Best Practices for Association Management

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Review The Basics

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This e-memo and those that follow throughout 2011 are meant to reinforce the basic elements of results oriented association management. Professional management companies have learned from years of experience that care of the community is directly correlated to board members' understanding of fiduciary duties, adherence to community legal documents, continued education of owners, board members and managers as well as care of the association's finances.

It's Obvious –
The Economy Impacts HOAs

Perhaps one of the most challenging aspects of serving on a Board of Directors is facing the reality of effective budget planning. Like any for profit entity, not for profit HOAs must balance increased expenses (maintenance contracts, utilities, insurance), decreased revenue (accounts receivable), capital for maintenance and updates on all operational systems (reserves) and a client (homeowner) base that hopes to get more for less.

And, while it isn't often addressed, HOAs also have a "product" to sell which is part of and separate from the facilities or services provided. The HOA's product is the homes within the community. Are the homes and common areas well maintained? Are property values consistent with the surrounding and comparable markets? Are community guidelines, Board policies and other operational requirements handled well and effectively?

In this current market, perhaps the most important consideration for the "product" is whether a potential new buyer can obtain a loan in order to buy a particular home in particular community.

Not surprisingly, lending institutions have reacted to the mortgage crisis by swinging from "any one can get a loan" to "it is almost impossible to get a loan."

What this means to an HOA is that without loan approvals, those homes sitting empty as a result of foreclosures, will remain empty. Importantly, even if the homes within the community do not qualify for FHA/VA loan programs, recognize that many lenders are following similar guidelines.

So, what can the Board do?

- Recognize that lack of effective and consistent action on delinquencies will be considered as a factor on new loan viability. If there are significant owners more than 30 days delinquent and no action is being taken, the Association may be viewed as a bad financial risk.

- Recognize that underfunded reserves are a red flag to lenders – what are the chances of a special assessment?

- Plan for allocating 10% of the total annual operating budget to reserves – unless reserves are completely funded. If not, be prepared to issue a statement as to what action the Board is taking to address any reserve shortfall.

- And finally, recognize that if assessments must be increased in order to meet true financial obligations, a failure to do so now, impacts the overall property values for each and every member.

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