Borrowing from Lannock Body Corporate Finance

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Body Corporate Borrowing

A Lannock loan is an unsecured loan to the Body Corporate to fund Body Corporate improvement projects like remediation, defect rectification, green projects and repairs. Lannock will also fund Body Corporate insurance, professional services and litigation:

- Funds are provided directly to the Body Corporate – we do not lend to the individual owners, and we do not ask for financial information from owners
- Body Corporate borrowings are 'off balance sheet' for owners
- Individual owners do not have to fund remediation or upgrades beyond their ownership of the unit. The cost stays with the unit when sold – so owners don't lose out after paying the whole amount upfront through levies.
- Our funding is completely unsecured – there are no mortgages, banker's liens, charges or caveats
- There are tax advantages – talk to your taxation advisor

Frequently Asked Questions

Can a Body Corporate borrow money?

Section 130 (1) of the Unit Title Act 2010 (the Act) provides that a Body Corporate may borrow money.

For what purposes can a Body Corporate borrow money?

A Body Corporate can borrow for the "purpose of performing its duties" – typically Lannock loans are used for performing the duty to repair and maintain that is set out in Section 138 of the Act. Lannock loans can be used for:

- Building remediation
- Repairs and maintenance
- Seismic strengthening
- Cladding and defect rectification
- Litigations costs
- Insurance premium funding

Why should a Body Corporate borrow rather than raise a special levy?

Body Corporate loans are frequently a more equitable outcome than special levies where unit owners have limited access to affordable finance, or where they would otherwise have trouble raising the money needed. The use of individual 'equity' to fund Body Corporate works (essentially a Special Levy) is less efficient than a Body Corporate loan and often more expensive for most Body Corporate members.

What is the process required for a Body Corporate to borrow money?

A motion to borrow money can be passed by an ordinary resolution of a general meeting of the Body Corporate.

Who is liable for the loan?

The Body Corporate is liable for the loan and so levies its unit owners to meet its repayment obligations.

Is there any security taken at all?

No.

However, unit owners each have joint and several liability for the obligations of their Body Corporate.

What happens if the loan goes into default?

If the default continues, we will seek judgment for the defaulted debt and if necessary, obtain orders appointing an administrator to manage the Body Corporate into a position where repayments can be recommenced.

What are the key characteristics of a Lannock loan?

Term	Up to 15 years
Interest Rate	The interest rate will depend on your loan requirements. Please contact us for a Funding Plan which includes indicative monthly repayments.
Interest Only Period	Up to two years – which helps manage cash flows during the this period.
Establishment Fee	There will be a one-off fee for the establishment of the loan facility.
Line Fee	There will be a “line fee” which ceases when the facility has been fully drawn.
Early Repayment Fee	The Body Corporate will need to pay a fee if it wants to repay the loan ahead of the contracted payments.
Approved Issuer Levy	To keep costs to borrowers as low as possible, Lannock operates in New Zealand on a ‘non-permanent establishment’ basis – this is a structure agreed across the OECD under which all our loan activities from are managed out of Australia and results overall in a lower cost to the Body Corporate. [Refer to our Funding Plan for more information on this cost.] Lannock manages this whole process for the Body Corporate, and we note that this is tax deductible for the Body Corporate.

Unit Titles Act 2010 – Section 74

Lannock may require a Body Corporate to apply to the High Court to settle a scheme of repair under Section 74 of the Unit Titles Act 2010.

Summary: *Special Levies compared to Body Corporate Borrowing*

	Special Levies	Body Corporate Loan
Credit Impact	The payment sits on the owners' personal balance sheet – reducing their borrowing capacity	The loan is to the Body Corporate, so does not impact owners' personal credit position
Dept Responsibility	Personal debt to fund a special levy stays with the borrower, even after selling the property	The responsibility for repayment stays with the unit not an individual owner
Opportunity Cost	There is an associated opportunity cost – e.g. it may reduce the funds available for an owner's next investment	Smooths the cash flow impost by 90% in the first year when compared with a special levy Matches capital expenditure to the life of the asset
Delays = Higher Costs	Collecting levies can be time-consuming and expensive to manage. This can result in costs having increased by the time levies raised	No need to wait for levies – funds are available now
Tax	Special levies cannot be claimed (debt funding by investor owners may be deductible)	Can provide tax advantages for some individual owners and the Owners Corporation

Interested in learning more about how Body Corporate Finance can benefit your Body Corporate?

Don't hesitate to contact our expert team for a no obligation information session. We're here to help you navigate your funding options and make an informed decision for your unit title community.

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