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TAKE TIME TO VOTE!

Choose up to five new members of the
Orange County REALTORS®
Board of Directors.

Candidate statements and voting instructions
appear on pages 18–21.



5 Things Every REALTOR® Needs to Know About Homeowners' Associations

Your clients shouldn't buy without knowing what they are getting into, or own without properly protecting what they have.

1. The Davis-Stirling Act is quite detailed.

California Civil Code Sections 4000–6150, which is also known as the Davis-Stirling Common Intertest Development Act, is the primary law governing homeowners' associations (HOAs). It contains lengthy chapters about the requirements of the association and its membership, including requirements that the HOA provide its membership with specific notices and disclosures, plus any rules, regulations, and enforcement policies in place.

The Act also requires the creation and maintenance



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of detailed financial and operational information, including proforma operating budgets, financial statements, insurance policies and notices, reserve studies and reserve disclosures, and board of directors meeting agendas and minutes. The law requires that HOAs maintain these records and make them accessible to the membership in a variety of ways.

2. Complete financials, especially the reserve study, are important.

Buying a home in a HOA without complete financial information is like a box of chocolates—you never know

what you're going to get! (apologies to Mr. Forrest Gump). Similar to purchasing a home without a qualified appraisal or complete market analysis, purchasing a home without a reserve study leaves a big "unknown" in the consideration-of-information spectrum.

Does the HOA have sufficient reserves to meet its short- and long-term obligations? Are members at risk of special assessments? If so, how much might these assessments be? And when would these monies be due? Could there be multiple special assessments? These are important questions and, without detailed financial information—especially a reserve study—no one knows the answers.

3. Insurance is mandatory for HOAs, and members should have individual coverage.

The scope and terms of HOA insurance will vary from one development to another because each property is unique. Ultimately, the HOA coverage will focus on the corporate (shared) exposures so there will naturally be some personal interests for which the individual homeowner remains responsible.

Homeowners should understand what is and isn't provided under the HOA's insurance and talk with their personal agent or broker about supplementing that coverage with an HOA-6 policy. Because community associations have unique insurance needs and requirements imposed by the Davis-Stirling Act, the association governing documents, and lending institutions, members or prospective purchasers should consider working with an agent or broker who specializes in HOA insurance to be sure they have the coverage they want and need.

4. Most information—and all the important stuff—is free to members.

The Davis-Stirling Act defines what constitutes notice to membership (Sections 4040 et al.) and what delivery methods are permitted (i.e., first-class U.S. mail, facsimile, electronic, etc.). The Act even makes provision for delivering this information and notices to a secondary address, thereby making it possible for those with second homes or income properties to stay abreast of their interests. Sections 5200–5260 detail the information available under "Association Records" as defined by the Act. There are thirteen of them!

The Act has requirements that owners of a separate interest provide information to prospective purchasers in their possession at no cost to the prospective purchaser (Section 4525). If there are fees associated with a records

request of an HOA, those fees must be disclosed, in writing, before the request is processed. The listing of financial information to be made available to membership and delivered annually is long and detailed (Section 5300). In addition, the Act requires the distribution of a reserve study summary, assessment and reserve funding disclosure summary, and the funding plan adopted by the board of directors for each fiscal year (Sections 5550–5570). This information is to be included in the annual financial reporting, provided at no charge to the membership.

5. Community associations are preferred places to call home.

According to a 2018 Zogby Analytics study for the Foundation for Community Association Research, 85 percent of residents rate their overall community association experience as positive (63 percent) or neutral (22 percent). Ninety percent say their association's rules protect and enhance property values (62 percent) or have a neutral effect (28 percent); only 4 percent say the rules harm property values. Eighty-four percent say members of their elected governing board "absolutely" or "for the most part" serve the best interest of their communities. And a full 73 percent say their community managers provide value and support to residents. Statistically, properties within community associations retain their value, or increase in value, at a rate superior to similar properties not located within common interest developments. So, you can see why members are so happy!

To learn more about community association living, visit the Community Associations Institute Orange County Regional Chapter website at www.caio.org/.

Scott Clements is chief executive officer of Reserve Studies Inc. He serves on the Education Committee for Community Associations Institute Orange County Regional Chapter. A popular author and speaker about common interest developments, Scott was recognized as 2010 Educator of the Year.

UPCOMING CLASS: WHAT EVERY REALTOR® NEEDS TO KNOW BEFORE SELLING IN AN HOA

Selling property in a Homeowners' Association? Learn from some of the most experienced experts in Common Interest Development Law, Finance, and Operations. Cost: FREE for Members; \$25 for Nonmembers.

June 25 in Fountain Valley: 9:00 A.M. – 11:30 A.M. ■ September 10 in Laguna Hills: 9:00 A.M. – 11:30 A.M.
December 3 in Fountain Valley: 9:00 A.M. – 11:30 A.M.

www.ocar.org/hoa