Mutual of Omaha Bank

Newport Terrace HOA

Presented by:
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ADVANTAGES OF BORROWING:

a. Downward slide of property values slowed or eliminated. Structural problems, which must be disclosed to potential buyers, will retard the sales process and lead to falling home prices. Rapidly improving the appearance and eliminating structural integrity problems can slow or eliminate falling home values.

b. Needed repairs/improvements completed quickly. By borrowing the money, total needed funds become available for use much faster than through the traditional special assessment process.

c. Reduced financial impact on homeowners. By participating in the loan, homeowners avoid having to make a lump sum special assessment payment.

d. Reduction of temporary repairs causing the operating expenses to escalate.

DISADVANTAGES OF BORROWING:

a. Interest costs incurred

HOW THE LOAN IS SECURED:

Assignment of association assets that may include but are not limited to monthly assessments. No liens are placed on individual units by the bank.

LOAN PARAMETERS YOU WILL SEE:

a. Term = Fifteen years.
b. Fixed rate 5.25% rate for 10 years with an adjustable rate the remaining term of the loan with a cap of 8.5%.
c. Points = None
d. Application fee = None
f. No prepayment penalties for paying before the term period.
g. Structure = initially a “non-revolving” line of credit during construction phase of 18 months.
The line of credit is converted to a term loan for 13.5 years when construction is completed.

LOAN AMOUNT:

$8,000,000.00

APPROVAL PERIOD

It can take up to 30 days from the receipt of all required documents for the loan to be approved. Loan documents are completed for signing within one week of receipt of the commitment letter from the bank.

WHAT DOES THE COMMERCIAL LENDER LOOK FOR TO APPROVE YOUR LOAN?

a. **Cash Flow:** Can your association assessments cover the loan payment and continue to fund other reserve items? **The bank review your current program and reserve funding**.

*b. **Reserve Study:** Is your reserve study current, prepared by an experienced company, and appear to properly plan for your future needs? **The bank reviews your current reserve study which is regulated by CA Civil Code.**

*c. **Delinquencies:** Are there many units or just a few units with large amounts due? **Over 10% of the membership delinquent** should be cause for concern in getting the loan approved.

*d. **Delinquent Policy:** What is the structure of your assessment delinquencies? Do you follow your collection policy for delinquent assessments? Are you diligently collecting dues or are you letting members fall behind? **The bank wants to insure that the association is following the Civil Code requirements and legal documents on your collection policy.**

e. **Financial documents:** Are your financial statements reviewed or audited by a CPA? Do they correlate well with your bank statements? **We obtain two years history of tax returns and Annual Audit Reviews to make sure that the association is in compliance.**

*f. **Stability:** How stable is your association? Are you suing each other? Is there an attempt to recall the Board of Directors? **Is the owner occupancy ratio more than 70%?**

COMMON QUESTIONS ABOUT THE LOAN:

A. <u>Does the bank put liens on individual units?</u> **No.**

B. <u>Do board members sign the note as individuals or as officers of the corporation?</u> **They sign as corporate officers.**

C. <u>Do the homeowners make their portion of the loan payment directly to the bank?</u> **No. It is part of your monthly assessment payment, which is in turn paid by the HOA.**

D. <u>If the payment were defaulted, would a lien be placed against the property of all owners or against only those who had elected to pay overtime?</u> **The assets of the association, identified as security in the loan agreement, would be used to bring the loan current.**

G. <u>Is a proportional interest on the loan tax-deductible by each owner?</u> **No. The loan interest is reported under the association's tax ID number.**

H. <u>Is there any tax advantage to the HOA?</u> **Maybe. Tax benefits to the association would depend on their specific tax situation. Your CPA can answer this question for your association.**