



Best Practices for HOA Payment Solutions

Abstract

HOA Management companies and payment service providers, collectively referred to as management companies, offer HOA customers multiple billing and payment options to facilitate the collection of association dues [assessments*]. The different billing and payment options have various costs, payment success rates, and customer experiences.

This white paper focuses on the advantages and disadvantages of the different methods and will present best practices for association boards to consider for their communities.

** Did you know? – ‘Dues’ are voluntary payments e.g. for a club membership. ‘Assessments’ are mandatory e.g. for Homeowner Association assessments. Using the right terminology is important!*

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BILLING OPTIONS

There are currently three primary billing options: coupon booklets, paper billing statements, and electronic email-statements.

BILLING METHOD 1: COUPONS

The cost associated with coupon booklets, which are either produced by the management company or a 3rd party vendor, is about \$6.00 per booklet and includes an envelope, postage, and handling.

Coupon books are commonly produced and delivered at the beginning of a fiscal billing period, and the billing amounts specifically reflect the amount owed for the period covered by the coupon which is independent of the actual homeowner account balance.

The advantage of coupon booklets is that they provide a hard copy reminder of an upcoming payment owed. Depending on the payment habits of the homeowner, hard copies of the association's billing can be handy reminders, however, in recent years when owners started issuing payments through their bank portals the usefulness of coupons declined significantly.

The disadvantages of coupons are that they generally require a minimum two-week lead time to produce and mail out, so the payee has enough time to submit their payment by the due date. Timing of payment issues arise when an association does not allow for enough time between ordering the coupons and the payment date of the first new assessment. Or, new property owners encounter timing of payment issues when they choose coupons for their billing and their first payment is owed shortly after their closing. Another disadvantage of coupon booklets is that the amount of the coupon only reflects the amount owed during a specific period and does not reflect the current account balance.

There are data input and formatting processes required to produce the final product that require both time and cost from the management company. On the other hand, E-statements are produced automatically by software and scheduled for distribution per the billing frequency of the association and the online portal has real time billing information and there is no additional time required to produce billing information.

BILLING METHOD 2: PAPER BILLING STATEMENTS

Paper statements have similar benefits and disadvantages to Coupon booklets. Depending on the billing frequency and the number of statements needed, this option may cost the Association more or less than Coupon booklets. While the Association is required to notify owners of the Assessment amount annually, there is no requirement that the Association must send billing reminders to the owners.

BILLING METHOD 3: E-STATEMENTS

Electronic statements are produced by the management company's software program and are emailed almost simultaneous with the creation of a bill, which speeds up notification and reduces issues related to mail delays.

The E-statements reflect balances that are current up to the date of the billing creation and the E-statement includes all past due information. A homeowner can ensure their account is paid in full if they pay off the amount detailed in the E-statement.

The disadvantage of an E-statement is the email with the E-statement can be blocked or sorted by email filters which can delay or delete the E-statement. This concern may be avoided when a homeowner adds the sender's email address to their email address whitelist.

ONLINE PORTAL

The management company's online owner portal has current billing information and allows the homeowner to view their ledger in real time at their own convenience.

The account status is the most current within the owner portal and the homeowner can initiate payments directly through the owner portal to avoid delinquent payments.

An Owner may elect their 'billing preference' when they are logged into the portal. It is essential to keep all contact information updated so that communications will be delivered.

PAYMENT OPTIONS

Management companies offer multiple payment methods to their association clients. The most popular payment methods are e-checks, credit cards, automatic draft of paper checks.

PAYMENT METHOD 1: E-CHECK

Electronic check payments are initiated by the owner directly from their checking account. Since this payment is initiated from the Owner Portal, the remittance will be posted directly to the owner's account instantly.

The advantage to paying Assessments with a check is the homeowner controls when the payment is issued, and the option is free to the owner. It also ensures that remittances are posted promptly, which helps to avoid late fees.

PAYMENT METHOD 2: CREDIT CARDS

Credit cards and Debit Cards allow an owner to control when their payment is issued. Some owners prefer using Credit or Debit cards to earn loyalty points from the card issuer however

these forms of payment generally have a processing fee which is charged by the card processing service provider.

The advantage to paying with a credit card is that there are no errors with applying the right credit amount to the homeowner's account(s).

The disadvantage of paying with a credit card is the cost. The credit card processing company typically charges the homeowner a minimum transaction fee or about 3% of the transaction, whichever is greater, of the total payment amount. The fee for Debit Card transactions is lower and there are options available for recurring payments to be set up for no additional fee.

PAYMENT METHOD 3: AUTOMATIC DRAFT (ACH)

ACH is an acronym for Automated Clearing House. The ACH method of payments uses debit transfer or electronic credits that enables HOA members to pay assessments from their bank accounts. Once a homeowner has enrolled in ACH, the payment amount is generally withdrawn from their checking account around the 10th of the month. Restrictions relative to ACH payments include: the owner's balance must be \$0 before the owner will be enrolled in ACH, the owner must submit the enrollment forms with adequate lead time (+/- 10 days) for it to be set up prior to the draft date

The advantage of paying with ACH is that it is an online payment and because of that, the payments are applied accurately to the homeowner's account(s). If the assessment amount should change, then it will be automatically updated without any need for the homeowner to take action however special assessments may or may not be drafted, depending on the election of the Board at the time of the initialization of the Special Assessment. Paying by ACH is 100% predictable and the accuracy of the account information allows for the proper payment credit. ACH payments have zero (\$0) cost to the homeowner.

PAYMENT METHOD 4: PAPER CHECK

Both paper checks written from an owner's checking account and Bank Bill Pay Checks are processed through a bank or third-party bank-lockbox processor once they are received at the remittance P.O Box. The statement/coupon directs a check to be sent into a lockbox processor who receives the mail, opens the envelope, and processes the check through a check reading machine. If the check has the coupon or statement included in the envelope, the check is processed as instructed.

The advantage to paying Assessments with a check is the homeowner controls when the check is mailed, however the reliability of mail delivery varies significantly.

The disadvantage of paying with a check is when the coupon/statement is not included in the envelope with the check, which occurs in greater than 50% of checks processed through a lockbox. There is a substantial error rate in crediting the proper account with the proper amount. As a special emphasis, due to the process of creating a Bank Bill Paycheck, there is

never a coupon/statement that arrives at the lockbox with this method of payment. In addition, paying by check has an elevated risk of not being processed within the payment deadline due to delays in the mail delivery and timing of processing the mail by the lockbox processor which can create late fees, interest fees, and an unhappy homeowner.

RECOMMENDATION:

To ensure up to date billing information, the most reliable billing method is to review the account balance information in the owner portal.

To achieve an on-time payment with the correct payment amount and timely posting to the owner's ledger, remittances should be issued online through e-check, credit card/debit card or via enrollment in the Automatic Draft program (ACH).

Based on the analysis of billing and payment method success, we would discourage using coupons as a billing method and we would discourage accepting checks or Bank Bill Pay Checks as a payment method as there is a significantly higher failure rate of on time payments and/or proper payment credit to the right homeowner account. HOA billing can be very confusing which can result in late fees and interest owed to the association by the homeowner when the billing is outdated and delivered late depending on the method of billing. Additionally, confusion over the billing generally results in time consuming investigations by the homeowner to determine the proper dues amount owed. Similarly, homeowner payments can create late fees, interest, and frustration by all the parties involved in the payment process.

By choosing the right payment and billing methods, management companies are able to establish proper amounts to be credited to the homeowner account well within the payment deadlines, resulting in a happy homeowner and a happy association.

PAYMENT OPTION OVERVIEW

Payment Options	No Processing Errors	Owner has ability to update bank information	Owner sets pay date	Once setup, no changes need to be made year-to-year	Fees Associated
ACH:	X	X		X	
eCheck:	X	X	X		
Credit Card:	X	X	X		X
Check:			?		Possibly
Online BillPay		X	X		Possibly