

“Oh No! The repairs and upgrades will cost more than our funds in reserve!”

Borrowing is an option for Homeowner Associations

An INCORPORATED Homeowners Association can obtain a commercial bank loan.

The cost of construction projects can make residents shutter. Often projects compound one upon another with the result of maintenance or upgrades being imprudently deferred. More and more homeowner associations are discovering the option of a commercial loan as a solution to smooth out the impact of special assessments on owners. A loan can spread the cost of the project over several years instead of a few months. Most homeowners appreciate the advantages.

Advantages of a loan:

- Downward slide of property values slowed or eliminated.
- Repairs, Improvements, completed quickly.
- Reduction of financial impact on owners.

An association would want to consider the following additional information when investigating a loan.

Collateral of the Loan

- Assignment of association assets that may include but are not limited to monthly assessments.
- No liens are placed on individual units.

Types of Loans

- Repair/Replacement of worn out major components such as roofs, fences, decks, walls, paint, sidewalks, asphalt, etc.
- Improvements of association facilities such as new pools, sauna, clubhouse ,playgrounds, perimeter gates.etc
- Defect Litigation to assist the association in their dispute with the developer. (uncommon)

General Loan Parameters:

- Term= one to fifteen years
- Fixed and variable interest rate programs available
- Points=a fee of one to two percent on committed loan amount.
- Rate=interest you pay on the loan-5-8% fixed or bank's reference rate+1.5-3% variable.
- Application fee=\$0-\$3,000.00 (typically refunded if loan is declined)
- No Payment penalties for paying before the term ends on variable rate loans. There may be a fee for pre-payment of fixed rate loans.
- Typical structure=initially a "non-revolving" line of credit during the construction phase of six months to one year. The line of credit is converted to a variable or fixed rate when construction is completed.
- The loan interest rate may be reduced if the association maintains other accounts with the bank.

Loan Amounts Available

- \$50,00.00- minimum
- Maximum amount varies with the size of the association.

Approval Period

- Up to 30 days from the receipt of all required documents for the loan to be approved.
- Loan documents are completed for signing within 10-30 days upon receipt of signed commitment letter by the bank.

What does the commercial lender look for to approve a loan?

- Size: How large is the association? Associations under 20 units will find it difficult to receive a loan as they have fewer units with which to spread the loan payment.
- Cash Flow: Can your association assessments cover the loan payment and continue to fund other reserve items.
- Reserve Study: Is the reserve study current, prepared by an experienced company and appears to prepare the association for future needs?
- Delinquencies: Are there many units or just a few units with large amounts due? Over 7% delinquency should cause concern in getting the loan approved.
- Delinquent policy: What is the structure of the assessment delinquencies? Does the association follow the collection policy for delinquent assessments? Are they diligently collecting dues or are they letting them fall behind?
- Financial documents: Are the association's financial statements reviewed or audited by a CPA? Do they balance with the bank statements?
- Stability: How stable is the association?
- Managed: What is the management company's experience in common interest development management? Is the management a member of CAI and holds HOA management professional designations?

Selecting the bank to provide you with the association loan can be daunting. Here are a few factors for consideration:

What to look for when selecting a bank

- How many community loans has the bank successfully funded?
- Will they have a banker assigned to personally attend your meetings?
- What staff do they have in the association banking department?
- What fees do they charge?
- Minimum and Maximum Loan size?
- What is the Approval time line?
- What is the financial strength of the bank? (Bankrate.com)

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