

BYLAWS
OF THE
RANCHO CIELO HOMEOWNERS' ASSOCIATION

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The provisions of these Bylaws are applicable to the residential planned development project known as Rancho Cielo, located in the unincorporated portion of the County of Orange, California (hereinafter the "Project"). All present or future Owners, tenants, future tenants, or their employees, or any other person that might use the facilities of the Project in any manner, are subject to the regulations set forth in these Bylaws, and as the same may be amended from time to time as herein provided. The mere acquisition, rental or occupancy of any of the Lots of the Project or use of the Common Areas and facilities (as Owner, lessee, invitee or otherwise) will signify that these Bylaws are accepted, ratified, and will be complied with. The provisions of the Declaration of Establishment of Conditions, Covenants and Restrictions for Rancho Cielo (hereinafter the "Declaration") recorded in the County Recorder's Office of Orange County, as Instrument No. 88-564175, are hereby incorporated herein by this reference. In the event of a conflict between the provisions of these Bylaws and the provisions of said Declaration, the provisions of the Declaration shall prevail.

ARTICLE I
OFFICE

The office of this Association shall be located in the County of Orange, State of California.

ARTICLE II
DEFINITIONS

Section 2.1 Association shall mean and refer to RANCHO CIELO HOMEOWNERS' ASSOCIATION, a California nonprofit mutual benefit corporation, its successors and assigns.

Section 2.2 Board or Board of Directors shall mean and refer to the governing body of said Association.

Section 2.3 Common Area shall mean all real property, including improvements thereon, owned by the Association for the common use and enjoyment of the Owners. The Common Area to be owned by the Association at the time of the conveyance of the first Lot is described as follows:

Lots 1 through 38 and Common Area Lots A, B and C of Tract 12214 in the County of Orange, State of California, as per Map recorded in Book 611, Pages 22 through 27, of Maps, in the Office of the County Recorder of said County.

Section 2.4 Declarant shall mean and refer to Rancho Cielo Associates, a California general partnership, its successors and assigns, if such successors or assigns should acquire more than one (1) undeveloped Lot from Declarant for the purpose of development.

Section 2.5 Declaration shall mean and refer to the Declaration of Establishment of Conditions, Covenants and Restrictions for Rancho Cielo and any duly executed and recorded amendments thereto.

Section 2.6 FHA shall mean and refer to the Federal Housing Administration.

Section 2.7 Lot shall mean and refer to any plot of land shown upon any recorded subdivision map of the Properties, with the exception of the Common Areas.

Section 2.8 Member shall mean and refer to an Owner as defined in Section 2.10, Article II hereof.

Section 2.9 Mortgage shall mean and refer to a Deed of Trust as well as a mortgage.

Section 2.10 Owner shall mean and refer to the record owners, whether one (1) or more persons or entities, of fee simple title to any Lot which is part of the Properties, including contract sellers, but excluding those having such interest merely as security for the performance of an obligation.

Section 2.11 Project shall have the same meaning as Properties, hereinafter defined.

Section 2.12 Properties shall mean and refer to that certain real property described as follows:

(i) Lots 1 through 38 and Common Area Lots A and B of Tract 12214 in the County of Orange, State of California, as per Map recorded in Book 611, Pages 28 through 32, of Maps, in the Office of the County Recorder of said County; and

(ii) Such additions thereto as may hereafter be brought within the jurisdiction of the Association as fully set forth in Article XV of the Declaration.

Section 2.13 VA shall mean and refer to the Veterans Administration.

ARTICLE III
VOTING RIGHTS IN ASSOCIATION

Section 3.1 Voting Rights. The Association shall have two
2) classes of voting membership:

Class A. Class A Members shall be all Owners, with the exception of Declarant, and shall be entitled to one (1) vote for each Lot owned. When more than one (1) person holds an interest in any Lot, all such persons shall be Members. The vote for such Lot shall be exercised as the Owners among themselves determine, but in no event shall more than one (1) vote be cast with respect to any Lot.

Class B. The Class B member shall be Declarant and shall be entitled to three (3) votes for each Lot owned. The Class B membership shall cease and be converted to Class A membership on the happening of the earliest of the following to occur:

- (a) Two (2) years from the date of the original issuance of the most recent Final Subdivision Public Report for a phase of the overall Properties; or
- (b) Four (4) years from the date of the original issuance of the Final Subdivision Public Report for the first phase of the overall Properties.

ARTICLE IV
MEMBERSHIP ASSESSMENTS AND LIEN RIGHTS

Section 4.1 Annual Assessments. The Board shall fix and determine from time to time annual assessments to be paid by each

Owner for the purpose of operating, maintaining and repairing the Common Area, and for paying the necessary expenditures of the Association as provided in these Bylaws and the Declaration. The annual assessments shall include an adequate reserve fund for the periodic maintenance, repair, and replacement of the Common Areas as set forth in the Declaration.

Section 4.2 Special Assessments. In addition to the annual assessments authorized above, the Board may levy special assessments for the purpose of defraying, in whole or in part, the cost of any capital improvement to the Common Area, including the cost of major repair or rebuilding, to reimburse the Association for costs and expenses incurred in enforcing compliance by an Owner or his Lot with the provisions of the Declaration, the Articles of Incorporation, Bylaws and Rules and Regulations adopted by the Board, or for such other purpose as set forth in the Declaration.

Section 4.3 Lien Rights. The provisions providing for the enforcement of liens and assessments by the Association are as set forth in the Declaration.

Section 4.4 Payment of Assessments by Declarant. The Declarant shall pay all assessments levied by the Association against any Lot owned by Declarant at the same time, in the manner and in the same amounts as any other Owner.

Section 4.5 Commencement of Annual Assessments. The annual assessments shall commence as to all Lots in each phase of development of the Properties as set forth in the Declaration on the first day of the month following the conveyance of the first Lot in that particular phase to an Owner.

ARTICLE V

MEMBERSHIP RIGHTS, PRIVILEGES AND PENALTIES

Section 5.1 Membership Rights and Privileges. No Member shall have the right to exercise any of the powers or to perform any of the acts by these Bylaws delegated to the Board without the prior approval of the Board as more fully provided in Article VII of these Bylaws. Unless otherwise provided in the Declaration and subject to the Rules and Regulations adopted by the Board, each Member of the Association, his immediate family, guests and tenants shall have the right to use and enjoy the Common Area. The membership rights and privileges, together with the voting rights of any Member, may be suspended by the Board for any period of time during which the assessment on his Lot remains unpaid, and for a period not to exceed thirty (30) days for any infraction of the Association's published Rules and Regulations after reasonable written notice and an opportunity for a hearing before the Board. Should the Board believe grounds may exist for any such suspension, the Board shall give to the Member believed to be in violation at least fifteen (15) days prior written notice of the intended suspension and the reasons therefor. The Member shall be given an opportunity to be heard before the Board either orally or in writing not less than five (5) days before the effective date of suspension. The notice required hereby may be given by any method reasonably calculated to provide actual notice. Any notice given by mail must be given by first class or registered mail sent to the last address of the Member as shown on the Association's records. No such suspension shall affect the rights to access of such Member to his Lot.

Section 5.2 Penalties. The Board of Directors may adopt Rules and Regulations imposing reasonable monetary penalties for any period of time during which any Member is determined by the Board to be in breach of the provisions of the Declaration or of

These Bylaws. No such monetary penalty shall be effective unless the Member receives fifteen (15) days prior written notice of the proposed penalty and the reasons therefor and is given an opportunity to be heard either orally or in writing before the Board not less than five (5) days before the proposed effective date of the monetary penalty. The notice required hereby may be given by any method reasonably calculated to provide actual notice. Any notice given by mail must be given by first class or registered mail sent to the last address of the Member as shown on the Association's records.

Section 5.3 Transfer. The Association membership held by any Owner, of a Lot shall not be transferred, pledged, or alienated in any way, except upon the sale or encumbrance of such Lot. In the event of such sale or encumbrance, the Association membership may only be transferred, pledged or alienated to a bona fide purchaser of the Lot, or to the mortgagee (or third-party purchaser) of such Lot upon a foreclosure sale. Any attempt to make a prohibited transfer is void and will not be reflected upon the books and records of the Association.

ARTICLE VI
MEETINGS OF MEMBERS

Section 6.1 Place of Meeting. All meetings of Members shall be held at the Properties or at such other location in Orange County, California, in reasonable proximity to the Properties, as may be designated in the notice of meeting.

Section 6.2 Annual Meetings of Members. The first annual meeting of Members shall be held within six (6) months after the close of escrow for the sale of the first Lot by Declarant, or within forty-five (45) days after close of escrow for the sale by Declarant of fifty-one percent (51%) of the Lots, whichever shall

first occur. Subsequent annual meetings of Members shall be held on the annual anniversary of the first annual meeting of Members. Should any annual meeting day fall upon a legal holiday, then such annual meeting of Members shall be held at the same time and place on the next day thereafter ensuing which is not a legal holiday. An election of directors shall be held at the first annual meeting of Members and all positions of directors shall be filled at that election.

Written notice of each annual meeting shall be given to each Member and, upon written request therefor, to all first Mortgagees, either personally or by sending a copy of the notice through the mail or by telegraph, charges prepaid, to the address appearing on the books of the Association or supplied by the Owner to the Association for the purpose of notice. If no address is supplied, notice shall be deemed to have been given if mailed to the address of the Lot owned by such Member or encumbered by the first Mortgagee, or published at least once in a newspaper of general circulation in the county of said principal office. All such notices shall be sent not less than ten (10) days and not more than ninety (90) days before each annual meeting, and shall specify the place, day and hour of such meeting.

Section 6.3 Special Meeting. Special meetings of Members, for any purpose or purposes whatsoever, may be called at any time by the President, and shall be called promptly in response to the vote of a majority of a quorum of the Board, or by the written request of five percent (5%) or more of the voting power of the Members. Except in special cases where other express provision is made by statute, notice of such special meetings shall be given in the same manner as for annual meetings of Members. Notices of any special meeting shall specify in addition to the place, day and hour of such meeting, the general nature of the business to be transacted.

Section 6.4 Adjourned Meetings and Notice Thereof. Any membership meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by the vote of a majority of the voting power present in person or represented by proxy, but in the absence of a quorum no other business may be transacted at any such meeting.

Section 6.5 Mortgagee Representation. First Mortgagees shall have the right to attend all membership meetings through a representative designated in writing and delivered to the Board.

Section 6.6 Voting. Voting of the Members may be by voice or by ballot. All elections for directors shall be by secret written ballot. Cumulative voting is required for all elections in which more than two (2) directors are to be elected. No Member shall be entitled to cumulate votes for a candidate or candidates unless such candidates' names have been placed in nomination prior to the voting and the Member has given notice at the meeting prior to the voting of the Member's intention to cumulate votes. If any one Member has given such notice, all Members at any election for directors, shall have the right to cumulate votes and give one (1) candidate a number of votes equal to the number of directors to be elected multiplied by the number of votes to which he is entitled, or to distribute his votes on the same principle among as many candidates as he shall see fit. The candidates receiving the highest number of votes up to the number of directors to be elected shall be elected. Unless the entire Board is removed from office by the vote of the Members, an individual director shall not be removed prior to the expiration of his term of office if the number of votes cast against his removal or not consenting in writing to his removal would be sufficient to elect the director if voted cumulatively at an election at which the same total number of votes were cast and the entire number of directors authorized at the time of the

most recent election of directors were then being elected. Any director elected to office solely by the votes of Members other than Declarant as provided below may be removed from office prior to the expiration of his term only upon the vote of a simple majority of the voting power of Members other than Declarant. Anything contained herein to the contrary notwithstanding, at the first election of directors by Members and thereafter for so long as a majority of the voting power of Members is held by Declarant, or so long as there are two (2) outstanding classes of membership, not fewer than twenty percent (20%) of the directors shall be elected solely by the voting power of Members other than Declarant. The election of directors may be held at any meeting of Members and each Member shall have the right to nominate candidates from the floor for the office of director.

Section 6.7 Quorum. The presence in person or by proxy of a majority of the voting power entitled to vote at any meeting shall constitute a quorum for the transaction of business. The Members present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough voting power to leave less than a quorum. In the event any meeting of Members cannot be held because a quorum is not present, the Members present, either in person or by proxy, may adjourn the meeting to a time not less than five (5) days nor more than thirty (30) days from the time of the original meeting date, at which meeting the quorum requirement shall be twenty-five percent (25%) of the voting power of the membership of the Association; provided, however, if after adjournment a new date is fixed for the adjourned meeting, notice of the time and place of the adjourned meeting shall be given to the Members in the manner prescribed for regular meetings; provided further, that in the event the quorum requirement becomes twenty-five percent (25%) of the voting power of the membership, then the only matters that may be voted upon at any meeting actually attended in person or by proxy

By one-third (1/3) or less of the voting power are matters notice of the general nature of which was given in the notice of meeting.

Section 6.8 Consent of Absentees. The transactions of any meeting of Members, either annual or special, however called and noticed, shall be as valid as though had at a meeting duly held after regular call and notice if a quorum be present either in person or by proxy and if, either before or after the meeting, each of the Members entitled to vote not present in person or by proxy, signs a written waiver of notice or a consent to the holding of such meeting, or an approval of the minutes thereof. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Section 6.9 Action Without Meeting. Any action which may be taken at a meeting of Members, except the election of directors where cumulative voting is a requirement, may be taken without a meeting if done in compliance with the provisions of Section 7513 of the California Corporations Code. The Board of Directors may take action without a meeting if all of its members consent in writing to the actions to be taken. If the Board resolves by unanimous written consent to take an action, an explanation of the action to be taken shall be given by the Board to the Members of the Association within three (3) days after all written consents have been obtained in the manner provided in Article VII, Section 7.7 for the giving of notice of regular meeting of the Board. Such written consent or consents shall be filed with the minutes of the proceedings of the Board and shall have the same force and effect as a unanimous vote of such directors. Any action so taken by the Board shall be posted in a prominent place within the Common Area within three (3) days after all of the written consents have been obtained.

Section 6.10 Proxies. Every person entitled to vote or execute consents shall have the right to do so either in person or by a written proxy executed by such person and filed with the Secretary of the Association. All proxies shall be revocable and shall automatically terminate upon transfer of title of a Lot by the Owner.

Section 6.11 Ballots. Any form of proxy or written ballot distributed by any person to the membership of the Association shall afford the opportunity to specify a choice between approval and disapproval of each matter or group of matters to be acted upon. The proxy or written ballot shall provide that, where the Member specifies a choice, the vote shall be cast in accordance with that choice. The proxy shall also identify the person who is authorized to exercise the proxy and the length of time it will be valid.

ARTICLE VII
DIRECTORS

Section 7.1 Powers and Duties. The directors shall have the powers and duties set forth herein.

Section 7.2 Number and Qualifications of Directors. The Board shall consist of five (5) directors until changed by amendment to this section of the Bylaws. Directors need not be Members of the Association.

Section 7.3 Election and Term of Office. At the first annual meeting of Members, and at each annual meeting of Members, five (5) directors shall be elected for a term of one (1) year. If any annual meeting is not held or the directors are not elected thereat, the directors may be elected at any special

eting of Members held for that purpose. All directors shall hold office until their successors are elected.

Section 7.4 Vacancies. A vacancy on the Board of Directors shall be deemed to exist in case of (i) the death, resignation or removal of any director, (ii) a director having been declared of unsound mind by order of court or convicted of a felony, (iii) a decision to increase the authorized number of directors, or (iv) failure of the Members to elect the full authorized number of directors to be voted for at any annual or special meeting of Members at which any director or directors are to be elected.

7.4.1 Vacancies on the Board of Directors, except for a vacancy created by the removal of a director, may be filled by a majority vote of the remaining directors, though less than a quorum, or by a sole remaining director, and each director so elected shall hold office until his successor is elected at an annual or a special meeting of the Members. A vacancy on the Board of Directors created by the removal of a director by the Members may only be filled after obtaining the vote of a majority of the Members, excluding the vote of the Declarant.

7.4.2 The Members may elect a director or directors at any time to fill any vacancy or vacancies not filled by the directors. Any such election shall require the consent of the holders of a majority of the outstanding memberships.

7.4.3 Any director may resign effective upon giving written notice to the president, the secretary or the Board of Directors of the Association, unless the notice specifies a later time for the effectiveness of such resignation. If the Board of Directors accepts the resignation of a director tendered to take effect at a future time, the Board or the Members shall have the

power to elect a successor to take office when the resignation is to become effective.

7.4.4 No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of his term of office.

Section 7.5 Place of Meeting. All meetings of the Board shall be held within the Properties.

Section 7.6 Organization Meeting. Immediately following each annual meeting of Members, the Board shall hold a regular meeting for the purpose of organization, election of officers and the transaction of other business. Notice of such meeting is hereby dispensed with.

Section 7.7 Other Regular Meetings. Other regular meetings of the Board shall be held without call monthly at such time as the Board shall determine. Notice of all regular meetings shall be posted in a prominent place in the Common Area and communicated to the directors not less than four (4) days prior to the meeting; provided, however, notice of a meeting need not be given to any director who has signed a waiver of notice or a written consent to the holding of the meeting.

Section 7.8 Special Meetings. Special meetings of the Board for any purpose or purposes shall be called at any time by the President, or by any two (2) directors other than the President.

Written notice of the time and place of special meetings and the nature of any special business to be considered shall be posted in the manner prescribed for notice of regular meetings and shall be sent to all directors by first class mail not less than seventy-two (72) hours prior to the scheduled time of the

meeting, or such notice shall be delivered personally or by telephone or telegraph not less than twenty-four (24) hours prior to the scheduled time of the meeting; provided, however, that notice of the meeting need not be given to any director who has signed a waiver of notice or a written consent to the holding of the meeting.

Section 7.9 Compensation and Fees. Neither the directors nor the officers of the Association shall receive any monetary compensation for their services performed in the conduct of business of the Association; provided, however, that the Board may cause a Member, officer, or director to be reimbursed for expenses incurred in carrying on the business of the Association.

Section 7.10 Attendance at Meetings and Executive Sessions. Regular and special meetings of the Board shall be open to all Members of the Association; provided, however, that Members who are not on the Board may not participate in any deliberation or discussion unless expressly so authorized by the vote of a majority of a quorum of the Board. The Board may, upon the vote of a majority of a quorum, adjourn a meeting and reconvene in executive session to discuss and vote upon personnel matters, litigation in which the Association is or may become involved and other matters of business of a similar nature. Only members of the Board shall be entitled to attend executive sessions. The nature of any and all business to be considered in executive sessions shall first be announced in open session.

Section 7.11 Quorum. A majority of the directors shall be necessary to constitute a quorum for the transaction of business, except to adjourn as hereinafter provided. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the Board.

Members of the Board may participate in a meeting through use of conference telephone or similar communications equipment, so long as all Members participating in such meeting can hear one another. Participation in a meeting as permitted in the preceding sentence constitutes presence in person at such meeting. A meeting at which a quorum is initially present may continue to transact business, notwithstanding the withdrawal of a director, provided that any action taken is approved by at least a majority of the required quorum for such meeting.

Section 7.12 Adjournment. A quorum of the directors may adjourn any Board meeting to meet again at a stated time and hour; provided, however, that in the absence of a quorum, a majority of directors present at the Board meeting, either regular or special, may adjourn from time to time until the time fixed for the next regular meeting of the Board.

Section 7.13 Waiver of Notice. The transactions of any meeting of the Board, however called and noticed or wherever held, shall be as valid as though had at a meeting to be held after regular call and notice if a quorum be present and if, either before or after the meeting, each of the directors not present signs a written waiver of notice or a consent to holding such meeting or an approval of the minutes thereof. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting. Nothing contained herein shall remove the obligation to post the notice of all Board meetings in the Common Area.

Section 7.14 Entry of Notice. Whenever any director has been absent from any special meeting of the Board, an entry in the minutes to the effect that notice has been duly given shall constitute a rebuttable presumption that due notice of such special meeting was given to such director as required by law and these Bylaws.

Section 7.15 Notice of Adjournment. Notice of any adjournment of any Board meeting, either regular or special, to another time or place shall be given prior to the time of the adjourned meeting to the directors who were not present at the time of the adjournment.

Section 7.16 Action Without Meeting. Any action by the Board of Directors may be taken without a meeting if all members of the Board shall individually or collectively consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board and shall have the same force and effect as a unanimous vote of such directors. Any action so taken by the Board shall be posted in a prominent place within the Common Area within three (3) days after all of the written consents have been obtained.

ARTICLE VIII

OFFICERS

Section 8.1 Officers. The officers of the Association shall be a President, a Vice President, a Secretary and a Chief Financial Officer. The Association may also have, at the discretion of the Board, one (1) or more Assistant Secretaries, one (1) or more Assistant Financial Officers and such other officers as may be appointed in accordance with the provisions of Section 8.3 of this Article. Officers other than the President need not be directors. One (1) person may hold two (2) or more offices, except those of President and Secretary.

Section 8.2 Election. The officers of the Association except such officers as may be appointed in accordance with the provisions of Section 8.3 or Section 8.5 of this Article VIII, shall be chosen annually by the Board, and each shall hold his

office until he shall resign, or shall be removed or otherwise disqualified to serve, or his successor shall be elected and qualified.

Section 8.3 Subordinate Officers. The Board may appoint such other officers as the business of the Association may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in the Bylaws or as the Board may from time to time determine.

Section 8.4 Removal and Resignation. Any officer may be removed, either with or without cause, by a majority of the directors at the time in office, at any regular or special meeting of the Board or, except in case of an officer chosen by the Board, by any officer upon whom such power or removal may be conferred by the Board. Any officer may resign at any time by giving written notice to the Board of Directors or to the President, or to the Secretary of the Association, without prejudice however, to the rights, if any, of the Association under any contract to which such officer is a party. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein; and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 8.5 Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in the Bylaws for regular appointments to such office.

Section 8.6 President. The President shall be the chief executive officer of the Association, and subject to the control of the Board, shall have general supervision, direction and control of the business and officers of the Association. He shall preside at all meetings of the Members and at all meetings

of the Board. He shall be ex officio a Member of all standing committees, including the Executive Committee, if any, and shall have the general powers and duties of management usually vested in the office of president of a corporation, and shall have such other powers and duties as may be prescribed by the Board or by the Bylaws. The president shall sign all leases, mortgages, deeds and other written instruments and shall co-sign all checks and promissory notes of the Association.

Section 8.7 Vice President. In the absence or disability of the President, the Vice President shall perform all the duties of the president, and when so acting shall have all powers of and be subject to all the restrictions upon the President. The Vice President shall have such other powers and perform such other duties as from time to time may be prescribed by the Board or by the Bylaws.

Section 8.8 Secretary. The Secretary shall keep, or cause to be kept, a book of minutes at the principal office or such other place as the Board may order of all meetings of directors and Members, with the time and place of holding, whether regular or special and if special, how authorized, the notice thereof given, the names of those present at Board meetings, the number of Members present or represented at Members' meetings and the proceedings thereof. The Secretary shall give, or cause to be given, notices of all the meetings of the Members and of the Board required by the Bylaws or by law to be given, and he shall keep other powers and perform such other duties as may be prescribed by the Board or the Bylaws.

Section 8.9 Chief Financial Officer. The Chief Financial Officer shall keep and maintain, or cause to be kept and maintained, adequate and correct accounts of the property and business transactions of the Association, including accounts of its assets, liabilities, receipts, disbursements, gains, losses,

capital and surplus. The books of account shall at all times be open to inspection by any director. The Chief Financial Officer shall co-sign all checks and promissory notes of the Association and shall deposit all monies and other valuables in the name and to the credit of the Association with such depositories as may be designated by the Board. He shall disburse the funds of the Association as may be ordered by the Board, shall render to the President and directors, whenever they request it, an account of all of his transactions as chief financial officer and of the financial condition of the Association, and shall have such other powers and perform such other duties as may be prescribed by the Board or the Bylaws.

ARTICLE IX
POWERS AND DUTIES OF THE ASSOCIATION

Subject to the Declaration, the Articles of Incorporation, and the California Nonprofit Mutual Benefit Corporation Law, the Board of Directors shall have the following powers and duties:

Section 9.1 Selection of Officers. To select, supervise, and remove all the officers, agents and employees of the Association, prescribe such powers and duties for them as may not be inconsistent with law, the Articles of Incorporation, these Bylaws or the Declaration, and, subject to the provisions of Section 7.9 of Article VII of these Bylaws, to fix their compensation.

Section 9.2 Management of Business. To conduct, manage and control the affairs and business of the Association, and to make such reasonable Rules and Regulations therefor not inconsistent with law, the Articles of Incorporation, these Bylaws or the Declaration as they deem best, including Rules and Regulations for the operation of the Common Area and the

recreational facilities located therein. The Rules and Regulations as adopted, amended or repealed by the Board of Directors shall be mailed to each Member and posted at a conspicuous location in the Common Area.

Section 9.3 Borrowing of Money. To borrow money and incur indebtedness for the purposes of the Association, and to cause to be executed and delivered therefor, in the corporate name, promissory notes or other evidences of debt and with the vote or written assent of two-thirds (2/3) of the voting power of each class of members of the Association (i) to hypothecate any or all of the real or personal property owned by the Association as real security for money borrowed or debts incurred, and (ii) to sell any real or personal property owned by the Association. After conversion of the Class B membership to Class A membership, the action herein requiring membership approval shall require the vote or written consent of two-thirds (2/3) of the voting power of members of the Association and, for so long only as the Declarant holds or directly controls twenty-five percent (25%) or more of the voting power of Members of the Association, two-thirds (2/3) or more of the voting power of Members of the Association other than Declarant.

Section 9.4 Insurance. To contract and pay for fire, casualty, liability, fidelity and other insurance adequately insuring the Association and Owners with respect to the Common Area and the affairs of the Association, which shall include bonding of the Members of any management body. Notwithstanding any provisions to the contrary herein, so long as the Federal National Mortgage Association ("FNMA") holds a Mortgage on a Lot or owns a Lot in the Properties, the Association shall continuously maintain in effect all casualty and liability insurance and fidelity bonds, meeting all requirements and containing such coverage and endorsements as may be required from time to time by FNMA.

Whether or not FNMA holds any Mortgage or owns any lot, fidelity insurance shall be in the form of a bond in an amount equal to one hundred fifty percent (150%) of the Association's annual assessment plus reserves, which names the Association as obligee and protects against misuse and misappropriation of Association property by members of the Board, officers and employees, of the Association and any management agent and its employees whether or not any such persons are compensated for their services.

Section 9.5 Management of the Common Area. To manage, operate, maintain and repair the Common Area and all improvements located thereon, and to make capital expenditures for and on behalf of the Association with the vote or written assent of a majority of the voting power of each class of members of the Association; provided, however, that after conversion of the Class B membership to Class A membership, capital expenditures shall require the vote or written assent of a majority of the voting power of members of the Association, and, for so long only as the Declarant holds or directly controls twenty-five percent (25%) or more of the voting power of members of the Association, a majority of the voting power of Members of the Association other than Declarant.

Section 9.6 Right to Contract. To contract and pay for goods and services relating to the Common Area, and to employ personnel necessary for the operation and maintenance of the same, including legal and accounting services; provided, however, that the term of any contract with a third person for supplying goods or services to the Common Area or for the Association shall not exceed a term of one (1) year unless a longer term is approved by a majority of the voting power of each class of Members of the Association, or after conversion of the Class B membership to Class A membership, unless such longer term is

approved by a majority of the voting power of Members of the Association, and a majority of the voting power of Members of the Association other than Declarant; except that a contract with a public utility company for materials or services the rates for which are regulated by the Public Utilities Commission may exceed a term of one (1) year so long as it does not exceed the shortest term for which the public utility will contract at the regulated rate, a contract for prepaid casualty and/or liability insurance policies may be for a term of not to exceed three (3) years, provided that the policy permits short rate cancellation by the Association, a management contract, the terms of which have been approved by the Federal Housing Administration or Veterans Administration may exceed a term of one (1) year, 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, 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, and agreements for sale or lease of burglar alarm and fire alarm equipment, installation and services of not to exceed five (5) years duration provided that the supplier or suppliers are not entities in which the Declarant has a direct or indirect ownership interest of ten percent (10%) or more. Anything contained herein to the contrary notwithstanding, the Board shall not terminate professional management of the Common Area and assume self-management without the prior written approval of Mortgagees holding seventy-five percent (75%) or more of the first Mortgages on Lots and any agreement for management of the Common Area and any other contract providing for services by the Declarant, shall be terminable for cause upon thirty (30) days written notice, and without cause or payment of a termination fee upon ninety (90)

days, or fewer, written notice and shall have a term of not more than three (3) years, renewable with the consent of the Association and the management agent. Except as provided herein, no contract with the Association negotiated by Declarant shall exceed a term of one (1) year.

Section 9.7 Payment of Taxes on Common Area. To pay any taxes and governmental special assessments which are or could become a lien on the Common Area or any portion thereof.

Section 9.8 Adoption of Rules. To adopt reasonable Rules and Regulations not inconsistent with the provisions contained in the Declaration, and to amend the same from time to time relating to the use of the Common Area and the recreational facilities located therein.

Section 9.9 Right of Discipline. To suspend the voting rights and right to use the recreational facilities located on the Common Area of a Member who is in default in the payment of any assessment for any period during which such assessment remains unpaid, and for a period not to exceed thirty (30) days for any infraction of the published Rules and Regulations after reasonable written notice and an opportunity for a hearing before the Board, as provided in Article V of these Bylaws.

Section 9.10 Preparation of Budgets and Financial Statements. To prepare budgets and financial statements for the Association as provided in these Bylaws.

Section 9.11 Notification to Mortgagee in these Bylaws. Upon the written request of the holder of any first Mortgage encumbering any Lot, to notify the same in writing of any default specified in the Declaration, by the Owner of such Lot, in the performance of the Owner's obligations, which is not cured within thirty (30) days. In addition, upon the written request of the

holder of any first Mortgage, to give timely written notice to such first Mortgagees of any substantial damage to or destruction of any Lot, or any part of the Common Area and, if any Lot or any portion thereof, or the Common Area or any portion thereof, is made the subject of any condemnation or eminent domain proceeding or is otherwise sought to be acquired by a condemning authority, to give timely written notice to such first Mortgagees of any such proceeding or proposed acquisition.

Section 9.12 Notice to Federal Home Loan Mortgage Corporation. To give notice in writing to the Federal Home Loan Mortgage Corporation ("FHLMC"), in care of the servicers of FHLMC loans on Lots, provided such servicers have informed the Association in writing of their addresses, of any loss to or taking of the Common Area if such loss or taking exceeds Ten Thousand Dollars (\$10,000.00), and of any damage to a Lot if such damage exceeds One Thousand Dollars (\$1,000.00).

Section 9.13 Right to Litigate. To prosecute or defend, in the name of the Association, any action affecting or relating to the Common Area owned by the Association, and any action in which all or substantially all of the Owners have an interest.

Section 9.14 Right to Delegate. To delegate any of its powers hereunder to others, including committees, officers and employees.

Section 9.15 Availability of Documentation. To make available to any prospective purchaser of a Lot, any owner of a Lot, any first Mortgagee, and the holders, insurers and guarantors of a first Mortgage on any Lot, current copies of the Declaration, the Articles, the Bylaws, the Rules and Regulations governing the Project and all other books, records and financial statements of the Association.

Section 9.16 Right to Grant Easements. To grant utility easements under, through and over the Common Areas which are reasonably necessary to the ongoing development and operation of the Project.

Section 9.17 Authorization to Contract. To authorize any officer or officers or agent or agents to enter into any contract or execute any instrument in the name and on behalf of the Association. Such authority may be general or confined to specific instances, and unless so authorized by the Board, no officer, agent or employee shall have any power or authority to bind the Association by any contract or credit or to render it liable for any purpose or for any amount.

Section 9.18 Duty to Make Records Available for Inspection. To keep in its principal office for the transaction of business or at such place within the Properties as the Board shall prescribe, the original or a copy of the Bylaws as amended or otherwise altered to date, certified by the Secretary, a membership register, including mailing addresses and telephone numbers, books of accounts and copies of minutes of all membership, Board and committee meetings, all of which shall be made available for inspection and copying by any Member of the Association, or by any Member's duly appointed representative and by all first Mortgagees, at any reasonable time and for a purpose reasonably related to his interest as a Member or Mortgagee. The Board shall establish reasonable rules with respect to:

- (a) Notice to be given to the custodian of the records by the Member or Mortgagee desiring to make the inspection;
- (b) Hours and days of the week when such an inspection may be made; and

- (c) Payment of the costs of reproducing copies of documents requested.

Every director shall have the absolute right at any reasonable time to inspect all books, records, documents, and physical properties owned or controlled by the Association. The right of inspection by a director shall include the right at his expense to make extracts and copies of documents.

Section 9.19 Financial Statements. To cause to be prepared:

- (a) A financial statement (including a balance sheet and income and expense statement) of the affairs of the Association to be made as of the last day of the month closest in time to the date six (6) months following close of escrow for the sale of the first Lot by Declarant to an Owner. Said financial statement shall reflect the financial condition of the Association as of said date and shall summarize the financial transactions in which the Association was involved during the period between the close of the first sale and the date of the financial statement. The financial statement shall include a schedule of assessments received or receivable itemized by Lot and shall include the name of the person or entity assessed. A copy of said financial statement shall be distributed personally or by mail to each of the Members of the Association and, upon written request, to all first Mortgagees, within sixty (60) days after the date of such financial statement.
- (b) An annual report to be distributed within one hundred twenty (120) days after close of the Association's fiscal year as provided in Article VI of the Declaration.

Section 9.20 Budget. To cause to be prepared a proforma operating statement (budget) for the Association to be prepared for the second and each succeeding fiscal year of the Association as provided in Article VI of the Declaration. ~~The fiscal year of the Association shall begin on the first day of January and end on the thirty-first (31st) day of December of each year,~~ except that the first fiscal year shall begin on the date of incorporation of the Association. However, the fiscal year of the Association is subject to change from time to time as the Board shall determine.

Section 9.21 Checks. To cause to be issued checks, drafts or other orders for payment of money, notes or other evidences of indebtedness, in the name of or payable to the Association, which shall be signed or endorsed by the president and chief financial officer of the Association.

Section 9.22 Committees. By resolution adopted by a majority of the authorized number of directors, to designate an executive and other committee, to consist of two (2) or more directors, to serve at the pleasure of the Board. Unless the Board of Directors shall otherwise prescribe the manner of proceedings of any such committee, meetings of such committee will be regularly scheduled in advance or called at any time by any two (2) Members thereof; otherwise, the provisions of these Bylaws with respect to notice and conduct of meetings of the Board shall govern. Any such committee, to the extent provided in a resolution of the Board, shall have all of the authority of the Board, except with respect to:

- (i) The approval of any action for which the Nonprofit Mutual Benefit Corporation Law or the Declaration also require Member approval;

- (ii) The filling of vacancies on the Board or in any committee;
- (iii) The adoption, amendment or repeal of Bylaws;
- (iv) The amendment or repeal of any resolution of the Board;
- (v) Any reassessment of Members' fees and charges; and
- (vi) The appointment of other committees of the Board or the Members thereof.

ARTICLE X
AMENDMENT

During the period of time prior to conversion of the Class B membership in the Association to Class A membership, new Bylaws may be adopted or these Bylaws may be amended or repealed by the vote of the Members entitled to exercise a majority or more of the voting power of each class of Members of the Association or by the written assent of such Members. After conversion of the Class B membership to Class A membership in the Association, these Bylaws may be amended or repealed by the vote of (i) Members entitled to exercise a majority of the voting power of the Association, and (ii) at least a majority of the voting power of Members of the Association other than Declarant. Anything herein stated to the contrary notwithstanding, no amendment to the Bylaws in the following areas shall be made without the prior written approval of Mortgagees holding at least seventy-five percent (75%) of the first mortgages encumbering Lots: termination of the Project, annexation of additional properties, dedication of Common Areas, voting and voting rights, partition, condemnation, and insurance. For so long as there remains a

Class B membership in the Association, the Veterans Administration and the Federal Housing Administration shall have the right to veto any amendments to these Bylaws. Notwithstanding the foregoing, the percentage of a quorum of the Members or of the votes of Members other than the Declarant necessary to amend a specific provision in these Bylaws shall not be less than the prescribed percentage of affirmative votes required for action to be taken under said provisions.

CERTIFICATE OF SECRETARY

I, the undersigned, do hereby certify:

1. That I am the duly elected and acting Secretary of the RANCHO CIELO HOMEOWNERS' ASSOCIATION, a California nonprofit mutual benefit corporation; and

2. That the foregoing Bylaws, comprising thirty (30) pages, including this page, constitute the Bylaws of said corporation duly adopted at the meeting of the Board of Directors thereof duly held on _____, 19__.

IN WITNESS WHEREOF, I hereunto subscribe my hand and affix the seal of said corporation this _____ day of _____, 19__.