3/26/14

Aspen City Council and Pitkin County Board of Commissioners:

I attended the Centennial HOA meeting with the city staff on February 28, 2014. I was also present at the joint committee of Aspen City Council and The Board of County Commissioners on March 4, 2014. I am grateful that Centennial HOA was granted a time slot to discuss their situation. I think Mr. Brown's quote in 1984 summed up what we all agreed happened.

"Now that his (Sam Brown's) original contractor, the Benchmark Corporation, has gone bankrupt, the next lowest bidder is about $1 million higher. But even cheaper financing won't completely close the gap he's quick to admit. He (Brown) says he is currently meeting with architects to see about cutting corners on the construction and grading, but he isn't certain what they will be." -The Aspen Times 3/29/84

We all agree that fundamental flaws were made when the structures were built in 1984. We agreed that the cost to repair our homes right now is $3.2 million. This money would fix the flaws that were inherited when the units were purchased. With your help we will get Centennial back to the crown jewel of APCHA.

I would like to address questions that were raised as well as discuss possible solutions.

Centennial Resident's Income

I find the most pressing misconception to be that the average Centennial resident can afford a significant increase in monthly dues. Centennial Condos is a category four housing complex. Therefore, to bid on a unit at Centennial one must make less than $143k and not have more than $175k in assets. Anyone can bid up to this category but one must not go over it. A recent survey of Centennial residents has shown that 97%[1] don't even make the Aspen median household income. According to city-data.com this is $71,541. I will use this median figure as Centennial's average income despite knowing it is substantially higher than the average complex resident's yearly income.

When we account for Federal Income Taxes, 28%[2], we are left with the actual net income of the average Centennial resident. Therefore, $4,292 is what the average Aspen resident takes home each month.

[1] $70,000k or below in total annual income was submitted by 56 of the SB responses= 97%

[2] 100% - 28% = 72% of $71,541 = $51,510 net take home a year/ 12 months = $4,292 each month

Exploring Free-Market Options

Council asked that they look into all "free market" options - i.e. a $3.2 million loan. If Centennial got a qualified co-signor, the City, the HOA could get a bank loan for the $3.2 million at a fixed rate of 6.0%. (If Centennial were a tax exempt entity, they could possibly then get a slightly lower rate.) If we push this out for the maximum term of 15 years, this makes for a monthly payment of $27,003[3]. Centennial has 92 units with a total square footage of 71,134 feet. This would make each square foot responsible for $.38[4] of this monthly debt. The average footprint of a unit at Centennial is 881 square feet. Therefore each unit would be responsible for approximately $335[5] each month. The additional assessment would be added to HOA bills.

This would make the average Centennial HOA bill $774.18[6,7] for 15 years, with a 2.5% increase each year. We will return to this number later.

Many Centennial Residents Can Afford Their Own Repairs

City staff voiced that people "who have lived up there for a while" can afford to do their own repairs. In the past 12 years, 106 Centennial units have sold. There are not a lot of long term owners, but they do exist. I surveyed one. He bought his first unit - 424 Free Silver - on 5/22/02 for $146,089. He sold this unit on 4/22/11 for $180,363. He had a net gain of $34,274 in nine years[8].

He used this equity gain to purchase and upgrade his new unit. He replaced every window, insulated and finished the attic, properly vented the bathrooms, installed energy efficient appliances, ceramic heaters, low flow toilets and shower heads. He met with CORE, Holy Cross, the Aspen building department and APCHA to insure everything was done correctly, up to code and as "green" as possible. He made his new unit the model of efficiency. For instance, his electric bill went from $300 to $150 a month in the winter and $100 to $35 in the summer months. After all these improvements this new unit was eventually granted a resale value of $226k. It has been three years and he continues to pay for these worthwhile upgrades. This is where his 9 years of equity went.

He heard that you might grant the units an equity gain for the $3.2 million improvements. His problem were solved. He called APCHA to get the

[3] $3,200,000 @ 6% for 15 years = $27,003 a month payment
[4] $27,003 / 71,134 = .38 a square foot
[5] 881 square feet x .38 cents= $334.78
[6] $266.42 operating+ $91.58 replacement+ $40.31 cable+ 14.87 water+ $26 internet= $439.18
[7] $439.18 + $335 = $774.18
[8] $180,363 - $146,089 = $34,274

current value of his unit. It was $224k. The value of his unit had actually decreased because improvements are depreciated at a faster rate than units appreciate. He is only making equity on the $191k he actually paid, not his improvements. This fact aside, he can still access 80%[9] of the equity in his unit or $179,200.

He currently owes $146k on his first mortgage and $18k on the improvements he made three years ago. In total, he owes $164,000[10] on his home. But when you raise the value of his unit he will be able to access the additional equity and get his own loan.

Raising Unit Values Will Allow For Personal Loans

The $18,000 he owes is on a HELOC. This is a Home Equity Line of Credit; a second mortgage. So this will be added to the new money he will need to borrow, $39,632.[11,12.] His personal situation leaves him a little short.[14,15] The first rule of banking is one cannot borrow what they cannot repay. Some owners are on fixed incomes, others, like him, have already tapped into their equity. So this option does not work for long term residents, new residents or current residents.

Personal Loan Repayment For Average Residents

I pulled the sales records from APCHA's website for the last 12 years. Based on these sale prices, the average mortgage for the complex is approximately $151,256. This makes the average monthly mortgage payment $900.00.[16] The average HOA dues for 2014 are $439.18.[17] Therefore, the current average Centennial resident's mortgage DTI[18] is 31%.[19] If we work in the loan repayment this average DTI becomes 39%.[20] This would mean $0.39 cents of every dollar a Centennial resident makes goes to housing.

The standard DTI for a borrower to qualify for a conventional mortgage is not to be higher than 42%.[21] This 42% is to be taken globally. This means it must include car payments, credit cards, student loans, etc. Bank regulators demand this because life

[9] 80% of $224,000 = $179,200
[10] $146,000 + $18,000 = $164,000
[11] $3,200,000 / 71,134 sq ft = $44.98 assessed per square foot
[12] $44.98 x 881 sq ft = $39,632
[13] $224,000 + $40,000 = $264,000
[14] 80% of $264,000 = $211,200
[15] $211,200 - $164,000 = $47,200 (I would need a total of $60k)
[16] $151,256 @ 5% for 30 years = $815 let's add $85 for taxes and insurance = $900
[17] $266.42 operating + $91.58 replacement+ $40.31 cable+ $14.87 water+ $26 internet= $439.18
[18] DTI = Debt to Income, a standard bank ratio: Total Debt/ Total Monthly Income
[19] ($900 1st+ $439.18 HOA) / $4,292 = 31%
[20] ($900 1st+ $439.18 HOA+ $335 Assessment) / $4,292 = 39%
[21] This is a standard ratio percent to account for life.

happens. Basically, we haven't factored in any living expenses, health care costs, kids, clothes, groceries, flat tires, tuitions, cell phones, electric bills, etc. Let's add on a standard car loan payment of $400.[22] Suddenly we're at a bank unacceptable level of 48% DTI. This basic math shows if we work in the loan repayment schedule into the HOA dues, Centennial ceases to be affordable housing.

We have seen two questions answered. Looking globally at the average DTI's we see the bank loan option doesn't work. Looking at histories, vacancies and flat incomes we see the increased equity option doesn't work.

Solution?

I think there is one solution we may have over looked. Perhaps we can tack this $3.2 million onto each unit's final sale price. When a unit sells, APCHA will take the percent they are owed by square footage. For instance when the average unit sells for $190,888[23] today, the new purchaser would be buying a sustainable, insulated, energy efficient centrally located home. A 30 year mortgage would make their monthly payment $1100.[24] Factor in HOA dues and the total monthly mortgage DTI would be a somewhat manageable 35%.[25] Current owners pay 31%, see footnote 19.

On deed restricted housing qualified borrowers can get a 90% LTV[26] loan. The new purchaser would be required to put down $19,089.[27] This would make their first mortgage payment $1000[28] this gives them an overall DTI of 33%.[29] Thus the improved units are shown to be affordable.

Centennial Must Not Set a Precedent

This is not a precedent because Centennial is not receiving a "bail out." Centennial is paying back 100% of the granted funds. We are getting the quality, affordable units that were originally to be built. The original unit's construction had some corners cut, due to an unfortunate bankruptcy that caused financial hardships for Centennial's builder. We are correcting these issues now. The City has made Centennial whole and has kept its premier asset intact.

[22] ($900 1st+ $439.18 HOA+ $335 Assessment+ $400 car Payment)/ $4,292 = 48%
[23] $151,256 + $39,632 = $190,888
[24] $190,888 @ 5% for 30 years= $1025 +taxes and insurance = $1,100 a month
[25] $1100 1st+ $439.18 HOA = $1,539 / $4,292 = 35%
[26] LTV=Loan to Value
[27] 100% - 90% = 10% of $190,888 = $19,089 initial down payment
[28] $190,888 - $19,089 = $171,799 @ 5% for 30 years = $925 + taxes and insurance = $1000
[29] $1000 1st+ $439.18 HOA= $1,439.18 / $4,292 = 33%

What will keep this HOA from coming back?

This is to be a one-time request by this complex as I have analyzed Centennial's financials. Remember the Reserves Study done 8/17/12. This study recommended an immediate assessment to fix the structures and another $1.2 million in future repairs. With the $3.2 million the units will be repaired and the capital reserves will be intact to address the latter issues. Dues can be raised by the recommended 2.25%[30] or approximately $9.88 a month or $118.58 per unit yearly to maintain a stable reserve. This Reserve Study also provided a clear blueprint for the HOA to follow. It lists required maintenance, life spans, costs and suggested actions. Thus, Centennial will not need to return to the city for another request of this nature.

Centennial's 2/28/14 Balance Sheet shows they have $674,454 in the bank. They collect an extra $91.58 per unit, per month for capital repairs. That means every year this fund increases by $101,104.[31] Simple math dictates in five years Centennial will have $1,179,976[32] in its reserve. Centennial will be repaired and ready for Aspen's current and future work force. They will be well capitalized and self-sufficient for years to come.

Summary of Findings

I am a credit analyst and understand mortgage financing and DTI's. I have seen the Centennial income survey and can say 56 of the 58 Centennial respondents cannot afford a $39,632 assessment. But even more pressing to me is the lack of people who will be able to qualify for financing if HOA dues are substantially increased.

We can all remember that it wasn't long ago the mortgage rates were at 7%. Currently HOA dues are 49%[33] of the average monthly mortgage. Centennial's dues will not decrease; owners live in a 30 year old, stick built structure with a blueprint of planned maintenance. Thus decreasing them is illogical.

Let's not forget all these figures are based on a significantly higher monthly income than 97% of Centennial residents make.

[30] $439.18 x 2.25% = $9.88 x 12 months = $118.58
[31] $91.58 reserve assessment x 12 months x 92 units = $101,104
[32] ($101,104 x 5 years) + $674,545 current reserve balance = $1,179,976
[33] $439.18/$900 = 49%

1. **Current owners can't afford raising HOA dues.**
2. **Raising the value of units does not allow for personal loans**
3. **Adding the granted funds onto the resale value works**

I was looking to answer your questions and provide a possible solution to this predicament. I welcome the opportunity to meet and discuss these figures and thoughts at your convenience.

Sincerely,

Scott Norris
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ELIGIBILITY FOR AFFORDABLE HOUSING RESCUE PROGRAMS

WHEREAS, The Aspen Pitkin County Housing Authority ("APCHA") recognizes as communities age, capital improvements become necessary and may exceed the financial ability of owners in affordable housing programs to meet these financial obligations, and

WHEREAS, the APCHA desires to implement certain rules and guidelines in which communities may receive housing assista nee in the form of project management and monies to assist in the off set of these major capital expenses ; and

WHEREAS, APCHA as determined that an investment in existing housing stocks is necessary for the viability of the affordable housing program in the Aspen/Pitkin County communities;

NOW, THEREFORE, APCHA hereby sets forth the following criteria for eligibility to receive housing investments.

1. The community must demonstrate that it has obtained a reserve study and funded the financial obligations set forth in the reserve study at a minimum of 50% of the obligations.
2. The community must be able to demonstrate that capital repairs have been timely made as indicated in the reserve study obtained by the community.
3. The community must be able to demonstrate that, prior to application for funding, the community, investigated the viability of commercial loans to the community to offset the needed financial assistanceand that such funding was unavailable.
4. The community must agree to revised deed restrictions, which restriction shall be set forth in the Declaration of the Community, that upon the conveyance of any unit, any allocated portion of such financial assistanceshall be returned to APCHAfor reinvestment into the program.
5. The Community must fund, after such repairs, the financial obligations at no less than 75% of the anticipated cash requirements to maintain the community.