

EXHIBIT "B"

BYLAWS OF THE PROJECT ASSOCIATION

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FOR BYLAWS OF
EVERGREEN COMMUNITY ASSOCIATION

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BYLAWS
OF
EVERGREEN COMMUNITY ASSOCIATION

ARTICLE I

1. General Plan of Ownership.

1.1. Name.

The name of the corporation is Evergreen Community Association, hereinafter referred to as the "Association." The principal office of the Association shall be located in Orange County, California.

1.2. Application.

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

1.3. Definitions.

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

ARTICLE II

2. Voting By Association Membership.

2.1. Voting Rights.

The Association has two (2) classes of voting Membership, as follows:

Class A. Class A Members are those Owners with the exception of Declarant for so long as there exists a Class B Membership. Class A Members are entitled to one (1) vote for each Lot owned and subject to assessment as further provided in the Declaration.

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

(1) The second anniversary of the first
Close of Escrow in the most recent Phase; or

(2) The fourth anniversary of the first
Close of Escrow in Phase 1.

All voting rights are subject to the Restrictions. Except as provided in Section 15.10 of the Declaration and Section 4.8 of these Bylaws, any provision of the Restrictions which requires the vote or written consent of a specified percentage of the Association's voting power before action may be undertaken (i.e., other than actions requiring merely the vote or written consent of a majority of a quorum) requires the approval of such specified percentage of (a) each class of Membership so long as a Class B Membership exists, and (b) both the Association's total voting power and the Association's voting power residing in Members other than Declarant.

2.2. Majority of Quorum.

Unless otherwise provided in the Restrictions, any action which may be taken by the Association may be taken by a majority of a quorum of the Members.

2.3. Quorum.

Except as otherwise provided in these Bylaws, the presence in person or by proxy of twenty-five percent (25%) of the Association's voting power constitutes a quorum of the Membership. Members present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough Members to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the Members required to constitute a quorum. If a meeting is actually attended, in person or by proxy, by Members having less than one-third (1/3rd) of the Association's voting power, then no matter may be voted upon except such matters notice of the general nature of which was given pursuant to Section 3.5 hereof. No action by the Members on any such matter is effective if the votes cast in favor are fewer than the minimum number of votes required by the Restrictions to approve such an action.

2.4. Proxies.

Votes may be cast in person or by proxy. Proxies must be in writing and filed with the Secretary in advance of each meeting. Every proxy is revocable and automatically ceases after completion of the meeting for which the proxy was filed. Any form of proxy or written ballot distributed by any person to the Members must afford the opportunity to specify a choice between approval and disapproval of each matter or group of matters to be acted upon, except it is not mandatory that a candidate for election to the Board be named in the proxy or written ballot. The proxy or written ballot must provide that, when the Member specifies a choice, the vote shall be cast in

accordance with that choice. The proxy must also identify the person or persons authorized to exercise the proxy and the length of time it will be valid. No proxy is valid with respect to a vote on any matter described in Section 7613(g) of the California Corporations Code unless the general nature of the proposal was set forth in the proxy.

ARTICLE III

3. Administration.

3.1. Association Responsibilities.

In accordance with the Declaration, the Association is responsible for administering the Properties, maintaining and repairing the Common Area and the Association Maintenance Areas, approving the Budget, establishing and collecting all assessments authorized under the Declaration, and arranging for overall architectural control of the Properties.

3.2. Place of Meetings of Members.

Meetings of the Members shall be held on the Properties or such other suitable place as proximate thereto as practical and convenient to the Members as designated by the Board.

3.3. Annual Meetings of Members.

The first annual meeting of Members shall be held within six (6) months after the first Close of Escrow for the sale of a Lot in the Properties. Thereafter, the annual meetings shall be held on or about the anniversary date of the first annual meeting. Each first Mortgagee may designate a representative to attend all annual meetings.

3.4. Special Meetings of Members.

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

3.5. Notice.

The Secretary shall send a notice of each annual or special meeting by first-class mail, stating the purpose thereof as well as the day, hour and place where it is to be held, to each Member of record and to each first Mortgagee who has filed a written request for notice with the Secretary, at least ten (10) but not more than thirty (30) days prior to such meeting. The notice may set forth time limits for speakers and nominating procedures for the meeting. The notice must specify those matters the Board intends to present for action by the Members, but, except as

otherwise provided by law, any proper matter may be presented at the meeting for action. The notice of any meeting at which Directors are to be elected must include the names of all nominees at the time the notice is given to Members. The mailing of a notice, postage prepaid, in the manner provided in this Section, shall be considered notice served, forty-eight (48) hours after said notice has been deposited in a regular depository of the United States mail. Such notice must be posted in a conspicuous place on the Common Area and is deemed served upon a Member upon posting if no address has been then furnished the Secretary.

Notwithstanding any other provision of these Bylaws, approval by the Members of any of the following proposals, other than by unanimous approval of those Members entitled to vote, is not valid unless the general nature of the proposal was stated in the notice or in any written waiver of the notice: (a) removing a Director without cause; (b) filling vacancies on the Board; (c) approving a contract or transaction between the Association and one or more Directors, or between the Association and any entity in which a Director has a material financial interest; (d) amendment of the Articles; or (e) electing to wind up and dissolve the Association.

3.6. Record Dates.

The Board may fix a date as a record date for the determination of the Members entitled to notice of any meeting of Members. The record date so fixed must be not less than ten (10) nor more than sixty (60) days prior to the date of the meeting. If the Board does not fix a record date for notice to Members, the record date for notice is the close of business on the business day preceding the day on which notice is given. In addition, the Board may fix a date in the future as a record date for the determination of the Members entitled to vote at any meeting of Members. The record date so fixed must be not less than ten (10) nor more than sixty (60) days prior to the date of the meeting. If the Board does not fix a record date for determining Members entitled to vote, Members on the day of the meeting who are otherwise eligible to vote are entitled to vote at the meeting.

3.7. Adjourned Meetings.

If any meeting of Members cannot be organized because a quorum is not present, a majority of the Members who are present, either in person or by proxy, may adjourn the meeting to a time not less than five (5) nor more than thirty (30) days from the original meeting date, at which meeting the quorum requirement is the presence in person or by proxy of Members holding at least twenty-five percent (25%) of the Association's voting power. Such an adjourned meeting may be held without the notice required by Section 3.5 if notice thereof is given by announcement at the meeting at which such adjournment is taken.

3.8. Order of Business.

Meetings of Members must be conducted in accordance with a recognized system of parliamentary procedure or such parliamentary procedures as the Association may adopt. The order of business at all meetings of the Members is as follows: (a) roll call to determine the voting power represented at the meeting; (b) proof of notice of meeting or waiver of notice; (c) reading of minutes of preceding meeting; (d) reports of officers; (e) reports of committees; (f) election of inspector of election (at annual meetings or special meetings held for such purpose);

(g) election of Directors (at annual meetings or special meetings held for such purpose); (h) unfinished business; and (i) new business.

3.9. Action Without Meeting.

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

3.10. Consent of Absentees.

The transactions of any meeting of Members, either annual or special, however called and noticed, are as valid as though had at a meeting duly held after regular call and notice, if (a) a quorum is present either in person or by proxy, and (b) either before or after the meeting, each of the Members not present in person or by proxy signs (i) a written waiver of notice, (ii) a consent to the holding of such meeting, or (iii) an approval of the minutes thereof. The Secretary shall file all such waivers, consents or approvals with the corporate records or make them a part of the minutes of the meeting.

3.11. Minutes. Presumption of Notice.

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

3.12. Inspector of Elections.

Prior to any Members meeting, the Board may appoint inspectors of election for that meeting. There shall be at least three (3) inspectors of election. The decision, act or certification of a majority shall be effective as the decision, act or certification of all. Any report or certificate of the inspectors of election is prima facie evidence of the matters stated therein. Inspectors of election do not have to be Owners. If the Board does not appoint inspectors of election or if an inspector fails to appear at a meeting, the chairman of the Member's meeting may appoint the inspector of election. If the chairman fails to appoint the inspectors of election, then any Member may request that inspectors of election be appointed. If a Member makes such a request, then the inspectors of election shall be elected by a majority of the Members present in person or by

proxy. In case of an action to be taken by the Members by written ballot, the Board may also appoint inspectors of election to count the ballots.

The inspector of election shall determine the number of Memberships outstanding, the voting power of each, the number of Members present at the meeting, the existence of a quorum, and the authenticity, validity and effect of proxies, receive votes, ballots or consents, hear and determine all challenges and questions in any way arising in connection with the right to vote, count and tabulate all votes or consents, determine when the polls shall close, determine the results and do such acts as may be proper to conduct the election or vote with fairness to all Members. The inspectors of election shall perform their duties impartially, in good faith, to the best of their ability and as expeditiously as is practical.

ARTICLE IV

4. Board of Directors.

4.1. Number and Qualification.

Until the first annual meeting of the Members, the Association's property, business and affairs shall be governed and managed by a Board of Directors composed of three (3) Persons. Commencing with the first annual meeting of the Members, the property, business and affairs of the Association shall be governed and managed by a Board of Directors composed of five (5) Persons, each of whom, except for those appointed and serving as first Directors, must be either (a) an Owner or (b) an agent of Declarant for so long as Declarant owns a Lot or is entitled to unilaterally add any of the Annexable Territory to the Properties pursuant to the Declaration. The authorized number of Directors may be changed by a duly adopted amendment to the Bylaws. Directors may not receive any salary or compensation for their services as Directors unless such compensation is first approved by the vote or written consent of Members representing at least a majority of the Association's voting power; provided, however, that (i) nothing in these Bylaws precludes any Director from serving the Association in some other capacity and receiving compensation therefor, and (ii) any Director may be reimbursed for actual expenses incurred in performance of Association duties.

4.2. Powers and Duties.

The Board has the powers and duties necessary to administer the Association's affairs and may do all acts and things not by law or by these Bylaws directed to be exercised and done exclusively by the Members. The Board may not enter into any contract with a Person (including Declarant) wherein the Person will furnish goods or services for the Common Area, the Association Maintenance Areas or the Association for a term in excess of one (1) year, without the vote or written consent of Members representing at least a majority of the Association's voting power, except for the following:

(a) a contract with a public utility company for a term that does not exceed the shortest term for which the public utility company will contract at the regulated rate if the rates charged for the materials or services are regulated by the California Public Utilities Commission;

(b) prepaid casualty or liability insurance policies of not more than three (3) years' duration provided that the policies permit short-term cancellation by the Association,

(c) agreements for cable television services and equipment or satellite dish television services and equipment with terms not in excess of five (5) years, provided that Declarant does not have a direct or indirect ownership interest in the supplier of such services or equipment equal to or greater than ten percent (10%),

(d) agreements for sale or lease of burglar alarm and fire alarm equipment, installation and services with terms not in excess of five (5) years, provided that Declarant does not have a direct or indirect ownership interest in the supplier of such services or equipment equal to or greater than ten percent (10%);

(e) a contract approved by the DRE for a term approved by the DRE;

(f) a contract for a term not to exceed three years that is terminable by the Association after no longer than one year without cause or penalty or other obligation upon 90 days written notice of termination to the other party.

4.3. Special Powers and Duties.

Without prejudice to such foregoing general powers and duties and such powers and duties as are set forth in the Declaration, the Board has the following powers and duties:

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

(b) The power and duty to conduct, manage and control the Association's affairs, and to make and enforce such rules and regulations therefor consistent with law and with the Restrictions as the Board deems necessary or advisable.

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

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

(e) The power and duty to fix and levy Annual Assessments, Special Assessments and Reconstruction Assessments, as provided in the Declaration; to fix and levy in any Fiscal Year Capital Improvement Assessments applicable to that year only for capital improvements; to determine and fix the due date for the payment of such assessments; provided, however, that such assessments must be fixed and levied only to provide for the payment of Common Expenses and taxes and assessments upon real or personal property owned, leased, controlled or occupied by the Association, or for the payment of expenses for labor rendered or materials or supplies used, or equipment and appliances furnished for the maintenance, improvement or development of such property or for the payment of any and all obligations in relation thereto, or in performing or causing to be performed any of the purposes of the Association for the general benefit and welfare of its Members, in accordance with the Declaration. Subject to any limitations imposed by the Declaration and these Bylaws, the Board may incur any and all such expenditures for any of the foregoing purposes and provide, or cause to be provided, adequate reserves for replacements as it deems to be necessary or advisable in the Association's interest or its Members' welfare. The funds collected by the Board from the Members for replacement reserves, maintenance recurring less frequently than annually, and capital improvements, is at all times held in trust for the Members. Disbursements from such trust reserve fund may only be made in accordance with the Declaration. The Board shall fix such Annual Assessments, Reconstruction Assessments, Special Assessments and Capital Improvement Assessments in accordance with the Declaration. If a Member fails to pay such assessments before delinquency, the Board may enforce the payment of such delinquent assessments as provided in the Declaration.

(f) The power and duty to enforce the Restrictions or any Association agreements.

(g) The power and duty to contract and pay for insurance in accordance with the Declaration, covering and protecting against such damages or injuries as the Board deems advisable (which may include without limitation, medical expenses of persons injured on the Common Area or Association Maintenance Areas). The Board shall review, not less frequently than annually, all insurance policies and bonds obtained by the Board on the Association's behalf.

(h) The power and duty to contract and pay for maintenance, gardening, utilities, materials, supplies and services relating to the Common Area and Association Maintenance Areas and to employ personnel necessary to operate the Properties, including legal and accounting services, and to contract and pay for Improvements on the Common Area.

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

(j) The power but not the duty to grant or quitclaim easements, licenses or rights of way in, on, or over the Common Area for purposes consistent with the intended use of the Properties as a planned residential development.

(k) The power and duty to adopt such Rules and Regulations as the Board deems necessary for managing the Properties, which Rules and Regulations will become effective and binding after (i) they are adopted by a majority of the Board at a meeting called for that purpose, or by the written consent of the Board in accordance with Section 4.13, and (ii) they are either (A) posted in a conspicuous place in the Common Area or (B) sent to the Members via first class U.S. mail. Such Rules and Regulations may concern, without limitation, use of the Common Area; signs; parking restrictions; minimum standards of property maintenance consistent with the Declaration and the procedures of the ARC; and any other matter within the Association's jurisdiction as provided in the Declaration; provided, however, that such Rules and Regulations are enforceable only to the extent they are consistent with the Restrictions.

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

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

(n) The power but not the duty to sell property of the Association; provided, however, that the prior vote or written approval of Members representing at least a majority of the Association's voting power must be

obtained to sell during any Fiscal Year property of the Association having an aggregate fair market value greater than five percent (5%) of the Association's budgeted gross expenses for that Fiscal Year.

4.4. Management Agent.

The Board may engage a professional Manager for the Association at a compensation established by the Board to perform such duties and services as the Board authorizes, including, but not limited to, the duties listed in Sections 4.2 and 4.3.

4.5. Election and Term of Office.

(a) At the first annual meeting of the Members, and thereafter at each annual meeting of the Members coinciding with the expiration of a Director's term of office or at which a vacancy on the Board exists, the Members shall elect new Directors by secret written ballot as provided in these Bylaws. All positions on the Board shall be filled at the first annual meeting. If an annual meeting is not held, or the Board is not elected thereat, the Board may be elected at any special meeting of the Members held for that purpose. Each Director shall hold office until his successor has been elected or until his death, resignation, removal or judicial adjudication of mental incompetence. The term of office of the three (3) Directors receiving the highest number of votes at the first annual meeting shall be three (3) years and the term of office of the two (2) Directors receiving the next highest number of votes at the first annual meeting shall be two (2) years. At each annual meeting thereafter, new Directors shall be elected to fill vacancies created by the death, resignation, removal, judicial adjudication of mental incompetence or expiration of the terms of past Directors. The term of office of each Director elected to fill a vacancy created by the expiration of the term of office of the respective past Director shall be two (2) years. The term of office of each Director elected or appointed to fill a vacancy created by the resignation, death or removal of his predecessor shall be the balance of the unserved term of his predecessor. Any person serving as a Director may be reelected, and there is no limit on the number of terms which he may serve. Cumulative voting must be used in the election of Directors for any election in which more than two (2) Directors are to be selected, subject only to the following procedural requirements: A Member may cumulate his votes for any candidate for the Board if the candidate's name has been placed in nomination prior to the voting and if such Member, or any other Member, has given notice at the meeting prior to the voting of such Member's intention to cumulate votes. If a Member cumulates his votes, such Member may cast a number of votes equal to the Member's share of the voting power as set forth in the Declaration, multiplied by the number of Directors to be elected.

(b) Notwithstanding the foregoing, whenever (i) notice is given for an election of Directors, (ii) upon such date Declarant is either (A) entitled to

exercise a Class B vote, or (B) entitled to exercise a majority of the Association's voting power and (iii) upon such date the Members other than Declarant do not have a sufficient percentage of the Association's voting power to elect a number of Directors representing at least twenty percent (20%) (though not less than one (1)) of the entire Board through the foregoing cumulative voting procedure, then such notice must also provide for the following special election procedure. Election of Directors will be first apportioned to the Members other than Declarant until the aggregate number of Directors elected by Members other than Declarant represents at least twenty percent (20%) (though not less than one (1)) of the entire Board. Any person is an eligible candidate for the special election upon receipt by the Secretary of a Declaration of Candidacy, signed by the candidate, at any time prior to the election. Such election will be by secret written ballot. The person or persons receiving the greatest number of votes cast by the Members other than Declarant is elected to the Board in a coequal capacity with all other Directors. The remaining Members on the Board will be elected through the customary cumulative voting procedure outlined above.

4.6. Books. Audit.

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

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

(i) The estimated revenue and Common Expenses computed on an accrual basis.

(ii) A summary of the Association's reserves based upon the most recent review or study conducted pursuant to Section 1365.5 of the California Civil Code or any other applicable statute, as amended, which must be printed in bold type and include all of the following:

(A) The current estimated replacement cost, estimated remaining life, and estimated useful life of each major component for which the Association is responsible.

(B) As of the end of the Fiscal Year for which the study is prepared:

(1) The current estimate of the amount of cash reserves necessary

to repair, replace, restore, or maintain the major components for which the Association is responsible ("Estimated Reserves").

(2) The current amount of accumulated cash reserves actually set aside to repair, replace, restore or maintain the major components for which the Association is responsible ("Actual Reserves").

(C) The percentage that the Actual Reserves is of the Estimated Reserves.

(iii) A statement as to whether the Board has determined or anticipated that the levy of one or more Capital Improvement or Reconstruction Assessments will be required to repair, replace, or restore any major component for which the Association is responsible or to provide adequate reserves therefor.

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

The Board may distribute a summary of the Budget in lieu of the Budget itself, so long as the Board complies with the provisions of Section 1365(c) of the California Civil Code as it may be amended.

(b) A report consisting of the following must be distributed within one hundred twenty (120) days after the close of the Fiscal Year:

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

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

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

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

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

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

If the report referred to in Section 4.6(b) is not prepared by an independent accountant, it must be accompanied by the certificate of an authorized Association officer stating that the statement was prepared from the Association's books and records without independent audit or review.

(c) The Association shall distribute to all of its members a summary of the association's property, general liability, and earthquake and flood insurance policies, which shall be distributed within 60 days preceding the beginning of the association's fiscal year, that includes all of the following about each policy: (i) the name of the insurer, (ii) the type of insurance, (iii) the policy limits of the insurance, and (iv) the amount of deductibles, if any.

(i) The Association shall, as soon as reasonably practical, notify its members by first-class mail if any of the policies described above have lapsed, been canceled, and are not immediately renewed, restored, or replaced, or if there is a significant change, such as a reduction in coverage or limits or an increase in the deductible, for any of those policies. If the Association receives any notice of nonrenewal of a policy described above, the association shall immediately notify its members if replacement coverage will not be in effect by the date the existing coverage will lapse.

(ii) To the extent that any of the information required to be disclosed is specified in the insurance policy declaration page, the Association may meet its obligation to disclose that information by making copies of that page and distributing it to all of its members.

(iii) The summary distributed above shall contain, in at least 10-point boldface type, the following statement: "This summary of the Association's policies of insurance provides only certain information, as required by subdivision (e) of Section 1365 of the Civil Code, and should not be considered a substitute for the complete policy terms and conditions contained in the actual policies of insurance. Any Association member may, upon request

and provision of reasonable notice, review the association's insurance policies and, upon request and payment of reasonable duplication charges, obtain copies of those policies. Although the association maintains the policies of insurance specified in this summary, the Association's policies of insurance may not cover your property, including personal property or, real property improvements to or around your dwelling, or personal injuries or other losses that occur within or around your dwelling. Even if a loss is covered, you may nevertheless be responsible for paying all or a portion of any deductible that applies. Association members should consult with their individual insurance broker or agent for appropriate additional coverage."

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

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

The Board shall cause a study of the reserve account requirements and an inspection of the Properties to be conducted in accordance with Section 1365.5(e) of the California Civil Code. As used in this paragraph, "reserve account requirements" means the estimated funds which the Board has determined are required to be available at a specified point in time to repair, replace or restore those major components which the Association is obligated to maintain.

4.7. Vacancies.

Vacancies on the Board caused by any reason other than the removal of a Director by a vote of the Members shall be filled by vote of a majority of the remaining Directors, even though they may constitute less than a quorum. Any vacancy caused by the removal of a Director shall be filled by a vote of the Members. A Director may resign at any time by giving notice to the President, the Secretary or the Board. Any Director who ceases to be an Owner or an agent of Declarant is deemed to have resigned from the Board. A vacancy is deemed to exist in case of death,

resignation, removal or judicial adjudication of mental incompetence of any Director, or in case the Members fail to elect the full number of authorized Directors at any meeting at which such election is to take place. Any vacancy not filled by the Directors may be filled by vote of the Members at the next annual meeting of the Members or at a special meeting of the Members called for such purpose.

4.8. Removal of Directors.

At any regular or special meeting of the Members duly called, any one individual Director or the entire Board may be removed prior to the expiration of their terms of office with or without cause as follows: (i) for so long as fewer than fifty (50) Lots are included within the Properties, by the vote of Members representing a majority of the Association's total voting power (including votes attributable to Declarant), and (ii) once fifty (50) or more Lots are included within the Properties, by the vote of Members representing a majority of a quorum of Members.

Notwithstanding the foregoing, if the entire Board is not removed as a group pursuant to a single vote, no individual Director may be removed if the number of votes cast against his removal would be sufficient to elect such Director if voted cumulatively at an election at which the same total number of votes were cast and the entire number of Directors authorized at the time of the Director's most recent election were then being elected. Any Director whose removal has been proposed by the Members must be given an opportunity to be heard at the meeting. If any or all of the Directors are so removed at a meeting, new Directors may be elected at the same meeting. Notwithstanding the foregoing, any Director who has been elected to office solely by the votes of Members other than Declarant pursuant to Section 4.5(b) 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 Association's voting power residing in Members other than Declarant.

4.9. Organization Meeting of Board.

The first regular ("organization") meeting of a newly elected Board must be held within ten (10) days of election of the Board, at such place as is fixed and announced by the Directors at the meeting at which such Directors were elected, for the purpose of organization, election of officers and the transaction of other business. No notice is necessary to the newly elected Directors in order legally to constitute such meeting; provided that (a) a majority of the whole Board is present when the time and place are announced at the annual meeting and (b) the meeting is held on the same day and at the same place as the annual meeting of the Members at which the newly constituted Board was elected.

4.10. Regular Meetings of Board.

Regular meetings of the Board must be open to all Members. Regular meetings may be held at such time and place within the Properties as is determined, from time to time, by a resolution adopted by a majority of a quorum of the Directors; provided, however, that such meetings must be held no less frequently than quarterly. Notice of the time and place of regular meetings of the Board shall be given to each Director at least four (4) days prior to the date named for such meeting, personally or by mail, telephone or telegraph or posted at a prominent place or places within the Common Area.

4.11. Special Meetings of Board.

Special meetings may be called by the President or by any two (2) Directors by posting notice at least four (4) days prior to such meeting at a prominent place or places within the Common Area or upon four (4) days' notice by first-class mail or forty-eight (48) hours' notice delivered personally or by telephone, including a voice messaging system or other system or technology designed to record and communicate messages, telegraph, facsimile, electronic mail, or other electronic means. The notice must state the time, place and purpose of the meeting.

4.12. Other Meetings of the Board.

Any congregation of a majority of the members of the Board at the same time and place to hear, discuss, or deliberate upon any item of business scheduled to be heard by the Board, except those matters that may be discussed in executive session, shall constitute a meeting of the Board. All Members shall have the right to attend any regular, special or other meeting of the Board, except an executive session. Members who are not Directors may not participate in any deliberation or discussion at such meetings unless authorized by a vote of a majority of a quorum of the Board. However, at each Board meeting, except for executive sessions, the Board must set aside time for Members to speak, subject to reasonable time limitations imposed by the Board. Generally, if a meeting of the Board is not a regular or special meeting, then Members shall be given notice of the time and place of the meeting at least four (4) days prior to the meeting. Notice required by this Section may be given by posting the notice in a prominent place or places within the Common Property, by mail or delivery of the of the notice to each Lot in the Properties, or by newsletter or other similar means of communication. If there are circumstances that could not have been reasonably foreseen which require immediate attention and possible action by the Board and which of necessity make it impracticable to provide notice to the Members, then an emergency meeting of the Board may be called by the President or any two other members of the Board without providing notice to the Members.

4.13. Waiver of Notice.

Before or at any meeting of the Board, any Director may, in writing, waive personal notice of such meeting and such waiver is equivalent to the giving of notice to such Director. Attendance by a Director at any Board meeting waives personal notice by him of the time and place thereof. If all the Directors are present at any Board meeting, no notice to Directors is required and any business may be transacted at such meeting. The transactions of any Board meeting, however called and noticed or wherever held, are as valid as though had at a meeting duly held after regular call and notice, if (a) a quorum is present, (b) notice to the Members of such meeting was posted as provided in Sections 4.10 and 4.11, and (c) either before or after the meeting, each of the Directors not present signs a written waiver of notice, a consent to holding such meeting, or an approval of the minutes thereof. The Secretary shall file all such waivers, consents and approvals with the Association's records or make them a part of the minutes of the meeting.

4.14. Action Without Meeting.

The Board may act without a meeting if all Directors consent in writing to such action. Such written consent or consents must be filed with the minutes of the proceedings of the Board. Such action by written consent has the same effect as a unanimous vote of such Directors. Within three

(3) days after the written consents of all Directors have been obtained, an explanation of any action taken by unanimous written consent without a meeting must be either (a) posted by the Board in a prominent place or places in the Common Area, or (b) communicated to the Members by another means the Board determines to be appropriate.

4.15. Quorum and Adjournment.

Except as otherwise expressly provided herein, at all meetings of the Board, a majority of the Directors constitutes a quorum for the transaction of business, and the acts of a majority of the Directors present at a meeting at which a quorum is present are the acts of the Board. If at any meeting of the Board there is less than a quorum present, the majority of those present may adjourn the meeting to another time. At any such reconvened meeting, any business which might have been transacted at the meeting as originally called may be transacted without further notice if a quorum is present. The Board may, with the approval of a majority of the Directors present at a meeting at which a quorum has been established, adjourn a meeting and reconvene in executive session to discuss and vote upon personnel matters, litigation, matters relating to the formation of contracts with third parties, or Member discipline. The nature of any and all business to be considered in executive session must first be announced in open session and must be generally noted in the minutes of the Board. In any matter relating to the discipline of a Member, the Board shall meet in executive session if requested by that Member, and the Member may attend the executive session.

4.16. Committees.

The Board may by resolution designate such advisory and other committees as it desires, and may establish the purposes and powers of each such committee created. The resolution designating and establishing the committee must (a) provide for the appointment of its members and a chairman, (b) state the purposes of the committee, and (c) provide for reports, termination and other administrative matters the Board deems appropriate.

ARTICLE V

5. Officers.

5.1. Designation.

The Association's principal officers are a President, a Vice President, a Secretary, and a Treasurer, all elected by the Board. The Board may appoint an Assistant Treasurer, an Assistant Secretary and such other officers as it determines to be necessary. Officers other than the President need not be Directors. Any Person may hold more than one office.

5.2. Election of Officers.

The Board shall annually elect the Association's officers at the new Board's Organization Meeting. Each officer shall hold his office at the pleasure of the Board, until he resigns or is removed or otherwise disqualified to serve or his successor is elected and qualified to serve.

5.3. Removal of Officers.

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

5.4. Compensation.

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

5.5. President.

The President is the chief executive officer of the Association and shall (a) preside at all Association and Board meetings, (b) have all of the general powers and duties which are usually vested in the office of the President of a corporation, including but not limited to the power, subject to the provisions of Section 4.15, to appoint committees from among the Members as he decides is appropriate to assist in the conduct of the Association's affairs, and (c) subject to the control of the Board, have general supervision, direction and control of the Association's business. The President is ex officio a member of all standing committees and has such other powers and duties as may be prescribed by the Board or these Bylaws.

5.6. Vice President.

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

5.7. Secretary.

The Secretary shall (a) keep the minutes of all meetings of the Board and the minutes of all meetings of the Association at the Association's principal office or at such other place as the Board may order, (b) keep the Association's seal in safe custody, (c) have charge of such books and papers as the Board may direct, (d) in general, perform all of the duties incident to the office of

Secretary, (e) give, or cause to be given, notices of meetings of the Members and of the Board required by these Bylaws or by law to be given, (f) maintain a record book of Members, listing the names, mailing addresses and telephone numbers of the Members as furnished to the Association ("Membership Register"), (g) record the termination or transfer of ownership by any Member in the Membership Register, together with the date of the transfer, in accordance with the Declaration, and (h) perform such other duties as prescribed by the Board or these Bylaws.

5.8. Treasurer.

The Treasurer is the Association's chief financial officer and is responsible for Association funds and securities. The Treasurer shall (a) keep, or cause to be kept, full and accurate accounts, tax records and business transactions of the Association, including accounts of all assets, liabilities, receipts and disbursements in books belonging to the Association, (b) be responsible for the deposit of all monies and other valuable effects in the name and to the credit of the Association in such depositories as the Board designates, (c) disburse the Association's funds as ordered by the Board, in accordance with the Declaration, (d) render to the President and Directors, upon request, an account of all transactions as Treasurer and of the Association's financial condition, and (e) have such other powers and perform such other duties prescribed by the Board or these Bylaws.

ARTICLE VI

6. Obligation of Members.

6.1. Assessments.

(a) All Members shall pay, in accordance with the Declaration, all assessments imposed by the Association, to meet Common Expenses.

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

6.2. Maintenance and Repair.

(a) Every Member must perform promptly, at his sole cost, such maintenance and repair work on his Lot as the Declaration requires. All plans for alteration and repair of Improvements on the Lots must receive the ARC's prior written consent. The ARC shall establish reasonable procedures for the granting of such approval, in accordance with the Declaration.

(b) Each Member shall reimburse the Association for any expenditures incurred in repairing or replacing any portion of the Common Area or the Association Maintenance Areas which are damaged through the fault of such Member or his family, guests, tenants or invitees. Such expenditures include all court costs and reasonable attorneys' fees incurred in enforcing any provision of the Restrictions.

ARTICLE VII

7. Amendments to Bylaws.

These Bylaws may be amended by the vote or written consent of Members representing at least (a) a majority of the voting power of each class of the Members, and (b) a majority of the Association's voting power residing in Members other than Declarant; provided that the specified percentage of each class of Members necessary to amend a specific Section or provision of these Bylaws may not be less than the percentage of affirmative votes prescribed for action to be taken under that Section or provision. Notwithstanding the foregoing, these Bylaws may be amended by a majority of the entire Board, (i) at any time prior to the Close of Escrow for the sale of the first Lot, or (ii) if the proposed amendment is required to conform the Bylaws to the requirements of VA, FHA, DRE, FNMA, GNMA or FHLMC and is within the Board's power to adopt without Member approval pursuant to the California Corporations Code. In addition to the foregoing, any amendment to these Bylaws which materially affects matters delineated in Article XIII or Section 15.5 of the Declaration must be approved by the Beneficiaries of that percentage of first Mortgages on the Lots which is specified in the affected provision of Article XIII or Section 15.5 of the Declaration, respectively; provided that, if an amendment to these Bylaws materially affects matters delineated in both Article XIII and Section 15.5 of the Declaration or purports to amend this sentence, the amendment must be approved pursuant to the requirements of both said Article XIII and Section 15.5.

ARTICLE VIII

8. Mortgagees.

8.1. Notice to Association.

Upon the Association's request, a Member who mortgages his Lot shall notify the Association through the Manager, or through the Secretary if there is no Manager, of the name and address of his Mortgagee. The Association shall maintain such information in a book entitled "Mortgagees of Lots." Upon request, any such Member shall notify the Association of the release or discharge of any such Mortgage.

8.2. Notice of Unpaid Assessments.

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

ARTICLE IX

9. Conflicting Provisions.

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

and in case of any conflict between the Declaration and these Bylaws, the Declaration shall control.

ARTICLE X

10. Indemnification of Directors and Officers.

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

ARTICLE XI

11. Miscellaneous.

11.1. Checks, Drafts and Documents.

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

11.2. Execution of Documents.

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

11.3. Availability of Association Documents.

In addition to the rights afforded by the Declaration to Beneficiaries, insurers and guarantors of first Mortgages with regard to inspection of the Association's management documents, the Association shall maintain at its principal office (or at such other place within the Properties as the Board may prescribe) the Restrictions and the Association's books of account; minutes of meetings of Members, the Board and Board committees; and the Membership Register (collectively, the "Association Documents"), each of which shall be made available for inspection and copying by any Member or the Member's duly appointed representative for a purpose reasonably related to the Member's interest as a Member. The Board shall establish reasonable rules regarding (a) notice to be given to the custodian of the Association Documents by the Member desiring to make the inspection, (b) hours and days of the week when such an inspection may be made, and (c) payment of the cost of copying any of the Association Documents requested by a Member; provided that every Director may at any reasonable time inspect all Association Documents and the physical properties owned or controlled by the Association, and make extracts and copies of documents. The minutes, minutes that are proposed for adoption that are marked to indicate draft status, or a summary of the minutes, of any meeting of the Board (other than an executive session) must be available to Members within thirty (30) days of the meeting. The minutes, proposed minutes or

summary minutes must be distributed to any Member upon request and upon reimbursement of the Association's cost in making that distribution. Members must be notified in writing at the time that the budget required in Section 4.6(a) hereof is distributed or at the time of any general mailing to the entire Association membership of their right to have copies of the minutes of meetings of the Board and how and where those minutes may be obtained. No later than ten (10) days after the Association receives written request from any Member, the Association shall provide to that Member a copy of each of the documents listed in California Civil Code Section 1368(a) that have been requested by the Member. The Association may charge a fee for this service not exceeding the Association's reasonable cost to prepare and reproduce the requested documents.

11.4. Fiscal Year.

The Board shall determine the Association's Fiscal Year. The Fiscal Year is subject to change as the Board determines.

ARTICLE XII

12. Notice and Hearing Procedure.

12.1. Suspension of Privileges.

If an alleged violation of the Restrictions occurs, and after written notice of such alleged violation is delivered personally or mailed to the Member or any agent of the Member ("respondent") alleged to have committed the violation in the manner herein provided, by first-class mail or by certified mail return receipt requested, or both, the Board may, after affording the respondent an opportunity for an appropriate hearing as hereinafter provided, and upon an affirmative vote of a majority of all Directors on the Board, take any one or more of the following actions: (a) levy a Special Assessment as provided in the Declaration; (b) suspend the respondent's voting privileges as a Member, as provided in the Declaration; (c) enter upon a Lot to make necessary repairs or perform maintenance which, according to the Declaration, is the responsibility of the respondent; or (d) record a notice of noncompliance (if permitted by law) encumbering the respondent's Lot. Any such suspension may not be for a period of more than thirty (30) days for any noncontinuing infraction, but in the case of a continuing infraction (including nonpayment of any assessment after the same becomes delinquent) may be imposed for so long as the violation continues. The Board's failure to enforce the Restrictions does not waive the right to enforce the same thereafter. The remedies set forth above and otherwise provided by these Bylaws are cumulative and not exclusive. However, any individual Member must exhaust all available internal Association remedies prescribed by the Restrictions before that Member may resort to a court of law for relief with respect to any alleged violation of the Restrictions by another Member. The foregoing limitation pertaining to exhausting internal remedies does not apply to the Board or to any Member where the complaint alleges nonpayment of Annual Assessments, Special Assessments, Capital Improvement Assessments or Reconstruction Assessments.

12.2. Written Complaint.

A hearing to determine whether a right or privilege of the respondent under the Declaration or these Bylaws should be suspended or conditioned, or whether a Special Assessment should be

levied, shall be initiated by the filing of a written Complaint by any Member or by any officer or member of the Board with the President or other presiding member of the Board. The Complaint shall constitute a written statement of charges which shall set forth in ordinary and concise language the acts or omissions with which the respondent is charged and a reference to the specific provisions of the Restrictions which the respondent is alleged to have violated. A copy of the Complaint must be delivered to the respondent in accordance with the notice procedures set forth in the Declaration, together with a statement substantially in the following form:

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

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

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

12.3. Notice of Hearing.

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

"You are hereby notified that a hearing will be held before the Board of Directors of the _____ Association at _____ on the _____ day of _____, 199_, at the hour of _____, upon the charges made in the Complaint served upon you. You may

be present at the hearing, may but need not be represented by counsel, may present any relevant evidence, and will be given full opportunity to cross-examine all witnesses testifying against you. You are entitled to request the attendance of witnesses and the production of books, documents or other items by applying to the Board of Directors of the Association."

12.4. Hearing.

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

EXHIBIT "C"

LEGAL DESCRIPTION OF ANNEXABLE TERRITORY

Tract No. 15741, as shown on a Subdivision Map, Recorded on May 21, 1999, in Book 785, Pages 44 to 46, inclusive, of Maps, in the Office of the Orange County Recorder; excepting therefrom, Phase 1.

EXHIBIT "D"

DRAWINGS SHOWING LOCATION OF
PERIMETER WALL IN PHASE 1

There are no perimeter walls in Phase 1.

EXHIBIT "E"

**ITEMS OF COMMON EXPENSES WHICH SHALL
NOT BE ASSESSED EQUALLY AMONG THE LOTS**

Insurance

Paint

Roof