

CC&R'S

Covenants, Conditions & Restrictions

STONEGATE BERMUDA DUNES HOMEOWNER ASSOCIATION

If this document contains any restriction based on race, color, religion, sex, gender, gender identity, gender expression, sexual orientation, familial status, marital status, disability, genetic information, national origin, source of income as defined in subdivision (p) of Section 12955, or ancestry, that restriction violates state and federal fair housing laws and is void, and may be removed pursuant to Section 12956.2 of the Government Code. Lawful restrictions under state and federal law on the age of occupants in senior housing or housing for older persons shall not be construed as restrictions based on familial status.

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MASTER DECLARATION OF

COVENANTS, CONDITIONS AND RESTRICTIONS FOR

STONEGATE BERMUDA DUNES HOMEOWNERS ASSOCIATION

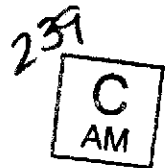


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MASTER DECLARATION OF
COVENANTS, CONDITIONS AND RESTRICTIONS FOR
STONEGATE BERMUDA DUNES HOMEOWNERS ASSOCIATION

THIS DECLARATION is made this 11~~th~~ day of March, 2005, by BERMUDA DUNES ESTATES 37, LLC, a California limited liability company. BERMUDA DUNES ESTATES 37, LLC, a California limited liability company, its successors and assigns, shall hereinafter be referred to as "Declarant."

R E C I T A L S

A. Declarant is the owner of certain real property described in Exhibit "A" attached hereto, which shall be the Covered Property under this Declaration.

B. Declarant is also the owner of additional real property more particularly described in Exhibit "B" attached hereto, which may be subsequently annexed to and become a part of the Covered Property according to the procedures hereinafter described.

C. Declarant intends to develop on the Covered Property a common interest development consisting of a planned development as defined in Section 1351(k) of the California Civil Code. These covenants, conditions and restrictions are imposed upon the Covered Property in order to provide for its management and to enhance and protect the value, desirability and attractiveness of the Covered Property.

D. In furtherance of these objectives, STONEGATE BERMUDA DUNES HOMEOWNERS ASSOCIATION, a California nonprofit mutual benefit corporation, has been incorporated and will manage the Project, maintain and administer the Common Areas, administer and enforce the Governing Documents of the Association, and perform such other acts as may benefit the Project.

NOW, THEREFORE, Declarant covenants and agrees that the Covered Property, the Project and all of the Lots, including any improvements added or constructed on or about the Project in the future, shall be held, conveyed, assigned, hypothecated, encumbered, leased, used, occupied and improved subject to the following limitations, restrictions, covenants and conditions, for the purpose of mutually benefiting the Covered Property, the Project and all of the Lots, and the future Owners thereof. All of the covenants and restrictions set forth herein shall run with the land, shall be enforceable as equitable servitudes, and shall be binding upon and for the benefit of all parties having or acquiring any right, title or interest in the Covered Property, the Project or any of the Lots.

ARTICLE I.

DEFINITIONS

The following terms used in this Declaration are defined as follows:

Section 1. Architectural Committee. The term "Architectural Committee" or "Committee" shall mean and refer to the Architectural Committee created pursuant to the Article of this Declaration entitled "Architectural Control."

Section 2. Articles. The term "Articles" shall mean and refer to the Articles of Incorporation of the Association, which are or shall be filed in the Office of the Secretary of State of California, as amended from time to time.

Section 3. Assessments. The following definitions shall apply to the assessments described below:

(a) Regular Assessment shall mean the amount which is to be paid by each Owner to the Association for Common Expenses as provided by the terms of this Declaration.

(b) Special Assessment shall mean a charge against each Owner and his Lot, representing a portion of the cost to the Association for installation or construction of any capital improvements on any of the Common Area and other purposes which the Association may from time to time authorize pursuant to the provisions of this Declaration.

(c) Reimbursement Assessment shall mean a charge against a particular Owner and his Lot for the purpose of reimbursing the Association for costs incurred in bringing the Owner and his Lot into compliance with the provisions of the Governing Documents, or any other charge designated as a Reimbursement Assessment in this Declaration or Association rules, together with attorney's fees and other charges payable by such Owner, pursuant to the provisions of this Declaration.

(d) Reconstruction Assessment shall mean a charge against each Owner and his Lot representing a portion of the cost to the Association for reconstruction of any portion of the Common Area pursuant to the provisions of this Declaration.

Section 4. Association. The term "Association" shall mean and refer to STONEGATE BERMUDA DUNES HOMEOWNERS ASSOCIATION, a California nonprofit mutual benefit corporation, its successors and assigns.

Section 5. Association Maintenance Area. The term "Association Maintenance Area" shall mean and refer to any area or improvement within or adjacent to the Project which is not located in Common Area owned in fee by the Association, but which will be maintained by the Association pursuant to this Declaration or any Supplemental Declaration. The Association Maintenance Area in Phase 1 of the Project consists of landscape improvements in the public right-of-way along Lima Hall Road between Ewarton and the Project as depicted in attached Exhibit "C".

Section 6. Authorized Delivery. The term "Authorized Delivery" shall mean and refer to the following methods of delivery of documents to Members as authorized by California Civil Code Section 1350.7:

- (a) Personal delivery;
- (b) First-class mail, postage prepaid, addressed to a Member at the address last shown on the books of the Association or otherwise provided by the Member. Delivery is deemed to be complete on deposit into the United States mail;
- (c) E-mail, facsimile, or other electronic means, if the recipient has agreed to that method of delivery. If a document is delivered by electronic means, delivery is complete at the time of transmission;
- (d) By publication in a periodical that is circulated primarily to Members of the Association;
- (e) If the Association broadcasts television programming for the purpose of distributing information on Association business to its Members, by inclusion in the programming;
- (f) A method of delivery provided in a recorded provision of the Governing Documents;
- (g) Any other method of delivery, provided that the recipient has agreed to that method of delivery.

A document may be included in or delivered with a billing statement, newsletter, or other document that is delivered by one of the methods provided above. For purposes of this Section, an unrecorded provision of the Governing Documents providing for a particular method of delivery does not constitute agreement by a Member to that method of delivery. The methods of delivery set forth in this Section are particularly applicable to notices regarding rules and rule changes. Notwithstanding the foregoing, if any particular method of delivery is required by law or by any provision of this Declaration or the Bylaws, that method of delivery shall be used as it relates to that provision.

Section 7. Board of Directors. The term "Board of Directors" or "Board" shall mean and refer to the duly elected Board of Directors of the Association.

Section 8. Bylaws. The term "Bylaws" shall mean the Bylaws of the Association, as amended from time to time.

Section 9. Common Area. The term "Common Area" shall mean all portions of the Project except the Separate Interests therein, and shall include (a) all common improvements and common recreational facilities, if any, as well as all other land, structures and facilities within the Project which are conveyed to the Association for the use and enjoyment of the Owners, and/or (b) mutual or reciprocal easement rights appurtenant to the Separate Interests. The Common Area in the completed Project may include, without limitation, private streets; sidewalks; open space; perimeter walls or fences and perimeter landscaping; entry gate and entry drive; water feature(s),

retention basin(s) and improvements; drainage facilities; irrigation and lighting facilities serving the Association maintained landscape areas and gate areas; street lighting; traffic control signs, pavement marking and other traffic control devices; street name signs; landscaping located in Common Areas, including median landscaping, if any; Project monument sign(s), and any easements or other areas which the Association is required to maintain hereunder. The Common Area in the first Phase of the Project consists of Common Area Street Lots "A," "B" and "C," and Common Area Lots 39 and 40.

Section 10. Common Expenses. The term "Common Expenses" shall mean and refer to the actual and estimated costs of:

(a) maintenance, management, operation, repair and replacement of the Common Area and the Improvements therein, and all other areas on the Covered Property which are maintained by the Association;

(b) maintenance by the Association of the interior and exterior surfaces and structure of the Perimeter Wall on or adjoining the Common Area, as described in ARTICLE IV, Section 3 of this Declaration

(c) unpaid Special, Reconstruction and Reimbursement Assessments;

(d) maintenance by the Association of the Association Maintenance Area located within the public right-of-way of public streets in the vicinity of the Covered Property as provided in this Declaration or pursuant to agreements with any governmental authority having jurisdiction;

(e) costs of management and administration of the Association, including, but not limited to, compensation paid by the Association to managers, accountants, attorneys and employees;

(f) the costs of utilities, trash pickup and disposal, gardening and other services benefiting the Owners, their Lots and the Common Area to the extent such services are paid for by the Association and not separately and individually billed directly to Owners;

(g) the costs of fire, casualty, liability, workers' compensation and other insurance covering the Common Area, the Project and the Association;

(h) the costs of any other insurance obtained by the Association;

(i) reasonable reserves as deemed appropriate by the Board;

(j) the costs of bonding of the members of the Board, any professional Managing Agent or any other person handling the funds of the Association;

(k) any taxes paid by the Association;

(l) amounts paid by the Association for discharge of any lien or encumbrance levied against the Common Area or portions thereof;

(m) costs incurred by the Architectural Committee or other committees of the Association; and

(n) such other costs or expenses incurred by the Association in connection with the Common Area, the Governing Documents, or in furtherance of the purposes of the Association or in the discharge of any obligations imposed on the Association by this Declaration.

Section 11. Common Interest Development. The term "Common Interest Development" shall mean and refer to a planned development as defined in California Civil Code Section 1351(k). A planned development is a development in which (a) the common area is owned by an association or by the owners in common (who possess appurtenant rights to the use and enjoyment of the common area), and/or (b) the association has assessment and lien rights to enforce an obligation of an owner with respect to the use and enjoyment of the common area.

Section 12. County. The term "County" shall mean and refer to Riverside County, California.

Section 13. Covered Property. The term "Covered Property" shall mean and refer to all of the real property described in Exhibit "A" attached hereto, and, subsequent to annexation, any real property which becomes subject to this Master Declaration as described in Exhibit "B".

Section 14. Declarant/Grantor. The terms "Declarant" or "Grantor" shall mean and refer to BERMUDA DUNES ESTATES 37, LLC, a California limited liability company, its successors and assigns.

Section 15. Declaration. The term "Declaration" or "Master Declaration" shall mean this Declaration, i.e., this document.

Section 16. Exclusive Use Common Area. The term "Exclusive Use Common Area" means a portion of the Common Area, which may be designated by this Declaration for the exclusive use of one or more, but fewer than all, of the Owners of the Separate Interest(s) and which is or will be appurtenant to the Separate Interest(s). No Exclusive Use Common Areas are currently planned to be included in the Project.

Section 17. Governing Documents. The term "Governing Documents" shall mean and refer to this Declaration, the Articles, the Bylaws, any operating rules of the Association, and any other documents or amendments to documents which govern the operation of the Project or the Association.

Section 18. Improvements. The term "Improvements" shall include buildings, outbuildings, driveways, parking areas, fences and perimeter walls, screening walls, retaining walls, stairs, decks, hedges, windbreaks, plantings, trees and shrubs, poles, signs, lighting, irrigation facilities, drainage facilities including drainage pipes, brow ditches and storm drain improvements, retention basins, water features, private streets and gate facilities, and all other structures and landscaping improvements of every type and kind.

Section 19. Institutional Holder. The term "Institutional Holder" shall mean and refer to any beneficiary of a deed of trust or mortgagee of a mortgage which encumbers a Lot and which is

a bank or savings and loan association or established mortgage company or other entity chartered under federal or state laws, any corporation or insurance company, or any federal or state agency.

Section 20. Lot. The term "Lot" shall mean and refer to any plot of land or parcel shown on any recorded subdivision map of the Project, with the exception of the Common Area and shall include a Unit constructed upon such Lot. A Lot is a "Separate Interest" as defined in Section 1351(l)(3) of the Civil Code.

Section 21. Managing Agent. The term "Managing Agent" shall mean and refer to a person or entity, who for compensation, or in expectation of compensation, exercises control over the assets of the Association. However, a "Managing Agent" does not include a full-time employee of the Association or a regulated financial institution operating within the normal course of its regulated business practice.

Section 22. Member. The term "Member" shall mean and refer to each person entitled to membership in the Association as provided in the Governing Documents.

Section 23. Mortgage. The term "Mortgage" shall mean and refer to any duly recorded and valid mortgage or deed of trust encumbering a Lot.

Section 24. Operating Rule/Rule Change. The term "Operating Rule" means a regulation adopted by the Board that applies generally to the management and operation of the common interest development or the conduct of the business and affairs of the Association. The term "Rule Change" means the adoption, amendment, or repeal of an Operating Rule by the Board. In accordance with California Civil Code Section 1357.110, an Operating Rule is valid and enforceable only if all of the following requirements are satisfied: (a) the rule is in writing; (b) the rule is within the authority of the Board as conferred by law or by the Declaration, Articles or Bylaws of the Association; (c) the rule is not inconsistent with governing law and the Declaration, Articles or Bylaws of the Association; (d) the rule is adopted, amended or repealed in good faith and in substantial compliance with the requirements of Article 4 (commencing with Section 1357.100) of Title 6 of Part 4 of Division 2 of the Civil Code; (e) the rule is reasonable.

Section 25. Owner. The term "Owner" shall mean and refer to one or more persons or entities holding fee title or an equitable ownership interest in any Lot, including contract purchasers, but excluding those having such interest merely as security for the performance of an obligation.

Section 26. Owner Maintenance Manual. The term "Owner Maintenance Manual" shall mean and refer to the maintenance manual and related documents which may be prepared or provided by Declarant and its representatives and distributed to the Owners specifying obligations for maintenance of the Lot and Unit. Declarant reserves the right to update and modify the Owner Maintenance Manual from time to time, in its sole discretion, for a period of ten (10) years following close of escrow on the last Lot sold by Declarant in the Project.

Section 27. Phase. The term "Phase" shall mean and refer to one or more lots or parcels within the Project upon which a Public Report has been issued by the California Department of Real Estate. The first Phase of the Project covered by this Declaration is that real property described in Exhibit "A."

Section 28. Project. The term "Project" shall mean and refer to all of the Covered Property, including all of the Lots, the Common Area and all Improvements located upon the Covered Property.

Section 29. Public Report. The term "Public Report" shall mean and refer to a Final Subdivision Public Report issued by the California Department of Real Estate pursuant to the California Subdivided Lands Act.

Section 30. Separate Interest. The term "Separate Interest" shall mean and refer to a separately owned Lot and the Unit constructed thereon. The estate in a Separate Interest may be a fee, a life estate, an estate for years, or any combination thereof.

Section 31. Supplemental Declaration. The term "Supplemental Declaration" shall mean and refer to those declarations of covenants, conditions and restrictions, or similar instruments, annexing additional property, extending the plan of this Master Declaration to such additional property as provided in the Article of this Master Declaration entitled "INTEGRATED NATURE OF THE COVERED PROPERTY."

Section 32. Unit. The term "Unit" shall mean and refer to the residential improvements located upon a Lot.

ARTICLE II.

CREATION OF PLANNED DEVELOPMENT

Section 1. Division of Project. Declarant, in order to establish the Project as a Planned Development, hereby divides the first Phase of the Project into the following:

(a) Nineteen (19) designated and legally described Lots as set forth in attached Exhibit "A," which are shown, defined and described on the recorded subdivision map for the Project; and

(b) The Common Area consisting of Common Area Lots 39 and 40 and Common Area Street Lots "A" through "C" as described in attached Exhibit "A," which is shown, defined and described on the recorded subdivision map for the Project.

Section 2. Interest in Common Area. Acquisition of title to a Lot shall also include the right to use and enjoy all of the Common Areas within the Project including a non-exclusive easement for ingress, egress, and support, if necessary, through the Common Area. Each conveyance of a Lot, whether voluntary or involuntary, shall also convey the right to use and enjoy the Common Area even though the conveyance document may omit reference to the Common Area.

Section 3. Conveyance of Common Area to Association. Prior to or concurrent with the first conveyance of a Lot within a Phase to an Owner, Declarant shall convey title to any Common Area associated with that Phase to the Association. Neither Declarant nor any related party shall retain an ownership interest in or have any other rights to any of the facilities or Common Area in the Project, except the rights of Declarant as set forth in this Declaration. Any and all amenities and facilities in the Common Area, including parking and recreational facilities, shall be owned by the Association, and they shall not be subject to a lease between the Association and any other party.

Section 4. Project Overview. Declarant intends to develop the Project in two (2) Phases, with nineteen (19) Lots and Units planned in the first Phase as set forth in attached Exhibit "A," and with eighteen (18) additional Lots and Units planned in subsequent Phases upon that real property described in attached Exhibit "B." The development of the Project will be consistent with the overall development plan submitted to and approved by the California Department of Real Estate, and, if applicable, the United States Department of Veterans Affairs ("VA") and/or the Federal Housing Administration ("FHA"). There is no guarantee that all Phases will be completed or that the phasing will occur as planned. Declarant reserves the right to change its product size, type or design in subsequent Phases, subject to the approval of the Department of Real Estate, if required. Any such change contemplated shall provide for harmony of external design with existing structures in the Project and shall be consistent with the existing structures in quality of construction.

ARTICLE III.

RIGHTS OF ENJOYMENT

Section 1. Members' Right of Enjoyment. Every Member of the Association shall have a nonexclusive easement for use and enjoyment of the Common Area, including the right of ingress, egress, and support (if necessary) in, to, and throughout the Common Area, which shall be appurtenant to and pass with title to each Lot, subject to all of the easements, covenants, conditions, restrictions and other provisions contained in this Declaration, including, without limitation, the following:

(a) The right of the Association to reasonably limit the number of guests of Owners using the Common Area recreational facilities, if any;

(b) The right of the Association to establish uniform rules and regulations pertaining to the use of the Common Area and any recreational facilities thereon;

(c) The right of the Association, upon the vote or written assent of a majority of the voting power of each class of Members, to borrow money for the purpose of improving the Common Area and any Improvements thereon and (subject to the rights of Institutional Holders described in ARTICLE XIII) to mortgage, pledge, deed in trust, or hypothecate any or all of its real or personal property as security for money borrowed or debts incurred;

(d) Subject to the rights of Institutional Holders described in ARTICLE XIII, the right of the Association to dedicate, release, alienate, transfer or assign an interest in the Common Area to any public agency, authority, utility or other person for such purposes and subject to such conditions as may be agreed to by the Members. No such dedication, release, alienation, transfer or assignment shall be effective, unless an instrument is signed by Members entitled to cast at least a majority of each class of the voting power of the Association agreeing to such dedication, release, alienation or transfer has been recorded;

(e) The rights and reservations of Declarant as set forth in this Declaration, including the right of Declarant, its sales agents, representatives and prospective purchasers, to the nonexclusive use of the Common Area, without cost, for access, ingress, egress, use and enjoyment, in order to market and sell Lots until the close of escrow for the sale of all of the Lots in the Project, including the Annexable Property; provided, however, that such use shall not unreasonably interfere with the rights of enjoyment of the other Owners, and further provided that such right of use will expire pursuant to the time limitation specified in Section 5 of ARTICLE XVI below;

(f) The right of the Association to suspend the rights and easements of use and enjoyment of the recreational facilities, if any, located on the Common Area, of any Member, and the persons deriving such rights and easements from any Member, for any period during which the payment of any assessment against such Member and his Lot remains delinquent; and, after notice and hearing with an opportunity to be heard (satisfying the minimum requirements of Section 7341 of the California Corporations Code), to impose monetary penalties or suspend such use rights and easements for a reasonable period of time as determined by the Board, not exceeding thirty (30)

days, for any violation of the Governing Documents, it being understood that any suspension for either nonpayment of any assessment or breach of such restrictions shall not constitute a waiver or discharge of the Member's obligation to pay assessments or comply with the restrictions, and

(g) The right of the Association to levy a reasonable charge for the use of any recreational facilities located on the Common Area;

Section 2. Delegation of Use. Any Member may delegate his right to the use and enjoyment of the Common Area to the members of his family, his guests or tenants who reside in his Unit, subject to rules and regulations adopted by the Association.

Section 3. Waiver of Use. No Member may exempt himself from personal liability for assessments duly levied by the Association, or release his Lot from the liens, charges and other provisions of the Governing Documents, by waiver of the use and enjoyment of the Common Area or the abandonment of his Lot.

ARTICLE IV.

USE RESTRICTIONS

In addition to all other covenants contained herein, the use of the Project, each Lot and the Common Area is subject to the following:

Section 1. Commercial Use. Subject to the Section entitled "Construction and Sales" of the Article hereof entitled "EASEMENTS," no Lot, Unit or any part thereof shall be used for any business, commercial, manufacturing, mercantile, storing, vending, or other nonresidential purposes; provided, however, that the Association shall have the right to provide or authorize such services on the Common Area as it deems appropriate for the enjoyment of the Common Area or for the benefit of the Members. Home offices are allowed so long as they are in accordance with governmental standards, if any, for using a residence as a home office, are merely coincidental to the use of the Unit as a single-family residence, and so long as there is no external evidence of nor any associated vehicular or pedestrian traffic caused by the existence of any such home office.

Section 2. Maintenance of Lots and Units. Each Owner shall be responsible for the maintenance and appearance of his Lot and Unit. Owners shall assure that their Lots are properly landscaped and that all landscaping, including grass, trees, ornamental shrubs, and the like, is properly irrigated, trimmed and maintained. Lots and Units shall be maintained in a neat, clean, orderly, safe, sanitary and attractive condition. All walls or fences located upon a Lot shall be maintained by the Owner of the Lot as set forth in Section 23 below. The following conditions are prohibited within the Project: dilapidated, deteriorating or unrepaired structures, including fences, roofs, doors, walls and windows; scrap lumber, junk, trash or debris; abandoned, discarded or unused objects or equipment such as automobiles, auto parts, furniture, stoves, refrigerators, cans, containers and the like; stagnant water or excavations; and any device, decoration, design, structure or vegetation which is unsightly by reason of its height, condition or inappropriate location. All painting and alterations of the exterior surfaces of Units shall be undertaken in conformance with the requirements of ARTICLE XII regarding Architectural Control. If a Unit is destroyed or damaged by fire or other casualty and the Owner elects not to rebuild, the Owner shall clear the Lot of all debris within a reasonable time. In the event that any Owner fails to maintain his Lot or Unit in accordance with the standards described in this Section, the Association shall have the right, but not the obligation, to undertake such maintenance and levy the expense thereof against the delinquent Owner as a Reimbursement Assessment. Any drainage easement area on an individual Lot as depicted in the recorded subdivision map for the Project shall be kept free of buildings and obstructions by the Owner of that Lot.

Section 3. Walls and Fences. No fence, wall or other dividing device shall be erected, altered or maintained on any Lot other than those of the same location, design, height and materials as were initially installed by Declarant, or as approved by the Committee. Fences constructed of chain link are prohibited within the Project. Those Owners who have a common wall between their respective Lots shall equally have the right to the use of the interior surface of the wall on his or her side, and neither such Owner shall use any portion of the wall so as to interfere with the use and enjoyment of the other Owner. Each Owner shall maintain the interior surface of any portion of a wall which faces his Lot. In the event that any portion of such wall, except the interior surface of one side, is damaged or injured from any cause, other than the act or

negligence of either party, it shall be repaired or rebuilt at their joint expense. Except as otherwise provided below, those Owners whose walls consist of a portion of the perimeter walls surrounding the Project ("Perimeter Walls") shall maintain the entire portion of the Perimeter Wall within his Lot, including the structure of the Perimeter Wall and the interior and exterior surfaces of the Perimeter Wall, in a first class, attractive condition and free of graffiti. This Perimeter Wall maintenance which is solely the responsibility of the Lot Owner specifically includes walls on Lots which back up to adjacent property not otherwise maintained by the Association. The Association shall maintain the interior and exterior surfaces and structure of the Perimeter Walls which are located on or adjoining any Common Area within the Project which is conveyed to the Association.

Section 4. No Obstruction of Common Area. There shall be no obstruction of the Common Area nor shall anything be stored in the Common Area without the prior written consent of the Board; provided, however, that personal property and fixtures consistent with the use of any Exclusive Use Common Area may be maintained by Owners upon such Exclusive Use Common Area, subject to such limitations as rules and regulations adopted by the Board may impose. Nothing shall be altered or constructed in or removed from the Common Area, except upon the prior written consent of the Board. Any drainage easement area within the Common Area as depicted in the recorded subdivision map for the Project shall be kept free of buildings and obstructions by the Association.

Section 5. Signs. No sign, poster, billboard, advertising device or other display of any kind shall be displayed so as to be visible from any portion of the Project without the approval of the Architectural Committee, except (i) such signs as may be used by Declarant in connection with the development of the Project and sale of Lots, subject to the time limitations set forth in Article XVI, Section 5, (ii) permanent monument signs at the entries to the Project as approved by the County, (iii) such signs of customary and reasonable dimensions as prescribed by the Architectural Committee which may be displayed on or from a Lot (providing they do not adversely affect public safety, including traffic safety), advertising it for sale or lease, and (iv) such other signs or display devices as may not be restricted by law. Notwithstanding the foregoing, the Association shall not proscribe or prohibit non-commercial signs, posters, flags or banners which may be displayed on or from a Lot, except for such signs, posters, flags or banners which constitute a potential health or safety violation, as determined by the Board, or if the posting of such signs, posters, flags or banners would violate a local, state or federal law. In no case shall the size of any permitted sign or poster exceed nine (9) square feet nor shall the size of any permitted flag or banner exceed more than fifteen (15) square feet.

Section 6. Animals. No insects or animals of any kind shall be raised, bred or kept on the Project except that a reasonable number of dogs, cats or other household pets may be kept, provided that they are not kept, bred or maintained, for any commercial purpose, or in violation of any other provision of this Declaration and the rules and regulations of the Association. The Association, acting through the Board of Directors, shall have the right to prohibit maintenance of any animal on any Lot in the Project which constitutes, in the opinion of the Board, a nuisance to other Owners within the Project. Animals belonging to Owners or their licensees, tenants or invitees within the Project must be either kept within an enclosure, an enclosed yard or on a leash or bridle being held by a person capable of controlling the animal. Owners shall be liable to other Owners, their families, guests, tenants and invitees, for any unreasonable noise or damage to

person or property caused by any animals brought or kept upon the Project by such Owner or by members of his family, his tenants or guests. It shall be the duty and responsibility of each Owner to clean up after his animals.

Section 7. Utilities. Each Owner shall be obligated to pay any and all assessments for sewage, electricity, other utilities, taxes and other charges assessed individually against his Lot.

Section 8. Trash. No rubbish, trash, garbage or other waste material shall be kept or permitted upon any portion of the Project, except in sanitary containers located in appropriate areas screened and concealed from view, and no odor shall be permitted to arise therefrom so as to render the Project, or any portion thereof, unsanitary, unsightly, offensive or detrimental to any other property in the vicinity or to its occupants. Such containers shall be exposed to the view of neighboring Lots only when set out for a reasonable period of time (not to exceed a total of twenty-four (24) hours) before and after scheduled trash collection hours.

Section 9. Vehicles. No trailer, motor home, truck, camper, inoperable vehicle or boat shall be stored, kept, constructed, repaired or maintained on any Lot in such a manner as to be visible from any other Lot within the Project. Storage of any such vehicle within a side or rear yard area, concealed behind a six-foot solid fence, and located behind the front garage sight line, is permitted within the Project and will not be considered to be in violation of the restrictions contained in this paragraph. The Association, through any Director or Officer or the Managing Agent, may have a vehicle wrongfully parked or parked without authorization removed from the Project under California Vehicle Code Section 22658.2 (if signs are posted and if the Association is otherwise in compliance with the provisions of such section). Under California Vehicle Code Section 21107.7, a majority of the Board may request the applicable governmental authority to adopt an ordinance or resolution that makes the private streets in the Project subject to the California Vehicle Code.

Section 10. Rules of Association. Each Owner, tenant or occupant of a Unit shall comply with the provisions of this Declaration, the Bylaws, decisions, rules and regulations of the Association or its duly authorized representatives which may from time to time be promulgated. Failure to comply with any such provisions, decisions, or resolutions, shall be grounds for an action to recover sums due, for damages, for injunctive relief, or for any other remedy permitted by law or by the terms of this Declaration. Notwithstanding the foregoing, if any Association Rule is deemed to be an Operating Rule under Civil Code Section 1357.100 (as described in Article I, Section 24 of this Declaration, the Association and its Members shall comply with the requirements and procedures set forth in Civil Code Section 1357.100 through 1357.150 when making or revising rules, providing notice of such rules or intended rule changes by any method of Authorized Delivery, and the procedures and notice requirements for calling meetings and voting requirements to reverse rule changes.

Section 11. Conduct in Units and Common Area. The Common Area shall not be used for any purpose or in any manner which might cause it to be uninsurable against loss by fire or the perils of the extended coverage endorsement of the California Standard Fire Policy form, or cause any policy of insurance to be canceled or suspended or the company issuing the same to refuse renewal thereof. No Unit shall be used in such a manner as to obstruct or interfere with the enjoyment of occupants of other Units or annoy them by unreasonable noises or otherwise, nor

shall any nuisance be committed or permitted to occur upon any Lot or in any Unit or upon the Common Area.

Section 12. Leasing of Units. No Owner shall lease his Unit for transient or hotel purposes or lease less than the entire Unit. The terms of any lease shall be in accordance with and subject in all respects to the provisions of the Governing Documents, and any failure by the lessee to comply with the terms of such documents shall be a default under the lease. All leases must be in writing. Any lease which is either for a period of less than thirty (30) days or pursuant to which the lessor provides any service normally associated with a hotel shall be deemed to be for transient or hotel purposes.

Section 13. Antennas and Satellite Receivers. Subject to the requirements of California Civil Code Section 1376, no television, radio or other electronic antenna, receiver, dish or device of any type, with a diameter or diagonal measurement exceeding thirty-six (36) inches, shall be erected, constructed, placed or permitted to remain within the Project unless it has been approved in writing by the Architectural Committee, or the Board, or unless it is fully contained within a Unit. Any such installation shall also be subject to County requirements, if any, concerning such installation.

Section 14. Window Covers. Curtains, drapes, shutters or blinds may be installed as window covers. No window shall be covered with aluminum foil, reflective film or similar material.

Section 15. Solar Energy Systems. Subject to approval of (a) any governmental authority having jurisdiction, and (b) the Association, Owners shall have the right to place and maintain solar energy equipment or any other energy saving devices on their Lots. The application for Association approval shall be processed by the Architectural Committee in the same manner as an application for approval of an architectural modification to the Unit. The Association may impose reasonable requirements in connection with the approval as set forth in California Civil Code Section 714.1. Such equipment shall be installed in such location and in such manner as to be obscured from the view of other persons in the Project to the greatest degree practicable without significantly decreasing its efficiency.

Section 16. View Obstructions. Each Owner acknowledges that (i) there are no protected views in this Project, and no Unit or Lot is assured the existence or unobstructed continuation of any particular view, and (ii) any construction, landscape or installation of Improvements by Declarant, other Owners (subject to approval by the Architectural Committee) or Owners of other property in the vicinity of the Project may impair the view from any Unit or Lot, in the Owner's consent to such view impairment.

Section 17. No Outside Drying and Laundering. No exterior clothes lines shall be erected or maintained within the Project and there shall be no drying or laundering of clothes or any other items on any Common Areas.

Section 18. Owner Maintenance Manual. Declarant or its representatives may provide each original purchaser of a Lot with an Owner Maintenance Manual, as described in Article I, Section 26 of this Declaration. Each Owner shall comply with all reasonable maintenance

obligations, procedures and schedules communicated in writing by Declarant and product manufacturers, as well as commonly accepted maintenance practices, whether set forth in the Owner Maintenance Manual or otherwise. Each Owner is further obligated to provide a copy of the Owner Maintenance Manual and copies of all other maintenance obligations, procedures and schedules received from Declarant or product manufacturers, to any successor purchaser of such Owner's Lot.

Section 19. Mold and Mildew. Mold is a type of fungus which occurs naturally in the environment. Residential home construction is not, and cannot be, designed to exclude mold spores. Mold growth requires moisture and this is the only mold growth action that can be controlled in a residential setting. Moisture can occur not only from water intrusion but also from indoor relative humidity. Each Owner shall be responsible for regularly inspecting its Unit for plumbing leaks, water accumulation near the foundation, water intrusion through windows, doors and roofs or any other signs of mold. As of the date of this Declaration, both the California Department of Health Services ("CDHS") and the United States Environmental Protection Agency ("EPA") have web sites which contain information and publications regarding mold and other biological pollutants. For example, see "Indoor Air Quality Info Sheet, Mold in My Home: What Do I Do?" at the CDHS web site ([HTTP://www.dhs.ca.gov](http://www.dhs.ca.gov)), and "A Brief Guide to Mold, Moisture, and Your Home" and "Mold Resources" on the EPA web site ([HTTP://www.epa.gov](http://www.epa.gov)).

ARTICLE V.

MEMBERSHIP AND VOTING RIGHTS

Section 1. Membership. Every Owner shall automatically, upon becoming the Owner of a Lot, be a Member of the Association, and shall remain a Member thereof until his ownership ceases for any reason, at which time his membership in the Association shall also automatically cease. For each Lot there shall be on file with the Association an address of record for the Owner, if different from the Unit address, and a phone number in case of emergency, all of which shall be kept current by the Owner. Ownership of a Lot shall be the sole qualification for membership in the Association; provided, however, that a Member's voting rights or privileges to use the Common Area, or both, may be regulated or suspended as provided in the Governing Documents. All memberships shall be appurtenant to the Lot conveyed, and with the exception of Declarant, a person or entity shall be deemed an Owner of a Lot only upon recordation of a deed, contract of sale or other document conveying the Lot to him.

Section 2. Transfer. The membership held by any Owner shall not be transferred, pledged or alienated in any way, except upon the conveyance or encumbrance of his Lot, and then only to the transferee or Mortgage holder of the Lot. Any attempt to make a prohibited transfer is void, and will not be reflected upon the books and records of the Association. Any conveyance, judicial sale, or other voluntary or involuntary transfer of a Lot also includes the Owner's membership interest in the Association. In the event an Owner fails or refuses to transfer the membership registered in his name to the transferee of his Lot, the Board may record the transfer upon the books of the Association. The Association may impose reasonable fees against the selling Owner for the actual costs of (a) transferring the selling Owner's membership on the books of the Association, and/or (b) providing documentation to the selling Owner as required in ARTICLE XIX, Section 13 of this Declaration.

Section 3. Two Classes of Membership. The Association shall have two (2) classes of voting membership:

Class A. Class A members shall be those Owners described in Section 1 above, with the exception of Declarant, for so long as there exists a Class B membership. Each Class A Member 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, and 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. If one Owner casts the vote attributed to a Lot, the vote shall conclusively bind all the Owners of that Lot. If more than one Owner casts the vote attributed to a Lot, the votes cast by such Owners shall not be counted and shall be considered void.

Class B. The Class B member shall be the Declarant. The Class B member shall be entitled to three (3) votes for each Lot subject to assessment owned by Declarant in any Phase of the Project; provided that the Class B membership shall cease and be converted to Class A membership on the happening of either of the following events, whichever occurs earlier:

(a) On the second anniversary of the first conveyance of a Lot in the most recent Phase of the Project, or

(b) On the fourth anniversary of the first conveyance of a Lot in the initial Phase of the Project.

Section 4. Required Vote. With the exception of the actions referred to in the Articles entitled "ENFORCEMENT OF BONDED OBLIGATIONS" and "DISPUTES REGARDING DESIGN OR CONSTRUCTION OF THE PROJECT," no provision of this Declaration which requires the approval of a prescribed majority of the voting power of Members other than Declarant for action to be taken by the Association is intended to preclude the Declarant from casting votes attributable to the Separate Interests in the Project owned by Declarant. Notwithstanding anything to the contrary contained elsewhere in this Declaration, any action by the Association which must have the approval of the membership (except for the actions referred to in the Articles entitled "ENFORCEMENT OF BONDED OBLIGATIONS" and "DISPUTES REGARDING THE DESIGN OR CONSTRUCTION OF THE PROJECT") shall require the vote or written assent of a bare majority of the Class B voting power as well as the vote or written assent of a prescribed majority of the Class A voting power during the period of time that there are two (2) outstanding classes of membership. Except for the provisions of the Articles entitled "ENFORCEMENT OF BONDED OBLIGATIONS" and "DISPUTES REGARDING THE DESIGN OR CONSTRUCTION OF THE PROJECT," if there has been a conversion of Class B to Class A membership, any action of the Association which must have the approval of the Members before being undertaken shall require the vote or written assent of a bare majority of the total voting power of the Association as well as the vote or written assent of the prescribed majority of the total voting power of Members other than Declarant.

Section 5. Special Class A Voting Rights. From the first election of Directors and thereafter for as long as a majority of the voting power of the Association resides in Declarant, or as long as there are two (2) classes of membership in the Association, not less than twenty percent (20%) of the incumbents on the Board of Directors shall have been elected solely by votes of Members other than Declarant. A Director who has been elected solely by votes of Members other than 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 Declarant.

Section 6. Vesting of Voting Rights. All voting rights which are attributable to a specific Lot shall not vest until such time as that Lot is subject to Regular Assessments pursuant to the terms of this Declaration.

ARTICLE VI.

COVENANT FOR MAINTENANCE ASSESSMENTS

Section 1. Covenant to Pay Assessments. Declarant, for each Lot owned within the Project, hereby covenants, and each Owner of any Lot, by acceptance of a conveyance therefor (whether or not it is expressed in such conveyance), is deemed to covenant and agree to pay to the Association: (1) Regular Assessments or charges, (2) Special Assessments for capital improvements and other purposes, (3) Reimbursement Assessments, and (4) Reconstruction Assessments, all such assessments to be established and collected as hereinafter provided. Each of these assessments, together with interest, costs of collection and reasonable attorney's fees, shall also be the personal obligation of the person who was the Owner of such Lot at the time the assessment became due. The personal obligation for delinquent assessments shall not pass to such person's successors in interest unless expressly assumed by them.

Section 2. Purpose of Assessments. The Association shall levy Regular and Special Assessments in sufficient amounts to perform the Association's obligations under the Governing Documents, but shall not impose or collect an assessment or fee that exceeds the amount necessary to defray the costs for which it is levied. The assessments levied by the Association shall be used exclusively to promote the recreation, health, safety and welfare of the residents of the Project and for the improvement, operation and maintenance of the Common Area and the Project and the performance of the duties of the Association as set forth in the Governing Documents.

Section 3. Regular Assessments. The amount and time of payment of Regular Assessments against each Lot shall be determined by the Board, giving due consideration to the current maintenance costs and future needs of the Association. Regular Assessments are collected from the Owners to defray expenses attributable to the ownership, operation or furnishing of common interests or the enjoyment of mutual and reciprocal rights of use. Not later than sixty (60) days prior to the beginning of each fiscal year, the Board shall estimate the total Common Expenses to be incurred for the upcoming fiscal year, and shall determine the amount of Regular Assessments to be paid by each Member. Written notice of the amount of the Regular Assessment for the year shall be sent to each Member, who shall thereafter pay the Regular Assessment to the Association in monthly installments. Any increase in Regular Assessments shall be undertaken in compliance with Section 5 of this ARTICLE VI.

Section 4. Special Assessments. If the Board determines that the estimated total amount of funds necessary to defray the Common Expenses of the Association for a given fiscal year is or will become inadequate to meet expenses for any reason, including, but not limited to, unanticipated delinquencies, costs of construction, unexpected repairs or replacement of capital improvements on, damage and destruction or condemnation of, the Common Areas, the Board shall determine the approximate amount necessary to defray such expenses and, if the amount is approved by a majority vote of the Board and does not exceed five (5) percent of the budgeted gross expenses of the Association, it shall become a Special Assessment; provided, however, that such limitations shall not apply to Special Assessments levied by the Board to replenish the Association's reserve account as provided in Article VII, Section 7(a)(iii) of the Bylaws. Except for Special Assessments levied pursuant to Section 7(a)(iii) of the Bylaws, any Special Assessment in excess of five (5) percent of the budgeted gross expenses of the Association shall be subject to

limitations set forth in Section 5 below. The Board may, in its discretion, prorate such Special Assessment over the remaining months of the fiscal year or levy the assessment immediately against each Lot. Unless exempt from federal or state taxation, all proceeds from any Special Assessment shall be segregated and deposited into a special account and shall be used solely for the purpose or purposes for which it was levied, or it shall be otherwise handled and used in a manner authorized by law or regulations of the Internal Revenue Service or the California Franchise Tax Board in order to avoid, if possible, its taxation as income of the Association.

Section 5. Increases in Regular and Special Assessments. In the event that the Board at any time determines that the estimate of total charges for the current year is or will become inadequate to meet all Common Expenses for any reason, it shall immediately determine the approximate amount of such inadequacy and issue a supplemental estimate of the Common Expenses and determine a revised amount of Regular Assessments for each Member and the date or dates when due. However, annual increases in Regular Assessments for any fiscal year shall not be imposed unless (a) the Board has prepared and distributed, not less than 45 days nor more than 60 days prior to the beginning of the fiscal year of the Association, a copy of the pro forma operating budget (as described in Article VII, Section 7 (a) of the Bylaws) with respect to that fiscal year, or (b) has obtained the approval of Owners constituting a quorum, casting a majority of the votes at a meeting or election of the Association. In any event, except as provided below, Regular Assessments may not be increased by more than twenty percent (20%) over the Regular Assessment for the preceding fiscal year and increases in Special Assessments may not exceed in the aggregate five percent (5%) of the budgeted gross expenses of the Association for the current fiscal year, without approval by the vote or written assent of Owners, constituting a quorum, casting a majority of the votes at a meeting or election of the Association. Notice and quorum for any meeting called to approve an increase in Regular or Special Assessments in excess of the percentage limitations described above (or in connection with any increase for which a pro forma operating budget was not prepared and distributed as set forth above) shall be conducted in accordance with Sections 4 and 6 of Article IV of the Bylaws. For purposes of this Section, "quorum" means more than fifty percent (50%) of the Owners of the Association. Any meeting or election of the Association for purposes of complying with this Section shall be conducted in accordance with Sections 7510 through 7527 and 7613 of the Corporations Code.

The Association shall provide notice by first-class mail to the Owners of any increase in Regular or Special Assessments, not less than thirty (30) nor more than sixty (60) days prior to the date the increased Assessment becomes due.

The percentage limitations for increases in Regular and Special Assessments described above will not limit assessment increases necessary for emergency situations. An "emergency situation" includes any one of the following:

- (a) An extraordinary expense required by an order of a court;
 - (b) An extraordinary expense necessary to repair or maintain the Project or any part of it for which the Association is responsible where a threat to personal safety is discovered;
- or

(c) An extraordinary expense necessary to repair or maintain the Project or any part of it for which the Association is responsible which could not have been reasonably foreseen by the Board in preparing and distributing its pro forma operating budget of the Association as described in Article VII, Section 7 (a) of the Bylaws. Prior to the imposition or collection of an assessment under this subparagraph (c), the Board shall adopt a resolution containing written findings regarding the necessity of the extraordinary expense and why such expense was not or could not have been reasonably foreseen in the budgeting process, which resolution shall be distributed to the Members with the notice of such assessment.

Section 6. Reimbursement Assessments. The Association may levy a Reimbursement Assessment against any Owner who fails to comply with the provisions of this Declaration, the determinations of the Architectural Committee, the Articles or Bylaws, or any rule or regulation adopted by the Association, if such failure results in the expenditure of monies by the Association in carrying out its functions hereunder or for purposes of collecting any fines which may be levied by the Association. Such assessment shall also be for the purpose of reimbursing the Association for any costs incurred by the Association on behalf of an individual Owner. A Reimbursement Assessment shall be due and payable to the Association when levied but may not become a lien as provided by Section 14 (b) of this ARTICLE VI which could otherwise be enforced by a sale of the Owner's Lot.

Section 7. Reconstruction Assessments. Assessments for reconstruction of Improvements upon the Common Area may be levied in accordance with the provisions of that Article below entitled "DESTRUCTION OF IMPROVEMENTS."

Section 8. Uniform Rate of Assessment. Regular and Special Assessments shall be fixed at a uniform rate for all Lots (including those owned by Declarant) and shall be levied against each Owner according to the ratio of the number of Lots owned by the Owner to the total number of Lots subject to assessment.

Section 9. Date of Commencement of Regular Assessments: Due Dates. The Regular Assessments described herein shall commence as to all Lots in the initial Phase (including those owned by Declarant) on the first day of the month following the conveyance of the first Lot by Declarant to an Owner; provided, however, that Regular Assessments as to Lots in subsequent Phases shall commence on the first day of the month following conveyance of the first Lot in such subsequent annexed Phase by Declarant to an Owner. With respect to any Phase of the Project, the Association's duty to maintain that Phase shall commence when Regular Assessments on that Phase commence.

Section 10. Certificate of Payment. The Association shall, within ten (10) days after receipt of written request, furnish to any Member liable for assessments a certificate in writing signed by an Officer or authorized agent of the Association, stating (as of the date the statement is issued) whether assessments for a specific Lot have been paid and the amount of unpaid Assessments, if any, including penalties and attorney's fees, which are or may be made a lien upon the Member's Lot. A reasonable charge, of not less than Fifteen Dollars (\$15.00), and not more than the reasonable cost of preparing the certificate (as determined by the Board) may be collected for the issuance of such a certificate. Such certificates shall be conclusive evidence of payment of

any assessment therein stated to have been paid as to all third parties relying thereon, but shall not relieve any Owner of liability for assessments not in fact paid.

Section 11. No Offsets. All assessments shall be payable in the amount specified and no offset against such amount shall be permitted for any reason, including, without limitation, a claim that the Association is not properly exercising its duties and powers as provided in this Master Declaration or the Bylaws.

Section 12. Reserves. Regular Assessments shall include reasonable amounts as determined by the Board collected as reserves for the future periodic maintenance, repair or replacement of major components of the Common Area which the Association is obligated to repair, restore, replace, or maintain, and for which the reserve fund was established, and for litigation involving these purposes. All amounts collected as reserves, whether pursuant to this Section or otherwise, shall be (a) collected by regular, scheduled monthly payments included in Regular Assessments rather than by large special assessments, and (b) deposited by the Board in a separate bank account to be held in trust for the purposes for which they are collected and are to be segregated from and not commingled with any other funds of the Association. Such reserves shall be deemed a contribution to the capital account of the Association by the Members. The Board's responsibilities in regard to the reserve funds are further described in Article VII, Sections 7, 8 and 9 of the Bylaws.

Section 13. Pledge of Assessment Rights. The Association shall have the power to pledge to exercise its assessment powers to obtain funds to repay a debt of the Association; provided, however, that any such pledge shall require the prior affirmative vote or written assent of not less than a majority of the Class A Members at a meeting duly called and noticed pursuant to the provisions of the Bylaws dealing with Special Meetings of Members. The Association may levy Special Assessments against the Members to obtain such funds. Upon the failure of any Member to pay such a Special Assessment when due, the Association may exercise all of its rights, including, without limitation, the right to foreclose its lien, pursuant to the further provisions of this Declaration.

Section 14. Effect of Nonpayment of Assessments; Remedies of the Association. Each Owner upon becoming an Owner of any Lot, covenants and agrees to pay to the Association all of the assessments provided for in this Declaration and further agrees to the enforcement of all such assessments in the manner herein specified. Regular and Special Assessments are delinquent fifteen (15) days after they become due. If an assessment is delinquent, the Association may recover all of the following:

- (1) Reasonable fees and costs incurred in collecting the delinquent assessment, including reasonable attorney's fees;
- (2) A late charge not exceeding ten percent (10%) of the delinquent assessment or Ten Dollars (\$10.00) whichever is greater (a late charge may not be imposed more than once on any single delinquent payment, but it shall not eliminate or supersede any charges imposed on prior delinquent payments); and

- (3) Interest on the above sums, including the amount of the delinquent assessment, reasonable fees and costs of collection and reasonable attorney's fees and late charges, at an annual interest rate of twelve percent (12%), commencing thirty (30) days after the assessment becomes due.

A Regular or Special Assessment and any late charges, reasonable fees and costs of collection, reasonable attorney's fees, and interest, shall be a debt of the Owner at the time the assessment or other sums are levied. In addition to any other remedies provided herein or available at law or in equity, the Board or its authorized representative may enforce the obligations of the Owners to pay the assessments provided for in this Declaration by either or both of the following procedures:

(a) Enforcement by Suit. The Association may commence and pursue an action against any Owner personally obligated to pay assessments for such delinquent assessments. Any judgment rendered in any such action shall include the amount of the delinquency, together with interest thereon, costs of collection, court costs and reasonable attorney's fees in such amount as the court may adjudge against the delinquent Owner. Pursuant to California Civil Code Section 1367.1 (h), suit to recover a money judgment for unpaid assessments may be maintained without foreclosing or waiving the lien hereinafter described. The remedy provided in this paragraph shall be the exclusive manner of enforcing payment of delinquent Reimbursement Assessments.

(b) Enforcement by Lien. At least thirty (30) days before the Association may place a lien upon the Separate Interest of an Owner, the Association shall notify the Owner in writing by certified mail of the following in accordance with Civil Code Section 1367.1:

- (i) A general description of the collection and lien enforcement procedures of the Association and the method of calculation of the amount; a statement that the Owner has the right to inspect the Association records, and the following statement in 14-point boldface type, if printed, or in capital letters if typed: "IMPORTANT NOTICE: IF YOUR SEPARATE INTEREST IS PLACED IN FORECLOSURE BECAUSE YOU ARE BEHIND IN YOUR ASSESSMENTS, IT MAY BE SOLD WITHOUT COURT ACTION";
- (ii) An itemized statement of the charges owed by the Owner, including items on the statement which indicate the amount of any delinquent assessments, the fees and reasonable costs of collection, reasonable attorney's fees, any late charges, and interest, if any;
- (iii) A statement that the Owner shall not be liable to pay the charges, interest, and costs of collection, if it is determined the assessment was paid on time to the Association;

(iv) The right to request a meeting with the Board as provided in California Civil Code Section 1367.1 (c), which provides, in pertinent part, as follows:

- (1) An Owner may dispute the debt noticed by submitting to the Board a written explanation of the reasons for his or her dispute. The Board shall respond in writing to the Owner within fifteen (15) days of the date of the postmark of the explanation, if the explanation is mailed within fifteen (15) days of the postmark of the notice, and
- (2) An Owner may submit a written request to meet with the Board to discuss a payment plan for the debt noticed. The Association shall provide the Owners the standards for payment plans, if any exist. The Board shall meet with the Owner in executive session within forty-five (45) days of the postmark of the request, if the request is mailed within fifteen (15) days of the date of the postmark of the notice, unless there is no regularly scheduled Board meeting within that time period, in which case the Board may designate a committee of one or more Members to meet with the Owner;

(v) A mailing address for overnight payment of assessments.

Any payments toward such debt shall first be applied to the assessments owed, and only after the assessments owed are paid in full shall such payments be applied to the fees and costs of collection, attorney's fees, late charges or interest. When an Owner makes a payment, the Association shall provide a receipt upon the Owner's request. The receipt shall indicate the date of the payment and the person who received it.

Not less than thirty (30) days after such notice by certified mail has been sent, the Board may record, or cause to be recorded, in the Recorder's Office of the County, a Notice of Delinquent Assessment with respect to the Lot as to which assessments are delinquent. The Notice of Delinquent Assessment shall set forth a legal description of the Owner's Separate Interest in the Project, the name of the record owners of that interest, the amount of assessments (other than Reimbursement Assessments) which are delinquent as of the date of recording, together with all reasonable fees and costs of collection, reasonable attorney's fees, late charges and interest accrued thereon. The Notice shall also include the name and address of the trustee authorized by the Association to enforce the lien by sale through nonjudicial foreclosure proceedings as described below and shall be signed by the person designated by the Board for that purpose (or if no one is designated, by the President of the Association). A copy of the recorded Notice of Delinquent Assessment shall be mailed in the manner set forth in California Civil Code Section 2924b to all record owners of the Owner's interest in the common interest development no later than ten (10) calendar days after recordation. Immediately upon recordation of a Notice of Delinquent Assessment, the amounts set forth in said Notice, together with all sums accruing thereon or becoming due and payable in accordance with this Declaration after the date of

recordation of the Notice, shall constitute a lien in favor of the Association upon the Lot described in the Notice, which lien shall be immediately due and payable.

This lien shall have priority over all liens or claims created subsequent to the recordation of the Notice except for liens for real property taxes and assessments on any Lot in favor of any governmental assessing unit. After the expiration of thirty (30) days following the recording of the Notice of Delinquent Assessment and the mailing of a copy of said recorded Notice to the Owner as set forth above, the lien may be enforced in any manner permitted by law, including sale by the court, sale by the trustee designated in the Notice, or sale by a trustee substituted pursuant to Section 2934a of the California Civil Code. Any sale by the trustee shall be conducted in accordance with the provisions of Sections 2924, 2924b and 2924c applicable to the exercise of powers of sale in mortgages and deeds of trust. The Association shall have the power to bid in at any foreclosure sale and to purchase, acquire, hold, lease, mortgage and convey any Lot. The Association may accept a deed in lieu of foreclosure. Within twenty-one (21) days of the payment of the sums specified in the Notice of Delinquent Assessment, the Association shall record or cause to be recorded in the Recorder's Office of the County a lien release or notice of rescission stating the satisfaction and release of the lien thereof, and shall provide the Owner of the Separate Interest a copy of the recorded lien release or notice of rescission.

If a Notice of Delinquent Assessments is recorded in error, the party who recorded the lien shall, within twenty-one (21) calendar days, record or cause to be recorded in the Recorder's Office of the County a lien release or notice of rescission, and shall provide the Owner of the Separate Interest with a declaration that the lien filing or recording was in error and a copy of the recorded lien release or notice of rescission.

No Owner may waive or otherwise escape liability for the assessments described in this Declaration by non-use of the Common Area or any other part of the Project, or abandonment of his Lot. Notwithstanding anything contained in this Declaration to the contrary, no action may be brought to foreclose the lien created by recordation of a Notice of Delinquent Assessment, whether judicially, by power of sale, or otherwise, until the expiration of thirty (30) days after a copy of said Notice, showing the date of recordation thereof, has been mailed to the Owner of the Lot which is described in such Notice.

Section 15. Subordination to Certain Trust Deeds. The lien for the assessments described herein shall only be subordinate to the lien of a first Mortgage, given and made in good faith and for value, that is of record as an encumbrance against such Lot prior to the recordation of a Notice of Assessment. The sale or transfer of any Lot shall not affect the assessment lien described herein, nor shall such sale or transfer diminish or defeat the personal obligation of any Owner for delinquent assessments. However, the sale or transfer of any Lot pursuant to a judicial foreclosure or foreclosure by power of sale of a first encumbrance shall extinguish any assessment lien recorded prior to the time of such sale or transfer. Following a foreclosure, the interest of any purchaser at such foreclosure sale shall be subject to all assessments becoming due after the date of such sale or transfer, and in the event of nonpayment of such assessments, shall be subject to all of the remedies described in this Declaration. For the purpose of this Section 15, a sale or transfer of a Lot shall occur on the date of recordation of a deed or land sale contract evidencing the conveyance of record ownership of the Lot.

Section 16. Recording Statement of Relevant Information. The Board is authorized, but not required, to record, in the county recorder's office of the County, a statement or amended statement identifying relevant information for the Association in order to facilitate the collection of Regular Assessments, Special Assessments, transfer fees, and similar charges. Any such statement may include any or all of the information described in California Civil Code Section 1366.2(a).

Section 17. Capitalization of the Association. Upon acquisition of record title to a Lot from Declarant, each Owner will contribute to the capital of the Association an amount equal to two monthly installments of Regular Assessments from the budget as reflected in the Final Subdivision Public Report for the Phase of the Project in which said Owner is purchasing a Lot. This amount shall be deposited by the buyer into the purchase and sale escrow and disbursed therefrom to the Association or to Declarant if Declarant has previously advanced such funds to the Association with respect to this capital contribution obligation.

ARTICLE VII.

MANAGEMENT OF THE ASSOCIATION AND THE PROJECT

Section 1. General Powers of the Association. All powers relating to the management, operation and maintenance of the Project and of the Common Area, shall be vested in the Association. The specific and primary purposes and powers of the Association are to provide architectural control of, manage and maintain the Project and the Common Area and to enforce the provisions of the Governing Documents. The Association may do any and all other acts and things that a nonprofit mutual benefit corporation is empowered to do, as enumerated in Section 7140 of the California Corporations Code, which may be necessary, convenient or desirable in the administration of its affairs and in order to carry out the duties described in this Master Declaration and the Bylaws, including those powers described in Section 1350 et seq. of the California Civil Code (the Davis-Stirling Common Interest Development Act), as those sections may be amended from time to time.

Whenever this Declaration or the Bylaws require or permit the approval, consent or action of the Association, such approval, consent or action shall be that of the Board of Directors, unless otherwise provided by this Declaration or the Bylaws. The Association, through its Board of Directors, also shall have the authority to delegate its powers to committees, Officers of the Association and its employees.

Section 2. Contracts of the Association. The Association shall have the right and power to employ or engage a manager or "Managing Agent" (as defined herein) and other employees or agents and contract for such services, labor and materials as it may deem reasonably necessary to operate and maintain the Project, the Common Area and the improvements thereon and to discharge its other duties. Any agreement for professional management of the Association or any contract providing for services by the Declarant must provide for termination of such contract or agreement by either party with or without cause or payment of a termination fee on thirty (30) days or less written notice and for a maximum contract term not to exceed one (1) year. Any agreement for professional management of the Association, and the maintenance of the Association funds received by any Managing Agent, shall be subject to the provisions of California Civil Code Sections 1363.1 and 1363.2 and California Business and Professions Code Section 11504..

Section 3. General Duties of Association. In addition to the duties and powers enumerated in its Articles and Bylaws, or elsewhere described herein, and without limiting the generality thereof, and subject to the limitations set forth in Section 6 and Section 7 this Article, the Association shall:

(a) Repair, replace and maintain and otherwise manage all of the Common Area and all facilities, improvements, and landscaping within the Common Area;

(b) Procure and maintain casualty, liability and other insurance on behalf of the Association, including, without limitation, general liability and fire insurance with extended coverage on the Common Area as required by the terms of this Declaration. The Association shall

also have the authority to procure and maintain any other type of insurance which the Association determines is in the best interest of the Association and its Members;

(c) Obtain, for the benefit of the Common Area, all necessary water, gas, electric, refuse collection, and other utility services;

(d) Pay taxes and assessments which are or could become a lien on the Common Area, or some portion thereof;

(e) Prepare budgets, financial statements, summaries, disclosures and notices for the Association and its Members as prescribed in this Declaration and the Bylaws;

(f) Initiate and pursue disciplinary proceedings against Members for violations of provisions of the Governing Documents, in accordance with the procedures set forth in this Declaration;

(g) Subject to approval by a majority vote of each class of Members, borrow money and incur indebtedness for the purposes of the Association and cause to be executed and delivered therefor, in the Association's name, promissory notes, bonds, debentures, deeds of trust, mortgages, pledges or other evidences of debt and security. Any mortgage or conveyance of the Common Area, or grant of easement over the Common Area (other than utility easements), however, shall require the vote or written consent of at least sixty-seven percent (67%) of the Owners (excluding the vote of Declarant);

(h) Obtain and cause to be maintained in force at all times a fidelity bond for any person handling funds of the Association, including, but not limited to, employees of the Managing Agent, if any.

Section 4. Title to the Common Area. Declarant hereby covenants, for itself, its successors and assigns, that it will convey to the Association fee simple title to the Common Area free and clear of all liens and encumbrances, subject to the covenants, conditions and restrictions set forth in this Declaration, or which are of record at the time of the conveyance. In the event that Improvements proposed to be constructed on any portion of the Common Area have not been completed, as evidenced by a "Notice of Completion" recorded in the Official Records of the County, then the completion of such Improvements shall be assured in accordance with Section 11018.5 of the California Business and Professions Code, or any similar statute hereafter enacted. The Association's responsibility to maintain the Common Area conveyed by Declarant to the Association shall commence concurrently with the recordation of the grant deed conveying such Common Area. The Association shall maintain the Common Area in good, safe and functional condition and in compliance with this Declaration, and, where applicable, shall refer to any Common Area maintenance manual provided by Declarant. Notwithstanding the foregoing, the contractors or subcontractors of Declarant may be contractually obligated to maintain the landscaping or other Improvements on the Common Area or fulfill warranty obligations regarding such landscaping and Improvements. The Association shall not interfere with the performance of such warranty or other contractual maintenance obligations. Maintenance performed by such contractors or subcontractors of Declarant shall not serve to postpone the commencement of

Regular Assessments pursuant to this Declaration, nor entitle an Owner to claim any offset or reduction in the amount of such Regular Assessments. The nature, design, quality and quantity of all Improvements to the Common Area shall be determined by Declarant, in its sole discretion. The Association shall be obligated to accept title to the Common Area, and undertake all maintenance responsibilities for the Common Area when title is conveyed and maintenance responsibilities are tendered by Declarant. In the event that a dispute arises between Declarant and the Association with respect to the nature, design, quality or quantity of the Improvements, or the acceptance of maintenance responsibilities therefor, the Association shall be obligated to accept title to the Common Area and undertake maintenance responsibilities pending resolution of the dispute.

Section 5. Maintenance of the Project. Some open space Common Areas may remain undeveloped in their natural state without landscaping improvements. The Association shall provide landscaping and gardening services for all improved and landscaped Common Areas and shall repair, replace and maintain all recreational facilities or other Improvements within the Common Areas. All grass, trees and ornamental vegetation shall be properly irrigated, fertilized, trimmed and in all respects cared for in a manner so as to provide a well maintained appearance at all times. The Perimeter Walls shall be maintained by the Association and/or the Owners in accordance with ARTICLE IV, Section 3. The private streets and entry drives shall be maintained by the Association, and shall be resurfaced at appropriate intervals and kept free from potholes and hazards to vehicular and pedestrian traffic. The traffic control signs, pavement markings and other traffic control devices, the street name signs, street lighting and other Common Area lighting shall be maintained by the Association in a serviceable and attractive condition. The entry way security gate for vehicular access to private streets shall be maintained by the Association in an operable and attractive condition, and the Association shall maintain any security system or service contracted for by the Association in connection with the security gate. Any Improvements and recreational facilities located within the Common Area shall be maintained in a neat, clean, orderly, safe, sanitary and attractive condition so as to be usable and enjoyable by all members of the Association at all times. Association Maintenance Area in the public right-of-way of public streets as depicted in this Declaration or in any Supplemental Declaration shall be maintained by the Association in accordance with County requirements.

The Association shall maintain the storm water, flood control and drainage facilities within the Project in a safe condition, in good repair and in a manner capable of being operated as designed; such maintenance shall include, without limitation, maintenance of drainage pipes and drainage improvements located in or feeding the retention basin(s) and storm drain improvements located beneath the private streets. Such drainage maintenance shall include, without limitation, maintenance required in order to prevent obstruction of natural drainage patterns or improved drainage facilities.

Upon annexation into the Project, Common Areas described in subsequent Phases shall be maintained by the Association.

Each Owner shall be responsible to repair and maintain his Lot and Unit and to keep such Lot and Unit in good and attractive condition at all times, all as more particularly described in Section 2 of ARTICLE IV above. Should the activities of any Owner, family members, guests or invitees of such Owner result in damage to or destruction of any portion of the Common Area or

any Common Area improvement, that Owner shall be held responsible for all costs associated with the repair or replacement of that portion of the Common Area, which expense may be enforced as a Reimbursement Assessment.

Section 6. Additional Restrictions on Power of the Board. The Board shall be prohibited, without the prior vote or written consent (by vote at a meeting of the Association or by written ballot without a meeting) of a majority of the Members, other than Declarant, constituting a quorum consisting of more than fifty percent (50%) of the voting power of the Association residing in Members other than Declarant, from doing any of the following: (i) incurring aggregate expenditures for capital improvements to any portion of the Project in any fiscal year in excess of five percent (5%) of the budgeted gross expenses of the Association for that fiscal year; (ii) selling during any fiscal year 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; (iii) paying compensation to Directors or Officers of the Association for services performed in the conduct of the Association's business; provided, however, that the Board may cause a Director or Officer to be reimbursed for expenses incurred in carrying on the business of the Association; or (iv) filling a vacancy on the Board created by the removal of a Director.

Section 7. Limitation on Board Authority to Contract. The Board shall not enter into any contracts for goods or services with a duration greater than one (1) year without the vote or written consent (by vote at a meeting of the Association or by written ballot without a meeting) of a majority of the Members, other than Declarant, constituting a quorum consisting of more than fifty percent (50%) of the voting power of the Association residing in Members other than Declarant, with the following exceptions: (i) a management contract, the terms of which have been approved by the Federal Housing Administration or United States Department of Veterans Affairs; (ii) a contract with a public utility company if the rates charged for the materials or services are regulated by the Public Utilities Commission; provided, however, that the term of the contract shall not exceed the shortest term for which the supplier will contract at the regulated rate; (iii) prepaid casualty and/or liability insurance policies of not to exceed three (3) years duration, provided that the policy provides for short rate cancellation by the insured; (iv) lease agreements for laundry room fixtures and equipment of not to exceed five (5) years duration; provided that the lessor under the agreement is not an entity in which the Declarant has a direct or indirect ownership interest of ten percent (10%) or more; (v) agreements for cable television services and equipment or satellite dish television services and equipment of not to exceed five (5) years duration, provided that the supplier is not an entity in which the Declarant has a direct or indirect ownership interest of ten percent (10%) or more; (vi) agreements for sale or lease of burglar alarm and fire alarm equipment, installation and services not to exceed five years' duration, provided that the supplier is not an entity in which the Declarant has a direct or indirect ownership interest of ten percent (10%) or more, or (vii) a contract for a term not to exceed three (3) years that is terminable by the Association after no longer than one (1) year without cause, penalty, or other obligation upon ninety (90) days written notice of termination to the other party.

Section 8. Maintenance of Public Utilities. Nothing contained herein shall require or obligate the Association to maintain, replace or restore the underground facilities of public utilities which are located within easements in the Common Area. However, the Association shall take such steps as are necessary or convenient to ensure that such facilities are properly maintained, replaced or restored by such public utilities.

Section 9. Rights of Entry. The Association, through its agents or employees, shall have a limited right of entry upon all Lots for the purpose of inspecting the Project and taking whatever corrective action may, after approval by a majority vote of the Board, be deemed necessary or proper by the Board, consistent with the provisions of this Declaration. This right of entry shall include the right to enter a Lot for purposes of construction, maintenance or repair for the benefit of the Common Area or the Owners in common.

Nothing in this Article shall in any manner limit the right of an Owner to the exclusive occupancy and control of his Lot. Entry onto a Lot by the Association for other than emergency repairs or routine maintenance of Common Area shall be made only after three (3) days notice has been given to the Owner, shall be made with as little inconvenience as possible to the Owner and any damage caused thereby shall be repaired by the party causing such damage. In the case of an emergency, the right of the Association to enter upon a Lot shall be immediate; provided, however, that such entry shall be made with as little inconvenience as possible to the Owner and any damage caused thereby shall be repaired by the party causing such damage. Nothing herein shall be construed to impose any obligation upon the Association to maintain or repair any property or portion of a Lot to be maintained or repaired by the Owner thereof. The Association shall not be liable for failing to exercise this right of entry during an emergency or otherwise.

Section 10. Association Rules. The Association shall have the power to adopt, amend and repeal such rules and regulations as it deems reasonable which may include the establishment of a system of fines and penalties enforceable as a Reimbursement Assessment. The Association rules shall govern matters in furtherance of the purposes of the Association, including, without limitation, the use of the Common Area; provided, however, that the Association rules may not discriminate among Owners, and shall not be inconsistent with this Declaration, the Articles or Bylaws. A copy of the Association rules as they may from time to time be adopted, amended or repealed or a notice setting forth the adoption, amendment or repeal of specific portions of such rules shall be delivered to each Owner by any applicable method of Authorized Delivery. The Association rules shall have the same force and effect as if they were set forth in and were part of this Declaration and shall be binding on the Owners and their successors in interest whether or not actually received by them. If the Association adopts a policy imposing any monetary penalty, including any fee, on any Member for a violation of the Governing Documents or rules of the Association, including any monetary penalty relating to the activities of a guest or invitee of a Member, the Board shall adopt and distribute to each Member, delivered by any applicable method of Authorized Delivery, a schedule of the monetary penalties that may be assessed for those violations. If changes are made to the original schedule which was adopted and distributed to the Members, the Board shall distribute, by any applicable method of Authorized Delivery, copies of the revised schedule to the Members. Notwithstanding the foregoing, if any Association Rule is deemed to be an Operating Rule under Civil Code Section 1357.100, et seq., the Association shall comply with the requirements and procedures set forth in said Civil Code Sections. Said Civil Code Sections include certain requirements concerning procedural fairness in rulemaking by Associations including, without limitation, that an Operating Rule or Rule Change that relates to one or more of the following subjects is subject to the procedures set forth in Civil Code Sections 1357.130 and 1357.140:

- (a) Use of the Common Area or of an Exclusive Use Common Area;

(b) Use of a Separate Interest, including any aesthetic or architectural standards that govern alteration of a Separate Interest;

(c) Member discipline, including any schedule of monetary penalties for violation of the Governing Documents and any procedure for the imposition of penalties;

(d) Any standards for delinquent assessment payment plans;

(e) Any procedures adopted by the Association for resolution of disputes, and

(f) Any procedures for reviewing and approving or disapproving a proposed physical change to a Member's Separate Interest or to the Common Area.

The following actions by the Board do not, however, require that the procedures under Civil Code Sections 1357.130 and 1357.140 be followed:

(i) A decision regarding maintenance of the Common Area;

(ii) A decision on a specific matter that is not intended to apply generally;

(iii) A decision setting the amount of a Regular or Special Assessment;

(iv) A rule change that is required by law, if the Board has no discretion as to the substantive effect of the rule change;

(v) Issuance of a document that merely repeats existing law or the Governing Documents.

Any notice given to the Members regarding Association Rules or changes to those rules, including any notice given pursuant to Civil Code Sections 1357.130 and 1357.140, shall be given by any applicable method of Authorized Delivery as defined in Article I, Section 6 of this Declaration.

Section 11. Common Interest Development Form. The Board shall file with the Secretary of State, on a form and for a fee not to exceed Thirty Dollars (\$30.00) that the Secretary of State shall prescribe, certain information concerning the Association and the Project as required by Civil Code Section 1363.6. The first such statement shall be filed within ninety (90) days after the filing of the Articles of Incorporation, and shall be filed thereafter at the time the Association files its biennial statement of principal business activity with the Secretary of State. The Association shall also notify the Secretary of State, on a form and for a fee prescribed by the Secretary of State, of any change in the street address of the Association or of the responsible officer or managing agent within sixty (60) days of the change.

Section 12. Special Common Area Provisions. Notwithstanding any provision in the Declaration to the contrary, the following provisions required by the County as a condition of approval of the Project shall apply:

The Association shall manage and continuously maintain the Common Area and shall not sell or transfer the Common Area or any part thereof, absent the prior written consent of the Planning Department of the County or the County's successor-in-interest.

The Association shall have the right to assess the Owners of each Lot or Unit for the reasonable cost of maintaining such Common Area, and shall have the right to lien the Lot of any such Owner who defaults in the payment of a maintenance assessment. An assessment lien, once created, shall be prior to all other liens recorded subsequent to the notice of assessment or other document creating the assessment lien.

This Declaration shall not be terminated, "substantially" amended, or property deannexed therefrom absent the prior written consent of the Planning Director of the County or the County's successor-in-interest. A proposed amendment shall be considered "substantial" if it affects the extent, usage, or maintenance of the Common Area established pursuant to the Declaration.

In the event of any conflict between this Declaration and the Articles of Incorporation, the Bylaws, or the Association rules and regulations, if any, this Declaration shall control.

Section 13. Storm Water Pollution. The management and maintenance of the Common Area shall include the following Best Management Practices ("BMP") to reduce storm water pollution:

All pesticides shall be applied in strict accordance to pesticide laws as stated in the State of California Agricultural Code. All pesticide applicators shall be certified by the State as a Qualified Applicator or be directly supervised by a Qualified Applicator. All fertilizers shall be applied at the rate stipulated by the manufacturer. Fertilizer Applicators shall be trained in the proper procedures of determining fertilizer rates and calibration of equipment. Fertilizer shall be applied in such a manner as to avoid application onto hardscape surfaces. Annual soil tests are recommended to advise on which fertilizer elements are needed to avoid application of unnecessary elements, or over application. The local water agency or resource conservation district can assist with detailed information concerning this BMP.

The Association is required to implement trash management and litter control procedures in the Common Areas aimed at reducing pollution of drainage water. The Association may contract with their landscape maintenance firms to provide this service during regularly scheduled maintenance, which should consist of litter patrol, emptying trash receptacles in common areas, noting trash disposal violations by homeowners or businesses, and reporting the violations to the Association for investigation.

The Association is required to have its privately owned streets and parking lots swept prior to the storm season, no later than October 15th of each year.

ARTICLE VIII.

INSURANCE

Section 1. Duty to Obtain Insurance; Types. The Association shall obtain and continue in effect the following types and policies of insurance:

(a) Public liability insurance for claims for personal injury and/or property damage arising out of a single occurrence with a limit of not less than Five Hundred Thousand Dollars (\$500,000.00) so long as the Project consists of one hundred (100) or fewer Separate Interests, or with a limit of not less than One Million Dollars (\$1,000,000.00) should the Project consist of more than one hundred (100) Separate Interests, as applicable to the Project in accordance with Civil Code Sections 1365.7. (Should the Owners ever have a direct tenancy-in-common ownership interest in the Common Area, however, the Association shall increase the general liability coverage to at least the minimum amounts described in Civil Code Section 1365.9.) Such policy of public liability insurance covering the Common Area shall contain a "Severability of Interest" endorsement which shall preclude the insurer from denying the claim of any Owner because of negligent acts of the Association or other Owners. Such liability insurance shall include coverage for (i) general liability of the Association, and (ii) individual liability of volunteer officers and directors of the Association for negligent acts or omissions of those persons acting in their capacity as officers and directors.

(b) Casualty insurance and fire insurance with extended coverage, in an amount equal to one hundred percent (100%) of the full insurable replacement cost of all Improvements, equipment and fixtures within the Common Area, without deduction for depreciation. Such insurance shall be maintained for the benefit of the Association, the Owners and Institutional Holders.

(c) Workers' compensation insurance to the extent required by law (or such greater amount as the Board deems necessary). The Association shall also obtain a Certificate of Insurance naming it as an additional insured in regard to workers' compensation claims from any independent contractor who performs any service for the Association, if the receipt of such a certificate is practicable.

The Association may purchase such other insurance as it deems necessary, including but not limited to, fidelity coverage against dishonest acts on the part of Directors, Officers, Managers, trustees, employees and volunteers responsible for handling funds belonging to or administered by the Association, earthquake insurance, flood insurance, plate glass insurance, medical payments, malicious mischief and vandalism insurance.

Section 2. Waiver of Claims Against Association. As to each policy of insurance maintained by the Board, the Owners hereby waive and release all claims against the Association, the Board and Declarant, only to the extent of the insurance proceeds available to the Owners, whether or not the insurable damage or injury is caused by the negligence of or breach of any agreement by said persons.

Section 3. Notice of Expiration Requirements. All of the policies of insurance or fidelity bonds described herein shall contain a provision that such policies shall not be canceled or terminated, or expire by their terms, without thirty (30) days' prior written notice to the Association, Declarant, Owners and Institutional Holders (provided that such Owners and Institutional Holders have filed written requests with the carrier for such notice) and every other person in interest who has requested such notice of the insurer.

Section 4. Insurance Premiums. Premiums for any blanket insurance coverage obtained by the Association and any other insurance deemed necessary by the Board shall be a Common Expense to be included in the assessments levied by the Association and collected from the Owners. The proportion of such assessments necessary for the required insurance premiums shall be used solely for the payment of premiums of required insurance as such premiums become due.

Section 5. Trustee for Policies. The Board shall be trustee of the interests of all named insureds under policies of insurance purchased and maintained by the Association. All insurance proceeds under any such policies shall be paid to the Board as trustee. The Board shall have full power to receive and to receipt for the proceeds and to disburse such proceeds as provided herein. Insurance proceeds shall be used by the Association for the repair or replacement of the property for which the insurance was carried or otherwise disposed of as provided in this Declaration. The Board shall have the authority to negotiate loss settlements with insurance carriers, with participation by Institutional Holders who so desire and have filed written requests under Section 3 of this Article. Any two (2) Officers of the Association may sign a loss claim form and release form in connection with the settlement of a loss claim, and such signatures shall be binding on all the named insureds, with the exception of the Administrator of the United States Department of Veterans Affairs, an officer of the United States of America.

Section 6. Actions as Trustee. Except as otherwise specifically provided in this Declaration, the Board, acting on behalf of the Association and all Owners, with the exception of the Administrator of the United States Department of Veterans Affairs, an officer of the United States of America, shall have the exclusive right to bind such parties in respect to all matters affecting insurance carried by the Association, the settlement of a loss claim, and the surrender, cancellation, and modification of all such insurance, in a manner satisfactory to seventy-five percent (75%) of the Institutional Holders who have filed requests under Section 3 of this Article. Duplicate originals or certificates of all policies of fire and casualty insurance carried by the Association and of all renewals thereof, together with proof of payment of premiums, shall be delivered by the Association to all Institutional Holders who have requested the same in writing.

Section 7. Annual Insurance Review. The Board shall, upon issuance or renewal of insurance, but no less than annually, review the insurance carried by the Association for the purpose of determining the adequacy of the Association's insurance coverage, including, without limitation, the general liability policy referred to in Section 1(a), and the amount of the casualty and fire insurance referred to in Section 1(b) above.

Upon such review, the Association shall notify the Owners as to the amount and type of insurance carried by the Association as required by the provisions of Article VII, Section 7 (e) of the Bylaws, and, if the Common Area is owned by the Owners as tenants-in-common, it shall

accompany this notification with statements to the effect that (i) the Association is or is not insured to the levels specified by Civil Code Section 1365.9; (ii) that if not so insured, Owners with an ownership interest in the Common Area may be individually liable for the entire amount of the judgment, and (iii) if the Association is insured to the levels specified by Civil Code Section 1365.9, then individual Owners with an ownership interest in the Common Area may be individually liable only for their proportional share of assessments levied to pay the amount of any judgment which exceeds the limits of the Association's insurance.

The Board may, in its discretion, obtain a current appraisal of the full replacement value of any buildings and improvements within the Common Area, except for foundations, footings and masonry walls, without deduction for depreciation, by a qualified independent insurance appraiser, prior to each such annual review.

Section 8. Required Waiver. All policies of hazard and physical damage insurance shall provide for waiver of the following rights, to the extent that the respective insurers would have the rights without such waivers:

- (a) Subrogation of claims against the tenants of the Owners;
- (b) Any defense based on co-insurance;
- (c) Any right of set-off, counterclaim, apportionment, proration or contribution by reason of other insurance not carried by the Association;
- (d) Any invalidity, other adverse effect or defense on account of any breach of warranty or condition caused by the Association, any Owner or any tenant of an Owner, or arising from any act, neglect or omission of any named insured, or the respective agents, contractors and employees of any insured;
- (e) Any right of the insurer to repair, rebuild or replace, and, in the event the improvement is not repaired, rebuilt or replaced following loss, any right to pay under the insurance an amount less than the replacement value of the improvements insured or the fair market value thereof;
- (f) Notice of the assignment of any Owner of its interest in the insurance by virtue of a conveyance of any Lot; and
- (g) Any right to require any assignment of any Mortgage to the insurer.

ARTICLE IX.

DESTRUCTION OF COMMON AREA IMPROVEMENTS

Section 1. Reconstruction Without Election. In the event of a total or partial destruction of any portion of the Common Area, if available insurance proceeds are sufficient to cover not less than ninety percent (90%) of the cost of repair or reconstruction, such Common Area shall be promptly repaired and rebuilt unless, within sixty (60) days from the date of such destruction, (1) Declarant and not less than seventy-five percent (75%) of the Members entitled to vote, including seventy-five percent (75%) of the voting power of the Association held by Members other than Declarant (after there is no longer a Class B membership) at a duly called and noticed annual or special meeting of the Members at which a quorum is present, determine that such reconstruction shall not be undertaken. If reconstruction is to take place, the Board shall cause to be executed, acknowledged and recorded in the Office of the County Recorder a certificate declaring its intention to rebuild, such certificate to be executed by any Officer or agent of the Association duly authorized to do so by the Board.

Section 2. Reconstruction By Consent. If the proceeds of such insurance are less than ninety percent (90%) of the cost of reconstruction, such reconstruction may nevertheless be undertaken if a majority of the voting power of the Association, present either in person or by proxy and entitled to vote, at a duly called and noticed annual or special meeting of the Members at which a quorum is present, elects to rebuild. In the event of an election to rebuild, a certificate shall be executed, acknowledged and recorded as described in Section 1 above.

Section 3. Assessments. In the event of a determination to rebuild pursuant to Section 1 or Section 2 above, the Board shall determine the amount (in excess of available insurance proceeds, if any) necessary in order to effect such reconstruction. The amount determined by the Board shall be levied against the Owners as a Reconstruction Assessment, payable upon such terms and conditions as the Board may deem appropriate. Any such Reconstruction Assessment shall be enforceable in the manner described in Section 14 of ARTICLE VI above.

Section 4. Board Responsibility. The Board shall take all steps necessary to assure the timely commencement and completion of any reconstruction. All amounts collected as Reconstruction Assessments shall be used only for the purposes set forth in this Article, shall be deposited by the Board in a separate bank account to be held in trust for such purposes, shall not be commingled with any other funds of the Association and shall be deemed a contribution to the capital account of the Association by the Members.

Section 5. Determination Not to Rebuild. If a certificate of intention to rebuild has not been executed, acknowledged and recorded in accordance with Section 1 or Section 2 above within nine (9) months from the date of any partial or total destruction of the Common Area, or if reconstruction and rebuilding has not actually commenced within such period, any insurance proceeds available for such reconstruction shall be used to clear and landscape the affected areas for community park, greenbelt or other suitable use. Any deficiency in the cost of clearing and landscaping the affected areas may be raised by a Reconstruction Assessment in an amount determined by the Board. In the event any excess insurance proceeds remain, the Board, in its sole discretion, may retain such sums in the general funds of the Association or distribute

proportionately all or a portion thereof to the Members, subject to (i) the rights of Institutional Holders; and (ii) any unpaid assessments of an Owner, together with any interest and fees attributable thereto.

ARTICLE X.

PROPERTY TAXES

Real property taxes, levies and assessments shall be separately and individually billed by the County Assessor's office to the Owners of individual Lots. Payment of such taxes for Lots shall be the sole responsibility of the Owner of such Lot. The Association shall not be liable for the collection and payment of any real or personal property taxes of any type whatsoever levied against individual Owners on account of their Lots. Real property taxes and assessments levied against the Common Area or personal property of the Association shall constitute a Common Expense which shall be paid by the Association through the Regular Assessment process.

ARTICLE XI.

PROHIBITION AGAINST PARTITION OR SEVERANCE OF LOT FROM INTEREST IN COMMON AREA

The Common Area shall remain undivided and each Owner irrevocably waives the right to bring any action to partition the Common Area. The rights in the Common Area and title to the respective Lots, together with any exclusive easements or rights appurtenant to each Unit, shall not be separated, severed or separately conveyed, assigned, encumbered or otherwise transferred. All rights in the Common Area shall be conclusively deemed to be conveyed, assigned, transferred or encumbered with the respective Lot even though the description in the instrument of conveyance or encumbrance may refer only to the Lot.

ARTICLE XII.

ARCHITECTURAL CONTROL

Section 1. Architectural Approval. In order to maintain a uniform and well-maintained appearance throughout the Project, no exterior improvements or other structures shall be commenced, erected, altered or maintained upon the Project without the prior approval of the Architectural Committee.

Section 2. Architectural Committee. An Architectural Committee, consisting of not less than three (3) nor more than five (5) members shall be established for the Project. Declarant may appoint all of the original members of the Committee and retains the right to appoint or replace Committee members until ninety percent (90%) of the Lots in the Project (including all Phases) have been sold or until the fifth anniversary of the issuance of the Public Report for the first Phase of the Project, whichever first occurs. After one (1) year following the date of issuance of the original Public Report for the first Phase of the Project, the Board shall have the right to appoint one (1) member to the Committee until ninety percent (90%) of all Lots in the Project (including all Phases) have been sold or until the fifth anniversary date of the original issuance of the Public Report for the first Phase of the Project, whichever first occurs. Thereafter, the Board shall have the power to appoint all members of the Committee. Committee members appointed by Declarant need not be Members of the Association. Committee members appointed by the Board shall be from the membership of the Association.

Section 3. Submission, Approval and Conformity of Plans. The Board shall adopt and promulgate Architectural Standards to be administered through its Architectural Committee as the Board, in its discretion, may deem appropriate. If the Architectural Standards so provide, no improvement, alteration, other structure or addition shall be commenced, erected, altered or maintained within the Project, nor shall any exterior addition, change, alteration, or change in original exterior color to any Unit be made until plans and specifications showing the nature, kind, shape, height, materials and location of the same are submitted to and approved in writing by the Architectural Committee. The Architectural Standards shall include the following restrictions and limitations:

(a) Time limitations for the completion of the improvements for which approval is required pursuant to the Architectural Standards;

(b) Conformity of completed improvements to plans and specifications approved by the Architectural Committee; provided, however, that as to purchasers and encumbrancers in good faith and for value, unless a notice of noncompletion or nonconformance identifying the violating Unit and its Owner and specifying the reason for the notice, executed by the Architectural Committee, is recorded in the Recorder's Office of the County and given to such Owner within thirty (30) days of the expiration of the time limitation described in subsection (a) above, or unless legal proceedings have been instituted to enforce compliance or completion within that thirty-day period, the completed improvements shall be deemed to be in compliance with plans and specifications approved by the Architectural Committee;

(c) Such other limitations and restrictions as the Board in its reasonable discretion shall adopt, including, without limitation, regulation of construction, reconstruction, exterior addition, change, alteration to or maintenance of any building, with regard to the nature, kind, shape, height, materials, exterior color and surface and location of such structure.

The Architectural Committee may delegate its plan review responsibilities to one (1) or more members of the Committee. Upon such delegation, the approval or disapproval of plans and specifications by such persons shall be equivalent to approval or disapproval by the entire Committee. The Committee may establish reasonable procedural rules and may assess a reasonable fee (not to exceed the estimated cost of review) per submission in connection with review of plans and specifications. Unless such rules regarding submission of plans are complied with, such plans and specifications shall be deemed not submitted. In the event that the Architectural Committee fails to approve or disapprove plans or other requests submitted to it within thirty (30) days after such submission, then such approval will not be required so long as any structure or improvement erected or altered pursuant to such plans conforms to all the conditions and restrictions herein contained and is in harmony with similar structures erected within the Project.

Section 4. Requirements for Reviewing Proposed Physical Changes. In accordance with California Civil Code Section 1378(c), the Association shall annually provide to its Members a notice of any requirements for Association approval of physical changes to property. The notice shall describe the types of changes that require Association approval and shall include a copy of the procedures used to review and approve or disapprove a proposed change. In reviewing and approving or disapproving a proposed change, the Association shall provide a fair, reasonable and expeditious procedure for making its decision. Such procedure shall include, without limitation:

(a) Prompt deadlines, including, without limitation, the maximum time for response by the Architectural Committee or the Board to an application or a request for reconsideration by the Board, which shall be a maximum of thirty (30) days;

(b) A decision on a proposed change shall be made in good faith and may not be unreasonable, arbitrary, or capricious;

(c) A decision on a proposed change shall be consistent with any governing provision of law, including, but not limited to, the Fair Employment and Housing Act (Part 2.8 (commencing with Section 12900) of Division 3 of Title 2 of the Government Code;

(d) A decision on a proposed change shall be in writing. If a proposed change is disapproved, the written decision shall include both an explanation of why the proposed change is disapproved and a description of the procedure for reconsideration of the decision by the Board.

Section 5. Appeal. In the event plans and specifications submitted to the Architectural Committee are disapproved, the party making such submission may appeal in writing to the Board unless the decision was made by the Board or by a committee having the same members as the Board. If requested, the applicant is entitled to reconsideration by the Board at an open meeting that satisfies the requirements of Civil Code Section 1363.05. The written request must be received by the Board not more than thirty (30) days following the final decision of the

Architectural Committee. The Board shall submit such request to the Architectural Committee for comment and the Committee's written comments will be submitted to the Board. Within thirty (30) days following receipt of the request for appeal, the Board shall render its written decision or, if requested, hold an open meeting. Failure of the Board to render a decision or, if requested, hold an open meeting, within this thirty (30) day period shall be deemed a decision in favor of the appellant.

Section 6. General Provisions. Operation of the Architectural Committee shall be subject to the following general provisions:

(a) Review and approval by the Committee of plans and specifications does not constitute approval of engineering design, and by approving such plans and specifications, neither the Committee, the members thereof, the Association, the Members, the Board nor Declarant assumes liability or responsibility therefor, or for any defect in any structure constructed from such plans and specifications. Approval of plans and specifications by the Committee does not relieve the Owner-applicant of the responsibility to obtain necessary building permits and approvals from any governmental authority having jurisdiction.

(b) The address of the Architectural Committee shall be the principal office of the Association as designated by the Board pursuant to the Bylaws. Such address shall be the place for submission of plans and specifications and the place where the current Architectural Standards, if any, shall be kept.

(c) The establishment of the Architectural Committee and the procedures described herein for architectural approval shall not be construed as changing any rights or restrictions upon Owners to maintain, repair, alter or modify or otherwise have control over their Separate Interests as may otherwise be specified in the Governing Documents.

Section 7. Nonapplicability to Declarant. The provisions of this Article shall not apply to any Lot owned by Declarant prior to its first conveyance to an Owner or to the construction by Declarant of residential improvements upon any Lot.

Section 8. Reconstruction of Units. The reconstruction of any Unit after destruction, which is accomplished in substantial compliance with the original building plans for such Unit, shall not require compliance with the provisions of this Article.

Section 9. No Liability. Neither Declarant nor the Committee, nor any member thereof, nor their duly authorized representatives, shall be liable to the Association or to any Owner for any loss, damage or injury arising out of or in any way connected with the performance of the Committee's duties hereunder unless due to the willful misconduct or bad faith of the Committee. The Committee's review of plans submitted to it will be based solely on aesthetic considerations and the overall benefit or detriment which might result to the immediate vicinity and the Project generally. The Committee will not be responsible for reviewing, and its approval of any plan or design will not be deemed approval of, any such plan or design from the standpoint of structural safety or conformance with building or other codes.

ARTICLE XIII.

RIGHTS OF INSTITUTIONAL HOLDERS OF MORTGAGES

The following provisions are for the benefit of Institutional Holders, Insurers and Guarantors of first Mortgages on Lots within the Covered Property and shall apply notwithstanding any provision to the contrary set forth elsewhere in this Declaration or the Bylaws. These provisions apply only to "Eligible Holders" as defined below.

Section 1. Notices of Actions. Any Institutional Holder, Insurer or Guarantor of a first Mortgage who provides written request to the Association, stating the name and address of such Holder, Insurer or Guarantor and the address or legal description of the particular Lot encumbered (thus becoming an "Eligible Holder"), will be entitled to timely written notice of:

- (a) Any default by the Owner of such Lot in the performance of such Owner's obligations under the Declaration or Bylaws which is not cured within sixty (60) days from the date of such default;
- (b) Any condemnation proceedings affecting the Project;
- (c) Any substantial damage to or destruction of any significant portion of the Common Area;
- (d) Any proposed termination of the Association;
- (e) Any lapse, cancellation or material modification of any insurance policy or fidelity bond maintained by the Association; or
- (f) Any proposed action which would require the consent of Eligible Holders as further described in this Article.

Section 2. Rights of Institutional Holders Upon Foreclosure. Any Institutional Holder of a first Mortgage on a Lot which comes into possession of that Lot pursuant to judicial foreclosure or foreclosure by power of sale shall:

- (a) Acquire title in such Lot free of any claims for unpaid assessments or charges against the Lot accruing prior to the Institutional Holder's acquisition of title;
- (b) Not be obligated to cure any breach of this Declaration which is noncurable or of a type which is not practical or feasible to cure and which took place prior to acquisition of title to the Lot by the Institutional Holder; and
- (c) Be exempt from any right of first refusal contained in this Declaration, or any amendment hereto, and such right of first refusal shall not impair the rights of an Institutional Holder to (i) foreclose or acquire title to a Lot pursuant to the remedies provided in the Mortgage, (ii) accept an assignment in lieu of foreclosure in the event of default by the mortgagor, or (iii) sell or lease a Lot acquired by the Institutional Holder.

Section 3. Consent of Institutional Holders. The consent of Institutional Holders, Insurers or Guarantors shall be required in order to take the following actions with respect to the Association and rights and obligations of Members and Institutional Holders:

(a) Any restoration or repair of the Common Area after a partial condemnation or damage due to an insurable hazard shall be substantially in accordance with this Declaration and the original plans and specifications unless the approval of the Eligible Holders of first encumbrances on Lots to which at least fifty-one percent (51%) of the votes of the Owners of such Lots, subject to encumbrances held by such Eligible Holders are allocated, is obtained;

(b) Any election to terminate the Association after substantial destruction or a substantial taking in condemnation shall require the approval of the Eligible Holders of first encumbrances on Lots to which at least fifty-one percent (51%) of the votes of Owners of such Lots, subject to first encumbrances held by such Eligible Holders, are allocated;

(c) Unless at least seventy-five percent (75%) of the Owners (other than Declarant) have given their prior written approval, the Association and the Owners shall not be entitled to: (i) change the pro rata interest or obligations of any Lot for the purposes of levying assessments and charges or allocating distributions of hazard insurance proceeds or condemnation awards unless the change is due to the annexation of additional phases as authorized in this Declaration; (ii) partition or subdivide all or any part of the Common Area of the Project; (iii) by act or omission seek to abandon, partition, subdivide, encumber, sell or transfer the Common Area (the granting of easements for public utilities or for other public purposes consistent with the intended use of the Common Area shall not be deemed a transfer within the meaning of this provision) unless due to the annexation of additional phases as authorized in this Declaration; (iv) use hazard insurance proceeds for losses to any portion of the Common Area for other than the repair, replacement or reconstruction of such improvements, except as provided by statute.

Section 4. Amendments to Documents. The following provisions contained in this Section do not apply to amendments to the Bylaws or this Declaration or termination of the Association made as a result of destruction, damage or condemnation pursuant to subsections (a) and (b) of Section 3 above.

(a) The consent of one hundred percent (100%) of the voting power of the Association and the approval of the Eligible Holders of first encumbrances on Lots to which at least sixty-seven percent (67%) of the votes of Members owning Lots subject to such encumbrances pertain, shall be required to terminate the Association.

(b) The consent of at least sixty-seven percent (67%) of Class A members and the consent of the Class B member and the approval of Eligible Holders of first encumbrances on Lots to which at least fifty-one percent (51%) of the votes of members whose Lots are subject to such an encumbrance pertain, shall be required in order to materially amend any provision of the Governing Documents, or to add any material provisions thereto, which establish, provide for, govern or regulate any of the following: (i) voting; (ii) assessments, assessment liens or subordination of such liens; (iii) reserves for maintenance, repair and replacement of the Common Area; (iv) insurance or fidelity bonds; (v) rights to use the Common Area; (vi) responsibility for maintenance and repair of the Project; (vii) expansion or contraction of the Project or the addition,

annexation or withdrawal of property to or from the Association; (viii) boundaries of any Lot or the Common Area; (ix) leasing of Lots and Units; (x) imposition of any right of first refusal or similar restrictions of the right of any Owner to sell, transfer or otherwise convey his Lot; (xi) establishment of self-management by the Association where professional management has previously been required or for a project consisting of fifty (50) or more Lots; or (xii) any provisions included in the Governing Documents which are for the express benefit of Institutional Holders, Guarantors or Insurers of first encumbrances on Lots.

Section 5. Additional Rights of Institutional Holders. Any Institutional Holder of a Mortgage on a Lot in the Project will, upon request, be entitled to: (a) inspect the Governing Documents, the books and records and the financial statements of the Association during normal business hours; (b) for Projects consisting of fifty (50) or more Lots, receive an annual audited financial statement of the Association within one hundred twenty (120) days following the end of any fiscal year of the Association; (c) if no audited statement is available for Projects consisting of fewer than fifty (50) Lots, an Institutional Holder may have an audited statement prepared at its own expense; (d) receive written notice of all meetings of Owners and be permitted to designate a representative to attend all such meetings; and (e) may, jointly or singly, pay taxes or other charges which are in default and which may become a charge against any Common Area property and may pay any overdue premiums on hazard insurance policies, or secure new hazard insurance coverage on the Common Area on the lapse of such a policy, and Institutional Holders making such payments shall be owed immediate reimbursement therefor from the Association.

Section 6. Information. Any Institutional Holder is authorized to furnish information to the Board concerning the status of any loan encumbering a Lot.

Section 7. Priority of Mortgage Lien. No breach of the covenants, conditions or restrictions contained in this Declaration, nor the enforcement of any lien provisions created herein, shall affect, impair, defeat or render invalid the lien of any first Mortgage made in good faith and for value, but all of the covenants, conditions and restrictions shall be binding upon and effective against any Owner whose title to a Lot is derived through foreclosure, trustee's sale or otherwise.

Section 8. Insurance. The Owners and the Association shall procure and maintain fire and liability insurance and such other insurance as may from time to time be required by Institutional Holders. All such insurance shall contain loss payable clauses naming the Institutional Holders which encumber a Lot by a first Mortgage, as their interests may appear.

Section 9. Priority on Distribution of Proceeds. No Owner or any other party shall have priority over the Institutional Holder of the Mortgage on his Lot in the case of a distribution of insurance proceeds or condemnation awards for losses to or a taking of the Lot or Common Area.

Section 10. Special FNMA-FHLMC Provisions. So long as required by The Federal National Mortgage Association ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC"), the following provisions shall apply in addition to and not in lieu of the foregoing provisions contained in this Article.

(a) Unless two-thirds (2/3) of the Institutional Holders of first encumbrances or Owners of Lots subject to such encumbrances give their consent, the Association shall not: (i) by act or omission seek to abandon, partition, subdivide, encumber, sell or transfer the Common Area which the Association owns, directly or indirectly; (ii) change the method of determining the obligations, assessments, dues or other charges which may be levied against an Owner; (iii) by act or omission change, waive or abandon any scheme of regulations or enforcement thereof pertaining to the architectural design or the exterior appearance and maintenance of the Project and the Common Area; (iv) fail to maintain fire or extended coverage insurance, as required by this Declaration; or (v) use hazard insurance proceeds for any Common Area losses for other than the repair, replacement or reconstruction of such property.

(b) The Association agrees to give written notice to the FNMA or FHLMC or its designated representative of any loss to, or taking of, the Common Area if such loss or taking exceeds Ten Thousand Dollars (\$10,000.00).

(c) If any loan secured by a Mortgage encumbering a Lot is owned by the FNMA or FHLMC, its successors or assigns or is tendered to the FNMA or FHLMC, its successors or assigns for purchase, the Association and the Owners shall obtain and maintain in full force and effect all insurance coverages which may at any time be required by the FNMA or FHLMC, its successors or assigns and shall otherwise comply in all respects with all insurance requirements of the FNMA or FHLMC which may be in effect at any time.

Section 11. Consent. An Eligible Holder which receives a written request to consent to an amendment or to any other action to which the Eligible Holders' consent is required or permitted by this Declaration, and which does not respond negatively within thirty (30) days after having received proper notice of the proposed amendment and request, provided the notice was delivered by certified or registered mail with a return receipt requested, shall be deemed to have consented to the amendment or other action.

ARTICLE XIV.

ENFORCEMENT OF BONDED OBLIGATIONS

In the event that the improvements to the Common Area of the Project have not been completed prior to the issuance of a Public Report for the Covered Property and the Association is obligee under a bond or other arrangement (the "Bond") to secure performance of the commitment of Declarant to complete such improvements, the following provisions shall apply:

(a) The Board shall consider and vote on the question of action by the Association to enforce the obligations under the Bond with respect to any improvements for which a Notice of Completion has not been filed within sixty (60) days after the completion date specified for such improvement in the Planned Construction Statement appended to the Bond. If the Association has given an extension in writing for the completion of any Common Area improvement, the Board shall consider and vote on the aforesaid question if a Notice of Completion has not been filed within thirty (30) days after the expiration of such extension.

(b) In the event that the Board determines not to initiate action to enforce the obligations under the Bond, or in the event the Board fails to consider and vote on such question as provided above, the Board shall call a special meeting of the Members for the purpose of voting to override such decision or such failure to act by the Board. Such meeting shall be called according to the provisions of the Bylaws dealing with meetings of the Members, but in any event such meeting shall be held not less than thirty-five (35) days nor more than forty-five (45) days after receipt by the Board of a petition for such meeting, signed by Members representing not less than five percent (5%) of the total voting power of the Association.

(c) The only Members entitled to vote at such meeting shall be the Owners other than Declarant. A vote at such meeting of a majority of the voting power of such Members, other than Declarant, to take action to enforce the obligations under the Bond shall be deemed to be the decision of the Association and the Board shall thereafter implement such decision by initiating and pursuing appropriate action in the name of the Association.

ARTICLE XV.

EMINENT DOMAIN

Section 1. Definition of Taking. The term "taking" as used in this Article shall mean condemnation by eminent domain, or by sale under threat thereof, of all or part of the Common Area.

Section 2. Representation by Association in Condemnation Proceeding. In the event of a taking, the Association shall, subject to the right of all Institutional Holders who have requested the right to join the Association in the proceedings, represent all of the Members in an action to recover all awards. No Member shall challenge the good faith exercise of the discretion of the Board in fulfilling its duties under this Article. The Association is further designated as the sole representative of the Members, in all aspects of condemnation proceedings not specifically covered herein.

Section 3. Award for Common Area. In the event of a taking of all or any part of the Common Area, the Association shall distribute the award from the taking authority according to the provisions of this Section after deducting therefrom fees and expenses related to the condemnation proceeding including, without limitation, fees for attorneys and appraisers and court costs. In the event that the taking is by judgment of condemnation and said judgment apportions the award among the Owners and their respective Institutional Holders, the Association shall distribute the amount remaining after such deductions among such Owners and Institutional Holders on the allocation basis set forth in the judgment. In the event that the taking is by sale under threat of condemnation, or if the judgment of condemnation fails to apportion the award, the Association shall distribute the award among the Owners on a pro rata basis, with each Owner receiving an equal share of such award for each Lot owned within the Project.

Section 4. Inverse Condemnation. The Association is authorized to bring an action in inverse condemnation. In such event, the provisions of this Article shall apply with equal force.

Section 5. Notice to Members. The Association, immediately upon having knowledge of any taking or threat thereof, shall promptly notify all Members.

ARTICLE XVI.

EASEMENTS

Section 1. Utility Easements. Easements over the Project for the installation and maintenance of electric, telephone, water, gas and sanitary sewer lines and facilities, and for drainage facilities as shown on the recorded map of the Project, and as may be hereafter required or needed to service the Project, are hereby created by Declarant for the benefit of each Owner and the Association.

Section 2. Clustered Mailbox Easements. In order to comply with the various requirements of the County and the U. S. Postal Service, kiosk or multi-family clustered mailboxes may be installed on certain Lots or Common Area within the Project in such locations as have been approved by the U. S. Postal Service. Easements are hereby created, granted and established on and over those portions of the affected Lots and/or Common Area where such mailboxes are located in favor of all Owners and the U. S. Postal Service for delivery, deposit and retrieval of mail.

Section 3. Common Area Easements. Each Lot within any Phase of the Project is hereby declared to have an easement over all of the Common Area for the benefit of the Lot, the Owner thereof, and for the Owner's family, guests, invitees and tenants, for all of the purposes and uses described herein, including ingress, egress, and support, if necessary, over and through the Common Area. Except as otherwise provided in law, an order of the court, or an order pursuant to a final and binding arbitration decision, the Association may not deny an Owner or occupant of a Separate Interest physical access through the Common Areas to the Owner's Separate Interest, or by restricting access solely to the Owner's Separate Interest.

Lots "A" through "C" of Tract 31782 are private streets which are included in the Common Area for the initial Phase of the Project, and the Owners therefore have an easement for access through the entry gates and over the private streets in Phase 1.

If Declarant does not convey a Common Area street lot to the Association in the initial Phase or concurrent with the annexation of the Phase within which such street lot is located, or if access over a private street is necessary to provide access to any Lot in the Project, Owners of Lots within the initial Phase and any such annexed Phase will nevertheless enjoy an easement for access, ingress and egress over at least one such improved street lot as required to provide access to each Owner's Lot.

Section 4. Utilities. Wherever sewer connections, water connections, electricity, gas, telephone and cable television lines or drainage facilities are installed within the Project, the Owners of Lots served by such connections, lines or facilities shall have an easement to the full extent necessary for the use and enjoyment of that portion of the connections which service his Lot, and to have utility companies enter upon Lots owned by others, in or upon which said connections, lines or facilities, or any portion thereof lie, to repair, replace and generally maintain said connections when it may be necessary.

Section 5. Construction and Sales Easements. Declarant hereby reserves easements over the Project and all Phases thereof, for construction, display, maintenance, sales and exhibit purposes in connection with the construction and sale or lease of Lots within the Project, together with the right to grant and transfer such easements to its sales agents, representatives and prospective purchasers of Lots; provided, however, that such use shall not be for a period beyond the earlier of (i) seven (7) years from the conveyance of the first Lot by Declarant or (ii) the sale by Declarant of all Lots within the last Phase to be developed on the Covered Property, and provided further that such use by Declarant and others shall not interfere with the reasonable use and enjoyment of the Common Area by the Members. For the purposes of this Section a "Phase" shall be deemed to be the last property to be developed on the Covered Property if no portion of another Phase is annexed to the Covered Property within the seven (7) year period following the issuance of the first Public Report for the sale of Lots within such Phase. The construction and sales easements reserved hereby shall specifically include the right to maintain sales offices in model Units and/or temporary modular facilities at such location or locations throughout the Project as Declarant may deem appropriate, the right to place signs advertising Lots and/or Units for sale, and the right to maintain temporary utility poles, lines and other facilities throughout the Project.

Section 6. Easement and Control of Entry Gates. Declarant shall have an easement through and control over the entry gates which may be situated within the Covered Property until all Lots in the Project have been conveyed to Owners under a Public Report or until Declarant, in its sole discretion, determines that the Association should take responsibility for control, maintenance and repair of some or all of the entry gates. The Association's obligation shall commence immediately upon receipt of written notice from the Declarant identifying the entry gates to be thereafter controlled and maintained by the Association. Notwithstanding who has responsibility for the entry gates, Declarant shall be entitled to have the entry gates remain open during regular business hours in order to conduct sales and to provide access for construction traffic. The presence of entry gates on the Project is not a warranty or representation by Declarant that any security is being provided to any Owner or to any Owner's Lot or personal property. Notwithstanding anything to the contrary set forth in this Declaration, in no event may this provision be modified or amended without the consent of Declarant.

Section 7. Inspection Easements. Declarant hereby reserves a non-exclusive easement over the Project for the purpose of ensuring that the Association complies with its operations, maintenance, repair and restoration obligations set forth in this Declaration. In addition, the Declarant shall have the right to inspect the books, records, budgets and financial statements of the Association during normal business hours or under other reasonable circumstances.

Section 8. No Easement for Light, Air and View. No Owner shall have an easement for light, air or view over the Unit or Lot of another Owner or over the Common Areas and no diminution of light, air or view by any building or other Improvement now existing or hereafter erected shall entitle the Owner or any invitee to claim any easement for light, air or view within the Project.

Section 9. County Easement Rights. Easements over the Project for emergency vehicles and for access to and maintenance, construction, and reconstruction of essential improvements located on street, drainage or common lots or within utility and drainage easements

as shown on the recorded map of the Project, and as may be hereafter required or needed to service the Project, are hereby created by Declarant in favor of the County.

Section 10. Establishment of Easements. The easements described in this Declaration shall be deemed established upon the recordation of this Declaration, and shall thereafter be considered covenants running with the land for the use and benefit of all of the Lots and the Common Area, superior to all other encumbrances affecting any portion of the Project. Individual conveyances of Lots may, but shall not be required to, set forth such easements.

ARTICLE XVII.

INTEGRATED NATURE OF THE COVERED PROPERTY

Section 1. Development of the Project. Declarant intends to develop the Project in Phases, annexing the property described in Exhibit "B". Declarant has submitted to the California Department of Real Estate a plan for phased development, which provides that the proposed annexation will not result in an overburdening of the Common Area. However, Declarant may elect not to develop all or any part of any Phase, to develop the Project in Phases of any size whatsoever, or to develop more than one Phase at any given time and in any given order.

Declarant reserves the right to subject all or any portion of a Phase to the plan of this Master Declaration or of one or more separate declarations of covenants, conditions and restrictions which subject such property to the jurisdiction and powers of a homeowners association or other entity with powers and obligations similar to the Association and which is not subject to the provisions of this Declaration. Although Declarant shall have the ability to annex the real property described in Exhibit "B", Declarant shall not be obligated to annex all or any portion of such property. Annexed property shall not become subject to this Master Declaration unless and until a Supplemental Declaration describing such property is executed and recorded.

Section 2. Annexation Without Approval and Pursuant to Plan. All or any part of the property described in Exhibit "B" may be annexed to and become subject to this Master Declaration and the jurisdiction of the Association without the approval, assent or vote of the Association or its Members, provided that a Supplemental Declaration covering the portion of the property described in Exhibit "B" sought to be annexed, is executed and recorded by Declarant. The recordation of a Supplemental Declaration shall constitute and effectuate the annexation of the real property described therein, making that property subject to this Master Declaration and the jurisdiction of the Association, and thereafter the annexed property shall be part of the Covered Property and all Owners of Lots in the annexed property shall automatically be Members of the Association. No proposed annexation will result in a substantial increase in assessments against existing Owners unless that fact was disclosed in the Public Reports for the earlier Phases of the Project in which the existing Owners purchased their Lots.

Section 3. Annexation Pursuant to Approval. Upon approval in writing of the Association, pursuant to the vote or written assent of not less than sixty-six and two-thirds percent (66-2/3 %) of Members other than Declarant, any person who desires to add property other than the property described on Exhibit "B" to the plan of this Master Declaration and to subject such property to the jurisdiction of the Association, may record a Supplemental Declaration.

Section 4. Supplemental Declarations. The annexations authorized under the foregoing sections shall be made by recording a Supplemental Declaration of Covenants, Conditions and Restrictions, or similar instrument, describing the property which is being annexed. Such Supplemental Declarations may contain complementary additions and modifications of the covenants, conditions and restrictions contained in this Master Declaration as necessary to reflect the different character, if any, of the annexed property and as are not inconsistent with the plan of this Master Declaration. In no event shall any such Supplemental Declaration, or any merger or

consolidation revoke, modify or add to the covenants established by this Master Declaration within the initial Covered Property.

Section 5. Mergers or Consolidations. Upon a merger or consolidation of the Association with another association, the Association's properties, rights and obligations may, by operation of law, be transferred to the surviving or consolidated association, or, alternatively, the properties, rights and obligations of another association may, by operation of law, be added to the properties, rights and obligations of the Association as a surviving corporation. The surviving or consolidated association may administer the covenants, conditions and restrictions established by this Master Declaration within the Covered Property, together with the covenants and restrictions established upon any other property as one plan.

Section 6. Right of De-Annexation. Declarant reserves the right to de-annex any property which may be annexed to the Project pursuant to this Declaration and to delete such property from the common plan described herein and from the jurisdiction of the Association. Such de-annexation shall be effected prior to the conveyance of any Lot within the property to be de-annexed.

ARTICLE XVIII.

DISPUTES REGARDING DESIGN OR CONSTRUCTION OF PROJECT

Section 1. Declarant Right to Repair. Declarant hereby adopts the “pre-litigation procedures” of Senate Bill 800 (“SB 800”) as described in California Civil Code §§910 through 938 with respect to the claim by an owner of construction defects. It is Declarant’s intention to adopt all of the construction defect resolution procedures described in SB 800 (Title 7 [commencing with Section 895] of Part 2 of Division 2 of the Civil Code).

Section 2. Designation of Agent for Notice. The construction defect resolution provisions referred to in Section 1 above require that Declarant as the “builder” designate an agent to whom claims and requests for information regarding construction defect claims may be mailed. The name and address for such agent is R. Geoffrey McComic, Executive Vice President, McComic Consolidated, Inc., 9968 Hibert Street, Suite 102, San Diego, CA 92131. Declarant may change the name and address of its agent by (a) giving written notice to all current Owners, and (b) recording a notice of such change, which notice shall reference this Declaration and the legal description of the Covered Property.

Section 3. Association Construction Defect Claims. The Association may enforce construction defect claims pursuant to the provisions of Section 1 above only with respect to the Common Area. With respect to claims by the Association regarding alleged construction defects on the Common Area, the provisions of subparagraphs (b) and (c) of ARTICLE XIV (Enforcement of Bonded Obligations) will be applicable to the determination of the Association to assert a construction defect claim, and neither Declarant nor Declarant’s representatives on the Board shall have the right to vote on any matter determining such a claim.

Section 4. Claims Not Resolved by SB 800 Pre-Litigation Procedures. In the event the procedures described in Section 1 above do not fully resolve any construction defect claims, the following provisions will apply to claims by Owners and/or the Association (each a “Claimant”):

(a) For purposes of this Section, the term “Affiliated Contractor” shall mean and refer to each general contractor and contractor, who, as of the time of sale of the portion of the Property that is the subject of a dispute is (i) in the business of building, developing or constructing the Property for public purchase and (ii) is a partner, member of, subsidiary of, or otherwise similarly affiliated with Declarant and the term “Development Party” shall mean and refer to Declarant or any director, officer, partner, employee, subcontractor or agent of Declarant or any Affiliated Contractor.

(b) Any controversy or claim between or among any Claimant and any Development Party relating to the design or construction of the Project shall be submitted to binding arbitration before the American Arbitration Association (“AAA”) in accordance with Title 9 of the U.S. Code (Federal Arbitration Act) and the Commercial Rules of the AAA. Costs of the arbitration will initially be paid by the Development Party, but will ultimately be allocated between and among the parties as determined by the arbitrator. The arbitration will be conducted in the county where the Project is located. The arbitrator shall apply California substantive law in rendering a final decision. The arbitrator shall have the power to grant all legal and equitable

remedies and award compensatory damages, but shall not have the power to award punitive damages. The parties agree to be bound by the decision of the arbitrator, which shall be final and non-appealable. Judgment upon the decision rendered by the arbitrator may be entered in any court having proper jurisdiction or applications may be made to such court for judicial acceptance of the award and an order of enforcement. If a party refuses to arbitrate, the other party may seek a court order compelling the arbitration pursuant to the Federal Arbitration Act.

(c) EACH OWNER, THE ASSOCIATION AND EACH OF THE DEVELOPMENT PARTIES AGREE TO USE THE PROCEDURES ESTABLISHED IN THIS SECTION TO RESOLVE ALL DISPUTES AND WAIVE THEIR RIGHTS TO RESOLVE DISPUTES COVERED IN THIS SECTION IN ANY OTHER MANNER. EACH OWNER, THE ASSOCIATION AND EACH OF THE DEVELOPMENT PARTIES ACKNOWLEDGE THAT BY AGREEING TO RESOLVE ALL DISPUTES AS PROVIDED IN THIS SECTION THEY ARE GIVING UP THEIR RIGHT TO HAVE DISPUTES TRIED BEFORE A JUDGE OR JURY, PURSUANT TO THE FEDERAL ARBITRATION ACT.

(d) Notwithstanding the foregoing arbitration provisions of this Section, the Claimants and Development Parties may elect instead to resolve disputes covered by this Section through a small claims court proceeding.

ARTICLE XIX.

GENERAL PROVISIONS

Section 1. Enforcement. Subject to Section 2 below, the Association and each Owner shall have the right to enforce, by any proceeding at law or in equity, all restrictions, conditions, covenants, reservations, liens and charges now or hereafter imposed by the Governing Documents, including this Declaration; provided, however, that with respect to assessment liens, the Association shall have the exclusive right of enforcement. Failure by the Association or by any Owner to enforce any covenant or restriction herein contained shall not be deemed a waiver of the right to do so thereafter. In an action to enforce the Governing Documents, the prevailing party shall be awarded reasonable attorney's fees and costs in accordance with California Civil Code Section 1354 (c).

Section 2. Alternative Dispute Resolution Requirement. Neither the Association nor an Owner or Member of the Association may file an enforcement action in the superior court unless the parties have endeavored to submit their dispute to alternative dispute resolution pursuant to California Civil Code Sections 1369.510 through 1369.590 (Article 2 of Chapter 7 of the Davis-Stirling Common Interest Development Act) -- (referred to herein as the "Alternative Dispute Resolution Requirement Law"). The procedures and provisions described in the Alternative Dispute Resolution Requirement Law shall be followed and shall apply to any enforcement action which is solely for declaratory, injunctive, or writ relief, or for that relief in conjunction with a claim for monetary damages not in excess of Five Thousand Dollars (\$5,000.00), but shall not apply to a small claims action or an assessment dispute, except as otherwise provided by law. Such alternative dispute resolution may consist of mediation, arbitration, conciliation, or other nonjudicial procedure that involves a neutral party in the decisionmaking process. The form of alternative dispute resolution may be binding or nonbinding, with the voluntary consent of the parties. Any party to a dispute may initiate the alternative dispute resolution process by serving a Request for Resolution under the procedures described in Civil Code Section 1369.530 (a) and (b), and a party receiving such Request for Resolution has thirty (30) days following service to accept or reject the Request for Resolution pursuant to Civil Code Section 1369.530 (c). The costs for the alternative dispute resolution shall be borne by the parties.

Pursuant to Civil Code Section 1369.580, in any enforcement action in which fees and costs may otherwise be awarded pursuant to California Civil Code Section 1354 (c), the court, in determining the amount of the award, may consider whether a party's refusal to participate in alternative dispute resolution before the commencement of the action was reasonable.

The Association shall annually provide its Members with a summary of the provisions of the Alternative Dispute Resolution Requirement Law (as defined above), which summary shall include the following language:

"Failure of a Member of the Association to comply with the alternative dispute resolution requirements of Section 1369.520 of the Civil Code may result in the loss of your right to sue the Association or another

Member of the Association regarding enforcement of the Governing Documents or the applicable law.”

The summary shall also provide a description of the Association’s internal dispute resolution process, as required by Section 3 below, and shall be provided either at the time the Budget is distributed or in the manner prescribed in Section 5016 of the Corporations Code.

Section 3. Association’s Internal Alternative Dispute Resolution Procedure. In any dispute between the Association and a Member involving their rights, duties, or liabilities under the Act (as defined above), the Nonprofit Mutual Benefit Corporation Law (commencing with Section 7110) of Division 2 of Title 1 of the Corporations Code, or under the Governing Documents of the Association, the dispute resolution procedure contained in Article 5 of Chapter 4 of the Act (California Civil Code Sections 1363.810 through 1363.850) (referred to herein as the “Internal Alternative Dispute Resolution Procedure”), the Association shall provide a fair, reasonable and expeditious procedure for resolving a dispute. In developing such a dispute resolution procedure, the Association shall make maximum, reasonable use of the available local dispute resolution programs involving a neutral third party, including low-cost mediation programs such as those listed on the internet web sites of the Department of Consumer Affairs and the United States Department of Housing and Urban Development. If the Association does not provide such a fair, reasonable and expeditious procedure for resolving a dispute (satisfying the minimum requirements of California Civil Code Section 1363.830), the procedures provided in California Civil Code Section 1363.840 shall apply. A Member of the Association shall not be charged a fee to participate in the dispute resolution process governed by the Internal Alternative Dispute Resolution Procedure. The notice provided pursuant to Section 2 above shall also include a description of the internal dispute resolution process provided pursuant to this Section 3.

Section 4. Disputes Related to Association Assessments. In accordance with California Civil Code Section 1366.3, the exception for disputes related to Association Assessments as set forth in Section 2 above and in California Civil Code Section 1369.520 (d) shall not apply if, in a dispute between an Owner and the Association regarding the Assessments imposed by the Association, the Owner chooses to pay in full to the Association all of the charges listed below in paragraphs (a) through (d), inclusive, and states by written notice that the amount is paid under protest, and the written notice is mailed by certified mail not more than thirty (30) days from the recording of the Notice of Delinquent Assessment in accordance with Civil Code Section 1367.1 and Article VI, Section 14 (b) of this Declaration. In those instances, the Association shall inform the Owner that the Owner may resolve the dispute through alternative dispute resolution as described in Section 2 of this Article or any other procedures to resolve the dispute that may be available under Section 3 of this Article. The charges paid under protest shall include the following:

- (a) The amount of the Assessment in dispute;
- (b) Late charges;
- (c) Interest;

(d) All reasonable fees and costs associated with the preparation and filing of a Notice of Delinquent Assessment, including mailing costs, and including reasonable attorney's fees not to exceed Four Hundred Twenty-Five Dollars (\$425.00).

The right of any Owner to utilize alternative dispute resolution under Civil Code Section 1366.3 in a matter involving Association Assessments may not be exercised more than two (2) times in any single calendar year, and not more than three (3) times within any five (5) calendar years. Any Owner and the Association may, however, upon mutual agreement, enter into alternative dispute resolution for a number of times in excess of the limits set forth above. An Owner may request and be awarded through alternative dispute resolution reasonable interest to be paid by the Association on the total amount paid under paragraphs (a) through (d) above, inclusive, if it is determined through alternative dispute resolution that the Assessment levied by the Association was not correctly levied.

Section 5. Civil Actions by Association/Board Authority. The Board is authorized, but not required, to institute, defend, settle or intervene, on behalf of the Association, in litigation, arbitration, mediation, or administrative proceedings in matters pertaining to (i) enforcement of the Governing Documents, (ii) damage to the Common Areas, (iii) damage to the Separate Interests which the Association is obligated to repair or maintain, or (iv) damage to the Separate Interests which arises out of, or is integrally related to, damage to the Common Areas or Separate Interests that the Association is obligated to maintain or repair, and to do any act reasonably necessary to resolve any civil claim or action through alternative dispute resolution proceedings such as mediation and binding or non-binding arbitration proceedings. In any such action maintained by the Association, except an action to enforce the Governing Documents, the provisions of California Civil Code Section 1368.4, regarding principles of comparative fault and reduction of damages, shall be applicable as to a possible defense or setoff to liability of the defendant or cross-defendant.

Section 6. Notice to Members of Legal Proceedings Against Developer. The Board shall provide the Members with a written notice not later than thirty (30) days prior to the filing of any civil action by the Association against the Declarant or other developer of the Project for alleged damage to the Common Areas, alleged damage to the Separate Interests that the Association is obligated to maintain or repair, or alleged damage to the Separate Interests that arises out of, or is integrally related to, damage to the Common Areas or Separate Interests that the Association is obligated to maintain or repair. This notice shall specify all of the following: (a) that a meeting will take place to discuss problems that may lead to the filing of a civil action, (b) the options, including civil actions, that are available to address the problems, and (c) the time and place of the meeting. Notwithstanding the foregoing, if the Association has reason to believe that the applicable statute of limitations will expire before the Association files the civil action, the Association may give the foregoing notice, within thirty (30) days after the filing of the action.

Section 7. Severability of Covenants. Invalidation of any one of these covenants or restrictions by judgment or court order shall not affect any other provisions which shall remain in full force and effect.

Section 8. Term. The covenants and restrictions of this Master Declaration shall run with and bind the Covered Property and the Project, and shall inure to the benefit of and be

enforceable by the Association or the Owners, their legal representatives, heirs, successors and assigns until sixty (60) years after the date this Declaration is recorded, after which date they shall automatically be extended for successive periods of ten (10) years, unless an instrument signed by seventy-five percent (75%) of the then Owners and their respective Institutional Holders has been recorded (i) within the year preceding the end of the original sixty (60) year period, or (ii) within the year preceding the beginning of each successive period of ten (10) years, agreeing to terminate this Master Declaration.

Section 9. Construction. The provisions of this Declaration shall be liberally construed to effectuate its purpose of creating a uniform plan for the development and operation of a phased Common Interest Development, and for the maintenance of the community recreational facilities, if any, and Common Areas. In case of any conflict between this Master Declaration and the Articles or Bylaws, this Master Declaration shall control. The article and section headings have been inserted for convenience only and shall not be considered or referred to in resolving questions of interpretation or construction.

Section 10. Amendments. Subject to the rights of Institutional Holders described in ARTICLE XIII above, this Master Declaration may be amended only by the affirmative assent or vote of both (i) a majority of the voting power of the Association, including the voting power of the Declarant, and (ii) a majority of the voting power of Members other than Declarant; provided, however, that the percentage of voting power necessary to amend a specific clause or provision shall not be less than the percentage of affirmative votes prescribed for action to be taken under that clause; provided further, that if the two-class voting structure as provided by this Declaration is still in effect, this Declaration may not be amended without the vote or written assent of a majority of the voting power of each class of Members.

In the event that a majority of votes required cannot be obtained in favor of an amendment, the Association, or any Owner, may petition the Superior Court of the County for an order reducing the percentage of affirmative votes required. The filing of any such petition shall be in compliance with the procedures set forth in California Civil Code Section 1356.

Notwithstanding any other provision of this Declaration, in the event that any further modification of this Declaration is required in order to comply with requirements of governmental or quasi-governmental corporations or agencies such as the United States Department of Veterans Affairs (VA), Federal Housing Administration (FHA), Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) or the like, such modifications may be effected by an amendment executed and recorded by the Class B member alone. This power shall exist in Declarant only so long as there exist two classes of memberships as described in ARTICLE V above. Such modifications shall be for the benefit of and not impose any increased burden upon the Owners. Any such modifications to this Declaration shall also require approval by the California Department of Real Estate.

This amendment provision shall not be amended to allow amendments by the assent or vote of less than the prescribed percentage of voting power required for amendments hereof except by court order as set forth above. An amendment or modification shall be effective when executed and acknowledged by the Secretary of the Association, who shall certify that the amendment or

modification has been approved as provided herein, and recorded in the official records of the County. No amendment or modification of this Declaration which would adversely affect the rights of any governmental authority having jurisdiction to enforce the terms and provisions of this Declaration as they relate to the maintenance of the Common Area, structures and landscaping within the Project, terminate or materially impair the powers and duties of the Association as set forth in this Declaration, or interfere with the rights of ingress and egress to any Lot or the Common Area shall be effective without the prior written consent of any governmental authority having jurisdiction.

This Declaration may be amended by the Board and the Owners in accordance with California Civil Code Section 1355.5, in order to delete provisions relating to construction or marketing, at such time as such provisions are no longer operative for the benefit of Declarant or any successor, all in accordance with the provisions of such section.

Section 11. Dissolution. So long as there is any Lot or Common Area for which the Association is obligated to provide management, maintenance, preservation or control, the Association may be dissolved or may transfer all or substantially all of its assets only upon the approval of one hundred percent (100%) of the Members.

Section 12. Nonliability of Officials. To the fullest extent permitted by law, neither the Board, the Architectural Committee, any other committees of the Association or any member of such Board or committee shall be liable to any Member of the Association for any damage, loss or prejudice suffered or claimed on account of any decision, approval or disapproval of plans or specifications (whether or not defective), course of action, act, omission, error, negligence or the like made in good faith within which such Board, committees or persons reasonably believed to be the scope of their duties under the Governing Documents or as prescribed by law.

Section 13. Information to Owners and Disclosure to Prospective Purchasers.

(a) Disclosure Information Provided by Owner to Prospective Purchaser. Each Owner of a Separate Interest, other than Declarant, shall, as soon as practicable before transfer of title to the Separate Interest or execution of a real property sales contract therefor, as defined in California Civil Code Section 2985, provide the following to the prospective purchaser, as required by California Civil Code Section 1368:

- (1) A copy of the Governing Documents, including any Operating Rules, and including a copy of the Association's Articles of Incorporation, or, if not incorporated, a statement in writing from an authorized representative of the Association that the Association is not incorporated.
- (2) If there is a restriction in the Governing Documents limiting the occupancy, residency or use of a Separate Interest on the basis of age in a manner different from that provided in Section 51.3 of the California Civil Code, a statement that the restriction is only enforceable to the extent permitted by

Section 51.3 and specifying the applicable provisions of Section 51.3.

- (3) A copy of the most recent documents distributed to the Members pursuant to California Civil Code Section 1365.
- (4) A true statement in writing obtained from an authorized representative of the Association as to the amount of the Association's current Regular and Special Assessments and fees, any Assessments levied upon the Owner's interest in the Project that are unpaid on the date of the statement, and any monetary fines or penalties levied upon the Owner's interest and unpaid on the date of the statement. The statement obtained from an authorized representative shall also include true information on late charges, interest, and costs of collection which, as of the date of the statement, are or may be made a lien upon the Owner's interest in the Project pursuant to California Civil Code Section 1367.1.
- (5) A copy or a summary of any notice previously sent to the Owner pursuant to subdivision (h) of California Civil Code Section 1363 that sets forth any alleged violation of the Governing Documents that remains unresolved at the time of the request. The notice shall not be deemed a waiver of the Association's right to enforce the Governing Documents against the Owner or the prospective purchaser of the Separate Interest with respect to any violation. This paragraph shall not be construed to require an Association to inspect an Owner's Separate Interest.
- (6) If applicable, a copy of the preliminary list of defects provided to each Member of the Association pursuant to California Civil Code Section 1375 (pertaining to actions for damages against common interest development builders, developers or general contractors), unless the Association and the builder subsequently enter into a settlement agreement or otherwise resolve the matter and the Association complies with California Civil Code Section 1375.1. Disclosure of the preliminary list of defects pursuant to this paragraph does not waive any privilege attached to the document. The preliminary list of defects shall also include a statement, if applicable, that a final determination as to whether the list of defects is accurate and complete has not been made.
- (7) If applicable, a copy of the latest information provided for in Section 1375.1.

- (8) Any change in the Association's current Regular and Special Assessments and fees which have been approved by the Board, but have not become due and payable as of the date disclosure is provided pursuant to this Section.

(b) Information Provided by Association to Owners. Within ten (10) days after the mailing or delivery of a written request by any Owner, the Association shall provide the Owner with items (1) through (8) described in subparagraph (a) above. The items required to be made available pursuant to this Section may be maintained in electronic form and requesting parties shall have the option of receiving them by electronic transmission or machine readable storage media if the Association maintains these items in electronic form. The Association may charge a fee for this service that may not exceed the Association's reasonable cost to procure, prepare and reproduce such items. For purposes of this Section 13, a person who acts as a community association manager is a special agent, as defined in Civil Code Section 2297, of the Association.

(c) Transfer Costs. The Association shall not impose or collect any assessment, penalty, or fee in connection with the transfer of title or any other interest except the Association's actual costs to change its records and those fees authorized by subsection (b) above.

(d) Liability for Failure to Disclose. The provisions of this Section are in accordance with California Civil Code Section 1368, which provides that any person or entity who willfully violates Section 1368 is liable to the purchaser of a Separate Interest that is subject to this Section for actual damages occasioned thereby and, in addition, shall pay a civil penalty in an amount not to exceed Five Hundred Dollars (\$500.00). In an action to enforce this liability, the prevailing party shall be awarded reasonable attorneys' fees.

(e) Valid Title. Nothing in this Section affects the validity of title to real property transferred in violation of this Section.

(f) Other Disclosure Requirements. In addition to the requirements of California Civil Code Section 1368, as set forth in this Section, an Owner transferring title to a Separate Interest shall comply with applicable requirements of California Civil Code Sections 1133 and 1134.

Section 14. Violation of Declaration. The result of every act or omission, whereby any provision, condition, restriction, covenant, easement, right or reservation contained in this Declaration is violated is hereby declared to be and constitute a nuisance, and every remedy allowed by law or equity against a nuisance, either public or private, shall be applicable against every such result, and may be exercised, subject to the prefiling and other requirements of Civil Code Sections 1369.510 through 1369.590 and Section 2 above, by the Architectural Committee and the Association. Such remedy shall be deemed cumulative and not exclusive.

Section 15. No Restrictions on Marketability of Lots. The Association shall not arbitrarily or unreasonably restrict an Owner's ability to market his or her Separate Interest in the Project, and any rule or regulation adopted by the Association that imposes fees in connection with said marketing, establishes a relationship with a real estate broker through which sales are required to occur, imposes restrictions on marketing, listing, advertising, or obtaining or providing access to

show the Separate Interest, is void pursuant to California Civil Code Section 1368.1. This Section does not apply to rules or regulations made pursuant to Civil Code Section 712 or 713 regarding real estate signs.

Section 16. Statutory References; Fixed Amounts. References in this Declaration or the Bylaws to specific statutes or provisions of California law shall include those statutes or provisions as they may be modified or amended from time to time. References in this Declaration or the Bylaws to specific dollar amounts or percentage rates shall be modified from time to time as the dollar figures or percentage rates in statutes upon which they are based are modified. Any modification of this Declaration or the Bylaws resulting from the application of this Section may be effected by a validly adopted resolution of the Board, without utilizing the formal amendment procedures contained herein or in the Bylaws.

Section 17. Attorneys' Fees. In the event of any controversy, claim or dispute arising out of or relating to this Declaration or the interpretation or breach thereof, the prevailing party shall be entitled to recover from the other party reasonable expenses, attorneys' fees and costs. Upon motion by any party for such attorneys' fees and costs to be awarded to the prevailing party in any civil action to enforce the covenants and restrictions contained in this Master Declaration, the court, in determining the amount of the award, may consider (in accordance with Civil Code Section 1369.580) whether a party's refusal to participate in alternative dispute resolution prior to the filing of the action was reasonable.

Section 18. Common Plan Declaration. The covenants, conditions and restrictions set forth in this Declaration constitute a general program for the development, protection and maintenance of the Project to enhance its value, desirability and attractiveness for the benefit of all Owners. By acquiring any ownership interest in a Lot subject to this Declaration, each person or entity, for himself, his heirs, personal representatives, successors, transferees and assigns, agrees to be subject to all of the provisions, restrictions, covenants, conditions, rules and regulations now or hereafter imposed by this Declaration. Declarant, by this Declaration, sets forth a program for the improvement and development of the Project and hereby evidences its intent that all the restrictions, conditions, covenants, rules and regulations contained herein shall run with the land and be binding on all future Owners, grantees, purchasers, assignees, and transferees.

Section 19. Limitation of Restrictions on Declarant. Declarant is undertaking the work of construction of Units and incidental Improvements upon the Project and, as set forth in this Section, shall be exempt from restrictions with respect to the activities described in subparagraphs (a) through (d) below. The completion of Declarant's work and the sale, rental, and other disposal of said Units is essential to the establishment and welfare of the Project as a residential community. In order that said work may be completed and the Project be established as a fully occupied residential community as rapidly as possible, nothing in this Declaration shall be understood or construed to:

(a) Prevent Declarant, a successor, or their respective agents from doing on the Project, including the Common Area, or any Lot, whatever is reasonably necessary or advisable in connection with the completion of said work;

(b) Prevent Declarant, a successor, or their respective agents from erecting, constructing, and maintaining on any part or parts of the Project, except on Lots owned by others, such structures as may be reasonable and necessary for the conduct of its business of completing said work and establishing the Project as a residential community and disposing of the same by sale, lease, or otherwise;

(c) Prevent Declarant, a successor, or their respective agents from conducting on any part of the Project, except on Lots owned by others, its business of completing said work and of establishing a plan of ownership and disposing of the Project, or the individual Units, by sale, lease, or otherwise; or

(d) Prevent Declarant, a successor, or their respective agents from maintaining such sign or signs on the Project, except on Lots owned by others, as may be necessary for the sale, lease, or disposition thereof; provided, however, that the maintenance of any such sign shall not unreasonably interfere with the use by any Owner of his Lot or the Common Areas.

This Section may not be modified, terminated, or otherwise amended or altered without written approval by Declarant until the earlier of (a) seven (7) years from conveyance of the first Lot by Declarant, or (b) six (6) months following conveyance of the last Lot sold in the fully annexed Project, after which time it shall terminate and be of no further force and effect. Any act attempting or purporting to effect such change, or to adversely affect the rights granted to or reserved by Declarant hereunder, shall be void and of no force or effect.

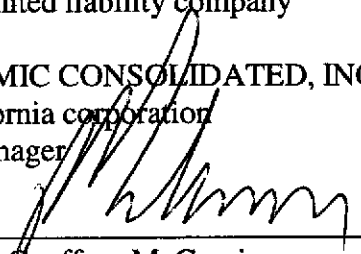
Section 20. Declarant's Obligation to Deliver Documents to Association. Declarant shall deliver to the Board certain documents, in a timely manner, all as specified in Article VII, Sections 1 and 2 of the Bylaws.

IN WITNESS WHEREOF, the undersigned, being the Declarant herein, has executed this Declaration this 11th day of March, 2005.

DECLARANT:

BERMUDA DUNES ESTATES 37, LLC
a California limited liability company

By: McCOMIC CONSOLIDATED, INC.,
a California corporation
Its: Manager

By: 
R. Geoffrey McComic,
Executive Vice President

ACKNOWLEDGMENT

STATE OF CALIFORNIA)

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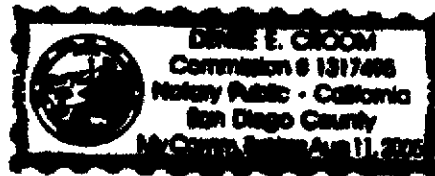
COUNTY OF San Diego)

On 3-11-05, 2005, before me, Denise E. Croom, a Notary Public in and for said state, personally appeared R. Geoffrey McComic, personally known to me (~~or proved to me on the basis of satisfactory evidence~~) to be the person(x) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(~~ies~~), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Denise E. Croom
Signature

(Seal)



SUBORDINATION AGREEMENT

HIGH INVESTMENTS, LLC, a California limited liability company, being the beneficiary under that certain Deed of Trust recorded June 18, 2004, as Instrument No. 2004-472180 of Official Records of Riverside County, California, hereby declares that the liens and charges of said Deed of Trust are and shall be subordinate and inferior to the Master Declaration of Covenants, Conditions and Restrictions for STONEGATE BERMUDA DUNES HOMEOWNERS ASSOCIATION to which this Subordination Agreement is attached ("Declaration"), to any Supplemental Declaration of Annexation recorded pursuant to the provisions of Article XV of the Declaration, and to all easements created in the Declaration. By executing this Subordination Agreement, the undersigned agrees that should the undersigned acquire title to all or any portion of the Project by foreclosure (whether judicial or nonjudicial), deed-in-lieu of foreclosure or any other remedy in or relating to the Deed of Trust, the undersigned will acquire title subject to the provisions of the Declaration and any applicable Supplemental Declaration, which shall remain in full force and effect.

Dated: March 11, 2005.

HIGH INVESTMENTS, LLC,
a California limited liability company

By: Allen Wenger

Its: _____

By: _____

Its: _____

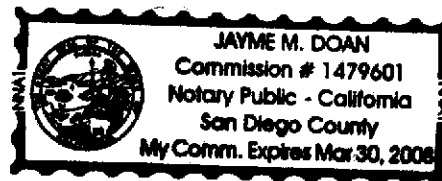
ACKNOWLEDGMENT

STATE OF CALIFORNIA)
)
COUNTY OF San Diego) ss.

On March 11, 2005, before me, Jayne M. Doan, a Notary Public in and for said state, personally appeared Allen Wenger personally known to me (or ~~proved to me on the basis of satisfactory evidence~~) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Jayne M. Doan
Signature



(Seal)

SUBORDINATION AGREEMENT

FIRST HORIZON HOME LOAN CORPORATION, a Kansas corporation, being the beneficiary under that certain Deed of Trust recorded November 8, 2004, as Instrument No. 2004-886679, of Official Records of Riverside County, California, hereby declares that the liens and charges of said Deed of Trust are and shall be subordinate and inferior to the Master Declaration of Covenants, Conditions and Restrictions for STONEGATE BERMUDA DUNES HOMEOWNERS ASSOCIATION to which this Subordination Agreement is attached ("Declaration"), to any Supplemental Declaration of Annexation recorded pursuant to the provisions of Article XVI of the Declaration, and to all easements created in the Declaration. By executing this Subordination Agreement, the undersigned agrees that should the undersigned acquire title to all or any portion of the Project by foreclosure (whether judicial or nonjudicial), deed-in-lieu of foreclosure or any other remedy in or relating to the Deed of Trust, the undersigned will acquire title subject to the provisions of the Declaration and any applicable Supplemental Declaration, which shall remain in full force and effect.

Dated: 3-15, 2005.

FIRST HORIZON HOME LOAN CORPORATION,
a Kansas corporation.

By: G. V. Smith - KMS

Its: Vice President

By: _____

Its: _____

ACKNOWLEDGMENT

STATE OF CALIFORNIA)
)
) SS.
COUNTY OF SAN DIEGO)

On MARCH 15, 2005, before me, L. TURNER, a Notary Public in and for said state, personally appeared ELISE K. GILES, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature



(Seal)

EXHIBIT "A"

LEGAL DESCRIPTION OF THE INITIAL COVERED PROPERTY

That certain real property located in the County of Riverside, State of California, more particularly described as follows:

Lots 1 through 19, Common Area Street Lots "A," "B" and "C", and
Common Area Lots 39 and 40 of Tract 31782, as per map recorded
in Book 362, pages 70-74 of Maps, Riverside County Records.

EXHIBIT "B"

LEGAL DESCRIPTION OF THE PROPERTY SUBJECT TO ANNEXATION

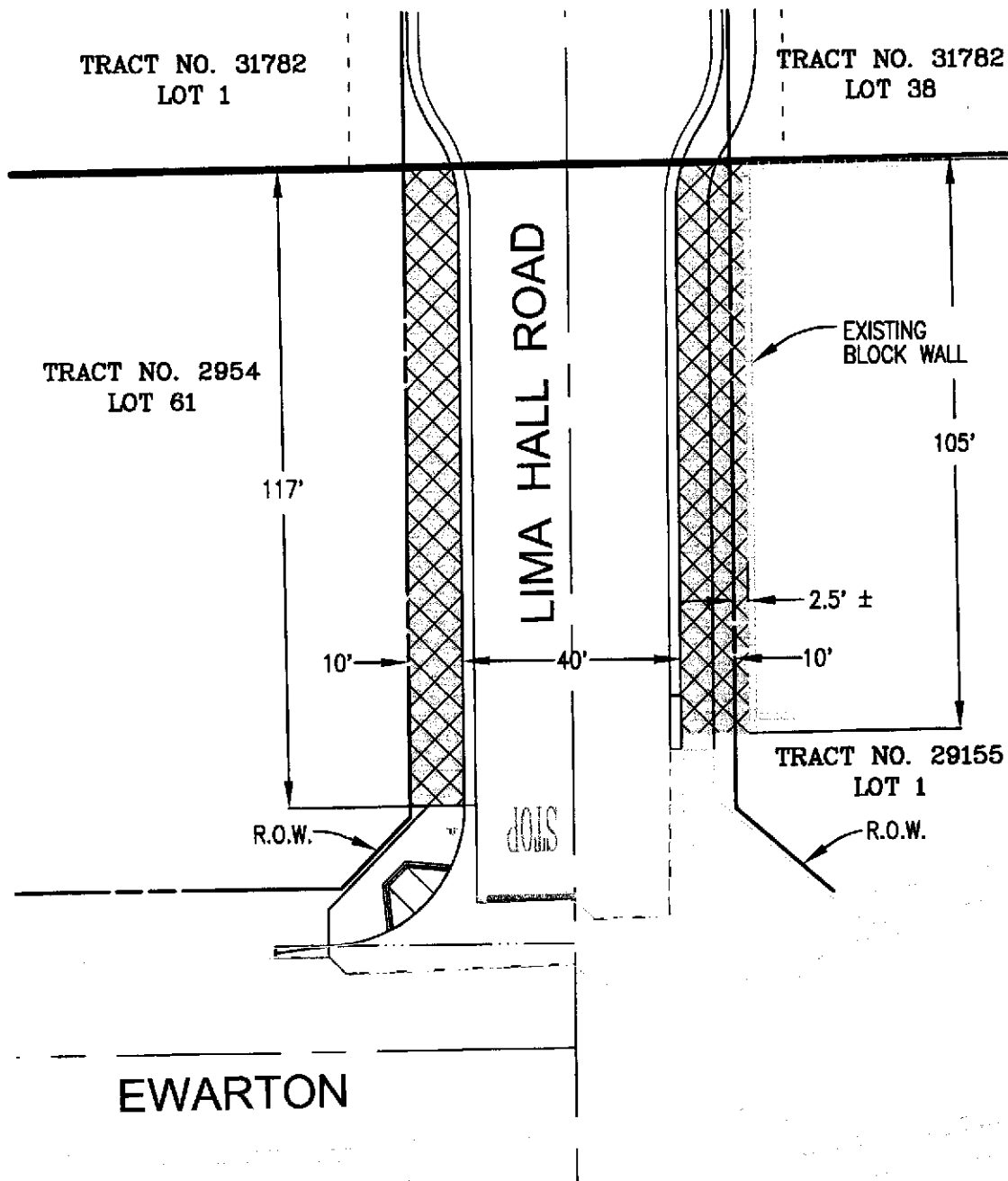
That certain real property located in the County of Riverside, State of California, more particularly described as follows:

Lots 20 through 37, inclusive, Common Area Street Lot "D" and
Common Area Lots 38 and 41 of Tract 31782, as per map recorded
in Book ~~362~~, pages ~~70-74~~ of Maps, Riverside County Records.

EXHIBIT "C"

SHEET 1 OF 1

DEPICTION OF ASSOCIATION MAINTENANCE



INDICATES AREA WHERE HOMEOWNER'S ASSOCIATION
WILL MAINTAIN THE LANDSCAPING IN THOSE
PORTIONS OF PUBLIC ROW/PRIVATE PROPERTY
OUTSIDE OF THE PROJECT BOUNDARY.

GRAPHIC SCALE
SCALE 1"=30'



TRACT NO. 31782
H.O.A. MAINTENANCE AREAS



GARY L. ORSO
COUNTY OF RIVERSIDE
ASSESSOR-COUNTY CLERK-RECORDER

Recorder
P.O. Box 751
Riverside, CA 92502-0751
(909) 486-7000

<http://riverside.aecclrec.com>

NOTARY CLARITY

Under the provisions of Government Code 27361.7, I certify under the penalty of perjury that the notary seal on the document to which this statement is attached reads as follows:

Name of Notary:

Denise E. Proom

Commission #:

1317485

Place of Execution:

SAN DIEGO

Date Commission Expires:

AUG 11 2005

Date:

JUN 10 2005

Signature:

[Handwritten Signature]