THE HIGH PRICE OF PAYING FOR RESERVE PROJECTS WITH A LOAN

by Robert M. Nordlund, PE, RS
CEO/Founder
Association Reserves, Inc.

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www.reservestudy.com

So your roof just failed, and it's going to cost the Association $250,000. On one hand, it wasn't really surprising, because the roof is 15 years old, right on track for this type of roof failure. The roofer is going to be paid $250,000 for their contract, but how much are your homeowners going to pay? That depends.

If the Board had followed the advice of Association Reserves over the past 15 years and made properly sized Reserve contributions, they would have contributed **$231,823.** Why not $250,000? Because your bank contributed the remaining $18,177 in interest earnings, even though interest earnings averaged a mere 1% interest all those years.

Special Assessments & Loans: The Alternatives to Saving

If your Association hadn't set the money aside (choosing instead to enjoy lower dues as a result of neglecting Reserve contributions for all those years), perhaps the Board will be able to pass a Special Assessment. In that case, you'll be asking each homeowner for their share of the $250,000 cost of a new roof. But because Special Assessments take time and planning, you'll probably wind up spending some extra money patching the worst of the roof leaks.

Hopefully the roofing company is willing to start work with a small deposit, and accept progress payments as the Special Assessment funds come in. Hopefully also, your homeowners pay the Special Assessment in a timely manner. In this scenario, the cost to your Homeowners will be **$250,000**, meaning $18,177 **more** than if they would have paid it slowly and evenly over time through budgeted reserve contributions.

But suppose you just passed a special assessment last year, or for some other reason you feel the homeowners will fail to pass a Special Assessment? Another option for some Associations nowadays is a commercial bank loan, which is only possible if your Association can demonstrate minimal delinquencies. Common terms are 7% interest and payment over seven years, plus the loan origination fees.

Over seven years, those total loan payments work out to **$320,071**. That's a heck of a lot to pay for a $250,000 roof, and an especially high amount to pay when you consider your homeowners could have paid only $231,823 ($88,248 less!). Plus, remember that in those seven years of making loan payments for the new roof, homeowners should also be making the first seven years of budgeted contributions for the new roof that is now slowly deteriorating.

Reserve projects don't care whether you are making properly sized Reserve contributions or not. They will still deteriorate on a very predictable schedule, causing a big expenditure when they reach the end of their useful life. If you think you are "saving" money by **not** making Reserve contributions, think again. There is a less expensive way and a more expensive way, but one way or another your homeowners will pay!