



Creative Banking: Not an Oxymoron at Woodlake HOA

By Bob Biederman

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A major goal for the bankers of the nation is to throw off the stigma of being uncreative “by the book” bureaucratic middle managers and show themselves to be real “players” when it comes to problem solving in the community association industry. Certainly, we are all bound by the common sense practices of good business. Prudent financial management is a keystone to success. But within prudence there can still be creativity.

Let’s take a look at a recent problem that had plagued Woodlake, a Santa Ana, California homeowners’ association. Woodlake had been a ‘leasehold’ property since it began. The simple explanation of ‘leasehold’ is that the HOA owned the buildings, but they leased the land from a third party. Strange as it seems, this is not an unusual situation. The lease was up in 2034 and the community was getting antsy about what might happen. Aside from feeling a bit insecure, mortgage lenders were not real comfortable with making loans on buildings that were on leased land. Another aspect of the problem was that property values also suffered. Obviously, a building on land that is not owned is worth less than a building on land owned by the building owner.

Solution?

Buy the land. Problem: It cost \$5,000,000. The board of directors at Woodlake had been struggling with this issue for years and as time passed it wasn’t getting any better.

Nancy Conway, Treasurer at Woodlake, Gives Her View

“We’ve been working on getting this resolved for three and a half years with very frustrating results. There were only a few banks that would even talk to us. The one that actually

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gave us a commitment decided to change the rules at the last minute. They decided on less money, higher interest and a shorter amortization period. That didn’t make anybody happy. I think they really didn’t want the business. Then along came Molly Hime and Harvey Simon from Popular Association Banking and we got financing for 100% of what we needed plus a little more. They were extremely prompt in their responses and seemed to genuinely care. Business is business, but working with caring professionals who appreciate our sensitivities makes a big difference.”

The short story is that the community had worked out a cumbersome and onerous loan package with one California-based bank, but it was just a very uncomfortable program. Molly and Simon were able to come in and make the deal work.

The Results

Woodlake is now becoming a fee simple community with property values jumping nearly 40% as soon as the loan was complete. Not only did property values jump, but also mortgages were now available in the normal mortgage market at normal rates. When you think about capital improvements for community associations, roofs and rebuilding are usually the topics, not the land itself.

Here is an excerpt from the communication sent out by the community association board to the unit owners during the process.

“Popular Association Banking has offered and committed the best terms and conditions we have found anywhere. It simply doesn’t get any better than this. And we will tell you why.

1. They are giving us a 100% loan which is almost impossible to obtain in our present economy.
2. Our reserves are extremely under-funded. We need to borrow money for our reserve account to show financial stability.

An officer of Popular Association Banking has made a physical inspection of Woodlake and they are ready to fund the loan.”

Dealing with community associations is not an easy task for some bankers. Not so for others. This was the first time a banker ever got thank-you notes from customers, and there were plenty of them.