

BYLAWS
OF
AVALON WOODS II OWNERS ASSOCIATION, INC.

Avalon Woods II Owners Association, Inc. (hereinafter the "Association"), a nonstock corporation duly formed under the provisions of the Virginia Nonstock Corporation Act, Chapter 10, Title 13.1 of the Code of Virginia (the Code), hereby adopts the following Bylaws of the Association which shall govern the management and operation of the Association's business and the regulation of its affairs, to the extent consistent with the Association's Articles of Incorporation and applicable law, and in accordance with Section 13.1-823 of the Code.

ARTICLE I

DEFINITION OF TERMS

Unless otherwise stated in these Bylaws, all of the terms used in these Bylaws which are defined in Section 13.1-803 of the Code shall be deemed to have the meaning set forth in such Section of the Code.

"Association" shall mean the Avalon Woods II Owners Association, Inc., its successors and assigns.

"Development" shall mean the Avalon Woods II Subdivision, Sections One as shown on the plat entitled "Final Plat of Avalon Woods II, Section One" dated July 2, 2003 prepared by Barry E. Lotts, Land Surveyor, recorded in the Clerk's Office of the Circuit Court of Rockingham County, Virginia, in Plat Cabinet C, Slide 171, and all other Sections of Avalon Woods II which may later be make a portion of this Development by the recordation of supplemental plats and Declarations, for which the Association has been formed.

"Declaration" shall mean any declaration setting forth covenants, conditions, and restrictions, applicable to the Avalon Woods II Subdivision, which Declaration has been duly recorded in the Clerk's Office of the Circuit Court of Rockingham County, Virginia, in Deed Book 2404, page 599, and all other declarations which may be recorded for the purpose of adding additional Sections to Avalon Woods II.

"Developer" shall mean Harrisonburg Townhomes, L.L.C., or its successor or assignee as the Developer of the Development.

"Shareholders" shall mean all members of the Association as set forth herein.

ARTICLE II

ADOPTION

In accordance with Section 13.1-822 of the Code, these Bylaws shall become effective upon ratification, approval and formal adoption by the Board of Directors of the Association at its organizational meeting or any subsequent meeting.

ARTICLE III

EMERGENCY BYLAWS

In the event that a quorum of the Association's Board of Directors cannot readily be assembled because of some catastrophic event, the Board of Directors of the Association may, consistent with Section 13.1-824 of the Code, adopt other bylaws to be effective only in such an emergency, which bylaws shall be subject to amendment or repeal by the members of the Association, and shall provide procedures for calling a meeting of the Board of Directors, quorum requirements for the meeting, and designation of additional or substitute directors, as well as other provisions necessary for managing the Association during such emergency. All provisions of these Bylaws consistent with such emergency bylaws shall remain effective during such emergency. Such emergency bylaws shall not be effective after such emergency ends. Corporate action taken in good faith in accordance with such emergency bylaws shall bind the Association and may not be used to impose liability on a director, officer, employee, or agent of the Association.

ARTICLE IV

CORPORATE POWERS

Subject to the Association's Articles of Incorporation and Section 528 of the Internal Revenue Code of 1986, as amended, the Association shall have the same powers as an individual to do all things necessary or convenient to carry out its business and affairs, including, without limitation, those enumerated in Section 13.1-826 of the Code. In the event of an emergency as described in Article III immediately preceding, the Board of Directors shall have those emergency powers enumerated in Section 13.1-827 of the Code.

ARTICLE V

NONSTOCK CORPORATION

In accordance with Section 13.1-814 of the Code, the Association shall not issue shares of stock. No dividend shall be paid and no part of the income of the Association shall be distributed to its members, directors, or officers, except that the Association may make distributions to another nonprofit corporation that is a member of the Association or has the power to appoint one or more of its directors. The Association may pay compensation in a reasonable amount to its members,

directors, or officers for services rendered, including pensions, may confer benefits upon its members in conformity with its purposes, and may make distributions as permitted by applicable law upon dissolution or final liquidation and no such payment, benefit or distribution shall be deemed to be a dividend or a distribution of income.

ARTICLE VI

PURPOSE

The Association is organized for the general purposes stated in its Articles of Incorporation and its Declaration of Covenants, Conditions, Reservations and Restrictions. If the Bylaws are inconsistent with the Articles of Incorporation or the Declaration of Covenants, Conditions, Reservations and Restrictions, the Articles of Incorporation or the Declaration of Covenants, Conditions, Reservations and Restrictions shall supersede these Bylaws.

ARTICLE VII

MEMBERS

Section 1. Classes of Members. The Association shall have two classes of members, designated as "Class A" and "Class B," respectively. The Association shall not issue certificates evidencing membership in the Association.

Class A members shall be comprised of those persons or entities which own a fee simple interest (or an undivided fee simple interest) in, and are the record owners of title to, any lot in the Development; provided, however, that Class A members shall not include (i) persons or entities holding such an interest solely as security for the performance of an obligation, or (ii) the Developer. All persons or entities together owning an interest in a single lot shall be members; provided, however, that such multiple owners shall only have one vote as provided in Section 2 of this Article VII.

The sole Class B member shall be the Developer. The Class B membership shall automatically terminate and be converted into a Class A membership (with no action being required on the part of any person or entity) on the date when seventy-five percent (75%) of the units are deeded to homeowners. Inconsistent with language from Covenants which reads "provided that the Class B membership shall cease and be converted to Class A membership when the total votes outstanding in the Class A membership equal or exceed the total votes outstanding in the Class B membership

Each Class A membership shall run and convey with title to the lot to which it relates. The conveyance of a lot by the Developer shall automatically convert the membership relating to that lot to a Class A membership; provided, however, that the Developer may transfer all of the lots owned by it to a successor or assignee as substitute Developer and, in such event, each lot will be transferred with Class B membership.

Section 2. Voting Entitlement of Members. Each Class A member (or group of Class A members together owning one lot) shall be entitled to one vote for each Development lot owned. When more than one person or entity owns an interest in a lot, they shall vote as a group so that in no event shall more than one vote be cast with respect to any lot. The Class B member shall be entitled to three votes for each lot owned by it until such time as it may be converted into Class A membership.

Section 3. Annual Meeting. The annual meeting of the shareholders shall be held on the second Wednesday in February of each year. If this day is a legal holiday, then such annual meeting shall be held on the first day immediately following that is not a legal holiday. The failure to hold the annual meeting at the time stated herein shall not affect the validity of any corporate action. The Association shall give each member written notice of the date, time and location of each annual meeting no less than ten nor more than sixty days before the date of the meeting.

Section 4. Special Meetings. The Corporation shall hold special meetings of the shareholders on the call of the President, the Board of Directors, the Class B member, or the holders of at least twenty percent (20%) of all votes entitled to be cast by Class A members on any issue proposed to be considered at the special meeting, which holders shall sign, date, and deliver to the Association's Secretary one or more written demands for the meeting describing the purpose or purposes for which it is to be held. Unless otherwise provided by statute, the Association shall give each member written notice of the date, time, location, and purpose of any special meeting no less than ten nor more than sixty days before the date of the meeting.

Section 5. Place of Meetings. Annual, regular, or special meetings of the shareholders may be held either within or without the Commonwealth of Virginia.

Section 6. Action Without a Meeting. Any action required or permitted to be taken at a shareholders' meeting may be taken without a meeting and without action by the Board of Directors if the action is taken by all the shareholders entitled to vote on the action. The action shall be evidenced by one or more written consents describing the action taken, signed by all the shareholders entitled to vote on the action, and delivered to the Secretary of the Association for inclusion in the minutes or filing with the corporate records. Any action taken by unanimous written consent shall be effective according to its terms when all consents are in possession of the Association. Action taken under this section is effective as of the date specified therein provided the consent states the date of execution by each shareholder. A consent signed under this section shall have the effect of a unanimous vote of voting shareholders and may be described as such in any document filed with the State Corporation Commission.

Section 7. Quorum and Voting Requirement. Members holding ten percent (10%) of the votes entitled to be cast represented in person or by proxy shall constitute a quorum. The vote of a majority of the votes entitled to be cast by the members present or represented by proxy at a meeting at which a quorum is present shall be necessary for the adoption of any matter voted upon by the members, unless a greater proportion is required by statute or by the Association's Declaration. Once a member is present at a meeting the member is deemed present for quorum purposes for the remainder of the meeting and for adjournment of that meeting. Less than a quorum may adjourn a meeting. Directors shall be elected by a majority of the votes cast by the members entitled to vote in

the election at a meeting at which a quorum is present. In the election of directors, each Class A member shall be entitled to cast one vote per lot owned for as many persons as there are directors being elected at that time, and the Class B member shall be entitled to cast three votes per lot owned for as many persons as there are directors being elected at that time. Members shall not have the right to cumulate their votes for directors.

Section 8. Assessments. Each member shall be required to pay such annual assessments, special assessments, fees, dues, and other charges as may be established by the Association's Board of Directors from time to time; provided that the Board establishes such annual assessments, special assessments, fees, dues, and other charges in a manner not inconsistent with the Association's Declaration. Such assessments shall be used, in the Board's discretion, for the maintenance and operation of the Association's property and facilities.

Section 9. Compliance With Declaration. Each member shall be obligated to comply with the covenants, conditions and restrictions contained in the Association's Declaration.

ARTICLE VIII

BOARD OF DIRECTORS

Section 1. Number and Qualification. All corporate powers shall be exercised by or under the authority of, and the business and affairs of the Association shall be managed under the direction of, the Board of Directors. The Board of Directors shall consist of three (3) persons. A director need not be a member of the Association.

Section 2. Election. The initial Board of Directors shall consist of those persons so designated in the Articles of Incorporation. Members of the initial Board of Directors shall hold office until the first annual meeting of the directors and until their successors shall have been elected and qualified. All other directors shall be elected by the members at each annual members' meeting in the manner provided in Article VII, Section 7 of these Bylaws.

Section 3. Term. The terms of the initial directors of the Association shall expire at the first directors' meeting at which directors are elected. The terms of all other directors shall be one (1) year or until their successors are elected and qualified following their election. Despite the expiration of a director's term, he shall continue to serve until his successor is elected and qualifies or until there is a decrease in the number of directors.

Section 4. Resignation and Removal. A director may resign at any time by delivering written notice to the Board of Directors, the President, or the Secretary. A resignation shall be effective when the notice is delivered unless the notice specifies a later effective date. The members may remove one or more directors with or without cause. A director may be removed only at a meeting called for the purpose of removing such director and only if the number of votes cast to remove him constitutes a majority of the votes entitled to be cast at an election of directors.

Section 5. Vacancy. If a vacancy occurs on the Board of Directors, including a vacancy resulting from an increase in the number of directors, the vacancy may be filled by the affirmative vote of a majority of the remaining directors, even though less than a quorum of the board.

Section 6. Annual Meeting. The Board of Directors shall meet at least annually on the second Wednesday in February for the purpose of general organization, the election of officers, and consideration of any other business that may properly be brought before the meeting. If this day is a legal holiday, then the Board shall meet on the first day immediately following that is not a legal holiday. The failure to hold the annual meeting at the time stated herein shall not affect the validity of any corporate action.

Section 7. Regular or Special Meetings in Addition to the Annual Meeting. ~~Regular~~ special meetings of the Board of Directors may be held upon notice by word-of-mouth, letter, telegram, or cable delivered not later than twenty-four (24) hours preceding the time for the meeting, upon call of the President or Secretary of the Association.

Section 8. Place of Meetings. Meetings of the Board of Directors, annual, regular, or special, may be held either within or without the Commonwealth of Virginia.

Section 9. Quorum and Voting. Action may be taken on a matter by the Board of Directors only at a meeting at which a quorum shall be present. A quorum of the Board of Directors shall consist of a majority of the number of directors on the board. If a quorum is present when a vote is taken, the affirmative vote of a majority of directors present is the act of the Board of Directors. Whenever applicable law requires the Board of Directors to recommend or approve any proposed corporate act, such recommendation or approval shall not be required if the proposed corporate act is adopted by the unanimous consent of the members.

Section 10. Conduct of Meetings. The President shall preside over all meetings of the directors. If he is not present, the Vice President or, if there be none, the Secretary shall preside. If none of such officers are present, a chairman shall be elected by the meeting. The Secretary of the Association shall act as secretary of all the meetings if he is present. If he is not present, the officer presiding over the meeting shall appoint a secretary of the meeting. The Board of Directors may permit any or all directors to participate in a regular or special meeting by, or conduct a meeting through the use of, any means of communication by which all directors participating may simultaneously hear each other during the meeting.

Section 11. Action Without a Meeting. Any action required or permitted to be taken at a Board of Directors' meeting may be taken without a meeting if the action is taken by all members of the board. The action shall be evidenced by one or more written consents stating the action taken, signed by each director either before or after the action taken, and included in the minutes or filed with the corporate records reflecting the action taken. Action taken under this Section is effective when the last director signs the consent unless the consent specifies a different effective date, in which event the action taken is effective as of the date specified therein provided the consent states the date of execution by each director. A consent signed under this Section shall have the same effect of a meeting vote and may be described as such in any document.

Section 12. Committees. The Board of Directors may create one or more committees and appoint members of the Board of Directors to serve on them. Each committee may have two or more members, who shall serve at the pleasure of the Board of Directors. The provisions of this Article which govern meetings, action without meetings, and quorum and voting requirements of the Board of Directors, shall apply to committees and their members as well. Each committee may exercise the authority of the Board of Directors, subject to Section 13.1-869(D) of the Code.

ARTICLE IX

OFFICERS

Section 1. General. The officers of the Association shall consist of a President and Secretary, and, if elected by the Board of Directors in its discretion, a Vice President and/or Treasurer, and such other officers and assistant officers and agents as may be deemed necessary by the Board of Directors. All officers shall be elected by the Board of Directors and shall serve at the pleasure of the Board of Directors for such compensation as may be fixed by the Board. Any two or more offices may be held by the same person. A duly appointed officer may appoint one or more officers or assistant officers if authorized by the Board of Directors.

Section 2. Resignation and Removal. An officer may resign at any time by delivering written notice to the Board of Directors. A resignation shall be effective when the notice is delivered unless the notice specifies a later effective date. If a resignation is made effective at a later date and the Association accepts the future effective date, it may fill the pending vacancy before the effective date if his successor does not take office until the effective date. The Board of Directors may remove any officer at any time with or without cause and any officer or assistant officer, if appointed by another officer, may likewise be removed by such officer.

Section 3. Vacancies. Whenever any vacancies shall occur in any office, the vacancy shall be filled by the Board of Directors.

Section 4. The President. The President shall be the chief executive officer and shall have active executive management of the operations of the Association, subject to the control of the Board of Directors. The President shall preside at all meetings of the directors, discharge all the duties that devolve upon a presiding officer, and perform such other duties as these Bylaws or the Board of Directors may prescribe.

Section 5. The Secretary. The Secretary shall attend all meetings of the Board of Directors, and shall have the responsibility for preparing and maintaining custody of minutes of the directors meetings and for authenticating records of the Association. The Secretary shall keep or cause to be kept in a book provided for the purpose a true and complete record of the proceedings of all meetings. The Secretary shall be custodian of the records and the seal of the Association and shall see that the seal is affixed to all documents, the execution of which on behalf of the Association under its seal have been duly authorized. The Secretary shall attend to the giving of all notices and shall perform such other duties as these Bylaws or the Board of Directors may prescribe.

Section 6. The Vice President. The Vice President shall perform all duties incumbent upon the President during the absence or disability of the President, and shall perform such other duties as these Bylaws or the Board of Directors may prescribe.

Section 7. The Treasurer. The Treasurer shall keep correct and complete records of account, showing accurately at all times the financial condition of the Association. The Treasurer shall be the legal custodian of all monies, notes, securities, and other valuables that may from time to time come into the possession of the Association. The Treasurer shall immediately deposit all funds of the Association coming into his hands in some reliable bank or other depository to be designated by the Board of Directors, and shall keep this bank account in the name of the Association. The Treasurer shall furnish at meetings of the Board of Directors, or whenever requested, a statement of the financial condition of the Association, and shall perform such other duties as these Bylaws or the Board of Directors may prescribe.

Section 8. Transfer of Authority. In case of the absence of any officer of the Association or for any other reason that the Board of Directors may deem sufficient, the Board of Directors may transfer the powers or duties of that officer to any other officer or to any director or employee of the Association.

ARTICLE X

SPECIAL CORPORATE ACTS NEGOTIABLE INSTRUMENTS, DEEDS AND CONTRACTS

All checks, drafts, notes, bonds, bills of exchange, and orders for the payment of money of the Association; all deeds, mortgages, and other written contracts and agreements to which the Association shall be a party; and all assignments or endorsements of registered bonds or other securities owned by the Association, shall be signed by such officers as the Board may from time to time direct. The Board of Directors may authorize any one of its officers to sign any of such instruments, for and in behalf of the Association, without necessity of countersignature; may designate officers or employees of the Association, other than those named above, who may, in the name of the Association, sign such instruments; and may authorize the use of facsimile signatures of any of such persons. Any shares of stock issued by any other corporation and owned or controlled by the Association may be voted at any directors' meeting of the other corporation by the President of the Association, if he be present; or, in his absence, by any Vice President of the Association who may be present; and, in the event both the President and the Vice President shall be absent, then by such person as the President of the Association shall, by duly executed proxy, designate to represent the Association at such directors' meeting.

ARTICLE XI

INDEMNIFICATION

Section 1. Limitation of Liability. To the full extent that the Virginia Nonstock Corporation Act, as it exists on the date hereof or may hereafter be amended, permits the limitation or elimination of the liability of directors or officers, a director or officer of the Association shall not be liable to the Association or its members, if any, for any monetary damages.

Section 2. Indemnification. The Association shall indemnify a director or officer of the Association who is or was a party to any proceeding by reason of the fact that he is or was such a director or officer, or is or was serving at the request of the Association as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against all liabilities and expenses incurred in the proceeding except such liabilities and expenses as are incurred because of his willful misconduct or knowing violation of the criminal law.

Section 3. Advances and Reimbursement of Expenses. Unless a determination has been made that the indemnification is not permissible, the Association shall make advances and reimbursements for expenses incurred by a director or officer in a proceeding upon receipt of an undertaking from him to repay the same, if it is ultimately determined that he is not entitled to indemnification. Such undertaking shall be an unlimited, unsecured general obligation of the director or officer and shall be accepted without reference to his ability to make repayment. Unless a determination has been made that indemnification is not permissible, the Association is hereby empowered to contract in advance to indemnify and advance the expenses of any director or officer.

Section 4. Procedure for Indemnification. The determination to make advancements, reimbursements or indemnifications, or to contract in advance to do the same, shall be made by majority vote of a quorum of disinterested directors. If a quorum of disinterested directors cannot be obtained for any reason, then the determination shall be made by a majority vote of a committee designated by the Board of Directors, including interested directors, the committee to consist only of disinterested directors, at least two (2) in number, or by special legal counsel selected by the committee described above. If neither a quorum of disinterested directors nor a committee of at least two (2) disinterested directors can be obtained, then the determination shall be made by a majority vote of the entire Board, including interested directors.

Section 5. Persons Covered. The Board of Directors is hereby empowered, by majority vote of a quorum of disinterested directors, to cause the Association to indemnify or contract in advance to indemnify any person not specified in Section 2 of this Article who was or is a party to any proceeding, by reason of the fact that he is or was an employee or agent of the Association, or is or was serving at the request of the Association as director, partner, trustee, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, to the same extent as if such person were specified as one to whom indemnification is granted in Section 2.

Section 6. Insurance. The Association may purchase and maintain insurance to indemnify it against the whole or any portion of the liability assumed by it in accordance with this Article and may also procure insurance, in such amounts as the Board of Directors may determine, on behalf of any person who is or was a director, officer, employee or agent of the Association, or is or was serving at the request of the Association as a director, partner, trustee, officer, employee or

agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against any liability asserted against or incurred by any such person in any such capacity or arising from his status as such, whether or not the Corporation would have power to indemnify him against such liability under the provisions of this Article.

Section 7. Changes in the Board Composition. In the event there has been a change in the composition of a majority of the Board of Directors after the date of the alleged act or omission with respect to which indemnification is claimed, any determination as to indemnification and advancement of expenses with respect to any claim for indemnification made pursuant to Section 2 of this Article shall be made by special legal counsel agreed upon by the Board of Directors and the proposed indemnitee. If the Board of Directors and the proposed indemnitee are unable to agree upon such special legal counsel, the Board of Directors and the proposed indemnitee each shall select a nominee, and the nominees shall select such special legal counsel.

Section 8. Applicability of this Article. The provisions of this Article shall be applicable to all actions, claims, suits or proceedings commenced after the adoption hereof, whether arising from any action taken or failure to act before or after such adoption. No amendment, modification or repeal of this Article shall diminish the rights provided hereby or diminish the right to indemnification with respect to any claim, issue or matter in any then pending or subsequent proceeding that is based in any material respect on any alleged action or failure to act prior to such amendment, modification or repeal. Reference herein to directors, officers, employees or agents shall include former directors, officers, employees and agents and their respective heirs, executors and administrators.

ARTICLE XII

TRANSACTIONS WITH DIRECTORS

Any transaction with the Association in which a director of the Association shall have a direct or indirect personal or pecuniary interest shall be deemed a conflict of interests transaction. A conflict of interests transaction shall be valid if (a) the material facts of the transaction and the directors interests are disclosed or known to the Board of Directors and the Board of Directors authorizes, approves, or ratifies the transaction; or (b) the material facts of the transaction and the directors interests are disclosed to the directors entitled to vote and they authorize, approve, or ratify the transaction.

For the purposes of this Article, a director shall be deemed to have an indirect personal interest in a transaction if another entity in which he has a material financial interest or in which he is a general partner is a party to the transaction or another entity of which he is a director, officer or trustee is a party to the transaction and the transaction is or should be considered by the Board of Directors of the Association.

For purposes of this Article, a conflict of interests transaction is authorized, approved, or ratified if it receives the affirmative vote of a majority of the Directors on the Board of Directors who have no direct or indirect personal interest in the transaction.

A transaction shall not be authorized, approved, or ratified under this Article by a single director. If a majority of the Directors who have no direct or indirect personal interest in the transaction vote to authorize, approve or ratify the transaction, a quorum is present for the purpose of taking action under this Article. The presence of, or a vote cast by, a director with a direct or indirect personal interest in the transaction does not affect the validity of any action taken under this Article if the transaction is otherwise authorized, approved or ratified as provided in this Article.

For purposes of this Article, a conflict of interest transaction is authorized, approved, or ratified if it receives the vote of a majority of the votes entitled to be cast by members that may be counted under this paragraph. A member having a direct or indirect personal interest in the transaction may not vote to determine whether to authorize, approve, or ratify a conflict of interests transaction. Members holding a majority of the votes entitled to be cast represented in person or by proxy shall constitute a quorum for taking action under this Article.

ARTICLE XIII

CORPORATE SEAL

The corporate seal shall be in such form as shall be approved by the Board of Directors.

ARTICLE XIV

FISCAL YEAR

The fiscal year of the Association shall be determined by the Board of Directors in its discretion, subject to applicable law.

ARTICLE XV

AMENDMENT TO BYLAWS

These bylaws may be amended or repealed by the Board of Directors. Any Bylaw adopted or amended by the members may be amended or repealed by the Board of Directors, unless the resolution of the members adopting such Bylaw expressly provides that the Board of Directors may not amend or repeal such Bylaw. HUD/VA has the right to veto amendments while there is a Class B membership.

ARTICLE XVI

IMPLIED AMENDMENTS

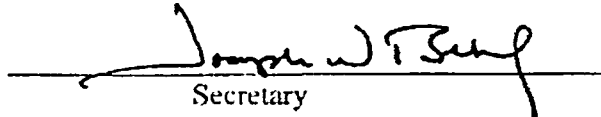
Any action taken or authorized by the Board of Directors which would be inconsistent with the Bylaws then in effect, but is taken or authorized by the affirmative vote of not less than the number of directors that would be required to amend these Bylaws so that the Bylaws would be consistent with such action, shall be given the same effect as if these Bylaws had been temporarily amended or suspended to the extent necessary to permit the specific action so taken or authorized.

ARTICLE XVII

DISSOLUTION

Upon the dissolution of the Association, the Board of Directors shall, after making provision for the payment of all of the liabilities of the Association, dispose of all of the assets of the Association exclusively for the purposes of the Association in such manner, or to such organization or organizations organized and operated exclusively for charitable, religious, and educational purposes as shall at the time qualify as an exempt organization or organizations under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, as the Board of Directors shall determine. Any assets not so distributed shall be distributed by the Circuit Court for the County of Rockingham, Virginia, to any exempt organization or organizations to be used in such manner as in the judgment of such court will best accomplish the general purposes for which this Association was organized.

02/15/04


Secretary