

MONTGOMERY TRACE PROPERTY OWNERS ASSOCIATION

STANDARD PRACTICE BULLETIN

ANNUAL ASSESSMENT COLLECTION PROCESS

I. POLICY

The policy of The Montgomery Trace Property Owners Association is to fairly and equitably collect 1) annual assessments and 2) special assessments in accordance with the Covenants and the Texas Property Code.

II. PURPOSE

The purpose of this Standard Practice Bulletin is to set forth the process which will be followed to assure the fair and equitable collection of the annual assessments. Special assessments are the subject of a separate Standard Practice Bulletin.

III. RESPONSIBILITY

The Board has overall responsibility for the administration of the provisions of this Standard Practice Bulletin. The Board has delegated certain specific operational tasks to the Association's contracted property management company as indicated elsewhere in this bulletin. The Board has sole responsibility for authorizing the Association's attorney to bring actions at law necessary to collect delinquent assessment accounts.

IV. DEFINITIONS

1. **Association** Shall be understood to mean the Montgomery Trace Property Owners Association
2. **Board** Shall be understood to mean the elected Board of Directors of the Montgomery Trace Property Owners Association.
3. **Manager** Shall be understood to mean the Association's contracted property management company and its employees.
4. **Attorney** Shall be understood to mean the firm contracted by the Association to provide legal services.
5. **Debt Collection Agency** Shall be understood to mean the firm, in most cases the Attorney, contracted by the Association to collect on delinquent assessment accounts
6. **Covenants** Shall be understood to mean the Declaration of Covenants, Conditions and Restrictions of Montgomery Trace Subdivision Sections I (1) through X (10) which have been filed for record with the Montgomery County Clerk of Montgomery County, Texas.
7. **Assessment** Shall be understood to mean the annual assessment established in Article VII, Section 1 of the Covenants.
8. **Financial Committee** Shall be understood to mean the Treasurer of the Board plus one or more other members of the Board with the responsibility for developing a proposed annual budget for consideration by the Board.
9. **Owner(s)** Shall be understood to mean the owner(s) whose name appears on the record of the Montgomery County Appraisal District on the first day of November of each year,

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unless, prior to that date, the Association's Manager has received written notification of a change in ownership along with the new owner(s) name and current mailing address.

V. DEVELOPMENT OF THE ANNUAL BUDGET AND ANNUAL ASSESSMENT

1. The Financial Committee meets in August of each year to develop a proposed budget for the next calendar year.
2. A proposed assessment is then developed to offset the expenses contained in the proposed budget.
3. The proposed budget and proposed assessment are presented for discussion and review at the regularly scheduled Board meeting in September of each year.
4. Revisions and/or adjustments, if any, to the budget and assessment are made by the Financial Committee to be reviewed and voted on at the regularly scheduled Board meeting in October of each year.
5. Immediately following adoption, the Financial Committee forwards the "next year" budget and assessment to the Manager who then initiates preparation of the Annual Invoice.

VI. NOTICE OF ASSESSMENT IS THE ANNUAL INVOICE

1. Notice of the annual assessment shall be in the form of an annual invoice which shall be prepared and mailed by the Manager to all Owners on or about the Monday in November which is nearest the first day of November of each year.

VII. DUE DATE AND DEFAULT DATE

1. Assessments for the upcoming year are due in full on 31 December of the current year.
2. Assessments not received in the offices of the Manager on or before the due date shall be deemed in default.

VIII. METHODS OF PAYMENT

1. Single Annual Payment - All single payments of assessments, regardless of the amount and date paid, will always be applied to the Owners assessment account in the following order of precedence: first to oldest assessment balances; then to late charges; then to interest charges; then to any costs incurred by the Association to obtain payment.
2. Payment Plans - Owners may contact the Manager to obtain a written payment plan agreement whereby the assessment for the upcoming year is paid in monthly installments. Payment plan agreements must be signed by the Owner and received in the Manager's office on or before 31 December of the current year. As consideration of the monthly payment plan, Owner's must agree a) to keep their assessment account current on a month-to-month basis; and b) that missed or late payments will result in an interest charge, at the rate set forth in Item IX, being added to the assessment account on the day following the date a payment is late or missed; and c) that the assessment account, including all interest charges, must be paid in full on or before 31 December of the assessment year. Payment plans which become delinquent for any reason will result in the initiation of collection actions including, but not limited to, late notices, liens and appropriate legal action as set forth in Item XI below.

IX. INTEREST CHARGES

1. In accordance with the Covenants, interest accrues on any assessment not paid within thirty (30) days after the due date.
2. Eighteen per cent (18%) per annum, is the highest legal rate permitted in July, 2005 and is the rate which will be used by the Association.
3. The Manager's accounting system automatically applies interest charges to delinquent assessment accounts on the last work day of every month.

X. NOTICES AND LIENS

1. Written notification of delinquent account balances, including applicable interest charges, are mailed to Owners thirty (30) days after an account becomes delinquent.
2. Reminder letters are mailed to Owners each month thereafter until the outstanding balance is paid or until the account is turned over to the Attorney or Debt Collection Agency.
3. If an account has not been brought to current status, or if Owner has not signed and returned a written payment plan agreement within sixty (60) days from the date an account becomes delinquent, the Association will file a lien against the property.

XI. AUTHORIZATION OF ATTORNEY ACTIONS

1. The Treasurer, with the advice and consent of the Board, may authorize the Attorney to initiate legal action in the manner prescribed by law to collect on delinquent accounts when either of the following conditions is found to exist.
 - a. The delinquent balance on an individual account exceeds \$1,000.00.
 - b. The total delinquent balance of multiple accounts in the name of the same Owner is older than twelve (12) months and exceeds \$1,000.00.
2. The Manager is responsible for executing the following actions within five (5) working days of receiving notification from the Treasurer that an assessment account(s) has been released to the Attorney.
 - a. Forward complete account histories to the Attorney.
 - b. Discontinue sending any further reminder letters to the Owner.
 - c. Insure that accounting systems are in place so that ongoing interest charges continue to be applied monthly to the delinquent account(s) until the matter is closed by the Attorney and/or the Treasurer.
3. Upon receiving authorization from the Treasurer to proceed, the Attorney is responsible for all communications with the Owner and for preparing and issuing an Initial Demand Letter which specifies the amounts that must be paid to satisfy the delinquency and the date certain by which funds must be received, generally thirty (30) days from the date of the demand letter.
4. It is the sole responsibility of the Owner to respond to the Initial Demand Letter by first contacting the Attorney. The Attorney will provide Owner with specific instructions and details of how the delinquent account must be satisfied. The Attorney shall communicate this activity to the Treasurer who will in turn notify the Manager.
5. If the time limits contained in the Initial Demand Letter expire and the Owner has failed to contact the Attorney and the delinquent account has not been brought to current status, the Attorney is responsible for contacting the Treasurer to determine and coordinate the initiation of either of the following actions.
 - a. Decision taken by the Treasurer to authorize the Attorney to prepare and forward a Final Demand Letter notifying the Owner that the delinquent account must be brought to current status by date certain so as to prevent the initiation of non-judicial foreclosure proceedings.
 - b. Decision taken by the Treasurer to delay sending the Final Demand Letter due to mitigating circumstances which might include Owner's property being in foreclosure proceedings from an third party; partial payments being received from Owner; and capability of Association to effectively manage other legal proceedings already in progress; among others.

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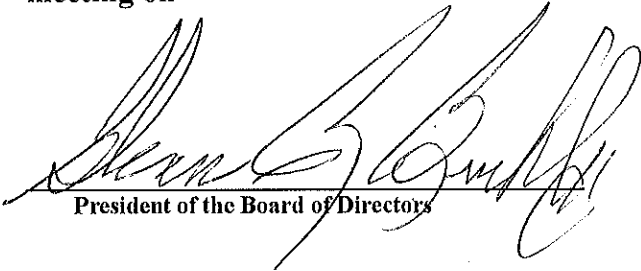
6. If a Final Demand Letter is sent and the time limits contained therein expire and the Owner has failed to contact the Attorney and the delinquent account has not been brought to current status, the Attorney is responsible for contacting the Treasurer who may direct the Attorney to begin non-judicial foreclosure proceedings on the property.

XII. RESOLUTION OF DISPUTED PAYMENTS

1. The Manager is solely responsible for the following items.
 - a. Accounting for payments made to assessment accounts in accordance with Generally Accepted Accounting Practices (GAAP).
 - b. Resolving routine disputes with Owners pertaining to the accounting of assessments.
 - c. Notifying the Treasurer of real or perceived discrepancies in the accounting record.
2. The Treasurer is solely responsible for the following items.
 - a. Oversight of all accounting activities of the Association, including those activities of the Manager on behalf of the Association.
 - b. Making the final decision in matters of write-offs; disputed payments; payments claimed to have been made but not recorded properly; confirmed errors in the accounting record; non-existent accounts; and any other similar disputes pertaining to the assessment accounts which the Manager is unable to resolve directly with an Owner.
3. Owners are solely responsible for providing the Manager and/or Treasurer with copies of cancelled checks as proof of payment of assessments in those cases where Owner disputes the accuracy of the assessment account.

This Standard Practice Bulletin shall not be construed in any way to limit the resources or funds the Board may expend to secure compliance with the Declaration of Covenants, Conditions and Restrictions in all ten (10) Sections of Montgomery Trace Subdivision.

This Standard Practice Bulletin pertaining to the Deed Restriction Enforcement Work Process was adopted and put into full effect by majority vote of the Board of Directors at its regular scheduled meeting on


President of the Board of Directors

Date: 18 August, 2005