Lakewood
PROPERTY OWNERS ASSOCIATION

BETTER TOGETHER: TRANSPARENCY SERIES
The LPOA and Lakewood Oaks Country Club

Presented by the Lakewood Property Owners Association
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History: Our Intra Company Loan Interest Rate Payments

Summary

There's recently been heightened awareness and concern from select residents about the status of interest rate payments being received by LPOA from the LHC. The issue has been raised to challenge the integrity of management decisions by questioning whether the interest payments are high enough to ensure that Lakewood is maximizing it's ROI on their investment in the Lakewood Holding Company.

This article is to reassure residents that the interest rate income from the LHC loan has been above the federal reserve fund rate for 15 of the last 18 years, and most of those years the rate was set far in excess of the federal rate, ranging from 1.5% to 5.0%.

After seeing historic increases in the reserve fund rate in the last 2 years (up from 0.25% to 5.50% to tame inflation), the LPOA/LHC boards are certainly capable of updating the repayment rate to keep up with the reserve rate at whatever frequency and pace they choose in the future.

Additionally, it's important to note that this particular form of ROI is by far the most insignificant of many different forms of ROI that the LPOA receives for their investment in the Lakewood Oaks Country Club.

The details of the interest rate paid on the loan from the LPOA to the LHC

In 2007, the LPOA invested $586,747.24 to the LHC as an equity down payment to purchase the Golf Course, and then another unexpected $376,368.36 in lines of credit over the first 2 years of the acquisition. This totaled $963,115.60 that the LPOA invested in the acquisition of the LHC during its first years of management, from 2008-2010.

As of 2024, the LHC pays to the LPOA interest on the promissory note in the amount of 1.53%.

- During the period of 2008 to 2010 the LHC was paying 5%. ($48,155.78/yr)
- The LHC has been paying 1.53% since 2011. ($14,735.67/yr)

Why are these the interest rates?

The auditor's recommendations have always been to stay consistent with the federal funds rate, as well as the money market rates that we were receiving from Wells Fargo on our LPOA Reserves. Those rates were at a fraction of 1% (.04% avg.) for many years while the LHC still continued to pay 1.53%. (See chart below).

People like the HOA in a guaranteed money market account would be getting 0.04% if they invested. The LPOA was getting paid 0.04% and actually paying 1.3.

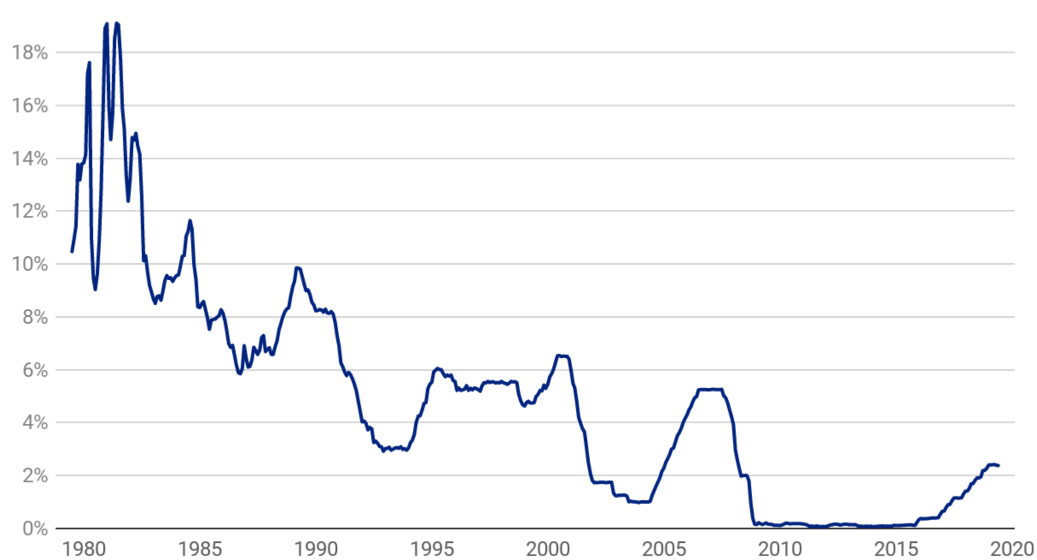
Only recently, in the last 24 months, have the rates topped the 1.53 % the LHC is currently paying. All Boards of Directors have been prudent in establishing this rate and letting it stand as an average and fair rate.

Every year, the LPOA and LHC Board of Directors analyzes this rate and can, at any time that they feel it is prudent, raise or lower it as they deem fair to both entities.

- The Federal Open Market Committee (FOMC) raised interest rates 11 times in the span of about a year and a half, bringing the federal funds rate to a 23-year high of 5.25-5.5 percent.
- Throughout history, the Fed's key rate has been as high as 19-20 percent and as low as 0-0.25 percent.

50 Year History of Effective Federal Funds Rates:

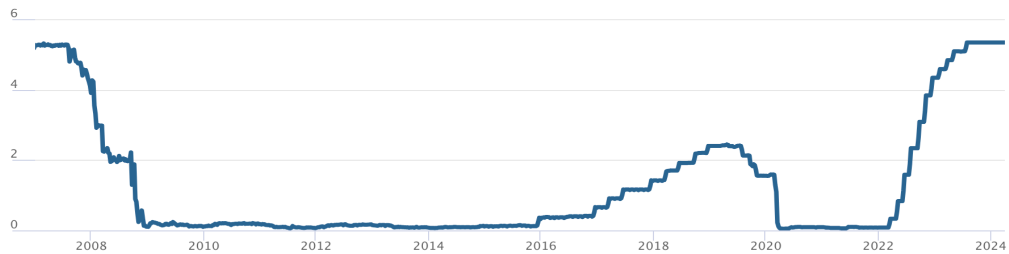
Our intra company loan interest rate payments have ranged from 5% to 1.53% over the last 18 years, compared to the .25% that has been prominent during that time frame:



Source: Board of Governors of the Federal Reserve System • Get the data • Created with Datawrapper

18 Year History of Rates Since Acquisition of the LHC

Taking a closer look at the last 18 years, our pace of 5% from 2008-2011, followed by 1.53% from 2012-2024, has been primarily above the federal rates. The last 18 months of swift increases have been historic, and our LPOA/LHC boards are free to make adjustments at the pace they deem appropriate.



Is the Repayment Interest Rate the primary ROI in the LPOA investment of the LHC?

No. The interest rate payments of 1.53% ($14,735.67/yr) are just a small fraction of the ROI received from the investment of the LHC. The LPOA has a long list of ROIs that have been realized from the initial $963k investment in the LHC, in 2007:

1) Maintaining and securing the safety of the home values tied to our golf community, including 700 homes that are immediately on or around the course, and the other 1700 homes that are adjacent.
2) Creating financial efficiencies in annual recurring costs for management, equipment, and physical space that are shared inside the Lakewood Oaks Clubhouse.
3) Being able to provide a clubhouse space and restaurant for Lakewood residents when Lakewood was unable to provide these things for itself, back in 2010 and 2016 when there had been no reserves saved at the end of life of the Cove Clubhouse or Bayview Clubhouse.
4) Being relieved of the Food and Beverage operations fees that the LHC subsidized for LPOA, from 2008 - 2011, averaging about $265k per year with inflation ($795,000 over 3 years). The LHC paid for these fees on behalf of all 2400 residents who suddenly had access to the Clubhouse restaurant, which had previously been private to golf members only.