

Memorandum

To: All River Bank Lofts Unit Owners

From: RBLCA Board

Date: November 18, 2009

Special Assessment Explanation and Memorandum November 18, 2009

Dear Friends, fellow Unit owners and Neighbors;

At the 10/19/2009 Board meeting the key discussion point for the evening was the proposed special assessment (“SA”) of \$2.8 million. The \$2.8 million is the amount required over the next three (3) years to undertake critical and necessary masonry and roof repairs and several other timely and necessary capital projects outlined in the summary spreadsheet contained within the 2009 Capital Reserve Report (“CRR”). The summary spreadsheet along with a letter from the Board was mailed to each unit owner in preparation for the 10/19/2009 Board meeting, it was also posted on the River Bank Lofts website along with the entire CRR, and copies of the spreadsheet were made available at that Board meeting. There is a scheduled Board meeting on 11/30/2009, at which time it is the intention of the Board to adopt the \$2.8 million SA. In preparation for that Board meeting there are several points that are clarified below that should help with some of the questions regarding the proposed \$2.8 million SA.

- 1) The \$2.8 million was derived by adding the major capital projects for 2010, 2011 and 2012. These figures exclude regularly scheduled maintenance expenses and several smaller routine and planned capital projects. The projects included in the special assessment are mainly: masonry, roof, carpeting, security system, front entry lobby, concrete walkways and sidewalks, masonry sealant, and window and door caulking. This amount to approximately \$2.5 million and with the addition of a contingency of approximately \$300,000, the total estimated amount of the SA is \$2.8 million, to be spent over three years. The contingency was added to avoid a potential second special assessment in case additional scope of work beyond current estimates is encountered with the masonry or the roof repairs during the major construction period. Amounts not spent will be returned to the Unit Owners. See point 6) below regarding the discussion of annual checkpoints, and possible reductions to the SA.
- 2) The Board is in the process of obtaining a Peer Review prior to the 11/30/2009 Board meeting to confirm that the proposed scope is necessary, cost estimates by Sullivan Goulette and Wilson (“SGW”) regarding the masonry and roof is appropriate, and fees for architectural services and construction management are reasonable and in line with the proposed scope. A list of capable and qualified architectural and construction consulting firms were obtained from Brain Israel. After discussion and meetings with several of the firms, two firms submitted appropriate proposals and one firm was chosen. Since approximately \$2.1 million of the \$2.5 million SA budget (excluding the contingency) is related to the masonry, structural and roof expenditures, the

focus of the Peer Review is only related to those areas. If the Peer Review findings result in any material variation to the SGW estimates, the Board either will make the appropriate changes or will postpone the SA until the Board is satisfied in all aspects of the scope and costs related to the masonry and roof related projects.

- 3) The architectural and design phase of the three-year project will begin soon after the adoption of the SA by the Board. Timing is crucial as the architectural drawings and plans are necessary to solicit competitive bids from numerous vendors for masonry, roofing, sealants, and related work. Masonry preparation, coordination and staging needs to begin in March. A delay could cause expenses to escalate in order to meet the projected schedule due to a limited construction season, which is normally from March through November.
- 4) With the adoption of the SA, each owner will be responsible for paying his or her share of the \$2.8 million SA. In order to match the SA payments from the Unit Owners with the stream of the project costs, the Board is suggesting that the SA payments be made in 34 (thirty-four) equal monthly payments beginning March 2010 and ending with the final monthly payments in December 2012. Owners willing to make a single lump sum payment are also able to do so. At the 10/19/2009 Board meeting there was a discussion to provide an incentive for Unit Owners to make lump sum payments or monthly cash payments in the form of a discount. Unfortunately, in discussions with Association's counsel the Board was strongly reminded that providing a discount for lump sum cash payments or paying interest income on balances held by the Association is not allowed under the Illinois Condominium Property Act.

Included with this letter you will find a listing by percentage ownership breaking down the \$2.8 million by both Unit and deeded parking space. The same list will also be posted on the Association web site (www.riverbanklofts.org) after the 11/30/2009 Board meeting. At this time, the only option for paying for the SA is the lump sum or monthly cash payments. See point 5) below for the financing option.

- 5) We have recognized that not all Unit Owners will be able to participate in the cash option. Some unit owners may wish to use their own means to finance the SA, such as a home equity loan. As discussed at the 10/19/09 Board meeting, the Association has the option to arrange financing for the SA and in doing so would provide any owner the option of financing their portion of the SA. While the SA can move forward without the need to secure financing, given the reality that not all Unit Owners have the means to provide the cash payment for their share of the SA either up-front or over a 34-month period, the Association's option for group financing is viewed by the Board as a necessity. Therefore, the Board has been in negotiations with several banks and will also vote and ratify a financing option at the 11/30/09 Board meeting

The Unit Owners that elect to utilize the financing option will be required to make monthly interest payments on outstanding loan balances until the end of the construction period.

Based on discussions with the likely lending bank, we anticipate that at the end of construction period, the construction loan will be converted to a fixed interest rate term loan payable in equal payments (including principal and interest) over 84 months. It should be noted that the interest rate for the construction loan cannot be determined until the financing negotiations are finalized, however, the Board anticipates that the interest rate during the construction period will be 5 (five)

percent. This loan will be a floating loan at 1.25% above the nationally published Prime lending rate. In addition, the floating interest rate during the construction period will be adjustable based on changes in market conditions. Interest rates applicable to the fixed term loan three years from now will be adjusted to the then market rates, which may be greater than today's market rates. Therefore, monthly payments after the construction period cannot be determined at this point. The permanent loan will be set at approximately 2.50% over the bank's cost of funds.

There are tax implications for the Cash Pay and the financing option. Each Unit Owner should consult with their own financial or tax advisor to determine those implications, including the deductibility of interest payments for Local, State and Federal income taxes.

- 6) At the end of each year, or sooner if warranted, there will be a review to determine if any adjustments to the SA will be required. The SA of \$2.8 million has contingencies that are built in and the amounts are allocated to a finite list of capital projects representing the entire project thru 2012. Assuming the project is on schedule and the estimates are accurate, and the contingencies are not spent it is conceivable that we may adjust the total expenditure projections downward as the contractors and consultants become more comfortable based on their experience. If those downward adjustments are made, they will be reflected in the adjusted cash pay amounts and the financing amounts. We will have several checkpoints until the project is concluded. In the unlikely event that expenditures exceed the \$2.8 million estimate to the extent we are unable to maintain other costs, make cost cuts, and have no other options we may have to increase the SA at that time, after going through a process of informing the Unit Owners.

Furthermore, when any units are sold during the construction or permanent financing period, the SA will be required to be settled in full and paid to the Association, who in turn will use the funds to reduce outstanding debt balances.

- 7) Included with this letter is an OPTION SELECTION FORM where you will be asked to select one of these options. 1.) Full amount cash pay on March 1st, 2010, 2.) 34 month cash pay beginning on March 1st, 2010 or 3.) the Financing option beginning on January 1st, 2013. **BECAUSE SCHEDULING IS CRITICAL TO START REMEDIATION PLANNING AND WORK, WE ASK THAT YOU COMPLETE AND RETURN YOUR PROXY BY DECEMBER 14, 2009.** Over the next week we will be mailing to all Unit Owners several examples on how the Financing will work.

At the 11/30/09 Board meeting, we will have representatives from the Peer Review firm as well as representatives from SGW to answer any questions you may have. The Board members will also answer any other questions relating to the SA and the project. We encourage you strongly to attend the 11/30/09 Board meeting. There have been discussions among many Unit Owners, and some of you have spoken with, sent e-mails or have called the management office and various Board members. To be certain of the facts regarding the project, the SA or the process, you should attend this meeting. If you cannot attend the Board meeting on 11/30/09, you should contact the Board members or the building manager listed below to obtain the facts and answer your questions.

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A separate document included herewith, contains an explanation of the considerations and alternatives the Board has considered in determining the course of action related to the need for masonry and roof remediation and related fund raising options.

The Board of Directors of River Bank Lofts

River Bank Lofts
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