

Emergency Funds

Saving for a true rainy day.

Interviewed by Amy Dison

The following article is a reprint from *Smart Business Miami*.

When unexpected repairs are needed or weather-related disasters strike a community, often associations are left trying to fund projects that require immediate attention. Associations, such as condominiums, homeowner associations and co-ops, require different loan options for these circumstances than individual homeowners.

Many associations do not set aside money for such repairs (replacement reserves) or funds for emergencies; they simply pay for the situations as they arise. Often these repair costs are too large for associations to pass on to unit owners in an upfront special assessment.

"Popular Association Banking (PAB) provides associations an alternative to allow them to make the repair today while giving the unit owners breathing room to make payments over a 10- or 15-year period without depleting their individual funds," says Molly Hime, senior vice president and division executive of Popular Association Banking.

Smart Business gained insight from Hime about how associations can properly prepare for everyday repairs and unforeseen disasters.

WHAT IS POPULAR ASSOCIATION BANKING?

PAB provides services and products, both deposits and loans* to associations on a nationwide basis for essential projects, such as a new roof, painting, waterproofing and concrete restoration. Often these loans are the best financial option for unit owners because they can distribute the cost over a period of time. These are for groups who do not have sufficient cash on hand to pay for the project they would like to complete now.

PAB services also include financing on insurance premiums. One hundred percent financing is offered, which became essential when insurance premiums increased sky high a few years ago. This financing allowed associations to keep coverage while amending their monthly budget for the shortfall between the anticipated premium and the actual invoice.



Molly Hime

WHY ARE THESE SERVICES SO BENEFICIAL OR IMPORTANT TO ASSOCIATIONS?

Loan services are a safety net for associations. No one can predict disasters and the estimated cost of repairs can vary over time. A perfect example occurred when the city issued an evacuation order to a community association because the balconies were not safe. The residents could not live in the units until the balconies were repaired.

This meant the unit owners were faced with a large expense to correct the balcony deficiencies. The association board was able to go to the unit owners with a loan that allowed for the completion of repairs immediately with a repayment schedule over a period of time. This helped the unit owners and prevented them from having to tap into their savings for funds.

As well as the standard deposit and cash management products, their lockbox service offers solutions for bill payments and other 'exception' items, thus affording greater efficiency in processing maintenance payments. The depository products addressed the special needs of the customers; they became part of a network of banks to ensure FDIC coverage for their customers' deposits in excess of \$250,000.

HOW DO YOU RECOMMEND COMMUNITY ASSOCIATION LEADERS PLAN FOR REPAIRS/REPLACEMENTS?

The association should have a reserve study prepared and periodically updated

by a professional reserve study analyst. Associations should also establish a finance committee. The members on this committee should look at the current and potential needs of the association and then approach their banker to ascertain what products can help to achieve their goal. An experienced banking staff and flexibility are essential to structuring a loan or deposit plan that will work for the customer and the bank because no two associations have the same needs or problems.

HOW DO YOU RECOMMEND ASSOCIATIONS PREPARE OR BUDGET FOR WEATHER-RELATED DISASTERS?

Most professionals serving this industry recommend that associations develop a comprehensive plan in case of a disaster, including response efforts and a financial plan. Associations should contact their bankers when developing this plan and inquire about a contingency line of credit. This would ensure that, if a disaster occurred, a loan facility would already exist for the association to utilize. A resolution should be drafted by attorneys that appoint certain members of the association as the designated members responsible if a disaster occurs. This way, the correct people have the authority to react.

It is also important to have proper documentation of assets. Video and other types of documentation covering all assets should be updated regularly and stored in a secure location. Understanding insurance coverage, the exclusions under the existing policies and the communication of this coverage to unit owners is essential. Of course, the standard protective devices, such as fire alarms, shutters, etc., are also recommended.

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