market value of the property you live in. So if you live in a house worth £200,000 you could own up to 200 equity shares (or if the value of shares has risen over time, the number of equity shares whose current value equals the open market value of your home: see the explanation of how equity shares are valued in the text below).

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[7] If your equity share portfolio is frozen it will no longer increase in value but may decrease in value if the value of other member's equity shares falls.

[8] The most likely time that such a reserve power would be used is if there was a downturn in the housing market to maintain the ability of members to leave, but it is a power that would only be used with the consent of a majority of members at a general meeting.

Do I have to stay for a minimum length of time before I can move out and sell my equity shares?

No. But if you move out and sell yours shares before you have lived in the MHOS for three years you will only be able to sell them at their original value (or a lower value if their value, calculated in accordance with the valuation formula, has fallen). If you sell them within three years you will not be entitled to the payment of any increase in the value of your equity shares (if any).

There are three reasons for this. Firstly, we are trying to meet housing need and to create a sustainable community. This would be hampered by people moving in and hoping for a short-term capital gain in the value of their equity shares. Secondly, the financing structure we use means that this short term gain will not occur. Thirdly, the cost of administering the transfer and sale of equity shares will erode any short-term gains that might occur, as would be the case if you sold any home shortly after buying it.

Will I have to go through a personal financial assessment and credit check before I can buy into the MHOS?

Yes. Like any other person taking on a loan and repayment obligation the MHOS will need to carry out a credit check and personal financial assessment to ensure that you are able to repay the mortgage debt servicing obligations you are taking on.

The MHOS will also require you to have advice from an independent financial advisor to ensure that you understand the financial obligations and risks you are taking on and that MHO is the right housing and investment for you.

Are there any other eligibility criteria for getting a home in a Mutual Home Ownership project?

Yes there will be. Because demand for affordable housing in high cost areas is so high it will be necessary to have an open, transparent and accountable process for deciding who will have priority for housing among those who apply for it. This eligibility scheme will be subject to agreement with the local housing authority (your local council) and with the organisations or individuals who made the land available to the CLT for affordable housing use.

If my income rises so that I can afford to buy a house outright on the open market, will I be forced to leave my MHO home?

No, you can stay in your home but you will be expected to finance equity shares equal in value to the full market value of the home you live in if you can afford to do so. This makes sense, because if you like the community in which you live and you and your family are settled there why should you be forced to move? But also why should you continue to get the free use of land you no longer need?

Ok, so what I pay depends on what I earn. But do members of the MHOS all pay the same management, maintenance and service costs?

The answer is yes, but it depends on the size and type of property you occupy.

Irrespective of your income and the number of equity shares you are purchasing you will pay the same monthly management, maintenance and service costs for the same type and size of property as any other member. This is fair because these costs are running costs that have to be met each month, whereas the equity shares you own and finance are a housing investment.

Do I pay any rent for the land or the cost of building which I do not own through owning equity shares?

This depends on the terms and conditions on which the land has been provided. In most MHOS projects the land, held by the community land trust, will be provided as a community owned asset at no cost to the residents who live on it. However, some community land trusts may make a small rental charge for the land to help finance other facilities for use by the community, such as parks, community buildings, allotments for local food production or to help it build other homes. You will need to check whether, in the MHOS you are going to live in, there is any rental charge for the land.

What is the length of lease I will be granted by the MHOS?

The initial lease you will be granted will be for a fixed term of 20 years. This gives you a legal interest in your home and the equity shares you own that you can register with the Land Registry. We would like you to have a longer lease, say 99 years, but under current legal arrangements it is not possible. If you were given a longer fixed term lease you would be able to buy the home and the land it is built on outright (this is called leasehold enfranchisement). That would mean that it will go into the open market and not be affordable for future generations. This would defeat a key purpose of setting up this CLT/MHO scheme which, as well as giving you an affordable investment in the housing market, is to ensure that the homes in it remain affordable for future generations.

But just think about it. You can own equity shares up to the full open market value of the home you live in, so not being able to enfranchise your lease is not such a disadvantage.

What happens after my initial 20 year lease runs out? Will I have to leave my home?

No. Your lease will give you the right to remain in your home after the initial 20 year term for as long as you want to do so. The right of occupation granted by your lease is legally secure under the terms of your lease contract and cannot be ended other than through a breach of the lease by you or by a failure of your Mutual Home Ownership Society to meet its obligations to pay its mortgage. You cannot be evicted from your home without a possession order from the County Court.

Isn’t a 20 year lease too short for an investment in the housing market?

No. If you needed to use the lease as security for a personal mortgage loan twenty years would be too short. But you have a legal right to remain in occupation of your home as long as you or your successors wish after the initial 20 year term has expired. Your right to stay in your home and your investment in equity shares is therefore secure.

Also when you move on and wish to assign your occupancy rights to an incoming member, the MHOS will grant the incoming member a new 20 year lease.

Ok, so what are the risks that my Mutual Home Ownership Society will default on its obligations to repay the cost of building our homes?

Ultimately, if the Mutual Home Ownership Society which you democratically control with other members fails to meet its financial obligations there is a risk that you and other members may lose your home.

However, a financial default by a well managed and well run Mutual Home Ownership Society is less likely than individual personal mortgage defaults, particularly for people on modest incomes. The MHOS will be professionally managed by a competent managing agency (such as CDS Co-operatives which has a successful thirty year record of managing rented co-operative housing projects without a mortgage default and excellent performance in collecting member payments and preventing and managing arrears). The finances of the MHOS will be structured to maintain reserves to avoid any risk of repayment default. A financial intermediary, the Co-operative Housing Finance Society Ltd (CHFS), will provide the long term investor with a 12 month interest guarantee as security against default. CHFS has been in operation since 1997 and has a track record of monitoring default risk.

In a worst case scenario, your investment will be protected as long as you are maintaining your monthly payments, but your right to remain in your home could be at risk if you and other members do not meet your MHOS's repayment obligations.

How will my equity shares be valued when I leave and want to sell them?

Your lease will contain a description of how the equity share scheme works in which there is a formula for calculating the value of the equity shares when you sell them. The value of the equity shares you own will principally be driven by references to increases (or decreases) in average incomes for your area. There are independently produced tables of increases in regional average earnings to which the value of equity shares will be linked.

You should note, however, that while the value of the equity shares you own increases according to the regional average earnings index, part of the value of your home is also 'consumed' every year you live in it. So the valuation formula works like this:

- Every year increase the value of your equity shares by the regional average earnings index.
- From this indexed value deduct the value of a year of use (the value of your consumption of the built asset for each year of its planned 65 year life). For example, if your home is ten years old with 55 years of life left in it, deduct one 55^{th} of the indexed value of your shares at the end of year ten. If your home is 30 years old, deduct one 30^{th} of its indexed value at the end of year thirty. What is left is the value of your equity shares.

Please note that the value of your shares can fall as well as rise if there is a downturn in local average earnings decrease. While MHO gives you the opportunity of getting a foot on the housing ladder at lower income levels than buying on the open market, like any other housing investment, it carries a risk that the value of your investment may fall although the way equity shares are valued in an MHO makes this less likely.

Why have such an equity share valuation formula? Why not just link values directly to local housing market values?

Because the housing market is risky and unpredictable as the recent (and regular) bursting of the housing market bubble has shown. Also it means that a Mutual Home Ownership home remains affordable for future generations. This should make it easier to sell your shares and assign your occupancy rights when you want to move.

At times in the housing market cycle when prices generally are falling, equity shares in a Mutual Home Ownership Society are not likely to fall in value as much as open market house values because of the link to average earnings. Owning equity shares is therefore less risky. This reduction of investment risk is important for moderate income households who will live in a MHOS.

Also, one of the key long term drivers in average house prices is average earnings, so a long term linkage of value to the average earnings index is a good idea.

If we maintain our homes well, can we extend the life and reduce the annual depreciation charge for using them?

Yes. If you and your neighbours who are members of the Mutual Home Ownership Society maintain your homes well and extend their useful life beyond the planned 65 years you will incur a lower annual depreciation charge.

The land agreement (lease) from the CLT to your MHOS will contain a provision allowing your MHOS to arrange a stock condition survey not less than once every ten years. If a stock condition survey shows that you have looked after your homes well so that they will have a longer life, you can depreciate them over a longer period and reduce the annual depreciation charge.

This treats housing as a consumer durable rather than a speculative investment. (In fact, if you think about it, it is housing land that is speculatively valued because it is in scarce supply. The land your home is on is owned by the CLT as a community asset). This really is the same as we treat other built or manufactured products. If you own a car, keep it well serviced and in good condition, it will be worth more as it ages than if you trash it, don't service it and let scratches rust!

If my family increases in size can I move to a larger home?

Yes, if a bigger home becomes available within the housing owned by your MHOS and the equity shares being sold by the outgoing member can be bought either by you, by other existing members who want to increase their investment, or by the incoming member who will move into your property. In other words if all the equity shares held by you and the outgoing member can still be funded.

Of course, there may be more than one household who may need a larger home. If this is the case, priority will be given according to the terms of a transfer policy agreed by the MHOS and fairly applied in all cases.

Also, if you have a bad payment record you will not be allowed to move to a larger home until you have cleared any arrears and met your payment obligations for a specified minimum period of six months or more.

If I move to a bigger home, will I pay more each month?

If the management, maintenance and service costs of your new home are higher you will need to be able to afford to pay these higher costs and maintain your payments on your existing equity share portfolio.

You will not automatically be required to increase the number of equity shares you are financing unless your household income has risen.

Ok so essentially there is an internal market in mutual home ownership shares. Is there a minimum number of homes needed to make it work?

No not strictly speaking, but you are right to think that unless there is a minimum number of homes in a Mutual Home Ownership scheme there will be a very limited pool of members capable of buying more equity shares as their incomes rise. This could impact on the ability of assigning some of an outgoing member's equity shares to existing members which could make it harder for new members to buy into the scheme (because if some shares cannot be assigned by outgoing members to existing members a new member can only join if they can afford to buy all of the outgoing member's shares).

For this reason that is why we say that a Mutual Home Ownership Society should aim to own a minimum of fifty homes to create the ability for an internal market in equity shares to develop. These homes do not all need to be on one site. The ownership of equity shares can be pooled over more than one housing scheme without adversely affecting local member's rights to control their own homes and their management, maintenance and service costs on a scheme by scheme basis. This can be done through local scheme revenue budgets controlled by the members who live there. Additional property assets on other housing developments by the Mutual can be incorporated without risk to the value of existing equity shares held by members.

Developing a minimum portfolio of homes on more than one site will be particularly applicable in rural areas where the capacity of individual sites is limited.

Who is responsible for maintenance and repairs?

Under the terms of your lease you will be responsible for all internal and non structural repairs including any heating appliances, kitchens, bathrooms and other services inside your home

Your MHOS will be responsible for structural repairs and for the maintenance of the exterior of your home and those of other members.

Can I carry out improvements to my home?

Yes. Your lease will give you the right to carry out improvements with consent which cannot reasonably be refused. This will be subject to you obtaining any necessary planning or building regulations consents and to the work being carried out to proper standards.

If any improvement you make will add to the market value of your home you will be entitled to receive that additional value when you leave[9]. The additional value of any improvements will need to be certified by an independent surveyor when you wish to move.

Do I need to pay a deposit to get a MHO home?

Yes, you will need to pay a minimum deposit equal to 10% of the equity shares you can afford to finance through your monthly payments. We think that it is important that you make a positive personal financial commitment to become a member of your MHOS.

[9] When you leave the additional value of any improvements can be converted by your MHO into additional equity shares that are traded in the usual way.

However, if you cannot afford a 10% deposit you may borrow up to 5% on a personal ten year loan which your MHOS will be able to help you obtain. Your occupancy agreement will need to be used as security for that personal loan. So if you default on paying it, you could lose your home just as if you failed to make your monthly payments to the MHOS.

The deposit also acts as security for your monthly payments because the MHOS can sell them to other members if you are in default and are evicted.

If I can afford to, can I buy additional equity shares outright?

Yes, if you are fortunate enough to receive an inheritance or a bonus payment you can buy additional equity shares outright and add them to your portfolio if you wish to do so.

If I die, will other members of my household be entitled to succeed to my lease and remain in occupation of my home?

Yes, providing the person who succeeds you as a leaseholder has lived with you for a minimum period of twelve months and they are willing to become a member of the MHOS[10]. If they cannot afford to continue to pay the same monthly payments you were making they will have the same rights as any other member under the equity share scheme in the lease to sell some of their equity shares to other members willing to buy them.

What happens to my equity shares if I die?

The value of your equity shares are an asset that can be inherited by your heirs through your will or through the rules of intestacy. If you die without another member of your household becoming a successor, the rules of your MHOS will require your equity shares to be sold at value in accordance with the valuation formula in the lease and the money paid to your estate.

Will our homes be built to a high standard?

Yes. The building and space standards we aim to achieve are generally higher than those used by private sector builders. Because of the long term interest members of a MHOS have in the cost of running and maintaining their homes we aim to ensure that construction standards are high and long term maintenance costs are low.

In particular, especially with increasing energy costs, we aim to use environmentally sustainable methods of construction and materials that achieve, as a minimum, code 3 level of sustainability as defined in the government's Code for Sustainable Homes.

Achieving construction standards that are higher than the Code for Sustainable Homes level 3 is challenging and will remain so until 2016 when all new homes must be carbon neutral in use and higher standards are required for all new homes.

Financing environmentally sustainable elements of design and construction is also easier because they can be financed over the whole 30 year term of the MHOS corporate mortgage. It also does not matter whose south facing roof the solar panels are on because the roof and panels are an asset mutually owned by all the members of the MHOS.

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[10] This is necessary for legal purposes in order to maintain the mutual status of the MHOS.

Will potential members of a MHOS be able to participate in the design of their homes?

Yes, where potential members can be identified in advance of a project design being developed. We think giving potential residents the opportunity to participate in the design of their homes is important and very effective in improving design and construction. It is also important that potential residents have the opportunity to participate in the often difficult decisions about the balance between increased capital costs and lower running costs.

Isn't all this very complicated?

Not really. It's just a different way of owning a stake in your home. If you think about it, MHO is no more complex than other shared equity intermediate housing market products. But it is different and you need to be sure that you understand it so that you can judge whether it is the right sort of housing for you.

Ok so why do it this way? What are the benefits of Mutual Home Ownership?

We have developed Mutual Home Ownership as a new form of intermediate housing market tenure because of the benefits it gives to residents and communities.

It is affordable because:

- 'rental' charges are geared to 35% of net household income
- members secure a 'foothold' on the housing ladder at lower household incomes
- members can buy more shares as their income rises
- transaction costs on buying into and leaving are reduced because homes are not bought and sold
- over the longer term, mortgage costs should be cheaper
- the linkage - 50% to house prices, 50% to average earnings - helps reduce risk and retain affordability
- it remains affordable from one generation of occupants to the next

It is sustainable because:

- the housing remains permanently affordable for the benefit of the local community
- the benefits are recycled from one generation of occupants to the next
- it is easier to finance environmentally sustainable housing
- it encourages active citizenship and community engagement on two levels;
    - within the Community Land Trust
    - within the Mutual Home Ownership Society

Are there other ways of owning a stake in my home?

Yes. If you cannot afford to buy a home outright you may be able to use the government's HomeBuy scheme to part-buy and part-rent a home from a housing association. You may have heard this arrangement called 'shared ownership'.

In shared ownership HomeBuy schemes you raise a personal mortgage loan and pay a sum of money to the housing association to buy a percentage share of the value of the home you will live in. The housing association grants you a 99 year lease which sets out the share you own and your obligation to pay rent on the rest of the value of the home owned by the housing association. So, for example, if you buy a 40% share in a home worth £150k on the open market, you would 'buy' that share by raising a personal mortgage loan and pay £60k to the housing association for a long lease of the property. The lease sets out your 40% ownership and your obligation to pay rent on remaining 60% of the value retained by the housing association. The annual rent payable is usually between 2% and 3% of the value of your home that remains in the ownership of the housing association. The lease gives you the right to increase your percentage ownership share by paying further sums of money to the housing association. What you pay to increase your ownership percentage depends on the open market value of your home at the time you buy additional shares. Buying additional percentage shares is often called 'staircasing'. Most shared ownership leases give you the right to 'staircase' to full ownership. The exception is in rural areas where staircasing is limited to 80% of the value of the home. The minimum equity share you can buy is usually 25%. Once you staircase up you have no right to reduce your ownership share.

Another 'HomeBuy' option is to buy a fixed equity share of your home, with the remaining value being financed by a government agency, housing association or building society through an equity loan. This is often called the 'First Time Buyer Initiative'. Fixed equity shares are usually 75% or 80% of the open market value of your home. After three years, interest starts to be payable on the equity loan. Interest charges start at 3% of the equity loan after year three, rising to six percent after year six. This helps some people to get a foot on the housing ladder earlier than they otherwise would, but for many on average incomes even this is not affordable.

All 'HomeBuy' leases are full repairing leases. This means that resident shared-owners are responsible for the cost of all internal and external repairs. Shared Owners are also responsible for the cost of common services, management and insurance.

None of these HomeBuy options offer the opportunity to democratically control the housing community in which you live in the way that MHO does or the flexibility offered by owning equity shares which you can buy and sell more easily than buying and selling a HomeBuy home. However, you should certainly consider these other options before you decide that Mutual Home Ownership is the right housing choice for you. Also, in the aftermath of the credit crunch personal mortgage loans for HomeBuy will be more difficult to obtain.

Our endeavour to make the content of this leaflet fair and accurate – a warning!

While we have tried to ensure that the content of this leaflet is a fair and accurate description of how Mutual Home Ownership works it cannot cover, in detail, every aspect of this new housing tenure or answer every question you may wish to ask. We cannot, therefore, accept liability for any decisions you may make that are based on the content of this leaflet alone.

Each Mutual Home Ownership project may have specific conditions attached to the land provided for it by the CLT. The financing of individual MHO projects will also depend on the conditions in the credit and financial markets when mortgage finance is required. You should therefore look at the details of any particular Mutual Home Ownership project you may consider becoming a member of and buying equity shares in. In particular, before you invest in and become a member of any MHO scheme, you should seek your own legal and financial advice to ensure that you understand the rights and responsibilities you will have as a member and that Mutual Home Ownership is the right housing choice for you.

For further information

For further information about Mutual Home Ownership and Community Land Trusts visit our website at www.cds.coop or contact:

David A Rodgers
Executive Director
CDS Co-operatives

3 Marshalsea Road
London SE1 1EP

Email: enquiries@cds.coop

A consumer's guide to mutual homeownership

Mutual Home Ownership (MHO) is a new way of owning a stake in the housing market. It is designed to bring the bottom rung of the property ladder back within reach of households on modest incomes in areas where they are priced-out of the housing market. It is also designed to remain permanently affordable for future generations.

CDS CO-OPERATIVES
3 Marshalsea Road
London SE1 1EP
020 7397 5700 tel
020 7407 4697 fax
www.cds.coop