CHOA

Condominium Home Owners' Association of British Columbia
Leadership, Education and Resources for strata owners across BC
Website: www.choa.bc.ca / Toll-free: 1.877.353.2462
Bulletin: 300-676

Condo Smarts

Headline: Payout for special levy loans
Topic: Special Levies
Publication / Date: The Province, March 10, 2016
Written by: Tony Gioventu

Dear Tony: We are looking at buying into a strata that has done an amazing amount of work on upgrades and renovations. The strata funded a third of the repairs from their contingency fund and the rest from a loan from a private lender. We can definitely see the benefit of the project and how they paid for the work, but we have a question that no one seems to be able or willing to answer. How much is each person's share of the total cost going to be so we can request the seller pays out the balance of the special levy and loan? This is a 15 year loan, but we're having a hard time figuring out how much the interest and payment cost for each strata is.

Kent D. Vancouver

Dear Kent: There are two principle parts of a loan that a strata corporation needs to consider when they are negotiating the terms. The amortization and the term. The amortization is essentially the period of time required to pay out the loan. The term of the loan is the period for which the rate of interest is fixed.

For most loans, the term limits out at 5 years, while the payout amortization may be 5, 10, 15 or 25 years. These are all subject to negotiation with the lender. Simple rule, the longer you take to amortize the more interest you pay. If your term and amortization are both 5 years at a fixed rate, then it is possible to calculate the actual cost paid by each strata lot, but if the amortization is 15 years as in your case, and the term is 5 years, the interest can only be predicted for the next 5 years, and the renewal of the next 5 year term, and subsequent 5 year term will be subject to market interest rates and the terms and conditions of the loan agreements.

While your strata may be paying a rate of 7.5% today for the first five years, if interest climbs, the rate determined by the contract will increase and the strata will be required to pass a new special levy to pay for the next 5 year term at the higher rates.

One of the pitfalls of loans where the amortization is longer than the term is the unknown loan costs. While a buyer could estimate probable costs, nothing is certain. This is the main reason no one can answer your question in the strata. They don't know what the interest costs will be when the terms are renewed at 5 years and 10 years.

Request a copy of the loan agreement and determine the rate of interest on the current term, and how interest is going to be calculated on future term renewals. Generally it will be bench marked against the prime lending rate or Bank of Canada rate. For strata corporations interested in borrowing for major repairs, banks and credit unions in BC offer better competitive commercial rates, but they are generally shorter terms and amortization, such as 5 years. The benefit is knowing the fixed cost, the drawback is higher payments in the short term.