

BY-LAWS OF
LOS SERRANOS RANCH COMMUNITY ASSOCIATION

ARTICLE 1

NAME AND LOCATION

1.1 Name and Location. The name of the corporation is LOS SERRANOS RANCH COMMUNITY ASSOCIATION, hereinafter referred to as the "Association." The principal office of the Association shall be located at the Project or such other location as may be designated by the Board.

ARTICLE 2

DEFINITIONS

2.1 Definitions. The capitalized terms as used in these By-Laws shall, unless stated otherwise, have the same meanings as are set forth in that certain "Declaration of Covenants, Conditions and Restrictions, and Reservation of Easements for Los Serranos Ranch" recorded on _____, 1995, as Instrument No. _____, in the Official Records of San Bernardino County, California, and any amendments thereto. (Said Declaration of Covenants, Conditions and Restrictions, and Reservation of Easements, and any amendments thereto, shall hereinafter be referred to as the "Declaration.") All of the terms and provisions of the Declaration are hereby incorporated herein by reference.

ARTICLE 3

MEMBERSHIP AND VOTING RIGHTS

3.1 Membership. Every person or entity who or which is an Owner, as defined in the Declaration, shall be a Member of the Association. The foregoing is not intended to include persons or entities who hold an interest in any Lot in the Project merely as security for the performance of an obligation.

3.2 Classes of Membership. The Association shall have two (2) classes of voting membership, as follows:

Class A. Class A Members shall be all Owners, initially with the exception of the Declarant and any Merchant Builders, and shall be entitled to one (1) vote for each Lot owned. When more than one (1) person holds an interest in any Lot, all such persons shall be Members. The vote for such Lot shall be exercised as they among themselves determine, but in

no event shall more than one (1) vote be cast with respect to any Lot.

Class B. The Class B Members shall be Declarant and any Merchant Builders. Each Class B Member shall be entitled to three (3) votes for each Lot owned by Declarant or a Merchant Builder. As to each Phase annexed to the Project, the Class B membership shall terminate and be converted to Class A membership on the happening of any of the following events, whichever occurs earliest:

a. The second (2nd) anniversary of the first close of escrow for the sale of the Lot in the most recent Phase of the Project by Declarant or any Merchant Builder;

b. The fifth (5th) anniversary of the first close of escrow for the sale of a Lot in Phase 1; or

c. The close of escrow has occurred on at least three hundred forty-four (344) Lots in the Project.

3.3 Special Voting Procedures for Election of the Board.

The Declarant shall be entitled to solely elect a majority of the members of the Board until the first to occur of the following events:

a. The election of the Board immediately following the sale by Declarant and/or Merchant Builders of at least three hundred forty-four (344) Lots in the Project to members of the public; or

b. The date which is the fourth (4th) anniversary of the first close of escrow in Phase 1.

Notwithstanding the foregoing, the Class A Members shall be entitled to elect at least forty percent (40%) of the members of the Board, so long as there are two (2) classes of membership outstanding in the Association.

3.4 Voting Rights. All voting rights shall be subject to the provisions and limitations provided in the Declaration, the Articles and these By-Laws. Except as provided in the Article of the Declaration entitled "Enforcement of Bonded Obligations," and Article 5, Section 5.3, of these By-Laws, any provision of the Articles, these By-Laws or the Declaration which expressly requires the vote or written consent of a specified percentage of the voting power of the Association shall require the approval of such specified percentage of the voting power of each class of membership. Upon the termination of Class B membership, except as provided in the Article of the Declaration entitled "Enforcement of Bonded Obligations," and Article 5, Section 5.3, of these By-Laws, any provision of the Articles, these By-Laws or the Declaration which expressly requires the vote or written consent of a specified

percentage of the voting power of the Association shall require the vote or written consent of the voting power of the Association, as well as the vote or written consent of the voting power of the Association residing in Members, other than Declarant.

3.5 Voting; Joint Owners. Those Members appearing in the official records of the Association as record Owners of Lots shall be entitled to notice of any meeting of Members. If there is more than one (1) record Owner of any Lot ("joint Owners"), all such joint Owners shall be Members of the Association and may attend any meetings of the Association, but only one (1) such joint Owner shall be entitled to exercise the vote to which the Lot is entitled. Fractional votes shall not be allowed. Joint Owners may, from time to time, designate in writing one (1) joint Owner to vote. Where no joint Owner is designated, a vote made by a joint Owner of such Lot shall be conclusively presumed to have been cast with full authority and consent of the joint Owners. In the event of a dispute among joint Owners as to how their vote shall be cast, the joint Owners shall lose their right to vote on the matter in question, and any attempt to cast a vote in those circumstances shall be disallowed by the Board. The Board shall have no jurisdiction to determine any matters relating to the entitlement of Declarant to vote, or the manner in which such vote is exercised.

3.6 Vesting of Voting Rights. The voting rights attributable to any given Lot in the Project, as provided for herein, shall not vest until the Assessments provided for in the Declaration have been levied by the Association against said Lot.

3.7 Adjustment of Voting Rights. The voting rights in the Association shall be adjusted upon the annexation of a subsequent Phase as provided for in the Declaration. Such adjustment shall become effective upon the first close of an escrow for the sale of a Lot in such Phase.

3.8 Transfer. The Association membership held by any Owner of a Lot shall not be transferred, pledged or alienated in any way, except as incidental to the sale of such Lot, and the membership shall be automatically transferred upon the sale of such Lot. In the event of such sale, the Association membership may only be transferred, pledged or alienated to the bona fide purchaser or purchasers of the Lot, or to the Mortgagee (or third-party purchaser) of such Lot upon a foreclosure sale, deed in lieu or other remedy set forth in the Mortgage. Any attempt to make a prohibited transfer is void and will not be reflected in the books and records of the Association.

3.9 Proxies. Every Member entitled to vote shall have the right to file a written proxy with the Secretary of the Association. All proxies must satisfy the requirements set forth in Section 7613 of the California Corporations Code. Every proxy shall be revocable and shall automatically expire upon the earlier to occur of the following: (a) the conveyance by the Member of his

Lot; or (b) after the expiration of eleven (11) months from the date of its execution, unless otherwise provided in the proxy, except that the maximum term of the proxy shall be three (3) years from the date of execution. Any form of proxy or written ballot distributed to the membership of the Association shall afford a Member the opportunity to specify a choice between approval and disapproval of each matter or group of matters to be acted upon at the meeting for which said proxy was distributed, except it shall not be mandatory that a candidate for election to the Board be named in a proxy. The proxy or written ballot shall provide that, where the Member specifies a choice, the vote shall be cast in accordance with that choice. The proxy shall also identify the person or persons authorized to exercise the proxy and the length of time it shall be valid. No proxy shall be valid with respect to a vote on any matters described in Section 7613(g) of the California Corporations Code, unless the general nature of the matter to be voted on is set forth in the proxy.

ARTICLE 4

MEETINGS OF MEMBERS

4.1 Place of Meetings. The meetings of the Members shall be held at the Project or as may be designated by the Board.

4.2 Organizational and Annual Meetings. The first meeting of the Association, whether a regular or special meeting, shall be held no later than six (6) months after the first close of an escrow for the sale of a Lot. Thereafter, regular meetings of Members of the Association shall be held not less frequently than once each calendar year on or about the anniversary date of the first annual meeting as fixed by resolution of the Board. At such meetings there shall be elected, by ballot of the Members, a Board in accordance with the requirements of the Article herein entitled "Nomination and Election of Directors." The Members may also transact such other business of the Association as may properly come before them.

4.3 Special Meetings. A special meeting of the Members of the Association shall be called by the Board upon:

a. The vote for such meeting by a majority of a quorum of the Board; or

b. Receipt of a written request therefor signed by Members representing at least five percent (5%) of the total voting power of the Association.

The Board shall cause the special meeting to be held not less than thirty-five (35) days nor more than ninety (90) days after adoption of a resolution to hold such a meeting or receipt of the written request for said meeting.