LOANS: PAYING $320,071 TO GET $250,000!

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April 2011

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The four ways to pay for Reserve expenses are:

1) regular budgeted contributions,
2) special assessments,
3) loans, and
4) lowered property values due to deferred maintenance.

Note that it is only in the last few years that the third option, a loan to the association, has grown in availability and popularity.

While more financial institutions are offering loans to community associations, this option is not available to all associations. To quality for a loan, an association must demonstrate enough fiscal health (positive assessment revenue stream) to demonstrate to the lender that the loan can safely be repaid. Unfortunately, it is not the fiscally healthy associations that need a loan! If the association is healthy enough to qualify, the association must then determine if the high cost of the loan is tolerable.

When making regular Reserve contributions, the association earns interest that reduces the amount of contributions required of the homeowners. For example, if contributions had been made on a monthly basis over 15 years (earning 1% interest), $231,823 of homeowner contributions would grow to $250,000. On the other hand, in a loan situation the association contributes the <u>full</u> principal <u>plus</u> interest payments. For example, assuming current loan terms (7% interest for 7 years plus 1.25 points at origination), that same $250,000 expenditure will require $320,071 from the homeowners! Failing to play ahead cost the homeowners almost $100,000 on this $250,000 project!

Loans provide associations with another way to pay for Reserve expenses, but it is a very expensive option. Even though a special assessment might seem distasteful to an association with inadequate funds, while loan payments may seem small, the total cost ends up being very expensive to the association. If an association truly wants to save money, that's what they need to do. Save money by planning ahead and putting those contributions in the bank!