





# LENDING FUNDS TO COMMUNITY SCHEMES



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BC FUNDING  
SOLUTIONS

# ABOUT THE COMPANY

BC Funding Solutions (Pty) Ltd is part of the Sectional Title Solutions (Pty) Ltd group, which focuses on providing value-add solutions to Sectional Title Bodies Corporate and Homeowners Associations ("Community Schemes") across South Africa.

Our success is based on over 150 years combined experience within Community Scheme property sectors.

BC Funding Solutions raises capital from private individuals, corporate entities and Trusts in order to facilitate much needed funding to Community Schemes, predominantly for underlying levy debtor problems or for maintenance and/or capital improvement projects.

Our core focus is to provide and facilitate a sustainable value-added solution that will benefit both the lenders into this environment, as well as the unit owners of the Community Scheme, in order to ultimately ensure financial stability and protect the unit owner's value of their investment in their property.

## **BENEFITS TO OUR LENDING CLIENTS IN THIS ENVIRONMENT INCLUDE:**

- Direct ownership in Community Scheme loans
- Interest returns that are not correlated to equity markets
- Prime plus interest returns
- A fully managed process with no involvement required from our lenders
- Full deployment of capital as costs are paid by the borrowers
- Legislative and contractual protections (security cession of levies)
- Limited risk of non-payment

Lending, loans and arrear levy debt claims are not financial products, as defined by the Financial Sector Conduct Authority (formerly known as the Financial Services Board) and, as such, are not regulated by the Financial Advisory and Intermediary Services Act No 37 of 2002 (as amended) ("FAIS Act").

BC Funding Solutions' role is to connect Community Scheme borrowers with lenders wishing to lend into this secured environment, and thereafter it is to monitor the collection and repayment of these loans to our lending clients.

# INTRODUCTION

A “Community Scheme” is defined in terms of Section 1 of the Community Schemes Ombud Service Act No 9 of 2011 (as amended) as any scheme or arrangement in terms of which there is shared use of and responsibility for parts of land and buildings, including but not limited to a Sectional Titles Development Scheme and a Home or Property Owners Association.



**BC Funding Solutions - Making a positive impact  
today, for tomorrow**

**Providing sustainable financial  
solutions for the future,  
responsibly**

## COMMUNITY SCHEME BACKGROUND

Community Schemes (most notably Sectional Title Development Schemes) are an efficient and popular form of property ownership in South Africa, especially amongst entry and lower level income owners, as the shared living arrangements (common property) provide a cost-effective mechanism for many of the essential expenses that are associated with property ownership.

There are estimated to be over 75 000 Community Schemes registered in South Africa, the clear majority of which, are Sectional Title Development Schemes, with an average of between 10 and 15 units per development. The estimated funding requirement of Community Schemes, nationally, is in the region of R15bn.



# WHY DOES THE COMMUNITY SCHEME ENVIRONMENT REQUIRE FUNDING?

Whilst many Community Schemes are efficiently managed and are financially sound, many of them have levy defaulting unit owners. As a result, they struggle to function operationally, often leading to general decay of the common property and therefore unit value. Owing, for the most part, to the Community Scheme only being able to afford basic necessities whilst limiting maintenance and other common property services.

When some owners do not make their levy contributions timeously, all unit owners in the Community Scheme are put at risk as the Community Scheme may not be able to continue funding essential services, such as:

- Municipal charges (water and electricity)
- Critical running costs (lift maintenance, security, etc.)
- General upkeep (lighting, exterior maintenance, and painting, gardens, etc.)

The non-payment of levies results in the need for the Community Scheme to borrow funds, in order to stabilise their cash flow and enable them to continue their required service delivery to the common property.

The Community Scheme is either protected by legislation (in the case of Bodies Corporate) and/or by contract and case law (in the case of Homeowners Associations), at various levels, to ensure that any risk of loss to levy income recovery and/or loan creditor (capital or interest) repayment, especially where the levies have been ceded as security to the loan, is extremely remote.

The Community Scheme will determine the costs that it will incur in the running, preservation and upkeep of the common property, on an annual basis, and then the Community Scheme will levy each owner in accordance with each unit owner's pro-rata share. In the Sectional Title environment, the registered "participation quota" of the Sectional Title Scheme – as this term is defined in the Sectional Title legislation – is utilised to determine the pro rata share of the unit owner's levy contributions, whilst in the Home Owners Association environment, the pro-rata share of the unit owner's levy contributions is determined by the contractual relationship between the Home Owners Association and the unit owner therein.



## SUSTAINABILITY WITH PURPOSE

The primary benefits that borrowing funds unlock for Community Schemes, are that the Community Scheme is able to protect the paying owners from the costs of the borrowings and from the otherwise inevitable situation of subsidising their non-paying owners, and the borrowed funds ensure delivery of required services to the Community Scheme so that the property assets are managed in terms of applicable Sectional Title legislation and Home Owners Association constitutional documentation.

The general decay of the land and buildings, complex, or estate, if not maintained over time, not only erodes the asset value of those units within the Community Scheme itself, but also the properties surrounding the Community Scheme. The decay of a single building can negatively impact the value of the neighbouring properties. This leads to a chain reaction, the results of which are noticeable in many of South Africa's inner cities.

In more severe cases, where there is non-payment of levy contributions, not even necessity services such as basic utilities can be paid by the Community Scheme. This often results in the disconnection of those utility services, and in the absence of individual water and electricity metres, even the paying unit owners suffer the consequences of the non-payment of levies by a portion of its members.

### BORROWING FUNDS ENSURES THAT THE COMMUNITY SCHEME HAS THE BENEFITS OF:



**TIME** - to take the necessary action to collect outstanding levy contributions and rehabilitate the levy defaulters, including preventing them from incurring expensive legal costs



**ACTION** - to implement required maintenance immediately, avoiding the risk of further deterioration, containment of additional unnecessary costs, price escalations and inconvenience to all unit owners



**PRESERVING** - the asset value of the units in the Community Scheme and hence protecting the property investment of all unit owners



**GUARANTEEING** - the Community Scheme's financial cash flow and stability by lending the full value of the levy debt.

BC Funding Solutions are proud that the identified problems experienced by Community Schemes can be solved with its innovative and competitive funding solutions, and that these identified modalities of social responsibility can be realised.

## HOW DOES A COMMUNITY SCHEME BORROW FUNDS?

The Body Corporate, in the Sectional Title environment, borrows funds by the passing of a special resolution in accordance with the applicable legislation, whilst the Home Owners Association borrows funds through the Executive Committee of the Home Owners Association dependent on the provisions of the constitutional documentation of the Home Owners Association.

The Body Corporate is protected by legislation, at various levels, to ensure that any risk of loss to levy income recovery and / or loan creditor (capital or interest) repayment, especially where the levies have been ceded as security for the loan, is extremely remote. For Home Owners Association the aforementioned also applies, however, it is case law and contractual relationships that drive such protections, rather than legislation as is the case with Sectional Title Bodies Corporate.

The Community Scheme raises interest on the arrear levy contributions owed by unit owners, as empowered by legislation and constitutional documentation. These arrear levy contributions, together with interest thereon, as well as certain other charges, are ceded in security for the loan.

The legal framework (legislation and case law) within which Community Schemes operate and under which they are governed in South Africa, necessarily provides wide and far-reaching powers to ensure these expenses are recovered from those who have enjoyed the benefits of the costs incurred, as the entire concept and fabric of communal living would implode if each beneficiary did not honour their share of the responsibility.

## WHAT FORM CAN THE ADVANCE OF FUNDS INTO THIS ENVIRONMENT TAKE?

The opportunity to advance funds to Community Schemes and / or in respect of Arrear Levy Debtors may take the form of a direct advance of funds to one or more Community Schemes, and / or the purchase of an existing claim from another Community Scheme creditor, and the purchase of Ceded Rights to claims against Arrear Levy Debtors, the right to recover which, is subrogated in terms of Levy Guarantee Insurance Policies entered into with Community Schemes (collectively referred to as "Sale Claims").