

LOANSTOCK VS COMMUNITY SHARES

A brief description and comparison between loanstock and community shares which are tools available to co-operatives to raise finance.

LOANSTOCK ISSUE	COMMUNITY SHARES ISSUES
It is a form of debt	It is equity (a share) in an enterprise
Typically it is raised among friends and supporters (not from bank or professional lenders). Lenders can also be sympathetic businesses but usually they are individuals.	Typically is raised among local supporters of the project but it may attract “social” investors outside your local area/topic.
The loan stock issue has a date when the stock matures and must be repaid in full like any other loan/debt.	Shares offered to the public are “withdrawable shares” which are unique to Industrial Provident Societies. “Withdrawable share” are commonly referred to as “community shares”.
Potential lenders can be offered a range of interest rates to choose from (including zero interest).	“Withdrawable shares” can be withdrawn on request. There is usually a period of notice required and withdrawals may be suspended if the co-operative needs the capital.
The investment does not need to be the same amount lent by each person (however, it is common to have similar amount, as this is fair)	“Withdrawable shares” cannot be sold on the stock exchange by the investors but only back to the co-operative at the value that they were bought.
When the loanstock mature, it could be paid in the form of further loan stock, if that is clear in the condition of the issue.	“Withdrawable shares” may be offered an annual interest, enough to attract capital, in the offer document but the Co-operative may decide otherwise if profit is lower than predicted.
The lender/investor does not get any decision making power in the organisation. There is no danger of the investors having control over the project.	The shareholder is a co-owner of the co-operative and has voting powers. The principle one member one vote applies.
Loanstock is capital raised that need to be returned when it matures.	“Withdrawable shares” is “patient” capital.
Loanstock is used by Industrial Provident Societies such as Co-operatives and Community Benefit Societies who are exempt from the strictest legislation on soliciting investment.	Community Shares offers are used by Industrial Provident Societies such as Co-operatives and Community Benefit Societies who are exempt from the strictest legislation on soliciting investment.
<i>Resource adapted from Co-operatives UK</i>	