

EXHIBIT III

BY-LAWS

Mystic Harbour Homeowners Association, Inc.

TABLE OF CONTENTS

Page No.

| | | |
|--------------|---|---|
| Article I | Name | 1 |
| Article II | Definitions | 1 |
| | 1 - Declaration | 1 |
| | 2 - Capitalized Terms | 1 |
| Article III | Meeting of Members | 1 |
| | 1 - Annual meetings | 1 |
| | 2 - Special meetings | 1 |
| | 3 - Notice of meetings | 1 |
| | 4 - Proxies | 1 |
| | 5 - Action taken without a meeting | 1 |
| Article IV | Board of Directors: Selection, Term of Office | 1 |
| | 1 - Number and qualification | 1 |
| | 2 - Term | 2 |
| | 3 - Removal | 2 |
| | 4 - Compensation | 2 |
| Article V | Nomination and Election of Directors | 2 |
| | 1 - Nominating Committee | 2 |
| | 2 - Other Nominations | 2 |
| | 3 - Election | 2 |
| Article VI | Meetings of Directors | 2 |
| | 1 - Regular and special meetings | 2 |
| | 2 - Quorum | 2 |
| | 3 - Telephone meetings | 2 |
| | 4 - Action taken without a meeting | 2 |
| Article VII | Powers and Duties of the Board of Directors | 2 |
| | 1 - Powers | 3 |
| | 2 - Duties | 3 |
| Article VIII | Officers and their Duties | 3 |
| | 1 - Enumeration of offices | 3 |
| | 2 - Election of officers | 3 |
| | 3 - Term | 3 |
| | 4 - Special appointments | 3 |
| | 5 - Resignation and removal | 3 |
| | 6 - Vacancies | 3 |
| | 7 - Multiple offices | 3 |
| | 8 - Duties | 3 |
| | a. President | 3 |
| | b. Vice President | 3 |
| | c. Secretary | 3 |
| | d. Treasurer | 3 |
| | 9 - Contracts, agreements, and other instruments | 4 |
| Article IX | Committees | 4 |
| Article X | Books and records | 4 |
| Article XI | Working Capital and Reserve Funds | 4 |
| | 1 - Creation and investment of funds | 4 |
| | 2 - Working capital fund | 4 |
| | 3 - Repair and replacement reserve fund | 4 |
| | 4 - Contribution to capital | 4 |
| Article XII | Insurance | 5 |
| | 1 - Fire and flood coverage | 5 |
| | 2 - Builder's risk coverage | 5 |
| | 3 - Liability coverage | 5 |
| | 4 - Directors and officers liability coverage | 5 |
| | 5 - Fidelity bonds | 5 |
| Article XIII | Corporate seal | 5 |
| Article XIV | Indemnification | 6 |
| Article XV | Adoption of rules and regulations by the Board of Directors | 6 |
| | 1 - Authorization | 6 |
| | 2 - Notice of meeting | 6 |

BY-LAWS (Con't)

Page No.*

- 3 - Voting
- 4 - Modification or repeal
- 5 - Effective date

6
6
6

Article XVI Mortgages

- 1 - Notice to Board of Directors
- 2 - Notice and Information to Mortgagees

6
6

Article XVII Amendments

- 1 - Affirmative vote of the members
- 2 - Affirmative vote of the eligible holders
- 3 - Veto by FIAA or VA

6
7
7
7

Article XVIII Miscellaneous

*The page numbers referred to in this Table of Contents are centered at the bottom of each page of the By-laws.

BY-LAWS
OF
HYSTIC HARBOUR HOMEOWNERS ASSOCIATION, INC.

ARTICLE I

NAME

The name of the corporation is HYSTIC HARBOUR HOMEOWNERS ASSOCIATION, INC., hereinafter referred to as the "Association".

ARTICLE II

DEFINITIONS

Section (1). Declaration. "Declaration" shall mean and refer to the Declaration of Covenants, Conditions, and Restrictions applicable to the Property dated _____, 1987, executed by the Declarant, and recorded among the Land Records of Worcester County, Maryland, in Liber W.C.L. No. _____, folio _____, as same may hereafter from time to time be amended.

Section (2). Capitalized Terms. Each capitalized term used herein and defined in the Declaration shall have the meaning ascribed thereto in the Declaration.

ARTICLE III

MEETING OF MEMBERS

Section (1). Annual Meetings. The annual meeting of the Members shall be held at such place within Worcester County as may be designated by a majority of the Members, the Board of Directors or the manager of the Association at 8:00 p.m. on the first Thursday of December of each year (or on such other date, or at such other time, as may be fixed by such majority, board or manager), for the election of directors and for the transaction of general business.

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 the written request of Members holding at least one-fourth (1/4) of the votes held by all Class A Members.

Section (3). Notice of Meetings. At least fifteen (15), but not more than forty-five (45), days' written or printed notice of every annual meeting and every special meeting of the Association shall be given by the Board of Directors or the manager to each Record Owner whose name appears as such upon the roster or books of the Association forty-five (45) days prior to the day of the meeting. Such notice of an annual or special meeting shall state the place, day and hour of such meeting, and, in the case of a special meeting, shall also state the business proposed to be transacted thereat. Such notice shall be given to each Member either by delivering the same to him or by mailing it postage prepaid and addressed to him at his address as it appears upon the roster or books of the Association, as aforesaid. No notice of the time, place or purpose of any meeting of Members need be given to any Member who attends in person, or by proxy, or who, in writing, executed and filed with the records of the meeting, either before or after the holding thereof, waives such notice. The record date for determining the Members entitled to vote at any meeting of the Members shall be the date established in this Section (3) for determining the Members entitled to notice of such meeting.

Section (4). 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 legal title to his lot (other than as security for a loan).

Section (5). Action Taken Without a Meeting. The Members 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 the Members (and of all Mortgagees, if Mortgagee consent is required for the taking of such action). Any action so approved shall have the same effect as though taken at a meeting of the Members.

ARTICLE IV

BOARD OF DIRECTORS: SELECTION, TERM OF OFFICE

Section (1). Number and Qualification. Subject to the right of the Board of Directors to employ a manager, as provided in Article VII of these By-laws, the affairs of the Association shall be managed under the direction of a Board of Directors. So long as there are Class D Members, any person may serve as a director. After all Class D memberships have ceased, each director shall be a Member, either in his own name, or as a joint tenant, tenant in common, tenant by the entirety, or co-partner, if his lot is held in a real property tenancy or partnership relationship, or shall be an officer or agent of a corporate Member. For each membership, there shall be no limit as to the number of joint tenants, tenants in common or tenants by the entirety, co-partners, officers or agents of the Member who may serve as directors at the same time. The Board shall consist of three (3) directors, which number may be increased or decreased by a vote of the Members at any annual meeting, but shall never be less than three (3).

Section (2). Term. At the first annual meeting, the Members shall elect two (2) directors for a term of one year and one (1) director for a term of two years. Any increase in the number of directors shall be filled by the Members at the annual meeting at which such increase in the number of directors is adopted. The term of each such additional director shall be fixed at two (2) years. At the expiration of the initial term (not including any term of office commencing prior to the first annual meeting of the Members) and any subsequent term of office of each director, his successor shall be elected by the Members at an annual meeting to serve for a term of two (2) years. Each director may, if reelected, succeed himself, and shall hold office until his successor shall have been elected and qualified, unless he shall sooner resign, or shall be removed, or shall cease to qualify.

Section (11). 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 directors and shall serve for the unexpired term of his predecessor.

Section (12). Compensation. No director shall receive compensation for any service he may render to the Association, but, by resolution of the Association, a fixed sum, not in excess of Fifty Dollars (\$50.00) per year, may be allowed for attendance at the regular and special meetings of the Board of Directors.

ARTICLE V

NOMINATION AND ELECTION OF DIRECTORS

Section (11). Nominating Committee. On or before September 1 of each year, the board of directors may appoint a nominating committee, comprised of three (3) Members, and, if such committee is so appointed, the board shall promptly notify the Secretary of the Association, in writing, of the names of the committee members. This nominating committee shall, at least thirty (30) days prior to the annual meeting of the Association, nominate not less than such number of candidates for membership on the board as may be required to be filled through election at such annual meeting, and forthwith submit its nominations to the Secretary of the Association. The decision of a majority of the members of the nominating committee shall be reported as the decision of the nominating committee.

Section (12). Other Nominations. In addition to the nominations, if any, made by the nominating committee for membership on the board of directors, as aforesaid, nominations may be made by any Member at or prior to any annual meeting of the Association. Each nomination made prior to the annual meeting shall be submitted in writing to the Secretary of the Association.

Section (13). 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. Cumulative voting is not permitted. The persons receiving the largest number of votes shall be elected.

ARTICLE VI

MEETINGS OF DIRECTORS

Section (11). Regular and Special Meetings. Within seven (7) days after the annual meeting of the Members, the Board of Directors shall meet at such time and place as shall be fixed by the Members at said annual meeting, in which case no notice to the directors shall be necessary, or if no time and place was fixed for such meeting at the annual meeting of the Members, then the Board shall meet within seven (7) days following the day of such annual meeting, at such time, date and place as may be fixed by a majority of the directors. In addition to the foregoing meeting, regular meetings of the Board of Directors shall be held at such other time and place as may be fixed from time to time by a majority of the directors. Special meetings of the Board of Directors may be called by the President or by a majority of the directors, either by vote or in writing. All regular and special meetings of the Board shall be held in the State of Maryland. Notice of the place, day and hour of every regular and special meeting shall be given to each director (a) in writing, either mailed to him, postage prepaid, not later than the fifth (5th) day before the day set for the meeting, or delivered to him personally not later than the day before the date set for the meeting, or (b) by telegraph or telephone not later than the day before the date set for the meeting. No notice of the time or place of the meeting need be given to any director who, in writing, executed and filed with the records of the meeting, either before or after the holding thereof, waives such notice, or, in fact, attends the meeting.

Section (12). Quorum. A majority of the members of the Board 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.

Section (13). Telephone Meetings. Members of the Board of Directors may participate in a meeting by means of a conference telephone or similar communications equipment, if all persons participating in the meeting can hear each other at the same time. Participation in a meeting by these means shall constitute presence in person at the meeting.

Section (14). 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 the directors. Any action so approved shall have the same effect as though taken at a meeting of the directors.

ARTICLE VII

POWERS AND DUTIES OF THE BOARD OF DIRECTORS

Section (11). Powers. The Board of Directors shall have power to:

(a) adopt and publish rules and regulations governing the use of the Common Areas, and the personal conduct of the Members and their guests thereon, and establish penalties for the infraction thereof;

(b) suspend the voting rights and right to use of the recreational facilities of a Member 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 By-Laws, the Articles of Incorporation of the Association, 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; and

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

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

(a) cause to be kept a complete record of all 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 Class A Members;

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

(c) determine, notify the Record Owners of, collect and enforce annual and special assessments as provided in Article VI of the Declaration;

(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, as provided in Article VI(7) of the Declaration;

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

(f) cause all officers or employees having fiscal responsibilities to be bonded as required by Article XII of these By-laws; and

(g) cause the Common Areas to be maintained; and

(h) establish and cause to be maintained, out of annual assessments, a reserve fund for periodic maintenance, repair and replacement of improvements, if any, in and on the Common Areas.

ARTICLE VIII

OFFICERS AND THEIR DUTIES

Section (1). Enumeration of Offices. The officers of this 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 each annual meeting of the Members.

Section (3). Term. Each officer of this Association shall be elected annually by the Board and each shall hold office for one (1) year, and until his successor shall have been elected and qualified, unless he shall sooner resign, or shall be removed, or shall cease to qualify.

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 with or without cause by the Board. Any officer may resign at any time by 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. No person shall simultaneously hold the offices of president and vice president. The holding by one person of other multiple offices shall be permitted, however.

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

President

(a) The president shall preside at all meetings of the Board of Directors; shall see that orders and resolutions of the Board are carried out; and shall sign deeds, deeds of trust, mortgages, leases and other written instruments to the extent required by Section (9) of this Article VIII.

Vice President

(b) 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

(c) 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

(d) 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 the checks and promissory notes of the Association; keep proper books of account; cause an annual audit of the Association books to be made by an independent 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.

Section (9). Contracts, Agreements and other Instruments. No deed, deed of trust, mortgage, lease, bond, bill of sale, assignment, contract, agreement, promissory note, check, or any other instrument or document intended to bind the Association shall be valid or binding unless signed (a) by two officers of the Association, one of whom shall be the president or vice president, or (b) by the manager of the Association (except that the manager shall not have the authority to execute deeds, deeds of trust, mortgages, leases and promissory notes on behalf of the Association). Each professional management contract, if any, entered into by the Association while the Association has a Class D Member shall provide that such contract may be terminated by the Association without cause and without penalty on not more than ninety (90) days' written notice, and that such contract may be terminated by the Association with cause on not more than thirty (30) day's written notice.

ARTICLE IX

COMMITTEES

The Association may appoint an Architectural Control Committee, as provided in the Declaration, and a Nominating Committee, as provided in these By-Laws. In addition, the Board of Directors may appoint other committees as deemed appropriate in carrying out its purposes.

ARTICLE X

BOOKS AND RECORDS

The Board of Directors shall keep the books of the Association, with detailed accounts in chronological order, noting all receipts and expenditures affecting the Property and its administration, and specifying the maintenance and repair expenses of the Common Areas and any other expenses incurred. A separate account shall be maintained for each Lot, showing the amount of each assessment of common expenses against such Lot, the date or dates same may be due, the amount paid thereon, and the unpaid balance thereof. Upon any sale or other transfer of a Lot, the new Record Owner or his agent shall provide to the Association, to the extent available, (a) the name and forwarding address of the prior Record Owner, the name and address of the new Record Owner, the date of settlement, and the proportionate amounts of any outstanding assessment assumed by each of the parties to the transaction, and (b) a copy of the fully executed settlement sheet pertaining to such sale or other transfer, and all the information required by Item (a) of this sentence shall be recorded in the assessment account which is maintained for such Lot. The books, together with all bills, statements and vouchers accrediting the entries made thereupon, all other records kept by the Board, and copies of the Declaration, P&A, Articles of Incorporation, By-Laws and rules and regulations, including all amendments thereto, shall be available for examination and copying by any Record Owner and any holder, insurer or guarantor of a Mortgage on a Lot, and the duly authorized agents or attorneys of any Record Owner or holder, insurer or guarantor of a Mortgage on a Lot, during normal business hours, and after reasonable notice. All books and records of the Association shall be kept in accordance with good accounting practices, on a consistent basis, and an outside audit shall be made at least once a year. The cost of such audit shall be a common expense. A written report summarizing all receipts and expenditures of the Association shall be rendered semi-annually by the Board of Directors to the Members. Promptly after the close of each fiscal year, an annual report of the receipts and expenditures of the Association, certified by an independent accountant, shall be rendered by the Board of Directors free of charge to each Record Owner, and to any holder, insurer or guarantor, of a Mortgage on a Lot, within a reasonable time after receipt of a written request therefor from such holder, insurer or guarantor. In addition to keeping the foregoing financial books and records, the Board of Directors shall keep detailed records of its actions, minutes of its meetings and minutes of meetings of the Association.

ARTICLE XI

WORKING CAPITAL AND RESERVE FUNDS

Section (1). Creation and Investment of Funds. The board of directors shall establish and maintain a working capital fund, a reasonable repair and replacement reserve fund (if appropriate), and reserve funds for such other purposes, if any, as it deems appropriate. Such working capital and reserves shall be deposited in a special account, but may be invested in (i) obligations fully guaranteed as to principal by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, or any successor thereof, and/or (ii) money market funds distributed by New York Stock Exchange member firms.

Section (2). Working Capital Fund. The working capital fund shall be used to provide the cash needed to pay the start-up costs incurred by the Association during the first twelve (12) full calendar months of operation of each phase of the Property. The working capital fund shall be used as a supplement to, rather than as a substitute for, the annual assessment reflected in the annual budget. The working capital fee for each Lot in each phase shall equal two monthly installments (or 2/3 of a quarterly installment) of the first annual assessment levied by the Association against such Lot. This working capital fee shall be charged only once with respect to each Lot, and shall be in addition to, and not a prepayment of, the initial monthly or quarterly installment each Record Owner is required to pay on account of the first annual assessment against his Lot. The working capital fee payable with respect to each Lot shall become due on the date the Declarant transfers record title to such Lot to any other person or entity, and shall be payable to the Association by the transferee, unless the Declarant has theretofore paid the fee for that Lot to the Association, in which event, the transferee shall reimburse the Declarant for the fee. If any money remains in the working capital fund after the first twelve (12) full calendar months of operation of any particular phase of the Property, the Board of Directors shall determine how to use the unexpended balance of the working capital fees paid with respect to the Lots in such phase.

Section (3). Repair and Replacement Reserve Fund. The repair and replacement reserve fund, if any, shall be used for the maintenance, repair, and replacement of the Common Areas and any improvements thereon for which the Association is responsible, provided, however, that such reserve may be used for such other purposes as are approved (i) by Record Owners having at least two-thirds (2/3) of the votes appurtenant to all Lots, and (ii) by a majority vote of the Eligible Holders (as such term is defined in Article I of the Declaration) provided that each such Eligible Holder shall have the number of votes appurtenant to the Lot or Lots upon which it holds a Mortgage or Mortgages.

Section (4). Contributions to Capital. All funds assessed for payment into, or otherwise credited to, the working capital fund or any reserve fund shall be deemed contributions to the capital of the Association made or to be made by the Record Owners, and same shall be shown

on the balance sheet and other financial records of the Association as "paid-in-surplus", or its equivalent, to the end and intent that none of the reserve funds received or retained by the Association shall be considered as income for tax purposes.

ARTICLE XII

INSURANCE

The Board of Directors shall maintain, or cause to be maintained, in the name of the Association, policies of insurance in insurance companies which are (a) licensed to do business in the State of Maryland, and (b) are customarily acceptable to mortgage lenders in Worcester County, to the extent reasonably obtainable, as follows:

Section (1). Fire and Flood Coverage. The Board of Directors shall maintain fire and extended coverage insurance, including a standard "all risk" endorsement, on all buildings and other improvements, if any, owned or leased by, or otherwise available for the use of, the Association and situated on or within the Common Areas, and all building service equipment and supplies and other personal property owned by the Association, to the extent insurable, in an amount equal to one hundred percent (100%) of the current replacement cost of the insured property. If any such improvements and/or personal property are located within an area in which the purchase of flood insurance is required as a condition for federal or federally related financial assistance, the Board of Directors shall also cause such improvements and personal property to be insured against flood loss in an amount not less than the lesser of the maximum coverage available for such improvements and personal property under the National Flood Insurance Program, or one hundred percent (100%) of the current replacement cost of such improvements and personal property. So long as Federal National Mortgage Association ("FNMA") or Federal Home Loan Mortgage Corporation ("FHLMC") holds a Mortgage on any Lot, each such policy (1) shall include, to the extent required by such holder, an all-risk endorsement, an agreed amount endorsement, an inflation guard endorsement, a demolition cost endorsement, a contingent liability from operation of building laws endorsement, an increased cost of construction endorsement, a steam boiler and machinery coverage endorsement, and such other endorsements as such holder customarily requires, and (2) shall comply with any other requirements (including, but not limited to, requirements as to deductible amounts) customarily imposed by such holder with respect to fire or flood insurance policies of homeowners association projects. In lieu of the foregoing insurance, the Board of Directors may maintain such other insurance against loss, damage or destruction of the improvements on or within the Common Areas as shall give substantially equal or greater protection to the Association, FNMA and FHLMC, as applicable.

Section (2). Builder's Risk Coverage. During any construction, repair or restoration by the Association of improvements on or within a Common Area, the Board of Directors shall maintain a standard builder's risk casualty insurance policy with extended coverage, including vandalism and malicious mischief, in an amount equal to the full value of the improvements when completed.

Section (3). Liability Coverage. The Board of Directors shall maintain liability insurance coverage in an amount of at least \$1,000,000 for bodily injury, death and property damage for any single occurrence. Such insurance shall cover bodily injuries, death and property damage resulting from the operation, maintenance or use of the Common Areas and any other areas under the Association's supervision, including any such areas leased to others, and shall also cover, if applicable, any legal liability that results from law suits related to employment contracts in which the Association is a party. The Board of Directors shall also maintain, if applicable, host liquor liability insurance, employer's liability insurance, comprehensive automobile liability insurance, and/or contractual and all-written contract insurance.

Section (4). Directors and Officers Liability Coverage. The Board of Directors shall maintain directors and officers liability insurance equal to at least One Million Dollars (\$1,000,000.00).

Section (5). Fidelity Bonds. The Board of Directors shall maintain blanket fidelity bond coverage for all officers, directors and employees of the Association and all other persons handling, or responsible for, funds of, or administered by, the Association. If a manager has the responsibility for handling or administering funds of the Association, the manager shall be required to maintain fidelity bond coverage for its officers, employees and agents handling or responsible for funds of, or administered on behalf of, the Association. Each such fidelity bond shall name the Association as an obligee and shall be in an amount not less than the estimated maximum amount of funds, including reserve funds, in the custody of the Association or the manager, as the case may be, at any given time during the term of such bond. However, in no event may the aggregate amount of such bonds be less than an amount equal to the sum of (a) one quarter (1/4) of the estimated annual operating expenses of the Association, and (b) all amounts then held in reserve funds. The bonds shall contain waivers by the issuers of the bonds of all defenses based upon the exclusion of persons serving without compensation from the definition of "employees", or similar terms or expressions. The premiums on all bonds required herein, except those maintained by the manager, shall be paid by the Association as a common expense. So long as FNMA shall hold a Mortgage on any Lot, such bonds shall also provide that the FNMA Servicer, on behalf of FNMA, must receive such notice of cancellation or modification.

Each policy of insurance maintained pursuant to this Article XII shall provide for at least ten (10) days' notice to the Association before the insurer may cancel or substantially modify it.

ARTICLE XIII

CORPORATE SEAL

The Association shall have a seal in circular form having within its circumference the words: the name of the Association and the word "Maryland" inscribed around the outer edge; and with the words "Corporate Seal" or "Incorporated" and the year of incorporation inscribed in the center.

ARTICLE XIV

INDEMNIFICATION

The Association shall indemnify any individual who (1) is a present or former director or officer of the Association or (2) serves or has served another association, corporation, partnership, joint venture, trust, employee benefit plan or any other enterprise as a director or officer, or as a partner or trustee of such partnership or employee benefit plan, at the request

of the Association, and who by reason of service in that capacity was, is or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, to the full extent permitted under the Corporations and Associations Article of the Annotated Code of Maryland, as amended from time to time. The Association may, with the approval of its Board of Directors, provide such indemnification for any employee or agent of the Association.

ARTICLE XV

ADOPTION OF RULES AND REGULATIONS BY THE BOARD OF DIRECTORS

Section (11). Authorization. Subject to the provisions of this Article XV, the Association, acting through the Board of Directors, may adopt reasonable rules and regulations for the use, operation and maintenance of the Common Areas and any buildings and improvements now or hereafter located thereon or therein. All rules and regulations adopted pursuant hereto shall supplement the rules and regulations set forth in the Declaration, but in the event of any conflict between the two, the rules and regulations set forth in the Declaration shall take precedence over the rules and regulations adopted pursuant hereto.

Section (21). Notice of Meeting. At least fifteen (15) days prior to any regular or special meeting of the Board of Directors at which it is contemplated that a proposed rule or regulation will be voted upon, written notice of such meeting shall be given to each Member. Such notice shall include (a) the date, time, location and subject of the meeting, (b) a copy of the proposed rule or regulation, (c) notice that Members are permitted to submit written comments on the proposed rule or regulation to the secretary of the Association (who shall deliver all such written comments to the Board of Directors at or prior to the meeting of the Board of Directors at which the proposed rule or regulation is to be voted upon), and (d) notice of the proposed effective date of the proposed rule or regulation.

Section (31). Voting. A quorum of directors shall be present at such meeting, which shall be open to all Members. After all Members attending such meeting have had the opportunity to comment on the proposed rule or regulation and any modification thereof which is proposed at such meeting, the Board of Directors may, by the vote of majority of the directors present and voting, adopt the proposed rule or regulation or any such proposed modification thereof. On the request of any director, the yeas and nays shall be taken and entered on the minutes.

Section (41). Modification or Repeal. Any rule or regulation adopted by the Board of Directors pursuant to the procedure set forth in this Article XV may be modified or repealed by the Board of Directors pursuant to the same procedure.

Section (51). Effective Date. The Board of Directors shall determine the effective date of the adoption, modification or repeal of any such rule or regulation (which effective date may differ from the proposed effective date set forth in the notice given to the unit owners pursuant to Section (21) above), provided that no such adoption, modification or repeal shall become effective until at least five (5) days after written notice of such adoption, modification or repeal, including a copy of such rule or regulation and disclosure of such effective date, has been mailed or personally delivered to each Member or placed at a location (on the Common Areas) previously designated by the Board of Directors (by written notice to the Members) for the communication of such rules and regulations.

ARTICLE XVI

MORTGAGES

Section (11). Notice to Board of Directors. Each Record Owner who conveys his Lot by way of any Mortgage shall give written notice thereof to the Board of Directors, setting forth the name and address of his Mortgagee and submitting a conformed copy of his Mortgage and the note secured thereby, if any. The Board of Directors shall maintain all such Mortgage information in a book or other record designated "Mortgage Book". The Board of Directors shall also include in the Mortgage Book the name and address of any Eligible Holder of a Mortgage who furnishes to the Association a written notice stating the name and address of such Eligible Holder, and the Lot number or address of the mortgaged Lot.

Section (21). - Notice and Information to Mortgagees.

(a) The Board of Directors shall furnish to each Mortgage holder, insurer or guarantor of record in its "Mortgage Book" timely written notice of: (i) any condemnation loss or casualty loss which affects a material portion of the Property or which affects the Lot securing the Mortgage of such holder, insurer or guarantor; (ii) any delinquency in the payment of assessments or charges owed by the Record Owner of the Lot securing the Mortgage of such holder, insurer or guarantor, where such delinquency has continued for a period of sixty (60) days; (iii) any lapse, cancellation or material modification of any insurance policy or fidelity bond maintained by the Association; (iv) any proposed action which would require the consent of a specified percentage (such as a majority, 66-2/3%, 80% or 100%) of the Eligible Holders or of all Mortgagees; and (v) the giving of any default or violation notice by the Association to the Record Owner of the Lot securing the Mortgage of such holder, insurer or guarantor.

(b) Upon the specific written request of the Eligible Holder, the Board of Directors shall promptly furnish to said Eligible Holder, any information to which the Record Owner of the mortgaged Lot may be entitled, including, without limitation, information as to the status of: (i) any assessment, (ii) the performance of any obligation imposed under the Declaration, Plat, Articles of Incorporation, these By-Laws, or the rules and regulations of the Association, and (iii) any default or violation of any kind or nature which may exist or be outstanding on the part of the Record Owner of the mortgaged Lot.

ARTICLE XVII

AMENDMENTS

Section (11). Affirmative vote of the members. These By-Laws may be amended by the affirmative vote of Members holding at least two-thirds (2/3) of the votes appurtenant to each class of membership in the Association (each class voting separately). However, these By-Laws may

not be amended so as to modify, impair or revoke any right or privilege reserved for the benefit of the Declarant, or so as to impose on the Declarant any obligation which is not also imposed on all Record Owners, without the prior written consent of the Declarant.

Section 12. Affirmative vote of the Eligible Holders. Any amendment to these By-Laws involving any Material Change shall also require the affirmative vote of a majority of the Eligible Holders, each such Eligible Holder to have a number of votes equal to the number of Lots upon which it holds First Mortgages.

Section 13. Yield by FHA or VA. So long as there are Class B Members, each amendment to these By-Laws may be vetoed by the FHA or the VA, if such agency has previously approved the Property, or one or more Lots thereon, for mortgage financing purposes.

ARTICLE XVIII

MISCELLANEOUS

In the case of any conflict between the Articles of Incorporation and these By-Laws, the Articles of Incorporation shall control; and in the case of any conflict between the Declaration and these By-Laws, the Declaration shall control.

IN WITNESS WHEREOF, We, being all of the directors of Mystic Harbour Homeowners Association, Inc., have hereunto set our hands this _____ day of _____, 1987.

CERTIFICATION

I, the undersigned, do hereby certify:

THAT I am the duly elected and acting secretary of Mystic Harbour Homeowners Association, Inc., a Maryland corporation, and that the foregoing By-Laws constitute the original By-Laws of said Association, as duly adopted at a meeting of the Board of Directors thereof held on the _____ day of _____, 1987.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of said Association this _____ day of _____, 1987.

Secretary of Mystic Harbour
Homeowners Association, Inc.

EXHIBIT IVPROPOSED 1988 ANNUAL BUDGET¹Myrtle Harbour Homeowners Association, Inc.Phase One (Sections One and Two)(201 Lots)

| | Per Lot Monthly | Total Monthly | Total Annually |
|--|--------------------|------------------|-------------------|
| INCOME | | | |
| Annual Assessment | \$30.00 | \$6,030.00 | \$72,360.00 |
| EXPENSES | | | |
| Trash Pick-up | 8.50 | 1,700.50 | 20,502.00 |
| Pool | 3.50 | 703.50 | 8,442.00 |
| Tennis Court | 1.00 | 201.00 | 2,412.00 |
| Clubhouse | 2.00 | 402.00 | 4,824.00 |
| Lawn Cutting: Common Areas & Lots | 10.00 | 2,010.00 | 24,120.00 |
| Miscellaneous (Including Utility Bills for Common Areas, General Liability Insurance, and Directors & Officers Liability Insurance) | 5.00 | 1,005.00 | 12,060.00 |
| Total Annual Expenses | \$30.00 | \$6,030.00 | \$72,360.00 |

¹ All figures are estimates only.

EXHIBIT V

PROJECTED ANNUAL BUDGET¹

Mythic Harbour Homeowners Association, Inc.

As fully expanded²

(850 lots)

| | Per Lot Monthly | Total Monthly | Total Annually |
|---|--------------------|--------------------|---------------------|
| INCOME | | | |
| Annual Assessment | \$30.00 | \$25,500.00 | \$306,000.00 |
| EXPENSES | | | |
| Trash Pick-up | 8.50 | 7,225.00 | 86,700.00 |
| Pool | 3.50 | 2,975.00 | 35,700.00 |
| Tennis Court | 1.00 | 850.00 | 10,200.00 |
| Clubhouse | 2.00 | 1,700.00 | 20,400.00 |
| Lawn Cutting: Common Areas & Lots | 10.00 | 8,500.00 | 102,000.00 |
| Miscellaneous (Including Utility Bills for Common Areas, General Liability Insurance, and Directors & Officers Liability Insurance) | 5.00 | 4,250.00 | 51,000.00 |
| Total Annual Expenses | <u>\$30.00</u> | <u>\$25,500.00</u> | <u>\$306,000.00</u> |

¹ All figures are estimates only.

² The Project is expected to be developed over a period of years. The layout of the Property, as fully expanded, has not been finally determined, and the Declarant cannot give any assurances that the Property will ever be fully expanded. It is too early for the Declarant to predict with much accuracy the income and expenses which the Homeowners Association will experience during the first year, if ever, that the Property is fully expanded. The projected budget assumes that the per lot monthly expenses of operating the Homeowners Association will not change as the Property is expanded, but the Declarant cannot give any assurances that this will be the case. The expansion of the Property may lead to substantial increases (or decreases) in the per lot monthly expenses of operating the Homeowners Association.

EXHIBIT VI

AGREEMENT OF LIEN

THIS AGREEMENT OF LIEN is made this ____ day of _____, 1987, by H.H. UTILITIES CORPORATION, a Maryland corporation, and MYSTIC HARBOUR CORPORATION, a Maryland corporation.

W I T N E S S E I T

WHEREAS, Mystic Harbour Corporation is the owner of certain land located on State Route 611, in the Tenth Election District of Worcester County, Maryland, as more particularly described on Exhibit A attached hereto (the "Property"), which Property is served by central on-site water and sewage distribution, collection, treatment, and disposal systems (the "Systems") which are owned by H.H. Utilities Corporation; and

WHEREAS, by the Agreement dated _____, 1987, by and between H.H. Utilities Corporation, Mystic Harbour Corporation and Worcester County Sanitary District (the "WCSO Agreement"), H.H. Utilities Corporation has agreed to furnish water and sewer services to the Property; and

WHEREAS, H.H. Utilities Corporation has the right to impose fees for such water and sewer services; and

WHEREAS, in order to induce H.H. Utilities Corporation to provide water and sewer services to the Property, Mystic Harbour Corporation agrees that H.H. Utilities Corporation shall have the right to impose a lien against each lot of record (a) which is located upon the Property and (b) to which the water and sewer services provided by the Systems are available (each lot of record satisfying criteria (a) and (b) is herein called a "Lot"), if the owner of record title to the Lot (the "Record Owner") fails to pay H.H. Utilities Corporation any fee so imposed.

NOW, THEREFORE, this Agreement of Lien witnesseth, in consideration of H.H. Utilities Corporation's agreement to furnish water and sewer services to the Property, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

A G R E E M E N T

1. Mystic Harbour Corporation, its successors and assigns, as Record Owner of each Lot, shall be responsible for the payment of all fees levied by H.H. Utilities Corporation for the water and sewer services provided by H.H. Utilities Corporation to such Lot and the improvements thereon. Such fees (a) shall be established from time to time by H.H. Utilities Corporation at such rates as H.H. Utilities Corporation deems necessary to fully cover the costs of operation and maintenance of the Systems (which rates are subject to the approval of the Worcester County Sanitary District pursuant to the WCSO Agreement) and (b) shall be paid by the Record Owner of each Lot on a monthly, quarterly or other periodic basis, in the sole discretion of H.H. Utilities Corporation.

2. Any unpaid fee so levied against the Record Owner, together with interest thereon at the lesser of 18% per annum or the highest rate allowed by law, late charges, actual costs of collection, and reasonable attorneys' fees, shall constitute a lien against the Lot. H.H. Utilities Corporation may bring an action at law against the Record Owner personally obligated to pay the same, or foreclose the lien against the Lot subject to the fee, and in either event, H.H. Utilities Corporation shall be entitled to receive interest computed as above, actual cost of collection and reasonable attorneys' fees, as well as the amount of the unpaid fee. No Record Owner may waive or otherwise escape liability for the fees provided herein by non-use of his Lot or of the water and sewer services provided by H.H. Utilities Corporation.

3. By the acceptance of record title to a Lot, each Record Owner shall be deemed to have expressly: (i) authorized enforcement and foreclosure of the lien by H.H. Utilities Corporation, in the same manner, and subject to the same requirements, as the foreclosure of mortgages on real property in this State, containing a power of sale or an assent to a decree; (ii) assented to the passage of a decree for the sale of his Lot after the continuance of his default for more than thirty (30) days; and (iii) covenanted, agreed, and declared that, after the continuance of his default in payment of the fee for more than thirty (30) days, William A. Agee, as agent for H.H. Utilities Corporation, or any substituted natural person designated as the agent of H.H. Utilities Corporation for such purpose by the recordation by H.H. Utilities Corporation of a Deed of Appointment among the Land Records of Worcester County, shall have the absolute power, right, and privilege to sell the Lot of the defaulting Record Owner in accordance with the Public General Laws of the State of Maryland and the Maryland Rules of Procedure relating to foreclosure of mortgages, as such Laws and Rules are from time to time amended and supplemented; provided, however, that no action may be brought to enforce the lien except after ten (10) days' written notice to the defaulting Record Owner, given by certified or registered mail, return receipt requested, at the address of the Lot of the defaulting Record Owner.

4. Upon any sale hereunder of the Lot of a defaulting Record Owner, the proceeds shall be applied as follows: first, to the payment of expenses incident to such sale, including a commission to the party making the sale; second, to the payment of all claims of H.H. Utilities Corporation against the defaulting Record Owner or the Lot, whether the same shall have matured or not; and third, the surplus, if any, to said defaulting Record Owner, or to whomsoever may be entitled to the same. It is expressly understood that, at any such sale, H.H. Utilities Corporation may be a purchaser of the Lot, free and clear of any right or equity of redemption of the defaulting Record Owner, such right and equity being deemed expressly waived and released. H.H. Utilities Corporation shall have the right both to institute suit for collection of the unpaid fee and to enforce the lien of such fee against the Lot of the defaulting Record Owner, provided there be but one satisfaction of the claim.

5. The lien imposed pursuant to this Agreement may be enforced pursuant to the Maryland Contract Lien Act, as amended from time to time, or any successor statute.

6. The lien of the fees provided for herein shall be subordinate to general and special assessments for real estate taxes on the Lot and the lien of any mortgage or deed of trust covering the Lot, duly recorded prior to the recordation of a statement of lien covering one or more past due fees levied by H.H. Utilities Corporation against such Lot.

7. The foregoing enumeration of the rights of H.H. Utilities Corporation is made in furtherance, and not in limitation, of the rights and remedies conferred by law upon H.H. Utilities Corporation to collect its fees and to enforce any lien against the lot of a defaulting Record Owner, and is not intended, by mention of any particular right or remedy, to limit or restrict H.H. Utilities Corporation, which shall have all powers and rights necessary or convenient for collection of the fees due it.

IN WITNESS WHEREOF, H.H. Utilities Corporation and Mystic Harbour Corporation have hereunto set their hands and seals on the day and year first above-written.

ATTEST:

H.H. UTILITIES CORPORATION

By: _____ (SEAL)
President

MYSTIC HARBOUR CORPORATION

By: _____ (SEAL)
President

STATE OF MARYLAND)
OF) to wit:

I HEREBY CERTIFY that on this _____ day of _____, 1907, before me, the subscriber, a Notary Public of the State of Maryland, personally appeared _____, who acknowledged himself to be the _____ President of H.H. UTILITIES CORPORATION, and that he, as such President, being authorized so to do, executed the foregoing instrument for the purposes therein contained, by signing in my presence the name of the corporation by himself as _____ President.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

Notary Public

My Commission expires: _____

STATE OF MARYLAND)
OF) to wit:

I HEREBY CERTIFY that on this _____ day of _____, 1907, before me, the subscriber, a Notary Public of the State of Maryland, personally appeared _____, who acknowledged himself to be the _____ President of MYSTIC HARBOUR CORPORATION, and that he, as such President, being authorized so to do, executed the foregoing instrument for the purposes therein contained, by signing in my presence the name of the corporation by himself as _____ President.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

Notary Public

My Commission expires: _____

EXHIBIT A
TO THE AGREEMENT OF LIEN

PARCEL ONE

ITEM ONE: All those tracts, parts of tracts or parcels of land, forming a part of what is commonly called the Tingle Farm, situated on the Easterly side of the public road formerly known as the Synepuxent Neck County Road, now the State Highway, leading from the Berlin-Ocean City State Highway to Synepuxent Neck, nearly opposite Ocean City in what was formerly the Third, now the Tenth, Election District of Worcester County, Maryland, more particularly described as follows, to wit: BEGINNING at an iron pipe set in the ground on the East side of the county road leading out of Upper Synepuxent Neck and in the middle of the outlet road leading out of the Dolz Farm and from thence running by and with the East side of said county road North 45 degrees 15 minutes East, 9.85 chains; thence North 37 degrees 30 minutes East 1.00 chains; thence North 19 degrees 45 minutes East 2.00 chains to a stake where formerly stood an old gale post; thence South 71 degrees 30 minutes East 20.50 chains to the West side of a woods road; thence by and with the same North 29 degrees 15 minutes East, 10.85 chains to a marked pine and the line of the Farms Company; thence by and with the said Farms Company line South 67 degrees East to Carmel pond; thence by and with the South shore of the same and the shore of a small creek or slough to the Synepuxent Bay; thence by and with the shore line of the said Bay in a southwesterly direction to a point on the said shore line which is South 61 degrees 30 minutes East from the place of beginning; thence North 61 degrees 30 minutes West across the marsh and by and with the middle of the said outlet road to the place of beginning; containing one hundred fifty and one-half (150-1/2) acres of land, more or less, as surveyed by William D. Pitts, Surveyor of Worcester County, January 1926; EXCEPT such part thereof as was conveyed by a certain Levin D. Lynch unto Seaside, Inc., by Deed dated January 22, 1949, and recorded among the Land Records of Worcester County, Maryland, in Liber C.W.H. No. 28, folio 38, and SUBJECT, nevertheless, to the right of way mentioned and described in the Deed to Levin D. Lynch from Edwin R. Cole, et al., dated May 4, 1944, recorded as aforesaid in Liber C.W.H. No. 24, folio 473.

ITEM TWO: All of the land lying and being situate in the Tenth Election District of Worcester County, Maryland, which was conveyed unto the said Levin D. Lynch by Seaside, Inc., a Maryland corporation, by the aforesaid Deed dated January 22, 1949, recorded as aforesaid in Liber C.W.H. No. 28, folio 38; to which said deed and the plat entitled "Plat of a new line dividing the farm of Levin D. Lynch from the property of Seaside Incorporated", recorded as aforesaid in Plat Book C.W.H. No. 1, folio 23, reference is hereby made for a more particular description of the property hereby described.

PARCEL TWO

All that lot or parcel of land lying and being situate in the Tenth Election District of Worcester County, Maryland, on the Easterly side of the Stephen Decatur Memorial Road and the Westerly shores of the Synepuxent Bay, more particularly described as follows: BEGINNING at an iron pipe, as shown on the plat filed with the Deed from Raymond D. Coates, et al., dated October 25, 1965, unto David F. Blakeman, Jr., et al., which said plat is recorded among the Land Records of Worcester County, Maryland, in Plat Book F.W.H. No. 5, folio 33, said iron pipe being found on the Easterly side of the Stephen Decatur Memorial Road right of way and in the center of a 30 feet right of way in common with the lands formerly owned by James R. Kelly; thence by and with the Easterly side of the Stephen Decatur Memorial Road right of way South 43 degrees 18 minutes 40 seconds West 1100 feet to a concrete monument set; thence South 66 degrees 4 minutes 50 seconds East 1650.09 feet to a mill stone found; thence South 40 degrees 31 minutes 20 seconds East 2178.0 feet to a concrete monument set in the waters and shoreline of the Synepuxent Bay; thence by and with the waters and shoreline of the Synepuxent Bay in a northerly direction to the land of the Eastern Shore Public Service Company as set forth on the Inset on the plat hereinbefore mentioned; thence North 62 degrees West 17 feet to a concrete monument found; thence North 28 degrees East 65 feet to a concrete monument found; thence North 62 degrees West 1494.22 feet to an iron pipe found in the center of the right of way in common hereinbefore mentioned; thence by and with the center of the right of way in common North 62 degrees West 2441.40 feet to the iron pipe and the place of beginning; containing 97.46 acres of land, more or less, as platted and surveyed by Edward H. Richardson Associates, Inc., Consulting Engineers and Surveyors, in December 1964, revised June 15, 1965, and recorded for the plat as hereinbefore set forth; EXCEPTING, however, so much thereof as was conveyed therefrom by Deed dated May 27, 1966, from David F. Blakeman, et al., et al., unto Ruth H. Hagaman, recorded among the aforesaid Land Records in Liber F.W.H. No. 205, folio 83, et seq.

PARCEL THREE

All that real estate located in the Tenth Election District of Worcester County, Maryland, and more particularly described as follows, to wit: All that lot or parcel of land lying and being situate in the District and County aforesaid on the Easterly side of the Stephen Decatur Memorial Road but not adjacent thereto, more particularly described as follows: BEGINNING at the letter A and a concrete monument as shown on the aforesaid plat; thence North 41 degrees 59 minutes 30 seconds East 1182.51 feet to another concrete monument; thence South 66 degrees 4 minutes 50 seconds East 932.09 feet to a mill stone found; thence 43 degrees 13 minutes 40 seconds West 1598.01 feet to a concrete monument set; thence North 39 degrees 55 minutes 20 seconds West 901.70 feet to the concrete monument at the letter A, as shown on said plat, and the place of beginning, containing 28.30 acres of land, more or less, as platted and surveyed by Edward H. Richardson Associates, Inc., Consulting Engineers and Licensed Surveyors, in December 1964, as revised June 15, 1965, recorded as aforesaid;

BEING the same three (3) parcels of ground which by Deed dated July 11, 1977 and recorded among the Land Records of Worcester County, Maryland in Liber F.W.H. No. 585, folio 196 were conveyed by Earl F. Lettess, Substitute Trustee, and Jack H. Zemil, Additional Trustee, unto Mystic Harbour Corporation.