

Vol. 37 • No. 4 • August 2019

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6 Steps to Improve Your Condo and HOA's Collection Practices Before the Next Recession



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We are all aware that the economy has a rhythm or cycle and is also referred to as a business cycle. When the cycle is on an upward trajectory, people's financial situations are improving, and as the cycle turns downward their financial situations can deteriorate. Over the last ten years the U.S. has been experiencing the longest economic expansion in post-war history. The odds of the cycle turning downward are increasing every month. How do you improve your condo and HOA's collection practices before the next recession?

The chart below is from June 2018, and by the time this article is published in August of 2019, we will be at 122 months and the longest economic expansion in U.S. history. If you listen for it, you will start to hear professional investors and economists starting to say the "R" word again (Recession), and their predictions range between later this year or during 2020.

During the last few years of this economic recovery most communities have experienced "good times" with few problems with delinquent payers. However, when we start to experience a recession, your board may experience the "bad times."

It may not be like the "Great Recession," but the next economic downturn can still be impactful. A larger percentage of late paying or delinquent owners can have a serious impact on a community's budget. Cash strapped communities may accrue fines or late fees for paying bills late, vendors may not show up to provide service since they are not being paid in a timely manner, services may be interrupted, and amenities could be shut down due to the lack of operating funds.

The Board your community has today is likely not the Board that went through the "Great Recession." So when your community experiences a sudden increase in delinquencies what is the Board going to do?

6 Steps to Improve Your Condo and HOA's Collection Practices Before the Next Recession:

Make it Easy for Owners to Pay: The best way to make paying your dues/common charges easy to pay is to give owners more ways to pay. Let people pay by check, let people pay by bank draft (ACH), let owners pay by credit card (they pay the transaction fee), let people mail in payments, pay online, and you can even take payments by phone. The one caveat to this is cash, we recommend you do not accept cash as it can go missing far too easily.

Communication Protocol: Can you quickly mail communications to owners on what they owe? If you don't already, maybe you want to change to mailed statements showing updated balances and late fees. Make sure you have the ability to mail out Late Letters as friendly reminders and that you can send out Pre-Lien Letters by certified return receipt mail. Communication systems will work lockstep with the collection policy you adopted.

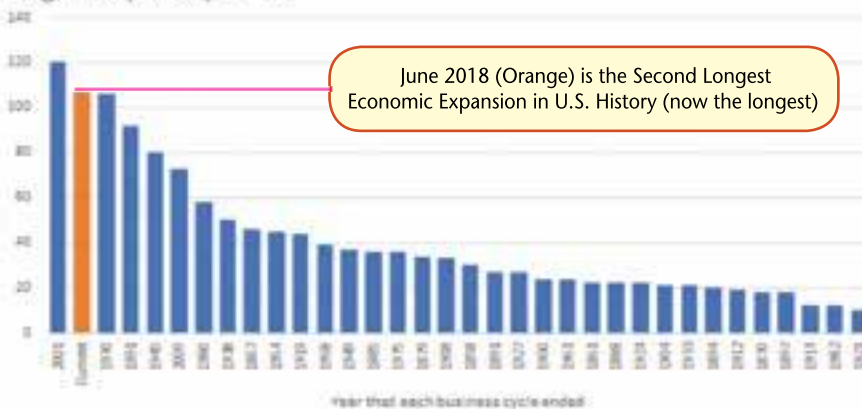
Add a Meaningful Penalty: If late fees are not producing the desired outcome you have another option. Lower the delinquent payer's credit score every month and they will start to pay attention to your bill. This method works, which is why large corporations report to the credit agencies for credit cards, car loans, mortgages, etc. The association can add this with the help of a credit agency approved Financial Management Company.

Find a Condo/HOA Collection Company or Collection Attorney: If you don't currently work with a collection agency or collection attorney you will want to line one up. Additionally, if you are not satisfied with the agency or attorney you currently use, now is the time to investigate alternatives. We recommend you search for candidates through your local Community Association Institute (CAI) chapter. Vendors that are part of CAI are specialists that will know not only about collection law, but also condo and HOA specific laws.

Adopt or Update Your Collection Policy: A collection policy will outline what steps your community takes when an owner pays late. If you don't have one, you may consider creating one, as it is required by Colorado law to ensure you are able to take legal action on late payers. Get professional advice: You can use a credentialed manager to review and help you with collection policy best practices. After you've incorporated these changes, you'll want your attorney to review it. When using an attorney, make sure your community uses one that specializes in community association law and is not a generalist, as this will take you longer and cost you more. When completed, send this out to all owners so they are aware of what the policy is and what will happen if they pay late. Remember, the money spent to properly write up a collection policy is an investment.

Increase Late Fees: If you are not charging late fees you need to. The late fee should be a meaningful penalty. If it's not meaningful, it's a joke and you are last on the list of bills to pay. You may be able to simply increase the late fees in your rules and regulations, however, check your governing documents as some may have a stated late fee that you may have to revise. I've seen documents from the 1970's and early 1980's, and the late fee is \$10 or \$15. If you adjust that for inflation you are going to have a better deterrent. Lastly, remember your community needs to be able to uniformly apply the late fee to every owner and record it in your accounting system.

This is already the second longest economic expansion in U.S. history
Length of expansion, months



*Chart sourced from SeekingAlpha.com

Summary

If you utilize these 6 steps to improve your condo and HOA's collection practices before the next recession, you will fare better than the community down the street. I know most community boards are usually kept busy reacting to issues that come up. We recommend getting ahead of this issue as it will save your Board time and problems down the road. If your Board doesn't have time, form a committee to assist you. ⬆

Russell Munz, CMCA, is the Founder of Community Financials which provides stress-free financial management to self-managed communities and managers nationwide. Previously, Russell grew a successful 41-person full-service management company over 16 years; he now provides big company systems and processes to a new audience. Have a question? Ask him by emailing: russell@communityfinancials.com