

Welcome to the

WASHINGTON STATE CHAPTER *of*
Community Associations Institute

*The leading professional organization providing education, resources,
and advocacy for community association living.*

1

**Condo Association Loans Demystified: A
Practical Guide for Board Members and
Managers**

Presented by:

Claire Beszhak, CMCA, AMS

Director of Business Development, Navigate Community Management

Colleen Chesbrough, VP

Sr. Relationship Manager, Axos Bank

Jeremy Newman, CPA

Newman Certified Public Accountant, PC

October 5, 2024

Condo Association Loans Demystified

2

Why Associations Need Loans

- Deferred maintenance and repairs
- Insufficient reserve funding
- Emergency funding needs



Oct 5, 2024

Condo Association Loans Demystified

3

Community Association Financed Project

	Phase 1 = Due Diligence	Phase 2 = Planning		Phase 3 = Mobilization / Contracts	Phase 4 = Closing	Phase 5 = Post				
Management	Identify Need	Find the Pros!	Notify owners	Send out to bid (3-5 contractors)	Notify Contractor/ Prepare full project budget estimate	Prepare Special Assessment payment options. Approve by board	Notify owners	Special Assessment Ratification	Collect prepayments. Setup SA separate ledger or accounts	Quarterly financials, AR Aging, rent roll, etc sent to bank
Consultant/Contractor/ Architect		Investigate/ Invasive Inspection	Scope of Repairs (SCOPE)	Rough Order of Magnitude (ROM)	Review schedule/ draft contracts	Final contract revisions		Sign Contract w/Board		Conduct weekly meetings with management and board
Board	Identify Need/Reserve Study/ Consultant/ Invasive Inspection	Interview Pros! Attorney, Lenders, Consultants, etc.	Review/ Notify Owners /Note if needed	Review Request Bids	Review draft contract	Final contract and loan revisions if any. Approve payment options	loan signing & setup accounts	Maintains good communication w/owners on project		review change orders and meet with consultant and contractor weekly.
Lender		Discuss general lending guidelines for approval	Letter of Interest	Request Letter of Intent/ Preliminary Underwriting/Collect Additional Documentation	Review draft contract/ start final underwriting	Review final contract. Obtain loan approval	Loan signing	Move reserves, provide draw request forms, etc.	Provide amortization schedule and apply prepayments	fund approved draw requests. Regular site visits. Reamortize when prepayments are applied
Legal		Review Governing Documents	Opinion letter /Amend governing documents if needed	Special assessment resolution		Review loan and construction final contract with board.				Handle delinquencies
CPA	Review historical financials for accuracy. Build knowledge of inconsistencies in financial reporting balances and transactions eg heavy reserves expenses in one year depleting cash, delinquent owners analysis, budget vs actual explanations.	Provide reviewed financials for past 3 years to board	Accounting complete and updated. Ready to go.	Save contracts, invoices, billing statements.	Cash projections for operating and reserves. No surprises.	Review with board and management the impact on the balance sheet and income statement. Cash flow/project timing proforma.	Retain all correspondence, notices, resolutions, SA budget for audit	Loan agreement, promissory note, loan amortization, owner S/A (loan) amortization	3rd fund - BS & IS. Account for SA proceeds used to pay contractors and loan (P&I). Do not commingle with other funds.	Loan covenant compliance. Audited financials timing per loan. Reconcile bank account. Lump sum payoffs timing, accuracy, match to bank, adjust owner amortization schedules.

Oct 5, 2024

Condo Association Loans Demystified

4

Management Role

- Use your Pros!
 - Architect/Construction Co
 - Attorney
 - Lender
- Maintain homeowner communication
- Special assessment ratification



Oct 5, 2024

Condo Association Loans Demystified

5

Board Authorization and Owner Involvement

- Process of board and homeowner authorizations
- Legal requirements and voting thresholds



Oct 5, 2024

Condo Association Loans Demystified

6

Project Budget

- All vendor Costs
 - Architect
 - Construction
 - Legal
- Budget in your fees!
- Accurate forecasting to prevent unexpected financial strain

CONDOMINIUM PROJECT BUDGET	
Aug-24	
	BUDGET
PROFESSIONAL FEES/SOFT COSTS	
Permit Fees	\$ 5,211.96
Legal Fees	\$ 17,500.00
Management Fees	\$ 10,000.00
Total SOFT COSTS	\$ 32,711.96
KILBURN ARCHITECTS	
Architect Fees	\$ 113,000.00
Window Testing	\$ 5,000.00
Exterior Light Fixture	\$ 24,200.00
Exterior Signage Building	\$ 7,200.00
Entry Sign	\$ 8,000.00
Contingency @ 10%	\$ 170,000.00
Total KILBURN ARCHITECTS	\$ 327,400.00
CDK CONSTRUCTION	
General Conditions	\$ 164,750.00
Labor & Material Costs	\$ 169,819.00
Subcontractor Cost	\$ 869,019.00
Roof Sheathing	\$ 45,453.00
Roof Framing	\$ 23,595.00
Eave Venting	\$ 6,336.00
Vent Ducting	\$ 1,128.00
Rot Repair	\$ 275,078.00
Entry Door	\$ 3,318.00
Miscellaneous MEP	\$ 6,000.00
Junction box & Exterior Outlet	\$ 15,465.00
Interior Repairs	\$ 49,111.00
Overhead	\$ 79,395.00
Profit	\$ 79,395.00
WSST @ 10.25%	\$ 187,089.00
Total CDK CONSTRUCTION	\$ 1,974,951.00
FINANCING COSTS	
Bank Loan Fees	\$ 250.00
Commitment	\$ 6,250.00
Total FINANCING COSTS	\$ 6,500.00
Total PROJECT COSTS	\$ 2,335,062.96

Oct 5, 2024

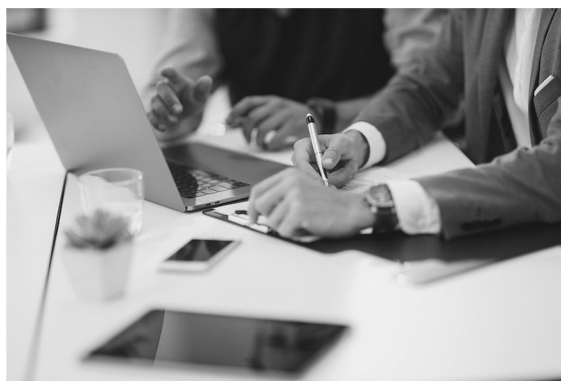
Condo Association Loans Demystified

7

Loan Process Overview

Step-by-step walkthrough

- Pre-qualification
- Loan application
- Document submission
- Approval process



Oct 5, 2024

Condo Association Loans Demystified

8

Documents Required for Loan Application

Key Documents

- Financial statements
- Reserve studies
- Meeting minutes/board authorizations
- Legal opinions



Oct 5, 2024

Condo Association Loans Demystified

9

Timeline and Moving Targets

- How long the process typically takes
 - Pre-approval to closing
- Common delays and challenges
 - Changing loan terms
 - Need for updated financials

Community Association Financed Project										
	Phase 1 + Due Diligence	Phase 2 + Planning	Phase 3 + Mobilization / Contracts	Phase 4 + Closing	Phase 5 + Post					
Management	Identify Board	Find the Pool	Notify owners	Send out to bid (3-5 contractors)	Notify Contractor/ Prepare bid project budget estimate	Prepare Special Assessment request options. Approve by board	Notify owners	Special Assessment Notification	Collect program. Doing S&B separate budget accounts	Quarterly Financials, AR Aging, rent roll, etc sent to bank
Construction/Contractor/Architect		Investigate/ Insure/ Inspections	Scope of Repairs (SCOPE)	Request Order of Magnitude (ROM)	Review schedule/ draft contracts	Final contract		Sign Contract w/Board		Conduct weekly meetings with management and board
Board	Identify Needs/Reserve Study/Consultant/ Insured Inspection	Interview Pool Attorney, Landscapers, etc.	Review/ Notify Owners/ Vote if needed	Review Request Bid	Review draft contract	Final contract and loan revisions if any. Approve payment options	Loan signing & set up accounts	Maintain good communication with loan on project		Review change orders and meet with consultant and contractor weekly.
Lender		Discuss general lending guidelines for approval	Request Letter of Intent	Request Letter of Intent/ Preliminary Underwriting/ Culture Additional Documentation	Review draft contract if start final underwriting	Review final contract/ Obtain loan approval	Loan signing	Have records, provide draw request forms, etc.	Provide amortization schedule and apply for program.	Final approval draw requests. Regular site visits. Reamortize when program is applied.
Legal		Review governing documents	Opinion letter (Review governing documents if needed)	Special assessment resolution		Review loan and construction final contract with board.				Handle delinquencies
CPA	Review historical financials for accuracy. Build knowledge of inconsistencies to financial reporting. Insurances expenses to see year depicting cash, delinquent owner analysis, budget to overall explanations.	Provide financials for complete and don't serve by updated. Ready to go.	Accounting statements	Save contracts, invoices, billing statements.	Cash projections for operating and reserves. No surpluses.	Review with board and management the impact on the balance sheet and income statement. Cash flow projections. Loan amortization.	Review all correspondence with lender. Loan amortization. Loan S&B. Loan budget for audit.	Loan agreement, amortization schedule, loan S&B, and other documents.	Draw fund - BS & IS. Account for S&B proceeds used to pay contractors and loan (P&L).	Loan covenant compliance. Audited financials being prepared to see loan. Research bank paydowns. Loan term - payments timing, accuracy. Month to bank - what needs amortization schedule.

Oct 5, 2024

Condo Association Loans Demystified

10

Quick Reference Guide



ASSOCIATION QUICK REFERENCE GUIDE

Homeowners Association Name _____
Date Updated _____

LOAN SNAPSHOT

*See loan documents dated xx/xx/xx for complete terms and conditions

ORIGINAL LOAN AMOUNT - \$ _____

CURRENT PRINCIPAL BALANCE - \$ _____

TERMINATION DATE - xx/xx/xx years

MATURITY DATE - xx/xx/xx

INTEREST RATE - ____ year Treasury Constant Maturity/FHLB rate + ____% (current rate ____%) The rate will reset after year ____ (TCM/FHLB index) rate + ____%

NEXT RATE CHANGE DATE - xx/xx/xx

PAYMENT DETAILS

CURRENT MONTHLY PAYMENT - \$ _____

DUE DATE - the loan payment is due on the ____ of each month

LATE PAYMENTS - If a payment is ____ days or more late, the Association will be charged _____.

PREPAYMENT - ____% prepayment penalty if any part of the loan is refinanced with another financial institution.

REAMORTIZATION REQUESTS

The associations loan will be ____ quarterly/annually. Cost _____

REPORTING REQUIREMENTS

- Annual company prepared financial statements due ____ days after each fiscal year end to include liquidity statements.
- Tax Returns due 30 days from filing.
- Delinquency Aging Report due 30 days from year end.
- Annual Budget due 90 days after fiscal year end, including "Debt Service" as a line item.
- Updated Reserve Study due annually beginning xx/xx/xx.
- Board Member Affirmation (list of current Board members) due 30 days from annual board meeting.

FINANCIAL COVENANTS

- Debt Service Covenant of 1.1x. Measured annually using the company prepared financial statement. Ratio is defined as: _____
- Delinquencies not to exceed ____% over any given quarter as measured using the receipt of the delinquency report.

RESERVE ACCOUNTS

Association will be required to hold all reserve accounts (operating optional) with Bank, including the capital reserve and construction reserve accounts for the duration of the loan.

RESERVE ACCOUNTS

\$ _____ HOA Checking Account ____%
\$ _____ Money Market Sweep Account ____%
\$ _____ Money Market Sweep Account ____%
\$ _____ CD/CDARS maturity date ____/____/____ %

BOARD MEMBER OR MANAGEMENT CHANGES

Please notify Bank of any Board Member or Management changes within 30 days. Contact information listed below.

President: _____

Treasurer: _____

Secretary: _____

Oct 5, 2024

Condo Association Loans Demystified

11

Budgeting for Loan Payments

- Principal and Interest Breakdown
- Forecasting monthly payments and cash flow impact
- Example of loan repayment schedule



LOAN AMORTIZATION SCHEDULE

ENTER VALUES				LOAN SUMMARY			
Loan amount		\$35,700.00		Scheduled payment		\$310.99	
Annual interest rate		4.70%		Scheduled number of payments		144	
Loan period in years		1		Actual number of payments		145	
Number of payments per year		12		Total early payments		\$0.00	
Start date of loan		6/1/2015		Total interest		\$11,754.83	
Optional extra payments		\$0.00		LENDER NAME			

PMT NO	PAYMENT DATE	BEGINNING BALANCE	SCHEDULED PAYMENT	EXTRA PAYMENT	TOTAL PAYMENT	PRINCIPAL	INTEREST	ENDING BALANCE	CUMULATIVE INTEREST
1	6/1/2015	\$35,700.00	\$310.99	\$0.00	\$310.99	\$171.17	\$139.83	\$35,528.84	\$139.83
2	7/1/2015	\$35,528.84	\$310.99	\$0.00	\$310.99	\$171.84	\$139.15	\$35,357.00	\$278.98
3	8/1/2015	\$35,357.00	\$310.99	\$0.00	\$310.99	\$172.51	\$138.48	\$35,184.49	\$417.46
4	9/1/2015	\$35,184.49	\$310.99	\$0.00	\$310.99	\$173.18	\$137.81	\$35,011.31	\$555.27
5	10/1/2015	\$35,011.31	\$310.99	\$0.00	\$310.99	\$173.86	\$137.13	\$34,837.44	\$692.39
6	11/1/2015	\$34,837.44	\$310.99	\$0.00	\$310.99	\$174.54	\$136.45	\$34,662.90	\$828.84
7	12/1/2015	\$34,662.90	\$310.99	\$0.00	\$310.99	\$175.23	\$135.76	\$34,487.67	\$964.60
8	1/1/2016	\$34,487.67	\$310.99	\$0.00	\$310.99	\$175.91	\$135.08	\$34,311.76	\$1,099.68
9	2/1/2016	\$34,311.76	\$310.99	\$0.00	\$310.99	\$176.60	\$134.39	\$34,135.16	\$1,234.07
10	3/1/2016	\$34,135.16	\$310.99	\$0.00	\$310.99	\$177.29	\$133.70	\$33,957.86	\$1,367.76
11	4/1/2016	\$33,957.86	\$310.99	\$0.00	\$310.99	\$177.99	\$133.00	\$33,779.88	\$1,500.77
12	5/1/2016	\$33,779.88	\$310.99	\$0.00	\$310.99	\$178.69	\$132.30	\$33,601.19	\$1,633.07
13	6/1/2016	\$33,601.19	\$310.99	\$0.00	\$310.99	\$179.39	\$131.60	\$33,421.81	\$1,764.68
14	7/1/2016	\$33,421.81	\$310.99	\$0.00	\$310.99	\$180.09	\$130.90	\$33,241.72	\$1,895.58
15	8/1/2016	\$33,241.72	\$310.99	\$0.00	\$310.99	\$180.79	\$130.20	\$33,060.92	\$2,025.77

Oct 5, 2024

Condo Association Loans Demystified

12

Accounting for Loans

- How Loans appear on the balance sheet
- Impact on the income statement
 - Interest expenses
 - Loan principal payments



Oct 5, 2024

Condo Association Loans Demystified

13

Disclosure Requirements

Necessary disclosures in financial statements

- Notes on outstanding loans
- Related party disclosures, if applicable



Oct 5, 2024

Condo Association Loans Demystified

14

Accounting Best Practices

Suggestions for properly managing loan accounting

- Internal controls
- Monitoring compliance with loan covenants
- Regular reporting to the board



Oct 5, 2024

Condo Association Loans Demystified

15

Questions?

Claire Beszhak, CMCA, AMS
Navigate Community Management, AAMC
claire@navigatecm.com | 360.512.3820
Colleen Chesbrough, VP
Axos Bank
cchesbrough@axosbank.com | 503.798.8312
Jeremy Newman, CPA
Newman Certified Public Accountant, PC
jeremy@hoacpa.com | 844.566.1810



October 5, 2024

Condo Association Loans Demystified

16

Community Associations Institute *and the* **Washington State Chapter of CAI**

*Working Together to Serve YOU
Locally & Nationally*

www.WSCAI.org
425-778-6378
www.caionline.org
1-888-224-4321

This course is approved by Community Association Managers International Certification Board (CAMICB) to fulfill continuing education requirements for the CMCA® certification

October 5, 2024

Condo Association Loans Demystified