BANKING BEST PRACTICES

Pre and Post-Loan Closing

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Whether your project has already started or is still in the planning stages, it's important to structure the special assessments correctly and confirm that everyone involved is on the same page. Whether you are a community association manager, board member, or homeowner, you want to know that prepayments and monthly special assessment payments are applied correctly and in a timely manner. Unfortunately, this is not always the case and minor errors can mean significant losses for an association.

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No two associations, management companies, or banks do things the same way. However, when it comes to how an association's loan and assessments should be accounted for and monitored there are a few things an accountant, a manager, a lender, and an attorney agree on as best practices.

The key points below were agreed upon when four professionals with years of experience in the community association industry hashed out the pitfalls and success stories they had experienced.

Key Points for Calculating & Collecting Owners' Payments

Start collecting special assessment payments as early as possible.

- This allows the association a cushion between when payments are collected and when the first loan payment is due.
- Allow owners to pay in full before closing the loan. This can help reduce the loan amount and loan fee.
- Stress testing your owners—if your governing documents allow it, it is recommended to increase the assessments to prepare your owners before obtaining a loan. This "stress test" can prove to the lender and the board that the association can handle the assessment and not suffer a significant increase in delinquencies.

Allowing owners to pay in full before closing the loan can reduce the fee.

Build-in contingency amounts for increased interest rates, delinquencies, and lost interest.

- The association should collect more than the minimum loan payment amount required by the bank by inflating the special assessment budget or increasing the interest charged to the owners.
- If the association is utilizing a "floating" line of credit, the rate does not fix until construction is complete and the loan has been converted to a term loan. A reconciliation should be done monthly until the loan converts to be sure the association does not over-spend or over-borrow.

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- Loans commonly have a rate change at 5 or 10 year intervals. This should be considered when deciding what interest rate to use for the special assessment.
- Delinquencies are likely to occur so the excess funds collected can be utilized first while steps are being taken to bring owners back to good standing. There will always be a lag time between prepayments being

Calculating & Collecting Owners' Payments

		Annual	Monthly		
Interest Rate		5.00%	0.42%		
Term		15	180		
				Loan Amount	$1,000,000
Property Unit	Lot #	Owner Ratio	Total Assessment	MonthlyPmt w/o Interest	MonthlyPmt/Interest
1	101	1.23%	$12,300	$68.33	$97.27
2	102	1.13%	$11,300	$62.78	$89.36
3	103	1.22%	$12,200	$67.78	$96.48
4	104	1.22%	$12,200	$67.78	$96.48
1	201	1.23%	$12,300	$68.33	$97.27
2	202	1.22%	$12,200	$67.78	$96.48
3	203	1.13%	$11,300	$62.78	$89.36
4	204	1.22%	$12,200	$67.78	$96.48
1	301	1.22%	$12,200	$67.78	$96.48
2	302	1.13%	$11,300	$62.78	$89.36

collected and being applied to the loan which will cause lost interest.

The lag time between prepayments being collected and their application to the loan causes lost interest.

Create a separate "fund" in your software.

- This ensures that funds are not comingled.
- This makes it easier for the manager, accountant, CPA, and bank to track the money coming in for the special assessments vs. regular assessments.

Create amortization schedules for each owner.

- This is especially helpful when owners are assessed based on a percentage of ownership and when payoffs are requested.
- This allows the manager and the board to track the status of each owner.
- If the association and management company allow full or partial payoffs, this assures accurate tracking.

Have a predetermined procedure that includes communication between the board and the management company as to when and how prepayments are applied to the loan.

- This creates a checks and balances system.
- Be sure the board understands when re-amortizations can and should take place. This is determined in your loan documents.

Be sure that the board understands when re-amortizations can and should take place.

Develop a Quick Reference Guide that includes important dates.

- Origination date
- Maturity date (be sure you know if the loan is fully amortized or if there is a balloon payment)
- Date of rate adjustment (if applicable)
- Current balance/current payment (can be updated when this is being reviewed monthly or annually)
- Reamortizations cost and frequency
- Loan covenants/reporting requirements(Debt service, reserve requirement, delinquency percentage, etc)

Carefully structuring and executing a special assessment is important before, during, and after the loan closing. Following these best practices and having an experienced manager, attorney, banker, and CPA supporting your association will ensure your community is in good hands.