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BYLAWS
OF
DESERT HILLS HOMEOWNERS ASSOCIATION

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DESERT HILLS HOMEOWNERS ASSOCIATION

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BYLAWS
OF
DESERT HILLS HOMEOWNERS ASSOCIATION

ARTICLE I

GENERAL PLAN OF OWNERSHIP

Section 1.01. Name. The name of the corporation is DESERT HILLS HOMEOWNERS ASSOCIATION, hereinafter referred to as the "Association." The principal office of the Association shall be located in Los Angeles County, California.

Section 1.02. Application. The provisions of these By-laws are applicable to the phased planned residential development known as Desert Hills, located in the County of Los Angeles, 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, Restrictions and Reservation of Easements for Desert Hills (the "Declaration" herein) Recorded or to be Recorded in the Official Records of Los Angeles 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.

Section 1.03. Meaning of Terms. Unless otherwise specifically provided herein, the capitalized terms in these Bylaws shall have the same meanings as are given to such terms in the Declaration.

ARTICLE II

VOTING BY ASSOCIATION MEMBERSHIP

Section 2.01. Voting Rights. The Association shall have two (2) classes of voting Membership, as follows:

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

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Class B. The Class B Member shall be Declarant. The Class B Member shall be 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 on the happening of either of the following events, whichever occurs first:

(1) When the total votes outstanding in the Class A Membership equal the total votes outstanding in the Class B Membership; or

(2) The second anniversary of the original issuance of the most recently issued Final Subdivision Public Report for a Phase of Development of the Properties by the DRE; or

(3) The fourth anniversary of the original issuance of the Final Subdivision Public Report for Phase 1 of the Properties; or

(4) The seventh anniversary of the Recordation of the Declaration.

All voting rights shall be subject to the restrictions and limitations provided in the Declaration and in the Articles and these Bylaws of the Association. Except as provided in Section 15.11 of the Declaration and Section 4.08 of these Bylaws, as long as there exists a Class B Membership, any provision of the Declaration, the Articles or these Bylaws which expressly requires a vote or written consent of a specified percentage of the voting power of the Association before action may be undertaken (i.e. other than actions requiring merely the vote or written consent of a majority of a quorum) shall require the approval of such specified percentage of the voting power of each class of Membership. Except as provided in Section 15.11 of the Declaration and Section 4.08 of these Bylaws, upon termination of the Class B Membership, any provision of the Declaration, the Articles or these Bylaws which expressly requires a vote or written consent of Owners representing a specified percentage of the voting power of the Association before action may be undertaken shall require the vote or written consent of Owners representing such specified percentage of both the total voting power of the Association and the voting power of the Association residing in Owners other than Declarant.

Section 2.02. Majority of Quorum. Unless otherwise expressly provided in the Articles, these Bylaws or the Declaration, any action which may be taken by the Association may be

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taken by a majority of a quorum of the Members of the Association.

Section 2.03. Quorum. Except as otherwise provided in these Bylaws, the presence in person or by proxy of at least fifty-one percent (51%) of the voting power of the Membership of the Association shall constitute 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.

Section 2.04. 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 shall be revocable and shall automatically cease after completion of the meeting for which the proxy was filed.

ARTICLE III

ADMINISTRATION

Section 3.01. Association Responsibilities. In accordance with the provisions of the Declaration, the Association shall have the responsibility of administering the Properties, maintaining 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.

Section 3.02. Place of Meetings of Members. Meetings of the Members shall be held on the Properties or such other suitable place as proximate thereto as practicable and convenient to the Members as may be designated from time to time by the Board of Directors.

Section 3.03. Annual Meetings of Members. The first annual meeting of Members shall be held within forty-five (45) days after fifty-one percent (51%) of the escrows for the sale of all of the Lots in Phase 1 of the Properties have closed or within six (6) months after the first Close of Escrow for the sale of a Lot in the Properties, whichever occurs first. Thereafter, the annual meetings of the Association shall be held on or about the anniversary date of the first annual meeting. At each annual meeting there shall be elected by ballot of the Members a Board of Directors, in accordance with the requirements of Section 4.05 of Article IV of these Bylaws. The Members may also transact such other business of the Association as may properly come before them. Each first Mortgagee of a Lot in the Properties may designate a representative to attend all annual meetings of the Members.

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Section 3.04. Special Meetings of Members. It shall be the duty of the Board to call a special meeting of the Members, as directed by resolution of a majority of a quorum of the Board of Directors, or upon a petition signed by Members representing at least five percent (5%) of the total voting power of the Association. The notice of any special meeting shall be given within twenty (20) days after adoption of such resolution or receipt of such petition and shall state the time and place of such meeting and the purpose thereof. The special meeting shall be held not less than thirty-five (35) days nor more than ninety (90) days after adoption of such resolution or receipt of such petition. No business shall be transacted at a special meeting except as stated in the notice. Each first Mortgagee of a Lot in the Properties may designate a representative to attend all special meetings of the Members.

Section 3.05. Notice of Meetings of Members. It shall be the duty of the Secretary to 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 of a Lot which 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 of any meeting at which Directors are to be elected shall include the names of all those who are nominees at the time the notice is given to Members. The mailing of a notice, postage prepaid, in the manner provided in this Section, shall be considered notice served, forty-eight (48) hours after said notice has been deposited in a regular depository of the United States mail. Such notice shall be posted in a conspicuous place on the Common Area, and such notice shall be deemed served upon a Member upon posting if no address has been then furnished the Secretary. The Board of Directors 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 shall be not less than ten (10) days nor more than sixty (60) days prior to the date of the meeting. Only Members who on the record date for notice of the meeting are entitled to vote thereat, shall be entitled to notice of the meeting, notwithstanding any transfer of or issuance of Memberships on the books of the Association after the record date.

Section 3.06. Adjourned Meetings. If any meeting of Members cannot be organized because a quorum is not present, a majority of the Members who are present, either in person or by proxy, may adjourn the meeting to a time not less than five (5) days nor more than thirty (30) days from the time the original meeting was called, at which meeting the quorum requirement

shall be the presence in person or by proxy of the Members holding at least twenty-five percent (25%) of the voting power of the Association. Such an adjourned meeting may be held without notice thereof as otherwise required by this Article III, provided that notice is given by announcement at the meeting at which such adjournment is taken. If, however, such an adjourned meeting is actually attended, in person or by proxy, by Members having less than one-third (1/3rd) of the voting power of the Association, notwithstanding the presence of a quorum, no matter may be voted upon except such matters notice of the general nature of which was given pursuant to Section 3.05 hereof.

Section 3.07. Order of Business. The order of business at all meetings of the Members shall be as follows: (a) roll call to determine the voting power represented at the meeting; (b) proof of notice of meeting or waiver of notice; (c) reading of minutes of preceding meeting; (d) reports of officers; (e) reports of committees; (f) election of inspector of 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.

Section 3.08. Action Without Meeting. Any action, which may be taken at a meeting of the Members (except for the election of Directors) may be taken without a meeting by written ballot of the Members. Ballots shall be solicited in the same manner as provided in Section 3.05 for the giving of notice of meetings of Members. Such solicitations shall specify (a) the number of responses needed to meet the quorum requirements, (b) the percentage of approvals necessary to approve the action, and (c) the time by which ballots must be received in order to be counted. The form of written ballot shall afford an opportunity to specify a choice between approval and disapproval of each matter and shall provide that, where the Member specifies a choice, the vote shall be cast in accordance therewith. Receipt within the time period specified in the solicitation of a number of ballots which equals or exceeds the quorum which would be required if the action were taken at a meeting and a number of approvals which equals or exceeds the number of votes which would be required for approval if the action were taken at a meeting at which the total number of votes cast was the same as the total number of ballots cast shall constitute approval by written ballot.

Section 3.09. 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

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present either in person or by proxy, and if, either before or after the meeting, each of the Members not present in person or by proxy, signs a written waiver of notice, or a consent to the holding of such meeting, or an approval of the minutes thereof. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Section 3.10. Minutes, Presumption of Notice. Minutes or a similar record of the proceedings of meetings of Members, when signed by the President or Secretary, shall be presumed truthfully to evidence the matters set forth therein. A recitation in the minutes of any such meeting that notice of the meeting was properly given shall be prima facie evidence that such notice was given.

ARTICLE IV

BOARD OF DIRECTORS

Section 4.01. Number and Qualification. 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 either be a resident Owner of a Lot in the Properties, or an agent of Declarant for so long as Declarant is entitled to add any of the Annexable Territory to the Properties without the vote of the Members pursuant to the Declaration. The authorized number of Directors may be changed by a duly adopted amendment to the Bylaws. Directors shall 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 both the Class A and Class B voting power; provided, however, that (1) nothing herein contained shall be construed to preclude any Director from serving the Association in some other capacity and receiving compensation therefor, and (2) any Director may be reimbursed for his actual expenses incurred in the performance of such Directors' duties.

Section 4.02. Powers and Duties. The Board of Directors has the powers and duties necessary for the administration of the affairs of the Association and may do all such acts and things as are not by law or by these Bylaws directed to be exercised and done exclusively by the Members. The Board of Directors shall not enter into any contract for a term in excess of one (1) year, without the vote or written consent of the Members representing at least a majority of the voting power of the Association, except for (a) any contract with a public utility company if the rates charged for the materials or services are regulated by the California Public Utilities Commission; provided, however, that the terms of the contract shall

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not exceed the shortest term for which the supplier will contract at the regulated rate, (b) a management contract the terms of which have been approved by the Veterans Administration or the Federal Housing Administration, (c) 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, and (d) lease agreements for laundry room fixtures 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 lessor of such fixtures and equipment equal to or greater than ten percent (10%).

Section 4.03. 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 of Directors is vested with, and responsible for, the following powers and duties:

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

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

(c) The power but not the duty to change the principal office for the transaction of the business of the Association from one location to another 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 Article III, Section 3.02 hereof; and to adopt and use a corporate seal and to alter the form of such seal from time to time, as the Board, in its sole judgment, may deem best, provided that such seal shall at all times comply with the provisions of law.

(d) With the approval of Members representing at least two-thirds (2/3rds) of the voting power of the Association the power but not the duty to borrow money

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and to incur indebtedness for the purposes of the Association, and to cause to be executed and delivered therefor, in the Association's name, promissory notes, bonds, debentures, deeds of trust, mortgages, pledges, hypothecations or other evidences of debt and securities therefor.

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

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(f) The power and duty to enforce the provisions of the Declaration covering the Properties, these By-laws or other agreements of the Association.

(g) The power and duty to contract for and pay fire, casualty, errors and omissions, blanket liability, malicious mischief, vandalism, liquor liability and other insurance, insuring the Members, the Association, the Board of Directors and other interested parties, in accordance with the provisions of the Declaration, covering and protecting against such damages or injuries as the Board deems advisable (which may include without limitation, medical expenses of persons injured on the Common Area or Association Maintenance Areas). The Board shall review, not less frequently than annually, all insurance policies and bonds obtained by the Board on behalf of the Association.

(h) The power and duty to contract for and pay maintenance, gardening, utilities, materials and supplies, and services relating to the Common Area and Association Maintenance Areas and to employ personnel necessary for the operation of the Properties, including legal and accounting services, and to contract for 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 easements where necessary for utilities, sewer facilities and other public purposes over the Common Area to serve the Properties.

(k) The power and duty to adopt such Rules and Regulations as the Board may deem necessary for the management of the Properties, which Rules and Regulations shall become effective and binding after (1) they are adopted by a majority of the Board at a meeting called for that purpose, or by the written consent of the Board in accordance with Section 4.13, and (2) they are posted in a conspicuous place in the Common Area. 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 jurisdiction of the Association as provided in the Declaration; provided, however, that such Rules and Regulations shall be enforceable only to the extent that they are

consistent with the Declaration, the Articles of Incorporation and these Bylaws.

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

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

(n) The power but not the duty to sell property of the Association; provided, however, that the prior vote or written approval of Members entitled to cast at least two-thirds (2/3rds) of the voting power of the Association 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 budgeted gross expenses of the Association for that Fiscal Year.

Section 4.04. Management Agent. The Board of Directors may appoint a professional Manager for the Association at a compensation established by the Board to perform such duties and services as the Board shall authorize, including, but not limited to, the duties listed in Section 4.03 of this Article IV. Any management agreement or contract, and any contract providing for services by Declarant, must not be for a term greater than one (1) year and must provide for termination by either party for cause upon no more than thirty (30) days written notice, and without cause nor payment of a termination fee, upon no more than ninety (90) days prior written notice.

Section 4.05. Election and Term of Office.

(a) At the first annual meeting of the Members, and thereafter at each annual meeting of the Members, new Directors shall be elected by secret written ballot by the Owners as provided in these Bylaws, and all

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positions on the Board of Directors shall be filled at that election. 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 two (2) 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 one (1) year. At each annual meeting thereafter, new Directors shall be elected to fill vacancies created by the death, resignation, removal, judicial adjudication of 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 re-elected, and there shall be no limitation on the number of terms during which he may serve. Cumulative voting shall be used in the election of Directors for any election in which more than two (2) Directors are to be selected, subject only to the procedural prerequisites to cumulative voting in the following sentence. A Member may cumulate his votes for any candidate for the Board if the candidate's name has been placed in nomination prior to the voting and if such Member, or any other Member, has given notice at the meeting prior to the voting of such Member's intention to cumulate votes. If a Member cumulates his votes, such Member may give one or more candidate for Director a number of votes equal to the Member's share of the voting power as set forth in the Declaration, multiplied by the number of Directors to be elected.

(b) Notwithstanding the foregoing, whenever (1) notice is given for an election of Directors of the Board, (2) upon such date Declarant is either (i) entitled to exercise a Class B vote, or (ii) entitled to exercise a majority of the voting power of the Association and (3) upon such date the Members other than Declarant do not have a sufficient percentage of the voting power of the Association to elect a number of

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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 shall also provide for the following special election procedure. Election of Directors shall be first apportioned to the Members other than Declarant until the aggregate number of Directors on the Board elected by such Members other than Declarant represents at least twenty percent (20%) (though not less than one (1)) of the entire Board. Any resident Owner shall be an eligible candidate for the special election upon receipt by the Secretary of a Declaration of Candidacy, signed by the candidate, at any time prior to the election. Such election shall be by secret ballot unless a majority of the Members other than the Declarant determine otherwise. The person or persons receiving the greatest number of votes cast by the Members other than Declarant shall be elected to the Board in a co-equal capacity with all other Directors. The remaining Members on the Board shall be elected through the customary cumulative voting procedure outlined above.

Section 4.06 Books, Audit.

The following financial information shall be prepared and distributed by the Board 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 shall be distributed not less than 45 days nor more than sixty (60) days prior to the beginning of the Fiscal Year.

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

(2) The amount of the total cash reserves of the Association currently available for replacement or major repair of the Common Area and the Association Maintenance Areas and for contingencies.

(3) An itemized estimate of the remaining life of, and the methods of funding to defray 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.

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

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

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

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

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

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

(4) For any Fiscal Year in which the gross income to the Association 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.

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If the report referred to above is not prepared by an independent accountant, it shall be accompanied by the certificate of an authorized officer of the Association stating that the statement was prepared from the books and records of the Association without independent audit or review.

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

All books, records and papers of the Association shall be made available for inspection and copying by any Member, prospective purchaser of a Lot in the Properties, and any Beneficiary, insurer, and guarantor of a first Mortgage, or their duly appointed representatives at the principal office of the Association or at such other place within the Properties as the Board may prescribe. The Board shall establish reasonable rules with respect to (1) notice to be given to the custodian of the records by the Member desiring to make the inspection, (2) hours and days of the week when such an inspection may be made and (3) payment of the cost of reproducing copies of documents requested by a Member. Every Director shall have the absolute right at any reasonable time to inspect all books, records and documents of the Association, and the physical properties owned or controlled by the Association. A Director's right of inspection shall include the right to make extracts and copies of documents.

Section 4.07. Vacancies. Vacancies in the Board of Directors caused by any reason other than the removal of a Director by a vote of the Members of the Association shall be filled by vote of the majority of the remaining Directors, even though they may constitute less than a quorum. Any vacancy caused by the removal of a Director shall be filled by the vote of the Members. A vacancy shall be deemed to exist in case of death, resignation, removal or judicial adjudication of mental incompetence of any Director, or in case the Members fail to elect the full number of authorized Directors at any meeting at which such election is to take place. Any vacancy not filled by the Directors may be filled by vote of the Members at the next annual meeting of the Members or at a special meeting of the Members called for such purpose.

Section 4.08. 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:

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(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 total voting power of the Association (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 of Directors is not removed as a group pursuant to a single vote, no individual Director shall be removed if the number of votes cast against his removal would be sufficient to elect such Director if voted cumulatively at an election at which the same total number of votes were cast and the entire number of Directors authorized at the time of the Director's most recent election were then being elected. Any Director whose removal has been proposed by the Members shall be given an opportunity to be heard at the meeting. If any or all of the Directors are so removed at a meeting, new Directors may be elected at the same meeting. Notwithstanding the foregoing, any Director who has been elected to office solely by the votes of Members other than Declarant pursuant to Section 4.05(b) of this Article IV may be removed from office prior to the expiration of his term of office only by the vote of at least a simple majority of the voting power residing in Members other than Declarant.

Section 4.09. Organization Meeting of Board. The first regular ("organization") meeting of a newly elected Board of Directors shall be held within ten (10) days of election of the Board, at such place as shall be fixed and announced by the Directors at the meeting at which such Directors were elected, for the purpose of organization, election of officers and the transaction of other business. No notice shall be necessary to the newly elected Directors in order legally to constitute such meeting; provided that (1) a majority of the whole Board shall be present when the time and place are announced at the annual meeting and (2) 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.

Section 4.10. Regular Meetings of Board. Regular meetings of the Board of Directors shall be open to all Members; provided that Members who are not Directors may not participate in any deliberations or discussions at such regular meetings unless expressly so authorized by a vote of a majority of a quorum of the Board of Directors. Regular meetings may be held at such time and place within the Properties as shall be determined, from time to time, by a resolution adopted by a majority of a quorum of the Directors; provided, however, that such meetings shall be held no less frequently than quarterly. Notice of the time and place of regular meetings of the Board of Directors shall be given to each Director, personally or by

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mail, telephone or telegraph and posted at a prominent place or places within the Common Area at least four (4) days prior to the date named for such meeting.

Section 4.11. Special Meetings of Board. Special meetings of the Board of Directors shall be open to all Members; provided that Members who are not Directors may not participate in any deliberations or discussions at such special meetings, unless expressly so authorized by a vote of a majority of a quorum of the Board of Directors. Special meetings may be called by the President (or, if he is absent or refuses to act, by the Vice President) or by any two (2) Directors. At least four (4) days notice shall be given to each Director, personally or by mail, telephone or telegraph, which notice shall state the time, place (as hereinafter provided) and the purpose of the meeting, and posted at least four (4) days prior to such meeting at a prominent place or places within the Common Area. If served by mail, each such notice shall be sent, postage prepaid, to the address reflected on the records of the Association, and shall be deemed given, if not actually received earlier, at 5:00 o'clock p.m. on the second day after it is deposited in a regular depository of the United States mail as provided herein. Whenever any Director has been absent from any special meeting of the Board, an entry in the minutes to the effect that notice has been duly given shall be conclusive and incontrovertible evidence that due notice of such meeting was given to such Director, as required by law and as provided herein.

Section 4.12. Waiver of Notice. Before or at any meeting of the Board of Directors, any Director may, in writing, waive personal notice of such meeting and such waiver shall be deemed equivalent to the giving of such notice. Attendance by a Director at any meeting of the Board shall be a waiver of personal notice by him of the time and place thereof. If all the Directors are present at any meeting of the Board, no notice to Directors shall be required and any business may be transacted at such meeting. The transactions of any meeting of the Board, however called and noticed or wherever held, shall be as valid as though had at a meeting duly held after regular call and notice, if (1) a quorum be present, (2) notice to the Members of such meeting was posted as provided in Sections 4.10 and 4.11 of this Article IV, and (3) either before or after the meeting, each of the Directors not present signs such a written waiver of notice, a consent to holding such meeting, or an approval of the minutes thereof. All such waivers, consents and approvals shall be filed with the records of the Association or made a part of the minutes of the meeting.

Section 4.13. Action Without Meeting. Any action required or permitted to be taken by the Board may be taken without a

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meeting, if all Directors individually or collectively consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board. Such action by written consent shall have the same force and effect as a unanimous vote of such Directors. An explanation of any action taken by unanimous written consent without a meeting shall be posted by the Board in a prominent place or places in the Common Area within three (3) days after the written consents of all Directors have been obtained.

Section 4.14. Quorum and Adjournment. Except as otherwise expressly provided herein, at all meetings of the Board of Directors, a majority of the Directors shall constitute a quorum for the transaction of business, and the acts of the majority of the Directors present at a meeting at which a quorum is present shall be the acts of the Board of Directors. If at any meeting of the Board of Directors, there is less than a quorum present, the majority of those present may adjourn the meeting from time to 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 a quorum of the Directors, adjourn a meeting and reconvene in executive session to discuss and vote upon personnel matters, litigation in which the Association is or may become involved and orders of business of a similar nature. The nature of any and all business to be considered in executive session shall first be announced in open session.

Section 4.15. Committees. The Board of Directors, by resolution, may from time to time designate such advisory and other committees as it shall desire, and may establish the purposes and powers of each such committee created. The resolution designating and establishing the committee shall provide for the appointment of its members, as well as a chairman, shall state the purposes of the committee, and shall provide for reports, termination, and other administrative matters as deemed appropriate by the Board.

ARTICLE V

OFFICERS

Section 5.01. Designation. The principal officers of the Association shall be a President, a Vice President, a Secretary, and a Treasurer, all of whom shall be elected by the Board of Directors. The Board of Directors may appoint an Assistant Treasurer and an Assistant Secretary, and such other officers as in their judgment may be necessary. Officers other than the President need not be Directors. One Person may hold more than one office.

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Section 5.02. Election of Officers. The officers of the Association shall be elected annually by the Board of Directors at the Organization Meeting of each new Board of Directors, and each officer shall hold his office at the pleasure of the Board of Directors, until he shall resign or be removed or otherwise disqualified to serve or his successor shall be elected and qualified to serve.

Section 5.03. Removal of Officers. Upon an affirmative vote of a majority of the entire Board of Directors, any officer may be removed, either with or without cause, and his successor elected at any regular meeting of the Board of Directors, or at any special meeting of the Board of Directors called for such purpose. Any officer may resign at any time by giving written notice to the Board or to the President or Secretary of the Association. Any such resignation shall take effect at the date of receipt of such notice or at any later time specified therein; and unless otherwise specified in said notice, acceptance of such resignation by the Board shall not be necessary to make it effective.

Section 5.04. Compensation. Officers, agents, and employees shall receive such reasonable compensation for their services as may be authorized or ratified by the Board; provided, however, that no officer shall receive any compensation for services performed in the conduct of the Association's business unless such compensation is approved by the vote or written consent of Members representing at least a majority of the voting power of the Association; and provided further that (1) nothing herein contained shall be construed to preclude any officer from serving the Association in some other capacity and receiving compensation therefor, and (2) any officer may be reimbursed for his actual expenses incurred in the performance of his duties. Appointment of any officer, agent, or employee shall not of itself create contractual rights of compensation for services performed by such officer, agent, or employee. Notwithstanding the foregoing, no officer, employee or director of Declarant or any affiliate of Declarant may receive any compensation.

Section 5.05. President. The President shall be the chief executive officer of the Association. He shall preside at all meetings of the Association and of the Board of Directors. He shall have all of the general powers and duties which are usually vested in the office of the President of a corporation, including but not limited to the power, subject to the provisions of Article IV, Section 4.15, to appoint committees from among the Members from time to time as he may in his discretion decide is appropriate to assist in the conduct of the affairs

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disburse the funds of the Association as may be ordered by the Board of Directors, in accordance with the Declaration, shall render to the President and Directors, upon request, an account of all of his transactions as Treasurer and of the financial conditions of the Association, and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or these Bylaws. The Treasurer shall sign all checks and promissory notes.

ARTICLE VI

OBLIGATIONS OF MEMBERS

Section 6.01. Assessments.

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

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

Section 6.02. Maintenance and Repair.

(a) Every Member must perform promptly, at his sole cost and expense, such maintenance and repair work on his Lot as is required under the provisions of the Declaration. As further provided in the Declaration, all plans for alterations and repair of Improvements on the Lots within the Properties must receive the prior written consent of the ARC. The ARC shall establish reasonable procedures for the granting of such approval, in accordance with the Declaration.

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

ARTICLE VII

AMENDMENTS TO BYLAWS

Amendment of these Bylaws shall require the vote or written consent of both (1) at least a majority of the total voting

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power of the Association, and (2) at least a majority of the voting power of the Association residing in Members other than the Subdivider ("Declarant") of the Properties. In addition to the foregoing, as long as there exists more than one class of membership, amendment of these Bylaws shall require the vote or written consent of at least a majority of the voting power of each class of Members; provided that the specified percentage of each class of the Members necessary to amend a specific Section or provision of these Bylaws shall not be less than the percentage of affirmative votes prescribed for action to be taken under that Section or provision; and provided further, that these Bylaws may be amended by a majority of the entire Board, at any time prior to the Close of Escrow for the sale of the first Lot. The prior written approval of Beneficiaries of seventy-five percent (75%) of all first Mortgages on Lots in the Properties must be secured before any material amendment to these Bylaws affecting matters delineated in Article XIII and Section 16.05 of the Declaration may take effect, and this sentence may not be amended without such prior written approval. Notwithstanding the foregoing, if a first Mortgagee who receives a written request from the Board to approve a proposed amendment or amendments to the Bylaws does not deliver a negative response to the Board within thirty (30) days of the mailing of such request by the Board, such first Mortgagee shall be deemed to have approved the proposed amendment or amendments. So long as there exists a Class B Membership, any amendment of these Bylaws shall require the approval of VA and FHA.

ARTICLE VIII

MORTGAGEES

Section 8.01. Notice to Association. Upon request, a Member who mortgages his Lot shall notify the Association through the Manager, or through the Secretary if there is no Manager, the name and address of his Mortgagee; and the Association shall maintain such information in a book entitled "Mortgagees of Lots." Upon request, any such Member shall likewise notify the Association as to the release or discharge of any such Mortgage.

Section 8.02. Notice of Unpaid Assessments. The Board of Directors of the Association shall at the request of a Mortgagee of a Lot report any unpaid assessments due from the Owner of such Lot, in accordance with the provisions of the Declaration.

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ARTICLE IX

CONFLICTING PROVISIONS

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

ARTICLE X

INDEMNIFICATION OF DIRECTORS AND OFFICERS

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

ARTICLE XI

MISCELLANEOUS

Section 11.01. Execution of Documents. Subject to the provisions of Sections 5.05 and 5.08 hereof. The Board of Directors, except as in these Bylaws otherwise provided, may authorize any officer or agent to enter into any contract or execute any instrument in the name and on behalf of the Association, and such authority may be general or confined to specific instances; and unless so authorized by the Board of Directors, no officer, agent, committee member, or employee shall have any power or authority to bind the Association by any contract or engagement or to pledge its credit or to render it liable for any purpose or in any amount.

Section 11.02. Inspection of Bylaws. The Association shall keep in its office for the transaction of business the original or a copy of these Bylaws as amended or otherwise altered to date, certified by the Secretary, which shall be open to inspection by the Members and all Beneficiaries, insurers, and guarantors of first Mortgages in accordance with Section 4.06 hereof.

Section 11.03. Fiscal Year. The Fiscal Year of the Association shall be determined by the Board of Directors, and having been so determined, is subject to change from time to time as the Board of Directors shall determine.

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Section 11.04. Membership Book. The Association shall keep and maintain in its office for the transaction of business a book containing the name and address of each Member. Termination or transfer of ownership of any Lot by a Member shall be recorded in the book, together with the date on which such ownership was transferred, in accordance with the provisions of the Declaration.

ARTICLE XII

NOTICE AND HEARING PROCEDURE

Section 12.01. Suspension of Privileges. In the event of an alleged violation of the Declaration, these Bylaws or the Rules and Regulations of the Association, and after written notice of such alleged failure is delivered personally or mailed to the Member or any agent of the Member ("respondent") alleged to be in default in the manner herein provided, by first-class mail or by certified mail return receipt requested, or both, the Board of Directors shall have the right, after affording the respondent an opportunity for an appropriate hearing as herein-after provided, and upon an affirmative vote of a majority of all Directors on the Board, to take any one or more of the following actions: (1) levy a Special Assessment as provided in the Declaration; (2) suspend or condition the right of said Member to use any recreational facilities owned, operated or maintained by the Association, as provided in the Declaration; (3) suspend said Member's voting privileges as a Member, as further provided in the Declaration; (4) enter upon a Lot to make necessary repairs or to perform maintenance which, according to the Declaration, is the responsibility of the Owner of such Lot; or (5) record a notice of noncompliance encumbering the Lot of the respondent. Any such suspension shall be for a period of not more than thirty (30) days for any noncontinuing infraction, but in the case of a continuing infraction (including nonpayment of any assessment after the same becomes delinquent) may be imposed for so long as the violation continues. The failure of the Board to enforce the Rules and Regulations of the Association, these Bylaws or the Declaration shall not constitute a waiver of the right to enforce the same thereafter. The remedies set forth above and otherwise provided by these Bylaws shall be cumulative and none shall be exclusive. However, any individual Member must exhaust all available internal remedies of the Association prescribed by these Bylaws, or by the Rules and Regulations of the Association, before that Member may resort to a court of law for relief with respect to any alleged violation of the Declaration, these Bylaws or the Rules and Regulations of the Association by another Member, provided that the foregoing limitation pertaining to exhausting administrative remedies shall not apply to the Board or to any Member

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where the complaint alleges nonpayment of Annual Assessments, Special Assessments, Capital Improvement Assessments or Reconstruction Assessments.

Section 12.02. Written Complaint. A hearing to determine whether a right or privilege of the respondent under the Declaration or these Bylaws should be suspended or conditioned, or whether a Special Assessment should be levied, shall be initiated by the filing of a written Complaint by any Member or by any officer or member of the Board of Directors with the President of the Association or other presiding member of the Board. The Complaint shall constitute a written statement of charges which shall set forth in ordinary and concise language the acts or omissions with which the respondent is charged, and a reference to the specific provisions of the Declaration, these Bylaws or the Rules and Regulations of the Association which the respondent is alleged to have violated. A copy of the Complaint shall be delivered to the respondent in accordance with the notice procedures set forth in the Declaration, together with a statement which shall be substantially in the following form:

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

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

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

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Section 12.03. Notice of Hearing. The Board shall serve a notice of hearing, as provided herein, on all parties at least ten (10) days prior to the hearing, if such hearing is requested by the respondent. The hearing shall be held no sooner than thirty (30) days after the Complaint is mailed or delivered to the respondent as provided in Section 12.02 of this Article XII. The notice to the respondent shall be substantially in the following form but may include other information:

"You are hereby notified that a hearing will be held before the Board of Directors of the Desert Hills Homeowners Association at _____

on the _____ day of _____, 19____, 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."

Section 12.04. Hearing. The hearing shall be held before the Board in executive session pursuant to this notice affording the Member a reasonable opportunity to be heard. Prior to the effectiveness of any sanction hereunder, proof of notice, and the invitation to be heard shall be placed in the minutes of the meeting. Such proof shall be deemed adequate if a copy of the notice together with a statement of the date and manner of delivery is entered by the officer or Director who mailed or delivered such notice. The notice requirement shall be deemed satisfied if a violator appears at the meeting. The minutes of the meeting shall contain a written statement of the results of the hearing and the sanction, if any, imposed. No action against the Member arising from the alleged violation shall take effect prior to the expiration of (a) fifteen (15) days after the Member's receipt of the notice of hearing, and (b) five (5) days after the hearing required herein.

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CERTIFICATE OF SECRETARY

I, the undersigned, do hereby certify that:

1. I am the duly elected and acting Secretary of DESERT HILLS HOMEOWNERS ASSOCIATION, a California nonprofit corporation ("Association"); and

2. The foregoing Bylaws, comprising 26 pages including this page, constitute the Bylaws of the Association duly adopted at a special meeting of the Board of Directors of the Association held on November 30, 1984

IN WITNESS WHEREOF, I have hereunto subscribed my hand and affixed the seal of the Association this 12th day of December, 1984.

Louise Hellman
Secretary

(SEAL)

EXHIBIT "C"

DRAWING SHOWING LOCATION OF EXCLUSIVE
USE COMMON AREA PARKING SPACES IN PHASE 1

There are no Exclusive Use Common
Areas in Phase 1.

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EXHIBIT "D"

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LEGAL DESCRIPTION OF ANNEXABLE TERRITORY

Lots 1 to 44, inclusive, of Tract 26818, as shown on a Subdivision Map Recorded on June 15, 1983, in Book 1018, Pages 37 to 40, inclusive, of Maps, in the Office of the Los Angeles County Recorder, California.

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