

Highfield House Condominium Association

PLAZA REPAIR & RESTORATION PROJECT

February 2019



Dear Unit Owners and Residents,

This is the second of two pamphlets prepared for Highfield House (HH) owners on the Plaza Repair and Restoration Project. The first dealt with construction issues and costs. This one deals with financing.

Purpose of this pamphlet:

- Estimate the amount Special Assessment By Unit
- Describe Special Assessment financing options
- Describe process used to develop the condo assn. financing option
- Review timetable for project approval & election of payment options

A special meeting to discuss financing options for the Highfield House Plaza Repair and Restoration project will be held Tuesday, Feb. 19 at 7:30 pm in the Guilford Room. All owners are encouraged to attend.

If you are unable to attend or have questions in advance of the meeting please email hhplazaproject@gmail.com. Thank you.

Jerry Doctrow

**Chair, Finance Task Force
Highfield House Condominium Board of Directors**

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**SAVE
THE
DATE**

Tuesday, Feb. 19

**Resident Forum:
Project Financing**

Guilford Room 7:30 pm

Large format detailed cost estimates by unit available for review at the front desk or online at: <http://bit.ly/highfieldhouse>



Questions? Email hhplazaproject@gmail.com

Special Assessment & Financing

Special Assessment By Unit

Exhibit 1 shows the amount of Special Assessment for each unit in HH to fund a \$4.4 million investment in plaza repair and restoration. The \$4.4 million figure is the latest estimate based on a November 20, 2018 cost estimate by our construction manager (Riparius), Moseley architects and our owner's representative, Russ Robertson of CapEx Advisory Group. See detailed cost estimate provided to owners by Bob Garnet and Bob Hallock for details. This figure will be refined and finalized prior to the votes.

A \$4.4 million investment in the Plaza Repair and Restoration Project that HH owners will be asked to approve in March will require a Special Assessment ranging from \$13,641 for an efficiency unit to \$39,162 for a three-bedroom unit and over \$71,000 for the largest double units in the building (See detail on Exhibit 1). The HH Board of Directors and Finance Task Force recognize these are substantial amounts for HH owners.

Financing Options

In order to make the Special Assessment as affordable as possible for all HH owners, the Board of Directors has applied for a loan from Mutual of Omaha Bank's Community Association Lending division (Mutual of Omaha) to the HH Condominium Association.

A special meeting of HH owners will be held in March to vote on two items. Vote One will be to approve the Plaza Repair and Renovation Project and a Special Assessment to fund it. Vote Two will be to approve the option to finance the Special Assessment over time and change the bylaws to permit this. Prior to the special meeting owners will receive proposed resolutions, proxies and ballots.

Assuming both the Mutual of Omaha loan and an amendment to Highfield House's Bylaws are approved, HH owners will have two options to pay their share of the Special Assessment – 1) in an up-front lump sum or 2) over 15 years via an increase in their monthly condominium assessment. The lump sum and monthly amounts per unit shown on Exhibit 1 are subject to change but the final numbers will be available to owners before they are asked for their votes.

OPTION 1 Pay entire Special Assessment in lump sum, up front, approximately 30 days from the March vote.

The source of funds to pay the entire Special Assessment in a lump sum is entirely up to each HH owner but logically might include using savings or privately financing the amount of the Special Assessment.

OPTION 2 Finance the Special Assessment over 15 years through Highfield House.

In order to provide all owners the option to pay the Special Assessment over time, the Highfield House Condominium Association has applied for a loan from Mutual of Omaha that would fund the Special Assessments of those owners choosing this Option 2 so that the project can proceed.

The Association will repay the Mutual of Omaha loan over 15 years through an increase in the monthly assessment for those owners choosing Option 2.

Under Option 2, owners will be able to repay the Special Assessment over 15 years at an effective interest rate of 6.5%. This rate will repay Mutual of Omaha Bank and cover the administration and collection of the Special Assessment over time and a small reserve. These payments will not be tax deductible.

In order to develop the financing options, the Highfield House Board established a Finance Task Force made up of owners. The Finance Task Force members are:

Jerry Doctrow – Chair – Former director homeownership and housing rehabilitation financing City of Baltimore, former manager of state and federal housing loan programs and 18 year career in private sector real estate finance

Yutaka Horiba – Economist

Fritzi Hallock – Investment manager and former real estate market and financial analyst

Barbara Doty – Investment fund manager

Sam Cohen – CPA

Bob Garnet – Former telecommunications industry executive

Process to Develop the Financing Option

To identify potential lenders to the Association, the Finance Task Force contacted WPM to identify banks providing condo association loans in the Baltimore area and did an online search. This process identified four lenders (Mutual of Omaha, BB&T, Bay Bank and Revere Bank), three of which submitted term sheets after touring the property, learning about the Plaza Repair and Restoration project and meeting with management and the Finance Task Force. Only one lender, Mutual of Omaha Bank, was willing to provide 15-year financing and it also offered the most attractive rates. Mutual of Omaha specializes in condo association lending and is the largest lender to condo associations in the U.S. Moreover, Highfield House's operating funds are currently in a Mutual of Omaha account so Highfield House and WPM already have a relationship with the bank.

After identifying Mutual of Omaha as the most attractive lending option, the Finance Task Force worked with WPM to develop the process and cost for billing owners monthly and accounting for Special Assessment payments over time. We also determined that a change to Highfield House's Bylaws would be needed to permit the Special Assessment to be billed over time.

Working with WPM we submitted a loan application to Mutual of Omaha the week of January 21, 2019 and we expect to receive a commitment for a loan within about 20 business days.

In addition to pursuing a loan to the Association, the Finance Task Force process included consideration of arranging loans to Highfield House owners directly from a lender (e.g. personal loan, home equity loan). The Task Force determined that each owner has their own situation, including banking relationships, making the arrangement of a sole direct lending source (so-called option #3) impractical. But individual owners are encouraged to consider private financing options on their own.

Key Points Regarding the Highfield House Financing Option

With Option 2, Highfield House is not making loans to owners for the Special Assessment but is giving owners the option of paying the Special Assessment over 15 years rather than all at once. If owners both (1) approve the Special Assessment for the Plaza Repair and Restoration Project and (2) approve the Bylaws change (the votes are planned for mid-March), owners will have about 30 days after approval to pay the Special Assessment in full or elect to pay the assessment over time.

- You will not be able to pay a portion of the Special Assessment up front and pay a portion through the Association over time. It must be one way or the other.

- The monthly payment will be fixed and will be billed at the same time as your regular condominium fee on the 1st of the month.
- If you have your regular condominium fee automatically drawn from a bank account, the monthly Special Assessment will be drawn that way as well.
- You will have the option to pay off the Special Assessment balance in full at any time a regular monthly payment is scheduled but will not be able to prepay a portion of the Special Assessment balance.
- If you choose Finance Option 2, and sell your unit during the 15-year period, you or your buyer will have the option of repaying the remaining balance of the Special Assessment at the time of sale or the buyer will be able to assume responsibility for the balance of the higher assessment payments.
- Failure to pay the monthly Special Assessment payment will be treated the same way as a failure to pay a normal assessment.

Timetable for Project Approval and Election of Payment Options

In March a special meeting of owners will be scheduled with 15 days notice to vote on two major items.

Vote One For the Plaza Repair and Renovation Project at a cost of up to \$4.5 million to be paid via a Special Assessment – 66.7% of a quorum in person or by proxy needed for passage.

Vote Two For the Special Assessment financing option and the Bylaws amendment to allow the Special Assessment to be billed over time – 60% of all owners must approve.

Assuming both the Plaza Repair and Renovation Project and the Special Assessment financing option and the Bylaws amendment are approved, owners will have approximately 30 days to pay their Special Assessment in full or elect to pay their Special Assessment over time. For those electing to pay over time we expect billing to begin within 15 - 45 days of such election.

It is important to note that, if the Plaza Repair and Restoration Project is approved but the Bylaws change is not, the Plaza Repair and Restoration Project will proceed but owners will not have the option of paying their Special Assessment over time through a higher monthly assessment. In fairness to all HH owners, the Finance Task Force and the HH Board of Directors encourage all owners to vote in favor of the Bylaws amendment even if you are prepared to pay your share of the Special Assessment for Plaza Repair and Restoration in lump sum. It is only with this Bylaws amendment that HH owners will have an option to pay their share of the Special Assessment for Plaza Restoration over time.

Based on Budget Dated 11/20/2018

Mutual of Omaha Rate: 5.15%

Total Project Cost: \$4,400,000

20 Year Treasury Constant Maturity Rate as of 1/24/19: 2.89%

Estimated Effective Loan Interest Rate: 6.50%

Spread for Mutual of Omaha: 2.00%

Loan Term in Months: 180

Origination Fee: .50%

Legal Fees to Bank: \$5,000

Note: Effective interest rate includes rate paid to Mutual of Omaha Bank, loan origination fees, administrative cost to collect and account for assessments and small allowance for loan loss reserve.

Unit #	Est. Special Assessment	Est. Monthly Payment
301	\$32,560	\$284
302	\$39,160	\$341
303	\$22,880	\$199
304	\$23,320	\$203
305	\$22,000	\$192
306	\$22,440	\$195
307	\$13,640	\$119
308	\$22,440	\$195
309	\$21,560	\$188
310	\$31,240	\$272
311	\$22,440	\$195
312	\$32,120	\$280
314	\$32,560	\$284
401	\$32,560	\$284
402	\$39,160	\$341
403	\$22,880	\$199
404	\$23,320	\$203
405	\$22,000	\$192
406	\$22,440	\$195
407	\$13,640	\$119
408	\$22,440	\$195
409	\$21,560	\$188
410	\$31,240	\$272
411	\$22,440	\$195
412	\$32,120	\$280
414	\$32,560	\$284
501	\$32,560	\$284
502	\$39,160	\$341
503	\$22,880	\$199
504	\$23,320	\$203
505	\$22,000	\$192
506	\$22,440	\$195
507	\$13,640	\$119
508	\$22,440	\$195
509	\$21,560	\$188
510	\$31,240	\$272
511	\$22,440	\$195
512	\$32,120	\$280
514	\$32,560	\$284
601	\$32,560	\$284
602	\$39,160	\$341

Unit #	Est. Special Assessment	Est. Monthly Payment
603	\$22,880	\$199
604	\$23,320	\$203
605	\$22,000	\$192
606	\$22,440	\$195
607	\$13,640	\$119
608	\$22,440	\$195
609	\$21,560	\$188
610	\$31,240	\$272
611	\$22,440	\$195
612	\$32,120	\$280
614	\$32,560	\$284
701	\$32,560	\$284
702	\$39,160	\$341
703	\$22,880	\$199
704	\$23,320	\$203
705	\$22,000	\$192
706	\$22,440	\$195
707	\$13,640	\$119
708	\$22,440	\$195
709	\$21,560	\$188
710	\$31,240	\$272
711	\$22,440	\$195
712	\$32,120	\$280
714	\$32,560	\$284
801	\$32,560	\$284
802	\$39,160	\$341
803	\$22,880	\$199
804	\$23,320	\$203
805	\$22,000	\$192
806	\$22,440	\$195
807	\$13,640	\$119
808	\$22,440	\$195
809	\$21,560	\$188
810	\$31,240	\$272
811	\$22,440	\$195
812	\$32,120	\$280
814	\$32,560	\$284
901	\$32,560	\$284
902	\$39,160	\$341
903	\$22,880	\$199
904	\$23,320	\$203
905	\$22,000	\$192

Unit #	Est. Special Assessment	Est. Monthly Payment
906	\$22,440	\$195
907	\$13,640	\$119
908	\$22,440	\$195
909	\$21,560	\$188
910	\$31,240	\$272
911	\$22,440	\$195
912	\$32,120	\$280
914	\$32,560	\$284
1001	\$32,560	\$284
1002	\$39,160	\$341
1003	\$22,880	\$199
1004	\$23,320	\$203
1005	\$22,000	\$192
1006	\$22,440	\$195
1007	\$13,640	\$119
1008	\$22,440	\$195
1009	\$21,560	\$188
1010	\$31,240	\$272
1011	\$22,440	\$195
1012	\$32,120	\$280
1014	\$32,560	\$284
1101	\$32,560	\$284
1102	\$39,160	\$341
1103	\$22,880	\$199
1104	\$23,320	\$203
1105	\$22,000	\$192
1106	\$22,440	\$195
1107	\$13,640	\$119
1108	\$22,440	\$195
1109	\$21,560	\$188
1110	\$31,240	\$272
1111	\$22,440	\$195
1112	\$32,120	\$280
1114	\$32,560	\$284
1201	\$32,560	\$284
1202	\$39,160	\$341
1203	\$30,800	\$268
1204	\$23,320	\$203
1205	\$21,120	\$184
1206	\$22,440	\$195
1207	\$19,360	\$169
1208	\$22,440	\$195

Unit #	Est. Special Assessment	Est. Monthly Payment
1209	\$31,240	\$272
1210	\$31,240	\$272
1212	\$32,120	\$280
1214	\$32,560	\$284
1401	\$32,560	\$284
1402	\$39,160	\$341
1403	\$31,240	\$272
1404	\$23,320	\$203
1405	\$21,120	\$184
1406	\$22,440	\$195
1407	\$19,360	\$169
1408	\$22,440	\$195
1409	\$31,240	\$272
1410	\$31,240	\$272
1412	\$32,120	\$280
1414	\$32,560	\$284
1501	\$32,560	\$284
1502	\$39,160	\$341
1503	\$31,240	\$272
1504	\$23,320	\$203
1505	\$21,120	\$184
1506	\$22,440	\$195
1507	\$19,360	\$169
1508	\$22,440	\$195
1509	\$31,240	\$272
1510	\$31,240	\$272
1512	\$32,120	\$280
1514	\$32,560	\$284
1601	\$32,560	\$284
1602	\$39,160	\$341
1603	\$31,240	\$272
1604	\$23,320	\$203
1605	\$21,120	\$184
1606	\$22,440	\$195
1607	\$19,360	\$169
1608	\$22,440	\$195
1609	\$31,240	\$272
1610	\$31,240	\$272
1612	\$32,120	\$280
1614	\$32,560	\$284

A large-format version of the above table is available at the front desk and online at <http://bit.ly/highfieldhouse>

Frequently Asked Questions

What happens if an owner does not pay their share of the Special Assessment?

The same collection process will be used for monthly Special Assessment payments as is used for regular condominium assessments. Late notices are sent, penalty interest of 18% and late fees equal to the greater of \$15 or 1/20th of the unpaid amount assessed and finally the Association may take legal action to place a lien against the unit for the unpaid assessment plus interest, late fees and actual collection costs. Filing of a lien could result in a foreclosure and force sale of a unit with an unpaid Special Assessment.

What is the risk to owners who pay the Special Assessment in a lump sum if owners do not pay their Special Assessment payments?

Legally, the condominium assessments of all HH owners are pledged to repay the Mutual of Omaha loan to the Association. However, there are a number of safeguards built into the payment structure to minimize the non-payment risk. The Association is charging a slightly higher amount to HH owners who elect to pay over time than the Association will be obligated to pay Mutual of Omaha creating a small reserve that can be used to meet the Association's obligations to Mutual of Omaha even if some owners do not make all their payments. Similarly, we will begin collecting payments from HH owners paying over time before we start drawing on loan funds for construction from Mutual of Omaha. This multi-month early start of payments from HH owners will add to a reserve for potential non-payment. Finally, any HH owner who fails to make monthly Special Assessment payments on time risks losing their unit through foreclosure as noted above.

However, it should be noted that if the Special Assessment non-payments become significant, and the protections detailed above are exhausted, it is possible the operating budget for HH will be impacted and/or that condominium assessments for all owners could be increased.

What happens if the Project is approved but not the Bylaws amendment?

If HH owners approve the Plaza Repair and Restoration Project but do not approve the Bylaws change there will be no option to pay the Special Assessment over time through the Association.

All owners will be required to pay the Special Assessment up front in a lump sum.

What happens to the contingency funds or any unused Special Assessment if the Plaza Repair & Restoration Project comes in on or under budget?

Any unused contingency or otherwise budgeted Special Assessment funds at the completion of the Plaza Repair and Restoration Project will be shifted to Highfield House's general reserves reducing the need for future reserve fund increases and future special assessments.

Is a large special assessment a unique problem at Highfield House?

In 2017 we surveyed other elevator condominiums in the North Baltimore market including the Carrolton, Colonnade, Harper House, Warrington and Winthrop House. Between 2010 and 2016 these buildings on average had special assessments of \$18,400 per unit, with the Colonnade having a special assessment of \$38,008 per unit and the Warrington a special assessment of \$46,739 per unit. Highfield House had only one special assessment for the hallways project between 2010 and 2016 of \$2,424 per unit. So, while the proposed Plaza Repair and Restoration Special Assessment at Highfield House is substantial, other North Baltimore condominiums have also incurred and approved large special assessments from time to time.

How will the Special Assessment affect the value of my unit and my ability to sell?

You should consult unbiased real estate appraisers and brokers to answer this question but some things to consider include: The real estate market nationally and in Baltimore slowed in 2018 as interest rates increased and buyers became less willing to pay higher prices. Highfield House has included information on the need for and estimated cost of plaza repair and restoration in our condominium disclosure documents since 2016, when the SM+P report was completed, so knowledgeable buyers should already be pricing the cost of a possible Special Assessment into their offers for Highfield House units. Completion of the Plaza Repair and Restoration Project and the ability of purchasers to assume responsibility for paying for the Special Assessment over time

Continued on reverse

FAQ continued

or pay it off at settlement will reduce uncertainty about buying at Highfield House and may facilitate sales once construction work is completed.

How was the amount of the monthly Special Assessment payment established?

The monthly Special Assessment payment covers the interest on the Association's loan from Mutual of Omaha (which currently is 5.15%) as well as a 0.50% loan origination fee and a \$5,000 allowance for lender legal costs. In addition, WPM will charge an administrative fee to collect and account for the monthly payments that is estimated to range from \$1,300 to \$2,000 per

month depending how many owners take the monthly Special Assessment option as well as how many pay electronically.

Adding origination fees and the cost of collecting and administering monthly Special Assessment payments, as well as an additional amount for a reserve (to protect the Association against potential nonpayment by some owners electing to pay over time), brings the rate on which the monthly Special Assessment calculation is based to 6.5% as of this pamphlet. The final rate on the Mutual of Omaha loan, and therefore the final rate on which the monthly Special Assessment calculation is based, is subject to change but will be fixed, and the final resulting Special Assessment changes presented to owners before the election to either pay in a lump sum or pay over time is made.

**Attention: Unit Owner
Highfield House Condominiums**

