

ARTICLE 2

INTRODUCTION LOS SERRANOS RANCH

2.1 General Plan of Development. Declarant has designed Los Serranos Ranch as a multi-phase planned residential community, which, if completed as proposed, will consist of approximately four hundred forty-eight (448) Residences, together with various Association Property Improvements and related amenities. The Project will be developed in accordance with the general plan of development submitted to and approved by the City, VA/FHA and the DRE.

2.2 Membership in Association. As more particularly set forth in this Declaration, each Owner of a Lot in the Project shall automatically become a Member of the Association, and shall be obligated for the payment of Assessments to the Association. In addition, each Owner, his family members, lessees, tenants, guests and invitees, will be entitled to the use and enjoyment of the Association Property within the Project, in accordance with this Declaration, the By-Laws and Rules and Regulations adopted by the Board.

2.3 Annexation of Subsequent Phases. At such time as subsequent Phases are developed, if ever, Declarant and Merchant Builders shall annex such Phases to the Project in accordance with the provisions of the Article herein entitled "Annexation of Additional Property."

2.4 Development Control; Reservation of Rights. Subject only to the prior approval of the VA/FHA, nothing in this Article or elsewhere in this Declaration shall limit the right of Declarant and Merchant Builders: (a) to complete construction of any Improvements in the Project, (b) to redesign or otherwise alter the style, size, color or appearance of any Improvements in any portion of the Project owned by them, (c) to refurbish and construct additional Improvements on any portion of the Project owned by them, (d) to subdivide, re-subdivide, grade or re-grade any portion of the Project and the Annexation Property owned by them, and (e) to otherwise control all aspects of constructing the Improvements in the Project, of marketing and conveying Lots in the Project, and establishing the Project as a balanced residential community. In furtherance thereof, Declarant hereby reserves, unto itself, any Merchant Builders and their respective successors and assigns, the following:

a. Nonexclusive easements for access, ingress and egress over the Association Property as reasonably necessary for construction, display, maintenance, sales and exhibit purposes in connection with the construction, sale and lease of Lots within the Project and the Annexation Property.

b. Nonexclusive easements on, over and across any portions of the Project which consist of private streets, private drives, sidewalks and walkways for the purpose of ingress, egress and accommodation of vehicular and pedestrian traffic to and from the Project and the Annexation Property.

c. The exclusive right to maintain one or more sales offices, model complexes, interior design and decorator centers, and parking areas for employees, agents and prospective buyers;

d. The exclusive right to place reasonable signs, flags, banners, billboards or other forms of advertising on any portion of the Project owned or controlled by Declarant and Merchant Builders; and

e. A nonexclusive right to utilize the Association Property and any unassigned open parking areas, if any, in connection with its sales and marketing programs.

Declarant and Merchant Builders, in exercising easement rights created and reserved herein, shall repair any damage to complete any restoration of the Association Property or elsewhere within the Project which results from or is caused by Declarant's construction, marketing, sale and other activities within the Project within a reasonable time after the occurrence of such damage or restoration, and provided further that the rights created and reserved herein in favor of Declarant, its successors and assigns, shall not unreasonably interfere with the rights of the Members in the reasonable use and enjoyment of the Project.

The rights and reservations of Declarant and Merchant Builders set forth herein shall terminate upon the earlier to occur of (1) the seventh (7th) anniversary of the first close of escrow for the sale of a Lot in the Project; or (2) the sale by Declarant and Merchant Builders of all Lots within the Project; provided, however, in no event shall said rights terminate prior to the exoneration of any bond, set aside letter or other security device in favor of the Association described in the Article herein entitled "Enforcement of Bonded Obligations."

2.5 Non-Liability of Declarant or Merchant Builders. The purpose of this Article is merely to describe the proposed general plan of development for the Project. Without limiting the generality of the foregoing, nothing in this section or elsewhere in this Declaration shall limit the right of Declarant or Merchant Builders to complete construction of the Project, to alter same or to construct such additional Improvements as Declarant shall deem advisable prior to the completion and sale of all Lots in the Project. Declarant may assign any or all of its rights under this Declaration to any successor to all or any part of Declarant's interest in the Project by an express written assignment recorded in the Office of the County Recorder.

2.6 Landscape and Lighting District No. 1. Each Owner of a Lot in the Project acknowledges and understands that the Project is located within the boundaries of "Chino Hills Landscape and Lighting District No. 1" ("LLD No. 1"), which has been formed to finance the construction, installation and maintenance of various landscape, drainage and lighting improvements within LLD No. 1. This special assessments shall constitute a continuing lien on each Lot in the Project and other properties within LLD No. 1. The special assessments shall be reflected on property tax bills issued by the County Tax Assessor.

2.7 Community Facilities District No. 5. The Project is located within the boundaries of Chino Hills Community Facilities District No. 5 ("CFD No. 5") which was formed by the County to finance the development and construction of major infrastructure facilities and improvements required by the Chino Hills Financial Plan including: parks, trails, parking and median strip landscaping, flood control facilities, roads and other facilities. A Notice of Special Tax Authorization for CFD No. 5 was recorded on March 11, 1987, as Instrument No. 87-079843 in the Official Records of the County.

CFD No. 5 shall be entitled to levy a special tax, which will be charged to each Owner's Lot and reflected on the real property tax statements issued by the County Tax Assessor's office. These special taxes will constitute a continuing lien on each Owner's Lot, and will continue in force and effect until the special tax obligation is permanently satisfied, canceled or otherwise ceases to be levied in accordance with applicable law. A notice of special tax authorization for CFD No. 5 will be recorded in the Office of the County Recorder. This notice contains additional specific information regarding each Owner's obligations with respect to the payment of the special taxes.

Each Owner of a Lot, by acceptance of a grant deed from Declarant for such Lot, and such Owner's successors and assigns, agrees to refrain from taking any action which would in any way interfere with the operation of CFD No. 5 or decisions made or actions taken by Declarant, the City or by the board of directors of CFD No. 5 with respect to the timing of commencement, amount, spending or use of special taxes or other charges to be levied and collected by CFD No. 5.

ARTICLE 3

RESERVATION OF EASEMENTS AND OTHER PROPERTY RIGHTS IN THE ASSOCIATION PROPERTY

3.1 Amendment to Eliminate Easements. As long as Declarant is an Owner or has an interest in any portion of the Annexation Property, this Declaration cannot be amended to modify or eliminate any easements created, established and reserved herein in favor of Declarant without the prior written approval of Declarant, and any attempt to do so shall have no effect. Any attempt to modify or eliminate the easements created, granted and reserved herein shall likewise require the prior written approval of Declarant and the City.

3.2 Owners' Easements. Every Owner and to the extent permitted by such Owner, such Owner's family, guests, invitees, tenants and lessees, shall have a nonexclusive right and easement of access, use and enjoyment in and to the Association Property. Said right and easement shall be appurtenant to and shall pass with title to every Lot, subject to the limitations set forth in Sections 3.3 and 8.13 below.

3.3 Limitations on Owners' Easement Rights. The rights and easements of access, use and enjoyment set forth in Section 3.2 hereinabove shall be subject to the provisions of this Declaration, including, but not limited to, the following: