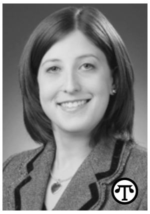
America's Communities

Funding For Your Community Association's Big Ideas

by Karyn Mann

(NAPSA)—As community associations age, the daily wear and tear on public buildings—from exterior facades to interior common areas—can take their toll, leaving properties in need of major capital improvements. While there may be debates about siding material or interior color schemes, the main question for community associations is: "Do we have the funds to pay for this?"



Karyn Mann

The community association is responsible for overseeing the public areas and common elements of a housing development, as well as the area's overall appearance. Whether you live in a deed-restricted neighborhood, co-op or condo, the community association sets and enforces guidelines for the upkeep of the community.

Capital improvement projects are challenging undertakings for any community association. However, by working with professionals in the industry, a community can make the process far more manageable. The first, and often the most important, task is deciding how to pay for these expensive projects. Examining the different funding options—reserve funds, special assessment of unit owners or a loan—will determine what works best for the association.

What's involved in obtaining a community association loan? As with personal mortgage loans, most banks will require certain information to approve a loan to an association. Plus, banks typically require three years of financial performance and a current financial status of the association, including a delinquency report, budget and balance sheet. This will demonstrate the association's ability to repay the debt.

The organizational documents of the association will also be analyzed to assess its ability to borrow funds, with or without a vote of the membership, and its ability to pledge current and future assessments as collateral. Boards should consult with an attorney to assess their association's ability to borrow funds and pledge assessments as collateral.

Often, the lender also requires a reserve study, which analyzes the physical and financial aspects of a commonly owned property. The financial analysis includes an assessment of the association's financial status and a review of the funding plan, as well as identifying the additional capital needs of the community.

With the reserve study complete, the community association can then focus on which financing option will enable it to achieve the capital improvement goals while protecting the financial security of the property.

A line of credit is an amount of money to which the association has access. Similar to a credit card, the community will only pay interest on the borrowed money, not on the entire credit line. Lines of credit are extremely helpful to associations looking to bridge a gap between spending on a project and collecting a special assessment or increased maintenance fee.

Term loans provide the association with all the needed funds at once. This allows community associations to make repairs or improvements and pay back the loan over an extended period of time. This is another popular choice among community associations, since payments are spread over a multiyear time period. Associations often use a combination of lines of credit and term loans to create the ideal financing package.

The advantages of obtaining a loan to meet capital improvement needs include:

- If funds are needed immediately for a capital improvement project, a loan can help avoid a one-time special assessment fee, which some unit owners may not be able to afford.
- A loan may minimize increases to member assessments, spreading the repayment over a longer period of time.
- A loan will allow the association to receive more competitive bids on improvements, since all the repairs can be done at the same time.
- A loan can allow the association to maintain a healthy reserve account for other emergencies.

Thanks to these new loan packages, associations facing major capital improvements have other options for raising money instead of simply passing these unpopular assessment increases on to members.

NCB's Community Association Loan Program has provided innovative financing products to meet the needs of community associations since 1995. For more information, call me at (800) 766-2622 or email me at kmann@ncb.coop.

Karyn Mann is assistant vice president of community association financing at NCB.