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# 10 Ways To Prepare For The Economic Slowdown

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### 10 Ways To Prepare For The Economic Slowdown

Now that the economy is officially in a recession, there are a number of ways that an association can prepare for the inevitable increase in delinquent assessments so that the impact on association revenue is minimized. The following are steps every board should consider taking.

#### 1. Adopt a formal collection policy.

Adopting a formal collection policy is one of the most important things an association can do to assist with collecting delinquent assessments. Our experience has shown time after time that associations with formal collection policies have fewer delinquencies and fewer problems collecting assessments. A formal collection policy should incorporate the basic steps the association will follow if a homeowner fails to pay the assessments. Once the board has adopted a collection policy, all residents should be made aware of the policy and it should be strictly followed by the association's management company and board. Included in the policy should be the time lines in which action is taken against a homeowner when an account becomes delinquent, as well as the action itself. This action should include application of late charges and interest, number of months a homeowner can be in arrears before filing a lien against the property, and at what point the action should be referred to an attorney for formal collection proceedings. Most importantly, the collection policy should indicate how payments are to be applied to the delinquency balance.

#### 2. Review financials and accounts receivables monthly.

It is important to review financial reports on a monthly basis. This is one of the best ways to identify delinquent owners and determine if there is a pattern of delinquency. Depending on an owners delinquency history different collection tactics may be appropriate. Accounts receivable should be reviewed and dealt with on a monthly basis so that they do not reach an unmanageable level.

#### 3. Don't put off making decisions on delinquent owners.

If a homeowner becomes delinquent, address the delinquency in a timely manner. The smaller the balance the easier it is to collect. If an owner is delinquent, don't wait months and months to address the problem. A friendly reminder may be appropriate but if there is no response, the board should follow its collection policy. If an account is over 90 days delinquent, it should be turned over to legal counsel. Waiting longer only reduces the likelihood of collection. Once the collection process begins don't stop it or delay it. Delays will only reduce the likelihood of recovery.

#### 4. Meet with managers, accounting staff and attorney to clarify roles, expectations, communications.

Once a collection policy is in place, the board should meet with the association manager, accounting staff and attorney to discuss the procedures adopted and clarify each parties' role in the process. The process should work seamlessly without the need for a board vote at each step. You may also want to give the manager and/or attorney authority to settle or resolve delinquencies within certain parameters.

5. Be aggressive.

During tough economic times, the debts that carry the highest "penalty" are paid first. For example, most owners know that failing to pay a mortgage payment can result in loss of their home. Just the same as failing to make a car payment can result in repossession of their car. Without swift and meaningful consequences for failure to pay assessments owners will not be inclined to make payment of assessments a priority. An aggressive but fair collection policy sets the tone and sends the message that timely payment of assessment is crucial.

6. Update/gather information on owners.

Especially in times like these, it is important for associations to keep accurate and up to date information on the owners within the association. If a property within the association is sold, the new owner information should be provided to the association by the title company. The more information you gather, the better. Asking all residents to fill out an information sheet with name, address, home phone, work phone, types of cars, etc. can provide valuable information when trying to locate owners for service or assets to execute upon.

7. Copy checks and envelopes.

One of the best ways to collect on money judgments is through a bank garnishment. By keeping a copy of checks you can easily identify a delinquent owner's bank account for garnishment purposes. Copies of envelopes can assist in locating a difficult to find owner by the return address if it is off-site or a work address.

8. Let manager and attorney do their jobs.

Once an account is delinquent, let the management company and attorney do their jobs. It is generally not appropriate for board members to discuss or negotiate payments or a settlement with the owner directly. When the manager or attorney is working with an owner to settle a matter, it is detrimental to the association if the owner also discusses the situation with a board member and is told something contrary to what the manager or attorney has said. Also, often board members are not aware of additional costs and attorney's fees that may have been incurred in the matter. The management company and the attorney are hired to represent the association. Allow them to use their expertise to accomplish this.

9. Be informed about the collection process and options.

In order to implement a collection procedure, the board needs to understand the collection process, available options, and the possible results. When an account becomes delinquent, there are several options to choose from to collect. The first is a county court lawsuit seeking a personal money judgment against the delinquent owner. Once a judgment is obtained it can be collected by garnishing wages, rents or a bank account. If the owner has no garnishable assets or is not in the state, foreclosure against the property itself is another option. In a foreclosure action, the property is sold to satisfy the debt owed to the association. The purchaser, which may be the association, takes title to the property subject to the first mortgage. If the property is being rented, it is also possible for the association to get a court order appointing a receiver to collect the rents from the property and apply it to the debt owed to the association. The board and manager should be aware of and informed about the time lines, court procedures and costs of each option as well as the advantages and disadvantages of each option.

10. Communicate the Impact of Non Payment.

Owners need to be reminded again and again that failure to pay assessments does affect every owner on a daily basis. The board should explain to owners, through newsletters, website or special mailings, that non payment of assessments can and will impact the level of services provided by the association. Owners may see it in a reduction of services provided, slower response time and even a deterioration in the maintenance levels of the community.