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BYLAWS OF THE THE GROVES AT MORRISVILLE

ARTICLE I

NAME AND LOCATION

The name of the corporation is THE GROVES AT MORRISVILLE, hereinafter referred to as the "Association". The principal office of the corporation shall be located at 110 Horizon Drive, Suite 100, Raleigh, North Carolina, but meetings of members and directors may be held at such places within the State of North Carolina, County of Wake as may be designated by the Board of Directors.

ARTICLE II

DEFINITIONS

Section 1. "Association" shall mean and refer to THE GROVES AT MORRISVILLE, a North Carolina non-profit corporation, its successors and assigns.

Section 2. "Board of Directors" or "Board" means those persons elected or appointed and acting collectively as the directors of the Association.

Section 3. "Bylaws" means the bylaws of the Association as they now or hereafter exist.

Section 4. "Declarant" shall mean and refer to Horizon Homes Incorporated, a North Carolina corporation, its successors and assigns, to whom the rights of Declarant are expressly transferred or if such successors or assigns should acquire more than one undeveloped lot or undeveloped acreage for the purpose of development, or acquire title to the property under a deed in lieu of foreclosure, judicial foreclosure, or foreclosure under power of sale contained in any deed of trust or one otherwise denominated a "Declarant" herein.

Section 5. "Declaration" shall mean and refer to the Declaration of Covenants, Conditions and Restrictions for THE GROVES AT MORRISVILLE Subdivision and amendments thereto, applicable to the Property and recorded in the Office of the Register of Deeds of Wake County, North Carolina.

Section 6. "Common area" shall mean and refer to all land within the Property owned by the Association for the common use and enjoyment of all members of the Association, along with facilities and improvements erected or constructed thereon, for the common use and

enjoyment of the members of the Association, including but not limited to private streets, greenways, lakes and recreational areas.

Section 7. "Lot" shall mean and refer to any plot of land, other than the common area shown on a recorded subdivision map of the Property, provided said map has been approved by the Declarant. The term shall also include condominium units.

Section 8. "Manager" shall mean and refer to the person employed by the Board of Directors as a professional manager, pursuant to the provisions of the Bylaws, to manage the affairs of the Association.

Section 9. "Member" shall mean and refer to every person entitled to membership as provided in the Declaration.

Section 10. "Owner" shall mean and refer to the record owner, whether one or more persons or entities, of a fee simple title to any lot which is a part of the Property, including contract sellers, but excluding those who have such interests merely as security for the performance of an obligation.

Section 11. "Person" shall mean and refer to any individual, corporation, partnership, association, trustee, or other legal entity.

Section 12. "Property" shall mean and refer to that certain real property conveyed to Declarant by deed of record in Book 7058, page 888, Wake County Registry and described in the Declaration, and such additions thereto as may hereafter be brought within the jurisdiction of the Association by annexation.

ARTICLE III

MEETING OF MEMBERS

Section 1. Annual Meetings. The first annual meeting of the members shall be held on or before March 15, 1998, on the date and at the time and place set forth by the Board of Directors in its rules and regulations, and each subsequent regular annual meeting of the members shall be held on the same day of the same month of each year thereafter, at the hour of 7:30 p.m., unless a different date and time is fixed by the Board of Directors.

Section 2. Special Meetings. Special meetings of the members may be called at any time by the president or by the Board of Directors, or upon written request of the members who are entitled to vote one-fourth (1/4) of all of the votes of the membership.

Section 3. Notice of Meetings. Written notice of each meeting of the members shall be given by, or at the direction of, the secretary or person authorized to call the meeting, by

mailing a copy of such notice, postage prepaid, at least thirty (30) days before such meeting to each member entitled to vote thereat, addressed to the member's address last appearing on the books of the Association, or supplied by such member to the Association for the purpose of notice. Such notice shall specify the place, day and hour of the meeting, and, in the case of a special meeting, the purpose of the meeting.

Section 4. Quorum. The presence at the meeting of members entitled to cast, or of proxies entitled to cast, one-tenth (1/10) of the votes of each class of membership shall constitute a quorum for any action except as otherwise provided in the Articles of Incorporation, the Declaration, or these bylaws. If, however, such quorum shall not be present or represented at any meeting, the members entitled to vote thereat shall have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum as aforesaid shall be present or be represented.

Section 5. Proxies. At all meetings of members, each member may vote in person or by proxy. All proxies shall be in writing and filed with the secretary. Every proxy shall be revocable and shall automatically cease upon conveyance by the member of his lot.

ARTICLE IV

BOARD OF DIRECTORS: SELECTION: TERM OF OFFICE

Section 1. Number. The affairs of this Association shall be managed by a Board of not fewer than three (3) nor more than fifteen (15) directors, who need not be members of the Association. The initial Board shall consist of three directors designated by the Declarant. The initial Directors shall serve until the first meeting of the Association.

Section 2. Term of Office. At or within ten (10) days after the first annual meeting, the members shall elect the number of Directors allowed herein. One-half (as near as may be) of the Directors so elected shall serve for a term of one (1) year and the remaining Directors elected shall serve for a term of two (2) years. The term of Directors, thereafter elected, shall be for two (2) years, except as otherwise provided therein. All directors shall serve until their successors have been duly elected and qualified.

Section 3. Removal. Any director may be removed from the Board, with or without cause, by a majority vote of the members of the Association. In the event of death, resignation or removal of a director, his successor shall be selected by the remaining members of the Board

and shall serve for the unexpired term of his predecessor.

Section 4. Proportional Representation. It shall be the duty of the Board of Directors serving at the time of conversion of Class B to Class A membership to prepare a plan of representation of the Board of Directors from the membership, whereby the various residential areas and types of residences shall be fairly represented by the Board of Directors of the Association. Thereafter, each Board of Directors may, prior to the annual meeting, adopt a new plan of representation as deemed necessary by each such Board to reflect approximate proportional representation of the various residential areas and types of residences.

Prior to each annual meeting, the Board shall determine and inform the Nominating Committee of the proportionate representation of each residential area and type of residence and the number of Directors to be elected from these, including any newly created Directorships.

Section 5. Compensation. No director shall receive compensation for any service he may render to the Association. However, any director may be reimbursed for his actual expenses incurred in the performance of his duties.

Section 6. Action Taken Without a Meeting. The directors shall have the right to take any action in the absence of a meeting which they could take at a meeting by obtaining the written approval of all of the directors. Any action so approved shall have the same effect as though taken at a meeting of the directors.

ARTICLE V

NOMINATION AND ELECTION OF DIRECTORS

Section 1. Nomination. Nomination for election to the Board of Directors shall be made by a Nominating Committee. Nominations may also be made from the floor at the annual meeting. The Nominating Committee shall consist of a Chairman, who shall be a member of the Board of Directors, and two or more members of the Association. The Nominating Committee shall be appointed by the Board of Directors prior to each annual meeting of the members, to serve from the close of such annual meeting until the close of the next annual meeting and such appointment shall be announced at each annual meeting. The Nominating Committee shall make as many nominations for elections to the Board of Directors as it shall in its discretion determine, but not less than the number of vacancies that are to be filled. Such nominations may be made from among members or non-members.

Section 2. Election. Election to the Board of Directors shall be by secret written ballot. At such election the members or their proxies may cast, in respect to each vacancy, as many votes as they are entitled to exercise under the provisions of the Declaration. The persons receiving the largest number of votes shall be elected. Cumulative voting is not permitted.

ARTICLE VI

MEETINGS OF DIRECTORS

Section 1. Regular Meetings. Regular meetings of the Board of Directors shall be held quarterly without notice, at such place and hour as may be fixed from time to time by resolution of the Board. Should said meeting fall upon a legal holiday, then that meeting shall be held at the same time of the next day which is not a legal holiday.

Section 2. Special Meetings. Special meetings of the Board of Directors shall be held when called by the president of the Association, or by any two directors, after not less than three (3) days notice to each director.

Section 3. Quorum. A majority of the number of directors shall constitute a quorum for the transaction of business. Every act or decision done or made by a majority of the directors present at a duly held meeting at which a quorum is present shall be regarded as the act of the Board.

ARTICLE VII

POWERS AND DUTIES OF THE BOARD OF DIRECTORS

Section 1. Powers. The Board of Directors shall have power to:

(a) adopt and publish rules and regulations governing the use of the common area and facilities, and the personal conduct of the members and their guests thereon, and to establish penalties for the infraction thereof;

(b) suspend the voting rights and right to the use of any recreational facilities or the common area by a member or any person to whom he has delegated his right or enjoyment during any period in which such member shall be in default in the payment of any assessment levied by the Association. Such rights may also be suspended after notice and hearing, for a period not to exceed sixty (60) days for infraction of published rules and regulations;

(c) exercise for the Association all powers, duties and authority vested in or delegated

to this Association and not reserved to the membership by other provisions of these Bylaws, the Articles of Incorporation, or the Declaration;

(d) declare the office of a member of the Board of Directors to be vacant in the event such member shall be absent from three (3) consecutive regular meetings of the Board of Directors;

(e) employ a manager, an independent contractor, or such other employees as they deem necessary, and to prescribe their duties;

(f) contract with any Person to maintain the common area; and

(g) procure adequate insurance including hazard insurance on the common areas and facilities, directors liability insurance, and such other insurance as it shall deem necessary and appropriate; and include the cost of such insurance in the annual assessment of the members.

Section 2. Duties. It shall be the duty of the Board of Directors to:

(a) cause to be kept a complete record of all of its acts and corporate affairs and to present a statement thereof to the members at the annual meeting of the members, or at any special meeting when such statement is requested in writing by one-fourth (1/4) of the members who are entitled to vote;

(b) supervise all officers, agents, and employees of this Association, and to see that their duties are properly performed;

(c) as more fully provided in the Declaration, to:

(1) fix the amount of the annual assessment against each lot at least thirty (30) days in advance of each annual assessment period; and

(2) send written notice of each assessment to every owner subject thereto at least thirty (30) days in advance of each annual assessment period; and

(3) foreclose the lien against any property for which assessments are not paid within thirty (30) days after the due date or to bring an action at law against the owner personally obligated to pay the same.

(d) issue, or to cause an appropriate officer to issue, upon demand by any person, a certificate setting forth whether or not any assessment has been paid. A reasonable charge may be made by the Board for the issuance of these certificates.

(e) procure and maintain adequate liability and hazard insurance on property owned by the Association;

(f) cause all officers or employees having fiscal responsibilities to be bonded, as it may deem appropriate;

(g) cause the common area to be maintained;

(h) designate depositories for Association funds;

(i) appoint such committees as are provided for in these Bylaws, and such other committees as shall be appropriate or necessary for the proper administration and performance of the Association; and

(j) exercise their powers in good faith and do and perform such other matters and things not expressly prohibited by law, the Declaration, or these Bylaws as are necessary and appropriate to the proper administration, operation, and maintenance of the Association and the Property.

ARTICLE VIII

OFFICERS AND THEIR DUTIES

Section 1. Enumeration of Officers. The officers of the Association shall be a president and vice president, who shall at all times be members of the Board of Directors, a secretary, and a treasurer, and such other officers as the Board may from time to time by resolution create.

Section 2. Election of Officers. The election of officers shall take place at the first meeting of the Board of Directors following the annual election of Directors.

Section 3. Term. The officers of this Association shall be elected annually by the Board and each shall hold office for one (1) year unless he shall sooner resign, or shall be removed, or otherwise be disqualified to serve.

Section 4. Special Appointments. The Board may elect such other officers as the affairs of the Association may require, each of whom shall hold office for such period, have such authority, and perform such duties as the Board may, from time to time, determine.

Section 5. Resignation and Removal. Any officer may be removed from office without cause by the Board. Any officer may resign at any time upon giving written notice to the Board, the president or the secretary. Such resignation shall take effect on the date of receipt of such notice or at any later time specified therein, and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 6. Vacancies. A vacancy in any office may be filled by appointment by the Board. The officer appointed to such vacancy shall serve for the remainder of the term of the

officer he replaces.

Section 7. Multiple Offices. The offices of secretary and treasurer may be held by the same person. No person shall simultaneously hold more than one of any of the other offices except in the case of special offices created pursuant to Section 4 of this Article.

Section 8. Duties. The duties of the officers are as follows:

President

The president shall preside at all meetings of the Board of Directors; shall see that orders and regulations of the Board are carried out; shall sign all leases, mortgages, deeds and other written instruments and shall co-sign all checks and promissory notes.

Vice President

The vice president shall act in the place and stead of the president in the event of his absence, inability or refusal to act, and shall exercise and discharge such other duties as may be required of him by the Board.

Secretary

The secretary shall record the votes and keep the minutes of all meetings and proceedings of the Board and of the members; keep the corporate seal of the Association and affix it on all papers requiring said seal; serve notice of meetings of the Board and of the members; keep appropriate current records showing the members of the Association together with their addresses, and shall perform such other duties as required by the Board.

Treasurer

The treasurer shall receive and deposit in appropriate bank accounts all monies of the Association and shall disburse such funds as directed by resolution of the Board of Directors; shall sign all checks and promissory notes of the Association; keep proper books of account; cause an annual audit of the Association books to be made by a public accountant at the completion of each fiscal year; and shall prepare an annual budget and a statement of income and expenditures to be presented to the membership at its regular annual meeting, and deliver a copy of each to the members.

ARTICLE IX

QUORUM FOR ASSESSMENT CHANGES

Section 1. Quorum for any Action Authorized Under Article V, Sections 3, 4 and 6 of

the Declaration. At the first meeting called, as provided in Article VI, Sections 3, 4, and 6 of the Declaration, the presence at the meeting of members or of proxies entitled to cast sixty percent (60%) of all the votes of each class of membership shall constitute a quorum. If the required quorum is not forthcoming at any meeting, another meeting may be called, subject to the notice requirement set forth in Sections 3, 4, and 6, and the required quorum at any such subsequent meeting shall be one-half (1/2) of the required quorum at the preceding meeting. No such subsequent meeting shall be held more than sixty (60) days following the preceding meeting.

ARTICLE X COMMITTEES

The Association shall appoint an Architectural Control Committee, as provided in the Declaration, and a Nominating Committee, as provided in these Bylaws. In addition, the Board of Directors shall appoint other committees as deemed appropriate in carrying out its purpose.

ARTICLE XI BOOKS AND RECORDS

The books, records, and papers of the Association shall, at all times during reasonable business hours, be subject to inspection by any member. The Declaration, the Articles of Incorporation, and the Bylaws of the Association shall be available for inspection by any member at the principal office of the Association, where copies may be purchased at reasonable cost.

ARTICLE XII CORPORATE SEAL

The Association shall have the seal in circular form having within its circumference the words: "THE GROVES AT MORRISVILLE INC."

ARTICLE XIII AMENDMENTS

Section 1. These Bylaws may be amended, at a regular or special meeting of the members, by a vote of a majority of a quorum of members present in person or by proxy.

Section 2. In the case of any conflict between the Articles of Incorporation and these

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

Section 3. HUD/VA has the right to veto any amendments as long as there is a Class B membership.

ARTICLE XIV

MISCELLANEOUS

The fiscal year of the Association shall begin on the first day of January and end on the 31st day of December of every year, except that the first fiscal year shall begin on the date of incorporation.

IN WITNESS WHEREOF, we, being all of the directors of THE GROVES AT MORRISVILLE, have hereunto set our hands and seals this the 13 day of March, 1998.

Wayne A. [Signature] (SEAL)

C. [Signature] (SEAL)

[Signature] (SEAL)

CERTIFICATION

I, the undersigned, do hereby certify:

That I am the duly elected and acting secretary of THE GROVES AT MORRISVILLE, a North Carolina corporation, and

That the foregoing Bylaws constitute the original Bylaws of said Association, as duly adopted at a meeting of the Board of Directors thereof, held on the 13 day of March, 1999.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of said Association this the 13 day of March, 1998.

[Signature] (SEAL)
Acting Secretary

