

To All POA Members:

Some members have expressed concern about the financing arrangements for the community center. Their comments indicate a misunderstanding about the sequence of events that must happen for this project to become reality.

We engaged Taylor Construction to provide feasibility studies, concept drawings and estimated costs for a new building. They delivered a proposed design, with elevation views and floor plans, and estimated costs based on similar buildings they have done in the past. The cost estimate was \$2.5M. Since we have accounts at BB&T, we went there to get an estimate for financing, and they said that they could offer a fixed rate loan and predicted the rate would be about 6%. From those estimates we calculated the estimated annual member cost of \$440. Since that time, BB&T has indicated it will not offer fixed rate business loans. However, we received confirmation that the land transfer will not affect the project, so we are free to pursue financing elsewhere, as we communicated in the last update.

So as of today, we have not identified the final building cost, the final lender, the type of loan or the interest rate, nor have we guaranteed any of those things at any time. Without detailed drawings and a signed contract, we can't even begin to negotiate a loan package with a lender. We are months away from a final design with construction blueprints for foundations, framing, electrical, plumbing, HVAC, etc. Once those are done, Taylor will calculate the actual material costs for the building, down to the last stud. Then they will give the plans to contractors for competitive bids. After all that is done, they will provide us a firm price, expected to be about \$2.5M. If it is higher, we will have to go through redesign to reduce costs. Only then can we negotiate a construction contract. However, Taylor will not spend thousands of dollars on providing all that information without a commitment from Lockwood POA that there will be a building. So, as we said in the presentations, we have to vote to approve the building before any of the final details are pinned down.

That is why we provided members with the "Not to Exceed Cost". What we guaranteed is that at the time we sign off on a loan package, the final building costs, including financing, will not exceed \$480 per year per member, or a re-vote is required. The only change in what was communicated in the presentations is that BB&T is no longer offering a fixed rate business loan. We aren't locked into BB&T, so, at this point, we aren't sure who the lender will be or what type of loan we'll be able to negotiate. It could be a fixed rate loan from a bank or a private lender. It could be a balloon type loan with periodic rate adjustments based on prime or Libor, it could be a 3 year or 5 year balloon or some other period between balloons, and the adjustment ranges will vary with each of those factors. We don't even know how much we'll have to borrow, because we don't have ballots indicating how many members plan to pay up front.

If the only financing available in the market is a balloon loan, which seems to be the concern of some members, then we will negotiate the best terms possible. As you all know, a variable rate loan is riskier than a fixed rate loan; that's why its rates are lower. In the event we finance with a balloon loan, we will extrapolate the terms and the estimated annual rate adjustments into a reasonable projection of costs over the life of the loan, and if that calculation indicates that the member cost will exceed \$480 per year, we will re-vote, as promised. We have already developed a model for repaying a balloon loan that uses very conservative (high) projected interest rates, and with an aggressive principal repayment plan we can mitigate the out year risks. In fact, the model comes in at roughly the same total cost as the 6% fixed rate loan. We communicated this to you in an earlier update. So even if we have to finance with a balloon type loan, we do not believe that it materially changes anything we communicated to you in the initial presentations. However, you must apply your own logic in weighing the risks.

I will point out, however, that if (as some comments suggest) your votes depend on the POA giving you specific details about a future loan, or a guarantee of future loan rates, the nature of which we can't know in advance, we will never get any improvements done in Lockwood that require financing. We urge you to have confidence in your board to make good decisions in this matter. Remember, board members are POA members who have the same financial exposure as everyone else.

Joe Geise

Lockwood Folly POA VP