

EQUITY CO-OPERATIVES IN
BRITISH COLUMBIA:
DEVELOPMENT AND OPERATION

**EQUITY CO-OPERATIVES IN BRITISH COLUMBIA:
DEVELOPMENT AND OPERATION**

Veronica Doyle, PhD

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Author's Note

This paper was written in the Spring of 1993. Since then, the government of British Columbia has introduced a program entitled *New Options in Home Ownership* which offers financing assistance to non-profit groups attempting to develop equity co-operatives and other non-traditional forms of limited-equity home ownership. This, combined with the successful development of B.C.'s first family equity cooperative with the assistance of CMHC, has resulted in a closer examination of the mechanisms required by equity co-ops. This work has resulted in both identifying potential problems and developing new solutions. This paper should, therefore, be read as a primer on the topic of equity co-ops. The reader interested in developing an equity co-op is welcome to contact CMHC, the B.C. Housing Management Commission, or resource groups in B.C. for more information.

TABLE OF CONTENTS

INTRODUCTION.....	1
-------------------	---

PART I -- CO-OPERATIVES.....	2
------------------------------	---

An Introduction to Co-operatives.....	2
---------------------------------------	---

What is a Co-operative?.....	2
------------------------------	---

What is a Housing Co-operative?.....	2
--------------------------------------	---

How do Housing Co-ops Differ from Other Forms of Housing Tenure?...3	
--	--

What is an Equity Co-op?.....	4
-------------------------------	---

Land Tenure.....	5
------------------	---

Development Method.....	6
-------------------------	---

Share Reimbursement.....	7
--------------------------	---

Transferability of Equity Co-operatives to Family Housing.....	8
--	---

PART II -- CASE STUDIES.....	11
------------------------------	----

Case 1: Crescent Downs Housing Co-operative.....	11
--	----

Case 2: Amblevue Place Housing Co-operative.....	17
--	----

APPENDICES

Appendix 1: Introductory Information to Subsidized Co-operatives	
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Appendix 2: Sample Incorporation Documents	
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PART I -- CO-OPERATIVES

An Introduction to Co-operatives

Before examining equity co-operatives in detail, several basic concepts must be reviewed. Accordingly, the definition of a co-operative and an overview of the co-operative housing model follow.

What is a Co-operative?

A co-operative is an association of shareholders, known as *members*, incorporated under the relevant provincial legislation to undertake a joint business activity.

Co-operatives are democratic organizations that operate on a one member/one vote basis. Most subscribe to the principles of the international co-operative movement:

- open and voluntary membership
- democratic control
- limited interest on shares
- return of surplus to members
- co-operative education
- co-operation among co-operators

What is a Housing Co-operative?

All housing co-operatives have one thing in common: the legal entity that develops or owns the project is constituted as a co-operative rather than an individual, a limited company, a corporation, a non-profit society or a group of individuals forming a strata-title association. There are several different kinds of housing co-operatives. They can be subsidized by government or funded privately (see Appendix 1).

Subsidized housing co-operatives are common in Canada and are developed with assistance from the federal government through the Canada Mortgage and Housing Corporation. They are non-profit, on-going housing co-ops assisted under various federal, federal/provincial and provincial housing programs since the early 1970s. There are now approximately 60,000 units of non-profit co-op housing in Canada. In some provinces, subsidized housing co-operatives are considered an alternative to renting, and shares can be purchased at a nominal sum. In B.C., however, subsidized co-ops are treated as a form of home ownership, with members individually eligible for homeowner grants. Traditionally, shares in a subsidized housing co-operative cost between \$1,000 and \$2,000, although shares in some older co-ops -- established with a provision that share purchases be returned in constant dollars -- can cost more than \$5,000.

INTRODUCTION

The purpose of this paper is to review the experience in the Lower Mainland of B.C. with developing and managing equity housing co-ops. Since this mechanism has been applied primarily to housing developments for seniors, the paper is intended to provide background information for an assessment of the applicability of the model to family housing.

The information in this paper is drawn from discussions with the resource groups that have developed functioning co-ops in B.C., from a review of development files and from interviews with managers and board members of equity co-ops now in operation. Other knowledgeable individuals, such as lenders and CMHC staff, have also been consulted.

This paper comprises an introduction, a definition of the co-operative concept, a discussion of housing co-operatives in general, an examination of the equity co-op mechanism (PART I), and two case studies representing the major models currently in operation (PART II). This information is supplemented with a reproduced summary introduction to subsidized co-operatives and sample incorporation documents (see Appendices).

When a co-operative is used to develop or manage housing, the details of its constitution will differ according to its objectives. It might be temporary or on-going.

- An example of a **temporary co-operative** is a builders' co-op, which is incorporated during the development stages and dissolves when the units are complete and members assume title to their homes as individuals.
- **On-going housing co-ops** remain in existence indefinitely, acting as owners and managers of the development. Members lease their individual units from the co-op.

In addition, housing co-ops use different strategies in the valuation of their shares:

- **Non-profit co-operatives** value their shares relative to the cost of the development, not the price they could command on the open market. When members leave the co-op, their shares are redeemed by the co-op according to an agreed formula and are resold to an incoming member.
- **Market co-ops** allow members to sell their shares for whatever amount they can, either personally or through the co-operative. Incoming shareholders must be eligible for membership in the co-op, however, since occupancy rights accrue only to members. Because members do not hold title to their units, shares in a co-op cannot be used as security for a mortgage. The purchaser must pay cash. Thus, shares tend to sell at less than the cost of market equivalents.

How do Housing Co-ops Differ from Other Forms of Housing Tenure?

Co-op ownership versus individual ownership

A housing co-operative is a corporation owned equally by each resident member. Members do not own their homes directly, but instead own shares in the corporation that owns the property. The co-operative corporation is the holder of the mortgage and is directly responsible for mortgage payments, taxes and other costs necessary to the operation of the development. Co-op members are not personally liable for these costs if the corporation goes bankrupt. Their potential loss is limited to the amount of capital invested in the co-operative.

Members do, however, sign a lease agreement with the co-operative. This agreement obliges members to pay a share of the co-operative's budget, including the cost of the mortgage, taxes and upkeep. Membership gives residents the right to occupy a home in the development and take an active part in managing the co-operative (as a voter, as a board member, as a committee member). While the number of shares owned by individual members varies, members are entitled to

only one vote. Shares can only be transferred to another co-op member, with the permission of the co-op board, or back to the co-operative. In this case, the co-operative would issue the shares to incoming members.

Co-operative ownership versus renting

There is no landlord in a housing co-operative; the co-operative is responsible for its own management and is the final authority. Rules and operating budgets are determined by a majority vote of co-op members; members hire their management staff; members deal with any problems that arise. As well, members meet their neighbours before taking occupancy through a membership application and interview process.

What is an Equity Co-op?

An equity co-op is an on-going housing co-operative that is financed entirely or partly from the equity of its members. The price of shares in the co-operative is generally controlled according to a formula related to the original cost of the units.

Equity co-ops are usually formed from among the general public under the leadership of an experienced resource group.¹ (A Sample Incorporation Agreement is provided in Appendix 2.) The co-operative develops, owns and manages housing, which its members occupy on a leasehold basis. Although in B.C. membership in these co-operatives has generally been restricted to households with at least one member above the age of 50 or 60, the possibility of family housing applications does exist.

Equity co-ops are organized on a democratic basis, entirely member-governed through a Board of Directors and associated committees. Staff are employed to carry out day-to-day property management under the direction of the Board.

To varying degrees, equity co-ops are non-profit developments: some are strictly non-profit, others allow for the controlled appreciation of equity. They are financed entirely from a combination of member equity and mortgage, with each household subscribing a minimum of 10% to 25% of the value of the shares associated with that unit and carrying a proportionate fraction of the common mortgage. In B.C., equity co-ops operate on a limited-dividend basis as required by the Co-operative Associations Act (1988), which means that on termination of membership, shares are redeemed by the co-operative at an amount set by formula. Shares are then sold to an incoming member for roughly the same price. Members cannot assign their shares or sell

¹ Resource Groups play a two-fold role in the equity co-op mechanism. They co-ordinate and administer the development of a co-operative, acting on its behalf in dealings with all businesses and agencies involved in the purchase or lease of the land and the design and construction of the buildings. They also perform an important education and group development function, preparing members for their role as managers and decision-makers.

them independently of the co-op. Nor can they assign leasehold interest in the units they occupy.

Equity co-operatives are an affordable housing option, usually priced below market value at the time of occupancy. Affordability is primarily tied to the non-profit nature of the arrangement in which the purchase price of the shares is related to the cost of producing the housing project, not to the price it could command on the open market.

Even within the equity co-op mechanism, however, there is considerable variation. For example, there are different forms of land tenure, methods of development and formulas for share reimbursement. The following variations are based on the two cases of equity co-ops described in PART II.

Land Tenure

Leasehold:

Site is owned by a municipality, a public or institutional body (for example, provincial government, church group), then leased to the co-op on a prepaid basis, possibly at a considerable discount from its freehold value.

Leased land is typically less expensive than owned land. As a general rule, a 99-year lease is worth approximately the same as freehold value. The term of the lease is generally 60 years. As the remaining term shortens in a leasehold agreement, however, incentives to maintain the property can diminish and the reversionary value of the buildings is lessened accordingly. Also, as the term shortens, joining members will have a reduced length of tenure compared to initial members. There are many potential complications in developing equity co-ops on leasehold land, and sound legal assistance is required.

The lease can be prepaid (the general practice for social housing leases in recent years) or paid gradually through the yearly payment of ground rent. This latter approach spreads the cost of the lease over time rather than front-loading it and has the effect of financing a prepayment with an equal-payment mortgage. The effect of indexing ground lease payments to the CPI, which would result in an inflation-protected income stream for the lessee, is currently under investigation, although large initial payments appear more attractive to institutional landowners.

Freehold:

Site is purchased by the co-operative and owned in fee simple.

Freehold title gives the co-operative more flexibility. It is more expensive initially, and this is reflected in the cost of the units. Over time, however, the land becomes an increasingly valuable asset, which can be used to benefit members or the larger community. But this in itself gives rise to an affordability concern. By extraordinary resolution, members can vote to change the co-op's share redemption practice. If shares are redeemed at higher values, members will profit individually and the co-op will be effectively removed from the non-profit stock. Although this danger also exists for leasehold properties, the threat is greatest when land is owned in areas that tend to appreciate in value. For this reason, the establishment of a land trust for co-op-held properties has long been advocated by the Co-operative Housing Federation of Canada, and the B.C. Provincial Commission on Housing Options recommended in 1993 the establishment of a land trust in conjunction with an equity co-op program.

Development Method**Full Turnkey:**

Site is identified, held and rezoned by a private development firm, which also co-ordinates all phases of the construction of the buildings. With the exception of legal advice and the services of the resource group, all costs included in the turnkey price are paid to the developer at occupancy.

Because the developer -- who carries the expense of holding the land -- provides interim financing for both land and construction and takes the risk that the co-operative may not be in a position to purchase the development when it is ready, he/she will likely build a developer profit into the purchase price. On the other hand, the ability of a skilled developer to bring a building to market more efficiently than a team assembled *ad hoc* could have a positive impact on the price.

In full turnkey co-ops, the developer handles most arrangements. Co-op members are not usually involved until the site has been identified and a preliminary design chosen. Few decisions are required of them, and they have little awareness of the difficulties the developer may encounter in terms of rezoning, gaining development and building permits, or tendering and carrying out construction. The downside is that they often have little input into the design of their development and can become frustrated with the lack of direct developer accountability.

While developer-led co-ops often have a shorter development period than group-led ones, the real advantage of a turnkey development is that it solves the problem of interim financing. The developer arranges for financing -- usually using the land as security -- and the cost of financing is rolled into the purchase price. Under this arrangement, members' funds are often not required until occupancy and are kept in an interest-earning trust account. This provides protection to members who might otherwise be in a difficult situation if uncommitted units prove difficult to market.

Group-led:

The co-operative, in essence, acts as its own developer. The services of a team of professionals (architect, resource group, mortgage broker and contractor) hired by the group are paid on a fee basis.

Without the interim financial backing of a turnkey developer, the question of security for interim financing to pay for the services of the resource group, the architect and other consultants and for construction itself becomes a serious issue. By B.C. law, members' funds must be held in trust until completion of the project is assured; therefore these funds cannot be used as security for a construction loan. Where projects are fully subscribed before any money is needed, lenders have the comfort of knowing who the members are and that they have each contributed substantial equity. But interim financing security for lenders is a recurring issue.²

As government and institutional lands are made available for affordable housing, the difficulty in accessing interim financing for leasehold lands will become a more pressing concern, since the value of leasehold land does not contribute as much to the security for the mortgage as freehold tenure. Unless mortgage insurance and start-up funds are available to equity co-operatives, it will be difficult to undertake much of this kind of development.

Similarly, lenders prefer a project to be strata-titled during construction so that individual units can be sold, if necessary, to repay the loan.

Share Reimbursement

The formula for share reimbursement differs between equity co-ops. Some -- those operating on a purely non-profit basis -- simply return share purchase monies originally subscribed, possibly indexed to the CPI. Others allow for a controlled appreciation of equity, repaying members that portion of unit value originally paid in, pegging that value at a percentage of market value of similar units. While units

² Lending criteria usually specify that the individual parties to a financing arrangement be identified, even if the mortgage is being incurred by the co-operative as a whole. This is because a mortgage is based on both the security available and the personal guarantee of the borrower to repay the loan. A lender will wish to identify individuals responsible for repaying the loan because a co-operative as a body has no additional assets beyond the land and buildings (under construction) already pledged as security.

in a pure non-profit co-op might start out closer to market value, they will decline in cost relative to the market over time (assuming a rising market). Others which allow equity to appreciate will rise with the market over time.

The question of equity appreciation as an advantage or a disadvantage is a matter of perspective. For the departing member, an increase in equity would be preferable. An incoming member who has equity with which to purchase shares (from the sale of a home, for example) might find this equally agreeable, since the units will still be affordable relative to the market. And since the arrangement is similar to the familiar process of buying and selling a home, it is easily marketed. The strictly non-profit co-op, on the other hand, continues to decline in cost relative to the market, providing increasingly affordable housing of good quality especially to households without enough equity to purchase in the for-profit market.

The long-term outcomes of the two models examined in PART II have different implications for affordability that can be likened to the present divergence between non-profit and market housing. The choice between these models for a given household depends on the amount of available equity and expectations for equity growth. Those choosing the strictly non-profit co-operative are content to forego appreciation in return for the benefits of reasonable housing, in a member-controlled community that can be accessed at less than market cost. Members choosing the equity appreciation model receive the same standard of housing in the same kind of democratic community, but access it at a slightly higher cost with the idea that their investment will appreciate over time.

A public agency providing land for affordable housing, or wishing to develop a policy or program to support housing affordability, would probably lean toward the strictly non-profit approach to equity co-ops because it offers a fair assurance of increasing affordability over time. In addition, it allows for the generation of surplus funds for housing programs by charging incoming members a higher share purchase -- which is perhaps more closely related to the market cost of surrounding homes -- than is paid to the outgoing one. From a policy perspective, however, it would be critical to examine the long-term implications of this arrangement under a variety of scenarios. For instance, what are the possible effects of combining the potential affordability of leasehold tenure with the no-appreciation option? What might be the outcome with regard to the maintenance of the structures over time? What might occur in a falling market or with a declining demand for a specific housing form?

Transferability of Equity Co-operatives to Family Housing

To date, the equity co-op model has been applied primarily to housing developments for seniors. But how transferable is it to the family housing situation?

In its present state of development, the equity co-op concept is not without its wrinkles, and these may have particular relevance to the transfer of the model to family housing.

The first wrinkle is the mechanism for providing *interim financing*. At the moment, financial institutions (or CMHC in its role as guarantor) prefer to attach repayment obligations to both the collateral offered as security and the corporate covenant of a developer or personal guarantees of members. Legally, however, the obligation to repay belongs to the co-operative, which is a corporate entity with no other assets.

This issue is pushed to the fore when lenders require units to be strata-titled during construction, which violates the principle of collective ownership. Similarly, lenders require investors to have equity in the project before the advance of mortgage funds, while provincial law requires that member monies should not be put at risk until the project is a certainty.

In equity co-ops targeted to seniors, interim financing is not generally a serious issue. Most members have a substantial amount of homeownership equity. Even if they do not have ready cash, they can borrow it against their homes. These large sums in trust increase a lender's confidence. Until the equity co-op model becomes more entrenched, however, families with limited amounts of money to spare and with no clear vision of what their investment will buy might well be reluctant to risk it as security for interim financing even to the degree that regulations permit.

The second wrinkle is the issue of *takeout financing*. Many equity co-operatives for seniors allow members to invest up to the full value of their units, an option that offers significant tax advantages. These co-ops often prefer or require that incoming members provide equity to the full value of their units. Since co-op shares are not mortgageable, incoming members must be financed by the co-op itself through its operating budget, a reserve fund or external loan. The co-operative's reluctance to do so results in limited accessibility. Until lenders can be persuaded to make principal amounts variable to meet this characteristic of equity co-ops, they will continue to prefer members with full equity.

Given the prevailing preference for freehold title, it is doubtful that families with the kind of money necessary for full equity will invest in a co-op. Most families will invest the minimum necessary to obtain co-op membership. While this will simplify the issue of fluctuating equity as members come and go, lenders will be asked to fund higher-ratio mortgages than they have done to date. Whether they will do so remains to be seen. The issue of NHA insurance for members with small down payments is also unresolved.

The third and final family wrinkle is the *long-term implications* of investing available capital in a co-operative, particularly one that offers minimal return on equity -- and this will affect the way equity co-ops are marketed. If the primary goal of equity co-ops is

to provide families with access to affordable, secure, appropriately-designed housing, then the mechanism will serve its target audience well. If, however, these families aspire to move into market ownership at a later date, then the mechanism might not work as well. (This issue will be of less concern to families planning to downsize after their children leave home than those who wish to upsize.)

In summary, equity co-operatives -- perhaps more than other housing forms -- will be scrutinized for their cost, location, amenity and equity growth. Defining the market and producing family equity co-ops at the right price, in the right location, with the right design and the right formula for equity growth will be critical considerations, especially in the early years of the equity co-op mechanism.

PART II: CASE STUDIES

Case 1:

CRESCENT DOWNS HOUSING CO-OPERATIVE³

4749 - 64th Street
Ladner, B.C. V4K 4W4

DESCRIPTION

Occupancy March 1991

Location About one and a half kilometer from the village of Ladner in the Vancouver suburbs.

Units

70 two-bedroom units in wood frame, approximately 93 square meters; units are single-storey, in clusters of four, all ground-oriented.

Units were kept modest in size and limited in 'high-grade' finishings relative to new housing being built in the same market.

Price

Price at move-in was \$107,000 for inside units and \$113,000 for end units. Minimum investment was 20% (\$21,400 and \$22,600 respectively).

While it is difficult to assess relationship to market prices because of the smaller size and more modest level of finishing of these units, Columbia staff estimate that they were about 15% to 20% lower than market. Larger units across the street were selling at the same time at a beginning price of \$130,000.

This discount was made possible by several factors: the relative simplicity of the units and of the marketing effort, the somewhat lower fee charged by Columbia Housing, which works on a non-profit basis, for development co-ordination and marketing, and the fact that the selling price of the units was tied to the cost of the project rather than the price obtainable in the marketplace.

Because it was a turnkey development (see below), the developer's risk, carrying costs and profit were reflected in the price.

Initial monthly cost for operating, including property taxes, was \$170. Current monthly fee (February 1993) is still the same.

³ Two previous co-operatives, The Cedars and Avondale, are very similar to Crescent Downs, having been developed by the same partnership of Columbia Housing and Progressive Homes. Several others are under development at this writing

DEVELOPMENT

Method

Full turnkey development by Progressive Homes Ltd. working with Columbia Housing Advisory Association as resource group. Architect was John Currie.

Division of functions was as follows:

Progressive Homes located, rezoned and held the land during construction, hired and supervised the architect, arranged interim financing, and constructed the buildings. Consultation on design was provided by Columbia Housing, with input from members.

Columbia Housing gathered the founding members, incorporated the co-operative and provided project co-ordination services on its behalf. These services included acting as the co-operative's agent with all government agencies, financial institutions and private contractors. It provided advice on such matters as the contract with the developer, and the terms of the mortgage.

In addition, Columbia also provided administrative services such as processing membership applications and maintaining member records, financial services such as setting up and maintaining accounts, and educational assistance such as helping to develop a functioning Board and committee system. Columbia Housing marketed the project and undertook post-occupancy functions such as assisting with deficiencies, building and maintenance problems, hiring and training staff.

Land

Freehold. Land held during the construction period by the developer, then purchased, with the buildings, by the co-operative at occupancy.

Land had to be rezoned from single-family to multiple-unit housing.

Co-operative

The co-operative was incorporated by Columbia Housing from people on its waiting list. Most of these had contacted Columbia after viewing or hearing about its two earlier equity co-ops in Surrey, The Cedars and Avondale.

Financing

Lender for takeout financing was Vancouver City Savings Credit Union. VanCity had the most attractive response to a letter of solicitation sent to a number of financial institutions by Columbia Housing. Rate for a five-year term, 25-year amortization was 11.25%. Purchase price of the development was approximately \$7.7 million. Mortgage was for 56% of that amount.

Interim financing was provided by the developer.

Since all development costs were carried by the developer, and Columbia Housing's fee was paid at occupancy, no startup funding was required. That is, because of the turnkey nature of the development process and Columbia's willingness to wait for its fee, no funds were required until occupancy.

For this project there were no government guarantees, subsidies or loans.

A major problem arose as the time of occupancy approached. Because a downturn had occurred in the housing market, potential members were having difficulty selling their homes and became unable to commit to the payment required for Crescent Downs. At occupancy, only 50% of the units were committed, with equity of \$2 million on deposit. At this point the developer could have foreclosed on at least part of the project for sale as condominium units, although since the units had not been strata-titled that would have been a complicated undertaking.

To address this problem, an arrangement was made whereby the lender advanced \$1.5 million on the basis of the funds contributed by those who took occupancy (which amounted to \$2 million), giving the developer an immediate payment of \$3.5 million. The developer held a second mortgage at 0% for the balance. Columbia Housing agreed to market the remainder of the units, a process which took about six months.

Marketing

Carried out by Columbia Housing. A display suite was set up on site decorated and staffed by Columbia personnel. The best source of potential members was found to be advertisements in local newspapers in the surrounding communities (e.g., Delta, Surrey, Richmond). In addition, Columbia Housing made this opportunity known to people on its own waiting list and those who called their office with general enquiries.

SHARES AND EQUITY

Ownership

Land is purchased and owned by the co-operative as an entity, not jointly by the members as individuals. Therefore, since members are in effect shareholders of a corporate entity, no names of individuals appear on title. In addition, the buildings themselves were not strata-titled.

Members hold their individual units by a lease with the co-operative. If for some reason membership is terminated, occupancy rights in the unit are also terminated. The member lease sets out the terms of summary termination (e.g., non-payment of charges). Termination for reasons other than those set out in the lease must be according to the provisions of the Articles of Incorporation as required by the Co-operatives Act. In this case, membership can be terminated only

by an Extraordinary Resolution (i.e., a vote of 75% of the members attending an Extraordinary General Meeting called with due notice).

Shares and leases held by members cannot be assigned.

Share Transactions

During development, funds were contributed by members to secure their units as follows: \$200 with membership application, which entitled them to select a unit; the balance of the 20% minimum payment was required two weeks later. If the initial deposit was made subject to the sale of a home, the unit was still considered available. Applicant would be given 48 hours to contribute the minimum payment if another applicant also selected the unit in question.

Members could invest up the full value of their unit in \$1,000 increments.

All funds contributed were kept in a trust account created for the purpose, with interest accruing to the member, until an occupancy permit was obtained. These funds were never used as security for borrowing and were never in any way placed at risk. At occupancy, members individually signed for release of the trust funds and received their share certificates.

After occupancy, shares of an outgoing member are redeemed by the co-operative on termination of membership or death of a member. The equity contributed by the member is simply returned. The co-op's articles of incorporation provide that an amount determined by the rise in the Consumer Price Index over the period of membership may be added to the equity returned, but this practice is not being carried out at the moment. Since the co-op operates on a strictly non-profit basis, the cost of the housing can be expected to remain substantially below market prices.

In other words, the value of shares in Crescent Downs currently is still \$107,000 or \$113,000. The co-operative can raise this price (i.e., increase the number of shares associated with a unit) for incoming members. In this case, the surplus after the outgoing member's shares were redeemed would be retained by the co-operative.

This non-profit provision is established in the Articles of Incorporation and in the lease agreement. It could, however, be changed by an Extraordinary Resolution of the members.⁴

Responsibility for finding a new member devolves upon the co-operative. The co-op has six months to redeem the shares, allowing some lead time to find a new member. If no new member can be found who, by combination of equity and monthly payments, can

⁴ Another co-op developed under this same model by Columbia Housing (Avondale) is considering indexing share reimbursement amounts to the rise in the market cost of housing.

cover the value of the outgoing member's shares, the co-op will redeem the shares at the amount which can be obtained. (For instance, if the shares prove to be worth only \$99,000 on the open market, then that is the amount repaid to the outgoing member). However, a contingency fund is being built up by the co-op to protect members from this possibility.

It should be emphasized that what the individual owns is shares in the co-operative, which are not individually mortgageable. Rather, any member who cannot contribute equity to the amount of the current value of shares must contribute to his or her portion of the overall mortgage held by the co-op. For this reason, members' individual qualifications for carrying a mortgage are not assessed by the co-op's lender.

Membership and Residency

Membership is open to anyone who qualifies. Qualifications are two: that at least one member of each household be aged 50 or more, and that the household can meet the financial requirements. In addition, the co-op tries to maintain a mix of ages, marital status and gender.

Technically, the Board of Directors admits members to the co-operative. In practice, during the development period any qualifying households who came forward to make the required payments on schedule are admitted as members. After occupancy, a list of five qualifying applicants is drawn from the co-op's waiting list by the management company. The Board of Directors admits a new member from this list based on an interview of all five applicants by the full Board.

The outgoing member must give two months notice of intention to terminate membership. The co-op has a lien on members' share capital in case money is owed to the co-op when they vacate the unit.

Shares in Crescent Downs may be held jointly by members of a household, in which case each shareholder has an independent vote.

Whether or not units can be sublet to non-members is a matter for each co-op to decide. Columbia's experience is that most co-ops prefer not to allow subletting. Crescent Downs allows subletting with approval of the Board.

OPERATING

Annual operating profits or losses are dealt with according to decision of membership. Typically, they are rolled into the next year's budget to reduce or increase the monthly charge. They may also be allocated to some other purpose decided by the membership, such as capital improvements or possibly other uses, such as investments or donations. In the case of Crescent Downs, surpluses are allocated to a contingency fund.

Crescent Downs is managed by a management firm under the direction of the Board. This firm acts as the contact point for the co-op and does its accounting. It also manages maintenance and major repairs (minor repairs are done by members), gardening, cleaning of common areas, member records, board and legal records.

ASSESSMENT AND REPLICABILITY OF THE CRESCENT DOWNS MODEL

Strengths

- limiting share appreciation provides for affordability over time
- members and potential members like the ability to control who will live in the project and the opportunity to be involved in creating their own retirement community
- secure and affordable housing is created without any government subsidy
- turnkey arrangement means developer assumes financial risk; for the developer, it means he has a relatively assured market for his project; conversely, member equity is never put at risk
- model is now familiar to many seniors and not difficult to market to homeowners
- can be expected to be very affordable relative to market in long run

Weaknesses

- limited share appreciation provision can be changed by extraordinary resolution
- safety of member capital depends on finding a turnkey developer who is willing to accept financial risk; this raises the ultimate cost of the units
- membership is only accessible to those who can meet capital and/or income requirements



Case 2:**AMBLEVIEW PLACE HOUSING CO-OPERATIVE**

606 - 14th Street

West Vancouver, B.C. V7T 2R3

DESCRIPTION**Occupancy** March 1988**Location** Two blocks from Marine Drive at 14th in West Vancouver**Units**

42 units: 12 x 1 bedroom, 6 x 1 bedroom plus den, 24 x 2 bedroom ranging in size from 57 square meters to 84 square meters; units are one-level apartments in a woodframe building. Building has secure underground parking (1/unit) and includes community lounge, office, workshop, and common laundry. Building, including units, is wheelchair accessible.

Price

Prices at occupancy ranged from \$70,000 to \$85,000, which was assessed as 75% of market value at the time. Discount was made possible primarily by discounted value of the land for leasehold (see below). Another factor was that the members of the development team were paid on a fee basis rather than as a developer (i.e. there was no margin for developer profit).

Application fee \$100. Minimum equity investment is 20% of the value of the shares (\$14,000 to \$17,000). Members may invest 20%, 50% or 100% of the share value for their unit. In practice, however, 100% equity is required because the co-op is reluctant to assist with financing.

Initial monthly fee was in the neighbourhood of \$85 per month. Monthly charge for a one-bedroom unit as of February 1993 is \$135 exclusive of property taxes.

DEVELOPMENT**Method**

This was a group-led project initiated in response to a proposal call from the municipality offering the site for an unsubsidized seniors' co-operative. Founding members were drawn from a waiting list established after a public meeting, sponsored by the municipality, presenting plans for the site.

The development team consisted of Inner City Housing Society (since renamed Innovative Housing Society), who contributed project co-ordination and education/group development services similar to those undertaken by Columbia Housing for Crescent Downs (see Case I),

Isaac-Renton Architects, Clare McDuff-Oliver Architect, who provided marketing and membership enrollment services, and Gauvin Construction working under a design-build turnkey contract. Mortgage was brokered by Murray and Company, who also took part in negotiation of the land lease.

Land

The municipality had originally purchased the site for non-profit seniors' housing but two submissions to B.C. Housing Management Commission for funding such a project had been turned down. The municipality then called for proposals for a non-profit seniors' equity co-operative on the site. The team assembled by Inner City was selected as having the most cost-effective proposal.

Leased for 60 years from the municipality. Value was set initially at 75% of freehold value (i.e., \$775,000, to be prepaid at occupancy). By the time of occupancy the land in question had appreciated to the point where the agreed lease amount represented just under 60% of market value. The lease included an option to renew for 30 years at the then appraised value.

The lease provided that at the end of its term members would be compensated for their land and buildings at the then appraised value. This provision was made in order to reimburse the occupants of the day for their investment, in order to prevent a decline in value as the remaining term of the lease shortened.

Since the land was already owned by the municipality, it was agreed that a sinking fund would be established by the co-op, to accumulate the funds towards paying out a portion of the amount due to the final occupants. Payments to the sinking fund were to be made monthly by occupants, beginning at \$10 per month in years 1-14, and escalating every 15 years: \$15/month in years 15-29, \$25/month in years 30-44 and \$40/month in years 45 to end of term. Present value of the sinking fund in July 1987 was estimated by the broker at \$81,155. Subsequent experience has shown that unless carefully structured, such a sinking fund may attract income tax for individual co-op members.

The terms of the lease established that the value of the shares in the co-op be set at 75% of appraised freehold value for similar units in the area.

Co-operative

The co-operative was incorporated from among respondents to the initial invitation of the municipality delivered at a public meeting. Membership in the co-op was fully subscribed and had a waiting list by December 1986.

Financing

The mortgage was brokered by Murray and Company and provided by Vancouver City Savings Credit Union. Mortgage was for 53% of total cost of land and building, with member equity making up the remainder. The building was not strata-titled during development.

Interim financing for startup costs and monthly construction draws was provided by a combination of member equity and mortgage draws from VanCity. Member equity (see below) was held in trust until the building permit was granted, and professional fees were paid from this fund at that time. When member equity was exhausted soon afterwards, mortgage draws began. A level of comfort to the lender was provided by the land lease which, although payment was not until occupancy, was signed on March 30, 1987, a year before completion of the building.

There was no mortgage guarantee, capital loan or grant, operating subsidy or other involvement of senior levels of government.

Marketing

Little marketing was required beyond making the opportunity known, which was done through advertising in the local paper; simple flyers were made available to enquirers. As mentioned above, the co-op was fully subscribed early in the development period.

SHARES AND EQUITY

Ownership

Land is leased by the co-operative as an entity, and no individual names appear on title. Similarly, the entire development is owned by the co-operative, not the individual members. As mentioned, the building was not strata-titled during development. Termination of membership occurs if, after grievance procedures have been exhausted, members vote to terminate. An appeal process also exists, and the co-op is prepared to assist members with monthly payments for several months to prevent the necessity of termination. As with Crescent Downs, existing share capital can be attached to pay any debts owing the co-op by an outgoing member.

Shares and member lease cannot be assigned.⁵

Share Transactions

During development, funds were contributed by members to secure their units as follows: \$100 at application, \$1,000 Good Faith Deposit in December, 1986, the balance of the minimum deposit (20%) was required at the time of the building permit. Share certificates were issued after occupancy when the final costs were known, since they state the value of the unit.

⁵ Efforts are under way to develop a mechanism whereby individuals can finance shares through a promissory note, which would have the effect of a lien on the member lease.

After occupancy, units are professionally assessed each year. Member shares are redeemed by the co-op according to the established formula:

$$\frac{\text{original cost}}{\text{original assessment}} \times \text{new assessment}$$

This formula amounts to a maintenance of the original relationship between the cost and the market value of the units (i.e., 75%). Current selling price for shares in a 84 square meter unit is about \$120,000.

If difficulty arises finding a purchaser for shares, the co-operative has 12 months to redeem a member's shares. If there is still no new member, the member would be paid out and the whole co-op would have to absorb the loss, using reserve funds, until one is found.

Membership and Residency

One member of each household must be aged 60 or over. The co-op also seeks members who are willing to participate in Board, committees and other activities of the co-op. In practice, membership in the co-op is now limited to those who have equity from the sale of a home since, as mentioned above, the co-operative is reluctant to assist with financing.

Although only one vote is allowed per unit, the co-op does allow *associate members*. That is, a second person in each household may subscribe for one share (\$10), which enables that member to vote in place of the main member.

Non-members are not permitted to live in the co-op (with rare exceptions granted by the Board), nor may units normally be sublet. A non-member who does live in the co-op may not succeed to membership. On death of a member, a surviving associate member, usually a spouse, may succeed to the shares, but this is at the pleasure of the Board. For instance, a spouse who does not meet age requirements might not succeed to occupancy rights if the other member dies.

OPERATING

Annual operating profits or losses are dealt with according to decision of membership. Typically, they are rolled into the next year's budget to reduce or increase the monthly charge. They may also be allocated to some other purpose decided by the membership, such as capital improvements or possibly other uses such as investments or donation.

Amberview is managed by a combination of volunteer and paid services. Member records, accounting and legal obligations are maintained by

members of the Board and/or the co-op membership at large.
 Maintenance is done by both volunteer and contracted personnel.
 Cleaning is done by a hired janitor. Auditor is hired externally.

FEATURES AND REPLICABILITY OF THE AMBLEVIEW MODEL

Advantages

- can keep housing relatively affordable over time at a constant relationship to the freehold market
- requires no government assistance beyond discounted access to the land
- members receive an appreciation of equity, which enhances marketability
- clear provision for maintaining the value of the project over time by paying out final members at market value; this is enhanced by the maintenance of the sinking fund to ensure that funds are available to the municipality at the time for making the reimbursement
- members like the capacity to control who lives in the building and to maintain their own self-run community

Disadvantages

- unfamiliar and possibly difficult to market if location and terms of membership are less favourable; since members do not profit as fully from rises in equity as they would in a condominium, marketability depends on relationship of co-op's price to that of competing units
- interim financing may be difficult to obtain if members cannot be recruited in advance and/or are not willing to have equity used for startup costs
- not as flexible as strata-title ownership for the individual; conflict among members or difficulty in decision-making can have more effect on maintenance of the operation than in a condominium
- from the municipality's point of view, land may have been disposed of at too low a price because of the time-lag between setting price and payout
- members take the risk of a falling market

APPENDIX 1:

INTRODUCTORY INFORMATION TO SUBSIDIZED CO-OPERATIVES

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Introduction to **CO-OPERATIVE HOUSING**



Co-operative Ownership Compared to Individual Ownership

A housing co-operative is a corporation owned equally by each resident member.

As a co-operative member, you do not directly own your home. Instead, you have shares in a corporation which owns the property.

Membership in a co-operative gives you the right to occupy a home in the development. It also allows you to take part in management as a voter, a member of the board of directors, or as a committee member.

The co-op's bylaws are governed by a separate section of provincial legislation specially designed for co-operatives.

The co-operative corporation is the holder of the mortgage and is directly responsible for mortgage payments, taxes and other costs necessary to operate the development.

Co-op members have a major advantage over individual owners, because they are not personally liable for these costs if the corporation goes bankrupt. Their potential loss is limited to the amount of capital they invest in the co-op.

However, each member signs an agreement with the co-op, known as a lease. This obliges the member to pay a share of the co-operative's budget, including the cost of the mortgage, taxes and upkeep.

The number of shares owned by the individual member may vary, but provincial law states that each member is entitled to no more than one vote.

Shares may only be transferred to another co-op member, a new co-op member, or back to the co-operative. This transfer can only be made with the permission of the co-operative.

Co-operative Ownership Compared to Renting

There is no landlord in a housing co-operative.

Rules are agreed by majority vote of members in the co-op. Operating costs are agreed by a vote of the general membership. Members hire management. Members deal with problems in the development.

In a co-op, members meet their neighbours **BEFORE** they move in, through a membership application process.

Financing a Housing Co-operative

In a housing co-op, the member's monthly payment is called a Housing Charge, instead of rent, because members each share the mortgage repayment and operating costs.

A co-operative's mortgage is obtained from a private financial institution, such as a bank, pension fund or credit union. The mortgage is for 30 years.

The federal government provides a monthly subsidy to the co-op. In the first year, the subsidy reduces members' payments to the level of rents in the area for similar accommodation.

After this, the co-op sets its own rates, to meet the mortgage payment and operating costs.

The increase in your housing charges will always be lower than the inflation rate, because the mortgage repayment is set two per cent below the rate of inflation each year.

Monthly housing charges cover the cost of the mortgage repayment, taxes, maintenance, management, and replacement reserves. Water and heat are usually the responsibility of each member.

The provincial government provides rent supplements for people who cannot afford to pay market rent. This is limited to thirty per cent of the co-op's members.

So, housing co-operatives have a mix of incomes. This is one of the basic intentions of co-op housing - to avoid ghettos by creating mixed-income communities.



Capital Investment:

Members each put up a share purchase amount. This is usually \$ 1,000 to \$ 1,500. Share funds are used by the co-op to pay for items which are not included in the mortgage, due to government-imposed cost limits.

Share purchase is refundable when members leave, unless they owe money to the co-op. In this case, the co-op can subtract debts from the share refund. There is no transfer fee charged to the member for selling shares back to the co-operative.

If the co-op becomes bankrupt, your personal liability is limited to the amount you invested in shares. However, no housing co-operative under the Co-operative Housing Program has ever gone bankrupt.

This is because a co-operative's finances are protected by three programs. The first is a national educational and legislative program administered by the Co-operative Housing Foundation of Canada. This assists co-ops in managing their property, and develops legislation for subsidies to co-ops.

The second is a stabilization fund supervised by government and the Co-operative Housing Foundation of Canada.

The third is federal government mortgage insurance; a last resort covering the total mortgage amount.

Management of Housing Co-operatives

Housing co-operatives are responsible for their own management. Most co-operatives are run by both volunteers and paid personnel.

The General Membership have the final authority in the co-op. They elect the Board of Directors, and approve co-op policies. The Board has the legal power to carry out the business of the co-op, but they can be removed by a vote of the General Membership.

Professionals are hired by the co-op Board of Directors for accounting and legal requirements. However, much work is done by volunteer committees. The three major committees are Finance, Building, and Membership. These committees usually report to the Board of Directors.

What Happens When You Join a Housing Co-operative

New members are accepted into the co-op by vote of the Board of Directors or General Membership. When applicants are being considered, no discrimination is allowed on the basis of race, colour, sex, or creed.

Requirements for membership are very simple. You must meet the financial requirements, be of legal age, and agree to sign the required documents. You may also be required to meet the membership committee of the co-op, or attend a general meeting before being accepted.

By the time you join your co-op, the corporation has usually been organized by members who joined before you, with assistance from Columbia Housing.

As a member, you will be expected to join a committee or the Board of Directors. These groups are responsible for working with Columbia to do all the things necessary to develop your co-op.

These tasks include:

- applying for government assistance
- signing a mortgage
- buying land
- signing a construction contract
- hiring construction inspectors
- developing rules to run the co-op
- educating members
- developing a lease for members to sign
- developing an operating budget
- hiring management

Columbia Housing is hired by your co-op to make sure these tasks are done properly by the co-op, and to assist the co-op in completing its legal requirements.

Columbia staff will also:

- maintain your financial records and filing system until construction is complete
- help applicants complete paperwork
- monitor your construction budget
- inform you of the co-op's legal and financial obligations

When the co-op moves in, Columbia turns over all the records to you after an independent auditor has reviewed the financial information and reported to the co-op. Columbia continues to provide advice and education services for a year after the co-op moves in.



Construction Quality

Construction quality in Columbia-assisted projects is equal or superior to any similarly-priced housing on the market.

Construction standards in a housing co-operative are carefully controlled.

Each Municipality has its own design and zoning requirements. During construction, the municipality sends out inspectors to make sure these requirements are enforced.

Canada Mortgage and Housing Corporation (CMHC) sets strict financial and design criteria for construction. CMHC also has its own regulations regarding design and construction materials. These regulations are enforced by inspectors who visit the construction site. Inspectors confirm that the project meets requirements of the National Building Code.

Columbia Housing requires contractors to design their projects above the minimum standards required by Canada's National Building Code.

Finally, the co-operative hires their own inspector to ensure that the project is actually built to meet specifications in the contract.

Here are some of the features you can expect in your co-operative home:

- Washer/Dryer Rough-In
- Stove and Frost-Free Fridge
- Wall-to-wall carpeting
- Acoustic caulking to improve soundproofing in party walls
- Thermal glass windows
- In-suite storage space
- Second bathroom in larger units
- On-site community rooms
- On-site laundry rooms
- Secured underground parking, or unit-related parking
- Ceramic tiles to the ceiling in shower
- Exhaust fans in bathroom and kitchen
- Private garden areas on ground floor
- Patio or balcony
- Basements in some townhouse projects
- Individual electric or gas heat

Typical Sizes of Units:

- 1 bedroom apartment - 500-650 square feet
- 2 bedroom apartment - 700-800
- 2 bedroom townhouse - 850-1000
- 3 bedroom townhouse - 1050-1250
- 4 bedroom townhouse - 1200-1350

Who Lives in these Housing Co-operatives

More than 125,000 Canadians live in housing co-operatives. Fifteen thousand of those members are in British Columbia. More than nine million people belong to housing co-operatives in eighteen nations worldwide. These people represent a broad cross-section of cultural, ethnic and income groups.

Summary of Advantages

There is No Landlord
 You SEE the Quality of Construction
 Your Housing Charges Remain
 Lower than Inflation
 You Know Your Neighbours
 You Have an Equal Vote
 You Control Your Operating Costs
 Your Mortgage is Fully Insured
 Your Personal Liability is Limited
 You Can Learn New Skills if You Choose
 You are Part of a National Community

Summary of Obligations

There is No Profit on Your Investment
 You Live by the Rules Set by the Majority
 You Must Participate to Reduce Costs
 You Pay a Share of Operating Costs
 You Accept a Mix of Incomes
 You Accept a Mix of Ethnic Groups

People are living the difference !"

The Six Principles of Co-operation

A co-operative society should have for its object the economic and social betterment of its members by means of the exploitation of an enterprise based on mutual aid. In 1966, the International Co-operative Alliance adopted six principles as guidelines for co-operatives. Those principles are:

1. **Open and Voluntary Membership**
Membership in a co-operative should be voluntary and available without artificial restriction or any social, political or religious discrimination to all persons who can make use of its services and who are willing to accept the responsibilities of membership.
2. **Democratic Control**
Co-operatives are democratic organizations. Their affairs should be administered by persons elected or appointed in a manner agreed by the members and accountable to them. Members of primary co-operatives should enjoy equal rights of voting (one member - one vote) and participation in decisions affecting their organizations. In other than primary co-operatives, the administration should be conducted on a democratic basis in a suitable form.
3. **Limited Interest on Shares**
Share capital should receive only a strictly limited rate of interest, if any.
4. **Return of Surplus to Members**
Surplus or savings, if any, arising out of the operations of a co-operative belong to members and should be distributed in such a manner as would avoid one member gaining at the expense of others. This may be done by decision of the members as follows:
 - a) by provision for development of the business of the co-operative;
 - b) by provision of common services;
 - c) by distribution among the members in proportion to their transactions with the co-operative.
5. **Co-operative Education**
All co-operatives should make provision for education of their members, officers, and employees, and of the general public in the principles and techniques of co-operatives, both economic and democratic.
6. **Co-operation Among Co-operators**
All co-operatives, in order to serve the interests of their members and their communities, should actively collaborate in every practical way with other co-operatives at local, national, and international levels.

It is important to note that not every co-operative subscribes to all six principles. For example, some co-operatives are designed specifically by religious, community, or ethnic groups for their exclusive use. However, these basic principles are generally subscribed to by most Canadian co-operatives.

APPENDIX 2:
SAMPLE INCORPORATION DOCUMENTS

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CO-OPERATIVE ASSOCIATION ACT
RULES OF

The Rules of Schedule B of the Act shall not apply and the following are substituted therefore and constitute the Rules of the Co-operative:

PRELIMINARY

1. (a) In these Rules, unless the context otherwise requires, words importing the singular include the plural, and vice versa, and words importing the masculine gender include females, and words importing persons include corporations;
- (b) "Act" means the *Co-operative Association Act* R.S.B.C. 1979 c.66 as amended; and "call", "director", "extraordinary resolution", "memorandum", "officer" and "rules" have the meanings respectively assigned to them by the Act.
- (c) "Capital value of shares" at the date of transfer shall mean the "initial capital value" plus the sum resulting when the initial capital value is multiplied by the Cost of Living Index as of the date of transfer less the amount of mortgage or other financing outstanding attributable to the unit of the member;

"Initial capital value" (ICV) shall mean the sum determined as follows:

$$\frac{PDC \times (UA + PSCA)}{GPA} = ICV, \text{ where}$$

PDC is the project development cost,
UA is the unit area,
PSCA is the proportionate share of common areas, and
GPA is the gross project area,

"project development cost" means the cost of the land, professional fees and disbursements, the costs of construction, marketing, co-operative education, legal fees relating to co-operative incorporation, purchase of the project, contract negotiations and the sale of shares for the accommodation to the member, and any and all other costs related to or resulting from developing the co-operative project.

"gross project area" means the entire area of the building measured from the outside and including exterior stairs and porches, and including garages, parking areas and storage areas in or under the building whether or not any such areas are enclosed;

"unit" means a self-contained apartment or townhouse owned by the Co-operative and occupied by a member;

"unit area" means the area of the unit from the outside walls and/or

midpoints of walls to adjoining units or common areas and includes the area of those common and exterior elements such as storage, stairs, patios and balconies which are for the exclusive use of the unit;

"gross common area" means the area resulting when the sum of all unit areas is deducted from the gross project area;

"proportionate share of common area" means the sum resulting when the factor resulting by dividing the unit area by the gross project area is multiplied by the gross common area:

$$\frac{\text{Unit Area} \times \text{Gross Common Area}}{\text{Gross Project Area}} = \text{Proportionate Share of Common Area}$$

MEMBERSHIP

2. a) Any person over the age of fifty-five (55) years may be admitted as a member upon application and subscription for the purchase of sufficient shares of the Co-operative to equal the capital value of the accommodation he/she intends to occupy in accordance with the terms of the housing agreement prepared by the Board of Directors for such accommodation, PROVIDED THAT until such time as the Co-operative shall provide accommodation for its members the members shall be required to hold such lesser number of Shares as the Directors may permit being not less than one (1) share each. Application for membership shall be made in writing to the Directors accompanied by tender of payment on account of shares subscribed in such amount prescribed by the Directors from time to time, and the Directors may accept, refuse or postpone any such application. If any application is refused the Directors shall forthwith cause any tender or payment for shares subscribed to be returned to the applicants or other person rightfully entitled to receive the same. The Directors shall cause to be kept a record of the disposition of each application for membership and shall notify the applicants in writing as to the acceptance or otherwise thereof. The Co-operative may by extraordinary resolution, from time to time, vary the minimum number of shares to be held pursuant to this Rule and may provide the manner in which the same shall be paid for and each member shall be deemed to have subscribed for the shares required to be held by him/her to comply with this Rule as amended from time to time.
- b) In addition, the Directors may admit to membership under this clause any person over the age of nineteen (19) years who is ordinarily resident in a housing unit owned or operated by the co-operative upon receipt of a written application therefore accompanied by the tender of cash payment equal to the purchase price of one (1) fully paid share and upon the condition that if he/she ceases to reside in a housing unit owned or operated by the Co-operative, he/she shall thereupon cease to be an associate member upon the redemption of his/her share and the rebate of the monies paid on the purchase price of the share, less the amount of any lien or set off.

- c) Not less than 75% of all housing units owned or operated by the Co-operative shall be occupied by members of the Co-operative.
- d) Not more than two (2) persons shall occupy a housing unit as permanent residents.
- e) Application for membership shall be made in writing to the Directors accompanied by tender of payment on account of shares subscribed in such amount prescribed by the Directors from time to time, and the Directors may accept, refuse or postpone any such application. If any application is refused the Directors shall forthwith cause any tender or payment for shares subscribed to be returned to the applicants or to the person rightfully entitled to receive the same.
- f) The Directors shall cause to be kept a record of the disposition of each application for membership and shall notify the applicants in writing as to the acceptance or otherwise thereof.
- g) The Co-operative may by extraordinary resolution, from time to time, vary the minimum number of shares to be held pursuant to this Rule and may provide the manner in which the same shall be paid for and each member shall be deemed to have subscribed for the shares required to be held by him/her to comply with this Rule as amended from time to time.

WITHDRAWAL AND EXPULSION

- 3. a) A member may withdraw from the Co-operative if, as the case may be, he/she ceases to reside in the housing accommodation owned or operated by the co-operative for its members. A member shall be deemed to have made an application to withdraw from membership in the Co-operative if the member liquidates or terminates a lease or agreement providing a right of occupancy between the member and the Co-operative, or surrenders or terminates possession of any housing accommodation owned or operated by the Co-operative. The Directors may also consent to a withdrawal from the Co-operative by a member in any other case where it seems just and equitable to the Directors. A member shall be entitled on surrender of his/her share certificate to payment of the capital value of his/her shares at the time of the withdrawal as set out in section 1 of these Rules, and an associate member shall be entitled on surrender of his/her share certificate to payment of the amount paid on the purchase price of the share, both subject to any liens which the Co-operative may have against these shares howsoever arising whether pursuant to these Rules or otherwise, but the Directors may withhold the refund until such time as a purchaser satisfactory to the Directors can be found therefore.
- (b) Where a member is charged with conduct detrimental to the Co-operative he/she may be expelled from membership by an extraordinary resolution of the Co-operative. The member making the charge shall lodge with the Directors full particulars thereof, in writing, signed by him/her and the

member charged shall be furnished by them with a copy of the particulars at least two (2) weeks prior to the meeting at which the extraordinary resolution is to be considered. The notice calling the meeting shall state that the charge has been made and specify the name of the member concerned. A member so expelled shall be entitled to payment of the capital value of his/her shares at the time of the expulsion and an associate member so expelled shall be entitled on surrender of his/her share certificate to payment of the amount paid on the purchase price of the share, both in the manner and on the condition specified in paragraph (a) and shall not be again admitted to membership except by an extraordinary resolution of the Co-operative.

(c) Where the member has:

- (i) failed to pay housing charges, occupancy charges or other money due by him/her in respect in of the housing unit; or
- (ii) in the opinion of the Directors, the member has breached a material condition of an agreement between him/her and the housing Co-operative relating to
 - 1) his/her possession or occupancy of the residential premises, or
 - 2) his/her use of the property of which those premises form part,and has failed to rectify the breach within a reasonable time after receiving written notice to do so from the Co-operative,

The Directors may by directors resolution:

- (i) requiring a majority of 3/4 of all the Directors, and
 - (ii) passed at a meeting of the Directors called to consider the resolution, terminate the membership of a member.
- (d) The member whose membership is proposed to be terminated by a resolution of the Directors is entitled to at least seven (7) days' notice of the meeting at which the resolution is to be considered, together with a statement of the grounds upon which his/her membership is proposed to be terminated, and may appear, either personally or by or with an agent or counsel, to make submissions at the meeting.
- (e) Within seven (7) days after the date on which the resolution referred to in Rule 3(c) is passed by the requisite majority of directors, the Co-operative shall, in writing, notify the person whose membership is terminated of the resolution.
- (f) A person whose membership is terminated under Rule 3 may appeal the decision of the Directors at the next general meeting of the Co-operative by delivering a notice of appeal to the Co-operative within seven (7) days

after the date when notice was given to him/her under Rule 3(c).

- (g) A person who, pursuant to and within the time limited by Rule 3(f), appeals the termination of his/her membership shall, notwithstanding the resolution of the Directors terminating his/her membership, continue to be a member of the Co-operative unless the members at the general meeting to which the appeal is brought confirm the termination of his/her membership by a resolution requiring a simple majority of the members present.

TRANSFER

- 4. A member may transfer his/her shares only with the written approval of the Directors and the granting of any approval shall not be unreasonably withheld and the share capital value of the shares at the time of the transfer shall be determined by the formula set out in Rule 1 of these Rules.
- 5. If a member dies or becomes incompetent or by reason of mental or physical infirmity or otherwise is unable to conduct his/her affairs or becomes bankrupt, or makes an assignment for the benefit of creditors, the Directors may either register the person entitled to his/her shares as a member or redeem the shares by paying the party entitled thereto the capital value; and if an associate member dies or becomes incompetent or by reason of mental or physical infirmity or otherwise is unable to conduct his/her affairs or becomes bankrupt, or makes an assignment of the benefit of creditors, the Directors may either register the person entitled to his/her shares as a member or redeem the shares by paying to the party entitled thereto the amount paid on the purchase price of the share subject to any lien of the Co-operative against the shares.

SHARES

- 6. All shares in the Co-operative shall be paid for in cash, and no part of the funds of the Co-operative shall be employed in loans upon the security of its shares.
- 7. Shares in the Co-operative may be held jointly by two or more persons who shall be referred to as joint shareholders.
 - (a) Only one joint shareholder may be a director of the Co-operative at any one time.
 - (b) Joint Shareholders are together entitled to only one vote.
 - (c) The joint shareholder whose name appears first as the first two or more joint shareholders on the share certificate is entitled to cast the vote, but if he/she fails to do so, the joint shareholder whose name next appears on the share certificate is entitled to cast the vote, and so on if there are more than two joint shareholders.

- (d) Unless otherwise agreed between the Co-operative and the joint shareholders, payments, including redemption amounts and interest and dividends, shall be made to the shareholders jointly, and payment by the Co-operative in accordance with this Rule is a valid and effective discharge of the Co-operative up to the amount so paid.
 - (e) Joint Shareholders shall be jointly and severally liable for all assessments, levies, dues, fees, payments and other charges imposed against or payable by the joint shareholders or any of them in respect of the Co-operative.
 - (f) Joint shareholders may hold their shares as tenants in common, but if they do not so specify, then they shall be deemed to hold their shares as joint tenants.
- 9. Every person whose name is entered in the register of members shall without payment be entitled to a certificate under the seal of the Co-operative, specifying the shares held by him/her and the amount paid up thereon.
 - 10. The Co-operative may redeem and reissue its shares.
 - 11. The Co-operative shall have a lien on a member's shares for a debt due to it by him/her.

TRANSFER OF SHARES

- 12. The instrument of transfer of any shares in the Co-operative shall be executed both by the transferor and the transferee, and the transferor shall be deemed to remain a holder of the shares until the name of the transferee is entered in the register of members in respect thereof.
- 13. Shares in the Co-operative shall be transferred in the following form, or in any usual or common form approved by the Directors:

I, A.B., of _____, in consideration of the sum of \$_____ paid to me by C.D. of _____ (hereinafter called the "transferee") do hereby transfer to the transferee _____ share(s) in the _____, to hold unto the transferee, his/her executors, administrators, and assigns, subject to the several conditions on which I held the same at the time of the execution thereof; and I, the transferee, hereby agree to take the said share(s) subject to the conditions aforesaid.

As witness our hands the _____ day of _____, 19 ____

(Signature of Witness)

(Signatures of A.B. and C.D.)

14. The instrument of transfer must be accompanied by the certificate of the shares to which it relates but if the certificate has been lost or destroyed the Directors may waive the requirement for delivery of the certificate upon conditions as they may specify.

GENERAL MEETINGS

15. The first general meeting shall be held in the third month from the date of incorporation at such time and place as the Directors may determine.
16. A general meeting shall thereafter be held once in every year on a date not later than four (4) months after the end of the fiscal year of the Co-operative on a day and at such hour and place as may be determined by the Directors.
17. If the preceding general meeting or the Directors so resolved, a semi-annual general meeting shall be held in the sixth month following the preceding general meeting to consider the financial position and progress of the Co-operative, the acts of the Directors, and such other business as may be brought before the meeting.
18. The Directors may, whenever they think fit, and shall, upon a written requisition signed by not less than one-fifth in number of the members, call a special general meeting. A requisition shall set forth the object of the meeting and be deposited at the registered office. If the Directors do not within seven (7) days after the deposit of the requisition call the meeting, the requisitionists may themselves convene a meeting.
19. Fourteen (14) days' notice at the least of every general meeting specifying the place, the day, and the hour of the meeting, and in the case of special business, the general nature of that business, shall be given to every member.
20. No business shall be transacted at any general meeting unless one-fourth of the members are present in person at the time when the meeting proceeds to business and unless at all times not less than three (3) members are personally present.
21. (a) Save and except as provided in Rule 26(b), the president, or failing him/her, any director shall preside as chairperson at every general meeting;
- (b) In the event that a contentious or potentially contentious issue is to be dealt with at a general meeting, a simple majority of all the directors may at any time before or during the general meeting at which the issue is to be considered, determine that it is in the best interest of the Co-operative or of achieving the business of the general meeting to appoint a neutral person who is not a member of the Co-operative to preside as chairperson for the general meeting to deal with the issue, and the directors then may appoint a neutral person who in the sole discretion of a simple majority of all the directors is suitable for the purpose.

22. If there is no person qualified by the preceding Rule to act as chairperson present within thirty (30) minutes after the time appointed for holding the meeting, or willing to act, the members present shall choose someone of their number to be chairperson and the person so chosen shall act as chairperson of the meeting.
23. If within one (1) hour from the time appointed for a general meeting a quorum is not present, the meeting, if convened upon a requisition, shall be dissolved; in any other case it shall stand adjourned to the same day in the next week at the same time and place, and if at the adjourned meeting a quorum is not present within one (1) hour from the time appointed, the members present shall form a quorum.
24. The chairperson may, with the consent of any meeting at which a quorum is present (and shall if so directed by the meeting), adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.
25. The order of business at a general meeting shall, subject to variation according to circumstances, be as follows:
 - a) Meeting to be called to order;
 - b) Notice convening meeting to be read;
 - c) Minutes of preceding meeting to be read and disposed of;
 - d) Business arising out of minutes;
 - e) Reports of standing and special committees;
 - f) Reports of Directors and auditors;
 - g) Election of Directors and auditors;
 - h) Special business;
 - i) Unfinished business;
 - j) New business.

VOTING

26. On a show of hands or on a ballot, every member present in person shall have one (1) vote only.
27. The chairperson at any general meeting shall, both on a show of hands and a ballot, have a casting or second vote.
28. No member in arrears may vote for Directors or at any general meeting.
29. Proxy voting shall be permitted only as permitted in the *Co-operative Association Act* as amended from time to time.

30. In the case of a vote by show of hands, the declaration of the chairperson of the meeting shall be conclusive evidence of the result, unless three (3) or more members before or on the declaration of the result demand a poll, when a poll shall be forthwith taken.

DIRECTORS

31. The number of Directors shall not be less than three (3) nor more than nine (9), but may be increased or reduced from time to time in general meeting but the number may never be less than three (3).
32. The first Directors shall be the persons designated in writing by a majority of the subscribers to the Memorandum and shall hold office until the first general meeting.
33. At the first general meeting and each annual general meeting, the Directors shall be elected by the members, but any casual vacancy may be filled up by the Directors.
34. If at any meeting at which an election of Directors ought to take place the places of the vacating Directors are not filled up, the meeting shall stand adjourned till the same day in the next week at the same time and place and if at the adjourned meeting the places of the vacating Directors are not filled up, the vacating Directors shall be deemed to have been re-elected at the adjourned meeting.
35. The Co-operative may, by extraordinary resolution, remove any Director before the expiration of his term of office, and may appoint another person in his/her stead.
36. Every Director must be a member of this Co-operative and hold the number of shares required by these Rules.
37. The office of Director shall be vacated if the Director:
- a) ceases to be a member; or
 - b) fails to reside in housing provided by the Co-operative;
 - c) holds any office of profit under this Co-operative;
 - d) is concerned or participates in the profits of any contract with the Co-operative;
 - e) is absent from three (3) consecutive regular meetings of the Directors without the consent of the Directors.

provided that no director shall vacate his office by reason of his being a member of a company which has entered into contracts with or done any work for this Co-operative; but the Director shall disclose the fact of membership to the other directors, and shall not vote in respect of that contract or work, and if he does vote his vote shall not be counted.

38. The business of the Co-operative shall be managed by the Directors, who may pay from its funds the expenses of its incorporation and may exercise all its powers, subject to the Act and these Rules.
39. The Directors shall elect a President and one (1) or more Vice-Presidents and a Secretary and a Treasurer from their number, and may appoint a manager, whether from their own body or otherwise, as they think fit, and may prescribe his/her duties and fix his/her remuneration and from time to time dismiss him or her. A Vice-President shall exercise the powers of the President in his/her absence.
40. The Directors may delegate any of their powers to committees consisting of such member or members of their body as they think fit; any committee so formed shall, in the exercise of their powers so delegated conform to any regulations that may be imposed on them by the Directors.
41. The Directors shall cause minutes to be made in books provided for the purpose:
 - a) of all appointments of officers and committee members made by them;
 - b) of the names of the Directors present at each meeting of Directors or committee;
 - c) of all resolutions and proceedings at all meetings of the Co-operative, the Directors or any committee;and every Director present at a meeting of Directors or committee shall sign his name in a book kept for that purpose.
42. The Directors shall cause proper registers of the members and Directors to be kept at the registered office, and shall in all other respects duly comply with the act or any statutory modification thereof for the time being in force.
43. The Co-operative in general meeting shall determine from time to time what amount (if any) shall be allowed to the Directors for expenses including reimbursement for loss of income, salary or wages suffered by reason of the performance of their duties as Directors, but no Director shall receive any fee or other remuneration from the Co-operative as a Director.
44. All meetings of the Directors shall be held in the Province, and the quorum necessary for the transaction of business may be fixed by the Directors, and unless so fixed shall be three (3).
45. The Directors may meet together for the dispatch of business, adjourn and otherwise regulate their meetings, as they think fit. Questions arising at any meeting shall be decided by a majority of votes. In case of an equality of votes, the chairperson shall have a second or casting vote. A Director may, and the Secretary, on the requisition of a Director shall at any time summon a meeting of the Directors.

46. A resolution signed by all Directors shall have the same force and effect as if passed at a duly constituted meeting of the Directors.
47. a) Every director of the Co-operative who holds any office, or possesses any property, whereby, whether directly or indirectly, a duty or interest might be created in conflict with his/her duty or interest as a Director of the Co-operative, shall declare at a meeting of the Directors of the Co-operative the fact, and the nature and extent of the conflict.
- b) The declaration shall be made by a Director referred to in subsection (a) at the first meeting of the Directors held:
- i) after he/she becomes a Director; or
- ii) if he/she is already a Director, after he/she commenced to hold the office or possess the property.
48. a) A Director who is in any way, directly or indirectly, interested in a proposed contract or transaction with the Co-operative shall disclose the nature and extent of his/her interest at a meeting of the Directors.
- b) The disclosure required by paragraph (a) shall be made:
- i) at a meeting at which a proposed contract or transaction is first considered;
- ii) if the Director was not, at the time of the meeting referred to in paragraph i), interested in a proposed contract or transaction, at the first meeting after he/she becomes interested; or
- iii) at the first meeting after the relevant facts come to his/her knowledge.
- c) For the purpose of this section, a general notice in writing given by a Director of the Co-operative to the other Directors of the Co-operative to the effect that he/she is a member, Director or officer of a specified corporation, or that he/she is a partner in, or owner of, a specified firm, and that he/she has an interest in a specified corporation or firm, is a sufficient disclosure of interest to comply with this Rule.
- d) A Director of the Co-operative shall be deemed not to be interested or not to have been interested at any time in a proposed contract or transaction by reason only:
- i) where the proposed contract or transaction relates to a loan to the Co-operative, that he/she or a specified corporation or specified firm in which he/she has an interest has guaranteed or joined in guaranteeing the repayment of the loan or any part of the loan;

- ii) where the proposed contract or transaction has been or will be made with or for the benefit of an affiliated corporation, that he/she is a Director or officer of that corporation;
 - iii) that the proposed contract or transaction relates to the expenses of a Director in his/her capacity as a Director.
49. a) A Director shall account to the Co-operative for any profit made as a consequence of the Co-operative entering into or performing the proposed contract or transaction, unless:
- i) he/she discloses his/her interest as required by Rule 48 and 49;
 - ii) after his/her disclosure the proposed contract or transaction is approved by the Directors; and
 - iii) he/she abstains from voting on the approval of the proposed contract or transaction; or unless
 - iv) the contract or transaction was reasonable and fair to the Co-operative at the time it was entered into; and
 - v) after full disclosure of the nature and extent of his/her interest it is approved by special resolution.
- b) A Director in the circumstances referred to in Rule 48 shall not be counted in the quorum at a meeting of the Directors at which the proposed contract or transaction is approved.
50. Every act of a Director is valid, notwithstanding any defect that may afterwards be discovered in his/her appointment, election or qualification.
51. The Directors shall not invest any part of the funds of the Co-operative exceeding the sum of One Thousand Dollars (\$1,000.00) on any one occasion or cumulatively over several occasions in one security without the sanction of an extraordinary resolution unless the monies are to be invested in a security or class of securities in which trustees are permitted to invest trust funds under the Trustee Act as amended from time to time.
52. Every officer of the Co-operative having receipt or charge of money shall before entering upon his/her duties give such security as may from time to time be deemed necessary by the Directors.
53. Subject always to Rule 51, the Directors shall invest and deal with any part of the funds of the Co-operative not immediately required in such manner as they shall see fit.

54. a) The Directors may, at their discretion, raise or borrow money for the purpose of the Co-operative and secure payment thereof in any manner which they see fit, whether by charge upon any or all of the assets of the Co-operative, both real or personal, present or future, or otherwise, PROVIDED, that if any security proposed to be given in the exercise of this power is intended to charge the whole or substantially the whole of the undertaking of the Co-operative, this power shall not be exercised by the Directors (unless a Superintendent appointed under the Co-operative Association Act approves) without the authority of an extraordinary resolution.
- b) The Directors from time to time, if in their opinion an emergency exists for which additional funds are required, may levy and collect an additional sum from each member to raise the additional funds to meet the emergency and the same shall be payable upon notice to the member. All levies under this rule shall apply uniformly to all members without preference, but may be prorated in accordance with the number of shares for which a member has subscribed. Upon notice to a member of the levy the same shall constitute a debt due from the member to the Co-operative payable on demand.
55. The Directors shall cause true accounts to be kept:
- a) of all sums of money received and expended and the matter in respect of which such receipt and expenditure takes place; and
- b) of the assets and liabilities of the Co-operative.
56. The books of accounts shall be kept at the registered office of the Co-operative, and may for temporary purposes be kept at such other place or places as the Directors think fit, and shall at all reasonable times be open to the inspection of the Directors and members.
57. An auditor or firm of auditors shall be appointed by the Co-operative at its first general meeting and at every annual general meeting thereafter, but a casual vacancy in the office of auditor may be filled up by the Directors. No Director or officer may be appointed or act as auditor.
58. At every annual general meeting the Directors shall cause to be laid before the Co-operative the financial statements prepared by the Directors in accordance with the Act for the period to the fiscal year end last preceding, and cause to be read their report and the auditors' report thereon, all of which shall be open to inspection by any member. Every member shall be supplied free of charge with a copy of such Financial Statements.
59. The Directors shall report to such meeting the state of the Co-operative's affairs and the amounts (if any) which they recommend to be paid as patronage refund to patrons, or classes of patrons of the Co-operative, respectively.

60. The Directors shall, before recommending any patronage refund or allocation or adjustment or reduction of housing charges paid in respect of housing accommodation owned and operated by the Co-operative, set aside out of the surplus of the Co-operative, in accordance with the Act, such sum as they think proper, and not being less than ten (10) percent of the net surplus, towards the reserve funds, which shall be applicable for meeting contingencies; and pending such application may, at the like discretion, either be employed in the business of the Co-operative or be invested in such manner as the Act permits and the Directors may deem advisable.
61. The Co-operative in general meeting may authorize payment of a patronage refund or distribution of a sum in adjustment of housing charges paid or allocation of a sum for adjustment of housing charges to be payable, but such payment, distribution or allocation shall not exceed that recommended by the Directors and the same shall be paid, distributed or allocated to all members in proportion to the housing charges paid or payable by them.
62. A copy of the Financial Statements required by the Act shall be sent to every member at least fourteen (14) days before the meeting at which they are to be presented.

DISPUTES

63. a) Any dispute arising out of the affairs of the Housing Co-operative, between a member thereof, or any person aggrieved who has for not more than six (6) months ceased to be a member, or any person claiming through such member or person aggrieved, or claiming under the Rules, and the Housing Co-operative or a Director thereof as follows:
 - (i) In the event of a dispute between the parties which can not be amicably resolved in the first instance, either party shall give the other party notice of such dispute and the dispute shall be referred to a mediator within ten (10) days of delivery of the notice of dispute if the parties can agree to one, and if they cannot to a mediator appointed by the British Columbia International Arbitration Centre - Mediation Division within seven days of the failure of the parties to agree, and such mediator shall proceed to mediate the matter in dispute. Consensus and Agreements reached by the parties through mediation shall be conclusive and binding on the parties and shall be recorded by the parties in writing. The mediator's reasonable fees and disbursements will be shared equally by the parties.
 - (ii) In the event that the dispute between the parties cannot be resolved by mediation, either party shall give the other party further written notice that such dispute has not been resolved and the matter will be referred to an arbitrator within twenty-one (21) days of the notice of failure of mediation, if the parties can agree to one, and if they cannot to an arbitrator appointed by the British Columbia

International Arbitration Centre within seven days of the failure of the parties to agree, and such arbitrator shall proceed to arbitrate the matter in dispute. In any case the conclusion reached by the arbitrator shall be conclusive and binding on the parties and the arbitrator's reasonable fees and disbursements will be shared equally by the parties. Statutes and regulations of the province of British Columbia shall apply to the arbitration.

- (b) (i) Notwithstanding any other rules of the Co-operative, but subject to subsection (ii) and the Co-operative Association Act as amended from time to time, a member may apply to the Supreme Court for an order on the grounds that:
 - 1) the affairs of the Co-operative of which he/she is a member are being conducted, or the power of the directors are being exercised, in a manner oppressive to one or more of the members, including her/himself, or
 - 2) some act of the Co-operative has been done, or is threatened, or some resolution of the members has been passed or is proposed, that is unfairly prejudicial to one or more of the members, including her/himself.
- (ii) A member is not entitled to bring proceedings under this section 63(b) in respect of any matter that is the same or substantially the same as a dispute in which the member has an interest, which dispute
 - 1) has been decided by arbitration referred to in section 63(a) of these Rules, or
 - 2) is the subject of arbitration proceedings under section 63(a) of these Rules unless the court otherwise orders on the grounds of undue delay to which the applicant has not contributed.

NOTICES

- 64. A notice under the Act or these Rules shall be in writing, and may be given by the Co-operative to any member either personally or by sending it by ordinary post to his address last shown on the records of the Co-operative.
- 65. Where a notice is sent by post, service of the notice shall be deemed to be effected by properly addressing, prepaying, and posting a letter containing the notice, and to have been effected the day next following its posting.

THE SEAL

66. The seal of the Co-operative shall not be affixed to any instrument except by the authority of a resolution of the Directors or of the Co-operative, and in the presence of the President and the Secretary or, such other persons as the Directors may appoint for the purpose; and the persons affixing the seal shall sign every instrument to which the seal of the Co-operative is so affixed in their presence.
67. The Directors shall provide for the safe custody of the seal of the Co-operative, which shall be deposited at its registered office.

ACCESS TO INFORMATION

68. (a) Directors, officers, committee members, and anyone else having access to financial information on members shall keep such financial information confidential and shall not disclose such information save and except only to other Directors, officers, or committee members for use in connection with their official duties, or to the members in question, or to a party legally entitled to such information.
- (b) Subject to the previous paragraph, members shall have access to:
- 1) any records and documents referring to the member;
 - 2) minutes of general meetings;
 - 3) minutes of Directors' meetings;
 - 4) correspondence to or from the co-op;
 - 5) minutes of committee meetings.

ALTERATION OF RULES

69. The Rules may only be altered or added to by Extraordinary Resolution.
70. Each member on being registered shall be furnished, on his/her request and on payment of fifty cents (.50¢), with a copy of the Memorandum and Rules of the Co-operative.