

Prepared by: TELlico LAKE PROPERTIES, L.P.
P.O. BOX 5958
MARYVILLE, TN 37802

DECLARATION OF COVENANTS, CONDITIONS AND
RESTRICTIONS FOR PROPERTIES OF RARITY BAY
SUBDIVISION, PHASE I, SECTION 1, 2 AND 3

THIS DECLARATION, made on the date hereinafter set forth by TELlico LAKE PROPERTIES, L.P., hereinafter referred to as "Declarant".

W I T N E S S E T H :

WHEREAS, Declarant hereforto acquired certain lands located in the Second (2nd) Civil District of Monroe County, Tennessee, which is more particularly described by map entitled Rarity Bay Subdivision, Phase One, Section 1, 2 and 3 of record in Map File C Slides 88 and 89

in the Register's Office for Monroe County, Tennessee, to which map specific reference is hereby made for a more particular description thereof and being a part of the same property conveyed to Declarant by warranty deeds of record in Warranty Deed Volume 213, Page 529 in the Register's Office for Monroe County, Tennessee.

WHEREAS, the Declarant may have additional properties to be brought within the plan of the original declaration in future stages of development of the filing of record of a supplemental declaration which said supplemental declaration may contain such complimentary additions and modifications of covenants, conditions, and restrictions as might be necessary to reflect the different character of any of the added properties and;

WHEREAS, the Declarant joined herein by the Rarity Bay Property Owners Association, Inc., for the purpose of indicating their consent hereto declares that the real property described hereinabove and any additions thereto as may hereinafter be made pursuant to Section II, Article II hereof is and shall be held, transferred, so conveyed and occupied subject to the covenants, easements, charges and liens set forth in the above described declaration.

NOW THEREFORE, Declarant hereby declares that all of the properties described above shall be held, sold and conveyed subject to the following easements, restrictions, covenants and conditions, which are for the purpose of protecting the value and desirability of, and which shall run with, the real property and be binding on all parties having all right, title and interest in the described properties or any part thereof, their heirs, successors and assigns, and shall inure to the benefit of each owner thereof.

ARTICLE I
DEFINITIONS

"Association" means Rarity Bay Property Owners Association, Inc., a Tennessee non-profit corporation, its successors and assigns.

"Common Area" means any property, real, personal or mixed, owned or leased by the Association, those areas reflected as such upon any recorded subdivision plat of The Project, and those areas so designated from time to time by the Declarant.

"Owner" shall mean and refer to record owner, whether one or more persons or entities, whether the Developer and any person, firm, corporation, partnership, association or other legal entity, or any combination thereof, owning of record a fee simple interest in a Lot.

"Properties" shall mean and refer to that certain real property hereinbefore described, and such additions thereto as may hereafter be brought within the jurisdiction of the Association.

"Project" means all real property concurrently herewith or in the future subjected to this Declaration.

"Lot" shall be the numbered lots as shown on any recorded subdivision plat of the Project.

"Declarant" and "Developer" shall mean and refer to Tellico Lake Properties, L.P., its successors and assigns.

"Private Street" shall mean and refer to every way of access for vehicles which is not dedicated to the general public but is designated as either Common property or Limited Common Property. The fact that a Private Street shall be known by the name of street, road, avenue, way, lane, place or other name shall in nowise cause the particular street to be public in nature despite the fact that streets under general definitions are not private in nature.

"Single Family Detached" shall mean and refer to any building intended for use by a single family and not attached to any other building.

"Multi-Family Attached" shall mean and refer to any building containing two or more Living Units located on a single parcel of land.

"Living Unit" shall mean and refer to any portion of a building situated upon The Project designed and intended for use and occupancy as a residence by a single family.

"Single Family Attached" shall mean and refer to any building intended for use by a single family and attached to any other building.

ARTICLE II

PROPERTY SUBJECT TO THIS DECLARATION

Section 1. Existing Property.

All lots in Phase I, Section 1, 2 and 3, of Rarity Bay Subdivision, as shown by map of record in Map File C S. 100 88, 89, in the Register's Office for Monroe County, Tennessee.

Section 2. Addition to Existing property.

Additional lands of Developer presently owned or hereinafter acquired may become subject to this declaration as provided in Article IX hereof.

ARTICLE III

RESERVATION OF EASEMENTS

Section 1. Utility and Drainage Easements.

Developer, for itself and its successors and assigns, hereby reserves and is given a perpetual, alienable and releasable easement on, in, over and under the lands as hereinafter designated of the project to install, maintain and use electric, antenna television and telephone transmission and distribution systems, poles, wires, cables and conduits, water mains, water lines, drainage lines and drainage ditches, or drainage structures, sewers and other suitable equipment and structures for drainage and sewerage collection and disposal purposes, transmission and use of electricity, cable television systems, telephone, gas, lighting, heating, water, drainage, sewerage and other conveniences or utilities on, in, over and under all of the Common Property, and on, in, over and under all of the easements, including, but not limited to, private streets, in place or shown on any subdivision plat of the Project, whether such easements are for drainage, utilities or other purposes, and on, in, over and under a five foot strip along the interior of all lot lines of each Lot in the Project, said five foot strip aforesaid to be parallel to the interior lot lines of the respective Lots and utility and drainage easements as shown by recorded plats and restrictions. The Developer shall have the unrestricted and sole right and power of alienating and releasing the privileges, easements, and rights referred to herein with the understanding, however, that the Developer will make such utility easements available to the Association for the purpose of installation of water lines and other water installations and sewer lines and other sewer installations and in addition, will also make such utility easements available to the Association for any other utilities which the Developer and Association shall agree upon, and for which the Association shall have assumed the

responsibility for obtaining additional easements in order that utilities other than sewer and water may be installed. The Association and Owners other than the Developer shall acquire no right, title or interest in or to any poles, wires, cables, conduits, pipes, mains, lines, or other equipment or facilities placed on, in, over or under the property which is subject to said privileges, rights and easements. All such easements, including those designated on any plat of the Project, not made available to the Association are and shall remain private easements and the sole and exclusive property of the Developer and its successors and assigns. Within these aforesaid easements, no structure, planting or other material shall be placed or permitted to remain which may damage or interfere with the installation and maintenance of utilities, or which may change the direction or flow of drainage channels within the easements, or which may obstruct or retard the flow of water through drainage channels within the easements.

Section 2. Easement for Streets.

Developer, for itself and its successors and assigns, hereby reserves a perpetual, alienable and releasable blanket easement, privilege and right, but not the obligation, in, upon, over and across the common properties for purposes of constructing and maintaining such roads, streets or highways as it shall determine to be necessary or desirable in its sole description, including such cuts, grading, leveling, filling, draining, paving, bridges, culverts, ramps and any and all other action or installations which it deems necessary or desirable for such roads, streets or highways to be sufficient for all purposes of transportation and travel. The width and location of the right of way for such roads, streets or highways shall be within the sole discretion of Developer, its successors and assigns, provided, however, that the Developer, its successors and assigns will use their best efforts consistent with their purpose to lessen any damage or inconvenience to improvements which have theretofore been located upon the property. Developer, its successors and assigns, further reserves the unrestricted and sole right and power of granting easements over and across said roads to third parties whether or not they are members of the Rarity Bay Property Owners Association, Inc., or own property within Rarity Bay, reserves the unrestricted and sole right and power of designating such roads, streets or highways as public or private and of alienating and releasing the privileges, easements and rights reserved herein.

Section 3. Others.

All other easements and reservations as reflected on or in the notes of the recorded subdivision plats of lands within the project or hereafter granted of record by the Association, in its sole discretion, as to the Common Property, shall be binding upon each Owner and his Lot to the same extent as if set forth herein.

ARTICLE IV

PROPERTY RIGHTS

Section 1. Owner's Easements of Enjoyment

Every owner shall have a right and easement of enjoyment in and to the Common Area which shall be appurtenant to and shall pass with the title to every Lot, subject to the following provisions:

(a) The right of the Association to suspend the voting rights and right to use of the recreational facilities by an owner for any period during which any assessment against his Lot remains unpaid; and for a period not to exceed 60 days for any infraction of its published rules and regulations;

(b) The right of the Association to dedicate or transfer all or any part of the Common Area to any public agency, authority, or utility for such purposes and subject to such conditions as may be agreed to by the members. No such dedication or transfer shall be effective unless an instrument agreeing to such dedication or transfer by 2/3rds vote of the members agreeing to the dedication or transfer at a meeting duly called for this purpose.

(c) The Association shall lease the sewer easement in the project pursuant to and as set forth in that certain lease agreement between the Association and the Declarant.

Section 2. Access to Private Street

Each Owner shall have a right of ingress and egress and passage over all private streets which are common properties of himself, members of his household, and his guests and invitees, subject to such limitations (except such limitations shall not apply to Developer) as the Association may impose from time to time as to guests and invitees. Such right in the private streets shall be appurtenant to and shall pass with the title and equity to every lot. All private streets shall further be subject to a right-of-way for the agents, employees and officers of Monroe County (and other counties when applicable), State of Tennessee, and any other governmental or quasi-governmental agency having jurisdiction in Rarity Bay to permit the performance of their duties, including, but not limited to, school buses, mail vehicles, emergency vehicles and law enforcement vehicles.

Section 3. Delegation of Use

Any owner may delegate in accordance with the By-Laws, his right of enjoyment to the Common Area and facilities to the members of his family, his tenants, or contract purchasers who reside on the property.

ARTICLE V

MEMBERSHIP AND VOTING RIGHTS

Section 1.

Every owner of a lot shall be a member of the Association. Membership shall be appurtenant to and may not be separated from ownership of any lot.

Section 2.

The Association shall have two classes of voting memberships:

Class A.

Class A Members shall be all owners, with the exception of the Declarant, and shall be entitled to one vote for each lot owned. When more than one person holds an interest in any lot, all such persons shall be members. The vote for such lot shall be exercised as they determine, but in no event shall more than one vote be cast with respect to any lot.

Class B

The Class B Member(s) shall be the Declarant and shall be entitled to five (5) votes for each lot owned.

ARTICLE VI

COVENANT FOR MAINTENANCE ASSESSMENTS

Section 1. Date of Commencement of Annual Assessments.

Assessments shall commence and become due and payable as to each Lot, on the date fixed by the Board of Directors of the Association for commencement, provided, however, no Assessments shall be applicable to or payable with respect to any Lot, until the first day of the first month following the execution of a warranty deed by the Developer conveying such Lot. Each initial Annual Assessment on a Lot, shall be prorated according to the number of months remaining in that calendar year. Written notice of Assessments shall not be required. The due date of any Special Assessment shall be fixed in the resolution authorizing such Assessment and may also be payable monthly within the

discretion of the Board of Directors. The Association shall, upon demand and for which a reasonable charge may be imposed, furnish a certificate signed by an officer of the Association setting forth whether the Assessments on a specified Lot have been paid, which certificate shall be conclusive evidence of payment of any Assessments therein stated to have been paid.

Section 2. Creation of the Lien and Personal Obligation of Assessments.

The Declarant hereby covenants and each owner of any lot by acceptance of a deed therefore, whether or not it shall be so expressed in such deed, is deemed to covenant and agrees to pay to the Association: (1) Annual assessments or charges; (2) Special assessments for capital improvements, such assessments to be established and collected as hereinafter provided. The annual and special assessments together with interest, costs and reasonable attorney's fees, shall be a charge on the land and shall be continuing lien upon the property against which each such assessment is made. Each such assessment, together with interest, costs, and reasonable attorney's fees, shall also be the personal obligation of the person who was the owner of such property at the time when the assessment fell due. The personal obligation for delinquent assessments shall not pass to his successors in title unless expressly assumed by them.

Section 3. Purpose of Assessments

The assessments levied by the Association shall be used exclusively to promote the recreation, health, safety and welfare of the residents in the properties and for the improvement and maintenance of the Common Area.

Section 4. Maximum Annual Assessment.

Until January 1 of the year immediately following the conveyance of the first lot in the Development to an owner, the maximum annual assessment shall be Two Hundred Forty Dollars (\$240.00).

(a) From and after January 1 of the year immediately following the conveyance of the first lot to an owner, the maximum annual assessment may be increased each year not more than 5% above the maximum assessment for the previous year without a vote of the membership or increases in the Consumer Price Index for the twelve (12) month period ending December 31st of the preceding year using the "All Urban Consumer, U. S. City Average" for "General Summary, All Items" as promulgated by the Bureau of Labor Statistics of the U. S. Department of Labor or, if such is not available, any other reliable governmental or other non-partisan publication evaluating similar information, whichever is greater.

(b) From and after January 1 of the year immediately following the conveyance of the first lot to an owner, the maximum annual assessment may be increased above the amount provided for in 4(a) by a vote of two-thirds (2/3rds) of the members who are voting in person or by proxy, at a meeting duly called for this purpose.

(c) The Board of Directors may fix the annual assessment at an amount not in excess of the maximum.

Section 5. Special Assessments for Capital Improvements.

In addition to the annual assessments authorized above, the Association may levy, in any assessment year, a special assessment applicable to that year only for the purpose of defraying, in whole or in part, the cost of any construction, reconstruction, repair or replacement of a capital improvement upon the Common Area, including fixtures and personal property related thereto, provided that any such assessment shall have the assent of two-thirds (2/3rds) of the votes of the members who are voting in person or by proxy at a meeting duly called for this purpose. No special assessments may be used for initial constructions of amenities that are the responsibility of the developer.

Section 6. Notice and Quorum for any action authorized under Section 3 and 4.

Written notice of any meeting called for the purpose of taking any action authorized under Section 3 and 4 shall be sent to all members not less than 30 days nor more than 60 days in advance of the meeting. At the time such meeting called, the presence of members or of proxies entitled to cast fifty percent (50%) of all the votes of the membership shall constitute a quorum. If the required quorum is not present, another meeting may be called subject to the same notice. No such subsequent meeting shall be held more than 60 days following the preceding meeting.

Section 7. Uniform Rate of Assessment.

Special and annual assessments must be fixed at a uniform rate and may be collected on a monthly basis.

Section 8. Effect of Nonpayment of Assessments.

Remedies of the Association.

Any assessment not paid within thirty (30) days after the due date may bear interest from the due date at the rate of ten percent (10%) per annum. The Association may bring an action at law against the owner personally obligated to pay the same, or foreclose the lien against the property. No owner may waive or otherwise escape liability for the assessments provided for herein by non-use of the Common Area or abandonment of his lot.

Section 9. Subordination of the Lien to Mortgages.

The lien of the assessments provided for herein shall be subordinate to the lien of any first mortgage. Sale or transfer of any lot shall not affect the assessment lien. However, the sale or transfer of any lot pursuant to mortgage foreclosure or any proceeding in lieu thereof, shall extinguish the lien of such assessments as to payments which become due prior to such sale or transfer. No sale or transfer shall relieve such lot from liability for any assessments thereafter becoming due or from the lien thereof.

ARTICLE VII

EXTERIOR MAINTENANCE

Section 1. Failure to Maintain by Owner.

In the event the owner of any lot shall fail to properly provide for maintenance thereof, the Association may, but shall not be obligated to, provide such maintenance as follows: cut, trim, care for and maintain trees, shrubs and grass, or repair, replace and care for walks, roofs, gutters, downspouts, exterior building surfaces, windows, fascia, doors, decks and other exterior improvements, including repainting or staining as needed.

Section 2. Assessment of Cost.

The cost of such maintenance shall be assessed by the Association against the lot upon which such maintenance is done and shall be added to and become a part of the Annual Assessment to which such lot is subject as a personal charge as a part of such Annual Assessment, it shall be a lien upon said lot until

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paid, subject however, to any prior lien by reason of a first mortgage or first deed of trust, and shall become due and payable in all respects as provided herein, for assessments.

Section 3. Access at Reasonable Hours.

For the purpose solely of performing the maintenance authorized by Article VII, the Association, through its duly authorized agents or employees, shall have the right, after reasonable notice to the owner, to enter upon any lot at reasonable hours on any day except Sunday.

ARTICLE VIII
ZONING REQUIREMENTS

This subdivision is an approved planned residential development under the regulation of the Tellico Reservoir Development Agency. A site plan for the development of the subdivision showing the proposed location of internal drives or streets and parking areas to be constructed in said subdivision is on file with the Tellico Reservoir Development Agency. All of the requirements of the Tellico Reservoir Development Agency must be strictly adhered to unless changes have been first approved by the Tellico Reservoir Development Agency.

ARTICLE IX
STAGED DEVELOPMENTS.

Section 1.

Additional Lands of the Developer situated in Monroe or Loudon County, Tennessee, as well as any other lands hereinafter acquired by the Developer may be subject to this Declaration.

Section 2.

The Developer, its successors and assigns, shall have the right, but not the obligation, to bring additional properties within the plan of this Declaration in future stages of development regardless of whether said properties are presently owned by the Developer. Such proposed additions, if made shall become subject to assessments as herein provided. Under no circumstances shall this Declaration or any Supplemental Declaration bind the Developer, its successors and assigns, to make the proposed additions or in anywise preclude the Developer, its successors and assigns, from conveying the lands owned by Developer, but not having been made subject to this Declaration, free and clear of this Declaration or any Supplemental Declaration.

Section 3.

The additions authorized hereunder shall be made by filing of record a Supplemental Declaration with respect to the additional property which shall extend the plan of the Declaration to such property, and the Owners, including the Developer, in such additions shall immediately be entitled to all privileges herein provided.

Section 4.

Such Supplemental Declarations, if any, may contain such complementary additions and modifications of the covenants, conditions, and restrictions contained in the Declaration as may be necessary to reflect the different character, if any, including, but not limited to single family attached and multi-family structure of the added properties. In no event, however, shall such Supplemental Declarations revoke, modify or add to the covenants, conditions, and restrictions established by this Declaration or any Supplemental Declaration with respect to the then Existing Property.

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ARTICLE X

PROTECTIVE COVENANTS

Attached hereto as "Exhibit A" and made a part hereof as fully as though contained herein word for word are the protective Covenants relative to the Project. Every provision of this Declaration shall apply as fully as to the protective Covenants as if same were set forth herein word for word.

TELLICO LAKE PROPERTIES, L.P
BY: TELLICO COMMUNITIES, INC.
GENERAL PARTNER

BY: Michael L. Ross
MICHAEL L. ROSS, PRESIDENT

RARITY BAY PROPERTY OWNERS ASSOCIATION, INC.

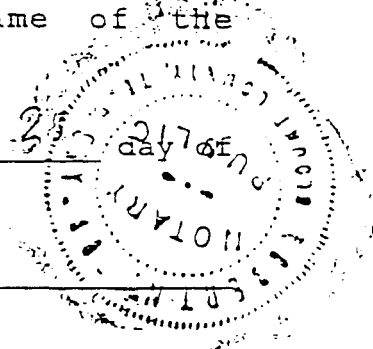
BY: Michael L. Ross
MICHAEL L. ROSS, PRESIDENT

STATE OF TENNESSEE)
COUNTY OF BLOUNT)

Before me, the undersigned authority, a Notary Public in and for said State and County, personally appeared MICHAEL L. ROSS, with whom I am personally acquainted, and who, upon oath, acknowledged himself to be the PRESIDENT of TELLICO COMMUNITIES, INC., THE GENERAL PARTNER OF TELLICO LAKE PROPERTIES, L.P., the within named bargainor, and that he as such officer, being authorized so to do, executed the foregoing instrument for the purposes therein contained by signing the name of the corporations by himself as such President.

July WITNESS my hand and seal, at office, this 27 day of July, 1994.

[Signature]
NOTARY PUBLIC

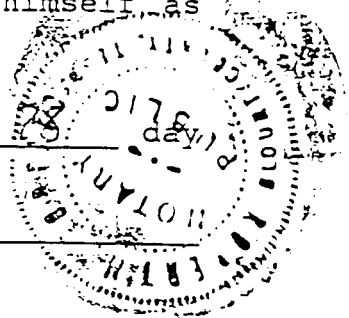


My Commission Expires:
3/16/95

STATE OF TENNESSEE)
COUNTY OF BLOUNT)

Before me, the undersigned authority, a Notary Public in and for said State and County, personally appeared MICHAEL L. ROSS, with whom I am personally acquainted, and who, upon oath, acknowledged himself to be the PRESIDENT of RARITY BAY PROPERTY OWNERS ASSOCIATION, INC., the within named bargainer, a corporation, and that he as such officer, being authorized so to do, executed the foregoing instrument for the purposes therein contained by signing the name of the corporation by himself, as such officer.

WITNESS my hand and seal, at office, this _____ day, of July, 1994.



NOTARY PUBLIC

My Commission Expires:
3/6/95

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"EXHIBIT A"

PROTECTIVE COVENANTS FOR RARITY BAY SUBDIVISION

PHASE I, SECTION 1, 2 AND 3

KNOW ALL MEN BY THESE PRESENTS, that whereas, the undersigned Tellico Lake Properties, L.P. is the owner in fee simple of all the lots situated in District 2 of Monroe County, Tennessee, in what is known and designated as Rarity Bay Subdivision, Phase One, Section 1, 2 and 3 as shown by map of record in Map File C Slider 83 and 89, in the Register's Office for Monroe County, and

WHEREAS, the undersigned own other property which will in the future be a part of this same development and reserve the right to designate any portion of the remaining property for use as multi-family housing and these restrictions shall not apply to any property so designated by the undersigned; and

WHEREAS, the undersigned are desirous of enhancing the value and desirability of said lots in said subdivision as residential sites by imposing certain restrictive or protective covenants and certain easements on said lots.

NOW, THEREFORE, IN CONSIDERATION OF THE PREMISES, the undersigned have fixed and do hereby impose the following uniform set of restrictions regulating the use and ownership of all the lots in said Rarity Bay Subdivision as hereinabove set forth, to-wit:

1. LAND USE AND BUILDING TYPE

The term "lots" as used herein shall refer to the numbered lots in the numbered blocks as shown on said plat. The lots shown on said plat shall be used for residential purposes only. Except as herein otherwise specifically provided, no structure shall be erected or permitted to remain on any lot or building plot on said land other than one detached single family residence. No building at any time situated on any lot or building plot shall be used for any business, commercial amusement, hospital, sanitarium, school, clubhouse, religious, charitable, philanthropic or manufacturing purposes or as a professional office open for business to the public, and no billboards or advertising signs of any kind shall be erected or displayed thereon, except such signs as are permitted elsewhere in these covenants and restrictions. No building situated on any

lot or building plot shall be rented or leased separately from the rental or lease of the entire property and no part of any such building shall be used for the purpose of renting rooms therein or as a boarding house, hotel, motel, tourist or motor court. No duplex residence, garage apartment or apartment house shall be erected or allowed to remain on any lot or building plot and no building on any lot or building plot at any time shall be converted into a duplex residence, garage apartment, or apartment house. A private garage in accordance with the Design Review Board's approved design guidelines shall be required. The driveway shall provide a minimum of two additional off street parking spaces. On street parking shall be prohibited.

2. DWELLING QUALITY AND SIZE

The intention and purpose of the covenant herein is to assure that all dwellings shall be of the quality of workmanship and materials substantially the same or better than that which can be produced on the date these covenants are recorded. The heated living area for dwellings constructed on all lots in Phase I, Section 1, 2 and 3 as shown on map of record in Map File

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_____ , in the Register's office for Monroe County, Tennessee, are subject to the approval of the Design Review Board.

Heated living area on all lots excludes unfinished basements and garages. All fireplaces shall be masonry construction unless otherwise approved by the Design Review Board. No exposed cinder or concrete blocks shall be permitted above ground level in the construction of any dwelling building or walls. In the event the dwelling calls for a garage door facing the front of the street the door and/or doors shall be kept closed at all times except when leaving or entering. Concrete driveways and walkways are required where necessary. All above ground exterior foundation walls shall be veneered with brick, stone or other materials acceptable to the Design Review Board. All residential construction shall be completed twelve (12) months from commencement. Sidewalks shall be constructed in accordance with requirements by the Design Review Board. Any provisions or requirements of these protective covenants may be waived by the Design Review Board.

3. DESIGN REVIEW APPROVAL

Any proposed construction of any building, additions or alternations shall be prohibited unless the plans of said proposed dwelling or additions thereto be submitted to the Design Review Board for review and approval. Said building plans and specifications shall be prepared by a qualified, registered architect or such other persons as may be approved by the Design Review Board for the specific use of the property owner submitting the same, and shall consist of not less than the following: Foundation plans, floor plans of all floors, section

details, elevation drawing of all exterior walls, roof plan, landscape plan and plot plan showing location and orientation of all building and other structures and improvements proposed to be constructed on the building plot, with all building restriction lines shown. Such plans and specifications shall also show the location of all trees on the building plot having a diameter of ten inches or more, breast high. In addition, there shall be submitted to the Design Review Board for approval such samples of building materials proposed to be used as the Design Review Board shall specify and require. A review fee will be charged and is payable upon submission of plans. The amount of the fee shall be set by the Design Review Board and may be changed from time to time at their discretion. This board, hereinafter defined, shall be directed by the overall purposes, specifications and restrictions imposed herein, design guidelines adopted by the Design Review Board, applicable State and local agencies, and take into consideration the topography of each lot and the adaptability of the proposed structure for said lot. Approval shall be given or denied, in writing, within thirty (30) days of the date said plans and specifications are submitted. All plans and specifications are to be submitted in writing, via registered or certified mail and said plans shall be deemed submitted upon receipt by the Design Review Board. Failure of the board to respond, in writing, to those who submit such plans and specifications, shall be deemed as an approval of said proposed structure. A complete set of plans and specifications of the house to be built shall be left with said Design Review Board during the time of construction. The property owner shall pay a fee established from time to time for the review of the plot plan to a surveyor/engineer chosen by the Design Review Board.

4. DESIGN REVIEW BOARD

The Design Review Board shall be composed of one or more persons who shall be appointed by the Developer. The Developer shall serve as the initial member of said board until such time as the Developer appoints other individuals to comprise said board. Approval for variance from the terms of the covenants stated herein will not be unreasonably withheld, however, the Design Review Board shall have full power and authority to deny permission for construction of any dwelling that in its opinion does not meet the requirements and/or accomplish the purposes which were intended by these restrictions, including, but not limited to aesthetic appeal and uniformity of construction in the surrounding lots in the subdivision.

5. OUTSIDE WIRING.

Outside wiring for dwelling, building, and any other structures shall be placed underground. No outside television antenna shall be permitted on any lot.

6. HEATING/AIR CONDITIONING UNITS.

No window air conditioning units shall be installed in any residence or building so as to be visible from public street. No equipment for central air conditioning or heating shall be installed so as to be visible from any public street, unless such equipment is shielded from view either structurally or by plantings.

7. BUILDING LOCATION.

No building shall be located on any lot nearer to the front lot line or nearer to the side or back street line than the minimum building set back provided for by the guidelines of the Design Review Board. Interior lot line set backs shall be established by the Design Review Board. Rear set backs shall be 20 feet on all lots except water front and peripheral lots shall have a 35 foot rear set back requirement. For the purpose of this covenant, eaves, steps, and terraces shall not be considered as a part of a building, provided, however, that this shall not be construed to permit any portion of a building on one lot to encroach upon another lot, or upon any other adjoining property. The maximum area which may be covered by buildings shall be 50 percent of the gross area of the site. The Design Review Board may vary the building set backs if they deem it in the best interest of the development. Design guidelines adopted by the Design Review Board control building location.

8. UNIFORMITY.

In order to promote uniformity and make a more desirable neighborhood, all residential lighting, supports for newspaper boxes or mailboxes, or any other posts at the front of a dwelling shall be in accordance with established design guidelines and be approved by the Design Review Board.

9. MAILBOXES.

All mailboxes must be in accordance with design guidelines and approved by the Design Review Board. All dwellings shall display a street number of each lot where it can be observed from the street.

10. LIGHTPOSTS.

All dwellings shall have at the front lot line a light post installed and operated in accordance with design guidelines set forth by or set out by the Design Review Board

11. UTILITY YARDS.

Each residence may have one or more utility yards. Each utility yard shall be walled or fenced, and the entrance thereto shall be screened, using materials with a height and design approved by the Design Review Board, in such manner that structures and objects located therein shall present, from the outside of such utility yard, a broken and obscured view to the height of such wall or fence. The following building, structures and objects may be erected and maintained and allowed to remain on the building plot only if the same are located wholly within the main residence or wholly within a utility yard. Construction materials, wood, coal, oil and other fuels, clothes racks and clotheslines, clothes washing and drying equipment, laundry rooms, tool shops and workshops, servants quarters, garbage and trash cans and receptacles (other than underground receptacles referred to in paragraph 21 hereof), detached garages and carports, and above-ground exterior air conditioning and heating equipment and other mechanical equipment and any other structures or objects determined by the Design Review Board to be of an unsightly nature or appearance. Hot tubs and swimming pools must be approved by the Design Review Board and the Design Review Board may require that they be within a utility yard as defined by the adopted design guidelines. Satellite Dishes are discouraged but may be permitted with specific Design Review Board approval.

12. STORAGE BUILDINGS.

Any and all storage facilities, fences or outside buildings of any kind are required to have the approval of the Design Review Board. No fences of any kind shall be permitted in front of the rear plane of any house. No structure of a temporary character, trailer, basement, tent, shack, garage, barn, partially completed dwelling or outer buildings shall be used on any of said lots at any time as a residence, either temporarily or permanently. All trailers, boats, trucks, motor homes, etc., shall be kept, maintained or stored in a garage, basement, or utility yard.

13. SIGNS.

No sign of any kind shall be displayed to the public view on any lot.

14. SEWAGE DISPOSAL.

No individual sewage disposal systems shall be permitted on any lot unless such system is designed, located, and constructed in accordance with the requirements, standards, and recommendations of both state and local public health authorities. Sewage disposal shall be through a private system operated by the Rarity Bay Property Owners Association and will require the lot owner to have installed an interceptor tank and pump as designated by the developer and/or the Rarity Bay Property Owners Association. Individual lot owners will be responsible for operation and maintenance of the interceptor tank and pump and any other requirements of the sewer system located on their individual lot. The Rarity Bay Property Owners Association is responsible for operation and maintenance of the sewer system located in the common property easement of the development. A charge for sewer disposal and processing will be paid by each individual lot owner.

15. SIGHT DISTANCE AT INTERSECTIONS.

No fence, wall, hedge, or shrub planting which obstructs sight lines at two (2) and seven (7) feet above the roadways shall be placed or permitted on any corner lot within the triangular area formed by the street property line connecting them at points twenty-five (25) feet from the intersection of the street property lines extend. The same sight line limitations shall apply on any lot within ten (10) feet from the intersection of street property line with the edge of a driveway or alley pavement. No tree shall be permitted to remain within such distances of such intersections unless the foliage line is maintained at sufficient height to prevent obstruction of such sight lines.

16. EASEMENTS.

Easements to each individual lot for installation and maintenance of utilities, and drainage facilities are reserved on the front, rear and interior lot lines of said lots as shown on the recorded plats. The granting of this easement or right of access shall not prevent the use of the area by the owner for any permitted purpose except for building. A right of pedestrian access by way of a driveway or open lawn area shall also be granted on each lot, from the front line to the rear lot line, to any party or parties having an installation in the easement areas. A five (5) foot drainage and utility easement is reserved on all interior lot lines where not otherwise provided, ten (10) foot easement at front and rear lot line, except as may be varied by the Design Review Board. Owners of lakefront lots may have access to the lake over the property between their lakeside lot line and the lake as reflected on the plat pursuant to rules for management of the shoreline strip. No buildings for human habitation or any other form of development are permitted between the rear lot line and the lake front (shoreline strip); however, certain non-habitable structures and boat docks may be allowed in

accordance with the shoreline strip rules and the 26A permit issued by TVA and in accordance with the Declaration of Covenants and Restriction with the approval of the Design Review Board. Design plans must also be approved by and a 404 permit obtained from the Corps of Engineers prior to any such construction. A wildlife corridor easement as shown on the recorded plat shall be maintained at the direction of the developer.

17. NUISANCES.

No noxious or offensive activity shall be carried on upon any lot, nor shall anything be done thereon which may become an annoyance or nuisance to the neighborhood. No trash, garbage, rubbish, debris, waste material, junk cars, or other refuse shall be deposited or allowed to accumulate or remain on any part of said lot, not upon any land or lands contiguous thereto. No fires for burning of trash, leaves, clippings, or their debris or refuse shall be permitted on any part of said lot.

18. UTILITY METERS.

Utility meters are to be located so they are not visible from any public street, and in no instance shall meters be located at the front of dwelling. Meters located at the side or rear of dwelling shall be concealed by a structural or planted shield so as not to be visible from any public street.

19. NO picnic areas and no detached outbuildings, campers, trailers or mobile homes shall be erected or permitted to remain on any building plot prior to the start of construction of a permanent residence thereon. All fences, tree planting and removal must be approved by the Design Review Board. The use of chain link fencing is prohibited. Swimming pools and utility installations are exempt from this restriction. All landscaping must be approved by the Design Review Board in accordance with adopted design guidelines.

20. THE DEVELOPER, its successors or grantees, retains the absolute right to establish from time to time rules and regulations relative to use and enjoyment of the areas outside of each residential lot.

21. NO garbage or trash incinerator shall be placed or permitted to remain on a building plot or any part thereof. Garbage, trash and rubbish shall be removed from the building plots in said subdivision only by services or agencies approved in writing by the Developer.

After the erection of any building on any building plot, the owner shall keep and maintain on said plot covered

garbage containers in which all garbage shall be kept until removed from the building plot. Such garbage containers shall be kept at all times, at the option of the building plot owner, either within a utility yard or within underground garbage receptacles located on the building plot. Any such underground receptacles shall be constructed so that garbage containers will not be visible. Garbage receptacles may be placed at roadways for removal on the day said removal is to occur.

22. THE platted lots shall not be resubdivided or replatted except as provided in this paragraph. Any lot or lots shown on said plat may be resubdivided or replatted (by deed or otherwise) only with the prior approval of the Developer (and with such approval may be resubdivided or replatted in any manner). Approval must also be obtained from any other authority having jurisdiction. The several covenants, restrictions, easements and reservations herein set forth, in case any of said lots shall be resubdivided or replatted as aforesaid, shall thereafter apply to the lots as resubdivided or replatted instead of applying to the lots as originally platted except that such resubdivision or replatting may affect easements shown on said plat with approval from the Developer.

23. NO crops of any kind may be grown on any lot. Garden plans must be submitted to the Design Review Board for approval in accordance with adopted design guidelines.

24. NO vehicle over ten tons shall be permitted on the roadways of the development, except moving vans, or with the prior approval of the Developer. No overnight parking of commercial vehicles will be permitted.

25. ALL owners of lots in Rarity Bay Subdivision own said lots with the knowledge of the inherent risk of owning property adjacent to or in close proximity with a golf course and a lake, and are aware of the dangers, including, but not limited to flying golf balls, open lakes and streams, golf cart accidents, and other risks commonly associated with property ownership near a golf course and a lake. Purchasers, therefore, with full knowledge of said potential risks, agree to assume all such risk and to hold Seller, Developer and the owner/operator of Rarity Bay Subdivision, Rarity Bay Golf and Country Club, Rarity Bay Property Owners, Association, Inc., their heirs, successors and assigns, harmless from any loss or damage to persons or property arising or resulting from any such risks.

26. FOR the purpose of further insuring the development of said land as a residential area of highest quality and standards, each lot owner whose lot lies adjacent to a golf fairway or rough shall be required to use the same seed in planting his yard as used on the adjoining fairway or rough. The

Developer reserves the exclusive power and discretion to approve the type of seed mixture to be used. It further reserves the right to waive in any case the mixture contents as used on the golf course if, in its opinion, a substitute mixture will more fully create the harmonious effect intended to be created by this restriction.

27. THE landscaping plan for the areas of any lot or block of future lots within twenty (20) feet of the boundary of the lot of block line adjacent to golf fairway or rough property shall be in general conformity with the overall landscaping pattern for the golf course fairway area established by the golf course architect, and all individual lot or block landscaping plans must be approved by the Developer, its agent, successors, and assigns.

28. THERE is reserved to the Developer, its agents, successors or assigns, a "Golf Course Maintenance Easement Area" on each lot adjacent to the fairways, rough, or greens of the Golf Course. This reserved easement shall permit the Developer, its agents, successors or assigns, at its election, to go on to any fairway lot at any reasonable hour and maintain or landscape the Golf Course Maintenance Easement Area. Such maintenance and landscaping shall include regular removal of underbrush, trees less than six (6) inches in diameter, stumps, trash or debris, planting of grass, watering, application of fertilizer, and mowing the Easement Area. This Golf Course Maintenance Easement Area shall be limited to the portion of such lots within twenty (20) feet on the lot line bordering the golf course, provided, however, that the above described maintenance and landscaping rights shall apply to the entire lot until there has been filed with the Developer a landscaping plan for such lot by the owner thereof, or alternative, a residence constructed on the lot. This section may be waived or varied by the Developer and the Golf Course Operator.

29. UNTIL such time as a residence is constructed on a lot, the Developer, its agents, successors or assigns reserve an easement to permit and authorize golf course players and their caddies to enter upon a lot to recover a ball or play a ball, subject to the official rules of the course, without such entering and playing being deemed a trespass. After a residence is constructed such easement shall be limited to that portion of the lot included in the Golf Course Maintenance Easement Area, and recovery of balls only, not play, shall be permitted in such Easement Area. Players or their caddies shall not be entitled to enter on any such lot with a golf cart or other vehicle, not spend unreasonable time on such lot, or in any way commit a nuisance while on such lot. After construction of a residence on a Golf Fairway area lot, "Out of Bounds" markers shall be placed on said lot at the expense of the Developer.

30. OWNERS of golf fairway lots shall be obligated to refrain from any actions which would detract from the playing qualities of the Golf Course or the development of an attractive overall landscaping plan for the entire golf course area. Such prohibited actions shall include, but are not limited to, such activities as burning trash on a lot when the smoke would cross on to the fairway, and the maintenance of fenced or unfenced dogs or other pets on the lot under conditions interfering with play due to their loud barking, running on the fairways, picking up balls or other like interference with play.

31. ANIMALS: No animals, livestock or poultry of any kind shall be kept, used or bred on any of said lots either for commercial or private purposes, except the usual domestic pets, provided that the same are not allowed to run at large and do not otherwise constitute a nuisance to the neighborhood. Dogs will be allowed, for the pleasure and use of the occupants only, not for any commercial breeding use or purpose, except that if dog(s), or other type pets should become dangerous or any annoyance or nuisance in the neighborhood or nearby property, or destructive, they may not thereafter be kept on the building lot. No pet shall be allowed out of an enclosed utility yard, except on a leash, or otherwise appropriately restrained and accompanied by their owner.

32. NOTHING contained in these covenants and restrictions shall prevent the Developer or any person designated by the Developer from erecting or maintaining such commercial and display signs and such temporary dwelling, model houses and other structures as the Developer may deem advisable for development purposes.

33. THE OWNER of each building plot, whether such plot be improved or unimproved, shall keep such plot free of tall grass, undergrowth, dead trees, dangerous dead tree limbs, weeds, trash and rubbish, and shall keep such plot at all times in a neat and attractive condition. In the event the owner of any building plot fails to comply with the preceding sentence of this paragraph 33, the Developer shall have the right, but no obligation, to go upon such building plot and cut and remove tall grass, undergrowth and weeds and to remove rubbish and any unsightly or undesirable things and objects therefrom, and to do any other things and perform and furnish any labor necessary or desirable in its judgment to maintain the property in a neat and attractive condition, all at the expense of the owner of such building plot, which expense shall be payable by such owner to the Developer on demand. If charges are not paid within ten days, a lien for said charges shall be placed on the property.

34. THE DEVELOPER shall have the sole and exclusive right to at any time and from time to time to transfer and assign to, and withdraw from, such person, firm or corporation as it shall select, any or all rights, powers, privileges, authorities and reservations given to or reserved by the Developer by any part or paragraph of these covenants and restrictions.

35. EACH lot owner shall be required to participate in the Rarity Bay Property Owners Association. Residential lot owners are subject to the By-Laws etc., of such association. All roads, retentions, security, sewage disposal system, etc. provided and owned or leased by Rarity Bay Property Owners Association and a fee for such shall be assessed by said Association to each lot owner.

36. THE Rarity Bay development is adjoining property to the South which is being developed by Tellico Reservoir Development Agency (TRDA) for industrial use. The property North of the Rarity Bay development is designated as commercial recreation; cultural and public use - open space areas. TRDA reserves the right to change these land use designations as may be necessary to carry out its contract obligations and to be responsive to future economic trends, market conditions and demands. The current land use plans for Tellico Lake is on file at the TRDA office located in the Tellico West Industrial Properties.

37. TERM. These covenants are to run with the land and shall be binding on all parties and all persons claiming under them for a period of twenty-five (25) years from the date the covenants are recorded, after which time said covenants shall be automatically extended for successive periods of ten (10) years unless an instrument signed by two thirds (2/3rds) of the then owners of the lots have been recorded, agreeing to change said covenants in whole or in part.

38. ENFORCEMENT. The Developer, Design Review Board, or any owner, shall have the right to enforce, by any proceeding at law or in equity, all restrictions, conditions, covenants, reservations, imposed by the provision of these restrictions. Failure by the Developer, Design Review Board or any owner to enforce any covenant or restriction herein contained shall in no event be deemed a waiver of the right to so do thereafter. Any violator will be held fully responsible for all legal expenses encountered by the Developer, Design Review Board, or any owner, to restrict such violation.

39. SEVERABILITY. Invalidation of any one of these covenants by judgment of court order, shall in no wise affect any of the other provisions which shall remain in full force and effect.

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TELLICO LAKE PROPERTIES, L.P.
TELLICO COMMUNITIES, INC.
GENERAL PARTNER

BY: Mr Ross
MICHAEL L. ROSS, PRESIDENT

STATE OF TENNESSEE

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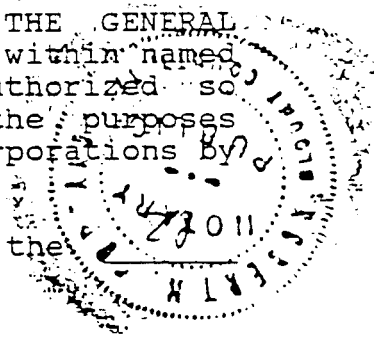
COUNTY OF BLOUNT

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Before me, the undersigned authority, a Notary Public in and for said state and county, personally appeared MICHAEL L. ROSS, with whom I am personally acquainted, and who, upon oath, acknowledged himself to be the PRESIDENT of TELLICO COMMUNITIES, INC., THE GENERAL PARTNER OF TELLICO LAKE PROPERTIES, L.P., the within named bargainer, and that he, as such officer, being authorized so to do, executed the foregoing instrument for the purposes therein contained by signing the name of the corporations by himself as such President.

Witness my hand and seal at office this the _____ day of July, 1994.



NOTARY PUBLIC

My Commission Expires: 3/6/95

FILED in my office on the 29 day
of July 1994 at 11:16 A M
Noted in Note Book 36 Page 130
Recorded in Book 91 Page 58
Mildred A. Estep
Register of Monroe County, Tennessee

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