

History of Lauren Pines HOA Loan

The Lauren Pines subdivision was started in late 2007, just before the housing market crashed in 2008. The developer, Laureate Developers, LLC, hired AMS as the management company in 2007 to manage the homeowner's association.

Initial projections of home construction showed that the HOA should be fully self-sustaining and able to cover 100% of its own expenses after the first 2-3 years. When new construction ground to a halt, those projections went out the window.

Ninety percent of the annual budget is composed of 1) AMS management fees, 2) street lights, and 3) landscaping. Each time the HOA ran out of funds, there came the difficult decision of what to do. None of the three primary expenses made sense to cut, and so the only other option without substantially raising the HOA annual assessment was to borrow the money necessary to pay the bills. The thought behind keeping the annual assessment in the \$300 range rather than doubling it was that there was a concern over burdening early homeowners in the subdivision with the cost of operating the HOA. Given that there was a long-term benefit to future homeowners in keeping the HOA active even when there were only a few homes in the community, borrowing funds to be repaid by future HOA assessments made sense at the time. The loan amounts each year were not so onerous that the HOA could not easily afford to repay it in future years when there were many more homeowners contributing to the HOA. Disbanding the HOA was a legitimate option in the early years, and one that was considered. It would have removed any question of how best to repay a loan in the future. However, the nature and character of Lauren Pines would have been substantially different without the HOA and its associated covenants and restrictions to guide new construction (size, exterior requirements, etc.) and to provide guidelines for homeowners to follow.

Of course, no bank or individual would want to loan to an HOA since it has no collateral, so the only other choice was to borrow from the owner of Phase 1, Laureate Developers, LLC. This was a burden to the company, because the lack of lot sales created a difficult situation simply keeping up with the interest payments on the bank loan. But Laureate provided the loans to the HOA nevertheless. There was an indirect benefit for it to see the HOA continue long term. The table below shows the amount the HOA has borrowed each year.

The original interest rate set for the loan was 8.75%, which was 1.25% over "risk free" Treasury Bonds in 2007. At the end of 2015, the accrued but unpaid interest had grown to \$16,947. At that time, Laureate Developers agreed to re-negotiate the interest rate down to 5% and granted a one-time forgiveness of the accrued interest, wiping out the \$16,947. That would allow for eventual repayment of the loan to be less of a hardship for the HOA, especially once Phase 2 and 3 homes were built.

That same year a temporary HOA advisory board recommended that the HOA fee be raised from \$285 to \$325 in an effort to reduce the need to borrow additional funds. It also helped further that new construction was beginning to pick up. With the higher fee and more homes being completed, the HOA annual deficit fell to only \$2500 in 2016. By 2017, the shortfall was under \$1000. In 2018 there was a surplus for the first time. As Phase 2 and later Phase 3 begins, there will be a substantial surplus for the HOA.

In January 2019 the HOA board negotiated a 50% reduction with Laureate Developers in the loan amount, and in return agreed to make a \$10,000 upfront payment toward the loan using builder fines collected in 2018. That would bring the outstanding amount owed to a very manageable \$15,000 to be repaid over 10-15 years if necessary. Final details are being worked out.

Loan to HOA:

11/19/07	\$2,500
02/25/08	\$2,500
07/14/08	\$3,000
09/29/08	\$2,500
03/09/09	\$2,500
10/26/09	\$2,500
06/14/10	\$2,000
05/09/11	\$7,000
11/28/11	\$4,000
07/23/12	\$2,000
10/22/12	\$2,000
10/14/13	\$2,000
06/16/14	\$4,000
05/11/15	\$4,000
11/11/16	\$2,500
11/10/17	\$947
Total	\$45,947