THE HOA LOAN

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Summer is the time for large maintenance and landscape projects and that means spending the big bucks. Too often, HOA discover that they don't have the money to cover these large expenses. This usually leaves the association with the choice to either impose a special assessment or get a loan. So what one do you choose?

A survey found that nearly 62% of American households have less than $1000 in savings or no savings at all. Numbers like this make it difficult for special assessment to be successful and make the HOA loan option a bit more attractive. But what are you really getting into with an HOA loan?

DEBT — AN AMERICAN TRADITION

Most of us have a loan on our home, car or education. Let's face it without a mortgage; many of us would not have the opportunity to buy a home. But many Americans borrow too much. The average American household with a credit card carries $15,762 in credit card debt alone.

Here's the bad news; we human aren't always responsible when it comes to debt. We borrow too much for things we don't need — simply because we want it now. Board members must take careful consideration before taking on debt for their HOA.

A Symptom of a Bigger Problem

I hate to state the obvious but if your association is considering a loan the problem is bigger than a dilapidated roof or cracking asphalt. By the time most HOAs consider this option they've already figured out that they haven't saved enough in reserves, or their insurance is insufficient.

Let's face it, no HOA plans to take out a loan in 15 years to replace the siding on their buildings. For homeowners associations a loan is the solution for failure to plan and save. A loan for your HOA should be a bridge to cross a chasm to a better healthier association.

A Bridge to a Healthier HOA

But here you are with your failing infrastructure and you need some help. Well if you're going to get a loan for your HOA, here are some important things to consider.

1. **A loan is not a solution to avoid a necessary dues increase.** In fact, now that you have a loan your dues need to cover operations, reserved, and the new loan payment. Yes your dues are going to be higher than the HOA next door with the bigger pool and better landscaping — but that is the price you pay for having dues too low for too long.
2. **There may be side effects for homeowners.** HOA debt can make it difficult for homes within the HOA to qualify for some mortgage or refinance options. This can make it harder to sell your home and may hurt the value of homes in your community.
3. **Spend wisely.** One of the greatest concerns that homeowner have about the HOA loan is that the funds will be spent for unnecessary items or that the HOA will overpay. Assign a committee to help determine where the loan will be spent, get competitive bids and put it all in writing so future board members have the documentation.
4. **Work with a qualified bank that specializes in community associations.** A good banker will help you understand the risks and make a plan so that the loan can be a bridge to a healthier HOA and not a bridge to nowhere.

A loan for your HOA is never ideal, but if you do it, make sure you're going in with your eyes wide open, educate the homeowners on the risks and potential consequences, and take the necessary steps to get financially healthy so you never have to do it again.