

**Housing Frontiers Group
HOA Capital Reserve Solution Matrix**

Idea	Pro	Con	Issues to be Addressed	Forces that Help	Forces that Hinder	Criteria Items					
						Dec / Covenant Changes	Deed Restriction Changes	Guideline Changes	Inter-generational Equity	HOA Willingness to Adopt	Ease of Implementation
A. One-time price adjustment at time of sale (say +5% on the purchase price) that is credited to the respective HOA capital reserve fund for the unit being sold.	<ol style="list-style-type: none"> 1. Can be financed in buyer's mortgage 2. Simple and efficient 3. Enforceable – good way to collect the \$ 	<ol style="list-style-type: none"> 1. Significant accounting and ongoing monthly dues issues need to be resolved (e.g. when monthly assessment for capital reserve is made – how is THIS unit impacted?) 2. Buyer pays this as part of purchase price. Is this fair and can it be done differently? 3. Burden passed to new generation of homeowner – only ONCE 4. Slow to build up depending on turnover rate 5. Prices vary on same type of unit as a result 	<ol style="list-style-type: none"> 1. Is this legal and can it be applied to existing units in the inventory 2. Could HOAs borrow against this? 3. For 1-time assessment or any capital reserve assessment? 4. 1-time price adjustment 5. Guideline price changes – but not for all units at once 6. Does this apply to ALL HOAs – even those adequately funded – can you opt out? 7. 5% brings different dollars 8. Does it fund previous shortfalls or only going forward shortfalls? 9. Can this really be mortgaged financed?? 	<ol style="list-style-type: none"> 1. If good accounting practices in place – helps 2. Puts burden on “them” not “us” 3. Pre-pays your special assessment 4. Publically digestible 	<ol style="list-style-type: none"> 1. Need to change deed restrictions 2. DEC changes out of our hands 3. If everyone doesn't do it – market may send a “don't buy” signal to those that do 	?		Yes	Issue	?	
B. Increase the APCHA transfer fee from 2% to a higher number (say 6%), with the added amount credited to the respective HOA capital reserve fund for the unit being sold, or create a new fee to accomplish the same intent	<ol style="list-style-type: none"> 1. No increase to the unit sales price cap 2. Housing guidelines specify the transfer fee 3. Potentially simple and fair 4. If legal, it's enforceable 	<ol style="list-style-type: none"> 1. Significant accounting and ongoing monthly dues issues need to be resolved 2. Current turnover rate may not be sufficient to make up shortfalls 	<ol style="list-style-type: none"> 1. Is this legal and can it be applied to existing units in the inventory 2. Who pays this fee – buyer or seller, or both 3. A flat, across the board fee, may not reflect the true need for capital reserves 								
C. Adjust the purchase price based on an assessment of the “exterior” condition and capital reserve analysis (similar to the adjustments made based on an inspection of the interior).	<ol style="list-style-type: none"> 1. Not based on an “inspection”, per se, but relies on the capital reserve study and underfunded status of the HOA's capital reserves 2. Puts the burden on the seller, which is appropriate given that capital reserve deficiencies are historical 3. Fair to program – folks who did not fund reserve forced to fund capital reserves at sale 4. Could be applied to new units with less “howl” by owners 5. Fairness – people who got use of unit fund the capital reserve for that unit 	<ol style="list-style-type: none"> 1. Sellers may not agree 2. What is the dollar amount you adjust by?? 3. Individual owner could fund cap reserve twice 4. Individual unit owners can not make autonomous decisions about exterior capital improvements 	<ol style="list-style-type: none"> 1. Is this legal and can it be applied to existing units in the inventory 2. Who decided? 3. How determined? 4. How much of shortfall is “priced”? 5. How often is the price updated? 		<ol style="list-style-type: none"> 1. Sellers may not agree 2. Penalizes individual unit owners for actions of their HOA board 3. Exposed an HOA board to liability issues 4. Hard to digest 5. Might be unpopular with older, unfunded HOAs 			Yes	Yes		Force owners to accept??

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D. Create rules that allow the value of a unit to be adjusted upwards to reflect actual capital investments made for major capital items (roofs, siding, driveways, foundations, etc.).	<ol style="list-style-type: none"> Existing idea applied to common elements Helps put "investment" into subsequent sales prices Can be in the mortgage 	<ol style="list-style-type: none"> Prices increases to "outside of category" levels 	<ol style="list-style-type: none"> Is this legal and can it be applied to existing units in the inventory Should there be a dollar minimum created so that small, low value investments are excluded? Depreciated over time How to apply when NEW funding not needed? Applied retroactively? – where is "line" to start this? What is "major"? What is capital? What is maintenance? Prices only go up?? – why not decrease prices as depreciation kicks in? Is there a percentage increase cap? – it needs some kind of cap to it. 	<ol style="list-style-type: none"> Similar to rules used on "interior" upgrades, allows a seller to get credit for major capital improvements on the exterior at time of sale. Similar annual "depreciation" formulas can be created to recognize the passage of time Facilities that need it can afford prices increases and still be "within the market" Easier to get HOAs to agree to things if they can do this – it can be a carrot to do other things we thing need doing Incentive to invest in physical plant 	<ol style="list-style-type: none"> How many unit owners would agree to deed restriction changes?? Deed restrictions would need to be changed – that is difficult to do on a widespread scale. 		Yes	Yes	No	Yes	
E. Generate funds through public or private sources (or in combination) and create global funding for all HOAs - bonds - credit union - private lending	<ol style="list-style-type: none"> Intended to be done for all HOAs in aggregate One fund, easier to administer for all HOAs Based on a proven model that has been done before 	<ol style="list-style-type: none"> Community may not support the costs associated with executing this 	<ol style="list-style-type: none"> How would bonds be repaid? Is this even legal or an illegal "lending of credit?" Is this a loan to the HOAs or a handout? Need a process for HOAs to apply for their share of funding Implications for private mortgages on units 								
F. Investigate using taxing districts for specific HOA's.	<ol style="list-style-type: none"> Equitable because the unit owners in the specific housing development pay it back 	<ol style="list-style-type: none"> Works for infrastructure only (e.g. roads, sewers, etc.) 									
G. Local banks and/or investor groups to provide low cost loans	<ol style="list-style-type: none"> One of conventional methods for financing capital repairs of common interest associations. 	<ol style="list-style-type: none"> Deed restricted HOAs less likely to afford large loans than free market counterparts 									
I. FHA Qualification for Workforce HOA's			<ol style="list-style-type: none"> Need resolution of deed restriction Requires annual re-certification Full disclosure of finances and capital reserves 								

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J. Government fund provide loans to HOAs											
K. "Credit Union" model for HOAs – who would borrow from their own "credit union"											
L. Adjust the purchase price by some percentage (e.g. 3%) and reduce the amount of the sale going to the seller by a like amount – so that 6% of the new price goes for capital reserves – split 50/50 between buyer and seller											
M. Part of appreciation amount recovered and distributed to capital reserve of the HOA											
N. Future projects are all RENTAL projects so no capital reserve issue arises in future with new construction											
O. Special cash assessment on each unit											

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P. Higher appreciation caps apply so that capital reserves can be funded – as these higher caps drive prices out of category ranges, government “buys down” the difference by making a payment to seller and lowering the prices back into category ranges											
Q. Create a “system capital reserve” – one fund for all units in program that everyone pays into and draws out of – a form of “social insurance” for the program											
R. Adjust appreciation downward if capital reserve not funded adequately											
S. Adjust appreciation upward if capital reserve is funded (use upward adjustment to fund), apportion some of the appreciation to capital											
T. Educational program to apply some pressure to HOAs to “do the right thing” . . . provide a single source of information for funding/financing information											

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U. At some point, HOA boards and APCHA must agree on what is the true capital reserve deficit (or surplus)											