HOA HOMEFRONT

DON'T BE RESERVED ABOUT RESERVE FUNDS

BY KELLY G. RICHARDSON

Unfortunately, too many HOA boards overlook or disregard the reserve fund as unnecessary. This is unwise because the reserve fund is a critical component of the healthy homeowners association. Don't fall for the myths.

Myth – Funding is not expressly required by law, so it is less important

California law does not expressly require associations to accumulate money in reserve accounts. However, the law requires that such an account exist, that the board review it monthly, that the association every three years obtain an analysis (Reserve Study) of the funds needed, and make detailed disclosures annually to members and to prospective buyers.

While state law does not require funding, federal lending guidelines since 2009 do require it. For condominium projects to be eligible for Fannie Mae or Federal Housing Authority loans, they must confirm that 10 percent of the annual budget is deposited into the reserve account.

California Realtors have long been concerned that HOA residence prices were unaffected by the level of the HOA's reserve funding, despite that logic would dictate that homes in well-funded HOAs should be worth more than in poorly funded HOAs. This led to several new laws sponsored by the California Association of Realtors expanding disclosure requirements, requiring more detailed disclosure of the money it has actually accumulated for each building component (Civil Code 5570) and requiring boards to have a plan regarding how it will accumulate the money recommended by its reserve study (Civil Code 5550(b)(5)).

Myth – We can't afford it

Many associations suspend reserve fund deposits, based on the belief that this helps hold assessments down and protects the members. However, the project components (roofs, paint, decks and so on) are steadily deteriorating, and there is a cost accumulating for the HOA each and every day — there isn't a bill, but it is a hidden debt being incurred. If money is not set aside, the HOA increasingly falls into debt and endangers the members — and the day will come when the bill "becomes due" and new roofs are needed.

Myth – We should put that money to good use, it isn't doing any good

I attended a meeting once where a member stood up and said the board was doing a horrible job, because the "reserve money is just sitting there" and should be put to "better use." However, that money IS being put to good use, by protecting the HOA (and members) from financial hardship.

Myth – We'll address it all later

Procrastination is easier but can lead to painful outcomes. When major repairs are needed, if the HOA has not accumulated refurbishment funds, it has two choices — ask members to approve a major special assessment, or get a bank loan (officially putting the HOA into long-term debt). If the HOA assumes that it can always apply for a loan, what happens if the HOA does not qualify and is rejected?

State consumer warning

In 2012, the Department of Real Estate weighed in, issuing a Consumer Warning on "Underfunded Homeowner Associations." (Read it at www.dre.ca.gov.) It is important reading for those considering buying an HOA residence.

Everyone agrees it is a bad idea to live on credit cards, building up debt, so why is it acceptable for the HOA to do the same? Boards must take responsibility and protect their association's solvency.

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