

BY-LAWS OF
LOS SERRANOS RANCH
COMMUNITY ASSOCIATION

TABLE OF CONTENTS

ARTICLE 1	NAME AND LOCATION	1
1.1	Name and Location	1
ARTICLE 2	DEFINITIONS	1
2.1	Definitions	1
ARTICLE 3	MEMBERSHIP AND VOTING RIGHTS	1
3.1	Membership	1
3.2	Classes of Membership	1
3.3	Special Voting Procedures for Election of the Board	2
3.4	Voting Rights	2
3.5	Voting; Joint Owners	3
3.6	Vesting of Voting Rights	3
3.7	Adjustment of Voting Rights	3
3.8	Transfer	3
3.9	Proxies	3
ARTICLE 4	MEETINGS OF MEMBERS	4
4.1	Place of Meetings	4
4.2	Organizational and Annual Meetings	4
4.3	Special Meetings	4
4.4	Order of Business	5
4.5	Notice of Meetings	5
4.6	Quorum	5
4.7	Determination of Record Date	6
4.8	Action Without Meeting	6
4.9	Mortgagee Representation	6
4.10	Minutes	7
ARTICLE 5	BOARD OF DIRECTORS: SELECTION, TERM OF OFFICE	7
5.1	Number and Qualifications of Directors	7
5.2	Election and Term of Office	7
5.3	Removal	7
5.4	Vacancies	8
5.5	Compensation of Directors	8
ARTICLE 6	NOMINATION AND ELECTION OF DIRECTORS	8
6.1	Nomination	8
6.2	Election	8
6.3	Special Class A Voting Procedures	9

ARTICLE 7	MEETINGS OF DIRECTORS	9
7.1	Regular and Special Meetings	9
7.2	Attendance by Members	10
7.3	Attendance by Telephone	10
7.4	Place of Board Meetings	10
7.5	Availability of Minutes	10
7.6	Action Without Meeting	11
7.7	Conduct of Meetings	11
7.8	Quorum	11
ARTICLE 8	POWERS AND DUTIES OF THE BOARD OF DIRECTORS .	11
8.1	Powers	11
8.2	Duties	12
ARTICLE 9	OFFICERS AND THEIR DUTIES	13
9.1	Enumeration and Qualifications of Officers . .	13
9.2	Election of Officers	13
9.3	Term	13
9.4	Special Appointments	13
9.5	Resignation and Removal	13
9.6	Vacancies	13
9.7	Multiple Offices	13
9.8	Duties	13
9.9	Compensation of Officers	14
ARTICLE 10	OBLIGATIONS OF MEMBERS	15
10.1	Assessments	15
10.2	Repair and Maintenance	15
ARTICLE 11	COMMITTEES	15
11.1	Appointment of Committees	15
ARTICLE 12	INSPECTION OF RECORDS	15
12.1	Availability of Association Documents	15
12.2	Rules Concerning Inspection	16
12.3	Inspection by Directors	16
ARTICLE 13	NOTICE AND HEARING	16
13.1	Suspension of Privileges	16
13.2	Notice to Member	16
13.3	Hearing	16
ARTICLE 14	AMENDMENTS	17
14.1	Amendments to By-Laws	17

ARTICLE 15	CORPORATE SEAL	18
15.1	Seal	18
ARTICLE 16	MISCELLANEOUS	18
16.1	Fiscal Year	18
16.2	Officer and Director Liability	18
16.3	Checks and Drafts	19
16.4	Execution of Documents	19
16.5	Dissolution	19
16.6	Conflict	20

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.

No business shall be transacted at a special meeting except as stated in the notice, unless by consent of a quorum of the Owners present, either in person or by proxy.

4.4 Order of Business. Meetings of Members shall be conducted in accordance with a recognized system of parliamentary procedure (e.g., Robert's Rules of Order), or such parliamentary procedures as the Association may adopt. The order of business at all meetings of Members shall be as follows: (a) roll call to determine the voting power represented at the meeting; (b) proof of notice of meeting or waiver of notice; (c) reading of minutes of preceding meeting; (d) reports of offices; (e) reports of committees; (f) old (unfinished) business of the Association; and (g) new business of the Association.

4.5 Notice of Meetings. Written notice of each meeting of the Members shall be given by, or at the direction of, the Secretary or person authorized to call the meeting by mailing a copy of such notice by first class mail, postage prepaid. Except in emergency situations, not less than ten (10) days nor more than thirty (30) days notice of any meeting at which Members are required or permitted to take action shall be provided to each Member, addressed to the Member's address last appearing on the books of the Association or supplied by such Member to the Association for the purpose of notice. Such notice shall specify the place, day and hour of the meeting, those matters which the Board, at the time the notice is sent, intends to present for action by the Members, if any, but, except as otherwise provided by law, any proper matter may be presented at the meeting for action. In the case of a special meeting, the nature of the business to be undertaken at the meeting shall be set forth in the Notice.

4.6 Quorum; Adjourned Meetings. The presence, in person or by proxy, of Owners holding at least fifty-one percent (51%) of the voting power of the Association shall constitute a quorum for the transaction of business at all meetings. In the absence of a quorum at a Members' meeting, a majority of those present, in person or by proxy, may adjourn the meeting to another time, but may not transact any other business. An adjournment for lack of a quorum shall be to a date not less than five (5) days and not more than thirty (30) days from the original meeting date. Except as may otherwise be required pursuant to the Declaration, the quorum for such a meeting shall be at least twenty-five percent (25%) of the total voting power of the Association present, in person or by proxy. If a time and place for the adjourned meeting is not fixed by those in attendance at the original meeting, or if for any reason a new date is fixed for the adjourned meeting after adjournment, notice of the time and place of the adjourned meeting shall be given to Members in the manner prescribed for regular meetings.

Except as otherwise provided in the Articles, these By-Laws or the Declaration, any action which may be taken by the Association may be taken by a majority of a quorum of the Members of the Association.

4.7 Determination of Record Date. In the event the Board does not fix a record date, the record date shall be determined in accordance with California Corporations Code, Section 7611, as same may be amended, from time to time.

a. For Notice. Except as otherwise provided in Subsection b. below, the Board shall fix in advance a date as the record date for the purpose of determining the Members entitled to notice of any meeting of the Association at which Members are required or permitted to take action. Such record date shall not be more than ninety (90) days nor less than ten (10) days before the date of the meeting. If the Board fails to fix such record date, the record date for the purpose of determining the Members entitled to notice of any meeting of the Association shall be at 5:00 p.m. on the business day preceding the day on which notice is given. A determination of Members entitled to notice of a meeting of the Association shall apply to any adjournment of the meeting, unless the Board fixes a new record date for the adjourned meeting.

b. To Vote. The record date for the purpose of voting shall not be more than sixty (60) days before the date of the meeting.

4.8 Action Without Meeting. Pursuant to Section 7513 of the California Corporations Code, any action which may be taken by the vote of Members at any regular or special meeting, except the election of Directors where cumulative voting is required, as provided for hereinbelow, may be taken without a meeting if the Association distributes a written ballot to every Member entitled to vote on the matter. Such ballot shall set forth the proposed action, provide an opportunity to specify approval or disapproval of any proposal, and provide a reasonable time within which to return the ballot to the Association, pursuant to Section 7513 of the California Corporations Code, as such may be amended, from time to time. All such written ballots shall be filed with the Secretary of the Association and maintained in the corporate records. Approval by written ballot pursuant to this Section shall be valid only when the number of votes cast by ballot within the time period specified equals or exceeds the quorum required to be present at a meeting authorizing the action, and the number of approvals equals or exceeds the number of votes that would be required to approve at a meeting at which the total number of votes cast was the same as the number of votes cast by ballot. All solicitations of ballots shall indicate the number of responses needed to meet the quorum requirement and shall state the percentage of approvals necessary to pass the measure submitted. The solicitation shall specify the time by which the ballot must be received in order to be counted. A written ballot may not be revoked. Directors may not be elected by written ballot under this Section.

4.9 Mortgagee Representation. First Mortgagees shall have the right to attend (without, however, a right to vote) all

regular and special meetings of Members through a representative designated in writing and delivered to the Board.

4.10 Minutes. Minutes or a similar record of the proceedings of meetings of Members, when signed by the President and Secretary, shall be presumed to evidence accurately the matters set forth therein.

ARTICLE 5

BOARD OF DIRECTORS: SELECTION, TERM OF OFFICE

5.1 Number and Qualifications of Directors. The affairs of the Association shall be managed by a Board consisting of five (5) Directors, each of whom, except for those appointed and serving as first Directors, must either be an Owner of a Lot or an authorized agent and representative of Declarant, so long as Declarant owns a Lot in the Project or is entitled to annex any of the Annexation Property to the Project without the vote of Members pursuant to the Declaration. The initial Directors shall be appointed by the incorporator, as designated in the Articles, and shall hold office until the first meeting of the Members, as described in Article 4, Section 4.2, and until their successors are elected. The authorized number of Directors may be changed by a duly adopted amendment to the By-Laws.

5.2 Election and Term of Office. At the first annual meeting of the Association, the Members shall elect the Directors in accordance with the provisions set forth herein. The three (3) Directors receiving the highest number of votes shall each be elected for a term of three (3) years, and the two (2) Directors receiving the next highest number of votes shall be elected for a term of two (2) years. At each annual meeting thereafter, new Directors shall be elected to fill vacancies created by resignations or expiration of the terms of past Directors. Following the first annual meeting, the term of office for each successor Director shall be two (2) years. Any person serving as a Director may be re-elected, and there shall be no limitation on the number of terms which a Director may serve.

5.3 Removal. At any regular or special meeting duly called, any one (1) or more of the Directors may be removed, with or without cause, as provided herein, and a successor may then and there be elected to fill the vacancy so created. Unless the entire Board is removed from office by the vote of Association Members, an individual Director shall not be removed prior to the expiration of his term of office if the number of votes cast against his removal would be sufficient to elect the Director if voted cumulatively at an election at which the same total number of votes were cast and the entire number of Directors authorized at the time of the most recent election of the Director were then being elected. A Director who has been elected to office solely by the votes of Members of

the Association, other than the Declarant, may be removed from office prior to the expiration of his term of office only by the vote of at least a simple majority of the voting power residing in Members, other than the Declarant.

5.4 Vacancies. Vacancies on the Board caused by any reason, other than the removal of a Director by a vote of the Association, shall be filled by vote of a majority of the remaining Directors, even though they may constitute less than a quorum, and each Director so elected shall serve for the remainder of the term of the Director he replaces. In the event that a majority of the remaining Directors are unable to agree upon a successor within fifteen (15) days following the occurrence of a vacancy, a special election to fill the vacancy shall then be held in accordance with the terms provided in the Article herein entitled "Nomination and Election of Directors," within not less than ten (10) days nor more than thirty (30) days following the expiration of said fifteen (15) day period. Notice of a special meeting and election shall be given in accordance with the terms provided in the Article herein entitled "Nomination and Election of Directors."

5.5 Compensation of Directors. No Director shall receive compensation for any service rendered to the Association, except as permitted under the Article contained in the Declaration entitled "Powers and Duties of the Association"; provided, however, that a Director may be reimbursed for actual expenses, if reasonable, incurred in the performance of his or her duties.

ARTICLE 6

NOMINATION AND ELECTION OF DIRECTORS

6.1 Nomination. Nomination for election to the Board shall be made by a Nominating Committee. Nominations may also be made from the floor at the annual meeting. The Nominating Committee shall consist of a Chairman, who shall be a member of the Board, and two (2) or more Members of the Association. The Nominating Committee shall be appointed by the Board prior to each annual meeting of the Members to serve from the close of such annual meeting until the close of the next annual meeting, and such appointment shall be announced at each meeting. The Nominating Committee shall make as many nominations for election to the Board as it shall in its discretion determine, but not fewer than the number of vacancies that are to be filled. Nominations may be made from among Members or non-Members so long as the Class B membership exists. Thereafter, nominations shall only be made from among Members.

6.2 Election. Election to the Board shall be by secret written ballot at the annual meeting. At such election, the Members may cast, with respect to each vacancy, as many votes as they are entitled to exercise under the provisions of the Declaration. The persons receiving the largest number of votes shall be elected.

Cumulative voting is required for all elections in which two (2) or more positions are to be filled; provided, however, that all cumulative voting hereunder shall comply with the procedural prerequisites of California Corporations Code, Section 7615(b), as same may be amended, from time to time, which provides that no Member shall be entitled to cumulate votes for a candidate or candidates unless such candidate's or candidates' names have been placed in nomination prior to the voting, and a Member has given notice at the meeting prior to the voting of said Member's intention to cumulate votes. If any one (1) Member has given such notice, all Members (including Declarant) shall have the right to cumulate votes and give one (1) candidate, or divide among any number of candidates, a number of votes equal to the total number of votes to which said Member is entitled to vote upon other matters multiplied by the number of Directors to be elected.

6.3 Special Class A Voting Procedures. Notwithstanding any other provision herein or in any other document regarding this Project to the contrary, as long as a majority of the voting power of the Association resides in the Declarant, or so long as there are two (2) outstanding classes of membership in the Association, not less than twenty percent (20%) of the incumbents on the Board (one [1] Board member) shall be elected solely by the votes of Owners, other than the Declarant. The election of Directors shall be first held by the Members, other than Declarant, who shall elect the number of Directors to the Board which represents twenty percent (20%) of the Board (i.e., one [1] Director). Any Owner, with the exception of Declarant, shall be an eligible candidate for this special election. Such Director may be removed from the Board only by the vote or written assent of a majority of Members other than Declarant. Any vacancy caused by the resignation, removal or death of such Director may be filled only by the vote of a majority of the voting power of Members other than Declarant.

ARTICLE 7

MEETINGS OF DIRECTORS

7.1 Regular and Special Meetings. Regular meetings of the Board shall be held monthly, or as otherwise determined by the Board, but not less frequently than quarterly, and on such day and at such hour as may be fixed, from time to time, by resolution of the Board. Should said meeting fall upon a legal holiday, then that meeting shall be held at the same time on the next day which is not a legal holiday, or as otherwise determined by the Board. Notice of the time and place of a regular meeting shall be posted at a prominent place or places within the Association Property, and shall be communicated to the Directors at least four (4) days prior to the meeting unless the time and place of the meeting is fixed by the Directors and duly adopted herein; provided, however, that notice of a meeting need not be given to any Director who has signed a waiver of notice or a written consent to holding of the meeting. Special meetings of the Board shall be held when called by

the President of the Association or by two (2) Directors, other than the President, after not less than four (4) days' written notice to each Director by first class mail, or seventy-two (72) hours notice prior to the meeting delivered personally or by telephone or telegraph. The notice shall specify the time and place of the meeting and the nature of any special business to be transacted. Notice of a special meeting shall be posted as prescribed for notice of regular meetings; provided, however, that notice of the meeting need not be given to any Director who has signed a waiver of notice or a written consent to holding of the meeting.

7.2 Attendance by Members. Regular and special meetings of the Board shall be open to all Members of the Association; provided, however, that Members who are not on the Board may not participate in any deliberation or discussion unless expressly so authorized by the vote of a majority of a quorum of the Board. The Board may, with the approval of a majority of the Board's quorum, adjourn a Board meeting and reconvene in executive session, exclusive of all Members who are not Directors, to consider and discuss litigation in which the Association is or may become involved, contracts with third parties, personnel matters and other similar matters requiring confidentiality. Any matter discussed in executive session shall be generally noted in the minutes of such Board meeting. If the Association adopts or has adopted a policy of imposing any monetary penalty, including any fee, on any Member for a violation of the management documents or Rules and Regulations, including the imposition of a monetary penalty relating to the activities of a tenant, guest or invitee of such Member, the Board shall adopt and distribute to each Member, by personal delivery or first class mail, a schedule of the monetary penalties that may be assessed for those violations, which shall be in accordance with authorization for Member discipline as set forth herein or in the Declaration. The Board shall not be required to distribute any additional schedule of monetary penalties unless there are changes from the schedule that was adopted and distributed to the Members pursuant to this Section. Upon request of the Member being disciplined, the Board shall adjourn to executive session and the Member shall be entitled to attendance at such session.

7.3 Attendance by Telephone. Any meeting, regular or special, may be held by conference telephone or similar communications equipment, so long as all members participating in the meeting can hear one another. All such Directors shall be deemed to be present in person at such meeting.

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

7.5 Availability of Minutes. The minutes, minutes proposed for adoption that are marked to indicate draft status or a summary of the minutes of any Board meeting, other than executive session, shall be available to Members within thirty (30) days of the meeting, and shall be distributed to any Member of the

Association upon request therefor and upon reimbursement of the Association's costs in making the distribution.

7.6 Action Without Meeting. The Board may take any action without a meeting if all members of the Board unanimously consent in writing to the action to be taken. If the Board resolves by unanimous written consent to take any such action, an explanation of the action taken shall be posted at a prominent place or places within the Association Property within three (3) days after the written consents of all Directors have been obtained.

7.7 Conduct of Meetings. The President of the Association shall preside over all meetings of the Board held during the Board's term of office. In the event the President shall be absent from any meeting, said meeting shall be presided over by such other Director as may be elected by a majority of a quorum of the Directors. The Secretary of the Association shall act as Secretary of the Board, but in the event the Secretary shall be absent, the President or presiding Director may appoint any person to act as Secretary for the meeting.

7.8 Quorum. A majority of the total number of Directors fixed by these By-Laws shall constitute a quorum for the transaction of business. Every act or decision done or made by a majority of the Directors present at a duly held meeting at which a quorum is present shall be regarded as the act of the Board.

ARTICLE 8

POWERS AND DUTIES OF THE BOARD OF DIRECTORS

8.1 Powers. The Board, for and on behalf of the Association, shall have the right and power to do all things necessary to conduct, manage and control the affairs and business of the Association. Subject to the provisions of the Articles, the Declaration and these By-Laws, the Board shall have all general powers authorized under the California Corporations Code and California Civil Code for nonprofit, mutual benefit corporations, and shall have the following specific powers:

a. Enforce the provisions of the Declaration and all contracts or any agreements to which the Association is a party;

b. Acquire, manage, maintain, repair and replace all Association Property and Improvements located thereon, including all personal property, in a neat, clean, safe and attractive condition at all times, and to pay all utilities, gardening and other necessary services for the Association Property, all as more specifically set forth in the Declaration;

c. Maintain fire, casualty, liability and fidelity bond coverage, and other insurance coverage pursuant to the terms of the Declaration;

d. Obtain, for the benefit of the Association Property, all commonly metered water, gas and electric services, refuse collection and cable (or master antenna) television service;

e. Employ and retain a professional manager and/or management company to perform all or any portion of the duties and responsibilities of the Board and engage such other personnel (including attorneys and accountants) as necessary for the operation of the Project and administration of the Association;

f. Pay all taxes and special assessments which would be a lien upon the entire Project or the Association Property, and to discharge any lien or encumbrance levied against the entire Project or the Association Property;

g. Pay for reconstruction of any portion of the Association Property damaged or destroyed;

h. Delegate its authority and power to committees, officers or employees of the Association, or to a manager retained by the Association;

i. Adopt reasonable Rules and Regulations and Architectural Standards concerning the maintenance, improvement, use and/or occupancy of the Project;

j. Enter into any Lot when necessary in connection with maintenance or construction for which the Association is responsible;

k. Retain, if deemed appropriate by the Board, and pay for legal and accounting services necessary and proper for the efficient operation of the Association, enforcement of the Declaration, the Rules and Regulations and Architectural Standards, or in performing any other duties or enforcing any other rights of the Association; and

l. Perform any and all other acts and things that a nonprofit, mutual benefit corporation organized under the laws of the State of California is empowered to do, which may be necessary, convenient or appropriate in the administration of its affairs for the specific purposes of meeting its duties as set forth in the Declaration.

8.2 Duties. The Board shall perform and execute, for and on behalf of the Association, all of the duties which have been delegated to the Association as set forth in the Article entitled "Powers and Duties of the Association" in the Declaration.

ARTICLE 9

OFFICERS AND THEIR DUTIES

9.1 Enumeration and Qualifications of Officers. The officers of this Association shall be a President, Vice President, Secretary and a Treasurer. Said officers shall consist only of Members in good standing of the Association. Any Member serving as a Director of the Association may simultaneously serve as an officer thereof.

9.2 Election of Officers. The election of officers shall take place at the first meeting of the Board following each annual meeting of the Members.

9.3 Term. The officers of the Association shall be elected annually by the Board and each shall hold office for one (1) year, unless such officer shall sooner resign or shall be removed or otherwise disqualified to serve.

9.4 Special Appointments. The Board may elect such other officers as the affairs of the Association may require, each of whom shall hold office for such period, have such authority and perform such duties as the Board may, from time to time, determine.

9.5 Resignation and Removal. Any officer may be removed from office at any time, with or without cause, by a majority of the Board. Any officer may resign at any time by giving written notice to the Board, the President or the Secretary. Such resignation shall take effect on the date of receipt of such notice or at such later time specified therein, and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

9.6 Vacancies. A vacancy in any office may be filled by appointment by the Board. The officer appointed to such vacancy shall serve for the remainder of the term of the officer he replaces.

9.7 Multiple Offices. The offices of Secretary and Treasurer may be held by the same person. No person shall simultaneously hold more than one (1) of any of the other offices, except in the case of special offices created pursuant to Section 9.4 of this Article.

9.8 Duties. Duties of the officers are as follows:

a. President: The President shall preside at all meetings of the Members of the Association and the Board; shall see that orders and resolutions of the Board are carried out; shall co-sign all leases, mortgages, deeds and other written instruments, and shall co-sign all checks and promis-

sory notes; provided, however, that the authority to co-sign all checks is assignable to a manager for the Project.

b. Vice President: The Vice President shall act in the place and stead of the President in the event of the President's absence, inability or refusal to act, and shall exercise and discharge such other duties as may be required of him by the Board.

c. Secretary: The Secretary shall record the votes and keep the minutes of all meetings and proceedings of the Board and of the Members; shall co-sign all contracts, leases or other instruments executed in the name of or on behalf of the Association; serve notice of meetings of the Board and of the Members; keep appropriate current records showing the Members of the Association, together with their addresses, and shall perform such other duties as required by the Board.

d. Treasurer: The Treasurer shall receive and deposit in appropriate bank accounts all moneys of the Association and shall disburse such funds as directed by resolution of the Board; shall co-sign all checks and promissory notes of the Association; provided, however, that the authority to co-sign all checks is assignable to a manager for the Project; keep proper books of account; cause such annual reports and financial reporting of the Association books to be made at the completion of each fiscal year, as provided for in the Declaration, and shall cause to be prepared an annual budget and a statement of income and expenditures to be presented to the membership at its regular annual meeting, and deliver a copy of each to the Members.

9.9 Compensation of Officers. No officer shall receive any compensation for services performed to the Association, except as permitted under the Article contained in the Declaration entitled "Powers and Duties of the Association"; provided, however, that an officer may be reimbursed for his actual expenses incurred in the performance of his duties.

ARTICLE 10

OBLIGATIONS OF MEMBERS

10.1 Assessments. All Members are obligated to pay, in accordance with the provisions of the Declaration, all Assessments imposed by the Association. All delinquent Assessments shall be enforced, collected or foreclosed in the manner provided in the Declaration.

10.2 Repair and Maintenance. Every Member shall be responsible, at his sole cost and expense, for all maintenance and repair work on his Lot, as required in the Article of the Declaration entitled "Repair and Maintenance."

ARTICLE 11

COMMITTEES

11.1 Appointment of Committees. The Association shall appoint an Architectural Control Committee, as provided in the Declaration, and a Nominating Committee, as provided in these By-Laws. In addition, the Board shall appoint other committees as deemed appropriate in carrying out its purposes.

ARTICLE 12

INSPECTION OF RECORDS

12.1 Availability of Association Documents. In addition to the rights afforded by the Declaration to any holder, insurer or guarantor of a first Mortgage or deed of trust secured by a Lot with regard to inspection of the Association's management documents, the Association shall maintain at its principal office (or at such other place within the Project as the Board may prescribe) the Association Management Documents, the Association's books of account and minutes of meetings of Members, the Board and Board committees, and a membership register (including names, mailing addresses and telephone numbers) (collectively the "Association Documents"), each of which shall be made available for inspection and copying by any Member, or the Member's duly appointed representative, and any holder, insurer or guarantor of a first Mortgage or deed of trust for a purpose reasonably related to such Member's interest as a Member. The minutes, minutes that are proposed for adoption that are marked to indicate draft status, or a summary of the minutes of any meeting of the Board (other than when the Board has adjourned in executive session) shall be available to Members within thirty (30) days of the meeting. The minutes, proposed minutes or summary minutes shall be distributed to any Member upon request and upon reimbursement of the Association's cost in making that distribution.

12.2 Rules Concerning Inspection. The Board shall establish reasonable rules with respect to:

- a. Notice to be given to the custodian of the records by the Member desiring to make the inspection;
- b. Hours and days of the week when such an inspection may be made; and
- c. Payment of the cost of reproducing copies of documents requested by a Member.

12.3 Inspection by Directors. Every Director shall have the absolute right at any reasonable time to inspect all books, records and documents of the Association, and the physical properties owned or controlled by the Association, as provided in the California Corporations Code. The right of inspection by a Director includes the right to make extracts and copies of documents.

ARTICLE 13

NOTICE AND HEARING

13.1 Suspension of Privileges. In the event of an alleged violation of the Declaration, these By-Laws or the Rules and Regulations of the Association, and after written notice of such allegation, as provided below, the Board shall have the right, after conducting a hearing on the matter, as provided below, to discipline any Member by taking any one (1) or more of the following actions: (a) levying a Compliance Assessment as provided in the Declaration; (b) suspending or conditioning the right of said Member to use any Association Property operated by the Association; or (c) suspending said Member's voting privileges. Any such suspension shall be for a period of time not exceeding thirty (30) days for any noncontinuing violation, but in the case of a continuing violation, including, without limitation, the nonpayment of Assessments which have become delinquent, such suspension may be imposed so long as the violation continues.

13.2 Notice to Member. Written notice of the alleged violation shall be delivered personally or mailed to the Member by first class or registered mail, return receipt requested, at least fifteen (15) days before the proposed hearing on said alleged violation. Said notice shall contain: (a) an explanation in clear and concise terms of the nature of the alleged violation; (b) a reference to provisions of the Declaration, the Rules and Regulations or these By-Laws which said Member is alleged to have violated; and (c) the time and place for the hearing.

13.3 Hearing. The hearing shall be conducted by the Board, in executive session, affording the Member a reasonable opportunity to be heard and enabling the Board to evaluate the

evidence concerning the alleged violation. At the hearing, said Member shall have the right to present oral or written evidence concerning the alleged violation. The Board shall render its decision concerning the alleged violation to said Member not less than five (5) days after the hearing, and shall provide a written explanation of the suspension, fine or conditions, if any, imposed by the Board.

ARTICLE 14

AMENDMENTS

14.1 Amendments to By-Laws. These By-Laws may be amended by Declarant at any time prior to the close of escrow for the sale of the first Lot. After the sale of the first Lot, these By-Laws may be amended only by the affirmative vote (in person or by proxy) or written consent of Members representing at least a majority of the voting power of each class of Members and a majority of the voting power of the Association residing in Members, other than Declarant. However, the percentage of voting power necessary to amend a specific section or provision of these By-Laws shall not be less than the prescribed percentage of affirmative votes required for action to be taken under that section or provision.

In addition, so long as there is a Class B membership, any amendment to these By-Laws shall require the approval of the Department of Veterans Affairs ("VA"). A draft of the amendment should be submitted to the VA for its approval prior to its approval by the membership of the Association. At such time as the Class B membership shall cease and be converted to Class A membership, amendments to these By-Laws shall be enacted by requiring the vote or written assent of:

- a. Sixty-seven percent (67%) of the total voting power of the Association; and
- b. Sixty-seven percent (67%) of the votes of Members, other than the Declarant.

Notwithstanding the foregoing, the percentage of a quorum of the Members or of the votes of Members, other than the Declarant, necessary to amend a specific provision in these By-Laws shall not be less than the prescribed percentage of affirmative votes required for action to be taken under said provision.

ARTICLE 15

CORPORATE SEAL

15.1 Seal. The Association shall have a seal in circular form having within its circumference the words:

LOS SERRANOS RANCH COMMUNITY ASSOCIATION

ARTICLE 16

MISCELLANEOUS

16.1 Fiscal Year. The fiscal year of the Association shall be determined by the Board, and having been so determined, is subject to change, from time to time, as the Board shall determine.

16.2 Officer and Director Liability. Until Section 1365.7 of the California Civil Code is amended to provide otherwise, a volunteer officer or Director of the Association shall not be personally liable in excess of the insurance coverage specified in Subsection (d) below to any person who suffers injury, including, but not limited to, bodily injury, emotional distress, wrongful death or property damage or loss, as a result of the tortious act or omission of a volunteer officer or Director of the Association if all of the following criteria are met:

- a. The act or omission was performed within the scope of the officer's or Director's Association duties;
- b. The act or omission was performed in good faith;
- c. The act or omission was not willful, wanton or grossly negligent; and
- d. The Association maintained and had in effect at the time the act or omission occurred, and at the time a claim was made, one or more policies of insurance which would include coverage for: (1) general liability of the Association; and (2) individual liability of officers and Directors of the Association for negligent acts or omissions in that capacity; provided that both types of coverage are in a minimum amount of at least Five Hundred Thousand Dollars (\$500,000.00).

Payment of actual expenses incurred by a Director or officer in the execution of the duties of that position does not affect the Director's or officer's status as a volunteer within the meaning of this Section.

An officer or Director who, at the time of the act or omission, was the Declarant, or a successor or assign of Declarant, or who, at the time of the act or omission, received either direct or indirect compensation as an employee of the Declarant, or from a financial institution that purchased a Lot in the Project at a judicial or nonjudicial foreclosure of a Mortgage is not a volunteer for the purposes of this Section.

Nothing in this Section shall be construed to limit the liability of the Association for its negligent act or omission, or for any negligent act or omission of an officer or Director of the Association.

This Section shall only apply to a volunteer officer or Director who resides in the Project either as a tenant or as an Owner of no more than two (2) Units in the Project.

16.3 Checks and Drafts. All checks, drafts or other order for payments of money, notes or other evidences of indebtedness issued in the name of or payable to the Association shall be signed or endorsed by the President and Treasurer, or in such manner as, from time to time, shall be determined by resolution of the Board, subject to the requirements of the Declaration and California law (whichever is more restrictive) for withdrawing money from the Association's reserve accounts.

16.4 Execution of Documents. The Board may authorize any officer or officers, agent or agents, to enter into any contract or execute any instrument in the name and on behalf of the Association, and such authority may be general or confined to specific instances, and unless so authorized by the Board, no officer, agent or employee shall have any power or authority to bind the Association by any contract or engagement, or to pledge its credit, or to render it liable for any purpose or in any amount.

16.5 Dissolution. Any dissolution of the Association shall require the approval of the Board and the vote or written consent of both: (a) individual Members exercising at least sixty-seven percent (67%) of the total voting power of the Association residing in Members, other than Declarant, and (b) sixty-seven percent (67%) of the first Mortgagees (based upon one [1] vote for each first Mortgage owned). Upon the winding-up and dissolution of the Association, after paying or adequately providing for the debts and obligations of the Association, the remaining assets shall be distributed to an appropriate public agency or any nonprofit corporation, association or trust, to be used for purposes similar to those for which the Association was created.

16.6 Conflict. In the case of any conflict between the Articles and these By-Laws, the Articles shall control, and in the case of any conflict between the Declaration and these By-Laws, the Declaration shall control.

* * *

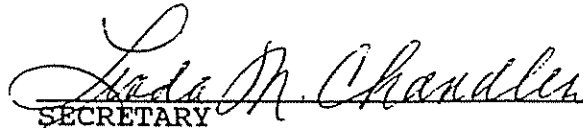
CERTIFICATE OF SECRETARY

I, the undersigned, do hereby certify:

1. That I am the duly elected and acting Secretary of LOS SERRANOS RANCH COMMUNITY ASSOCIATION, a California nonprofit, mutual benefit corporation; and

2. That the foregoing By-Laws, comprising of 20 pages, constitute the original By-Laws of said corporation, as duly adopted at the first meeting of the Board of Directors thereof duly held March 31, 1995.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of said corporation this 31 day of March, 1995.


SECRETARY
Los Serranos Ranch Community
Association