Innis Arden Swim Club Loan Guaranty FAQs

What are the terms of the loan?

The loan is a 5 year term with a 15 year amortization period, a fixed 5% interest rate and no prepayment penalty.

What happens at the end of the 5 year term of the loan?

The loan is structured as a standard business loan. It is very common for business loans to have amortization periods that are longer than the term of the loan. If the loan is not renewed at the end of the 5 year term, and if the Swim Club has only made the minimum payments over the 5 years, a balloon payment of approximately $600,000 would be due. While the bank cannot commit at this time to renewing the loan 4 years from now, it would be very uncommon for the bank to refuse to renew the loan so long as the Swim Club has been meeting its obligations under the loan.

Is the Swim Club meeting its obligations under the loan?

The bank regularly evaluates the Swim Club's financials and tax returns and has directly informed the HOA Board that the Swim Club has handled the loan to date very responsibly and there has even been uptick in Swim Club revenues beyond expectations. One challenge is that the Swim Club's operations are seasonal, but the debt service obligations are year-round. The Swim Club has planned for this challenge and appear to be in good shape. Prior to taking on debt, the Swim Club typically has $25-45k cash at this point in the year. This year, the Swim Club currently has $180k. Therefore, even though no new revenue is expected until April, the Swim Club will easily make its loan payments over the next 7 months – and have said they will likely make an additional principal payment to pay down the loan. This is after building up a $500k fund for the recent capital improvements. There is very little concern by the Swim Club or the bank regarding the strength of the financials and the ability to pay off the loan. In fact, the Swim Club has stated they fully intend on paying it off early with occasional lump sum payments toward the principal; their current estimate is that the loan will be paid off in 7-9 years.

What is the likelihood that the bank refuses to renew the loan at the end of the 5 years?

It is very unlikely that the bank would refuse to renew the loan so long as the Swim Club is performing. As discussed above, the Swim Club performance has been excellent. In addition, the Swim Club has a strong relationship with the bank. The banker grew up in Shoreline and currently lives in Richmond Beach. He has many friends and clients who live in Innis Arden. He is a member of our community and genuinely wants this to be a successful relationship. In fact, the Swim Club and the bank are already in discussions about extending the term of the loan.

Why are there individual guarantors? Why didn't the HOA just guaranty the loan initially?

The Swim Club is a tenant of the HOA, and it does not own any real estate to pledge as collateral. The Swim Club could only provide a security agreement on equipment and an agreement to maintain a minimum bank balance. This alone was not sufficient collateral for the loan.

The Swim Club would have preferred the HOA sign on as the guarantor initially. However, the Swim Club found themselves in a time crunch when a different lender reneged on its commitment just two months before construction was to begin. The Swim Club board knew that, given the symbiotic relationship and history of the two organizations, it would take some time to get the HOA Board to process and approve (or reject) providing a guaranty to the bank. In order to minimize construction delays, the Swim Club board sought individual guarantors, and as a result, 8 individual Innis Arden families stepped up to provide personal guaranties.

Why would the HOA take on this risk?

Regardless of whether you believe the pool pursued this endeavor in the most effective manner, the question before the HOA Board is whether or not to foster goodwill and solve a point of stress for the Swim Club. The benefits of the Swim Club and their new facilities enhance all of our property values and also provide enjoyment for many HOA members, including discounted rates and "first in line" access to pool membership. Given this asset our entire HOA shares, it seems fitting for the HOA to be the guarantor rather than 8 individual families.

In addition, there is some risk to NOT taking on the guaranty. If the worst case scenario were to arise and it became necessary for the individual guarantors to pay off the Swim Club loan, those individual guarantors could potentially hold some control over the Swim Club facility.