

BYLAWS OF
EDINBURGH COMMUNITY ASSOCIATION, INC.

ARTICLE I

Plan of Ownership

Section 1.1. Applicability. These Bylaws provide for the governance of Edinburgh Community Association, Inc., a Virginia nonstock corporation (the "Association"). Capitalized terms used herein without definition shall have the meanings specified for such terms in the Articles of Incorporation of the Association (the "Articles") or in the Declaration of Protective Covenants Restrictions dated March 29, 2004, made by PRECON DEVELOPMENT CORPORATION, INC., a Virginia corporation, and EDINBURGH LAND ASSOCIATES, LLC, a Virginia limited liability company, and recorded in the Clerk's Office of the Circuit Court of the City of Chesapeake, Virginia (the "Clerk's Office"), as the same may hereafter be amended, supplemented or restated (collectively referred to as the "Declaration"). As used herein, "Developer" shall mean the Declarant as named in the Declaration and its successors and assigns.

Section 1.2. Compliance. Every Owner and all those entitled to occupy a Lot or Parcel shall comply with these Bylaws.

Section 1.3. Office. The principal office of the Association shall be located at the Properties or at such other place as may be designated from time to time by the Board of Directors.

ARTICLE II

Membership

Section 2.1. Membership. Every Owner of a Lot or Parcel shall be a Member of the Association. Membership shall be appurtenant to, and shall not be separated from, ownership of any Lot or Parcel. Upon the recordation in the Clerk's Office of a deed to a Lot or Parcel, the membership of the selling Owner shall cease and the purchasing Owner shall become a Member of the Association.

Section 2.2. Classes of Members. There shall be two classes of Members of the Association.

Class A. All Owners of Lots and Parcels, including Developer, shall be Class A Members.

Class B. Developer shall be the Class B Member. The Class B membership shall terminate upon the earlier of (i) the date on which the Developer ceases to own twenty-five percent (25%) or more of the land (including undeveloped Lots and Parcels) lying within Edinburgh and the

Additional Property described in Exhibit B of the Declaration, (ii) the date on which the Developer executes and records in the Clerk's Office an amendment to the Declaration terminating the Class B membership, or (iii) on April 1, 2015.

Section 2.3. Voting Rights.

(a) Each Class A Member including Developer shall be entitled to cast one vote for each Lot and Parcel owned.

(b) Notwithstanding subsection (a) above, a Parcel Developer, as that term is defined in the Declaration, shall be entitled to cast the product of [3] Class A votes per acre multiplied by the acreage of the Parcel. If such product is other than a whole number, the product shall be adjusted upward to the nearest whole number.

(c) Developer as the Class B Member shall be entitled to cast three (3) votes for each Lot and Parcel owned.

(d) The Board of Directors may suspend the voting rights of any Member (except the Class B Member) during the period when any assessment due pursuant to the Declaration shall be past due, but upon payment in full of such assessment the voting rights of such Member shall be automatically restored.

ARTICLE III

Meetings of Members

Section 3.1. Annual Meetings. The annual meeting of Members of the Association shall be held on the first Monday in January of each year unless the same shall fall on a legal holiday, in which case the annual meeting shall be held on a weekday during January as set by the Board of Directors.

Section 3.2. Special Meetings.

(a) The President shall call a special meeting of the Association if so directed by resolution of the Board of Directors or upon a petition signed and presented to the Secretary by Owners holding not less than ten percent of the Class A membership votes. The notice of any special meeting shall state the time, date, place and purpose thereof. Only business within the purpose or purposes described on the notice of a special meeting shall be transacted at the meeting.

(b) Within ninety (90) days after the expiration of the Period of Developer Control, the Board of Directors shall call a special meeting of the Members of Association at which all of the Members of the Board of Directors appointed by the Developer shall resign and the Class A Members, including the Developer if the Developer owns one or more Lots or Parcels, shall thereupon elect successor Members of the Board of Directors.

Section 3.3. Place of Meetings. Meetings of the Members shall be held at the principal office of the Association or at such other suitable place as may be designated by the Board of Directors.

Section 3.4. Notice of Meetings. The Secretary shall mail to each Owner a notice of each annual or regularly scheduled meeting of the Association at least fourteen (14) but not more than sixty (60) days in advance of such meeting, stating the time, date, place and the purpose thereof. Notice of any other meeting shall be given at least seven (7) but not more than sixty (60) days prior to such meeting, stating the time, date, place and the purpose thereof. Notwithstanding the foregoing, notice of any meeting at which there shall be voted upon any amendment to the Articles, a plan of merger, a proposed sale of assets pursuant to Section 13.1-900 of the Virginia Code or the dissolution of the Association shall be given as required by Section 13.1-842 of the Virginia Code. The mailing or personal delivery of a notice of meeting in the manner provided in these Bylaws shall be considered service of notice.

Section 3.5. Adjournment of Meetings. If at any meeting of the Members a quorum is not present, Owners holding a majority of the votes who are present at such meeting in person or by proxy may adjourn the meeting to a time not less than forty-eight (48) hours after the time the original meeting was called. Notice of an adjournment of any meeting of the Association shall be posted on a community communications board or other conspicuous location and shall state the time, date and place for the meeting to be reconvened.

Section 3.6. Voting. Voting at all meetings of the Association shall be on the basis set forth in these Bylaws. Where the ownership of a Lot or Parcel is in more than one person, the person who shall be entitled to cast the vote appurtenant to such Lot or Parcel shall be the person (who may be the agent of the Owners) named in a certificate or proxy executed by all of the Owners of such Lot or Parcel and filed with the Secretary of the Association or, in the absence of such person from the meeting, the person entitled to cast the vote appurtenant to such Lot or Parcel shall be the person owning such Lot or Parcel who is present, unless otherwise provided in the certificate. If more than one person owning such Lot or Parcel is present, then such vote shall be cast only in accordance with their unanimous agreement. Such certificate shall be valid until revoked by a subsequent certificate similarly executed. Such proxy shall be valid until revoked as set forth in Section 3.7. Wherever the approval or disapproval of an Owner is required by the Declaration, the Articles or these Bylaws, such approval or disapproval shall be made only by the person who would be entitled to cast the vote of such Lot or Parcel at any meeting of the Association. Except where a greater number is required by law, the Declaration, the Articles or these Bylaws, the Class B Member (so long as the Class B membership exists) and Owners holding more than one-half of the aggregate Class A membership votes present in person or by proxy at a duly convened meeting at which a quorum is present ("Majority of Owners") are required to adopt decisions at any meeting of the Association. If Developer owns or holds title to one or more Lot or Parcels, Developer shall have the right at any meeting of the Association to cast the Class A membership votes to which it is entitled as the owner of such Lot(s) or Parcel(s). Developer shall also have the right to cast the Class B membership vote so long as the Class B membership has not terminated. Developer, as a

Member of the Association, shall not be required to disqualify itself in any vote which may come before the Association upon any management contract or other agreement, lease or matter between Developer or any individual, partnership or corporation having an identity of interest with Developer and the Association.

Section 3.7. Proxies. A vote may be cast in person or by proxy. Proxies shall be duly executed in writing by one with authority to execute deeds pursuant to the requirements of Section 13.1-847 of the Virginia Code and must be filed with the Secretary before the appointed time of the meeting. Such proxy shall be deemed revoked only upon actual receipt of notice of revocation by the person presiding over the meeting from any of the persons owning such Lot or Parcel. Except with respect to proxies in favor of a Mortgagee (hereinafter defined), no proxy shall in any event be valid for a period in excess of eleven months after the execution thereof and, in any event, any proxy shall terminate automatically upon the adjournment of the first meeting held on or after the date of the proxy. Any proxy shall be void if it is not dated, if it purports to be revocable without notice as aforesaid, or if the signature of any of those executing the same has not been duly witnessed by a person who shall sign his full name and address.

Section 3.8 Quorum. Except as otherwise provided in these Bylaws, the presence in person or by proxy of the Class B Member (so long as the Class B membership exists) and Owners holding ten percent of the aggregate Class A membership votes shall constitute a quorum at all meetings of the Members of the Association.

Section 3.9 Conduct of Meetings. The President shall preside over all meetings of the Association, and the Secretary shall keep the minutes of the meeting, record in a minute book all resolutions adopted and keep a record of all other transactions occurring at the meeting.

ARTICLE IV

Board of Directors

Section 4.1. Number and Election. The affairs of the Association shall be managed under the direction of its Board of Directors. During the Period of Developer Control, the Board of Directors shall consist of three (3) directors, none of whom need be Members. During the Period of Developer Control, Developer shall have the right to appoint or remove any Member or Members of the Board of Directors. Within ninety (90) days after the expiration of the Period of Developer Control, the Board of Directors shall call a special meeting of the Members of the Association at which meeting all of the Members of the Board of Directors appointed by Developer shall resign and the Class A Members shall thereupon elect five (5) Members to the Board of Directors. Thereafter, nominations for election to the Board of Directors shall be made by a nominating committee, if such a committee is established by the Board of Directors, and may also be made from the floor. All candidates shall have a reasonable opportunity to communicate their qualifications to the Members and to solicit votes. The Board of Directors may adopt reasonable rules and regulations related to such communication and solicitation by candidates nominated by the nominating committee and by candidates nominated from the floor.

at the annual meeting.

Directors' terms shall be staggered. Therefore, at the first annual meeting held after the election of Directors upon expiration of the Period of Developer Control, all five (5) Board positions shall be eligible for election. The two (2) candidates receiving the highest number of votes shall serve for a term of three (3) years, the two (2) candidates receiving the next two highest number of votes shall serve for a term of two (2) years, and the candidate receiving the fifth (5th) highest number of votes shall serve for a term of one (1) year. Thereafter, each Director shall serve for a term of three (3) years.

Section 4.2. Powers and Duties. The Board of Directors shall have all of the powers and duties necessary for the administration of the affairs of the Association and may do all such acts and things as are by applicable law, the Declaration, the Articles or by these Bylaws required to be exercised and done by the Association. In addition to the duties imposed by these Bylaws or by any resolution of the Association that may hereafter be adopted, the Board of Directors on behalf of the Association shall have the power and duty to:

(i) Prepare an annual budget in which there shall be established the Annual Assessments of each Owner.

(ii) Make Annual Assessments and, to the extent permitted by the Declaration, special assessments against Owners to defray the costs and expenses of the Common Areas, establish the means and methods of collecting such assessments from the Owners and establish the period of the installment payments of the assessments. Unless otherwise determined by the Board of Directors and except as set forth in the Declaration, the regular assessment against each Lot or Parcel shall be payable in equal semi-annual installments, each such installment to be due and payable in advance on the first day of January and July of each year.

(iii) Provide for the operation, care, upkeep, maintenance and servicing of the Common Areas, Neighborhood Common Areas and Limited Common Areas.

(iv) Designate, hire and dismiss the personnel necessary for the operation, care, upkeep, maintenance and servicing of the Common Areas, Neighborhood Common Areas and Limited Common Areas, and, where appropriate, provide for the compensation of such personnel and for the purchase of equipment, supplies and material to be used by such personnel in the performance of their duties.

(v) Collect the assessments against the Owners, deposit the proceeds thereof in bank depositories designated by the Board of Directors or prudently invest the same (for which purpose the Board of Directors may retain an investment adviser, who shall not be an Owner) to the extent such proceeds are not immediately required, and use the proceeds to carry out the administration of the Association.

(vi) Adopt and amend any rules and regulations deemed necessary for the use,

benefit and enjoyment of the Common Areas, Neighborhood Common Areas, Limited Common Areas, and the Property; to establish fees for the use of Common Areas, Neighborhood Common Areas and Limited Common Areas; and to the extent authorized and provided by Section 55-513.A of the Property Owners' Association Act, as the same may be amended from time to time; provided, however, that no such rules and regulations so adopted shall be in conflict with the Declaration, the Articles or these Bylaws; and provided further that no such rules and regulations shall bind or be construed so as to impair in any manner the lien of any mortgage or deed of trust with respect to any Lot or Parcel and/or the Common Areas, Neighborhood Common Areas and Limited Common Areas.

- (vii) Open bank accounts on behalf of the Association and designate the signatories thereon.
- (viii) Make, or contract for the making of, repairs, additions and improvements to or alterations of the Common Areas, Neighborhood Common Areas and Limited Common Areas in accordance with the Declaration.
- (ix) Enforce by legal means the provisions of the Declaration, the Articles, these Bylaws and the rules and regulations promulgated pursuant thereto.
- (x) Obtain and carry insurance as provided in the Declaration and in Article IX of these Bylaws.
- (xi) Pay the cost of all authorized services rendered to the Association and not billed to Owners or otherwise provided for.
- (xii) Keep books with detailed accounts of the receipts and expenditures affecting the Association and the administration of the Common Areas, Neighborhood Common Areas and Limited Common Areas specifying the expenses of maintenance and repair of the Common Areas and any other expenses incurred. All books and records shall be kept in accordance with generally accepted accounting principles consistently applied (but may be on the cash method of accounting).
- (xiii) Acquire, hold and dispose of Lots or Parcels, Common Areas, Neighborhood Common Areas and Limited Common Areas.
- (xiv) Do such other things and acts not inconsistent with the Declaration, the Articles or these Bylaws which the Board of Directors may be authorized to do under applicable law or by a resolution of the Association.
- (xv) Subject to Section 10.4 of these Bylaws, grant permits, licenses and easements under, through and over the Common Areas for drainage, utilities, roads and access and other purposes which are reasonably necessary to the ongoing development and operation of the Properties.

(xvi) When it is authorized to do so as set forth in the Declaration, appoint members of the Architectural Review Board.

(xvii) Elect to have the Association treated as a "homeowner's association" within the meaning of Section 528 of the Internal Revenue Code of 1986, as amended.

Section 4.3. Organizational Meeting. The first meeting of the newly elected Board of Directors shall be held within ten (10) days of election at such place as shall be fixed by the directors at the meeting at which such directors were elected, and no notice shall be necessary to the newly elected directors in order legally to constitute such meeting, provided a majority of the whole Board shall be present. The sole purpose of the meeting shall be to elect officers.

Section 4.4. Regular Meetings. Regular meetings of the Board of Directors may be held at such time and place as shall be determined from time to time by a majority of the directors but at least two (2) such meetings shall be held during each fiscal year. Notice of regular meetings of the Board of Directors shall be given to each director, by mail or hand delivery, at least three business days before the day named for such meeting.

Section 4.5. Special Meetings. Special meetings of the Board of Directors may be called by the President on three (3) business days' notice to each director, given by mail or hand delivery, which notice shall state the time, date, place and purpose of the meeting. Special meetings of the Board of Directors shall be called by the President or Secretary in like manner and with like notice on the written request of at least two directors.

Section 4.6. Waiver of Notice. Any director may at any time, in writing signed by such director, waive notice of any meeting of the Board of Directors, and such waiver shall be deemed equivalent to the giving of such notice. Except in the circumstances described in Section 13.1-867B of the Virginia Code, attendance by a director at any meeting of the Board of Directors shall constitute a waiver of notice by him of the time, date, place and purpose of such meeting. If all directors are present at any meeting of the Board of Directors, no notice shall be required and any business may be transacted at such meeting.

Section 4.7. Quorum of Board of Directors. At all meetings of the Board of Directors a majority of the directors shall constitute a quorum for the transaction of business, and the vote of a majority of the directors present at a meeting at which a quorum is present shall constitute the decision of the Board of Directors. If at any meeting of the Board of Directors there shall be less than a quorum present, those present may adjourn the meeting from time to time. At any such adjourned meeting at which a quorum is present, any business which might have been transacted at the meeting originally called may be transacted without further notice.

Section 4.8. Compensation. No director shall receive any compensation from the Association for acting as such; however, the Board of Directors may in its discretion authorize reimbursement to a director for actual expenses incurred.

Section 4.9. Conduct of Meetings. The President shall preside over all meetings of the Board of Directors and the Secretary shall keep a minute book of the Board of Directors recording therein all resolutions adopted by the Board of Directors and a record of all transactions and proceedings occurring at such meetings.

Section 4.10. Telephone Meetings. The Board of Directors may permit directors to participate in any meeting by, or conduct the meeting through the use of, any means of communication by which all directors participating may simultaneously hear each other during the meeting. A director participating in a meeting by this means is deemed to be present in person at the meeting. If a meeting is conducted by telephone conference or video conference or similar electronic means, at least two (2) Members of the Board shall be physically present at the meeting place included in the notice.

Section 4.11. Removal of Directors. Except with respect to directors appointed by Developer, at a special meeting of the Association duly called where the meeting notice states that the purpose, or one of the purposes, of the meeting is removal of the director, any one or more of the Members of the Board of Directors may be removed, with or without cause, by a majority vote of the Members and a successor may then and there be elected to fill the vacancy thus created for the remaining term of the director so removed or until the next annual meeting, whichever first occurs. A director whose removal has been proposed shall be given at least twenty-one (21) days' notice of the time, date, place and purpose of the meeting and shall be given an opportunity to be heard at the meeting.

Section 4.12. Vacancies on the Board of Directors. Vacancies on the Board of Directors occurring for any reason other than the removal of a director by vote of the Members, shall be filled by another Member upon a vote of the majority of the remaining directors, even though less than a quorum, at any meeting of the Board of Directors or, in the absence of any remaining directors, vacancies may be filled by the Developer. Each person so selected shall serve the unexpired portion of the term of the director being replaced. Notwithstanding the foregoing, Developer shall fill all vacancies in the Board of Directors arising before the termination of the Period of Developer Control.

Section 4.13. Managing Agent.

(a) Employment of Management Agent. The Board of Directors may employ for the Association a "Managing Agent" at a compensation to be established by the Board of Directors. The Developer or an affiliate of the Developer may be employed as Managing Agent. Any agreement with a Managing Agent shall be for a term not exceeding two (2) years and must permit termination by either party with or without cause and without termination fee upon no more than 90 days written notice.

(b) Duties. The Managing Agent shall perform such duties and services as the Board of Directors shall authorize, which may include but are not limited to the duties listed in Section 4.2(i), (iii), (iv), (v), (viii), (ix), (x), (xi) and (xii) of these Bylaws. The Board of Directors

may delegate to the Managing Agent all of the powers granted to the Board of Directors by these Bylaws other than the powers set forth in Section 4.2(ii), (vi), (vii), (xiii), (xiv), (xv) and (xvi) of these Bylaws.

(c) Standards. The Board of Directors may impose appropriate standards of performance upon the Managing Agent.

(d) Liaison. The Board of Directors may designate one of its Members as liaison officer who shall be authorized to instruct and deal with the Managing Agent on any matter.

ARTICLE V

Committees

Section 5.1. Committees. The Board of Directors may create one or more committees and may appoint Members of the Board, officers of the Association or Members to such committees. Committees shall perform such tasks and serve for such periods as may be designated by resolution adopted by the Board. Each committee shall operate in accordance with the terms of the resolution of the Board of Directors designating such committee or with rules adopted by the Board. The provisions of these Bylaws which govern meetings, action without meetings, notice and waiver of notice, quorum and voting requirements of the Board of Directors shall apply to committees as well.

ARTICLE VI

Architectural Review

Section 6.1. Architectural Review Board. There shall be an Architectural Review Board of the Association as provided in the Declaration. The number of Members, the method of their appointment or election and their duties and powers shall be as set forth in the Declaration. The provisions of these Bylaws governing meetings, action without a meeting, notice and waiver of notice and quorum and voting of the Board of Directors shall apply to the Architectural Review Board as well.

ARTICLE VII

Officers

Section 7.1. Designation. The principal officers of the Association shall be the President, the Vice President, the Secretary and the Treasurer, all of whom shall be elected by the Board of Directors. After the Period of Developer Control, all officers shall be Members of the Association and Members of the Board of Directors.

Section 7.2. Election of Officers. The officers of the Association shall be elected annually by the Board of Directors at the organizational meeting of the Board of Directors required by

Section 4.3 and shall hold office (unless sooner removed) until the next annual meeting of the Board or until their replacements are elected.

Section 7.3. Removal of Officers. Any officer may be removed, either with or without cause, and a successor may be elected at any regular meeting of the Board of Directors or at any special meeting of the Board of Directors called for such purpose.

Section 7.4. President. The President shall be the chief executive officer of the Association, preside at all meetings of the Association and of the Board of Directors, and have all of the general powers and duties which are incident to the office of president of a corporation organized under the Virginia Nonstock Corporation Act.

Section 7.5. Vice President. The Vice President shall take the place of the President and perform the duties of the President whenever the President shall be absent or unable to act. If neither the President nor the Vice President is able to act, the Board of Directors shall appoint some other Member of the Board of Directors to act in the place of the President, on an interim basis. The Vice President shall also perform such other duties as shall from time to time be imposed upon him or her by the Board of Directors or by the President.

Section 7.6. Secretary. The Secretary shall keep the minutes of all meetings of the Association and of the Board of Directors; have charge of such books and papers as the Board of Directors may direct; maintain a register setting forth the place to which all notices to Owners and Mortgagees requesting notices shall be delivered; upon request by a conveying Owner, deliver statements of all unpaid assessments applicable to the Lot or Parcel to be conveyed; execute notices of delinquent assessments in accordance with the Declaration; execute notices of and releases of the lien for delinquent assessments as described in the Declaration and, in general, perform all the duties incident to the office of secretary of a corporation organized under the Virginia Nonstock Corporation Act.

Section 7.7. Treasurer. The Treasurer shall have the responsibility for Association funds and securities and shall be responsible for keeping full and accurate financial records and books of account showing all receipts and disbursements, and for the preparation of all required financial data, and be responsible for the deposit of all monies and other valuables in the name of the Board of Directors, the Association or the Managing Agent, in such depositories as may from time to time be designated by the Board of Directors; and, in general, perform all the duties incident to the office of treasurer of a corporation organized under the Virginia Nonstock Corporation Act.

Section 7.8. Compensation of Officers. No officer shall receive any compensation from the Association for acting as such; however, any officer may be reimbursed for actual expenses incurred by such officer.

ARTICLE VIII

Operation of the Property

Section 8.1. Fiscal Year. The fiscal year of the Association shall be the calendar year unless otherwise determined by the Board of Directors.

Section 8.2. Adoption of Budget and Establishment of Assessments. The Board of Directors shall adopt a budget (which shall include any proposed capital expenditures) for any fiscal year as set forth in the Declaration and shall establish the amount of the annual assessment for every Member subject thereto. The Board of Directors shall send written notice of each annual budget and assessment amount to every Member at least fifteen (15) days in advance of the meeting at which the budget shall be adopted. In adopting a budget, the Board of Directors shall provide for adequate reserves funds including a reserve for the deductible on physical damage insurance policies. The failure or delay of the Board of Directors to prepare or adopt a budget for any fiscal year after the initial budget is adopted shall not constitute a waiver or release in any manner of an Owner's obligation to pay his assessment as herein provided whenever the same shall be determined and, in the absence of any annual budget or adjusted budget, each Owner liable therefor shall continue to pay each periodic installment at the rate established for the previous fiscal year until notice of the periodic payment which is due more than ten (10) days after such new annual or adjusted budget shall have been delivered.

Section 8.3. Payment of Assessments. Each Owner liable therefor shall pay the assessments established by the Declaration and these Bylaws. No Owner shall be liable for the payment of any part of the assessment against his Lot or Parcel due subsequent to the date of recordation of a conveyance by him in fee of such Lot or Parcel to a successor Owner (except a conveyance as security for the performance of an obligation). Each Owner waives the benefit of the homestead exemption as to any assessments levied against either the Lot, the Parcel or the Owner. Each such assessment, together with the interest, late charges and costs of collection (including attorneys' fees) shall also be the personal obligation of the Owner at the time the assessment fell due. The Board may accelerate assessments for the remainder of the calendar year in the event an Owner fails to render [2] consecutive assessment installments.

Section 8.4. Collection of Assessments. The Board of Directors, or the Managing Agent at the request of the Board of Directors, may take action to collect any assessments due from any Owner. Each defaulting Owner shall also pay all costs of collection, including without limitation attorneys' fees, incurred in the collection of any unpaid assessment and shall also pay any expense incurred as a result of a check being returned to the Association without payment.

Section 8.5. Statement of Assessments and Access to Records. The Board of Directors shall promptly provide any Owner, contract purchaser or Mortgagee so requesting the same in writing with a written statement of the amount of the general and any special assessment levied against a Lot or Parcel and all unpaid assessments due from such Owner. The Association shall keep detailed records of its operation and administration and make the same available for inspection

as provided in Section 55-510 of the Virginia Code. The Association may impose and collect a charge, reflecting the actual cost of materials and labor, before providing copies of any books and records to a Member.

Section 8.6. Maintenance, Repair, Replacement and Other Expenses. The Association shall be responsible for such maintenance, repair and replacement of the Common Areas, Neighborhood Common Areas and Limited Common Areas as is set forth in the Declaration. Unless otherwise determined by the Board of Directors, all repairs and replacements shall be substantially similar to the original construction and installation and shall be of good quality. The method of approving payment vouchers for repairs and replacements performed by the Association shall be determined by the Board of Directors.

ARTICLE IX

Insurance

Section 9.1. General Requirements.

(a) Purchase of Insurance. All insurance policies relating to Common Areas, Neighborhood Common Areas and Limited Common Areas shall be purchased by the Association. Neither the Board of Directors, the Managing Agent nor the Developer shall be liable for failure to obtain any coverage required by the Declaration, by this Article IX or for any loss or damage resulting from such failure if such failure is due to the unavailability of such coverages from reputable insurance companies, or if such coverage is available only at unreasonable cost.

(b) Required Provisions in Policies. Each insurance policy for the Common Areas, Neighborhood Common Areas and Limited Common Areas shall provide that:

(i) The insurer waives any right to claim (A) by way of subrogation against the Developer, the Association, the Board of Directors, the Managing Agent or the Owners, and their respective lessees, and (B) invalidity arising from acts of the insured.

(ii) Such policy may not be canceled, not renewed or substantially modified without at least fifteen (15) days prior written notice of the Association and the Managing Agent, and in the case of physical damage and fidelity insurance, to all Owners and Mortgagees and mortgage loan servicers.

(c) Developer. The Developer, so long as Developer shall own any Lot or Parcel, shall benefit from all such policies in the same manner as other Owners, in addition to any other capacity specified herein.

(d) Insurance Companies. All policies of insurance shall be written by reputable companies licensed to do business in the Commonwealth of Virginia and, in the case of the physical

damage insurance, holding a rating of B/III or better by Best's Insurance Reports.

Section 9.2. Physical Damage Insurance.

(a) All Risk Coverage. The Association shall obtain and maintain a policy of insurance against fire and such other hazards within the meaning of "all risk" insuring the improvements to the Common Areas, Neighborhood Common Areas and Limited Common Areas (including fixtures and building service equipment and personal property), naming the Association as insured for the use and benefit of all Owners in an amount equal to not less than 100% of the then current replacement cost of the improvements to the Common Areas, Neighborhood Common Areas and Limited Common Areas (exclusive of land, excavations, foundations and other items usually excluded from such coverage), such amount to be redetermined annually by the Board of Directors with the assistance of the insurance company affording such coverage. Any deductible shall not exceed the lesser of \$10,000 or 1% of the amount of coverage and such deductible shall be considered in establishing the level of reserves.

(b) Required Provisions. Such policy shall also provide (unless otherwise provided):

(i) A waiver of any right of the insurer to repair, rebuild or replace any damage or destruction, if a decision is made not to do so.

(ii) The following endorsements (or equivalent) if applicable and available: (A) "contingent liability from operation of building laws", "demolition cost" and "increased cost of construction", (B) "agreed amount" or its equivalent and "inflation guard," and (C) "steam boiler and machinery coverage" within minimum liability per accident of not less than the lesser of the insurable value of the building housing the boiler or machinery or \$2,000,000.

(iii) That any "no other insurance" clause expressly excludes individual Owners' policies from its operation so that the physical damage policy purchased by the Board of Directors shall be deemed primary coverage and any individual Owners' policies shall be deemed excess coverage, and in no event shall the insurance coverage obtained and maintained by the Board of Directors hereunder provide for or be brought into contribution with insurance purchased by individual Owners or their Mortgagees, unless otherwise required by law.

(c) Delivery of Policies to Mortgagees. A duplicate original of the policy of physical damage insurance, all renewals thereof, and any subpolicies or certificates and endorsements issued thereunder together with proof of payment of premiums shall be delivered by the insurer at least ten days prior to the expiration of the then current policy to any Mortgagee requesting the same.

(d) Prohibited Provisions. The Association shall not obtain a policy where (i) under the terms of the carrier's charter, bylaws or policy, contributions or assessments may be made against any Owner or Mortgagee or mortgage loan servicer or become a lien on the Properties; or

(ii) by the terms of the carrier's charter, bylaws or policy, loss payments are contingent upon action by the carrier's board of directors, policyholders or Members; or (iii) the policy includes any limiting clauses (other than insurance conditions) which could prevent the Association from collecting insurance proceeds.

Section 9.3. Liability Insurance. The Association shall obtain and maintain comprehensive general public liability and property damage insurance in such limits as the Board of Directors may from time to time determine (but not less than \$1,000,000 for bodily injury or property damage), insuring the Association, each Member of the Board of Directors, the Managing Agent, each Owner and the Developer against any liability to the public or to the Owners (and their invitees, agents and employees) arising out of, or incident to the ownership and/or use of the Common Areas, Neighborhood Common Areas and Limited Common Areas and other areas (if any) under the supervision of the Association including, to the extent applicable and available: host liquor liability, elevator collision liability, comprehensive automobile liability, contractual liability, garage keeper's liability and bailee's liability. Such insurance shall be issued on a comprehensive liability basis and shall contain a "severability of interest" endorsement which shall preclude the insurer from denying liability because of negligent acts of the Association or of another Owner. The Board of Directors shall review such limits once each year. "Umbrella" liability insurance in excess of the primary limits may also be obtained.

Section 9.4. Other Insurance. The Association shall obtain and maintain:

(i) Fidelity coverage to protect against dishonest acts on the part of officers, directors, employees and agents (including the Managing Agent) of the Association and all others who handle, or are responsible for handling, funds of the Association. Such fidelity bonds shall: (A) name the Association as an obligee; B) be written in an amount to cover the maximum funds that will be in the custody of the Association or the Managing Agent at any time and in any event not less than three (3) months' aggregate assessments on all Lots or Parcels plus reserves; and (C) contain waivers of any defense based upon the exclusion of persons who serve without compensation from any definition of "employee" or similar expression;

(ii) Workmen's compensation and employer's liability insurance if and to the extent necessary to meet the requirements of law and which, if carried, shall name the Managing Agent as an additional insured; and

(iii) Such other insurance as the Board of Directors may determine or as may be requested from time to time by Owners of a majority of the Lots and Parcels.

Section 9.5. Separate Insurance by Owners. Each Owner shall have the right and responsibility, at his own expense, to obtain insurance for his own Lot or Parcel and improvements thereon and for his own benefit; provided, however, that no Owner shall be entitled to exercise his right to obtain such insurance coverage so as to decrease the amount which the Association, on behalf of all Owners, may realize under any insurance policy maintained by the Association or to cause any insurance coverage maintained by the Association to be brought into contribution with

insurance coverage obtained by an Owner. Each Owner shall obtain liability insurance with respect to his Lot or Parcel in the amount of at least \$100,000. All such policies shall contain waivers of subrogation as against the Association and its Board of Directors, the Developer and the Managing Agent, and their respective agents and employees. No Owner shall obtain separate insurance policies in conflict with this Section 9.5.

Section 9.6. Board of Directors as Agent. The Board of Directors is hereby irrevocably appointed the agent and attorney-in-fact for each Owner, each Mortgagee, other named insureds and their beneficiaries and any other holder of a lien or other interest in the Property to adjust and settle all claims arising under insurance policies purchased by the Association and to execute and deliver releases upon the payment of claims and to pursue and settle all claims arising out of the taking by way of eminent domain of any of the Common Areas, Neighborhood Common Areas and Limited Common Areas.

ARTICLE X

Mortgages

Section 10.1. Notice to Board of Directors. An Owner who acquires a Lot or Parcel shall promptly notify the Board of Directors of his name and address. Any holder or beneficiary of a mortgage or deed of trust on a Lot or Parcel (a "Mortgagee") may give written notice to the Association of its name and address and the address of the Lot or Parcel to which its mortgage applies.

Section 10.2. Notice of Default, Casualty or Condemnation. Upon request, the Association shall give notice to any Mortgagee of a default in paying an assessment or any other default with respect to that Mortgagee's Lot or Parcel which has not been cured within 60 days.

Section 10.3. Other Rights of Mortgagees. Upon request, any Mortgagee shall be entitled to receive written notice of meetings of the Association, and all Mortgagees or their designees shall be entitled to attend meetings of the Association and shall have the right of a Member to speak at such meetings. All Mortgagees shall have the right of a Member to examine the books and records of the Association.

Section 10.4. Mortgagees' Approvals. Unless two-thirds of the Mortgagees holding first liens on Lots and Parcels (voting on the basis of one vote for each Mortgage owned) or two-thirds of the Owners (other than Developer) of Lots and Parcels, have given their prior written approval, the Association shall not be entitled to do any of the following:

(i) By act or omission materially change, waive or abandon any scheme of regulations or their enforcement pertaining to the architectural design or the exterior appearance of Lot or Parcels, the maintenance of the Common Areas, Neighborhood Common Areas and Limited Common Areas and the upkeep of lawns and plantings in the Properties; or

(ii) Change the method of determining the obligations, assessments, dues or other charges that may be levied against an Owner of a Lot or Parcel;

(iii) By act or omission, seek to abandon, partition, subdivide, mortgage, sell or transfer the Common Areas, Neighborhood Common Areas and Limited Common Areas (except that the granting of easements for public utilities or for other public purposes consistent with the intended use of the Common Areas, Neighborhood Common Areas and Limited Common Areas shall not be deemed a transfer within the meaning of this clause);

(iv) Use hazard insurance proceeds for losses to any portion of the Common Areas for other than the repair, replacement or reconstruction of the Common Areas, Neighborhood Common Areas and Limited Common Areas; or

(v) Fail to maintain fire and extended coverage on insurable Common Areas, Neighborhood Common Areas and Limited Common Areas on a current replacement cost basis in an amount at least equal to 100% of the insurable current replacement cost.

Section 10.5. Payment of Charges. First Mortgagees of Lot or Parcels may:

(i) jointly or singly pay taxes or other charges that are in default and that may have become charges against the Common Areas, Neighborhood Common Areas and Limited Common Areas; and

(ii) pay overdue premiums on hazard insurance policies or secure new hazard insurance coverage for the Common Areas, Neighborhood Common Areas and Limited Common Areas in case of lapse of a policy.

First Mortgagees making such payments are due immediate reimbursement from the Association, and upon request by a First Mortgagee the Association shall execute an agreement reflecting the foregoing in favor of all first Mortgagees of Lots and Parcels.

ARTICLE XI

Miscellaneous

Section 11.1. Notices. All notices, demands, requests, statements or other communications under these Bylaws shall be in writing and shall be either delivered in person or if sent by U.S. First Class mail, postage prepaid, (i) if to an Owner, at the address which the Owner shall designate in writing and file with the Secretary or, if no such address is designated, at the address of the Lot or Parcel of such Owner, or (ii) if to the Association, c/o United Property Associates, 525 S. Independence Boulevard, Suite 200, Virginia Beach, VA 23452, with a copy to Elizabeth L. White, Esquire, Kaufman & Canoles, 4801 Courthouse Street, Suite 300, Williamsburg, Virginia 23188, or at such other address as shall be designated by notice in writing to the Owners pursuant to this Section, or (iii) if to a Mortgagee, to the address provided by the Owner or to such other address as

the Mortgagee may specify by written notice to the Association. All such notices, demands, requests, statements or other communications shall be deemed to have been given upon the earlier of (i) delivery at the appropriate address above, whether in person, by express courier or by mail or (ii) three days after the postmark date of mailing. Rejection or other refusal to accept shall not invalidate the effectiveness of any notice, demand, request, statement or other communication.

Section 11.2. Captions. The captions herein are inserted only as a matter of convenience and for reference, and in no way define, limit or describe the scope of these Bylaws or the intent of any provision thereof.

Section 11.3. Gender, Etc. The use of the masculine gender in these Bylaws shall be deemed to include the feminine and neuter genders and the use of the singular shall be deemed to include the plural, and vice versa, whenever the context so requires.

Section 11.4. Construction. These Bylaws are intended to comply with applicable laws and shall be so interpreted and applied. In the event of conflict between the Declaration or the Articles and these Bylaws, the Declaration or Articles shall control.

Section 11.5. Amendments. These Bylaws may be amended (i) by the Board of Directors during the Period of Developer Control and (ii) thereafter by a vote of at least two-thirds (2/3) of the Class A votes entitled to be cast by Members present at a duly convened meeting at which a quorum is present. For purposes of this Section 11.5, the presence in person or by proxy of Members entitled to cast 50% of the aggregate Class A Membership votes shall constitute a quorum; however, to the extent any such amendment would be inconsistent with the Declaration, such amendment shall be adopted in the same fashion as an amendment to the Declaration.

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