



Need for Financing Repairs Escalates

by Marc Gagnon

With the aftermath of hurricanes like Wilma and Katrina (even over two years later), the escalation of foreclosures in the real estate market, and the ever increasing construction costs, there is definitely a heightened need for financing of repairs for condominium and homeowner associations. Only a few banks that have the expertise and knowledge in this area have stepped up to the plate to assist these associations, and in so doing, the banks not only fill a need, but provide a boost in the local community economy. Through the use of loan proceeds, additional cash flow is created, thus providing more funds for purchases and new jobs.

When the costs are too much to bear by individual association residents, the homeowner and condominium associations must look

elsewhere. They are looking to banks to lend assistance in the funding of these general repairs, refurbishment, and safety issues, so that their residents will not be negatively financially impacted. To handle this appropriately, banks must find a way to not overburden the homeowners to the point that they are unable to remit the regular maintenance and special assessment payments. If this is not possible, the results could be escalating delinquencies, additional liens, and foreclosures, thus placing additional burdens on the majority of the residents, which would increase even more delinquencies and hurt our economy. Banks should examine the average monthly maintenance and special assessment fees within the market and develop a repayment schedule that will constructively fit the ability of the association to repay the loan that is granted without harmfully effecting the residents and association overall.

In addition, banks should give great consideration to the development of the repayment schedule terms, so that the association is able to maintain a secure and fixed budget going forward. Unfortunately, many associations did not save for those rainy days. They were hit with a number of repairs, and the residents are now being faced with astronomical increases in their maintenance and special assessment fees. Some of the associations have been able to receive assistance on disaster loans through the Small Business Administration at lowered interest rates. Some have not been that fortunate. In the last couple of years, associations have begun to request an increase in lines of credit so that there will be a backup of reserves prior to the hurricane season.

Associations have become more proactive because of their experience within the last three years. As an example, one local condominium association in Davie secured a line of credit which helped them two years ago. Originally, they needed the money at the inception of the catastrophe. However, the original delay in obtaining the necessary funds exacerbated their problems. With the new loan, they were able to make the improvements to the roofs with reasonable special assessments. They have now renewed that loan for a 60-month period and are building their reserves to prepare for the future.

Obviously, the right board is critical in the running of an association. The most successful boards are those run by business owners, professionals, and those who have served on some type of boards in the past. The larger associations have a definite advantage over the smaller ones as they are better able to absorb the costs as well as the loan payments. On a \$500,000 loan with 100 residents with a 5 year payback, as compared to an association with 25 residents, the individual special assessment would be \$100 as compared to \$400,

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at an interest rate of 7.5 percent. Banks are giving special deliberation regarding the smaller association's capability to afford the payments by analyzing the demographics of the association. More than ever, bankers are required to think outside of the box. Or maybe "think lock box."

Lock Box services are another way banks are able to help associations with their finances. They can be a saving grace for associations or property management companies in facilitating monthly payment processing. Lock box services maintain separate and accurate records of both regular and special assessments. With this service, the tedious job of writing up deposits and keeping track of who paid what and when will be neatly contained on daily reports. An association or association management company can remain way ahead of the game when they can actually see where their resident's payments stand at all times. With readily available images of those payments, the headaches of research are gone and the system will save both time and money.

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Marc Gagnon is vice president of Floridian Community Bank. For more information, visit www.floridiancommunitybank.com.