

LONG BEACH BRIDGEPORT HOMEOWNERS ASSOCIATION

QUESTIONS AND ANSWERS REGARDING THE SPECIAL ASSESSMENT

1. How are the proceeds going to be used?

The money will be used to make the monthly payments to pay off a loan that will be used to fund the various administrative and construction costs pertaining to the community-wide wood repair, railing, deck surface, garage wall, elevator modernization, and painting project that has been described to the community in several townhall presentations.

2. How much is the loan?

The bank will extend a line of credit for up to \$2,800,000 for up to twelve months. The amount drawn from the line of credit will then convert to a 15-year term loan. Less than the full \$2,800,000 may be drawn from the line of credit, but at the present time, the Board believes the entire amount will be needed. The level of pre-paid principal by homeowners (see explanation below) and the potential for a reduced level of wood repair contingencies may reduce the full amount needed from the loan proceeds. Loan fees are expected to be 0.25% of the loan principal (\$7,000.00) and document fees of \$500.00.

3. What is the budget for the project?

The total budget is roughly \$2,800,000. The Board prefers to not use Reserves as to do so would leave the Association seriously underfunded for future projects and may jeopardize the ability to receive financing now or in the future.

4. What is the interest rate on the loan?

6.75% during the draw-down period as well as during full amortization.

5. How much are the special assessments?

Each special assessment is \$418.00. There are 180 special assessments (15 years).

6. Is there an early pay-off option?

Yes. If you pay the balance of the assessment early, the Association will be able to use that money towards construction and can draw less money from the line of credit, resulting in a smaller loan or towards the early payoff of that portion of the loan amount (depending upon when the payoff is made). If you pay the entire amount early, you will not be charged interest on the amounts paid, which may result in substantial savings to you. If paid prior to January 1, 2023, the payoff amount is \$46,666.67. If you choose to pay off the special assessments after January 1, 2023, the attached amortization schedule will describe the amount due at any given month during the term of the special assessments.

Partial payoffs will not be accepted. Buyers and sellers have the opportunity to determine whether the assessments would be paid off during escrow and by whom.

7. What happens if someone does not pay his or her special assessments?

The special assessments are subject to the same collection policy as regular assessments. If a person becomes delinquent, the account is subject to late charges, interest, and collection fees. The member is also subject to the recordation of a lien, foreclosure, and litigation. The Association's collection policy is sent to the members annually with the financial disclosure documents. If you have not retained a copy, you can obtain one from the management company.

8. How many members must vote in favor of the special assessment for the proposal to pass?

California Civil Code §5605(b), provides that the Board of Directors may not impose a special assessment which in the aggregate exceeds five percent (5%) of the budgeted gross expenses of the Association for that fiscal year without the approval of a majority of a quorum of members. For the purposes of this vote, quorum means more than fifty percent (50%) of the owners within the Association. Thus, for our Association at least 31 of 60 members must cast a vote to establish the quorum and once a quorum is reached, a majority of those that vote must approve the special assessments for the assessments to be imposed.

Note, the loan itself does not require membership approval.

9. What will happen if the assessment proposal is not approved by the members?

Most of the proposed project consists of items that must be repaired either by law or due to life-safety concerns. Because these items must be repaired regardless of how the membership votes, the Board would have no choice but to perform those parts of the project immediately and issue an emergency special assessment in the amount of approximately \$31,000 per unit. If this becomes necessary, an emergency special assessment does not have a financing option due to the need to pay for the repairs immediately. All owners would be required to pay the full amount within a very short period of time.

Additionally, due to the lack of flexibility with the loan payments, it will be necessary for the Board to increase the regular assessments by up to twenty percent (20%) this year and perhaps again next year to cover losses from those that are unable to pay immediately.