

Strata Funding: Frequently Asked Questions

| Question | Answer |
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| About strata borrowing | |
| What are the main benefits for me if the strata borrows? | You have the freedom to get important capital works done now. You save money compared with sinking funds and special levies. You only pay for what you use when you use it. |
| Why should we borrow rather than have a sinking fund or a special levy? | Borrowing will be cheaper for most corporations and most owners most of the time. Borrowing enables you to get important works done now rather than wait as you save the money. You get the benefits of improved lifestyle and enhanced capital return now rather than having to wait. You can get all the works done in one go, rather than having to manage a staged project. You avoid potential legal liability for the property not being properly maintained. You avoid the financial distress caused by large special levies. You can be sure you have the funds to do the work rather than hoping that all owners can pay the special levy on time. |
| We have a Maintenance (Sinking) Fund Plan, do we need to follow their advice re annual levies? | Generally no – check with us for the specific rules that apply in each state. A Sinking Fund Plan (or Maintenance Plan) is an estimate of anticipated future capital expenditure. It does not have to include an estimate of levies (given that the legislation about plans makes no mention of levies, it's a little odd that they are included). Determining appropriate levies is a function of annual budgeting which is an entirely separate process of the corporation. Above all, it is usually NOT compulsory to have regular levies to a sinking fund or Maintenance Fund. |
| What are my obligations if the corporation borrows? | Strata legislation (and possibly your by-laws) imposes many obligations on owners, but the most important when it comes to all forms of funding is that an owner must pay the levies determined by the corporation. |
| What happens if I sell my unit? | The owner at the time that a levy is due and payable has the obligation to pay that levy. If you sell your unit, you will be responsible for all levies due and payable up until the time of sale and then your purchaser will take over that responsibility. |



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| How will strata borrowing affect the value of my unit? | The loan will be a liability of the corporation and so a purchaser should take into account the fact that there is a financial obligation. But there's more to it than that. The work which is funded by the borrowing will usually increase the value of the unit, and you wouldn't be contemplating doing the work if the increase in value was not going to exceed the cost. The next important point is that, as borrowing by the strata will probably be your cheapest source of funds (see our White Paper for a comparison of the costs of borrowing, sinking funds and special levies), borrowing to fund the work should add more value to your unit than the other two funding methods. |
| Can some owners borrow through the corporation and the others pay upfront? | This can get complex and we're not in a position to advise you so we suggest you speak to your strata lawyer. It is possible for some owners to make an upfront payment, either by lending the money to the corporation or by pre-paying their levies. However, we think this adds complexity and uncertainty. If you are thinking of this, first check your own cost of funds – our experience is that many owners who wish to pay upfront underestimate the cost of their own funds. |
| Which is cheapest: strata borrowing, sinking fund or special levy? | For most strata corporations and for most owners, borrowing is cheapest most of the time. See our White Paper for more information on the relative merits and comparison costs of borrowing vs having a sinking fund or a special levy. |
| Who decides whether or not to have a loan? | The corporation does, usually in a general meeting of owners. In some limited situations we accept the authority of the committee or the strata manager. |
| We have a lot of work to do, should we stage the project or do it all upfront? | People usually stage projects because they don't have the funds to do all the work at one time. Obviously, we solve this problem. Most of the corporations we see would be better off not staging the project. The reasons are: You don't want to live in a construction zone for a long time Managing a project over a long period takes its toll on the energy of all involved, especially the committee Doing work at one time usually results in lower costs The cost of the works is likely to go up due to inflation |
| We want to borrow but why should we borrow from Lannock rather than someone else? | To borrow a phrase from the Olympics: "faster, longer, higher". Our clients regularly tell us that we respond quicker than our competitors; that we understand them better; that we lend for longer terms; and that we will lend more money. |
| Who is borrowing? Is it the strata corporation or the owners? | The strata corporation is the borrower. Of course, as an owner, you are a 'member' of the strata corporation, but the loan is to the strata corporation and it's in the name of the strata corporation. It's not to any individual owner or group of owners. |
| If the strata corporation borrows, who pays the interest? | Lannock lends to the strata corporation so it's the strata corporation that pays interest and repays principal. The funds to pay the interest (and principal) almost always come from levies on owners. |
| Our strata manager says we shouldn't borrow – is she right? | This would be very unusual. Ask your strata manager to explain why and to contact us if they would like more information. Remember that a strata manager is unlikely to be a licensed financial planner and so is not in a position to give financial advice. Whilst strata managers are usually very professional and a great help, the choice about funding is yours and yours alone. |



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| About Lannock's strata loans | |
| What are the main features of Lannock's loans? | Flexibility and choice. You can choose any term up to 10 years, you can choose up to a five year fixed or variable rate. You can draw as many or as few Advances as you like to suit your needs. You only pay for what you use, when you use it. |
| What will you lend us money for? | Almost any worthwhile purpose. Repairs and maintenance; capital works; building defects; insurance; working capital; bridging finance; asset purchase; professional services – just ask us. |
| What security do you take for your loans? Is there a mortgage? | None. Nil. Zilch. Nothing! We make an unsecured loan to the corporation. There are no mortgages, no liens, charges or caveats or any registration or impediment on the title of the common property or of any unit. |
| Do I have to give a personal guarantee? | No. Owners do not give a personal guarantee or any personal financial information. |
| How much does it cost? | The interest rate will depend on the amount and term of each Advance and whether you have a fixed or variable rate. Please contact us for a Funding Plan which includes indicative monthly repayments. |
| What fees do you charge? | Very few. We have an initial \$550 approval fee but there are no line fees, facility fees, monthly or annual fees, commitment fees etc. The loan contract has a complete list of fees. |
| Do you charge fees each time we draw funds? | No. |
| Do you charge facility fees, line fees or unused limit fees? | No. You're only paying for what you use, when you use it. |
| What's the maximum term for an Advance? | It's your choice up to 10 years. |
| And the minimum term? | Again, it's your choice. There's no actual minimum term, but it's probably not practical to borrow for less than 3 or 6 months. |
| What term should we choose for the loan? | It's your choice! You can choose a term that offers affordable payments (start with 7 years and work up or down from there) or choose a term in accordance with the principle of corporate finance where you match the term of your obligation to the life-span of the asset. Our maximum term is 10 years. |
| Can we have Advances with different terms? | Yes. Each time you draw an Advance under a Lannock Line of Credit, you specify the amount, the term and whether you wish it to be at a variable or fixed interest rate. |
| Can we choose fixed and variable rates under a Lannock Line of Credit? | Yes. If you have more than one Advance, you can choose which Advances you wish to have a variables rates and which ones to have at fixed rates. |
| Should we fix the interest rate or keep it variable? | If you are fully fixed you miss out on the benefits of rates falling. If you are fully variable, you miss out on the benefits if rates increase. Some corporations hedge their risks by having some Advances variable and some fixed. Others choose all fixed because they want to be able to budget exactly. See our "one pager" for more information. |
| I'm on the committee; do I have some special obligation if the corporation borrows? | No. Being on the committee or being the person who signs the loan documents does not impose any extra obligation on you. |
| What's the minimum amount you'll lend? | There is no minimum – our role is to help people, no matter if the problem is large or small. |
| Do you have a maximum amount per lot that you will lend? | No. We see our role is to help you with your problem, not just to help you a little bit and leave you in the lurch for the rest. |



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| Do you require the corporation to have a minimum number of lots? | Typically 4 to 6, but talk to us, we treat each case on its merits. |
| Are your loans subject to an annual review? | No. Once you draw from us, you have committed funds for the term of the Advance. Not only does this mean you have committed funds, it means that you don't have a lot of paperwork to complete each year. |
| Do you require our strata manager or lawyer to certify that they have checked our bylaws? | No. |
| Will you lend to a self-managed scheme? | Yes. |
| Can we pay the loan back early? | Yes, but there are three conditions. Each Advance must be paid in full; an Administration Fee of \$500 applies to each Advance which is repaid early; and if the Advance is at a fixed rate, then break costs may apply. |
| How much will the break costs be? | This is impossible to estimate in advance. It depends not only on when you want to break, the amount outstanding at the time you wish to break, but the interest rate at the time you entered the loan and the interest rate applicable at the time you wish to break. Note that break costs only apply to fixed rates and only if rates have declined since you took out the loan. |
| If we borrow, does Lannock guarantee the works? | No. We have no relationship with any of your contractors or service providers. We lend the corporation the money on its request and place funds in its account in order that it can make payments as it wishes. |
| What happens if we miss a payment? | We'll be on the phone to the corporation (usually your strata manager) to find out why and to try to work out the best way of dealing with the problem. If we've tried every avenue with no resolution, then we'll go to the appropriate court or tribunal seeking repayment. |
| We are interested, what are the next steps? | Contact us for a Funding Plan. At the right time, we'll send you a Facility Agreement and the resolutions that need to be included in the notice of general meeting. |