

My Community Update

Winter 2011



President's Update

Peter Santangelo
President, Community Advantage

As we start the New Year, I hope everyone enjoyed the Holiday Season.

Last year was a year of economic challenges and changes in the banking industry with U.S. economic conditions that came close to— if not surpassing —The Great Depression. Community Advantage continues to be committed to the Condominium / HOA sector to help guide you through these uncertain times. Our holding company, Wintrust Financial, continues to remain well capitalized and dedicated to this niche market.

Here is a recap of a few banking changes that occurred in 2010 affecting the condominium sector:

1. Transaction Account Guarantee Program ended as of December 31, 2010. Section 343 of the Dodd- Frank Wall Street reform and Consumer Protection Act amends the Federal Deposit Insurance Act providing 100% deposit insurance coverage for noninterest-bearing transaction accounts beginning December 31, 2010 for a two year period.
2. The Dodd-Frank Wall Street reform and Consumer Protection Act permanently raised the maximum deposit insurance amount from \$100,000 to \$250,000. With this permanent increase of deposit insurance, Certificates of Deposits between \$100,000 and \$250,000 will no longer have to be concerned about the reduction of coverage on Certificates maturing after 2013.
3. FHA/Fannie Mae and Freddie Mac had numerous changes last year. I refer you to our prior 2010 winter newsletter that covered the majority of these ongoing changes. You can find this issue on our website under the resources section.

I am sure this year will bring future changes as we continue to move into a better economic condition.

Thank you and Happy New Year!



The Checks & Balances of Fraud Prevention

Fraud is a crime of opportunity and perpetrators know how to aim for easy targets—those who do not have the checks and balances in place to protect their business. By taking certain precautions, you can ensure your sensitive information is less accessible.

First and foremost, strong internal control is vital to successful fraud prevention regardless of an association's size. Start by creating a division of responsibilities, which ensures that there is a system in place to protect your assets. There should be dual signers on accounts, multiple users for information reporting and reconciliation, and signatories for all checking and other investment accounts. A regular audit should be performed to test the effectiveness of these internal controls.

In a community association, the Board of Directors should act as a gatekeeper. Members approve financial statements, reserve fund activity, bank statements, vendor invoices, and cash disbursements. In order to keep this system honest, multiple members should review and have access to statements, though it is imperative to make sure these documents are kept safe. Consider putting a program together to make sure Board of Directors members and employees are trained on proper procedure for protecting sensitive information.

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Financing Special Projects

by Stacey Adams, Senior Credit Analyst



It's the time of year when associations start planning their budgets and required projects for next year. We've put together answers for a few of our frequently

asked questions and concerns that will hopefully guide you in your decision-making and planning process. As always, your industry experts at Community Advantage are here to help you find the best options for financing your necessary projects.

How long does it take to process a loan application and receive the funds required?

This depends somewhat on the financial institution, but it should typically be no more than 10 business days (usually less) from the receipt of a complete loan package to process the loan application. Closing generally takes 30 to 45 days from receipt of the signed commitment letter and depends primarily on the association's attorney's lead time.

How should we select a contractor for our project?

At least three bids should be obtained from professional contractors for the improvements. Also, the reputation of the contractor and its ability to complete the project in a timely manner should

also be considered. Please refer to the Best Practices of Financial Operations as prepared by the Foundation for Community Association Research at http://www.cairf.org/publications/best_practices.aspx for further information.

What type of projects can be financed?

Generally all repairs and replacements to the common elements can be financed. Loans to purchase capital assets (like engineer's units, parking garages, etc.) are also available.

What type of loan options do the banks offer for financing?

Most loan programs are tied in to the source of repayment. Some associations pass a special assessment due within a year and apply for a Construction Line of Credit to only fill the gaps between the assessment collection and the payments due to the contractors. Interest only is due monthly and the full principal is due on maturity.

In other cases, increases to Operating Assessments are the best choice. For these loans, Construction Lines of Credit allow the association to borrow the money to pay the contractor(s) as the project progresses. Interest only is due monthly, allowing the association to best manage its cash flow and minimize interest expense. Then the loan is converted to a term loan and the association

pays principal and interest monthly. The special assessment or increase in operating assessments should include the cost of the capital improvements as well as all costs associated with the loan.

Do we have to pledge reserve accounts?

No. The association needs its reserve funds to operate as a business.

Do we need to have a reserve study before we can get a loan?

Most banks require a reserve study before they will make an association loan. This is necessary to make sure that the Association has been keeping up with necessary repairs and that adequate reserves will be available when other repairs are necessary.

What are Community Associations allowed to invest their reserve funds in?

The Declarations and Bylaws usually tell the Association what they can invest in. It is most common for them to invest in checking, money markets, savings, certificates of deposit, or United States Government Securities like Treasury Bills. Refer to the Investment Policy adopted by the Board of Directors for further information. If the association does not have an investment policy, contact us for assistance. ■

Checks & Balances of Fraud, Continued

Proper virus protection programs should also be in place for hardware and software. Computers should only be used for business purposes and firewalls and Internet security programs need to be installed and updated on a consistent basis. All digital information and otherwise should be properly backed up and procedures for securing such documents need to be reviewed regularly.



Preventing fraud also involves keeping an eye out for unusual activity. All Board of Directors members and employees should be observed for uncharacteristic behaviors. Internet usage should be monitored and any out-of-the-ordinary occurrences or transactions should be acknowledged and taken seriously.

Even with precautionary measures in place, you may still fall victim to fraud. You should have a written business continuity and recovery plan, which should be tested at least annually. If you should fall victim, a rapid response is necessary.

Get in touch with a forensic accountant and seek legal counsel to determine the best steps to take for your association. It's also important to contact your bank and insurance provider. Though your bank can monitor accounts, an important step is to close checking accounts and cancel all credit cards. New accounts should be opened with proper controls and appropriate blocks to transactions. To attempt to maintain data integrity, implement the recovery plan and new controls to prevent further losses.

And remember—always make sure to report any future suspicious activity right away.

Anyone can fall victim to fraud, but when procedures are in place to protect information you make yourself less vulnerable. Prepare for the worst and weaken a perpetrator's opportunity to take advantage. ■

Important: *New FHA Approval Deadlines*

FHA has announced a revised schedule for condominium project approval expirations and urges all condominium communities wishing to retain FHA approval to complete the recertification process. We recommend that all community associations with FHA approval

review the new expiration deadlines and begin the recertification process as soon as possible to avoid disruption in the sale of units. The new schedule for project approval expirations is below:

Initial Project Approval Dates

1972 – 1980
1981 – 1985
1986 – 1990
1991 – 1995
1996 – 2000
2001 – 2005
2006 – 2008 (Sept)

Current Expiration Date

December 7, 2010
December 7, 2010
December 7, 2010
December 7, 2010
December 7, 2010
December 7, 2010
December 7, 2010

New Expiration Date

December 31, 2010
December 31, 2010
May 31, 2011
July 31, 2011
August 31, 2011
September 30, 2011
March 31, 2011

According to FHA's announcement, "The extensions were granted to reduce the impact of processing and reviewing the number of project approvals expiring at the same time while recognizing current housing market conditions...interested parties are encouraged to begin the re-approval or recertification process as early as possible as it is not anticipated that any further extensions of project approvals will be issued."

For more information on the certification process and FHA in general, please visit www.hud.gov. This website offers a list of certified condo associations as well as the requirements for FHA approval. ■

Mark Your Calendars

BOMA Expo

February 23, 2011
Chicago, IL

CAI - WI Trade Show

February 25, 2011
Milwaukee, WI

ABOMA - Managers Night Out

March 1, 2011
Chicago, IL

IREM - Premier Awards

March 4, 2011
Chicago, IL

MCD - Condolympics & Pool Party

March 11, 2011
Addison, IL

ACTHA - Spring Tradeshow

April 2, 2011
Oakbrook Terrace, IL

CAI - Golf Outing

June, 2011
TBD

CAI - WI Golf Outing

June 7, 2011
TBD

Connect with us on

We've finally made our way onto the social media scene! Now, we just need to connect with you to make the experience complete.

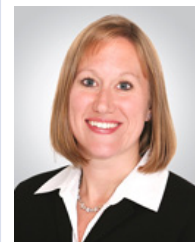
Follow @ComAdvantage on Twitter for your chance to win a new Kindle E-Reader!

From now until April 1st, every follower will be eligible to win. We'll announce the random winner the week of April 1st.

At Community Advantage, we offer the products and technology along with the capabilities and resources of the big banks but pair it with exceptional service and an in-depth knowledge of condominium associations and the property management companies that serve them.

You can **Have It All** – a full slate of powerful and sophisticated treasury management products **and** the local decision making and personal service that only Community Advantage can offer.

YourTeam



Stacey Adams
Senior Credit Analyst

Stacey L. Adams currently serves as a Senior Credit Analyst of Community Advantage® of Barrington Bank

and Trust Company, N.A. Ms. Adams is responsible for the implementation and customer service of Credit Administration Services including loans for large capital projects and working capital lines of credit for a portfolio of community associations. In this role, she assumes the responsibility of the day-to-day relationship management to assure timely and accurate documentation, payout processing and proactive solutions for Community Advantage's clients.

Before joining Community Advantage, Ms. Adams was a teller at a bank in the northwest suburbs and worked for a financial corporation where she forecasted and analyzed financial statements.

Education

Northern Illinois University
Bachelor of Science in Finance with a minor in Communications

Professional Affiliations/ Designations

- Community Associations Institute – Illinois Chapter (CAI)
- Association of Condominium, Townhouse & Homeowner Association (ACTHA)

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Community Advantage is a division of Barrington Bank & Trust Co., N.A., a Wintrust Community Bank.

