



SAVE OUR MH COMMUNITIES

Clear information. Better questions. Stronger communities.

Document Review Guide

What to Look for Before Supporting a Community Purchase or Conversion

A proposal may sound attractive on the surface. The governing documents of the transaction provide the details below the surface. They determine how the community will operate, who will control it and what residents will be required to pay.

BEFORE VOTING, SIGNING AN AGREEMENT OR COMMITTING MONEY

- ✓ Residents should receive enough time to review the governing documents.
- ✓ Rules, procedures and vote thresholds must be clearly recorded in writing.
- ✓ Residents should receive the financing terms, reserve plan and management agreement.
- ✓ Important terms should be explained in plain language.
- ✓ Residents should be able to obtain independent legal and financial advice.

THIS GUIDE HIGHLIGHTS SIX AREAS RESIDENTS SHOULD REVIEW

1 Bylaws & Governance	2 Financing Terms	3 Reserve Plans
4 Management Agreements	5 Operating Budget	6 Resident Questions

1

Bylaws and Governing Documents

The bylaws establish how the resident organization will operate. They determine who has voting power, how leaders are chosen and what authority the board may exercise.

Membership and voting

Look for clear answers to these questions:

- Who is eligible to become a member?
- Is membership automatic or must residents apply?
- Does each household receive one vote?
- Can voting rights be suspended?
- Can nonresident owners vote?
- Are renters treated differently from homeowners?
- What percentage of members must participate for a vote to be valid?
- What vote is required to approve major decisions?

WHY IT MATTERS

Be cautious if important decisions can be made by a small number of members or by the board without meaningful resident approval.

Board authority

Determine what the board may do without a membership vote. Review whether the board can:

- Increase rents, dues or assessments
- Borrow money
- Pledge community property as collateral
- Enter long-term contracts
- Hire or remove the management company
- Change community rules
- Approve major capital projects
- Sell or refinance the property

WHY IT MATTERS

The documents should provide reasonable oversight without making it impossible to manage the community.

Elections and accountability

Check:

- How often elections are held
- How candidates are nominated

- Whether voting is confidential
- Whether absentee or electronic voting is allowed
- How board members may be removed
- Whether conflicts of interest must be disclosed
- Whether residents may inspect financial records
- Whether meetings must be open to members
- How meeting notices and minutes are distributed

Enforcement and disputes

Review the process for rule violations, unpaid charges and disputes. Residents should understand:

- What conduct may result in fines
- Whether residents receive written notice
- Whether there is a right to a hearing
- How appeals are handled
- When legal fees may be charged to a resident
- Whether mediation or arbitration is required

2 Financing Terms

The financing package may have a greater effect on monthly costs than the purchase price itself.

Do not rely only on the proposed starting rent. Review the full debt structure and how payments could change over time.

Loan amount and term

Identify:

- Total amount borrowed
- Interest rate
- Whether the rate is fixed or adjustable
- Length of the loan
- Amortization period
- Monthly debt payment
- Required down payment or resident contribution
- Closing costs and financing fees

WHY IT MATTERS

A loan may have a 10-year term but be calculated using a 30-year amortization schedule. That can create a large balance that must be refinanced when the loan matures.

Balloon payments and refinancing risk

Ask whether the loan includes a balloon payment. If it does, determine:

- When the balloon payment is due
- How much will remain unpaid
- Whether refinancing is guaranteed
- What happens if interest rates rise
- What happens if the community cannot qualify for a new loan
- Whether residents could face a large assessment

WHY IT MATTERS

A plan that depends on future refinancing should clearly explain the risks.

Adjustable rates and payment increases

For an adjustable-rate loan, review:

- When the rate can change
- How the new rate is calculated
- The maximum increase each year
- The maximum rate over the life of the loan
- The effect of a higher rate on monthly resident charges

WHY IT MATTERS

Residents should see payment projections under more than one interest-rate scenario.

Guarantees and collateral

Determine:

- What property secures the loan
- Whether residents are personally liable
- Whether board members must sign guarantees
- Whether membership shares or deposits are at risk
- What rights the lender has after a default
- Whether the lender may control budgets, reserves or management decisions

Fees and prepayment penalties

Look for:

- Loan origination fees
- Broker fees
- Legal and appraisal costs
- Prepayment penalties
- Late-payment charges

- Default interest
- Extension fees
- Refinancing fees

WHY IT MATTERS

These costs should be included in the financial projections.

3 Reserve Plans

A reserve fund helps pay for major repairs and replacements. Without adequate reserves, residents may face sudden rent increases or special assessments.

Condition of major systems

The reserve plan should evaluate:

- Roads
- Water and sewer systems
- Stormwater systems
- Electrical infrastructure
- Clubhouses and community buildings
- Pools and recreational facilities
- Trees and landscaping
- Streetlights
- Drainage
- Fire protection systems
- Community-owned homes or rental units

WHY IT MATTERS

The plan should identify the expected remaining life of each major asset and the estimated cost to repair or replace it.

Funding level

Ask:

- How much is currently in reserve?
- How much should be in reserve?
- How much will be contributed each year?
- Are reserve contributions included in the monthly budget?
- Will contributions increase over time?
- Does the plan account for inflation?
- Is the reserve study independent and current?

WHY IT MATTERS

A reserve fund should not be treated as extra money available for routine operating expenses.

Deferred maintenance

Review whether repairs have been postponed. Deferred maintenance can make the purchase price appear more affordable while shifting major costs to residents after closing. Ask for:

- Recent inspection reports
- Maintenance records
- Code violation notices
- Insurance inspection reports
- Estimates for known repairs
- A list of projects delayed because of cost

Special assessments

The documents should explain:

- When a special assessment may be imposed
- Who must approve it
- Whether there is a limit
- Whether residents may pay over time
- What happens if a resident cannot pay

4 Management Agreements

Resident ownership does not always mean residents manage the community directly. Many communities hire a professional management company.

The management agreement should clearly define the manager's duties, authority and compensation.

Scope of services

Determine whether management is responsible for:

- Collecting rent and fees
- Preparing budgets
- Paying bills
- Maintaining financial records
- Enforcing community rules
- Supervising maintenance
- Hiring contractors
- Handling resident complaints
- Managing insurance claims
- Preparing meeting materials

- Assisting with regulatory compliance

WHY IT MATTERS

Services not included in the base fee may result in additional charges.

Compensation and extra fees

Review:

- Monthly management fee
- Annual increases
- Leasing or sales commissions
- Maintenance markups
- Construction management fees
- Administrative charges
- Legal coordination fees
- Technology or software fees
- Reimbursement of travel and expenses

WHY IT MATTERS

Ask whether the manager receives compensation from contractors, insurance companies, lenders or other vendors.

Contract length and termination

Check:

- Length of the agreement
- Automatic renewal provisions
- Required notice to terminate
- Termination penalties
- Whether termination is allowed without cause
- What records must be transferred when the agreement ends
- Whether the manager may continue collecting fees after termination

WHY IT MATTERS

A long-term agreement can limit the community's ability to replace an underperforming manager.

Conflicts of interest

Determine whether the management company is affiliated with:

- The seller
- The lender

- The organization arranging the purchase
- Contractors
- Insurance brokers
- Attorneys or accountants
- Companies selling homes in the community

WHY IT MATTERS

Affiliations should be disclosed in writing. Residents may want to get outside financial and legal counsel to ensure their best interests are represented in the transaction.

5 Financial Projections and Operating Budget

Residents should receive a realistic operating budget covering several years, not merely the first year after closing.

What the projections should show

The projections should show:

- Starting monthly charges
- Expected annual increases
- Debt payments
- Management fees
- Insurance
- Property taxes
- Utilities
- Maintenance
- Payroll
- Professional services
- Reserve contributions
- Administrative costs
- Expected vacancies and unpaid accounts

WHY IT MATTERS

Ask for projections showing what happens if expenses are higher than expected, vacancies increase or major repairs occur sooner than planned.

6 Questions Residents Should Ask

Before making a decision, residents should be able to answer:

- Who will legally own the land?
- What ownership interest will each resident receive?
- Can that interest be sold or transferred?

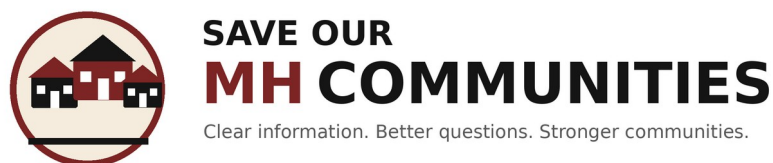
- What happens when a resident moves?
- Will residents receive any equity appreciation?
- How are monthly charges calculated?
- Who may raise them?
- What debts will the community assume?
- Are there balloon payments?
- Are reserves adequately funded?
- What major repairs are expected?
- Who controls the board?
- Who controls the management company?
- What happens if the community cannot meet its financial obligations?
- What financial information will residents receive each year?
- What rights do residents have to inspect records?
- What happens if the resident organization fails?

DOCUMENT CHECKLIST

Documents Residents Should Request

Residents should request copies of the following documents before being asked to vote or make a financial commitment.

☐ Articles of incorporation	☐ Current rent roll
☐ Bylaws	☐ Insurance policies or quotations
☐ Membership agreement	☐ Management agreement
☐ Community rules	☐ Vendor contracts
☐ Purchase and sale agreement	☐ Environmental reports
☐ Property appraisal	☐ Title report
☐ Property inspection reports	☐ Recent financial statements
☐ Loan commitment and loan documents	☐ Tax records
☐ Five-year operating budget	☐ List of pending litigation or code violations
☐ Reserve study	☐ Conflict-of-interest disclosures



Take Time to Review the Details

A community purchase or conversion can create significant long-term obligations. Residents should not be pressured to make a decision before they understand the documents, costs and risks.

Promises made during meetings or presentations should appear in the written agreements. If a protection, guarantee or limitation is not included in the documents, residents should not assume it will apply.

GENERAL INFORMATION

This guide provides general educational information. It is not legal, tax or financial advice. Residents should consider having the documents reviewed by independent professionals who do not represent the seller, lender, management company or organization promoting the transaction.

ASK QUESTIONS. REVIEW THE DOCUMENTS. GET INDEPENDENT ADVICE.

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