



Proposed Loan to Purchase Tower Unit No. 401 with Parking Stalls and Storage Rooms

Question and Answer

Q: Will the owners then own a proportionate interest in the resident manager (RM) unit, parking, and storage?

A: Yes. The unit, parking stalls, and storage will become part of the common elements.

Q: Should the unit sell in the future, will the proceeds be distributed to owners or will they go back into the reserve fund?

A: Proceeds will go back into the reserve fund.

Q: Were the funds not allocated for such a purchase of the RM unit? I understand that the AOOU had to be established prior to procuring a unit. Was this possibility stated in any of the condo documents?

A: \$3400 was allocated for the rental of a unit for the RM. Correct, the AOOU had to be established prior to procuring the unit. Yes, the governing documents provided the Board with the authority to purchase an RM unit; however, to obtain the loan necessary to fund the purchase requires a majority vote of the ownership.

Q: Do we currently have an RM for The Collection?

A: Yes, Al Guzman.

Q: If so, where is he staying now and what is the amount of expense for the RM?

A: Mr. Guzman resides in Unit 401 (the unit the loan is for). The budget for the rent is \$3400/month and the Association currently pays \$4000/month. The rent for the RM's unit is already included in the monthly maintenance fee.

Q: What is the reason to have the largest unit in the Tower for the RM?

A: It is desirable for the Association to attract and retain qualified and professional individuals to serve as the RM for The Collection, and the Association's ownership of this unit will permit the Association to offer this attractive benefit of employment.

Q: Is the proposed monthly payment of \$5,168 an additional maintenance cost/assessment to all the unit owners?

A: No, there is no change to the current maintenance fees as a result of the loan.

The allocation table presented with the ballot mail out was required by State Law to show the monthly expense of the loan. The table is NOT indicative of additional fees that will be charged as a result of the loan; rather, it is a representation of the portion of the loan expense covered by your current maintenance fees. Expenses related to the purchase are able to be absorbed without any adjustment to the current maintenance fees.

The NET difference of what was budgeted for the monthly rental of the RM unit (\$3,400) and the monthly loan expense (\$5,168) is an additional \$1,768. The attached Net Allocation Table reflects the portion of your current maintenance fees that go toward the monthly net loan expense. The average monthly portion is \$4.10 for a Tower unit, \$2.83 for a Midrise (Lofts) unit and, \$6.23 for a Commercial unit.

Q: What if the majority of owners are opposed, what is AOOU's plan or proposal?

A: If the majority of owners do not approve, the Association will continue to rent a unit for the RM. The Board will also re-evaluate a long-term plan for RM lodging as the 10-year Net Present Value Lease v. Buy analysis conducted as part of the due diligence reflected it was significantly more favorable to purchase a unit rather than rent, by approximately \$507,000 over 10-years. Some options for the Board to consider would be to present another loan ballot under different loan terms or, approve a Special Assessment.

Q: Are the results of the vote confidential?

A: Owners will be notified of whether the vote passed or failed and the % of yes and no votes. The results are not confidential; owners can request to review the Association documents in accordance with the process defined in State Law.

Q: Can you explain what a 15 year term loan, amortized over 25 years with interest fixed at 3.87% for the first 10 years which adjust every 5 years thereafter mean? After the 15 years is there a balloon payment due at the end of the 15 years? After the first 10 years, shouldn't there be only 5 years left?

A: At the end of year 10, the interest rate will reset for the remaining 5-years at the current indicative 5-year fixed rate. The monthly payments will adjust based on the current balance at that time, the new 5-year fixed rate, and the remaining 15-year amortization.

Yes, after the first 10 years, there are only 5 years left. Yes, there will be a balloon payment remaining at the end of the 15 years. The Board will then have to decide whether to pay off the remaining amount owed or refinance.

The estimation of the balloon payment at the end of year 10 would be approximately \$705,000.

As the rate is going to change at the end of year 10, it cannot be predicted what the balloon payment will be at the end of year 15. However, for discussion sake, if the rate were to remain the same for the additional 5 years of the term, the balloon payment at the end of year 15 would be approximately \$514,000.

The Board can consider putting away additional funds each year in order to be able to pay off the loan in 10 or 15 years, subsequently avoiding the increased rate after 10 years and the balloon payment after 15 years. The Board can also consider making additional principal payments during the term of the loan in preparation for the 10 and 15 year milestones.

Q: Who are the other 2 lenders of the competitive proposals received by the Board, besides BOH?

A: American Savings Bank and First Hawaiian.

Q: Why purchase storage units?

A: The storage units will be used for a variety of attic stock left over from construction and items such as rec deck pavers, extractors, blowers, wet vacs, uniforms, holiday decorations, wood decking, lighting parts, exterior window glass and decorative stone pieces could be stored and costly future purchase avoided. Some of these items do need storage to be stored in a dry enclosed environment. Yes, the storage units (and parking stalls) can be sold to pay down the principal of the loan.

Q: Is there an option not to purchase the storage rooms?

A: There was an option to not purchase the storage rooms; the Board decided to purchase.

Q: Why purchase parking stalls?

A: The parking stalls may be utilized for additional employee parking, visitor parking, rental parking, or to temporarily relocate residence parking during emergencies, repairs etc. or, a combination of these.

Q: Can we get a better rate with 20% down? Can we get the 20% (\$198,480) from our Cash Reserve? This reduces the Monthly Payment to \$4,111 and the balance due after 10 years of minimum payments is approximately \$562,000.

A: Yes, 20% option was available but the Board selected the option presented. At this point, if the key terms of the loan were to be changed, a new vote would have to be obtained from the ownership.

Q: What is the breakout of the cost for each item; Unit 401, each parking space, each storage unit.

A: Unit 401 - \$768,000 (2 stalls and 2 storage are assigned to the unit); Parking Spaces - \$90,000 (\$45,000 each); Storage units - \$134,400 (\$67,200 each)

Q: What kind of market study has the Board conducted? Please provide info.

A: The Board conducted a comparable market study, lease vs. purchase cost analysis, obtained advice from qualified professionals, and solicited comments from owners.

Q: Can I get a copy of the documents pertaining to the due diligence that lead to the Board's decision?

A: Yes. Please submit a written request to General Manager Al Guzman at gm@thecollectionhonolulu.com and he will prepare a copy for you to pick up at the General Manager's office or, email you a copy if preferred.

Q: Is there data showing that most condo associations cover the cost of the RM's unit? And, is there data showing how many associations own the RM's property?

A: We have not compiled any data showing whether most condo associations cover the cost of the RM unit or whether how many associations own the RM unit. However, our managing agent has informed us that the great majority of comparable buildings cover the cost of the RM unit and, own the RM unit.

Q: Will the association also be responsible to pay the following: monthly maintenance fee, electrical cost, any repairs, homeowner insurance, property taxes, etc? If so, was this added to the financial analysis.

Yes, the Association is responsible for the related operating and maintenance expenses of the unit. Although not specifically broken out individually, as the RM unit, parking, and storage areas would become common elements, the cost for such expenses would now be absorbed as part of the budgeted line items (electricity, maintenance, taxes, etc.).

Questions below are from the Town Hall meeting held April 25th.

Q: What is the monthly loan payment?

A: \$5,168 per month.

Q: What is the square footage of the RM unit.

A: 1433 square footage.

Q: Why was the RM unit not included originally in the budget for The Collection?

A: The developer owns the unit and makes it available for the Association to consider purchasing versus renting.

Q: Regarding purchase of the parking stalls, are we held captive by the developer?

A: Not by any means. The Board had the option to purchase or not to purchase the parking stalls.

Q: Why is the full amount listed on the monthly loan amount versus the net of what was budgeted for rent?

A: Identifying the full amount of the monthly loan payment is required to comply with State Law.

Q: What are the terms of the rental agreement?

A: Month-to-month.

Q: We really don't know the monthly run-rate because we don't have the full expenses.

A: The Treasurer will provide the full report at the Thursday Board meeting.

Q: Did we receive any competitive 100% loan?

A: No. Each financial institution provided their proposals and only BOH provided a 100% financing option.

Q: Is there other space in the building available for storage?

A: Storage throughout the building is limited and/or defined for a specific use. As an example, the surfboard storage room is not full at this time and to change its designated use, it would take an owner vote of 67%. However, we have to keep in

mind occupancy in the building is presently at approximately 60% and residents are continuing to settle in. Additionally, the attic stock of building glass has specific handling and storage requirements to avoid damage. Purchasing the storage units will afford the ability to store the windows onsite versus paying a 3rd party vendor to do so off site.

Q: When is the reserve study due?

A: In accordance with State Law, a new association need not collect estimated replacement reserves until the fiscal year which begins after the association's first annual meeting. The Board is presently reviewing proposals from multiple reserve study vendors and expects the reserve study to be completed by July in order to utilize the information for development of the 2018 budget.

Q: How long will BOH hold their rate term?

A: 45-days.

Q: Should there be a default in loan payments, can the bank reach into the reserves to obtain payment on a default?

A: No, reserve accounts are protected by law; however, the bank can collect the maintenance fees

Q: Can we change the loan terms to switch to 30-year 20% down, or some other terms?

A: The Association documents read the loan information must state the "key terms" of the loan. As a result, the loan ballot has to be specific to the loan terms being presented. If a change were to be made to the loan term, this would be considered a change to the "key terms" as provided in the Association documents and, a revised ballot would have to be sent out for approval.

Q: What are the available reserves.

A: As of the March 2017 financials, the Association presently has \$867,000 available.

Q: Is the unit covered by insurance?

A: Yes. The unit will be added to the master Association insurance policy for property and liability coverage.

Q: What is the present vote status?

A: 18.4% in Favor and 6.5% Opposed.

THE COLLECTION AOUO

Schedule of Net Expense by Unit Type

This is merely a representation of the amount of the loan expense covered by your current maintenance fees and NOT an additional fee that will be charged to you separately.

Location	Unit Type	Number of Units	Monthly Portion of Maintenance Fees by Unit Type	Total
Tower	A	37	5.10	188.70
Tower	A-1	3	5.97	17.91
Tower	B	41	2.61	107.01
Tower	C	41	4.09	167.69
Tower	D	41	4.17	170.97
Tower	E	41	4.31	176.71
Tower	F	35	5.48	191.80
Tower	G	35	3.91	136.85
Tower	H	37	3.95	146.15
Tower	J	37	2.61	96.57
Tower	K	37	4.66	172.42
Tower	L	4	2.96	11.84
Tower	M	4	4.39	17.56
Tower	N	4	3.15	12.60
Midrise (Lofts)	M-A	24	2.09	50.16
Midrise (Lofts)	M-AR	24	2.09	50.16
Midrise (Lofts)	M-B	3	3.57	10.71
Midrise (Lofts)	M-C	3	3.58	10.74
Commercial	COMM 1	1	11.93	11.93
Commercial	COMM 2	1	4.39	4.39
Commercial	COMM 3	1	0.24	0.24
Commercial	COMM M1	1	14.59	14.59
Commercial	COMM M2	1	0.00	0.00
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