

Village Palos Verdes Homeowners Association

December 22, 2008

Dear VPV Homeowner:

Unfortunately, due to the current litigation, communications to homeowners will not be as readily available as previously provided. We understand and appreciate that you have a multitude of questions and concerns. Please be assured that the VPV Board of Directors (Board) is working in conjunction with Horizon Management, our Construction Consultants and Contractors and Legal Counsel to resolve the issues at hand. Your patience while we address these issues is appreciated. We will continue to communicate what is available in as timely a manner as possible.

Exterior Renovation Project Financing

As you have been previously advised, a group of our neighbors filed a lawsuit claiming various issues with regard to the administration of the planning and approval process for the Exterior Renovation Project. When this occurred, the bank which we had engaged due to its most competitive HOA loan retracted the financing application back into the underwriting process until the suit is resolved. Without this line of credit, which provides funding for those unable to secure their own individual financing for the full value of the assessment, the original construction project schedule is in jeopardy. We are working with an alternate lender to secure the required project financing. We are hopeful that the current aggressive interest rate market will allow us to secure a program similar in cost to what had previously been arranged. More information will be communicated in this regard as it is made available.

Homeowner Individual Financing Options – Hardship Case Non-Foreclosure Agreement

As the project was developed, there was a major concern regarding levying the assessment in one lump sum and the ability for all 180 units to individually finance or pay this amount. To assist with this issue, and in response to the request of homeowners, the project planning team worked in conjunction with Legal Counsel to structure the assessment with more flexibility and provide payment options. For those with the inability to meet the assessment by either of the established means, the Association has been open to individual homeowners submitting proposals for individual payment plans. The Board operates under both the Association's specific guidelines and applicable governing Civil Code. Our CC&R's stipulate a delinquency policy which assures that all parties are treated equitably and that the Association is best protected from loss due to bad debt. California Civil Code §1367.1 stipulates that an owner can request a hearing with the Board to propose a payment plan for consideration, and the Board intends to objectively hear assessment payment proposals as submitted by individual owners. Within the last eighteen months, such an instance occurred for the re-payment of monthly dues and the Board offered to work with the homeowner for repayment rather than to enlist the lien process. No homeowner has yet approached the Board in regard to inability to pay the renovation assessment.

Most of our owners have the direct ability to finance the assessment through various means, including mortgage refinancing or a home equity line of credit, as well as many who qualify for reverse mortgage plans. Some have already been paying interest on home equity lines of credit for months in preparation for the assessment. For those few individuals who are currently in a personal financial situation where these options are not available, the Board has elected to make the provision for a non-foreclosure agreement for true hardship cases. Those individuals who meet the criteria, i.e. who cannot qualify for any loan and do not have the ability to pay the financing [\$600/month] that has been arranged by the Association, may be eligible for a non-foreclosure agreement with the HOA. This agreement would cover the period of two years [twenty-four months], in which time the owner would be required to make adjusted monthly payments that they can afford. The payment of the balance of the assessment, plus associated costs, would come due after two years [twenty-four months]. The owner would potentially then have the

ability to refinance due to the anticipated significant increase in property values at the conclusion of construction, or to finance the assessment through the sale or refinancing of their unit. If you believe that you currently qualify as a true financial hardship case, please contact Roy Nelson at Horizon Management to make an appointment to submit the required financial documents for review by a loan officer to begin this non-foreclosure agreement process.

Please be advised that unfortunately due to the litigation, some lenders have difficulty processing financing applications through their underwriting process. This complication also impacts the ability to currently sell units as this can be an issue through both the financing and escrow processes. We are hopeful that this litigation can be resolved quickly so that homeowners can more easily take advantage of lower mortgage rates currently being offered and clearing issues for those who need to transfer their property.

Assessment No-Penalty Payment Period Extended

Due to interruption in the loan financing caused by the lawsuit, and assuming that alternative funding will be obtained and the project goes forward, the due date for the unpaid balance of the assessment has been extended to March 1, 2009, for those homeowners intending to pay the assessment in full. As with the January payments of \$600, the February monthly payment of \$600 will also be applied directly to the balance on the assessment. For those homeowners intending to finance the assessment through the Association, the \$600 monthly payments will commence March 1, 2009 (instead of February 1, 2009 as last communicated). We will provide additional notification on this in February's billing statement for March invoicing.

HOA Insurance Carrier Providing Defense Legal Counsel

Travelers Insurance, the provider of the Association's Directors and Officers Insurance for our Association, has assigned Edward Vaisbort of Litchfield Cavo to defend the Association in the current litigation which was brought by a group of homeowners to stop or delay the start of the Exterior Renovation Project. Laura Snoke, VPV Corporate Counsel will also continue to actively support the Board in this matter. To preserve attorney-client privilege and protect work product, and based on the advise of counsel, the Board has formed an Executive Legal Committee to handle the litigation. The members of the Executive Legal Committee are Carma Hardin, Joe Grasso, Margie Hersh and Sandra Felando.

Property Management Change

Due to medical concerns, Joanne Pena is no longer overseeing our account for Horizon Management. The Board is currently working with the owners of Horizon Management to create an interim management plan until a longer-term solution is developed, evaluated and implemented. Your patience and understanding during this time of transition is appreciated.

Construction Permits Issued

The construction permits have been issued by the City.

Sub-Contractor Bids Awarded

The competitive bids for sub-contractor work have been received, reviewed, validated and awarded. We are pleased to report that the sum of the bids is within the target budget allowance. The specific scopes of work were defined sufficiently to allow the majority of the sub-contractor bids to be awarded using lump-sum contracting strategy rather than a time and material basis. This will be an important aspect of controlling the budgeted costs and ensuring that our contingency allowance is adequate to sustain the duration of the work.

High-Voltage Power Lines Relocated from Within Phase 1

High-voltage power lines supporting the Edison power conduit to VPV were relocated off VPV property last week. These lines have resided in Phase 1 and suffered from the neglect of regular maintenance, becoming a significant danger for VPV. Our Construction Consultants were successful in working with Edison to have the lines relocated to an off-property easement, at Edison's expense.

Phase 1 Landscaping Preparation for Construction

Please be advised that the landscaping in Phase 1 is being cut back in preparation for construction.

Zero-Tolerance for Actions Deemed Harassment

We understand that emotions run high when it comes to people's investments and homes. The Exterior Renovation Project was conceived to improve the value of the individual units and the structural integrity of the property. Please understand that the board and committee members and management have worked tireless hours on this project for the greater good and for no personal reward. However, a tiny minority of owners have crossed the line in communications to board members and management. The VPV Board, in conjunction with the Association's employees and Contractors, has adopted a zero-tolerance policy for harassment or abusive behavior. Phone calls and other direct verbal communication as well as e-mail or other written messages, which are considered harassment, slanderous, libelous, threatening and/or abusive have been and will continue to be reported to the police.

Please be assured that you will be provided with more information as it is developed.

Sincerely,
The Board of Directors
Village Palos Verdes Homeowners Association