

MEMORANDUM

DATE: June 7, 2004

TO: JEFF UTSCH, PRESIDENT NEW TUSCSON MASTER HOA

FROM: Glen Kerslake, Western Associates Development. LLC

SUBJECT: FINANCING OF SPECIAL ASSESSMENTS

You gave me an assignment to find financing options for lot owners in connection with the lot improvement Special Assessment. As a result of my discussions with several banks, our contractors, and private investor groups, it is my recommendation that Western Recovery Services, LLC be chosen as the financing source. They are familiar with the history and details of the project, and their terms were competitive with the others.

Please note that the terms I have outlined here are materially correct, but are subject to change.

- Purchase of the Assessment: Nine (9) month short-term Special Assessment Financing is available to the lot owners through the HOA. This will be facilitated by the HOA by selling the Special Assessment on each lot requiring financing to Western Recovery Services, LLC, who then may assign them to others.
- This financing, with interest, will be due at the later of nine (9) months or the certified completion of the improvements.
- This option is only available if the Special Assessment is the same as a first lien on the lot; otherwise the lot owner will have to clear any other liens or pay the full amount of the assessment at the time construction commences.
- The Special Assessment is due on the commencement of the construction of the improvements, but the Board of Directors of the HOA is arranging for the financing option as set forth below.

Terms of the Eight (9) Month Special Assessment Loan

• **Special Assessment Loan – 9 Month Interest Reserve**

- ✓ Loan Amount \$24,395, which is \$22,000, plus \$1,875 for 9 months interest and \$520 for the HOA processing.
- ✓ Interest rate: 10%
- ✓ Term: 9 Months
- ✓ HOA Processing: \$520, Included in Loan Amount.
- ✓ Other: Due on Sale, not transferable.
- ✓ Monthly Payment: Included in Loan Amount
- ✓ Funding date: At commencement of construction.
- ✓ Maturity: \$24,395 Due on the later of eight (9) months or upon certified completion of improvements; includes Special Assessment, HOA Processing, and Monthly servicing fee.

An additional eighteen (18) month lot loan is available, on certain terms, to the lot owners to payoff the 9-Month Special Assessment Loan arranged by the HOA. This loan would be secured by a recorded first lien deed of trust on the lot, due in 18 months with payments as set forth below.

At the request of the HOA, we have contacted several different lending sources to fund an 18-month loan used to repay the HOA Special Assessment Financing. There are many institutional sources, but the terms below are what can be arranged through Western Recovery Services, LLC.

#### Terms of the 18-Month Lot Loan

This loan will require the recordation of a first deed of trust on the lot and the payment of customary closing costs and expenses, including a title policy.

- **Eighteen Month Loan – No Interest Reserve**

- ✓ Loan Amount: \$24,395 (The amount due on the Special Assessment Financing)
- ✓ Interest rate: 10%
- ✓ Term: 18 Months
- ✓ HOA Processing: \$485, due at funding.
- ✓ Other: Due on Sale, not transferable.
- ✓ Monthly Payment: \$214, interest only, including a \$10/month servicing fee.
- ✓ Funding date: At Payoff of Special Assessment Loan.
- ✓ First Payment: Due from lot Owner 1 month following funding.
- ✓ Closing Costs: Customary.
- ✓ Other: An option to include an interest reserve is available upon request.

**In the event that the lot owner decides to simply pay the Assessment, and does not need financing, this is the procedure:**

#### Lot Owner Funding into a Bonded Escrow

- The entire amount of the Special Assessment (\$22,000) must be placed in an interest bearing bonded escrow with a Title Company as determined by the HOA.
- At the time a lot owner pays the Special Assessment, it will have been deemed paid in full for that lot.
- The funds would be disbursed from the Escrow account directly to the contractor in monthly progress payments based on certified engineer's inspections. I would expect that there would be 5-6 equal draws made during the construction period.
- The final draw will be paid to the contractor upon completion of the work.
- The balance of the Special Assessment Budget funds will be set aside for the Del Toro Road improvements (\$1,000 per lot), the Water Storage and

Booster Station (\$600 per lot) and the Two-year Contingency/Warranty (\$1,336 per lot) will be placed in another Title Company escrow with the HOA for later payment. At the same time, the interest earned on undisbursed funds, if any, in the initial escrow would be sent to the lot owner.