

BYLAWS
OF
VICTORIA ESTATES MASTER ASSOCIATION

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 FOR BYLAWS
 OF
 VICTORIA ESTATES MASTER ASSOCIATION

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BYLAWS
OF
VICTORIA ESTATES MASTER ASSOCIATION
ARTICLE I

1. Plan of Lot Ownership.

1.1. Name.

The name of the corporation is VICTORIA ESTATES MASTER ASSOCIATION, hereinafter referred to as the “Association.” The principal office of the Association shall initially be located at 6701 Center Drive West, Suite 900, Los Angeles, California 90045.

1.2. Application.

The provisions of these Bylaws are applicable to the planned residential development project known as Victoria Estates (the “Project”), located in Ventura County, California. All present and future Owners and their tenants, invitees, guests, employees, and any other person who might use the facilities of the Project in any manner, are subject to the regulations set forth in the Bylaws and in the Declaration of Covenants, Conditions and Restrictions and Reservation of Easements for Victoria Estates (the “Declaration”) Recorded or to be Recorded in the Official Records of Ventura County and applicable to the Project. The mere acquisition or rental of any Lot in the Project or the mere act of occupancy of any Lot will signify that these Bylaws are accepted, ratified, and will be complied with.

1.3. Meaning of Terms.

Unless otherwise specifically provided herein, the capitalized terms in these Bylaws shall have the same meanings as are given to such terms in the Declaration.

ARTICLE II

2. Voting by Association Membership.

2.1. Voting Rights.

The Association shall have three (3) classes of voting Membership, as further provided in the Declaration.

Class A. Class A Members shall originally be all Owners except the Declarant and the Merchant Builders, for so long as there exists a Class B Membership. Class A Members shall be entitled to one (1) vote for each Lot owned by such Class A Member and subject to assessment. Declarant and Merchant Builders shall become a Class A Member with regard to Lots owned by Declarant and Merchant Builders upon conversion of Declarant's and Merchant Builders' Class B Membership as provided below.

Class B. The Class B Member shall be Declarant and the Merchant Builders. The Class B Member shall be entitled to three (3) votes for each Lot owned and subject to assessment, provided that the Class B Membership shall cease and be converted to Class A Membership immediately upon the first to occur of the following events:

(1) The fifth anniversary of the first Close of Escrow in the Phase of Development for which a Final Subdivision Public Report was most recently issued; or

(2) The tenth anniversary of the first Close of Escrow pursuant to the Final Subdivision Public Report for Phase 1.

A Class B Member shall have the right to cause earlier conversion of its membership to Class A by so notifying the Secretary of the Association in writing.

Class C. In addition to other memberships it may hold, Declarant shall be the sole Class C Member of the Association. The Class C membership shall be considered a part of the Association's voting power for the sole purpose of the Class C Member electing a majority of the directors of the Association, and reference to "each class of membership" in this Declaration or in the Bylaws or the Articles shall not refer to Class C membership for any purpose other than election of Association directors. The directors shall be elected as set forth in the Bylaws. The Class C membership shall forever cease on the happening of any of the following events, whichever occurs earlier:

(1) The fifth anniversary of the first Close of Escrow in the Phase of Development for which a Final Subdivision Public Report was most recently issued; or

(2) The tenth anniversary of the first Close of Escrow pursuant to the Final Subdivision Public Report for Phase 1.

The Class C member shall have the right to cause early termination of the Class C membership or to reduce the number of directors which the Class C member is entitled to elect by so notifying the Secretary of the Association in writing.

Anything herein stated to the contrary notwithstanding, this Section shall not be amended to affect Class B or C voting rights without the Declarant's and the Merchant Builders' prior written consent.

Except as provided in Section 14.2 of the Declaration and Section 4.9 of these Bylaws, as long as there exists a Class B Membership, any provision of these Bylaws which expressly requires the vote or written consent of (i) the Owners of the Association or (ii) the Owners of the Association other than Declarant and Merchant Builders, before an action by the Association may be undertaken, shall require the approval of the prescribed majority or specified percentage of the voting power of each class of Membership. Except as provided in Section 14.2 of the Declaration and Section 4.9 of these Bylaws, when the Class B Membership has terminated, any provision of these Bylaws, the Declaration, or the Articles which expressly requires the vote or written consent of (i) the Owners of the Association or (ii) the Owners of the Association other than Declarant and Merchant Builders, before an action by the Association may be undertaken, shall require the approval of Owners representing the prescribed majority or specified percentage of both (i) the total voting power of the Association and (ii) and the voting power of the Association residing in Owners other than Declarant and Merchant Builders.

2.2. Majority of Quorum.

Unless otherwise expressly provided in these Bylaws 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.

2.3. Quorum.

Except as otherwise provided in these Bylaws or the Declaration, the presence in person or by proxy of at least a majority of the voting power of the Membership of the Association shall constitute a quorum of the Membership. The Members present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough Members to leave less than a quorum, if any action taken (other than adjournment) is

approved by at least a majority of the Members required to constitute a quorum. Notwithstanding anything herein to the contrary, the Class C Member must be present for purposes electing directors at the annual or a special meeting of Members.

2.4. Proxies.

Votes may be cast in person or by proxy and all proxies must be in writing. Every proxy shall be revocable and shall automatically cease after completion of the meeting for which the proxy was filed. Any form of proxy or written ballot distributed by any Person to the Members of the Association shall afford the opportunity to specify a choice between approval and disapproval of each matter or group of matters to be acted upon, except it shall not be mandatory that a candidate for election to the Board be named in the proxy or written ballot. The proxy or written ballot shall provide that, when the Member specifies a choice, the vote shall be cast in accordance with that choice. The proxy shall also identify the person or persons who is authorized to exercise the proxy and the length of time it will be valid.

ARTICLE III

3. Administration.

3.1. Association Responsibilities.

In accordance with the provisions of the Declaration, the Association shall have the responsibility of administering the Property, approving the Budget, establishing and collecting all assessments applicable to the Property, and arranging for overall architectural control of the Property.

3.2. Place of Meetings of Members.

Meetings of the Members shall be held on the Property, or such other suitable place as proximate thereto as practicable, in Ventura County, convenient to the Owners, as may be designated by the Board of Directors.

3.3. Annual Meetings of Members.

The first annual meeting of Members shall be held within forty-five (45) days after Close of Escrow for the sale of fifty-one percent (51%) of the Lots in Phase 1 if Phase 1 consists of fifty (50) or more Lots. In no event shall the first annual meeting of the Members be held later than six (6) months after the Close of Escrow for the sale of the first Lot in Phase 1, without regard to the number of Lots in Phase 1. Thereafter, the annual meetings of the Members shall be held on or about the anniversary date of the first annual meeting. At each annual meeting there shall be elected by ballot of the Members a Board of Directors of the Association, in accordance with the requirements of Article IV, Section 4.5 of these Bylaws. The Members may also transact such other business of

the Association as may properly come before them. Each first Mortgagee of a Lot in the Project may designate a representative to attend all annual meetings of the Members.

3.4. Special Meetings of Members.

It shall be the duty of the Board to call a special meeting of the Members, as directed by resolution of a majority of a quorum of the Board of Directors, by request of the President of the Association, or upon receipt by the Secretary of a petition signed by Members representing at least five percent (5%) of the total voting power of the Association. The notice of any special meeting shall be given within twenty (20) days after adoption of such resolution or receipt of such request or petition and shall state the date, time and place of such meeting and the general nature of the business to be transacted. The special meeting shall be held not less than thirty-five (35) days nor more than ninety (90) days after adoption of such resolution or receipt of such request or petition. No business shall be transacted at a special meeting except as stated in the notice. Each first Mortgagee of a Lot in the Project may designate a representative to attend all special meetings of the Members.

3.5. Notice of Meetings to Members.

It shall be the duty of the Secretary to send a notice of each annual or special meeting by first-class mail, at least ten (10) but not more than ninety (90) days prior to such meeting, stating the purpose thereof as well as the day, hour and place where it is to be held, to each Member of record, and to each first Mortgagee of a Lot which Mortgagee has filed a written request for notice with the Secretary. The notice may set forth time limits for speakers and nominating procedures for the meeting. The notice of any meeting at which Directors are to be elected shall include the names of all those who are nominees at the time the notice is given to the Members. The mailing of a notice, postage prepaid, in the manner provided in this Section, shall be considered notice served, forty-eight (48) hours after said notice has been deposited in a regular depository of the United States mail. Such notice shall be posted in a conspicuous place on the Common Property, and such notice shall be deemed served upon a Member upon posting if no address for such Member has been then furnished the Secretary. The Board of Directors may fix a date in the future as a record date for the determination of the Members entitled to notice of any meeting of Members. The record date so fixed shall be not less than ten (10) days nor more than ninety (90) days prior to the date of the meeting. If the Board does not fix a record date for notice to Members, the record date shall be the close of business on the business day preceding the day on which notice is given. Only Members who on the record date for notice of the meeting are entitled to vote thereat, shall be entitled to notice of the meeting, notwithstanding any transfer of or issuance of Membership certificates on the books of the Association after the record date. In addition, the record date for notice of the meeting shall be the record date for determining the Members entitled to vote at the meeting.

3.6. Adjourned Meetings.

If any meeting of Members cannot be organized because a quorum is not present, a majority of the Members who are present, either in person or by proxy, may adjourn the meeting to a time not less than five (5) days nor more than thirty (30) days from the time the original meeting was called, at which meeting the quorum requirement shall be the presence in person or by proxy of the Members holding at least twenty-five percent (25%) of the voting power of the Association. Such an adjourned meeting may be held without notice thereof as provided in this Article III, provided that notice is given by announcement at the meeting at which such adjournment is taken. If, however, such an adjourned meeting is actually attended, in person or by proxy, by Members having less than one-third (1/3rd) of the voting power of the Association, notwithstanding the presence of a quorum, no matter may be voted upon except such matters notice of the general nature of which was given pursuant to Section 3.5 hereof. No action by the Members on any such matter shall be effective if the votes cast in favor are fewer than the minimum number of votes required by the Restrictions to approve such an action.

3.7. Order of Business.

The order of business at all meetings of the 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 officers; (e) reports of committees; (f) election of inspector of elections (at annual meetings or special meetings held for such purpose); (g) election of Directors (at annual meetings or special meetings held for such purpose); (h) unfinished business; and (i) new business.

3.8. Action Without Meeting.

Any action, which may be taken at a meeting of the Members (except for the election of Directors) may be taken without a meeting by written ballot of the Members. Ballots shall be solicited in the same manner as provided in Section 3.5 for the giving of notice of meetings of Members. Such solicitations shall specify (a) the number of responses needed to meet the quorum requirements, (b) the percentage of approvals necessary to approve the action, and (c) the time by which ballots must be received in order to be counted. The form of written ballot shall afford an opportunity to specify a choice between approval and disapproval of each matter and shall provide that, where the Member specifies a choice, the vote shall be cast in accordance therewith. Receipt within the time period specified in the solicitation of a number of ballots which equals or exceeds the quorum which would be required if the action were taken at a meeting and a number of approvals which equals or exceeds the number of votes which would be required for approval if the action were taken at a meeting at which the total number of votes cast was the same as the total number of ballots cast shall constitute approval by written ballot.

3.9. Consent of Absentees.

The transactions of any meeting of Members, either annual or special, however called and noticed, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present either in person or by proxy, and if, either before or after the meeting, each of the Members not present in person or by proxy, signs a written waiver of notice, or a consent to the holding of such meeting, or an approval of the Minutes thereof. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the Minutes of the Meeting.

3.10. Minutes, Presumption of Notice.

Minutes or a similar record of the proceedings of meetings of Members, when signed by the President or Secretary, shall be presumed truthfully to evidence the matters set forth therein. A recitation in the Minutes executed by the Secretary that notice of the meeting was properly given shall be prima facie evidence that such notice was given.

ARTICLE IV

4. Board of Directors.

4.1. Number and Qualification.

The affairs of the Association shall be governed and managed by a Board of Directors, each of whom, except for those appointed and serving as first Directors, must either be an Owner or an agent of Declarant or an agent of a Merchant Builder for so long as Declarant or such Merchant Builder owns a Lot in the Project or is entitled to add any of the Annexable Territory to the Property without the vote of the Members pursuant to the Declaration. Prior to the first annual meeting of the Members, the Board shall be composed of three (3) Persons. At the first annual meeting, the Members shall elect five (5) Persons to the Board, and the Board shall thereafter be composed of five (5) Persons. The authorized number of Directors may be changed by a duly adopted amendment to the Bylaws. Directors and officers shall not receive any salary or compensation for their services as Directors and officers unless such compensation is approved by the vote or written consent of Members representing at least a majority of both the Class A and Class B voting power; provided, however, that (1) nothing herein contained shall be construed to preclude any Director from serving the Association in some other capacity and receiving compensation therefor, and (2) any Director or officer may be reimbursed for his actual expenses incurred in the performance of his duties.

4.2. Powers and Duties.

The Board of Directors has the powers and duties necessary for the administration of the affairs of the Association and may do all such acts and things as are not by law or by these Bylaws directed to be exercised and done by the Members. The

Board of Directors shall not enter into any contract for furnishing of goods and services to the Association for a term in excess of one (1) year, without the assent, by vote at a meeting of the Association, or by written ballot without a meeting pursuant to Corporations Code Section 7513, of a majority of the Members constituting a quorum consisting of more than fifty percent (50%) of the voting power of the Association, except for the following matters (which shall not require such Member approval): (1) a contract with a public utility company if the rates charged for the materials or services are regulated by the California Public Utilities Commission; provided, however, that the term of the contract shall not exceed the shortest term for which the public utility company will contract at the regulated rate; (2) a management contract the terms of which conform to the requirements of Section 4.4 hereof; (3) prepaid casualty or liability insurance policies of not to exceed three (3) years' duration, provided that the policies permit short term cancellation by the Association; (4) lease agreements for laundry room fixtures and equipment of not to exceed five (5) years duration provided that the lessor under any such agreement is not an entity in which Declarant or a Merchant Builder has a direct or indirect ownership interest of ten percent (10%) or more; (5) agreements for cable television services and equipment or satellite dish television services and equipment with terms not in excess of five (5) years, provided that Declarant or a Merchant Builder does not have a direct or indirect ownership interest in the supplier of such services or equipment equal to or greater than ten percent (10%); (6) agreements for sale or lease of burglar alarm and fire alarm equipment, installation and services with terms not in excess of five (5) years, provided that Declarant or a Merchant Builder does not have a direct or indirect ownership interest in the supplier of such services or equipment equal to or greater than ten percent (10%); and (7) any other contract for a term not in excess of three (3) years, provided that such contract is terminable by the Association, beginning not more than one (1) year after commencement of the contract, without cause, penalty or other obligation, upon not more than ninety (90) days written notice of termination to the other party.

4.3. Special Powers and Duties.

Without prejudice to such foregoing general powers and duties and such powers and duties as set forth in the Declaration, the Board of Directors is vested with, and responsible for, the following powers and duties:

(a) The power and duty to select, appoint, and remove all officers, agents and employees of the Association, to prescribe such powers and duties for them as may be consistent with law, the Articles of Incorporation, the Declaration and these Bylaws; to fix their compensation and to require from them security for faithful service when deemed advisable by the Board.

(b) The power and duty to conduct manage and control the affairs and business of the Association, and to make and enforce such rules and regulations therefor consistent with law, the Articles of Incorporation, the Declaration and these Bylaws, as the Board may deem necessary or advisable.

(c) The power but not the duty to change the principal office for the transaction of the business of the Association from one location to another; to designate any place within said County for the holding of any annual or special meeting or meetings of Members consistent with the provisions of Article III, Section 3.2 hereof; and to adopt and use a corporate seal and to alter the form of such seal from time to time, as the Board, in its sole judgment, may deem best, provided that such seal shall at all times comply with the provisions of law.

(d) With the approval of Members representing at least two-thirds (2/3rds) of the voting power of the Association, the power but not the duty to borrow money and to incur indebtedness for the purposes of the Association, and to cause to be executed and delivered therefor, in the Association's name, promissory notes, bonds, debentures, deeds of trust, mortgages, pledges, hypothecations or other evidences of debt and securities therefor.

(e) The power and duty to fix and levy from time to time Annual Assessments, Special Assessments, and Reconstruction Assessments upon Members, as provided in the Declaration; to fix and levy from time to time in any Fiscal Year Capital Improvement Assessments applicable to that year only for capital improvements; to determine and fix the due date for the payment of such assessments, and the date upon which the same shall become delinquent; provided, however, that such assessments shall be fixed and levied only to provide for the payment of the Common Expenses of the Association and of taxes and assessments upon real or personal property owned, leased, controlled or occupied by the Association, or for the payment of expenses for labor rendered or materials or supplies used and consumed, or equipment and appliances furnished for the maintenance, improvement or development of such property or for the payment of any and all obligations in relation thereto, or in performing or causing to be performed any of the purposes of the Association for the general benefit and welfare of its Members, in accordance with the provisions of the Declaration. The Board of Directors is hereby authorized to incur any and all such expenditures for any of the foregoing purposes and to provide, or cause to be provided, adequate reserves for replacements as it shall deem to be necessary or advisable in the interest of the Association or welfare of its Members. The funds collected by the Board of Directors from the Members, attributable to replacement reserves, for maintenance costs which cannot normally be expected to occur on an annual basis and for capital improvements, shall at all times be held in trust for the Members. Disbursements from such trust reserve fund shall be made only in accordance with the provisions of the Declaration. Such Annual Assessments, Reconstruction Assessments, Special Assessments and Capital Improvement Assessments shall be fixed in accordance with the provisions of the Declaration. Should any Member fail to pay such assessments before delinquency, the Board of Directors in its discretion is authorized to enforce the payment of such delinquent assessments as provided in the Declaration.

(f) The power and duty to enforce the provisions of the Declaration, these Bylaws or other agreements of the Association.

(g) The power and duty to contract for and pay for, as reasonably necessary, fire, casualty, blanket liability, malicious mischief, vandalism, errors and omissions, liquor liability and other insurance, insuring the Members, the Association, the Board of Directors and other interested parties, in accordance with the provisions of the Declaration, covering and protecting against such damages or injuries as the Board deems advisable (which may include without limitation, medical expenses of persons injured on the Common Property).

(h) The power and duty to contract for and pay for maintenance, legal, accounting, gardening, and common utilities services, and for materials and supplies and other Common Expenses relating to the Common Property, and relating to the Lots only to the extent not separately metered or charged, and to employ personnel necessary for the operation of the Property, including legal and accounting services, and to contract for and pay for Improvements on the Common Property.

(i) The power but not the duty to delegate its powers according to law, and subject to the approval of the Members, to adopt these Bylaws.

(j) The power but not the duty to grant easements where necessary for utility and other purposes over the Common Property for the benefit of the Members of the Association.

(k) The power and duty to adopt such Rules and Regulations as the Board may deem necessary for the management of the Project, which Rules and Regulations shall become effective and binding after (1) they are adopted by a majority of the Board at a meeting called for that purpose, or by the written consent of the Board in accordance with Section 4.13, and (2) they are posted in a conspicuous place in the Common Property. Such Rules and Regulations may concern, without limitation, use of the Common Property; signs; collection and disposal of refuse; minimum standards of property maintenance consistent with the Declaration and the procedures of the Architectural Committee; and any other matter within the jurisdiction of the Association as provided in the Declaration; provided, however, that such Rules and Regulations shall be enforceable only to the extent that they are consistent with the Declaration, the Articles of Incorporation and these Bylaws, and the Rules and Regulations may not be used to amend any of said documents.

(l) The power and duty to keep, or cause to be kept, a complete record of all acts and corporate affairs of the Association and to present a statement thereof to the Members at the annual meeting of the Members and at any other time that such statement is requested by at least ten percent (10%) of the Members who are entitled to vote.

(m) The power but not the duty to appoint a Membership Committee composed of at least one (1) Director and at least one (1) Association Member at large. The Membership Committee shall be responsible for contacting all purchasers of Lots in the Project as soon as any transfer of title to a Lot is discovered. The Membership Committee shall further attempt to establish initial contact with all Members who are delinquent in the payment of any assessments or other charges due the Association.

(n) The power but not the duty to sell property of the Association; provided, however, that the prior vote or written approval of the Members representing at least a majority of the voting power of the Association must be obtained to sell during any Fiscal Year any property of the Association having an aggregate fair market value greater than five percent (5%) of the budgeted gross expenses of the Association for that Fiscal Year.

(o) The power, subject to compliance with Section 1354 of the California Civil Code, to institute, defend, settle or intervene on behalf of the Association in litigation, arbitration, mediation, or administrative proceedings in matters pertaining to (A) enforcement of the governing instruments, (B) damage to the Common Property, (C) damage to the Separate Interests, if any, which the Association is obligated to maintain or repair, or (D) damage to the Separate Interests which arises out of, or is integrally related to, damage to the Common Property or to the Separate Interests, if any, that the Association is obligated to maintain or repair.

4.4. Management Agent.

The Board of Directors may engage a professional Manager for the Association at a compensation established by the Board to perform such duties and services as the Board shall authorize. The maximum term of any such contract ("Management Contract") shall be one (1) year, unless a longer term is (i) contained in a management contract, the terms of which have been approved by the FHA or VA, or (ii) such Management Contract provides for its termination by either party thereto without cause and without payment of a termination fee upon no more than ninety (90) days' written notice to the other party, in which case the maximum term of the Management Contract shall be three (3) years. The maximum term of any contract providing for Declarant's services to the Association or the Project shall also be three (3) years, and shall also provide for its termination by either party thereto without cause and without payment of a termination fee upon no more than ninety (90) days written notice to the other party.

4.5. Election and Term of Office.

(a) Directors shall be elected by secret written ballot of the Members.

(1) At the first annual meeting of the Members and continuing for each annual meeting until termination of Class C membership, the majority of the Directors shall be elected by the Class C Member, and the remaining Directors shall be elected as provided in these Bylaws, and all positions on the Board of Directors shall be filled at that election. In the event that an annual meeting is not held, or the Board is not elected thereat, the Board may be elected at any special meeting of the Members held for that purpose. Each Director shall hold office until his successor has been elected or until his death, resignation, removal or judicial adjudication of mental incompetence. The term of office of the three (3) Directors elected by the Class C Member at the first annual meeting shall be two (2) years and the term of office of the two (2) Directors receiving the highest number of votes of the Class A and B Members at the first annual meeting shall be one (1) year.

(2) At the annual meetings of Members which take place after the termination of the Class C membership, all of the Directors shall be elected by the Members. New Directors shall also be elected to fill vacancies created by the death, resignation, removal, judicial adjudication of mental incompetence or expiration of the terms of past Directors. The term of office of each Director elected to fill a vacancy created by the expiration of the term of office of the respective past Director shall be two (2) years. The term of office of each Director elected or appointed to fill a vacancy created by the resignation, death or removal of his predecessor shall be the balance of the unserved term of his predecessor. Any person serving as a Director may be reelected, and there shall be no limitation on the number of terms during which he may serve. Cumulative voting shall be used in the election of Directors for any election in which more than two (2) Directors are to be selected, subject only to the procedural prerequisites to cumulative voting in the following sentence. A member may cumulate his votes for any candidate for the Board if the candidate's name has been placed in nomination prior to the voting and if such Member, or any other Member, has given notice at the meeting prior to the voting of such Member's intention to cumulate votes. If a Member cumulates his votes, such Member may cast a number of votes equal to the Member's share of the voting power as set forth in the Declaration, multiplied by the number of Directors to be elected.

(b) Notwithstanding the foregoing, whenever (1) notice is given for an election of Directors of the Board and (2) upon such date the Members other than Declarant and the Merchant Builders do not have a sufficient percentage of the voting power of the Association to elect at least one (1) Director through the foregoing cumulative voting procedure and (3) following such election, the Members other than the Declarant and the Merchant Builders would not otherwise have a representative on the Board selection through the special procedure set forth in this Section 4.5(b), then such notice shall also provide for the following

special election procedure. Election of one (1) Director shall be apportioned entirely to the Members other than Declarant and the Merchant Builders. Any person shall be an eligible candidate for the special election upon receipt by the Secretary of a Declaration of Candidacy, signed by the candidate, at any time prior to the election. Such election shall be by secret ballot unless a majority of the Members other than Declarant and the Merchant Builders determine otherwise. The person receiving a majority of the votes cast by the Members other than Declarant and the Merchant Builders shall be elected a Member of the Board in a coequal capacity with all other Directors. The remaining Directors of the Board shall be elected through the customary cumulative voting procedure outlined above.

4.6. Books. Audit.

The following financial information shall be prepared and distributed by the Board to all Members (and any Mortgagee, insurer and guarantor of a first Mortgage upon request), regardless of the number of Members or the amount of assets of the Association:

(a) A pro forma operating budget for each Fiscal Year consisting of at least the following information shall be distributed not less than forty-five (45) nor more than sixty (60) days prior to the beginning of the Fiscal Year.

(1) The estimated revenue and Common Expenses of the Association computed on an accrual basis.

(2) A summary of the Association's reserves based upon the most recent review or study conducted pursuant to Civil Code Section 1365.5, which shall be printed in bold type and include all of the following:

(i) the current estimated replacement cost, estimated remaining life, and estimated useful life of each major component;

(ii) as of the end of Fiscal Year for which the study is prepared:

(A) the current estimate of the amount of cash reserves necessary to repair, replace, restore, or maintain the major components;

(B) the current amount of accumulated cash reserves actually set aside to repair, replace, restore, or maintain major components; and

(iii) the percentage that the amount determined for purposes of clause (B) of subparagraph (ii) is of the amount determined for purposes of clause (A) of subparagraph (ii).

(3) A statement as to whether the Board has determined or anticipates that the levy of one or more special assessments will be required to repair, replace, or restore any major component or to provide adequate reserves therefor.

(4) A general statement setting forth the procedures used by the Board in the calculation and establishment of reserves to defray the costs of repair and replacement of, or additions to, major components of the Common Property and facilities for which the Association is responsible.

(b) A balance sheet as of an accounting date which is the last day of the month closest in time to six (6) months from the date of the first Close of Escrow for the sale of a Lot in the Project and an operating statement for the period from the date of the first Close of Escrow to the said accounting date, shall be distributed within sixty (60) days after the accounting date. Such operating statement shall include a schedule of assessments received and receivable identified by the number of the Lot and the name of the Owner assessed.

(c) A report consisting of the following shall be distributed within one hundred twenty (120) days after the close of the Fiscal Year.

(1) A balance sheet as of the end of the Fiscal Year.

(2) An operating (income) statement for the Fiscal Year.

(3) A statement of changes in financial position for the Fiscal Year.

(4) Any information required to be reported under Section 8322 of the California Corporations Code.

(5) For any Fiscal Year in which the gross income to the Association exceeds \$75,000, a copy of review of the annual report prepared in accordance with generally accepted accounting principles by a licensee of the California State Board of Accountancy.

(6) A statement of the place where the names and addresses of the current Members is located.

If the report referred to above is not prepared by an independent accountant, it shall be accompanied by the certificate of an authorized officer of the

Association stating that the statement was prepared from the books and records of the Association without independent audit or review.

At the time the pro forma operating budget is distributed as required by subsection (a) above or at the time of any general mailing, members of the Association shall be notified in writing of their right to have copies of the minutes of meetings of the Board and as to how and where those minutes may be obtained and the cost of obtaining such copies.

In lieu of the distribution of the pro forma operating budget as required by subsection (a) of this Section, the Board may elect to distribute a summary of the items described in subsections (a)(1)-(4) to all Members of the Association with a written notice that the budget is available at the business office of the Association or at another suitable location within the boundaries of the Project and that copies will be provided upon request and at the expense of the Association. If any Member requests copies of the pro forma operating budget, including the items described in subsections (a)(1)-(4), to be mailed to the Member, the Association shall mail such copies to the Member at the expense of the Association by first-class United States mail within five days. The written notice that is distributed to each of the Association Members shall be in at least 10-point bold type on the front page of the summary of the statements.

In addition to financial statements, the Board shall annually distribute within sixty (60) days prior to the beginning of the Fiscal Year a statement of the Association's policies and practices in enforcing its remedies against Members for defaults in the payment of Annual, Capital Improvement, Reconstruction and Special Assessments, including the recording and foreclosing of liens against Members' Lots.

The Board shall perform the following on at least a quarterly basis: (1) cause to be completed and review a current reconciliation of the Association's operating accounts and reserve accounts, (2) review the current Fiscal Year's actual reserve revenues and expenses compared to the Budget for the then current Fiscal Year, (3) review the income and expense statement for the Association's operating and reserve accounts, and (4) review the most current account statements prepared by the financial institutions where the Association maintains its operating and reserve accounts. The signatures of either (i) two (2) Directors of the Association, or (ii) one (1) Director and one (1) Officer of the Association (who is not also a Director) shall be required for the withdrawal of money from the Association's reserve accounts. As used in this paragraph, the term "reserve accounts" means monies that the Board has identified from its Budget for use to defray the future repair and replacement of, or additions to, those major components which the Association is obligated to maintain.

All books, records and papers of the Association (including mailing addresses and telephone numbers of the Members) shall be made available for inspection and copying by any Member, prospective purchaser of a Lot in the Project, and any Mortgagee, insurer, and guarantor of a first Mortgage, or their duly appointed representatives at the principal office of the Association or at such other place within the

Property as the Board may prescribe. In the case of the minutes, minutes proposed for adoption that are marked to indicate draft status, or a summary of the minutes, of any meeting of the Board, other than an executive session, shall be available to Members within 30 days of the applicable Board meeting and shall be distributed to only Members upon request and payment of the fee prescribed herein. The Board shall establish reasonable rules with respect to (1) notice to be given to the custodian of the records by the Member desiring to make the inspection, (2) hours and days of the week when such an inspection may be made and (3) payment of the cost of reproducing copies of documents requested by a Member. 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. A Director's right of inspection shall include the right to make extracts and copies of documents.

Pursuant to Section 1365.5 of the Civil Code, at least once every three (3) years, the Board shall cause to be conducted a reasonably competent and diligent visual inspection of the accessible areas of the major components which the Association is obligated to repair, replace, restore, or maintain as part of a study of the reserve account requirements of the Project if the current replacement value of the major components which the Association is obligated to repair, replace, restore, or maintain is equal to or greater than one-half (1/2) of the gross Budget of the Association which excludes the Association's reserve accounts for that period. The Board shall review this study annually and shall consider and implement necessary adjustments to the Board's analysis of the reserve account requirements as a result of that review. The study required by this Section 4.6 shall at a minimum include:

- (i) Identification of the major components which the Association is obligated to repair, replace, restore, or maintain which, as of the date of the study, have a remaining useful life of less than thirty (30) years.
- (ii) Identification of the probable useful life of the components identified in (i) directly above as of the date of the study.
- (iii) An estimate of the cost of repair, replacement, restoration, or maintenance of the components identified in (i) directly above during and at the end of their useful life.
- (iv) An estimate of the total annual contribution necessary to defray the cost to repair, replace, restore, or maintain the components identified in (i) directly above during and at the end of their useful life, after subtracting total reserves as of the date of the study.

4.7. Insurance.

Within sixty (60) days preceding the beginning of the Association's fiscal year, the Board shall distribute to all Members (and any Mortgagee, Insurer, and

Guarantor of the First Mortgage upon request), regardless of the number of Members or the amount of assets of the Association, the following:

(a) A summary of the Association's general liability policy that states all the following:

(1) The name of the insurer.

(2) The policy limits of the insurance.

(3) If an insurance agent as defined in Section 1621 of the Insurance Code, an Insurance Broker as defined in Section 1623 of the Insurance Code, or an agent of an insurance agent or insurance broker has assisted the Association in the development of the general liability policy limits and if the recommendations of the insurance agent or insurance broker were followed.

(4) The insurance deductibles.

(5) The person or entity that is responsible for paying the insurance deductible in the event of loss.

(6) Whether or not the insurance coverage extends to the real property improvements to the separate interests.

(b) A summary of the Association's earthquake and flood insurance policy, if one has been issued, that states all the following:

(1) The name of the insurer.

(2) The policy limits of the insurance.

(3) The insurance deductibles.

(4) The person or entity that is responsible for paying the insurance deductible in the event of loss.

(c) A summary of the liability coverage policy for the directors and officers of the Association that lists all of the following:

(1) The name of the insurer.

(2) The policy limits of the insurance.

(3) The insurance deductibles.

(4) The person or entity that is responsible for paying the insurance deductible in the event of loss.

The Association shall, as soon as reasonably practical, notify its Members by first class mail if any of the policies described in subsections (a), (b) or (c) above have lapsed or been canceled and not immediately replaced, or if there is a significant change, such as a reduction in coverage or limits, or an increase in the deductible, for any of those policies. If the Association renews any of the policies or a new policy is issued to replace an insurance policy of the Association, and where there is no lapse in coverage, the Association shall notify its Members of that fact at the next available mailing to all Members pursuant to Section 5016 of the Corporations Code.

To the extent that the information to be disclosed pursuant to subdivisions (a), (b), and (c) is specified in the insurance policy declaration page, the Association may meet the requirements of those subdivisions by making copies of that page and distributing it to all its Members.

The summaries distributed pursuant to this Section 4.7 shall contain, in at least 10 point bold face type, the following statements:

“This summary of the Association’s policies of insurance provides only certain information, as required by subdivision (e) of Section 1365 of the Civil Code, and should not be considered a substitute for the complete policy terms and conditions contained in the actual policies of insurance. Any Association member may, upon request and provision of reasonable notice, review the Association’s insurance policies and, upon request and payment of reasonable duplication charges, obtain copies of those policies. Although the Association maintains the policies of insurance specified in this summary, the Association’s policies of insurance may not cover your property, including personal property or real property improvements to or around your dwelling, or personal injuries or other losses that occur within or around your dwelling. Even if a loss is covered, you may nevertheless be responsible for paying all or a portion of any deductible that applies. Association members should consult with their individual insurance broker or agent for appropriate additional coverage.”

4.8. Vacancies.

Vacancies in the Board of Directors caused by any reason other than the removal of a Director by the Class C Member or the removal of a Director by a vote of the Members of the Association shall be filled by vote of the majority of the remaining Directors, even though they may constitute less than a quorum. Any vacancy caused by the removal of a Director elected to office solely by the votes of Members of the Association other than Declarant and the Merchant Builders may be filled by the vote or

written consent of a majority of the voting power of the Association residing in Members other than Declarant and the Merchant Builders. A Director may resign at any time by giving notice to the President, the Secretary or the Board. Any Director who ceases to be an Owner, an agent of Declarant, or an agent of a Merchant Builder shall be deemed to have resigned from the Board. A vacancy or vacancies shall be deemed to exist in case of death, resignation, removal or judicial adjudication of mental incompetence of any Director, or in case the Members fail to elect the full number of authorized Directors at any meeting at which such election is to take place. Any vacancy not filled by the Directors may be filled by vote of the Members at the next annual meeting of the Members or at a special meeting of the Members called for such purpose.

4.9. Removal of Directors.

At any regular or special meeting of the Members duly called, any one individual Director or the entire Board may be removed prior to the expiration of their terms of office with or without cause as follows: (i) for so long as fewer than fifty (50) Lots are included within the Project, by the vote of Members representing a majority of the total voting power of the Association (including votes attributable to Declarant and the Merchant Builders), and (ii) once fifty (50) or more Lots are included within the Project, by the vote of Members representing a majority of a quorum of Members. Notwithstanding the foregoing, if the entire Board of Directors is not removed as a group pursuant to a single vote, no individual Director shall be removed if the number of votes cast against his removal would be sufficient to elect such 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 Director's most recent election were than being elected. Any Director whose removal has been proposed by the Members shall be given an opportunity to be heard at the meeting. If any or all of the Directors are so removed at a meeting, new Directors may be elected at the same meeting. Notwithstanding the foregoing, any Director who has been elected to office solely by the votes of Members other than Declarant and the Merchant Builders pursuant to Section 4.5 of this Article IV 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 Declarant and the Merchant Builders.

4.10. Organization Meeting of Board.

An organizational meeting shall be held as soon as practicable after incorporation of the Association, and the directors elected then shall hold office until the first annual meeting of the Members of the Association. All offices of the Board shall be filled at the organizational meeting. After the first annual meeting of the Members, the first regular meeting of a newly elected Board of Directors shall be held within ten (10) days of election of the Board, at such place as shall be fixed and announced by the Directors at the meeting at which such Directors were elected, for the purpose of organization, election of officers and the transaction of other business. No notice shall be necessary to the newly elected Directors in order legally to constitute such meeting; provided that (1) a majority of the whole Board shall be present when the date, time and

place are announced at the membership meeting and (2) the meeting is held on that same date and at that same time and place as announced at the meeting of the Members at which the newly constituted Board was elected.

4.11. Regular Meetings of Board.

Regular meetings may be held at such time and place within the Project as shall be determined, from time to time, by a resolution adopted by a majority of a quorum of the Directors; provided, however, that such meetings shall be held no less frequently than every six (6) months. Notice of the time and place of regular meetings of the Board of Directors shall be given to each Director, personally or by mail, telephone or telegraph, and posted at a prominent place or places within the Common Property at least four (4) days prior to the date named for such meeting. If the Common Area consists only of an easement or is otherwise unsuitable for posting of such notice, the Board shall communicate the notice of the time and place of such meeting by any means it deems appropriate.

4.12. Special Meetings of Board.

Special meetings may be called by the President or by any two (2) Directors upon four (4) days' notice by first-class mail or seventy-two (72) hours' notice delivered personally or by telephone or telegraph. The notice shall state the time, place (as hereinabove provided) and the purpose of the meeting, and shall be posted at a prominent place or places within the Common Property in the same manner as prescribed for regular meetings.

If served by mail, each such notice shall be sent, postage prepaid, to the address of each Director reflected on the records of the Association, and shall be deemed given, if not actually received earlier, at 5:00 o'clock p.m. on the second day after it is deposited in a regular depository of the United States mail as provided herein. Whenever any Director has been absent from any special meeting of the Board, an entry in the Minutes to the effect that notice has been duly given shall be conclusive and incontrovertible evidence that due notice of such meeting was given to such Director, as required by law and as provided herein.

4.13. Member Participation at Board Meetings; Minutes of Board Meetings.

(a) Any Member of the Association may attend regular or special meetings of the Board of Directors of the Association, except when the Board adjourns to executive session to consider litigation, matters relating to the formation of contracts with third parties, Member discipline, or personnel matters. The Board of Directors of the Association shall meet in an executive session, if requested by a Member who may be subject to a fine, penalty, or other form of discipline, and the Member shall be entitled to attend the executive session.

(b) Any matter discussed in executive session shall be generally noted in the minutes of the Board of Directors.

(c) The minutes, minutes proposed for adoption that are marked to indicate draft status, or a summary of the minutes, of any meeting of the Board of Directors of the Association, other than an executive session, shall be available to the Members within thirty (30) days of the meeting.

The Minutes, Proposed Minutes, or Summary Minutes shall be distributed to any Member of the Association upon request and upon reimbursement of the Association's costs for making that distribution.

(d) Members of the Association shall be notified in writing at the time that the pro forma operating budget required in Section 1365 is distributed, or at the time of any general mailing to the entire Membership, of their right to have copies of the minutes of meetings of the Board of Directors, and how and where those minutes may be obtained.

(e) As used in this section, "meeting" includes any congregation of the majority of the members of the Board at the same time and place to hear, discuss, or deliberate upon any item of business scheduled to be heard by the Board, except those matters that may be discussed in the executive session.

(f) An emergency meeting of the Board may be called by the President of the Association, or by any two members of the governing body other than the President, if there are circumstances that could not have been reasonably foreseen which require immediate attention and possible action by the Board, and which of necessity make it impracticable to provide notice as required by this Section 4.

(g) The Board shall permit any Member of the Association to speak at any meeting of the Association or the Board, except for meetings of the Board held in executive session. A reasonable time limit for all Members of the Association to speak to the Board or before a meeting of the Association shall be established by the Board.

4.14. Waiver of Notice.

Before or at any meeting of the Board of Directors, any Director may, in writing, waive personal notice of such meeting and such waiver shall be deemed equivalent to the giving of such notice to such Director. Attendance by a Director at any meeting of the Board shall be a waiver by him of personal notice of the time and place thereof. If all the Directors are present at any meeting of the Board, no notice to Directors shall be required and any business may be transacted at such meeting. The transaction of any meeting of the Board, however called and noticed or wherever held, shall be as valid as though had at a meeting duly held after regular call and notice, if (1) a

quorum be present, (2) notice to the Members of such meeting was posted as provided in Sections 4.10 and 4.11 of this Article IV, and (3) either before or after the meeting, each of the Directors not present signs a written waiver of notice, a consent to holding such meeting, or an approval of the Minutes thereof. All such waivers, consents and approvals shall be filed with the records of the Association or made a part of the Minutes of the meeting.

4.15. Action Without Meeting.

Any action required or permitted to be taken by the Board may be taken without a meeting, if all Directors individually or collectively consent in writing to such action. Such written consent or consents shall be filed with the Minutes of the proceedings of the Board. Such action by written consent shall have the same force and effect as a unanimous vote of such Directors. An explanation of any action taken by unanimous written consent without a meeting shall be posted by the Board in a prominent place or places in the Common Property within three (3) days after the written consents of all Directors have been obtained. If the Common Property consists only of an easement or is otherwise unsuitable for posting the explanation of the action taken, the Board shall communicate said explanation by any means it deems appropriate.

4.16. Quorum and Adjournment.

Except as otherwise expressly provided herein, at all meetings of the Board of Directors, a majority of the Directors shall constitute a quorum for the transaction of business, and the acts of the majority of the Directors present at a meeting at which a quorum is present shall be the acts of the Board of Directors. If at any meeting of the Board of Directors, there is less than a quorum present, the majority of those present may adjourn the meeting to another time. At any such adjourned meeting, any business which might have been transacted at the meeting as originally called may be transacted without further notice.

The Board of Directors may, with the approval of a majority of a quorum of the Directors, adjourn a meeting and reconvene in executive session to discuss and vote upon personnel matters, litigation in which the Association is or may become involved and orders of business of a similar nature. The nature of any and all business to be considered in executive session shall first be announced in open session.

4.17. Committees.

The Board of Directors, by resolution, may from time to time designate such committees as it shall desire, and may establish the purposes and powers of each such committee created. The resolution designating and establishing the committee shall provide for the appointment of its members, as well as a chairman, shall state the purposes of the committee, and shall provide for reports, termination, and other administrative matters as deemed appropriate by the Board.

ARTICLE V

5. Officers.

5.1. Designation.

The principal officers of the Association shall be a President, a Vice President, a Secretary, and a Treasurer, all of whom shall be elected by the Board of Directors. The Board of Directors may appoint an Assistant Treasurer, and an Assistant Secretary, and such other officers as in their judgment may be necessary. Officers other than the President need not be Directors. Any Person may hold more than one office.

5.2. Election of Officers.

The officers of the Association shall be elected annually by the Board of Directors at the organization meeting of each new Board of Directors, and each officer shall hold his office at the pleasure of the Board of Directors, until he shall resign or be removed or otherwise disqualified to serve or his successor shall be elected and qualified to serve.

5.3. Removal of Officers.

Upon an affirmative vote of a majority of the entire Board of Directors, any officer may be removed, either with or without cause, and his successor elected at any regular meeting of the Board of Directors, or at any special meeting of the Board of Directors called for such purpose. Any officer may resign at any time by giving written notice to the Board or to the President or Secretary of the Association. Any such resignation shall take effect at the date of receipt of such notice or at any later time specified therein; and unless otherwise specified in said notice, acceptance of such resignation by the Board shall not be necessary to make it effective.

5.4. Compensation.

Officers, agents, and employees shall receive such reasonable compensation for their services as may be authorized or ratified by the Board; provided, however, that no officer shall receive any compensation for services performed in the conduct of the Association's business unless such compensation is approved by the vote or written consent of Members representing at least a majority of the voting power of the Association; and provided further, that (1) nothing herein contained shall be construed to preclude any officer from serving the Association in some other capacity and receiving compensation therefor, and (2) any officer may be reimbursed for his actual expenses incurred in the performance of his duties. Appointment of any officer, agent, or employee shall not of itself create contractual rights of compensation for services performed by such officer, agent, or employee. Notwithstanding the foregoing, no officer, employee or director of Declarant, any Merchant Builder, or any affiliate of Declarant or a Merchant Builder may receive any compensation.

5.5. President.

The President shall be the chief executive officer of the Association. He shall preside at all meetings of the Association and of the Board of Directors. He shall have all of the general powers and duties which are usually vested in the office of the President of an Association, including but not limited to the power, subject to the provisions of Article IV, Section 4.15, to appoint committees from among the Members from time to time as he may in his discretion decide is appropriate to assist in the conduct of the affairs of the Association. The President shall, subject to the control of the Board of Directors, have general supervision, direction and control of the business of the Association. The President shall be ex officio a member of all standing committees, and he shall have such other powers and duties as may be prescribed by the Board of Directors or these Bylaws of the Association.

5.6. Vice President.

The Vice President shall take the place of the President and perform his duties whenever the President shall be absent or disabled or whenever the President refuses or is unable to act. If neither the President nor the Vice President is able to act, the Board of Directors shall appoint some other member of the Board to do so on an interim basis. The Vice President shall also perform such other duties as shall from time to time be imposed upon him by the Board of Directors or these Bylaws of the Association.

5.7. Secretary.

The Secretary shall keep the Minutes of all meetings of the Board of Directors and the Minutes of all meetings of the Association at the principal office of the Association or at such other place as the Board of Directors may order. The Secretary shall keep the seal of the Association in safe custody and shall have charge of such books and papers as the Board of Directors may direct; and the Secretary shall, in general, perform all of the duties incident to the office of Secretary. The Secretary shall give, or cause to be given, notices of meetings of the Members of the Association and of the Board of Directors required by these Bylaws or by law to be given. The Secretary shall maintain a record book of Owners, listing the names, mailing addresses and telephone numbers of Owners, as furnished to the Association, and such books shall be changed only at such time as satisfactory evidence of a change in ownership of a Lot is presented to the Secretary. The Secretary shall perform such other duties as may be prescribed by the Board of Directors or these Bylaws.

5.8. Treasurer.

The Treasurer shall be the chief financial officer of the Association and shall have responsibility for Association funds and securities and shall be responsible for keeping, or causing to be kept, full and accurate accounts, tax records and business transactions of the Association, including accounts of all assets, liabilities, receipts and

disbursements in books belonging to the Association. The Treasurer shall be responsible for the deposit of all monies and other valuable effects in the name, and to the credit, of the Association in such depositories as may from time to time be designated by the Board of Directors. The Treasurer shall disburse the funds of the Association as may be ordered by the Board of Directors, in accordance with the Declaration, shall render to the President and Directors, upon request, an account of all of his transactions as Treasurer and of the financial conditions of the Association, and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or these Bylaws. The Treasurer shall sign all checks and promissory notes; provided, however, that the Treasurer need not do so if persons other than the Treasurer are authorized by the Board to do so in accordance with Section 11.1 or 11.2 hereof.

ARTICLE VI

6. Obligations of the Members.

6.1. Assessments.

(a) All Members are obligated to pay, in accordance with the provisions of the Declaration, all assessments imposed by the Association, to meet all expenses of the Association.

(b) All delinquent assessments shall be enforced, collected or foreclosed in the manner provided in the Declaration.

6.2. Maintenance and Repair.

(a) Every Member must perform promptly, at his sole cost and expense, such maintenance and repair work within his own Lot, as required under the provisions of the Declaration.

(b) As further provided in the Declaration, each Member shall reimburse the Association for any expenditures incurred in repairing or replacing any portion of the Common Property, which is damaged through the fault of such Member or his Family, guests, tenants or invitees. Such expenditures shall include all court costs and reasonable attorneys' fees incurred in enforcing any provision of these Bylaws or the Declaration.

ARTICLE VII

7. Amendments to Bylaws.

These Bylaws may be amended by the Association by the vote or written consent of Members, representing at least (1) a majority of the voting power of each class of the Members, and (2) a majority of the voting power of the Association residing in members other than Declarant and the Merchant Builders; provided that the specified

percentage of each class of the Members necessary to amend a specific Section or provision of these Bylaws shall not be less than the percentage of affirmative votes prescribed for action to be taken under that Section or provision. In addition to the foregoing, any amendment to these Bylaws which materially affects matters delineated in Article XII or Section 13.2. of the Declaration must be approved by the Mortgagee of that percentage of first Mortgages on the Lots which is specified in the affected provision of Article XII or Section 13.2. of the Declaration, respectively; provided that, if an amendment to these Bylaws materially affects matters delineated in both Article XII and Section 13.2 of the Declaration or purports to amend this sentence, the amendment must be approved pursuant to the requirements of both said Article XII and Section 13.2. If the Mortgagee of a first Mortgage receives a written request from the Board to approve a proposed amendment or amendments to the Bylaws, which is delivered in the manner prescribed in the Declaration for notices to Mortgagees, and the Mortgagee does not deliver a negative response to the Board within thirty (30) days of the mailing of such request by the Board, such first Mortgagee shall be deemed to have approved the proposed amendment or amendments. So long as there exists a Class B membership, any amendment to the Bylaws shall require the approval of VA and FHA if they are providing financing to any Condominium. A draft of the proposed amendment shall be submitted to VA and FHA for approval prior to its approval by the Membership of the Association.

Notwithstanding anything herein to the contrary, Articles II and IV of these Bylaws shall not be amended without the approval of the Class C Member.

ARTICLE VIII

8. Mortgagees.

8.1. Notice to Association.

Every Member who mortgages his Lot shall notify the Association through the Manager or through the Secretary in the event there is no Manager, of the name and address of his Mortgagee; and the Association shall maintain such information in a book entitled "Mortgagees of Lots." Upon request, any such Member shall likewise notify the Association as to the release or discharge of any such Mortgage.

8.2. Notice of Unpaid Assessments.

The Board of Directors of the Association shall at the request of a Mortgagee of a Lot, report any unpaid assessments due from the Owner of such Lot, in accordance with the provisions of the Declaration.

ARTICLE IX

9. Conflicting Provisions.

In case any of these Bylaws conflict with any provisions of the laws of the State of California, such conflicting Bylaws shall be null and void upon final court determination to such effect, but all other Bylaws shall remain in full force and effect. In case of any conflict between the Articles of Incorporation and these Bylaws, the Articles of Incorporation shall control; and in the case of any conflict between the Declaration and these Bylaws, the Declaration shall control.

ARTICLE X

10. Indemnification of Directors and Officers.

The Board may authorize the Association to pay expenses incurred by, or to satisfy a judgment or fine levied against any present or former Director, officer, employee, or agent of the Association to the extent and under the circumstances provided in the Declaration.

ARTICLE XI

11. Miscellaneous.

11.1. Checks, Drafts and Documents.

All checks, drafts or other orders for payment of money, notes or other evidences of indebtedness, issued in the name of or payable to the Association, shall be signed or endorsed by such person or persons, and in such manner as, from time to time, shall be determined by resolution of the Board of Directors, subject to the requirements of Section 4.6 hereof for withdrawing money from the Association's reserve accounts.

11.2. Execution of Documents.

The Board of Directors 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 of Directors, 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.

11.3. Inspection of Articles and Bylaws.

The Association shall keep in its office for the transaction of business the original or a copy of its Articles of Incorporation and these Bylaws as amended or

otherwise altered to date, certified by the Secretary, which shall be open to inspection by the Members and all Beneficiaries, insurers and guarantors of first Mortgages.

11.4. Fiscal Year.

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

11.5. Membership Register.

The Association shall keep and maintain in its office for the transaction of business a register containing the name, mailing address and telephone number of each Member. Termination or transfer of membership shall be recorded in the register, together with the date on which membership ceased or was transferred, in accordance with the provisions of the Declaration.

ARTICLE XII

12. Notice and Hearing Procedure.

12.1. Suspension of Privileges.

In the event of an alleged violation of the Declaration, these Bylaws or the Rules and Regulations of the Association, and after written notice of such alleged failure is delivered personally or mailed to the Member or any agent of the Member (“respondent”) alleged to be in default in the manner herein provided, by first-class mail or by certified mail return receipt requested, or both, the Board of Directors shall have the right, after affording the respondent an opportunity for an appropriate hearing as hereinafter provided, and upon an affirmative vote of a majority of all Directors on the Board, to take any one (1) or more of the following actions: (1) levy a Special Assessment as provided in the Declaration; (2) suspend said Member’s voting privileges as a Member, as further provided in the Declaration; (3) enter upon a Residence to make necessary repairs, or to perform maintenance which, according to the Declaration, is the responsibility of the Owner of such Residence; (4) record a notice of noncompliance encumbering the Lot of the respondent; or (5) suspend or condition the right of said Member to use any recreational facilities owned, operated or maintained by the Association. Any such suspension shall be for a period of not more than thirty (30) days for any noncontinuing infraction, but in the case of a continuing infraction (including nonpayment of any assessment after the same becomes delinquent) may be imposed for so long as the violation continues. The failure of the Board to enforce the Rules and Regulations of the Association, these Bylaws or the Declaration shall not constitute a waiver of the right to enforce the same thereafter. The remedies set forth above and otherwise provided by these Bylaws shall be cumulative and none shall be exclusive. However, any individual Member must exhaust all available internal remedies of the Association prescribed by these Bylaws, or by the Rules and Regulations of the

Association, before that Member may resort to a court of law for relief with respect to any alleged violation of the Declaration, these Bylaws or the Rules and Regulations of the Association by another Member, provided that the foregoing limitation pertaining to exhausting administrative remedies shall not apply to the Board or to any Member where the complaint alleges nonpayment of Annual Assessments, Special Assessments, Capital Improvement Assessments or Reconstruction Assessments.

12.2. Written Complaint.

A hearing to determine whether a right or privilege of the respondent under the Declaration or these Bylaws should be suspended or conditioned, or whether a Special Assessment should be levied, shall be initiated by the filing of a written Complaint by any Member or by any officer or member of the Board of Directors with the President of the Association or other presiding member of the Board. The Complaint shall constitute a written statement of charges which shall set forth in ordinary and concise language the acts or omissions with which the respondent is charged, and a reference to the specific provisions of the Declaration, these Bylaws or the Rules and Regulations of the Association which the respondent is alleged to have violated. A copy of the Complaint shall be delivered to the respondent in accordance with the notice procedures set forth in the Declaration, together with a statement which shall be substantially in the following form:

“Unless a written request for a hearing signed by or on behalf of the person named as respondent in the accompanying Complaint is delivered or mailed to the Board of Directors within fifteen (15) days after the Complaint, the Board of Directors may proceed upon the Complaint without a hearing, and you will have thus waived your right to a hearing. The request for a hearing may be made by delivering or mailing the enclosed form entitled ‘Notice of Defense’ to the Board of Directors at the following address:

You may, but need not, be represented by counsel at any or all stages of these proceedings. If you desire the names and addresses of witnesses or an opportunity to inspect any relevant writings or items on file in connection with this matter in the possession, custody or control of the Board of Directors, you may contact

_____.”

The respondent shall be entitled to a hearing on the merits of the matter if the Notice of Defense is timely filed with the Board of Directors. The respondent may file a separate statement by way of mitigation, even if he does not file a Notice of Defense.

12.3. Notice of Hearing.

The Board shall serve a notice of hearing, as provided herein, on all parties at least ten (10) days prior to the hearing, if such hearing is requested by the respondent. The hearing shall be held no sooner than thirty (30) days after the Complaint is mailed or delivered to the respondent as provided in Section 12.2 of this Article XII. The notice to the respondent shall be substantially in the following form but may include other information:

“You are hereby notified that a hearing will be held before the Board of Directors of Victoria Estates Master Association at _____ on the _____ day of _____, 20 __, at the hour of _____, upon the charges made in the Complaint served upon you. You may be present at the hearing, may but need not be represented by counsel, may present any relevant evidence, and will be given full opportunity to cross-examine all witnesses testifying against you. You are entitled to request the attendance of witnesses and the production of books, documents or other items by applying to the Board of Directors of the Association.”

12.4. Hearing.

The hearing shall be held before the Board in executive session pursuant to this notice affording the Member a reasonable opportunity to be heard. Prior to the effectiveness of any sanction hereunder, proof of notice, and the invitation to be heard shall be placed in the minutes of the meeting. Such proof shall be deemed adequate if a copy of the notice together with a statement of the date and manner of delivery is entered by the officer or Director who mailed or delivered such notice. The notice requirement shall be deemed satisfied if a violator appears at the meeting. The minutes of the meeting shall contain a written statement of the results of the hearing and the sanction, if any, imposed. No action against the Member arising from the alleged violation shall take effect prior to the expiration of (a) fifteen (15) days after the Member’s receipt of the notice of hearing, and (b) five (5) days after the hearing required herein.