

ASSOCIATION, INC.

COVENANT ENFORCEMENT AND FINING POLICY

WHEREAS, Article VI, Section 1.P of the Consolidated and Amended Master Declaration of Covenants, Conditions, Restrictions, Easements, Charges and Liens for (the "Declaration") empowers the Board of Directors (the "Board") of Association, Inc. (the "Association") to promulgate and enforce rules which may include the establishment of a system of fines and/or penalties enforceable as a special individual assessment pursuant to Article V, Section 1.C of the Declaration; and

WHEREAS, the Board has established a Covenants Committee (the "Committee") pursuant to its authority under Article V, Section 5.1 of the Amended and Restated By-Laws of Association, Inc. (the "By-Laws"); and

WHEREAS, the Board has delegated to the Committee the authority to review, determine and enforce violations of the Association's governing documents (except as to architectural matters); and

WHEREAS, the Board has previously adopted an Architectural Control Violation Enforcement Policy which established certain procedures and systems for the enforcement of the architectural control provisions of the Declaration by the Master Architectural Review Committee (the "MARC") and the Modifications Committee (the "MC"); and

WHEREAS, the Board finds there is a need to establish orderly procedures for the enforcement of the provisions of the Declaration (other than the architectural control provisions) and the rules promulgated thereunder by the Board in order to encourage Owners to comply with the Association's governing documents; and

WHEREAS, the Board also desires to establish a system of fines as a means to enforce compliance with the Association's governing documents including, without limitation, the Declaration, By-Laws and rules promulgated thereunder; and

WHEREAS, this Policy is intended to replace and supersede all prior resolutions relating to the enforcement of violations of the Association's governing documents, save and except the Architectural Control Violation Enforcement Policy, which remains in full force and effect and shall control in matters involving violations of the architectural control provisions of the Declaration.

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NOW, THEREFORE, IT IS RESOLVED that the following systems, procedures and practices are established for the enforcement of the provisions of the Association's governing documents and for the elimination of violations of the Association's governing documents and the rules promulgated thereunder.

1. Establishment of Violation. Any condition, use or activity which does not comply with the provisions of the Declaration, By-Laws or the rules and regulations promulgated thereunder, shall constitute a "Violation" under this Policy for all purposes.

2. Report of Violation. The existence of a Violation will be verified by a field observation conducted by the Committee or its delegate. For the purpose of this Policy, the delegate of the Committee may include a member of the Committee or the management staff of the Association ("Management"). Management shall have no authority to act as the delegate of the Committee unless specifically authorized by the Committee. It is the intent of the Board that the Committee will, at a minimum, delegate to Management the enforcement of certain types of Violations of a routine nature specifically defined by the Committee. A timely written report shall be prepared by the field observer for each Violation which will include the following information:

a. Identification of the nature and description of the Violation(s).

b. Identification by street address and legal description, if available, of the Lot on which the Violation(s) exists or has occurred.

c. Identification of the authority establishing that the condition, use or activity constitutes a Violation.

d. Date of the verification observation and the name of the person making the observation.

3. Required Notices.

a. First Notice. As soon as practical after the discovery of a Violation, the Committee or its delegate shall notify the Owner and the violator, if different than the Owner, by first-class mail, that a Violation has occurred or exists (the "First Notice"). The First Notice shall contain the following information:

(i) the nature, description and location of the Violation(s);

(ii) the authority for establishing that the condition, use or activity constitutes a Violation;

required if the alleged violator has previously received a Second Notice relating to the same Violation within six (6) months of the occurrence of the current Violation.

4. Notice of Intended Correction. Where the Committee receives a Notice of Intended Correction within the allotted ten (10) day period, it will take the following actions:

a. If the Notice of Intended Correction specifies a time period which is acceptable to the Committee for the elimination or correction of the Violation(s), the Committee will confirm to the Owner the time frame for the intended corrective action and that no further action will be taken regarding the Violation until the expiration of that time period.

b. If the Notice of Intended Correction specifies a time period which, in its reasonable determination given the nature of the Violation, the Committee determines to be longer than necessary, the Committee will inform the Owner of that time frame which the Committee deems reasonably acceptable for the elimination or correction of the Violation, and that no further action will be taken regarding the Violation until the expiration of such time frame determined by the Committee. The Owner may, within ten (10) days of the receipt by the Owner of the Committee's determination on an acceptable time frame, present a written request to the Committee for a hearing.

5. Final Notice of Violation. A final notice of the Violation and the sanction to be imposed, including the amount of any fine (the "Notice of Violation") will be sent by the Committee or its delegate to the Owner by regular first-class mail and by certified mail, return receipt requested, under either of the two following situations:

a. Where, within ten (10) days from the date of receipt by the Owner of the Second Notice, either the Violation(s) has not been corrected or eliminated and the Committee or its delegate has not received a Notice of Intended Correction or a written request for a hearing; or

b. When the Committee has received a Notice of Intended Correction regarding the Violation, the Violation has not been corrected or eliminated by the expiration of the time frame acceptable to the Committee pursuant to the preceding Paragraph 4 and the Committee has not received a written request for a hearing.

6. Request for a Hearing. If the Owner challenges the proposed action by timely requesting a hearing, as provided hereinabove, the hearing shall be held in executive session of the Committee or its delegate affording the alleged violator a reasonable opportunity to be heard. Prior to the effectiveness of any sanction hereunder, proof of proper notice of the hearing shall

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(iii) a statement that if the Violation(s) is corrected or eliminated within ten (10) days from the receipt of the First Notice that no further action will be taken; and

(iv) a statement that the violator is welcome to attend a regular meeting of the Committee to informally discuss the Violation(s) prior to further action.

b. Second Notice. If the Owner fails to correct or eliminate the Violation(s) within the time period specified in the First Notice, the Committee or its delegate shall, as soon as practical thereafter, notify the Owner that the Violation(s) has not been corrected or eliminated (the "Second Notice"). The Second Notice shall contain the following information:

(i) the nature, description and location of the Violation(s);

(ii) the authority for establishing that the condition, use or activity constitutes a Violation;

(iii) the proposed sanction to be imposed, including the amount of the fine to be levied, if any;

(iv) notice that if the Violation(s) is corrected or eliminated within ten (10) days from the receipt of the Second Notice that no further action will be taken;

(v) notification that recipient may, within ten (10) days from the receipt of the Second Notice, deliver to the Board a written response (the "Notice of Intended Correction") in which a recipient commits to correct or eliminate the Violation in a specified time period;

(vi) notice that the Owner may present a written request for a hearing to the Committee or its delegate within ten (10) days of the Owner's receipt of the Second Notice; and

(vii) notice that if the Violation is not corrected or eliminated within ten (10) days from the receipt of the Second Notice, or if a Notice of Intended Correction is not delivered within ten (10) days from the receipt of the Second Notice, or if a written request for a hearing is not submitted within ten (10) days from the receipt of the Second Notice that the sanctions delineated in the Second Notice may be imposed.

c. Repeat Offenders. A First Notice shall not be

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, director, agent or delegate who delivered such notice. The notice requirement shall be deemed satisfied if the alleged 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 by the Committee or, in the case of a hearing held before a delegate of the Committee, the sanction recommended to be imposed. The Committee may accept or reject such recommendation or may impose an alternative sanction in its discretion. Notwithstanding the above, the Committee or its delegate may not impose fines exceeding Ten and No/100 Dollars (\$10.00) per day without the consent of the Board. Fines exceeding this amount must be submitted to the Board for approval. The Committee shall notify the Owner in writing of the results of the hearing within ten (10) days after the hearing. The Committee may, but shall not be obligated to, suspend any proposed sanction if the Violation is cured within the ten-day period. Such suspension shall not constitute a waiver of the right to sanction future Violations of the same or other provisions and rules by any Owner. Following a hearing before the Committee, the Owner shall have the right to appeal the decision to the Board. To perfect this right, a written notice of appeal must be received by the manager, president or secretary of the Association within ten (10) days after the date of the Committee's written notice to the Owner of the results of the hearing. Any hearing before the Board shall be held in the same manner as provided in this Paragraph 6 for hearing before the Committee or its delegate.

7. Correction of Violation. Where the Owner corrects or eliminates the Violation(s) prior to the imposition of any sanction, no further action will be taken (except for collection of any monies for which the Owner may become liable under this Policy and/or the Declaration). Written notice of correction or elimination of the Violation may be obtained from the Committee upon request for such notice by the Owner and upon payment of a fee for same, the amount of which is set by the Committee or its delegate with the approval of the president of the Association.

8. Corrective Action. Notwithstanding any other provision contained herein to the contrary, where a Violation is determined or deemed determined to exist, the Committee, with approval of the president of the Association, may undertake to cause the violation to be corrected, removed or otherwise abated by qualified contractors if the Committee, in its reasonable judgment, determines the Violation may be readily corrected, removed or abated without undue expense and without breach of the peace. Where the Committee or its delegate decides to initiate any action by qualified contractors, the following will apply:

- a. The Committee must give the Owner and any third

party that is known to the Association to be directly affected by the proposed action prior written notice of undertaking of the action.

b. Costs incurred in correcting or eliminating the Violation will be referred to the Association to be recovered from the Owner as a Special Individual Assessment pursuant to Article V, Section 1 of the Declaration.

c. The Association, and its agents and contractors, will not be liable to the Owner or any third party for trespass or any damages or costs alleged to arise by virtue of action taken under this Paragraph 8 where the Association and its agents and contractors have acted reasonably and in conformity with this Policy.

9. Referral to Legal Counsel. The Committee or its delegate may refer any Violation to legal counsel for appropriate action at any time the Committee or its delegate deems it to be in the best interests of the Association to do so. Such action may include the collection of any fine in accordance with the assessment collection policies and procedures of the Association. Any attorney's fees and related charges incurred by the Association in enforcing the Declaration shall become part of the Owner's assessment obligation which may be collected as a Special Individual Assessment pursuant to Article V of the Declaration.

10. Fines. The imposition of fines will be on the following basis:

a. Fines will be based on a lump sum or a per diem charge in an amount that is reasonably related to the nature of the Violation. The Committee or its delegate, with approval of the Chairman of the Committee, shall have final discretion in determining the appropriate fine for the Violation in question. The Committee may adopt and amend, from time to time, a schedule of fines applicable to Violations within Stonebridge Ranch which may include a progression of fines for repeat offenders. Notwithstanding the foregoing, the Committee may not impose fines in excess of Ten and No/100 Dollars (\$10.00) per day without the prior consent of the Board.

b. Imposition of fines will be in addition to and not exclusive of any other rights and remedies of the Association as created by the Declaration or this Policy.

c. Fines are imposed against the Lots and become the obligation of the Owners of such Lots. Upon presentation of outstanding fines to the Board for action, the same will be levied against the respective Lots and their Owners as Special Individual Assessments pursuant to Article V, Section 1 of the Declaration.

11. Notices.

a. Any notice required by this Policy to be given, sent, delivered or received in writing will, for all purposes, be deemed to have been given, sent, delivered or received, as the case may be, upon the earlier to occur of the following:

(i) where the notice is directed by personal delivery, upon actual receipt by any person accepting delivery thereof at the address of the recipient as set forth in such notice; or

(ii) where the notice is placed into the care and custody of the United States Postal Service, as of the third (3rd) calendar day following the date of postmark of such notice bearing postage prepaid and the most recent address of the recipient according to the records of the sending party.

b. Where a day reburied for an action to be taken or a notice to be given, sent, delivered or received, as the case may be, falls on a Saturday, Sunday or United States Postal Service holiday, the required date for the action or notice will be extended to the first day following which is neither a Saturday, Sunday or United States Postal Service holiday.

c. Where the Committee or Management, as the case may be, has actual knowledge that any action to be taken pursuant to this policy would directly affect the property of a third party or would be the responsibility of a party other than the Owner, notices required under this Policy will also be given to such third party in addition to the Owner. Notwithstanding any notice sent to a third party, the Owner remains the party responsible for compliance with the requirements of the Declaration. The Committee and/or Management shall accept a response from any such third party only upon the written direction of the Owner of the Lot upon which the Violation exists.

d. Where the interests of an Owner in a Lot have been handled by a representative or agent of such Owner or where an Owner has otherwise acted so as to put the Association on notice that its interest in a Lot has been and is being handled by a representative or agent, any notice or communication from the Association, the Committee or Management pursuant to this Policy will be deemed full and effective for all purposes if given to such representative or agent.

12. Cure of Violation During Enforcement. An Owner may correct or eliminate a Violation at anytime during the pendency of any procedure prescribed by this Policy. Upon verification that the Violation has been corrected or eliminated, the Violation will be deemed no longer to exist and the Second Notice voided. The

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Owner will remain liable for all costs and fines under this Policy, which costs and fines, if not paid upon demand, will be referred to the Board for collection as a Special Individual Assessment pursuant to Article V, Section 1.c of the Declaration.

Where an Owner transfers record title to a Lot at any time during the pendency of any procedure prescribed by this Policy, such Owner shall remain personally liable for all costs and fines under this Policy. As soon as practical after receipt by the Association of a notice of a change in the record title to a Lot which is the subject of enforcement proceedings under this Policy, the Committee or its delegate may begin enforcement proceedings against the new Owner in accordance with this Policy. The new Owner shall be personally liable for all costs and fines under this Policy which are the result of the new Owner's failure and/or refusal to correct or eliminate the Violation in the time and manner specified under this Policy.

13. Definitions. The definitions contained in the Declaration are hereby incorporated herein by reference.

IT IS FURTHER RESOLVED that this Policy replaces and supersedes in all respects all prior resolutions relating to the enforcement of violations of the Declaration, save and except the Architectural Control Violation Enforcement Policy, and is effective upon adoption hereof, to remain in force and effect until revoked, modified or amended.

This is to certify that the foregoing resolution was adopted by the Board of Directors at a meeting of same held on _____, 1998, and has not been modified, rescinded or revoked.

DATE: July 10, '98

Secretary