

A Simple Guide to Homeowner Association Reserve Accounts

What is an HOA reserve account?

A Homeowners Association (HOA) reserve account is a savings account. HOA reserves pay for the legal, fiduciary, and professional expenses that result from the repair, restoration, replacement, or maintenance of shared equipment and major components on the property. Following stringent requirements, an Association can also use reserve account funds to meet short-term cash flow needs.

What is the “right” level of funding?

The “right” level of HOA reserve account funding depends on the HOA’s specific circumstances, so it is very important to have a clear understanding of the life expectancy of major components such as the roof. In addition to roof replacement, the association’s reserves should include pavement resurfacing, building painting, pool repairs, and any other deferred maintenance which will exceed \$10,000.

Why are HOA reserve accounts important?

Proper funding in an HOA reserve account increases homeowner confidence by minimizing the need for special assessments or borrowing. Additionally, proper reserves can increase the desirability of a property and therefore property values because lenders (such as Fannie Mae) require HOA’s to set aside at least 10% of their budget to funding reserves for properties in the building to be eligible for loans.

Where can an association open its reserve account?

Board members have a fiduciary responsibility to protect the dues they collect from homeowners, so boards commonly rely on FDIC-insured banks.

In traditional banking arrangements, a homeowner association with \$1,000,000 in their reserve account would only be insured \$250,000 in the event of a bank failure. To meet their fiduciary responsibilities, this association’s board members would need to divide the association’s funds between at least five banks to fully insure the \$1,000,000 principal and the accrued interest.

However, a board can elect to deposit the association’s funds in a bank that participates in expanded FDIC insurance programs. For instance, with a Demand Deposit Account (DDM), the association would receive full FDIC insurance on their \$1,000,000 deposit through a money market account at a single, member bank; thereby, eliminating the need to establish multiple banking relationships, negotiating multiple rates, and manually consolidating monthly and year-end statements.

To learn more about Reserve Accounts, call Cesar de la Noval at 305.274.8382.

Executive National Bank is a privately-owned community bank that has proudly served South Florida since 1972. This federally insured institution holds a national charter and offers a full range of banking services including lockbox, homeowner association accounts, commercial loans, mortgages, remote deposit capture and CDARS®. To learn more about Executive National Bank, please visit www.executivebank.com or call Kathrina F. Saladrigas 305.274.8382.

www.ExecutiveBank.com | 305.274.8382



MAIN OFFICE
9600 North Kendall Dr.
Miami, FL 33176

AVENTURA
20900 NE 30th Ave.
Aventura, FL 33180

SOUTH MIAMI
7220 Red Road
Miami, FL 33143

TAMIAMI
13354 SW 128th St.
Miami, FL 33186

