

CONSTRUCTION LOAN AGREEMENT

by and between

THE LAKE COUNTY HOUSING COMMISSION

and

COLLIER AVENUE ASSOCIATES LP

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CONSTRUCTION LOAN AGREEMENT
(MHSA-HHAP Loan-Collier Avenue)

This Construction Loan Agreement (the "Loan Agreement") is entered into as of [_____] (the "Effective Date"), by and between THE LAKE COUNTY HOUSING COMMISSION, a public body, corporate and politic (the "Lender"), and COLLIER AVENUE ASSOCIATES LP, a California limited partnership ("Borrower"), with reference to the following facts, purposes and intentions.

RECITALS

A. These Recitals refer to and utilize certain capitalized terms that are defined in Article 1 of this Loan Agreement. The Parties intend to refer to those definitions in connection with their use in these Recitals.

B. As of the Effective Date, Borrower owns the Property, which is generally located at 6853 Collier Avenue in the unincorporated area of Nice, County of Lake, California. The Property is more particularly described in the attached Exhibit A.

C. The Property currently consists of a vacant land, and the Borrower intends to construct the Development using the Approved Financing.

D. The Lender desires to provide the Loan in the total amount of One Million Four Hundred Forty-Nine Thousand One Hundred Forty-Four Dollars and Thirteen Cents (1,449,144.13). The Loan is comprised of the MHSA and HHAP Funds.

E. The Loan is being made to finance development and other costs associated with the Development in order to help achieve financial feasibility for the Development and to increase the supply of affordable permanent supportive rental housing in the County.

F. The use of the MHSA and HHAP Funds for the Loan in accordance with this Loan Agreement is consistent with the Mental Health Services Act and Homeless Housing, Assistance and Prevention Program in that the funds will expand permanent supportive housing opportunities, and the supply of affordable housing, within the County.

NOW, THEREFORE, in consideration of the recitals hereof and the mutual promises and covenants set forth in this Loan Agreement, the Parties agree as follows:

ARTICLE 1
DEFINITIONS AND EXHIBITS

Section 1.1 Definitions. The following capitalized terms have the meanings set forth in this Section 1.1 wherever used in this Loan Agreement, unless otherwise provided:

(a) "Administrator" means the administrator, chief executive officer, or equivalent officer of the Lender, or his or her designee.

(b) "Annual Operating Expenses" means with respect to a particular calendar year, the following costs reasonably and actually incurred for operation and maintenance of the Development, to the extent that they are consistent with the annual operating budget for the Development approved by the Lender pursuant to the Regulatory Agreement and an annual independent audit performed by a certified public accountant using generally accepted accounting principles:

- (1) property taxes and assessments imposed on the Development;
- (2) debt service currently due on a non-optional basis (excluding debt service due from Residual Receipts or surplus cash of the Development) on loans associated with the Development and approved by the Lender;
- (3) payment to HCD of a portion of the accrued interest on the NPLH Loan pursuant to California Code of Regulations, Title 25, Section 7308 and any annual monitoring fees payable;
- (4) on-site service provider fees for tenant social services, provided the Lender has approved, in writing, the plan and budget for such services before such services begin pursuant to the Regulatory Agreement;
- (5) property management fees and reimbursements, not to exceed fees and reimbursements which are standard in the industry and pursuant to a management contract approved by the Lender;
- (6) Lender-approved partnership management fees (including any asset management fees), in all cases subject to HCD limits;
- (7) fees for accounting, audit, and legal services incurred by Borrower's general partner in the asset management of the Development, not to exceed amounts that are standard in the industry, to the extent such fees are not included in the Partnership/Asset Management Fee;
- (8) premiums for property damage and liability insurance;
- (9) utility services not paid for directly by tenants, including water, sewer, and trash collection;
- (10) maintenance and repair expenses and services;
- (11) any annual license or certificate of occupancy fees required for operation of the Development;
- (12) security services;

- (13) advertising and marketing;
- (14) cash deposited into reserves for capital replacements of the Development;
- (15) cash deposited into an operating reserve (excluding amounts deposited to initially capitalize the account);
- (16) cash deposited into any other reserve accounts as required by permanent lenders and investors and as approved by the Lender;
- (17) payment of any previously unpaid portion of the Developer Fee (without interest) and any deferred developer fee;
- (18) tax credit shortfall payments, return of capital and similar payments or indemnities in favor of the limited partner(s) of Borrower, to the extent required by, and in accordance with, the Partnership Agreement;
- (19) extraordinary operating costs specifically approved in writing by the Lender; and
- (20) payments of deductibles in connection with casualty insurance claims not normally paid from reserves, the amount of uninsured losses actually replaced, repaired or restored, and not normally paid from reserves, and other ordinary and reasonable operating expenses not listed above.

Annual Operating Expenses shall not include the following: depreciation, amortization, depletion or other non-cash expenses; any amount expended from a reserve account; and any capital cost with respect to the Development, as determined by the accountant for the Development.

(c) "Approved Financing" means all of the following loans, or other financing, obtained by Borrower and approved by the Lender for the purpose of financing the Development, in addition to the Loan:

- (1) A construction loan from Construction Lender in an approximate amount of [Fourteen Million Nine Hundred Sixty-Five Thousand Six Hundred Sixty-Five Dollars (\$14,965,665)] (the "Construction Loan").
- (2) An additional loan from the Lender in the amount of [Six Hundred Two Thousand Four Hundred Sixty-Nine Dollars (\$602,469)] consisting of Permanent Local Housing Allocation funds received by the Lender from HCD (the "PLHA Loan");
- (3) A loan from HCD in the approximate amount of Three Million Four Hundred Forty-Seven Thousand Eight Hundred Sixty-Four Dollars (\$3,447,864) consisting of funds from the No Place Like Home program (the "NPLH Loan");

(4) A loan from DDS in the amount of Five Hundred Thousand Dollars (\$500,000) (the "DDS Loan");

(5) A loan from RCHDC to the Borrower in the approximate amount of [Three Million Five Hundred Fifty-Six Thousand Nine Hundred Thirteen Dollars (\$3,556,913)] (the "Sponsor COSR Loan");

(6) A loan from RCHDC to the Borrower in the approximate amount of Five Hundred Eighty-Five Thousand Dollars (\$585,000) (the "Sponsor AHP Loan");

(7) A capital contribution from the Borrower's general partner in the approximate amount of One Thousand Dollars (\$1,000); and

(8) Low Income Housing Tax Credit investor equity funds in the approximate amount of [Fifteen Million One Hundred Seventy-Seven Thousand Two Hundred Thirty-Four Dollars (\$15,177,234)] to be contributed to the Borrower by the Investor in exchange for the admission to the Borrower as a limited partner and allocation of low-income housing tax credits (the "Tax Credit Equity Funds").

(d) "Borrower" means Collier Avenue Associates LP, a California limited partnership, and its permitted successors and assigns.

(e) "Construction Lender" means any commercial lending institution selected by the Borrower to fund the Construction Loan.

(f) "County" means the County of Lake, a political subdivision of the State of California.

(g) "DDS" means the Department of Developmental Services, a public agency of the State of California.

(h) "Deed of Trust" means the deed of trust, in favor of the Lender, that will encumber the Property to secure repayment of the Loan.

(i) "Default" has the meaning set forth in Section 5.1 below.

(j) "Default Rate" has the meaning set forth in Section 2.2(b) below.

(k) "Developer Fee" means the amount of developer fee paid to any entity or entities providing development services to the Development in an aggregate amount not to exceed Two Million Two Hundred Thousand Dollars (\$2,200,000).

(l) "Development" means the Property and the Improvements.

(m) "Development Budget" means the proforma development budget, including sources and uses of funds, as approved by the Lender, and attached hereto and incorporated herein as Exhibit B.

(n) "Effective Date" means the first date set forth above.

(o) "Force Majeure" means the occurrence of one or more of those events described in Section 6.15, permitting an extension of time for performance of obligations under this Loan Agreement.

(p) "Gross Revenue" means, with respect to a particular calendar year, all revenue, income, receipts, and other consideration actually received from operation and leasing of the Development. Gross Revenue includes, but is not limited to:

- (1) all rents, fees and charges paid by tenants;
- (2) Section 8, or other rental subsidy payments received for the dwelling units;
- (3) deposits forfeited by tenants;
- (4) all cancellation fees;
- (5) price index adjustments and any other rental adjustments to leases or rental agreements resulting in actual income;
- (6) proceeds from vending and laundry room machines;
- (7) the proceeds of business interruption or similar insurance;
- (8) subject to the rights of Senior Lenders, the proceeds of casualty insurance to the extent not utilized to repair or rebuild the Development (or applied toward the cost of recovering such proceeds); and
- (9) subject to the rights of Senior Lenders, condemnation awards for a taking of part of all of the Development for a temporary period.

Gross Revenue does not include tenants' security deposits; loan proceeds; capital contributions; interest income earned on reserves, provided that the interest shall be considered reserve funds and is being used for the purposes for which the applicable reserve was established; lender impounds, provided that the interest is held by the lender and used for the purposes of the impound account; or similar advances.

(q) "Hazardous Materials" has the meaning set forth in Section 4.4 below.

(r) "Hazardous Materials Claim" has the meaning set forth in Section 4.4 below.

(s) "Hazardous Materials Law" has the meaning set forth in Section 4.4 below.

(t) "HCD" means the State of California Department of Housing and Community Development.

(u) "Improvements" means the forty (40) units of multi-family housing (including one (1) manager's unit) to be developed pursuant to this Loan Agreement, all ancillary improvements on the Property, and any other improvements constructed by, or on behalf of, Borrower on the Property during the Term.

(v) "Investor" means any investor selected by the Borrower to be admitted to the Borrower in order to provide the Tax Credit Equity Funds to the Development, and its successors and assigns.

(w) "Lender Board" means the Board of Commissioners of the Lender.

(x) "Lender Loan Pro Rata Percentage" means the result, expressed as a percentage, obtained by dividing (i) the amount of the Loan funds disbursed to Borrower in accordance with this Agreement, by (ii) the sum of (1) the amount of the Loan funds disbursed, (2) the amount of the PLHA Loan funds disbursed in accordance with the documents evidencing the PLHA Loan; and (3) the amount of the NPLH Loan funds disbursed in accordance with the documents evidencing the NPLH Loan. Assuming the Loan, PLHA Loan, and NPLH Loan are all fully funded, the approximate pro rata percentage for each loan is as follows: 26.35% for the Loan, 10.96% for the PLHA Loan, and 62.69% for the NPLH Loan.

(y) "Lenders' Share of Residual Receipts" means fifty percent (50%) of Residual Receipts.

(z) "Loan" means the Lender loan to Borrower in the total principal amount of [One Million Four Hundred Forty-Nine Thousand One Hundred Forty-Four Dollars and Thirteen Cents (\$1,449,144.13)] provided pursuant to this Loan Agreement. The Loan is comprised of the MHSA and HHAP Funds.

(aa) "Loan Agreement" means this Construction Loan Agreement.

(bb) "Loan Documents" means this Loan Agreement, the Note, the Regulatory Agreement, the Deed of Trust, and any other document or agreement evidencing the Loan.

(cc) "Note" means the promissory note that will evidence Borrower's obligation to repay the Loan.

(dd) "Operating Memorandum" has the meaning given in Section 6.18 below.

(ee) "Parties" means the Lender and Borrower.

(ff) "Partnership Agreement" means the Agreement of Limited Partnership of the Borrower, as may be amended from time to time, that governs the operation and organization of the Borrower.

(gg) "Property" means that certain real property located in Nice, California, as more particularly described in Exhibit A.

(hh) "RCHDC" means Rural Communities Housing Development Corporation, a California nonprofit public benefit corporation.

(ii) "Regulatory Agreement" means the Regulatory Agreement and Declaration of Restrictive Covenants between the Lender and Borrower to be recorded against the Property in conjunction with the PLHA Loan.

(jj) "Residual Receipts" means, with respect to a particular calendar year during the Term, the amount by which Gross Revenue exceeds Annual Operating Expenses.

(kk) "MHSA and HHAP Funds" means the funds received by the Lender through the Mental Health Services Act in the approximate amount of Nine Hundred Seventy-Six Thousand Ninety-Four Dollars (\$976,094) and through the Homeless Housing, Assistance, and Prevention program in the approximate amount of Four Hundred Seventy-Three Thousand Fifty Dollars and Thirteen Cents (\$473,050.13).

(ll) "Term" means the term of this Loan Agreement, and the Loan, which commences as of the Effective Date and, unless terminated earlier pursuant to the provisions of this Loan Agreement, ends on the earlier of: (i) fifty-seven (57) years after the date of the recordation of the Deed of Trust against the Property; or (ii) fifty-five (55) years after the date the first building located on the Property is constructed and obtains a certificate of occupancy, or equivalent document, from the County.

(mm) "Title Company" means Fidelity National Title Company of California, or such other nationally recognized title company reasonably acceptable to the Parties.

(nn) "Transfer" has the meaning set forth in Section 4.11 below.

Section 1.2 Exhibits. The following exhibits are attached to this Loan Agreement and incorporated into this Loan Agreement by this reference:

Exhibit A: Legal Description of the Property
Exhibit B: Development Budget

ARTICLE 2 LOAN PROVISIONS

Section 2.1 Loan. Subject to satisfaction of the conditions set forth in Sections 2.3 and 2.5 below, the Lender shall lend to Borrower the Loan. The Borrower's obligation to repay the Loan is evidenced by the Note.

Section 2.2 Interest.

(a) Subject to the provisions of subsection (b) below, simple interest will accrue on the outstanding principal balance of the Loan at a per annum rate of interest equal to three percent (3%), commencing on the date the Borrower executes the Note.

(b) In the event of a Default, interest on the Loan will begin to accrue, as of the date of Default and continue until such time as the Loan is repaid in full or the Default is cured, at the default rate of the lesser of ten percent (10%), compounded annually, or the highest rate permitted by law (the "Default Rate").

Section 2.3 Use of Loan Funds. The Borrower shall use the Loan funds consistent with the Approved Development Budget, which shall fulfill and be consistent with the Loan Documents. The Borrower shall not use the Loan funds for any other purposes without the prior written consent of the Lender. The Borrower will provide Lender with documentation that demonstrates that the Loan was used only for the purposes described in this section.

Section 2.4 Security. Borrower shall secure its obligation to repay the Loan, as evidenced by the Note, by executing the Deed of Trust and recording it as a lien against the Property.

Section 2.5 Conditions Precedent to Disbursement of the Loan.

(a) Conditions Precedent to Disbursement. The maximum amount of funds to be disbursed pursuant to this Section 2.5(a) shall not exceed the amount of the Loan. The Lender shall not be obligated to make any disbursements of Loan proceeds unless the following conditions precedent are satisfied:

(1) There exists no Default nor any act, failure, omission or condition that would constitute an event of Default under this Loan Agreement, or any other Loan Documents;

(2) Borrower has delivered to the Lender a budget for the use of the Loan, if not documented on the Development Budget attached as Exhibit B;

(3) Borrower has furnished the Lender with evidence of the insurance coverage meeting the requirements of Section 4.10 below.

(4) The Title Company is unconditionally and irrevocably committed to issuing an ALTA Lender's Policy of title insurance insuring the priority of the Deed of Trust in the amount of the Loan, subject only to such exceptions and exclusions as may be reasonably acceptable to the Lender, and containing such endorsements as the Lender may reasonably require;

(5) The Borrower has acquired the Property;

(6) The Borrower has executed the Note;

(7) The Deed of Trust and the Regulatory Agreement have been recorded against the Property; and

(8) Borrower has closed all Approved Financing described in Section 1.1(b); *provided, however*, the funding of the NPLH Loan and Sponsor COSR Loan shall be made at such future dates in accordance with each loan's respective loan documents.

(b) Disbursement. Upon the satisfaction of the conditions precedent set forth above, the Lender shall disburse the full amount of the Loan to the Borrower.

Section 2.6 Repayment Schedule. The Loan shall be repaid as follows:

(a) Annual Payments. Commencing on [____], and on [____] of each calendar year thereafter through the end of the Term, Borrower shall make repayments of the Loan equal to the Lender Loan Pro Rata Percentage of the Lenders' Share of Residual Receipts. Payments made shall be credited first against accrued interest and then against outstanding principal.

(b) Due in Full. All principal and accrued interest on the Loan shall be due in full on the earlier to occur of: (i) the date of any Default; or (ii) the expiration of the Term.

(c) Right to Prepay. Borrower may prepay the Loan at any time without premium or penalty. However, this Loan Agreement and the Regulatory Agreement shall remain in effect for the entire Term regardless of any prepayment.

Section 2.7 Reports and Accounting of Residual Receipts.

(a) Borrower shall keep and maintain at the principal place of business of Borrower, or elsewhere with the Lender's written consent, full, complete and appropriate books, records and accounts necessary or prudent to evidence and substantiate in full detail Borrower's calculation of Residual Receipts and disbursements of Residual Receipts.

(b) In connection with payments of the Loan, Borrower shall furnish to the Lender:

(1) A statement of Residual Receipts for the relevant period. The first statement of Residual Receipts will cover the period that begins on January 1, [2024] and ends

on December 31st of that same year. Subsequent statements of Residual Receipts will cover the twelve-month period that ends on December 31 of each year;

(2) A statement from the independent public accountant that audited Borrower's financial records for the relevant period, which statement must confirm that Borrower's calculation of Residual Receipts, the Lenders' Share of Residual Receipts, and the Lender Loan Pro Rata Percentage of the Lenders' Share of Residual Receipts is accurate based on Gross Revenue and Annual Operating Expenses; and

(3) Any additional documentation reasonably required by the Lender to substantiate Borrower's calculation of Lenders' Share of Residual Receipts.

(c) The receipt by the Lender of any statement pursuant to subsection (b) above or any payment by Borrower or acceptance by the Lender of any Loan repayment for any period does not bind the Lender as to the correctness of such statement or payment. The Lender may audit the Residual Receipts and all books, records, and accounts pertaining thereto pursuant to Section 4.3, below.

Section 2.8 Subordination. The Lender will agree to subordinate the Deed of Trust, the Regulatory Agreement, and the deed of trust and any other documents securing or evidencing the PLHA Loan, to the deed of trust evidencing the Construction Loan and the NPLH Loan, subject to the satisfaction of the following conditions:

(a) All of the proceeds of the proposed loan, less any transaction costs, are used to provide acquisition, construction, and/or permanent financing for the Development;

(b) The subordination agreement(s) is structured to minimize the risk that the Deed of Trust and/or Regulatory Agreement, and other Lender documents, will be extinguished as a result of a foreclosure by the holder of the loan. To satisfy this requirement, the subordination agreement must provide the Lender with adequate rights to cure any defaults by Borrower, including: (i) providing the Lender or its successor with copies of any notices of default at the same time and in the same manner as provided to Borrower; and (ii) providing the Lender with a cure period of sixty (60) days to cure any default.

Upon a decision by the Lender to subordinate the Deed of Trust and Regulatory Agreement, and the determination by the Administrator that the conditions in this Section have been satisfied, the Administrator, or his/her designee, will be authorized to execute the approved subordination agreement without the necessity of any further action or approval, and such agreement shall also subordinate any documents evidencing or securing the PLHA Loan. The Deed of Trust, the Regulatory Agreement, and the deed of trust and any other documents securing or evidencing the PLHA Loan will be senior in priority to the deed of trust evidencing the DDS Loan recorded as instrument number 2022004415 in the Official Records of Lake County on March 30, 2022.

Section 2.9 Non-Recourse. Except as provided below, Borrower or the partners of the Borrower shall not have any direct or indirect personal liability for payment of the principal of, or interest on, the Loan or the performance of the covenants of Borrower under the Deed of

Trust. The sole recourse of the Lender with respect to the principal of, or interest on, the Note and defaults by Borrower in the performance of its covenants under the Deed of Trust shall be to the Development; provided, however, that nothing contained in the foregoing limitation of liability shall: (a) limit or impair the enforcement against all such security for the Note of all the rights and remedies of the Lender thereunder; or (b) be deemed in any way to impair the right of the Lender to assert the unpaid principal amount of the Note as demand for money within the meaning and intent of Section 431.70 of the California Code of Civil Procedure or any successor provision thereto. The foregoing limitation of liability is intended to apply only to the obligation for the repayment of the principal of, and payment of interest on the Note and the performance of Borrower's obligations under the Deed of Trust, except as hereafter set forth; nothing contained herein is intended to relieve Borrower of its obligation to indemnify the Lender under Sections 4.4, and 6.5 of this Loan Agreement; or liability for: (i) fraud or willful misrepresentation; (ii) the failure to pay taxes, assessments or other charges which may create liens on the Property that are payable or applicable prior to any foreclosure under the Deed of Trust (to the full extent of such taxes, assessments or other charges); (iii) the fair market value of any personal property or fixtures removed or disposed of by Borrower other than in accordance with the Deed of Trust; and (iv) the misappropriation of any proceeds under any insurance policies or awards resulting from condemnation or the exercise of the power of eminent domain or by reason of damage, loss or destruction to any portion of the Development.

ARTICLE 3 CONSTRUCTION OF THE IMPROVEMENTS

Section 3.1 Performance of Work Pursuant to Laws; Prevailing Wages.

(a) Compliance with Laws. Borrower shall cause all work performed in connection with the Development to be performed in compliance with: (i) all applicable laws, ordinances, rules and regulations of federal, state, county or municipal governments or agencies now in force or that may be enacted hereafter; and (ii) all directions, rules and regulations of any fire marshal, health officer, building inspector, or other officer of every governmental agency now having or hereafter acquiring jurisdiction. The work shall proceed only after procurement of each permit, license, or other authorization that may be required by the Lender or any governmental agency having jurisdiction, and Borrower shall be responsible to the Lender for the procurement and maintenance thereof, as may be required of Borrower and all entities engaged in work on the Development.

(b) State Prevailing Wages. This Loan Agreement has been prepared with the intention that the Loan meets the exceptions set forth in California Labor Code Sections 1720(c)(1) and 1720(c)(5)(E) to the general requirement that state prevailing wages be paid in connection with construction work that is paid for in whole or in part out of public funds. Notwithstanding the foregoing, Borrower shall be responsible for determining whether any work related to this agreement is subject to payment of prevailing wages, and if so, for complying with all prevailing wage laws.

Section 3.2 Bonds. Prior to the commencement of construction, Borrower shall deliver to the Lender copies of labor and material bonds and performance bonds for the construction of the Development in an amount equal to one hundred percent (100%) of the scheduled cost of the Development, or such other security for the completion of construction of the Development acceptable to the Investor. Such performance bond (or other security provided) shall name the Lender as a co-obligee.

Section 3.3 Equal Opportunity. During the construction of the Improvements there shall be no discrimination on the basis of race, color, creed, religion, age, sex, sexual orientation, marital status, national origin, ancestry, or disability in the hiring, firing, promoting, or demoting of any person engaged in the construction work.

Section 3.4 Construction Responsibilities.

(a) Borrower is responsible for the coordination and scheduling of the work to be performed so that commencement and completion of the construction of the Improvements will take place in accordance with this Loan Agreement.

(b) Borrower is solely responsible for all aspects of Borrower's conduct in connection with the Development, including (but not limited to) the quality and suitability of the plans and specifications, the supervision of construction work, and the qualifications, financial condition, and performance of all architects, engineers, contractors, subcontractors, suppliers, consultants, and property managers. Any review or inspection undertaken by the Lender with reference to the Development is solely for the purpose of determining whether Borrower is properly discharging its obligations to the Lender, and should not be relied upon by Borrower or by any third parties as a warranty or representation by the Lender as to the quality of the design or construction of the Development and does not relieve Borrower, or its consultants, from any applicable requirement to obtain Lender approval and/or inspections.

Section 3.5 Mechanics Liens, Stop Notices, and Notices of Completion.

(a) If any claim of lien is filed against the Development or a stop notice affecting the Loan is served on the Lender or any other lender or other third party in connection with the Development, then Borrower shall, within twenty (20) days after such filing or service, either pay and fully discharge the lien or stop notice, effect the release of such lien or stop notice by delivering to the Lender a surety bond from a surety acceptable to the Lender in sufficient form and amount, or provide the Lender with other assurance satisfactory to the Lender that the claim of lien or stop notice will be paid or discharged.

(b) If Borrower fails to discharge any lien, encumbrance, charge, or claim in the manner required in this Section, then in addition to any other right or remedy, the Lender may (but shall be under no obligation to) discharge such lien, encumbrance, charge, or claim at Borrower's expense. Alternately, the Lender may require Borrower to immediately deposit with the Lender the amount necessary to satisfy such lien or claim and any costs, pending resolution thereof. The Lender may use such deposit to satisfy any claim or lien that is adversely determined against Borrower.

(c) Borrower shall file a valid notice of cessation or notice of completion upon cessation of construction of the Development for a continuous period of thirty (30) days or more, and take all other reasonable steps to forestall the assertion of claims of lien against the Property and/or Development. Borrower authorizes the Lender, but without any obligation, to record any notices of completion or cessation of labor, or any other notice that the Lender deems necessary or desirable to protect its interest in the Property and/or Development.

Section 3.6 Inspections. Borrower shall permit and facilitate, and shall require its contractors to permit and facilitate, observation and inspection at the Development by the Lender and by public authorities during reasonable business hours for the purposes of determining compliance with this Loan Agreement. Such inspections do not relieve Borrower, or its contractors, from any applicable requirement to obtain Lender inspections in connection with the construction of the Improvements.

ARTICLE 4 ONGOING OBLIGATIONS

Section 4.1 Information. Borrower shall provide any information reasonably requested by the Lender in connection with the Development.

Section 4.2 Records. Borrower shall keep and maintain at the Development, or elsewhere with the Lender's written consent, full, complete and appropriate books, record and accounts relating to the Development, including all such books, records and accounts necessary or prudent to evidence and substantiate in full detail Borrower's compliance with the terms and provisions of this Loan Agreement. Books, records and accounts relating to Borrower's compliance with the terms, provisions, covenants and conditions of this Loan Agreement shall be kept and maintained in accordance with generally accepted accounting principles consistently applied, and shall be consistent with requirements of this Loan Agreement. All such books, records, and accounts shall be open to and available for inspection and copying by the Lender, its auditors or other authorized representatives at reasonable intervals during normal business hours. Borrower shall permit any duly authorized representative of the Lender to inspect and copy such records. Such records shall include all invoices, receipts, and other documents related to expenditures from the Loan and must be kept accurate and current. Borrower shall maintain complete, accurate, and current records pertaining to the Development for a period of not less than ten (10) years after termination of this Loan Agreement for all expenditures, and as reasonably requested by Lender in order to comply with mandated records retention laws. If the Borrower is unable to maintain these records, Borrower may transfer them to the Lender. If any litigation, claim, negotiation, audit exception, monitoring, inspection or other action relating to the use of the Loan is pending at the end of the record retention period stated herein, then Borrower shall retain such records until such action and all related issues are resolved.

Section 4.3 Audits. Borrower shall make available for examination at reasonable intervals and during normal business hours to the Lender and HCD all books, accounts, reports, files, and other papers or property with respect to all matters covered by this Loan Agreement,

and shall permit Lender to audit, examine, and make excerpts or transcripts from such records. Lender or HCD may make audits of any conditions relating to this Loan Agreement.

Section 4.4 Hazardous Materials.

(a) Borrower shall keep and maintain the Development in compliance with, and shall not cause or permit the Development to be in violation of any federal, state or local laws, ordinances or regulations relating to industrial hygiene or to the environmental conditions on, under or about the Development including, but not limited to, soil and ground water conditions. Borrower shall not use, generate, manufacture, store or dispose of on, under, or about the Development or transport to or from the Development any flammable explosives, radioactive materials, hazardous wastes, toxic substances or related materials, including without limitation, any substances defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," or "toxic substances" under any applicable federal or state laws or regulations (collectively referred to hereinafter as "Hazardous Materials") except such of the foregoing as may be used in construction of the Development or customarily kept and used in and about residential property of this type.

(b) Borrower shall immediately advise the Lender in writing if at any time it receives written notice of: (i) any and all enforcement, cleanup, removal or other governmental or regulatory actions instituted, completed or threatened against Borrower or the Development pursuant to any applicable federal, state or local laws, ordinances, or regulations relating to any Hazardous Materials, ("Hazardous Materials Law"); (ii) all claims made or threatened by any third party against Borrower or the Development relating to damage, contribution, cost recovery compensation, loss or injury resulting from any Hazardous Materials (the matters set forth in clauses (i) and (ii) above are hereinafter referred to as "Hazardous Materials Claims"); and (iii) Borrower's discovery of any occurrence or condition on any real property adjoining or in the vicinity of the Development that could cause the Development or any part thereof to be subject to any restrictions on the ownership, occupancy, transferability or use of the Development under any Hazardous Materials Law.

(c) The Lender shall have the right to join and participate in, as a party if it so elects, any legal proceedings or actions initiated in connection with any Hazardous Materials Claims and to have its reasonable attorneys' fees in connection therewith paid by Borrower. Borrower shall indemnify and hold harmless the Lender and its commissioners, directors, officers, employees, agents, successors and assigns from and against any loss, damage, cost, expense or liability directly or indirectly arising out of or attributable to the use, generation, storage, release, threatened release, discharge, disposal, or presence of Hazardous Materials on, under, or about the Development including without limitation: (a) all foreseeable consequential damages; (b) the costs of any required or necessary repair, cleanup or detoxification of the Development and the preparation and implementation of any closure, remedial or other required plans; and (c) all reasonable costs and expenses incurred by the Lender in connection with clauses (a) and (b), including but not limited to reasonable attorneys' fees. This obligation to indemnify shall survive termination of this Loan Agreement.

(d) Without the Lender's prior written consent, which shall not be unreasonably withheld, Borrower shall not take any remedial action in response to the presence of any Hazardous Materials on, under or about the Development, nor enter into any settlement agreement, consent decree, or other compromise in respect to any Hazardous Material Claims, which remedial action, settlement, consent decree or compromise might, in the Lender's reasonable judgment, impair the value of the Lender's security hereunder; provided, however, that the Lender's prior consent shall not be necessary in the event that the presence of Hazardous Materials on, under, or about the Development either poses an immediate threat to the health, safety or welfare of any individual or is of such a nature that an immediate remedial response is necessary and it is not reasonably possible to obtain the Lender's consent before taking such action, provided that in such event Borrower shall notify the Lender as soon as practicable of any action so taken. The Lender agrees not to withhold its consent, where such consent is required hereunder, if either: (i) a particular remedial action is ordered by a court of competent jurisdiction; (ii) Borrower will or may be subjected to civil or criminal sanctions or penalties if it fails to take a required action; (iii) Borrower establishes to the reasonable satisfaction of the Lender that there is no reasonable alternative to such remedial action which would result in less impairment of the Lender's security hereunder; or (iv) the action has been agreed to by the Lender.

(e) Borrower hereby acknowledges and agrees that: (i) this Section is intended as the Lender's written request for information (and Borrower's response) concerning the environmental condition of the Development as required by California Code of Civil Procedure Section 726.5; and (ii) each representation and warranty in this Loan Agreement (together with any indemnity obligation applicable to a breach of any such representation and warranty) with respect to the environmental condition of the Development is intended by the Parties to be an "environmental provision" for purposes of California Code of Civil Procedure Section 736.

(f) In the event that any portion of the Development is determined to be "environmentally impaired" (as that term is defined in California Code of Civil Procedure Section 726.5(e)(3)) or to be an "affected parcel" (as that term is defined in California Code of Civil Procedure Section 726.5(e)(1)), then, without otherwise limiting or in any way affecting the Lender's or the trustee's rights and remedies under the Deed of Trust, the Lender may elect to exercise its rights under California Code of Civil Procedure Section 726.5(a) to: (1) waive its lien on such environmentally impaired or affected portion of the Development; and (2) exercise, (a) the rights and remedies of an unsecured creditor, including reduction of its claim against Borrower to judgment, and (b) any other rights and remedies permitted by law. For purposes of determining the Lender right to proceed as an unsecured creditor under California Code of Civil Procedure Section 726.5(a), Borrower shall be deemed to have willfully permitted or acquiesced in a release or threatened release of hazardous materials, within the meaning of California Code of Civil Procedure Section 726.5(d)(1), if the release or threatened release of Hazardous Materials was knowingly or negligently caused or contributed to by any lessee, occupant, or user of any portion of the Development and Borrower knew or should have known of the activity by such lessee, occupant, or user which caused or contributed to the release or threatened release. All costs and expenses, including (but not limited to) attorneys' fees, incurred by the Lender in

connection with any action commenced under this paragraph, including any action required by California Code of Civil Procedure Section 726.5(b) to determine the degree to which the Development is environmentally impaired, plus interest thereon at the rate specified in the Note until paid, shall be added to the indebtedness secured by the Deed of Trust and shall be due and payable to the Lender upon its demand made at any time following the conclusion of such action.

Section 4.5 Maintenance and Damage.

(a) During the course of both the construction of the Improvements and operation of the Development, Borrower shall maintain the Development in good repair and in a neat, clean and orderly condition. If there arises a condition in contravention of this requirement, and if Borrower has not cured such condition within thirty (30) days after receiving a notice from the Lender of such a condition, then in addition to any other rights available to the Lender, the Lender shall have the right to perform all acts necessary to cure such condition, and to establish or enforce a lien or other encumbrance against the Development.

(b) If economically feasible in the Lender's reasonable judgment after consultation with Borrower, if any improvement now or in the future on the Development is damaged or destroyed, then Borrower shall, at its cost and expense, diligently undertake to repair or restore such improvement consistent with the plans and specifications approved by the Lender with such changes as have been approved by the Lender. Such work or repair shall be commenced no later than the later of one hundred twenty (120) days, or such longer period approved by the Lender in writing, after the damage or loss occurs or thirty (30) days following receipt of the insurance proceeds, and shall be complete within one (1) year thereafter. Any insurance proceeds collected for such damage or destruction shall be applied to the cost of such repairs or restoration and, if such insurance proceeds shall be insufficient for such purpose, then Borrower shall make up the deficiency.

Section 4.6 Fees and Taxes. Borrower shall be solely responsible for payment of all fees, assessments, taxes, charges, and levies imposed by any public Lender or utility company with respect to the Development to the extent owned by Borrower, and shall pay such charges prior to delinquency. However, Borrower shall not be required to pay and discharge any such charge so long as: (a) the legality thereof is being contested diligently and in good faith and by appropriate proceedings; and (b) if requested by the Lender, Borrower deposits with the Lender any funds or other forms of assurance that the Lender in good faith from time to time determines appropriate to protect the Lender from the consequences of the contest being unsuccessful.

Section 4.7 Notice of Litigation. Borrower shall promptly notify the Lender in writing of any actions or proceedings pending or threatened against or affecting Borrower and/or the Development, and of any claims or disputes that involve a material risk of litigation.

Section 4.8 Operation of Development as Affordable Housing. Borrower shall continuously operate and maintain the Development as affordable housing rented to income-eligible tenants in conformity with: (i) this Loan Agreement; (ii) any regulatory agreements recorded against the Property, including any other regulatory agreement in favor of the Lender.

Section 4.9 Non-Discrimination. Borrower covenants by and for itself and its successors and assigns that there shall be no discrimination against or segregation of a person or of a group of persons on account of race, color, creed, ancestry, national origin, religion, sex, sexual orientation, marital status, age, disability (except to the extent necessary to comply with any Approved Financing), medical condition, familial status, source of income or any other arbitrary basis in the sale, lease, sublease, transfer, use, occupancy, tenure or enjoyment of the Development, nor shall Borrower or any person claiming under or through Borrower establish or permit any such practice or practices of discrimination or segregation with reference to the selection, location, number, use or occupancy of tenants, lessees, subtenants, sublessees or vendees in the Development.

Section 4.10 Insurance Requirements. Borrower shall maintain the following insurance coverage throughout the Term:

(a) Workers' Compensation insurance to the extent required by law, including Employer's Liability coverage, with limits not less than One Million Dollars (\$1,000,000) each accident.

(b) Comprehensive General Liability insurance with limits not less than Two Million Dollars (\$2,000,000) each occurrence combined single limit for Bodily Injury and Property Damage, including coverage for Contractual Liability, Personal Injury, Broadform Property Damage, and Products and Completed Operations.

(c) Comprehensive Automobile Liability insurance with limits not less than One Million Dollars (\$1,000,000) each occurrence combined single limit for Bodily Injury and Property Damage, including coverage for owned, non-owned and hired vehicles, as applicable; provided, however, that if Borrower does not own or lease vehicles for purposes of this Loan Agreement, then no automobile insurance shall be required.

(d) Builder's Risk insurance during the course of construction, and upon completion of construction, property insurance, covering the Development, in form appropriate for the nature of such property, covering all risks of loss, excluding earthquake, for one hundred percent (100%) of the replacement value, with deductible, if any, acceptable to the Lender, naming the Lender as a Loss Payee, as its interests may appear. Flood insurance shall be obtained if required by applicable federal regulations.

(e) Borrower shall cause any general contractor, agent or subcontractor working on the Development under direct contract with Borrower or subcontract, to maintain insurance of the types and in at least the minimum amounts described in subsections (a), (b), and (c) above, except that the limit of liability for commercial general liability insurance for subcontractors shall be One Million Dollars (\$1,000,000), and shall require that such insurance shall meet all of the general requirements of subsections (g) and (h) below.

(f) The required insurance shall be provided under an occurrence form, and Borrower shall maintain such coverage continuously throughout the Term. Should any of the

required insurance be provided under a form of coverage that includes an annual aggregate limit or provides that claims investigation or legal defense costs be included in such annual aggregate limit, such annual aggregate limit shall be three times the occurrence limits specified above.

(g) Comprehensive General Liability and Comprehensive Automobile Liability insurance policies shall be endorsed to name as an additional insured the Lender, and its officers, agents, employees and members of the Lender Board.

(h) All policies and bonds shall contain: (i) an agreement that such policies are primary and non-contributing with any insurance that may be carried by the Lender; (ii) a provision that no act or omission of Borrower shall affect or limit the obligation of the insurance carrier to pay the amount of any loss sustained; and (iii) a waiver by the insurer of all rights of subrogation against the Lender and its authorized parties in connection with any loss or damage thereby insured against.

(i) All insurance companies providing coverage pursuant to this Section shall be insurance organizations authorized by the Insurance Commissioner of the State of California to transact the business of insurance in the State of California, and shall have an A. M. Best's rating of not less than "A:VII".

(j) If, in connection with the use of the Loan, death, serious personal injury, or substantial property damage occurs, then Borrower shall immediately notify the Lender. Borrower shall promptly submit to the Lender a written report, in such form as may be required by the Lender, of all accidents which occur in connection with this Loan Agreement. This report shall include the following information: (i) name and address of the injured or deceased person(s); (ii) name and address of Borrower's contractor or subcontractor, if any; (iii) name and address of Borrower's liability insurance carrier; and (iv) a detailed description of the accident and whether any of the Borrower's equipment, tools or material were involved.

Section 4.11 Transfer.

(a) For purposes of this Loan Agreement, "Transfer" means any sale, assignment, or transfer, whether voluntary or involuntary, of: (i) any rights and/or duties under this Loan Agreement; and/or (ii) any interest in the Development, including (but not limited to) a fee simple interest, a joint tenancy interest, a life estate, a partnership interest, a leasehold interest, a security interest, or an interest evidenced by a land contract by which possession of the Development is transferred and Borrower retains title. The term "Transfer" excludes the leasing of any single unit in the Development to an occupant in compliance with the Regulatory Agreement.

(b) No Transfer shall be permitted without the prior written consent of the Lender, which the Lender may withhold in its sole discretion; provided, however, that: (i) the Investor may Transfer its limited partnership interest to affiliates of Investor, without the consent of the Lender, so long as the managing general partner of the Borrower provides notice of such Transfer within thirty (30) days after such Transfer is effective; (ii) the Investor shall have the

right to Transfer its limited partner interest, to any person without the Lender's consent; (iii) the Investor and the Construction Lender shall have the right to remove and replace a general partner of the Borrower in accordance with the Partnership Agreement without the Lender's consent so long as Borrower provides notice to Lender of such removal and replacement of the general partner within thirty (30) days of such replacement, which shall list the reasons for removal and the qualifications on which the new general partner was chosen, and shall provide written assurance that the change of the general partner will not affect Borrower's ability to satisfy the requirements of the Lender Regulatory Agreement or any of the other Loan Documents; and (iv) Construction Lender may foreclose or accept a deed in lieu of foreclosure, and subsequently sell the Property, without the consent of the Lender.

(c) The Lender approves the grant of the security interests in the Development for the Approved Financing.

(d) Following the expiration of the fifteen (15)-year compliance period as described in Section 42(i)(1) of the Internal Revenue Code of 1986, as amended, (or at such other time period determined by the Borrower and the Investor), the Lender approves any Transfer by the Borrower of the Investor's limited partner interest, or the Development, to RCHDC, the general partner of the Borrower, or an entity controlled by RCHDC.

ARTICLE 5 DEFAULT AND REMEDIES

Section 5.1 Events of Default. Each of the following shall constitute a "Default" by Borrower under this Loan Agreement:

(a) Failure to Make Payment. Failure of Borrower to repay the principal and any interest on the Loan that is due and payable to the Lender pursuant to the Loan Documents following written notice by the Lender of such failure and ten (10) days opportunity to cure.

(b) Breach of Covenants. Failure of Borrower to duly perform, comply with, or observe any of the conditions, terms, or covenants of any of the Loan Documents and such failure having continued uncured for thirty (30) days after receipt of written notice thereof from the Lender to Borrower; provided, however, that if a different period or notice requirement is specified under any other section of this Article 5, the specific provisions shall control.

(c) Insolvency. A court having jurisdiction shall have made or entered any decree or order: (i) adjudging Borrower to be bankrupt or insolvent; (ii) approving as properly filed a petition seeking reorganization of Borrower or seeking any arrangement for Borrower under the bankruptcy law or any other applicable debtor's relief law or statute of the United States or any state or other jurisdiction; (iii) appointing a receiver, trustee, liquidator, or assignee of Borrower in bankruptcy or insolvency or for any of their properties; (iv) directing the winding up or liquidation of Borrower, if any such decree or order described in clauses (i) to (iv), inclusive, shall have continued unstayed or undischarged for a period of ninety (90) days; or

(v) Borrower shall have admitted in writing its inability to pay its debts as they fall due or shall have voluntarily submitted to or filed a petition seeking any decree or order of the nature described in clauses (i) to (iv), inclusive. The occurrence of any of the events of Default in this paragraph shall act to accelerate automatically, without the need for any action by the Lender, the indebtedness evidenced by the Note.

(d) Assignment; Attachment. Borrower shall have assigned its assets for the benefit of its creditors or suffered a sequestration or attachment of or execution on any substantial part of its property, unless the property so assigned, sequestered, attached or executed upon shall have been returned or released within ninety (90) days after such event or, if sooner, prior to sale pursuant to such sequestration, attachment, or execution. The occurrence of any of the events of default in this subsection shall act to accelerate automatically, without the need for any action by the Lender, the indebtedness evidenced by the Note.

(e) Suspension; Dissolution. Borrower shall have voluntarily suspended its business or the dissolution of Borrower.

(f) Liens on Property and the Development. There shall be filed any claim of lien (other than liens approved in writing by the Lender) against the Development, or any part thereof, or any interest or right made appurtenant thereto, or the service of any notice to withhold proceeds of the Loan and the continued maintenance of said claim of lien or notice to withhold for a period of twenty (20) days without discharge or satisfaction thereof or provision therefore (including, without limitation, the posting of bonds) satisfactory to the Lender.

(g) Condemnation. The condemnation, seizure, or appropriation of all or the substantial part of the Development.

(h) Unauthorized Transfer. Any Transfer other than as permitted by Section 4.11.

(i) Representation or Warranty Incorrect. Any representation or warranty of Borrower contained in this Loan Agreement, or in any application, financial statement, certificate, or report submitted to the Lender in connection with any of the Loan Documents, proves to have been incorrect in any material and adverse respect when made. Provided, however, after completion of the construction of the Development, Default may be declared under this subsection only if the failure of representation or warranty also has a material adverse effect on the operation of the Development.

Section 5.2 Remedies. The occurrence of any Default hereunder following the expiration of all applicable notice and cure periods will, either at the option of the Lender or automatically where so specified, relieve the Lender of any obligation to make or continue the Loan and shall give the Lender the right to proceed with any and all remedies set forth in this Loan Agreement and the Loan Documents, including but not limited to the following:

(a) Acceleration of Note. The Lender shall have the right to cause all indebtedness of Borrower to the Lender under this Loan Agreement and the Note, together with any accrued interest thereon, to become immediately due and payable. Borrower waives all right to presentment, demand, protest or notice of protest or dishonor. The Lender may proceed to enforce payment of the indebtedness and to exercise any or all rights afforded to the Lender as a creditor and secured party under the law including the Uniform Commercial Code, including foreclosure under the Deed of Trust. Borrower shall be liable to pay the Lender on demand all reasonable expenses, costs and fees (including, without limitation, reasonable attorney's fees and expenses) paid or incurred by the Lender in connection with the collection of the Loan and the preservation, maintenance, protection, sale, or other disposition of the security given for the Loan.

(b) Specific Performance. The Lender shall have the right to mandamus or other suit, action or proceeding at law or in equity to require Borrower to perform its obligations and covenants under the Loan Documents or to enjoin acts or things which may be unlawful or in violation of the provisions of the Loan Documents.

(c) Right to Cure at Borrower's Expense. The Lender shall have the right (but not the obligation) to cure any monetary default by Borrower under a loan other than the Loan. Borrower agrees to reimburse the Lender for any funds advanced by the Lender to cure a monetary default by Borrower upon demand therefore, together with interest thereon at the Default Rate from the date of expenditure until the date of reimbursement.

Section 5.3 Right of Contest. Borrower shall have the right to contest in good faith any claim, demand, levy, or assessment the assertion of which would constitute a Default hereunder. Any such contest shall be prosecuted diligently and in a manner unprejudicial to the Lender or the rights of the Lender hereunder.

Section 5.4 Remedies Cumulative. No right, power, or remedy given to the Lender by the terms of this Loan Agreement or the Loan Documents is intended to be exclusive of any other right, power, or remedy; and each and every such right, power, or remedy shall be cumulative and in addition to every other right, power, or remedy given to the Lender by the terms of any such instrument, or by any statute or otherwise against Borrower and any other person. Neither the failure nor any delay on the part of the Lender to exercise any such rights and remedies shall operate as a waiver thereof, nor shall any single or partial exercise by the Lender of any such right or remedy preclude any other or further exercise of such right or remedy, or any other right or remedy.

Section 5.5 Notice and Cure Rights of Investor. The Lender agrees to provide the Investor a duplicate copy of all notices of default that the Lender may give to or serve in writing upon Borrower pursuant to the terms of the Loan Documents, at the address set forth in Section 6.10 hereof, provided, the Lender shall have no liability to the Investor for its failure to do so. Notwithstanding anything in the foregoing sentence to the contrary, the Lender shall not commence with any of its rights or remedies for such Default until notice has been provided to the Investor, except that notwithstanding anything to the contrary, the Lender may commence an action for

specific performance to enforce any affordability or other non-monetary covenant contained in the Regulatory Agreement or this Loan Agreement at any time. The Investor shall have the right, but not the obligation, to cure any Default of Borrower set forth in such notice, during any applicable cure period described in the Loan Documents, and the Lender will accept tender of such cure as if delivered by Borrower. Notwithstanding anything herein to the contrary, in the event no cure period is provided for a Default under the Loan Documents, the Investor shall have a period of thirty (30) days to cure any such Default following its receipt of notice in accordance with Section 6.10 hereof. If the Investor is unable to cure a Default because Borrower's general partner is in bankruptcy and/or because the cure requires removal of the general partner of Borrower and the Investor is proceeding diligently to remove the general partner of Borrower in order to effect a cure of the Default, the cure period shall be extended for such reasonable time as is necessary for the Investor to effect a cure of the Default. The address of the Investor set forth in Section 6.10 may be changed upon written notice delivered to the Lender in the manner specified in Section 6.10.

ARTICLE 6 GENERAL PROVISIONS

Section 6.1 Relationship of Parties. Nothing contained in this Loan Agreement shall be interpreted or understood by either of the Parties, or by any third persons, as creating the relationship of employer and employee, principal and agent, limited or general partnership, or joint venture between the Lender and Borrower or Borrower's agents, employees or contractors, and Borrower shall at all times be deemed an independent contractor and shall be wholly responsible for the manner in which it or its agents, or both, perform the services required of it by the terms of this Loan Agreement. Borrower has and retains the right to exercise full control of employment, direction, compensation, and discharge of all persons assisting in the performance of services under the Loan Agreement. Borrower shall be solely responsible for all matters relating to payment of its employees, including compliance with Social Security, withholding and all other laws and regulations governing such matters, and shall include requirements in each contract that contractors shall be solely responsible for similar matters relating to their employees. Borrower agrees to be solely responsible for its own acts and those of its agents and employees.

Section 6.2 No Claims. Nothing contained in this Loan Agreement shall create or justify any claim against the Lender, by any person Borrower may have employed or with whom Borrower may have contracted relative to the purchase of materials, supplies or equipment, or the furnishing or the performance of any work or services with respect to the development of the Development, and Borrower shall include similar requirements in any contracts entered into for the development of the Development.

Section 6.3 Amendments. Except as otherwise provided in connection with Operating Memoranda executed pursuant to Section 6.18 below, no alteration or variation of the terms of this Loan Agreement shall be valid unless agreed to in writing by the Parties.

Section 6.4 Entire Understanding of the Parties. This Loan Agreement constitutes the entire understanding and agreement of the Parties with respect to the Loan.

Section 6.5 Indemnification. Except as directly caused by the Lender's gross negligence or willful misconduct, Borrower agrees to indemnify, protect, hold harmless and defend (by counsel reasonably satisfactory to the Lender) the Lender, the Lender Board, and its officers and employees, from all suits, actions, claims, causes of action, costs, demands, judgments and liens arising out of: (i) Borrower's performance or non-performance of its obligations under this Loan Agreement; (ii) Borrower's ownership of the Development; (iii) the development, marketing, rental and operation of the Development; or (iv), any documents executed by Borrower in connection with the Development. The provisions of this Section shall survive termination of this Loan Agreement.

Section 6.6 Non-Liability of Lender Officials, Employees and Agents. No member, official, employee or agent of the Lender shall be personally liable to Borrower, or any successor in interest, in the event of any Default or breach by the Lender, or for any amount which may become due to Borrower or its successor or on any obligation under the terms of this Loan Agreement.

Section 6.7 No Third Party Beneficiaries. There shall be no third party beneficiaries to this Loan Agreement except for the rights granted the Investor in Section 5.5 above and except for the rights granted to Lender after assignment of Loan as specified in Section 6.12(b) below.

Section 6.8 Action by the Lender. Except as may be otherwise specifically provided herein, whenever any approval, notice, direction, consent, request, extension of time, waiver of condition, termination, or other action by the Lender is required or permitted under this Loan Agreement, such action may be given, made, or taken by the Administrator without further approval by the Lender Board, and any such action shall be in writing.

Any consents or approvals required under this Loan Agreement shall not be unreasonably withheld or made, except where it is specifically provided that a sole discretion standard applies. The Administrator is also hereby authorized to approve, on behalf of the Lender, requests by Borrower for reasonable extensions of time deadlines set forth in this Loan Agreement. The Lender shall not unreasonably delay in reviewing and approving or disapproving any proposal by Borrower made in connection with this Loan Agreement.

Section 6.9 Waivers. Any waiver by the Lender of any obligation or condition in this Loan Agreement must be in writing. No waiver will be implied from any delay or failure by the Lender to take action on any breach or default of Borrower or to pursue any remedy allowed under this Loan Agreement or applicable law. Any extension of time granted to Borrower to perform any obligation under this Loan Agreement shall not operate as a waiver or release from any of its obligations under this Loan Agreement. Consent by the Lender to any act or omission by Borrower shall not be construed to be a consent to any other or subsequent act or omission or to waive the requirement for the Lender's written consent to future waivers.

Section 6.10 Notices, Demands and Communications. Formal notices, demands, and communications between the Lender and Borrower shall be sufficiently given if and shall not be deemed given unless dispatched by registered or certified mail, postage prepaid, return receipt

requested, or delivered by express delivery service, return receipt requested, or delivered personally, to the principal office of the Lender and Borrower as follows:

Lender: Lake County Housing Commission
Administrative Office – County of Lake
255 N. Forbes Street
Lakeport, CA 95453
Attn: Administrator

Borrower: Collier Avenue Associates LP
Rural Communities Housing Development Corporation
499 Leslie Street
Ukiah, CA 95482
Attn: Chief Executive Officer

With a copy to: Goldfarb & Lipman LLP
1300 Clay Street, 11th Floor
Oakland, CA 94612
Attn: William DiCamillo

With a copy to: MCC Housing LLC
c/o Merritt Community Capital Corporation
1970 Broadway, Suite 250
Oakland, California 94612
Attention: President & CEO

With a copy to: Carle, Mackie, Power & Ross LLP
100 B Street, Suite 400
Santa Rosa, CA 95401
Attention: Henry Loh II

Such written notices, demands and communications may be sent in the same manner to such other addresses as the affected party may from time to time designate by mail as provided in this Section, or by an Operating Memorandum, as defined below. Receipt shall be deemed to have occurred on the date shown on a written receipt for delivery or refusal of delivery. Copies of notices sent to Borrower shall also be sent to any successor investor limited partner of Borrower who requests such notices in writing and provides its address to the Lender.

Section 6.11 Applicable Law and Venue. This Loan Agreement shall be governed by California law. Any action brought claiming a breach of this Loan Agreement or interpreting this Loan Agreement shall be brought and venued in Lake County, California.

Section 6.12 Parties Bound. Except as otherwise limited herein, the provisions of this Loan Agreement shall be binding upon and inure to the benefit of the parties and their heirs,

executors, administrators, legal representatives, successors and assigns. This Loan Agreement is intended to run with the land and shall bind Borrower and its successors and assigns in the Property and the Development for the entire Term, and the benefit hereof shall inure to the benefit of the Lender and its successors and assigns.

Section 6.13 Attorneys' Fees. If any lawsuit is commenced to enforce any of the terms of this Loan Agreement, the prevailing party will have the right to recover its reasonable attorneys' fees and costs of suit from the other party.

Section 6.14 Severability. If any term of this Loan Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the provisions shall continue in full force and effect unless the rights and obligations of the parties have been materially altered or abridged by such invalidation, voiding or unenforceability.

Section 6.15 Force Majeure. In addition to specific provisions of this Loan Agreement, performance by either Party shall not be deemed to be in default where delays or defaults are due to acts of God, war, insurrection, strikes, lock-outs or other labor disturbances, one or more acts of a public enemy, war, riot, sabotage, blockade, embargo, floods, earthquakes, fires, quarantine restrictions, freight embargoes, lack of transportation, court order, pandemic, epidemic, local public health emergency, delays or failures of performance by any governmental authority or utility company (other than the acts or failure to act of the Lender and so long as the party seeking the extension has adequately complied with the applicable processing requirements of such governmental Lender or utility company), delays resulting from changes in any applicable laws, rules, regulations, ordinances or codes, or a change in the interpretation thereof by any governing body with jurisdiction, or any other cause (other than lack of funds of Borrower or Borrower's inability to finance the construction of the Development) beyond the reasonable control or without the fault of the Party claiming an extension of time to perform or an inability of performance. An extension of time for any cause will be deemed granted if notice by the Party claiming such extension is sent to the other within ten (10) days from the commencement of the cause and the Party granting the extension agrees to the extension in writing. In no event shall the Lender be required to agree to cumulative delays in excess of one hundred eighty (180) days.

Section 6.16 Conflict of Interest.

(a) Except for approved eligible administrative or personnel costs, no person described in Subsection (b) below who exercises or has exercised any functions or responsibilities with respect to the activities funded pursuant to this Loan Agreement or who is in a position to participate in a decision-making process or gain inside information with regard to such activities, may obtain a personal or financial interest or benefit from the activity, or have an interest in any contract, subcontract or agreement with respect thereto, or the proceeds thereunder, either for themselves or those with whom they have family or business ties, during, or at any time after, such person's tenure. Borrower shall exercise due diligence to ensure that the prohibition in this subsection (a) is followed.

(b) The conflict of interest provisions of subsection (a) above apply to any person who is an employee, agent, consultant, officer, or any immediate family member of such person, or any elected or appointed official of the Lender, or any person related within the third (3rd) degree of such person.

Section 6.17 Title of Parts and Sections. Any titles of the sections or subsections of this Loan Agreement are inserted for convenience of reference only and shall not be definitive in interpreting any part of the Loan Agreement's provisions.

Section 6.18 Operating Memoranda. The Parties acknowledge that the provisions of this Loan Agreement require a close degree of cooperation, and that new information and future events may demonstrate that changes are appropriate with respect to the details of performance of the Parties under this Loan Agreement. The Parties desire, therefore, to retain a certain degree of flexibility with respect to the details of performance of those items covered in general terms under this Loan Agreement. If and when, from time to time during the term of this Loan Agreement, the Parties find that refinements or adjustments regarding details of performance are necessary or appropriate, they may effectuate such refinements or adjustments through a memorandum (individually, an "Operating Memorandum", and collectively, "Operating Memoranda") approved by the Parties which, after execution, shall be attached to this Loan Agreement as addenda and become a part hereof. This Loan Agreement describes some, but not all, of the circumstances in which the preparation and execution of Operating Memoranda may be appropriate.

Operating Memoranda may be executed on the Lender's behalf by the Administrator or the Administrator's designee. Operating Memoranda shall not require prior notice or hearing, and shall not constitute an amendment to this Loan Agreement. Any substantive or significant modifications to the terms and conditions of performance under this Loan Agreement or the Note shall be processed as an amendment of this Loan Agreement in accordance with Section 6.3 above.

Section 6.19 Multiple Originals; Counterpart. This Loan Agreement may be executed in multiple originals, each of which is deemed to be an original, and may be signed in counterparts.

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WHEREFORE, this Loan Agreement has been entered into by the undersigned as of the Effective Date.

LENDER:

LAKE COUNTY HOUSING COMMISSION, a public
body, corporate and politic

By: _____
Name: _____
Its: _____

APPROVED AS TO FORM:

Lender Counsel

By: _____

[Signatures Continue on Following Page]

BORROWER:

COLLIER AVENUE ASSOCIATES LP, a California
limited partnership

By: Collier Avenue Associates LLC, a California
limited liability company, its general partner

By: Rural Communities Housing Development
Corporation, a California nonprofit public
benefit corporation, its sole member and
manager

By: _____
Ryan LaRue
Chief Executive Officer

EXHIBIT A

LEGAL DESCRIPTION OF THE PROPERTY

EXHIBIT B

DEVELOPMENT BUDGET

[See attached]