

Ballot Proposition 2020 — FAQs

Question: I heard that the deadline for voting on the Ballot Proposition has been pushed back. Is that true? Why?

Answer: It is true. On November 2, 2020, the Board of Directors discussed its ongoing concerns about the disenfranchisement of Owners during the voting process, due to systemic failures and delays of the U.S. Postal Service — in both the sending of ballots and the subsequent receipt of cast ballots. So, in order to ensure all voted ballots are received and duly processed, the Board voted to entertain a motion by a member, during the member’s meeting on November 3, 2020, to extend the balloting period until December 4, 2020 (unless a need to further extend is determined). Such motion was made and approved by the members during the member’s meeting.

Question: Why was the voting period extended? Was it because not enough YES votes came in on the previous deadline?

Answer: We don’t know how many YES votes were cast because the meeting to count the ballots was adjourned by homeowners of the Mutual, until December 4, 2020, to allow for more member participation — and to allow more time for any ballots in transit to be received. The secret ballots remained unopened and uncounted on November 3, 2020. There were many delivery issues: ballots were not received or were lost in the mail during the initial mailing. It is a fact that the Inspector of Elections sent replacement ballots many times to many Owners, sometimes two or more times per addressee. People also informed us that they voted, but their ballots were not received or logged in by the Inspector of Elections — so we know for a fact there was a problem with delivery both ways — with many Owners not receiving their ballots and with the Inspector of Elections not receiving some of the cast ballots.

Question: What’s the Ballot Proposition number, so I can vote “Yes?”

Answer: Third Mutual has only one Ballot Proposition, so no ballot number is necessary. You should have received a mail-in ballot with just one Ballot Proposition choice. This voting process is separate from the national election.

Question: What do I do with all the envelopes that came in the ballot?

Answer: There are voting instructions online, but we also have a very simple voting tutorial video. It takes 30 seconds to watch it. It goes through the steps to make your vote count. You can watch the video at <http://bit.ly/HowToVoteYes>

Question: If I have already mailed in my ballot, is there a way to get it back so I can change my vote?

Answer: No. Sorry. Under the law, once cast, ballots are irrevocable. Reference: California Civil Code, Section 5120(A).

Question: If the Ballot Proposition passes and we are no longer required to try to get 100% property replacement insurance coverage, what percentage of coverage will we get?

Answer: Passage of the Ballot Proposition would allow Third Mutual to make its own choices to secure a level of insurance that makes the most sense for our property and our budget, with appropriate consideration to how the cost of premiums might impact our resident services, maintenance cycles, operating reserves, and assessments. If we pass the Ballot Proposition with a YES vote, we will be able to better control our insurance premium costs by selecting appropriate coverage.

Question: How will lowering the replacement percentage for property insurance coverage affect us as Manor Owners?

Answer: In examining Third Mutual’s history of property loss or damage, we have never sustained more than \$10 million in loss or damage in total for any given year. For the last 20 years, the average loss or damage to property for Third Mutual has been much lower than that. To give you context, if an entire Garden Villa Building needed to be rebuilt, the cost would be approximately \$6 million. So, based upon projection and analyses, lowering the insurance replacement level to a reasonable level should not affect us as Manor Owners, other than to keep costs in check.

Question: What do the CC&Rs have to do with the outrageous costs of insurance for Third Mutual?

Answer: The current CC&Rs require Third Mutual to buy 100% replacement insurance coverage based on our new \$1.6 billion valuation. During our rigorous insurance renewal process, it became evident that 100% replacement coverage is just not available, and what is

available is very costly. The climate of the current insurance industry, today’s HOA standards, and the proximity of Laguna Woods Village to open areas with drought and wildfire risk make some insurances unattainable or cost prohibitive. The 100% coverage requirement in the current CC&Rs is unrealistic and must be changed.

Last Summer, Third Mutual real property was valued at \$1.6 billion dollars. But, with our new, higher valuation came higher costs. At the top of that list is insurance.

Third Mutual was able to secure \$700 million dollars in property replacement coverage at an annual premium of \$4,147,495. The effective date for this coverage was October 1, 2020. Incidentally, we could only achieve this level of coverage by the binding of insurance with dozens of insurance carriers. If we don’t pass the Ballot Proposition, we could be looking at double that premium for the following year.

Question: So, how does the Ballot Proposition help our insurance situation?

Answer: If the Ballot Proposition passes, we will be able to exercise better control over the type and amount of coverages we buy. It will give us greater flexibility to shop for the best coverage at a level that respects our budget, resident services, property maintenance, and lifestyle considerations — and that will ensure that we won’t have unbridled cost escalations like the one we are experiencing now — as we move forward.

Question: So, I agree with everything that the Third Board is trying to accomplish with the Ballot Proposition, but why does this have to happen now? What’s the reason for doing this during a national election?

Answer: Every minute that we continue in the current situation is a minute that we incur higher expenses at a time when our insurance premiums are skyrocketing. The longer we put off a solution, the more likely resident services will be compromised — and more of our operational reserves will be depleted. The situation continues to escalate. The Ballot Proposition will give us greater control over our insurance costs, which is one of the biggest portions of our overall expenses.

We felt that the voter turnout for the Ballot Proposition would be more robust, given the national election. That is why we chose the Tuesday, November 2nd election date. We need an exceptionally high voter turnout to achieve the 66.67% YES votes required to pass the Ballot Proposition. That is approximately 4000 YES votes. A very high voter turnout by all standards. That is why we are asking you not only to vote YES but to spread the information we are sharing and help secure the YES votes necessary to pass the Ballot Proposition and protect our services.

We are trying our best to get everyone on the same page with a genuine effort to provide public information and relay this issue’s urgency. Please help us inform all the eligible voters of Third Mutual. This is the most significant issue we have dealt with, and it affects all of us as Manor Owners.

Question: I’ve received information from a number of Owners who say to vote NO because hundreds of boilerplate provisions are being forced upon us and were drafted without any sensitivity to the issues that are most important to us stakeholders. Is that true?

Answer: Absolutely not. The restated CC&Rs contains language that is necessary to comport with the California Civil Code and the Davis-Stirling Act, which may account for why some people, but not most, sense there are so-called boilerplates in the governing documents. The restated CC&Rs were carefully drafted and crafted over many months, always first taking into consideration that goals, objectives, and longstanding aesthetics and sensibilities of the Laguna Woods Village community are integrated and incorporated, insofar as they are in synch with government laws. Please be aware that homeowners helped steward these documents into existence. The Board of Directors, all stakeholders and property Owners here in Third Mutual would not create provisions that do not serve the best interest of the community in which they are vested and live.

Question: What is your response to the critical objection about the Board being allowed to discipline members without providing any due process – like the ability to defend oneself against disciplinary action? Why does the Board want to disallow an Owner being able to face their accuser?

Answer: This is a totally baseless and fictional account of how disciplinary action works. While the procedures related to disciplinary hearings do not provide the manor Owner the right to face their accusers, it does, however, allow procedures for the member to both appear and defend herself/himself/itself before members of the Third Mutual Board. This is a more reasonable manner to resolve conflicts and disputes, as the Board arbitrates and makes rulings based on the facts and how they relate to the rules and regulations of the Mutual.

Question: What’s with the new Section §7.5 in the restated CC&Rs? It sounds suspicious. Is the intent to have homeowners pay for future pest control service that the Mutual used to pay?

Answer: This is a blatantly false assertion. The Third Mutual pest control program remains the same as it has been for years. This is a rumor that we've seen perpetuated by people who just refuse to read the Section and accept the truth. Instead, the language is twisted into a shape to fit a false narrative that the Mutual is out to transfer all pest control costs to the Owners. This is just not the case at all.

Question: In the new Section §7.6 in the restated CC&Rs, does the Mutual transfer costs to the Owners to make repairs for damages caused by fire, water intrusion, and mold, resulting from pipes, drains, and conduits in the common area?

Answer: By virtue of the CC&Rs, the Mutual **DOES NOT** transfer any additional costs of repairing damage caused by fire, water intrusion, mold 'or other casualty' (such as damage resulting from pipes, drains, and conduits located within the Common Area) from the Mutual directly to the member.

If water intrusion into a manor from a Common Area pipe occurs, Third Mutual is responsible for the full plumbing repair, the dry down, the testing for asbestos, the removal of any mold that occurs as a result of the intrusion, and repair of the walls that are opened to repair the plumbing. Owners continue, as they always have, to be responsible for repairs of other interior items that may be necessary.

Question: Someone did their own survey and determined from the results that over 90% of those surveyed have either voted NO or would've voted NO if they knew what they know now from what some of the members have cautioned us about. With such an unpopular proposition, why not give it up?

Answer: Contrary to your assertion, this Ballot Proposition is not unpopular once people understand the truth of the matters that have been raised. The Third Board has engaged many Owners one-on-one — and most have agreed that this is the proper course for all of us to bring efficiencies and better controls for cost of critical items, such as insurance coverage. The Board greatly respects the opinions of its members — but when some members provide distortions and misinformation to convince their neighbors to vote NO because of either their misunderstanding or intentional effort to dissuade, it's important that the Board provide clarity to all the dissenting opinions.

The survey tool used in the example cited is curiously formulated and was solicited via email with no counterpoints provided to the members who responded. In any discussion of issues related to the restatement of our governing documents, it requires engagement and responses to challenges and questions. That is why we held

over a month’s worth of Town Halls, provided access for members to respond (as did one gentleman on the October 22 Town Hall), replied to questions from voicemail messages, scores of emails, and direct phone calls. By and large, those who had real questions and concerns — along with open minds and not a pre-determined closed mind, at the end of discussions, tended to support the Ballot Proposition. When the facts are known and discussed, and questions are answered truthfully, people understand the importance of supporting this initiative.

Question: What were the results of the election for the Ballot Proposition on November 3?

Answer: The votes were not tallied on November 3, due to the extension, which was agreed to by a motion from a member was made to extend the period due to slow and non-delivery of ballots. Because of the extension until December 3, 2020, there are presently no voting results, as those ballots that were received are still unopened.

Question: Now that there’s been an extension, I’d like to revote. How do I do that?

Answer: It is not legal to change your vote. So however it was originally cast will remain the way it is recorded when the ballots are opened and tabulated on December 4th, unless that date is extended.

Question: Under what authority was the vote extended? Is it legal to push the deadline out?

Answer: Yes, it is legal — and it was necessary. The original Ballot specifically cited that, “the Board reserves the right, in its discretion, to postpone the deadline for and/or tabulation of this secret ballot and extend the voting period to allow the Members/Owners more time to vote, regardless of whether a quorum has been obtained or whether 67% or more of the secret ballots are received.”

Question: Any changes that need to be made to our existing CC&Rs can be done so with amendments, just like all the other boards have done for decades. There’s no reason to upset everyone and restate the CC&Rs. Those are our original founding documents and should be respected as such. Why is this being done so pervasively?

Answer: Our original Governing Documents, are, indeed, to be respected. And part of that respect is understanding that they have served us well for many, many decades. So many California Civil Codes have come into existence since the inception of our founding documents that they have been heavily amended and stressed to their legal limits. It has become onerous to make changes in this manner and for them to comport fully, easily, and unambiguously with corporate statutes and the Davis-Stirling Act. The Board decided, once the issue of 100% insurance reared its ugly head, the time was ripe to tackle a complete and comprehensive update, in order to bring efficiencies, protections, and cost controls to the community.

Question: Is it true that not one homeowner has had proactive input into the development of the new restated CC&Rs and Bylaws?

Answer: No, that is absolutely not true. Aside from the fact that the Board itself is comprised of homeowners and residents, a number of community leaders and influencers were involved in providing their opinions and insights — including, curiously, some of the same people who are now opposing the adoption of the CC&Rs. Additionally, homeowners who are professionals in HOA law and real estate, have reviewed the documents and made extensive notes, which were incorporated before they were finalized by the Board. So it is absolutely a fiction that homeowners haven't been involved in the development of the restated CC&Rs and Bylaws. In fact, homeowners — the Third Mutual Board — are the ones who initiated the effort to restate the Governing Documents for the reasons expressed many times over: cost control, efficiencies, clarity, and the protection of our community and its unrivaled high standards.

Question: With all the changes in the Governing Documents, why hasn't there been public hearings in the open and full engagement with the community so everyone knows what's going on?

Answer: Due to the pandemic, we have televised all of our Town Halls on TV6, made them available by live stream on Granicus, repeated on air at later times, and archived on our community and media YouTube channels. During these Town Halls and a Special Forum, we have fielded question after question from members through phone calls, text messages, emails, and via GoToMeeting software. We have engaged the community since September — and continue to do so. We have provided flyers for people to read, made informational videos and FAQs downloadable for people to review. We have updated our FAQs to reflect the questions that have been put forth by

our members and provided salient answers to address each question, while also calling homeowners and emailing them personal one-on-one responses. The community knows what’s happening, despite our shutter-in-place status. All things considered, we have used all forms of media to reach out, inform, and engage all our members.

Question: Does the Board want members to vote on these documents before the CC&Rs Maintenance Chart (Exhibit E) is corrected, and a new draft of the documents with the corrected Exhibit is re-submitted for a vote?

Answer: Yes, it was a Scrivener’s Error; the two columns, Owner and Association, were conflated, and the Board is seeking the vote on the documents in light of the urgent nature of the insurance valuation issues, and because the corrected/final Matrix was posted, the Board confirmed the final would be attached as posted. Please do not listen to people who claim we will not do that; of course, we will. You can review the Matrix at tny.sh/thematrix.

Question: Where can I review the new restated CC&Rs and Bylaws?

Answer: You can review them online. Right now. Go to tny.sh/ccrs. It’s not a case-sensitive url. That will take you directly to the pdf of the new proposed CC&Rs; the Bylaws are at tny.sh/bylaws. And the final, corrected Matrix can be found at tny.sh/thematrix. It is Third Mutual’s goal to have every Third Mutual Manor Owner truly understand what has happened in the past, what is happening now, and what we can project for the future. The new CC&Rs and Bylaws are posted and available for viewing at the Laguna Woods website as well. Follow the link from our Third Mutual webpage that addresses the Ballot Proposition. They are also available at the Third Laguna Hills Mutual documents page.

Question: The Matrix (Exhibit E) of the CC&Rs says the Owner is responsible for the water pipes in the walls; why is this being changed from past practice? In fact, I see several items that used to be the responsibility of the Mutual are now the Owner’s responsibility.

Answer: The original water pipes in the wall are the responsibility of The Mutual. The Matrix attached to the CC&Rs is incorrect. In fact, there are a number of incorrectly checked boxes in the Matrix. The errors are legally referred to as Scrivener’s Errors, and we have corrected them in a separate Matrix document (Exhibit E), which can be reviewed at tny.sh/thematrix. Once the proposition is approved, we can legally attach the revised Matrix. The corrected Matrix now reflects what Owners are currently responsible for and that for which the Mutual is responsible.

ABSOLUTELY NO NEW OR ADDITIONAL MAINTENANCE RESPONSIBILITY WILL BE SHIFTED TO OWNERS.

Question: In Exhibit E Maintenance Schedule, please define “ORIGINAL” and “REPLACEMENT.” For example, when a component of a previous deficiency was replaced by the Corporation, does that item now become a “REPLACEMENT” and, as such, now become the responsibility of the Owner for future repairs?

Answer: Replacement refers to when an Owner modifies an existing component, not when Third Mutual has to replace a deficient component. When an Owner modifies an existing component that Third Mutual might otherwise maintain, this is when the responsibility may be shifted. Please review the updated and final Exhibit E at tny.sh/thematrix.

Question: If we pass the new CC&Rs, will the \$20 per manor/per month increase in assessments be rescinded?

Answer: While the answer is probably no, it may allow us to reduce the current level of property insurance from \$700 million to a lower level that still protects our interests, which could result in some savings for Third Mutual this year.

We have been working on solutions to minimize the cost impact for all of us. That’s why the passage of the Ballot Proposition is so critical. If we don’t do this, the cost of insurance coverage will overwhelm our budgets and pocketbooks — this is both personal and pervasive to the Mutual.

Question: What will happen if we don’t pass the Ballot Proposition?

Answer: You will certainly see rising assessments. Just in the next couple of years, if we don’t get this flexibility, you could see increases in assessments approaching \$100 per manor per month — and beyond, just to cover property insurance as required by the current CC&Rs.

Question: Why did the Board wait to inform us?

Answer: The Third Mutual Board believes that it is our fiduciary responsibility to find solutions, not just point to problems. Our recent valuation in the Summer exposed many of the deficiencies in our existing governing documents. We immersed ourselves in studying the issues that are affecting Third Mutual most, then sought advice and counsel from trusted professionals from a wide range of industries and perspectives. We identified that our current outmoded CC&Rs and Bylaws are at the core of many of our issues and explored options for

solving the problem. The Ballot Proposition restating the new CC&Rs and Bylaws was a solution to address many issues.

Insurance is just the big iceberg in front of us at the moment.

If we had come to you any sooner, we would not have had succinct answers to your many questions. As it is now, we are proposing a consolidated and statutory-adherent set of CC&Rs and Bylaws — you will have had a month to read and review the restated documents. Ask us questions; engage us. You will see that this is the best way forward, even if it seems fast. It's a vital change for the better.

Question: The CC&Rs currently require a hundred percent property replacement insurance coverage. Is it possible to change the CC&Rs to reduce that hundred percent amount back to a more realistic amount? Maybe more like about 20% of the replacement package, which would be 20% of 1.6 billion dollars.

Answer: This would likely result in significant problems with lenders if an express coverage of only 20%, or a similar amount, were expressly included in the new CC&Rs. This is based on the guidance of the insurance experts assisting Third Mutual. Additionally, this does not even speak to the fact that if a low coverage requirement is in place, this will result in far less actual insurance coverage over the community, which could result in major shortfalls or economic concerns in the event of a major catastrophe.

Question: Some residents have expressed concern that the whole set of CC&Rs and Bylaws are being changed unnecessarily. What is the rationale for restating all the CC&Rs and Bylaws, instead of simply fixing the insurance problem?

Answer: Cost-efficiency and effectiveness now, and in the future is always a major consideration for the Board in evaluating our actions. The Ballot Proposition facilitates these goals, as well as gives us a solution to our insurance problem.

Given the urgency of the insurance situation and the need to restate the CC&Rs in order to address the insurance problem, once the Third Mutual Board decided to proceed with the Ballot Proposition as a solution, it made sense to restate the entirety of the CC&Rs and Bylaws in one voting process.

The cost of piecemealing the restatement of the CC&Rs and Bylaws would be higher and incur higher costs to Third Mutual. A secret ballot voting process itself costs money, so making all the changes to the CC&Rs and Bylaws all at once makes sense.

Question: Do the proposed CC&Rs and Bylaws allow Third Mutual Board more power over Owners by reducing the number of votes necessary to change the CC&Rs?

Answer: The current CC&Rs require a 66.67% YES vote to restate the CC&Rs. The new CC&Rs update the required percentage of votes to amend the CC&Rs to 50% plus one vote of all eligible Manor Owners, so the CC&Rs can become more of a living, evolving document that reflect how we live and will allow future boards decision-making opportunities, as opposed to restricting their ability to make rational decisions, like choosing the level of insurance that makes sense for us without diminishing our services, excessively increasing our assessment levels or depleting our operational reserves.

Question: We have had CC&Rs for every tract for years. Why is this now a problem?

Answer: Consolidating the CC&Rs and Bylaws for all 59 Mutuals will save Third Mutual significant costs, administrative burden, and legal review time going forward.

Since the CC&Rs and their related documents, policies and regulations are old, they are not fully in alignment with current law and practices, e.g., new statutes governing rental restrictions. The current CC&Rs and Bylaws are outdated and require major statutory and operational changes to best protect Third Mutual and its members economically and legally. The proposed CC&Rs and Bylaws do this.

The maintenance and adherence to 59 sets of CC&Rs and their related documents, policies, and regulations are applicable to only small segments of the community, based on what tract you live in — this is neither efficient, nor cost-effective.

Question: Will I need to take out more personal insurance to make up for the gap from the HOA?

Answer: There's not a gap. We're basing the new coverage on studies for how much damage is likely, based upon historic data and fire risk assessments. You are always free to add coverage, of course, for the interior of your unit, for loss assessment and earthquake insurances as well. And that's a personal decision. We cannot advise you to do this or not. We do, however, suggest you speak with your personal insurance professional to discuss purchasing an HO-6 policy with riders for earthquake and special assessments.

Question: Where are the redline markups for the changes to our current CC&Rs?

Answer: There are no redline changes. The reason there are no redline changes is that the CC&Rs are a totally new document based on current laws, the Davis-Stirling Act, and common current HOA practice. If you would like to compare the current CC&Rs with the new CC&Rs,

you can go to the Documents section of the Third Laguna Hills Mutual web page. You will see the existing CC&Rs and the proposed restated CC&Rs and Bylaws listed as pdf files, which you can also download.

Question: What percent of the language in the new CC&Rs is “statutory?” What percent is “optional?”

Answer: This question cannot be answered as it would be speculative. However, a large portion of the Bylaws is statutory (likely a majority), and a smaller but still significant portion of the CC&Rs is based on statute.

Question: Will the Anti-Discrimination Policy — Harassment & Nuisance Policy: Conditions/Odors (Secondhand Smoke) still be included in the new CC&Rs?

Answer: Yes, language regarding odors, nuisances, harassment, etc. is still included, per California Civil Code, Sections 3484/3479. Also, the anti-discrimination policy of Third Mutual remains the same.

Question: Before we vote, will the Board revise the proposed CC&Rs and Bylaws to differentiate between statutory language (which law requires and which may not be altered or deleted) and optional language, which is what we really need to scrutinize to ensure it meets our needs?

Answer: The CC&Rs cannot be annotated to differentiate provisions that are statutory versus not statutory. Also, using the word “optional” is not accurate, as just because something is not statutory, does not mean it is truly “optional” — or overreaching if that is the implication. Many important necessary provisions, which are not statutory, are included in the proposed CC&Rs. Statutory versus non-statutory language is intertwined through the documents, so they cannot be annotated or marked differently. This is customary and standard for associations restating their documents.

Question: If this proposition passes, will my HOA fees be increased?

Answer: Costs will rise for water, electricity, and allocations for VMS employees — however, with approval of the new CC&Rs, the Board will be in a better position to manage the control of costs to try to minimize increases in assessments, while balancing our services, needs and operational reserves.

Question: Where are the new insurance requirements as restated in the modernized CC&Rs?

Answer: The CC&Rs, under Article IX states: “The Corporation shall, only to the extent commercially and/or reasonably available and affordable, obtain and maintain a policy or policies of fire and casualty insurance with extended coverage, special form, without deduction for depreciation, for the full replacement value of insurable Improvements in the Common Area and property owned by the Corporation. The Corporation may, but is not required, to purchase earthquake insurance and other types of casualty insurance, in the Board’s discretion, as described in this Declaration.”

Question: What’s this mess I hear about? Something about lots of old documents that need to be updated so we can afford insurance. Please explain.

Answer: The mess we speak about is both real and metaphoric: the mess of the insurance situation, combined with the mess of thousands of pages of policies and rules, many of which, like the insurance mandated in our existing CC&Rs, are no longer possible. Things change, and it’s not always pleasant. But we can make a positive change that will affect us immediately and in the future. We want to clean up the mess of our insurance debacle, the rising costs associated with insurance coverage, as well as bring efficiencies to our management, which will all go to assist us in better controlling costs for both premiums and services.

Question: I’ve lived in the Village for a long time. I don’t believe there’s ever been an election that received 4000 votes. How likely is this Ballot Proposition to pass?

Answer: We certainly understand how difficult it is to get approximately 4,000 YES votes, and that is why previous Boards have “kicked the can down the road,” so to speak. As we have indicated before, your current Third Mutual Board would have likely continued to “kick the can” were it not for the call to action related to cost of insurance. The shock is big enough that the members of the Board believe it is our fiduciary responsibility to try to affect changes through the passage of the Ballot Proposition.

Question: Will the new CC&Rs help with reimbursing Owners who are victims of a Manor fire — for instance, living expenses during reconstruction?

Answer: Each Owner must maintain the insurance coverage and policies required of Owners. There is no guarantee that any insurance policy maintained by the Corporation will cover any damage to a manor. This is an HOA standard, as each Owner is responsible for repairing and

restoring any damage to the Owner's unit, whether the damage is caused by fire, water intrusion, or other casualty.

As for the living expenses question, the answer is no, inasmuch as the California Legislature has determined, by statute, that each Owner is responsible for their relocation expenses.

Question: I have heard that there are new rental restrictions in the proposed CC&Rs. Is there actually a 30% cap on leasing? If yes, can current rentals be grandfathered in?

Answer: Yes, there is a 30% cap on leasing. The 30% leasing cap was first implemented in December 2008. If you are currently leasing your manor you will be allowed to continue to lease. If at some point in time we reach the 30% cap and you have been leasing your manor, you will continue to have the option to lease your manor should it become vacant. You will have 90 days in which to identify a new tenant and submit a lease for approval. If you decide that your manor needs to be upgraded, you will be given an additional 90 days (total 180 days) to renovate and lease your manor to maintain your option. If for some reason you do not lease your manor within the stated timeframe, you will be placed on the waitlist and the first person on the waitlist will be afforded the opportunity to lease. All manor Owners are encouraged to obtain a copy of the waitlist procedures and the leasing cap information from VMS.

Question: What happens if 66.67% of all Manor Owners in Third Mutual do not vote YES to the Ballot Proposition?

Answer: Then, the new CC&Rs and Bylaws will not be put into effect, and nothing changes whatsoever. We will still be bound to seek the costly and impossible to attain 100% property replacement insurance coverage.

Question: Is this Ballot Proposition and voting process compliant with current laws, the Davis-Stirling Act, and current industry practices?

Answer: Yes, the Ballot Proposition and process are compliant with the Davis-Stirling Act and current industry practices. Actually, the proposed CC&Rs and Bylaws have been constructed to align with current laws, the Davis-Stirling Act and current industry practices, whereas the current CC&Rs were not.

Question: The CC&Rs and Bylaws were not attached to the ballot that was mailed to us. Is this legal?

Answer: Yes, the Board identified in the ballot cover letter the url to obtain access to the electronic documents, and each Owner was advised to contact management for a paper copy of the CC&Rs and the ByLaws (if you preferred a paper copy of the documents to review).

Question: Why was there no public input to the Ballot Proposition and process?

Answer: Based upon the urgency of the insurance situation and the pandemic, member input was addressed by us, your Third Mutual Board. We are all Owners ourselves. We reached out, using our Board meetings and sub-committee meetings, engaged Owners as individuals, groups, and organizations, sought counsel and advice from Owner-influencers, and have continued to field feedback through Town Hall meetings for over a month, listened and responded to our Ballot Proposition Hotline calls, emails, voicemails, and engaged communications with grassroots clubs and organization meetings. We have answered questions; we have listened — and acted. We have reached out during stay-at-home orders as pro-actively as possible. These are unusual times.

Question: If the vote fails (is less than 66.67% YES), will the Third Mutual Board take this to court to overturn the will of the people?

Answer: If the Ballot Proposition vote fails, we will assess all options. Going to court is only an option if a simple majority of 50% plus one vote YES. Also, the “will” of the members does not necessarily come into play if voter apathy (as opposed to an overwhelming “NO” vote) is the reason the Ballot Proposition does not pass. 66.67% of all eligible voters, as opposed to 66.67% of all voters who voted, is difficult to achieve. That is why the Civil Code allows for a court petition option when the CC&Rs contain a super-majority voting requirement of 66.67% to carry amendments, as our current CC&Rs do.

Question: Do the restated documents continue to allow The Board to grant variances, such as architectural variances? Do the documents protect aesthetic quality and prevent more ‘slum’ effect?

Answer: Yes, they do, and the architectural provisions of in the proposed CC&Rs are far more comprehensive in addressing desirable modifications to ensure the aesthetics of Third Mutual.

Question: Will the new CC&Rs guarantee members *due process*, like the ability to question witnesses, in hearings?

Answer: Due process is already protected under the law and the new CC&Rs adhere to the law. There is no express right to question witnesses in the law; the statute simply references the right for members to attend and address the Board at meetings.

Question: Will Bylaws, which control Board of Director’s qualifications, require Directors to take at least one course in a HOA-related subject?

Answer: No, in light of California SB323, this is a qualification that is not allowed to be imposed under the law.

Question: Do the proposed CC&Rs include a provision requiring management to have at least one year of HOA experience before being hired by Third Mutual or VMS?

Answer: Third Mutual does not have its own employees so it does not hire management staff. So, the answer as it relates to VMS is no, however the Board may make such a decision at its discretion to include such requirement in its management contract with VMS.

Question: Do the new CC&Rs require annual termite/wood rot inspections? These inspections are only being done at escrow, which sometimes is not for 30 or 40 years.

Answer: The CC&Rs clearly state it is the Mutual’s responsibility to inspect for and eradicate termites in the common area building structures, but this is not required annually.

Question: Do the new CC&Rs prohibit managers and other staff from taking kickbacks from vendors?

Answer: The new CC&Rs apply to Third Mutual, not to management or staff. Kickbacks are illegal, and this does not need to be expressly addressed in the governing documents. If in any document, it would be addressed in contracts with the staff/management/applicable parties.

Question: Do the new CC&Rs protect us from Boards selling off land or developers taking over land, common area buildings, or dwelling buildings? This happened with the San Sebastian Apartments.

Answer: Yes, there are limitations on Board authority related to the sale of real property of the community; these are contained in the documents and most notably in Article VIII of the Bylaws.

Question: What was the cost of restatement for the CC&Rs and Bylaws? Did the Board get alternate bids?

Answer: The cost of restatement was approximately \$50K and was largely based on a flat legal services fee. Additional costs may be incurred in dealing with providing communication to the members and to review questions, and supply answers during the course of the voting period. The Board did not secure alternate bids, as we have ongoing legal counsel.

Question: Do the restated CC&Rs remove term limits of the directors? Does it remove the power to discipline contractors? Does it remove protections from disciplinary decisions against members?

Answer: Term limits are no longer allowed in light of California SB323, a law made effective on 1/1/2020. In short, SB323 set forth a very select few qualifications to limit service on the Board by members. These qualifications did not expressly state associations could limit how many times members could serve on the Board; therefore, no term limits are permitted per SB323, and therefore the new Bylaws do not include term limits. There is power to discipline members consistent with what the Civil Code allows (reference: Section 5855). Third Mutual does not discipline third party contractors but can discipline members if their contractor violates the governing documents. Third Mutual has no privity of contract (CC&Rs) with the contractors. Further, the state statute provides that Owners are responsible for the conduct of themselves, their tenants/lessees/invitees, such as guests and contractors. Since the Owner is responsible for the same, the Board did not want to embrace a scheme where it would be obligated to sue a contractor for damages, incurring significant and unready legal fees, where the responsible Owner could seek compliance by its vendor, pursuant to the terms of its construction contract.

Question: Re: 6.6. Lease Waiting Period of the restated CC&Rs, please explain the lease waiting period provision. Will we be able to rent our unit before the new CC&Rs are recorded — and if so, at what leasing cap?

Answer: There will be **NO** lease waiting period in light of a new law (AB3182), which prohibits a lease waiting period from being enforced going forward. This component of the CC&Rs were drafted in response to Owner requests that we not become a commercial enterprise, but instead remain a community of Owner residents. It was drafted before the new law was passed therefore making any lease waiting period null and void. However, the 30% lease cap remains in effect.

Question: How do current the new CC&Rs work with Owners who have leases already in place?

Answer: Third Mutual already has leasing requirements in place in its policies. The restated CC&Rs simply reflect what is already a practice. In any event, all current Owners would be grandfathered in from the leasing cap, and there will be no lease waiting period in light of AB3182, as previously noted.

Question: I don't recall seeing the prohibition on leasing a unit for the first two years. Was that in the old bylaws — or is this something new?

Answer: It is not in the current governing documents. When considering new terms for the CC&Rs, the Board enacted this policy to control investors from flipping units. That is what's behind the spirit of the two-year waiting period. In the meantime, with the new California law, AB3182, effective 1/1/2021, this will no longer be permitted and will not be included or enforced if the new CC&Rs are approved.

Question: Will there be new insurance requirements between the Corporation and the Owners if the Ballot Proposition passes?

Answer: Going forward, Owners will be responsible for insuring the interiors of their units (likely via HO-6 policy) unless the Owner decides to self-insure and not buy insurance. This must be taken into account for landlords in evaluating their landlord insurance policies, which is separate from your tenant's/renter's insurance. Owners will have to consult with their own insurance brokers for further details.

Question: How much will our HOA dues increase if we vote in the new CC&Rs?

Answer: One of the primary goals of the Ballot Proposition is to allow for better control over our assessments and increases. If the Ballot Proposition passes, the Board will evaluate available property replacement insurance and determine what level is appropriate for Third Mutual taking into consideration our Owner, common and community needs and desires, our operations budgets, our operating reserves and the insurance industry offerings. We don't know what will be available to us yet, so we cannot project the future effects on assessments, but they will be significantly less than if we do not pass the Ballot Proposition.

Question: Will I be able to use my drill and power saw to do projects in my garage based on the restated CC&Rs?

Answer: This depends on the type of tool and the noise it creates. If it is a relatively common household power tool often used for minor in-home projects and the noise it produces is not unreasonable, it would not be prohibited.

Question: What company provided the new valuation for The Village? And why was it not done for 20 years?

Answer: The valuation firm the Board contracted was Duff & Phelps. We had to use one of a handful of companies that are recognized as acceptable to the insurance industry. Duff & Phelps was one of the viable firms. For the past 20 or so years, our carrier, Travelers Insurance, accepted our valuation based upon an annual raise based upon the consumer price index. With all the wildfires, drought, and escalating property value in our area, and the changing climate of the insurance industry, our current insurance carrier insisted on a formal valuation as a part of our insurance renewal process. This was performed this Summer.

Question: How specifically does the adoption of the changed CC&Rs change the new high valuation by the insurance companies?

Answer: The new CC&Rs will not change the valuation of Third Mutual. The new CC&Rs will relieve Third Mutual from the 100% property full replacement cost insurance coverage that is currently mandatory. This would allow Third Mutual to continue to pool insurance with the other Laguna Woods associations and thus protect Third Mutual and save significant costs and assessments for all Owners.

Question: Why were the requirements changed for passing financial transactions from 60% to 50%?

Answer: The restated CC&Rs reduce the quorum requirements from 66.67% of all eligible voters (approximately 4070 eligible voters) to 50% plus one (approximately 3052 eligible voters). That is still a significant number of voters, given the turnout voting records for Third Mutual. Plus, of the approximately 6102 manor Owners that qualify to vote in Third Mutual, approximately 1900 are non-resident Owners, who are generally less engaged in the voting process. The idea is to make it less prohibitive for the members to approve amendments to stay current with community needs and desires and current HOA governance.

Question: Regarding the thousands of pages of existing CC&Rs — are they are recorded at the County Recorder's Office?

Answer: There are 59 "Mutuals" in Third Mutual's geographic development, and each one has its own set of CC&Rs which are recorded in the County Recorder's Office. All of these CC&Rs are essentially identical, except for the legal descriptions indicating what tracts/properties

are situated within each Mutual. This current set up is cumbersome and an administrative burden on management and the Association — especially when having to deal with escrow and related issues. All of these CC&Rs for each Mutual are recorded with the County. This restatement would bring together all of the documents into one master document, as is customary and standard for community associations. Further, the new set of CC&Rs will also result in many of Third Mutual’s hundreds of rules/policies potentially not being needed going forward, as the new restated CC&Rs will address and simplify many things that are currently addressed in the rules/policies. So, the restated documents will mitigate the needs for as many governing documents for Third Mutual.