CHOA

Condominium Home Owners' Association of British Columbia

Leadership, Education and Resources for strata owners across BC

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Condo Smarts

Headline: Can a strata borrow money?
Topic: Finances; borrowing money
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Written by: Tony Gioventu

Dear Tony: Our strata corporation is trying to pass a major project which includes a roofing and balcony deck renewal. We have had the project detailed and prepared by an engineering company and the estimate of costs will be around $2.7 million. We have 1 million saved so the owners will be having to pay a special levy of $1.7 million or an average of $24,000 per unit. We have tried twice in the last 6 months to get the owners to approve the special levy but we have been unsuccessful. Everyone agrees that the project is necessary but owners are claiming they cannot pay the special levies because of high mortgages relating to high property values. The closest we have managed is 40% of the owners voting yes at a meeting. Several owners who are opposed to the repairs have come to us with the option of the strata corporation taking out a loan for the repairs and the payments could easily be absorbed by the owners who need to participate in the loan. We have investigated the option of loans but don't see how anyone benefits from the strata corporation taking a loan. If we approve the loan, and only half of the owners participate, what happens if someone defaults on their payments? The payments for a 5 year term are very high so we expect this is likely. Those owners who have paid their levies are concerned about the liability of delinquent owners.

Cynthia W.

Dear Cynthia: When a strata corporation takes out a loan they are assessed as a commercial client or comparable risk. Because strata corporations cannot mortgage common property the lender has less security; however, the lender can negotiate by contract the priority of receipt of payments for the loan. This basically secures their loan to ensure they get paid first by the strata corporation. The interest on commercial loans is substantially higher, and depending on the ratio of the loan and the risk, the strata corporation may be paying anywhere from 6.5-9.5% interest at this time. It is important to clearly understand the amortization period which is the period the loan must be paid back, and the term of the loan which is the period for which the rate of interest is fixed. It could be possible to have a 10 year amortization and pay the loan back over 10 years; however, the maximum term will only be 5 years at a fixed rate of interest. At the end of the first 5 year period, the interest is then renegotiated to reflect current market values at that time. Amortization that is longer than the term leaves the rate of interest unpredictable. This also creates complications for sellers and buyers because the strata corporation cannot fix a definite amount of payout for a seller.

You are correct about the risk for those owners who have paid their special levy. If the strata corporation takes the loan, every strata lot owner in the strata corporation, based on unit entitlement, is liable for the payment of the loan. It is the strata corporation who is assuming the liability for the loan repayment and the costs of interest. The strata corporation will contract with owners who require the loan to cover security, debt and interest penalties, but if an owner defaults the strata corporation still has to pay the monthly loan fees and will be paying for the legal and court costs if they have to make an application to the courts for a sale of the strata lot. This does not dissolve the future cost of interest or penalties that are still owed by the strata corporation for the balance of the amortization period. Before you consider a voluntary loan for some strata owners, retain a lawyer experienced with strata law and borrowing. Make sure you know the answers and procedures to "what happens when an owner defaults on their loan payments". It is also advisable for the owners at a general meeting to have the same information so they can make an informed decision when they approve the special levy and the borrowing of the funds on behalf of some of the owners.