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Neighborhood associations are seeing a rise in delinquent payments

By Michael Hartranft

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Amid the economic tumult, loss of jobs and burst of foreclosures, homeowner associations across the country are being forced to confront rises in the number of members failing to pay their mandatory annual dues. New Mexico is not immune.

No matter where they are, it's a hit homeowner associations can ill-afford. Membership dues are their lifeblood, paying for things like maintaining swimming pools, trails and community centers, to caring for landscaping in common areas and arranging for extra security patrols.

Their options for confronting budget shortages are fairly simple: Raise the dues or cut services.

Representatives of three association management companies that work with more than 100 associations in the Albuquerque-Santa Fe area would not, or were not able to, disclose their delinquency rates. But they acknowledged the issue has hit home.

"This falls into the area, at least for our communities, of concern. But it's a fairly minor concern at this point," said Jon McCormick, who runs the real estate management division for AMMRE, which works with about 30 home and condominium associations in the Albuquerque area.

No one can predict it will stay that way, however, says Melanie Holland, president of Canyon Gate Real Estate, the management agency for the 3,500-member Ventana Ranch Homeowners' Association, and more than 50 other associations in the Albuquerque and Santa Fe areas.

"I think we're all in the same boat as to not knowing what to expect in this coming year," she said.

On the national stage, the degree and seriousness of the delinquency problem varies.

"I know it is especially bad in Florida, California, Arizona and parts of the Midwest," said Frank Rathbun of the Community Associations Institute, a trade organization in Washington, D.C. "Whereas it was common at one time for associations to assume 1 to 3 percent of their members would be late or fail to pay their dues, now, it is 5, 10, 15, 20 percent."

To get a sense of the problem, Rathbun said his organization surveyed its manager members around the country. It received about 1,000 responses.

"Almost half of them defined their current situation as either serious or

severe in terms of association finances," he said.

Associations have little recourse except to pass along the problem to the homeowners, so the delinquency of some becomes the problem of all.

In December, members of the High Desert Residential Owners Association were sent a letter warning that, because some members hadn't paid dues, they might have to pay more. The annual dues are already \$636 a year.

"They aren't looking at an increase in assessments right now, but if the trend continues ... we may start to see an increase," said Carol Rayle of the Homeowners Association Management Company, which manages the services afforded in High Desert.

Rayle would say the single-digit delinquency rate in 1,300-member High Desert association is one of the lowest among the 60 associations her company works with. Two or three of the associations, though, are seeing delinquencies in the 25 percent to 30 percent range.

"It varies from association to association," she said. "For some, going from zero to half a percent is a big deal."

Rayle said that, so far, she does not know of any of her associations cutting services due solely to delinquencies. Some have cut back on the level of services, such as reducing the frequency of patrols, however, as costs have increased. High Desert, which pays for patrol services, landscaping and various community events, has not clipped any services, Rayle said.

For most associations, dues are set by dividing the estimated cost of the desired services by the number of members, Holland said. This year, Ventana Ranch residents are paying \$220 — a decrease of \$40 from the previous year, which Holland attributes the reduction in fees to foresight of the association board, which cut costs before the economic downturn.

Like most associations, Holland said, Ventana Ranch anticipates that a certain number of residents won't make their payments and builds that into its budget. She would not reveal the rate used in the Ventana Ranch budget, but said the industry standard for a brand new association is 5 percent.

"It has to be factored in, which does, in some cases raise the assessment," she said.

The remedies for homeowners' associations to collect delinquent dues are fairly standard, including placing a lien on the delinquent property, or sending the matter to an agency or attorney for collection.

McCormick, though, said he's already seeing a trend that's working against associations trying to collect what's owed during foreclosure proceedings.

"Up until a year ago, when we did see a foreclosure, the sales price at a special master's sale was typically more than the bank was owed, and in those cases, we were typically paid, usually second in line behind the first mortgage holder," he said. "We're now seeing prices at special master's sales where in

many cases, they're just what the banks are owed. In some cases, we are seeing some losses."