## Issues Facing Older Associations

When Caulk, Paint & Patches No Longer Work

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### The Problem

- 5 million condos built 30-40 years ago
- Many failed to properly maintain and reserve for major rehab
- Exterior cladding, plumbing, electrical, mechanical
- In addition to building condition, insurance is at risk
- Recent economic downturn exacerbated the issue

## Why Now?

- Economy started to recover—owners on better financial footing
- Construction costs remain low
- Insurance forcing the issue
- Bank loans more viable
- Delay results in higher costs

### Recommendations

- 1. Assemble team of professionals
- 2. Rely upon the team
- 3. Do not over analyze or "paralysis by analysis"
- 4. Formulate the plan and stick to it
- 5. Be transparent and communicate often
- 6. Involve homeowners—to a degree

## Legal Duties

- Board has duty to preserve the assets of the corporation
- Board has duty to disclose known defects and costs
- Board has duty to disclose pending special assessment
- Budget process?

## Potential Pitfalls

- Disclosures
- Authority
  - Special assessment
  - Expending funds for repairs
  - Pledge future assessments
- Selecting designers and contractors
- Owner's rep?

## Summary

- Identify and acknowledge a problem (9 steps of grieving)
- Assemble a solid team
- Work with the team and involve homeowners
- Communicate, communicate, communicate

# In\$urance Implication\$ of Aging Building\$



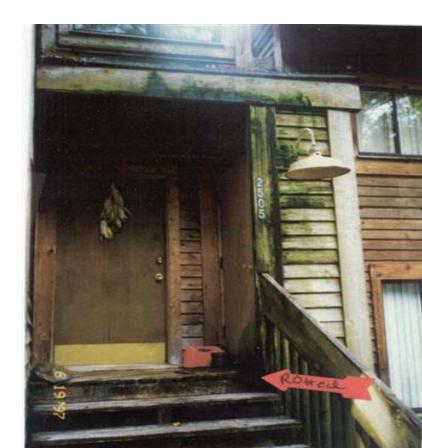
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## Who does this affect?

 Insurance Companies are looking for updates to aging buildings

 Buildings over 20 years old should be effectively modernized in terms of heating, plumbing, wiring and roofing.



# Why?

- Aging building components increase risk of loss
  - Electrical & Heat Systems
    - Aging wiring can cause fire, electrocution, and even death.
  - Plumbing
    - Aging plumbing can results in failed/burst pipes which leads to costly water damage claims.
  - Roofs
    - A critical factor in life expectancy is proper ventilation.
       Without it, heat & moisture can build up and cause rot, shingles to buckle and insulation to lose its effectiveness.



### Where do we start?

Conduct a risk assessment to identify & analyze the association exposures

Develop a maintenance plan

Fund reserve account for future repairs

#### And If We Don't?

- Significant Premium Increases
- Increased Deductibles/Per Unit Deductibles
- Insurers Declining to Quote or Renew Coverage



## Community Association Banking

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#### **ADVANTAGES OF BORROWING:**

- Downward slide of property values slowed or eliminated.
- Needed repairs/improvements completed quickly.
- Reduced financial impact on homeowners



## **Disadvantages of Borrowing**

- May increase monthly assessments
- Interest costs incurred may be high.



#### **How is the Loan Secured?**



## **Types of Loans Available**

- Repair/Replacement
- Improvement
- Construction Defect
- Unit/ Land Purchase

Equipment Financing

#### **General Loan Parameters**

**Terms** 

Fees

Rates

**Penalties** 

Structure

Rate

#### What does the lender look for to approve loan?

**Size** of Community

Cash flow

Reserve Study

Delinquencies

**Delinquency Policies** 

**Financial Documents** 

Stability

Managed

Cooperation

## **Common Questions**

Does the bank put liens on individual units?

- Do board members sign the note as individuals or as officers of the corporation?
- Do the homeowners make their portion of the loan payment directly to the bank?
- Does the bank want association reserve and operating accounts?

## **Common Questions Continued**

• <u>Is it possible for only some owners to pay over time</u> with others selecting to pay a one-time assessment?

- 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 over time?
- Is there any tax advantage to the HOA?