PERSONAL FINANCE

Condo owners could get stuck with others' bills

They may have to cover missed dues when neighbors lose homes to foreclosure.

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For those who have a lot of cash or can get credit, this could be an ideal time to buy a house — the foreclosure crisis has pushed prices down and interest rates are way low.

But beware if you are looking to buy a condominium, co-op, town house or other property that's part of a homeownership group. Another side effect of the foreclosure crisis is that you could end up responsible for some of your neighbors' bills.

That's because people in shared ownership communities chip in to pay the cost of maintaining the buildings and amenities such as swimming pools. Also, the funds, usually paid in monthly installments, are often used to pay for landscaping, as well as to insure the structures.

But when individual owners in a group walk away from their homes or lose them to foreclosures, the bills end up getting split by the remaining homeowners.

Sometimes those costs don't get passed on immediately. Instead associations have been known to let bills pile up, creating potentially devastating surprises for owners.

"There's really a crisis within a crisis in the shared ownership community," said Gary Poliakoff, coauthor of "New Neighborhoods: The Consumer's Guide to Condominium, Co-op and HOA Living."

The Community Assns. Institute trade group recently reported that more than half of the nation's 310,000 community associations are struggling with "serious" or "severe" financial woes.

Some 59% of association managers reported that more than 3% of homes in their community groups were vacant, the study said, because the owners either had walked away from their mortgages or were unable to rent the homes. Some 65% of associations reported that more than 5% of their homeowners were delinquent on their monthly assessments.

"When some owners, including banks that have foreclosed on homes and now own them, don't pay their share, other homeowners often must make up the difference through higher regular assessments or special assessments," said Thomas M. Skiba, chief executive of the trade group.

If a community association determines that it needs to levy a special assessment on homeowners, there's no legal limit on how high that assessment can be. Unlike rent, homeowner dues aren't subject to price controls.

And homeowners can't just decide not to pay. Associations can get legal judgments to allow them to take a portion of homeowners' wages or put liens on their properties.

"You are an owner, not a tenant," Poliakoff said. "You are responsible for paying a share of the expenses, no matter how high they might be."

To help avoid problems, check out the association thoroughly before you buy.

■ Dig deep into financial records. Normally you are given a disclosure that reveals the level of dues. But you need more, Poliakoff said. You should get the association's financial statement and find out what expenses the complex is paying, and what percentage of its overall obligations is handled by the dues.

Associations should have a balanced budget that covers both current and anticipated costs, he explained. But an increasing number of associations are either dipping into reserves or putting off prudent saving for anticipated big expenses, such as roof repair, because of the financial crisis.

The Community Assns. Institute survey, for example, said 38% of associations have delayed capital improvement projects, 31% are contributing less to reserves, 23% have borrowed from reserves and 6% have borrowed from banks and other lenders. Any of these factors can be a warning flag of trouble ahead.

■ Make sure the association has adequate insurance coverage. Owners normally insure their possessions and the interior of their units, but associations generally hold the policy on structures. One complex recently burned down and the owners found out too late that the association had cut costs by letting the fire insurance policy lapse, Poliakoff said.

■ Check into an association's reserves. Some states require that the associations maintain reserves for any expense that's likely to exceed threshold amounts, such as $10,000. In those states the association must have a reserve study showing what the anticipated costs are, when they're expected to be needed and how much money is set aside to handle them.

If the roof would cost $50,000 to repair and needs fixing each 10 years, for example, you'd expect that nearly half of that anticipated cost would be saved by year five. Even if a reserve study is not legally required, your association should have one.

■ Look over the grounds. Some 35% of associations have reduced landscaping services and 12% are asking homeowners to do some work themselves, the Community Assns. Institute study said. If the grounds are not well-maintained, the value of a home is likely to diminish over time.

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