

Innis Arden Member,

The Innis Arden Board would highly appreciate you taking a few minutes to read this letter regarding the Swim Club's loan guaranty and also respond to the very brief survey by visiting the link at the bottom. We would really value your feedback, even if you're somewhat indifferent! Highly opinionated people tend to respond to these type of things, but we want *everyone* to put in their two-cents so we can get a broad sense of the community's sentiments.

At the November Board Meeting, we will consider a motion regarding the HOA signing on as a guarantor for the Swim Club's existing loan; replacing the 8 individual Innis Arden families that stepped up with personal guaranties to make the loan and new Swim Club facility possible.

This letter provides an overview of the situation. Further details are available in an FAQ document that we encourage you to read. It is available at this link:

**<http://www.mod.innisarden.org/wp-content/uploads/2018/10/Guaranty-FAQs-20181025.pdf>**

**Overview:**

The Swim Club spent \$535,000 of the cash reserves they had accumulated to accomplish the construction of the new pool building. They also took on a \$900,000 loan from Washington Trust Bank to fully fund their capital needs. The Swim Club is a tenant of the HOA, and it does not own any real estate to pledge as collateral. In order to obtain the bank loan without risking construction timelines, 8 Innis Arden families stepped up and agreed to be guarantors.

Now that the dust has settled and the Swim Club has completed a year of operation with the loan, the Swim Club has respectfully requested that the HOA consider releasing these 8 neighbors from their personal guaranties. They brought this up in detail at the Annual Membership meeting earlier this year, and have since brought it up multiple times. To date, the HOA has not given them a formal response and the time has come to do so.

The HOA Board met with the President of the Swim Club Board, Lance Blair, and also their representative from Washington Trust Bank to discuss the potential terms. Here is brief summary of the situation should Innis Arden HOA sign on as the guarantor:

- As a guarantor, Innis Arden HOA would *not* be making any loan payments or be required to pay a dime for anything, except in the event of a default by the Swim Club.
- If the Innis Arden HOA signs on as the guarantor, they will *not* be required to pledge any real property or collateral. The bank would require the HOA to provide annual financial statements and tax returns for their review.
- In the unlikely event of a total collapse of the Swim Club, the bank would first take control of the collection of the Swim Club dues and fees and would use those collections to pay the monthly loan payment. Only if those collections were not sufficient to pay the debt service would the bank turn to the HOA.
- The worst case scenario, assuming the Swim Club dissolved and the HOA could find no viable way to maintain membership dues or generate revenue with the pool facilities (that the HOA would then control), is the HOA would be on the hook to cover the monthly loan payments of ~\$7k/month.

If the HOA signs on as the guarantor, we would make some additional demands of the Swim Club to further ensure their financial strength and solvency. These are defined in the motion below.

As the Treasurer, after reviewing the situation, I personally see this as a very low risk scenario and believe the pros (relieving individual families, fostering goodwill, benefiting the Swim Club which in turn benefits the community, avoiding a potential scenario where 8 families could influence/control that asset instead of the HOA) as outweighing the cons (being on the hook for monthly payments in the highly unlikely event the Swim Club is unable to fulfill their obligations). They've demonstrated their ability to generate stable and growing revenue and also make their loan payments. And they have every incentive to ensure this goes smoothly. But I think it's important to get community feedback before obligating ourselves in this manner, and myself and the Board will absolutely take community feedback into account prior to the vote.

**The motion:**

*I move that the Innis Arden Club, Inc. becomes the sole guarantor of the Innis Arden Swim Club's loan with Washington Trust Bank, conditioned, to the Board's sole satisfaction, upon a) the bank releasing all existing guarantors to the loan b) ensuring the bank is obliged to exhaust all reasonable collection efforts from the Swim Club's assets and revenue streams prior to defaulting to the HOA's guaranty c) the HOA not being required to pledge any real property or deeds of trust and the bank taking the assignment of pool dues as the primary collateral and d) the Swim Club entering into an agreement with the Board obligating the Swim Club to i) upon reasonable request by the Board, but no less than bi-annually, present to the Board a viable financial plan demonstrating their ability to remain financially solvent and fulfill their loan obligations ii) implement a formal Asset Reserve plan with a qualified third party, building up reserve funds at a responsible rate to cover the replacement or repair of their depreciating assets and iii) maintain a minimum of 6 months' worth of loan payments in a dedicated Savings account, separate from their Asset Reserve.*

Thank you for your consideration of this matter and your feedback via the survey,

Jeff Gough  
Innis Arden Treasurer (treasurer@innisarden.org)

**A brief note from the Swim Club President:**

The Swim Club is not making this request due to any financial concerns whatsoever. The Swim Club finances are strong, and I have no doubt the Swim Club will fulfill its obligations under the loan. The Swim Club is making this request to relieve the burden that the 8 families so generously placed upon themselves. The entire Innis Arden community benefits from the existence of the new Swim Club facility. It is not right that the burden of the loan guaranty is borne solely by 8 families.

The pool is an amenity that improves our neighborhood – just like the Clubhouse, the playground, the walking trails, the tennis courts, the park and the view covenants. Because everyone in the HOA benefits from the existence of this amenity, it seems fitting that the HOA should serve as guarantors for the loan that allowed us to construct the new facility that will serve the community for 50+ years.

**Please go here to give your opinion on this motion: <https://www.surveymonkey.com/r/QSH5VXB>**