

Council/Agency Meeting Held: _____	City Clerk's Signature _____
Deferred/Continued to: _____	
<input type="checkbox"/> Approved <input type="checkbox"/> Conditionally Approved <input type="checkbox"/> Denied	
Council Meeting Date: 7/7/2008	Department ID Number: ED 08-29

**CITY OF HUNTINGTON BEACH
REQUEST FOR COUNCIL/REDEVELOPMENT AGENCY ACTION**

SUBMITTED TO: HONORABLE MAYOR/CHAIRMAN AND CITY COUNCIL MEMBERS/REDEVELOPMENT AGENCY MEMBERS

SUBMITTED BY: PAUL EMERY, Interim Executive Director/City Administrator *PEW*

PREPARED BY: STANLEY SMALEWITZ, Deputy Executive Director/Director of Economic Development *SS*

SUBJECT: Approve an Affordable Housing Agreement with Pacific Court Apartments, L. P. for Acquisition and Rehabilitation of 2200 Delaware Street

Statement of Issue, Funding Source, Recommended Action, Alternative Action(s), Analysis, Environmental Status, Attachment(s)

Statement of Issue: An Affordable Housing Agreement between the Agency, the City and Pacific Court Apartments, L.P. is submitted for approval. This Agreement will facilitate the acquisition and rehabilitation of a 48-unit apartment complex located at 2200 Delaware Street. Approval of the Agreement includes the financing with Federal HOME funds and Redevelopment Housing Set Aside funds. The City Council/Redevelopment Agency conducted a TEFRA Hearing regarding Pacific Court Apartments, L.P. application for Multifamily Housing Revenue Bonds on March 17, 2008.

Funding Source: Federal HOME Investment Partnership Funds of \$500,000 (account 84780401.89250) and Redevelopment Housing Set Aside funds (account 30680301.89250) in an amount of \$8,784,224, which will be used for the acquisition of the property.

Recommended Action: Motion to:

City Council Action:

1. Approve Resolution No2008-36A Resolution of the City Council of the City of Huntington Beach Approving an Affordable Housing Agreement with Pacific Court Apartments, L.P., Approving a Relocation Plan, Approving a Loan of HOME Funds and making certain findings.

E-8

REQUEST FOR COUNCIL/REDEVELOPMENT AGENCY ACTION

MEETING DATE: 7/7/2008

DEPARTMENT ID NUMBER: ED 08-29

2. Authorize the Interim City Administrator (or designee) and the Mayor to take any action and execute any and all documents and agreements necessary to implement the Agreement.

Redevelopment Agency Action:

1. Approve Resolution No. 372 Resolution of the Redevelopment Agency of the City of Huntington Beach Approving an Affordable Housing Agreement with Pacific Court Apartments, L.P., Approving a Relocation Plan, Approving a Loan of Housing Set Aside Funds and making certain findings.
2. Appropriate \$8,784,224 from the unappropriated, undesignated Fund Balance of the Low Income Housing Set Aside Funds into account 30680301.89250.
3. Authorize the Interim Executive Director (or designee) and the Agency Chairperson to take any action and execute any and all documents and agreements necessary to implement the Agreement.

Alternative Action(s): Do not approve the Housing Agreement and direct staff to renegotiate the deal terms with Pacific Court Apartments, L.P.

Analysis:

The property located at 2200 Delaware, a 48-unit apartment complex, has been the focus of code enforcement and the City Attorney's Office actions due to resident complaints and numerous noticeable code violations over the last several years. Pacific Court Apartments L.P., a joint venture between Orange Housing Development Corporation and C & C Development (Developer), has entered into escrow for acquisition of the property and asked the Agency for assistance with property acquisition costs in exchange for long-term affordability covenants on 47 of the 48 units.

On March 17, 2008 the City Council and Redevelopment Agency conducted a public hearing and approved Resolution Number 2008-21, authorizing the issuance of bonds by the California Statewide Communities Development Authority to assist in the financing of the project. The Developer has been successful through the bond application process and has secured \$9,347,567 tax exempt bond financing utilizing 4% multifamily housing revenue bonds.

The property consists of 48 two bedroom units. The Developer will provide 23 two bedroom units to very low income households and 24 two bedroom units to low income households for at least 60 years. The Developer, as a partnership, has over twenty years experience in developing clean and attractive housing for families and seniors of low and moderate income, including the recently completed 20-unit affordable senior housing project known as Bowen Court located on Lake Street in the City of Huntington Beach. The Agreement provides that,

REQUEST FOR COUNCIL/REDEVELOPMENT AGENCY ACTION

MEETING DATE: 7/7/2008

DEPARTMENT ID NUMBER: ED 08-29

upon completion of all rehabilitation, the Developer will manage the property and provide on-site management of the complex to ensure the continued maintenance on the site.

The Agreement calls for the following terms:

- Units to be affordable for a minimum of 60 years
- 23 units to be leased to very low income households (50% of average medium income)
- 24 units to be leased low income households (80% of average medium income)
- The total project acquisition cost is \$12.08 million
- Income qualified households that are currently residing in the building will remain at the site and be accommodated during construction and rehabilitation of their unit as necessary
- Households that exceed the low and very low income requirements will be relocated by the Developer
- The basic rehabilitation costs are estimated at \$1.96 million or \$40,800 per unit
- The Developer will provide many green initiatives on the site, such as solar panels, hardscape, tot lot and a sport court, at a cost of approximately \$195,000. This will include removal of the existing pool.

The project is an opportunity for the City and Agency to physically improve and create 48-units of affordable housing units, thereby enhancing the quality of life for a significant number of lower income families. The project was both listed in the Agency Housing Strategy, adopted on December 17, 2007, and the City's Housing Element, adopted on June 16, 2008.

The term of the City and Agency loans shall be sixty (60) years with no interest. The City and Agency loans are to be repaid with annual payments from residual receipts. Residual receipts are defined as the amount by which the gross revenue exceeds annual operating expenses. Annually, the Developer will submit an audit by an independent certified public accounting firm.

If the City and Agency approve the Affordable Housing Agreement, escrow will close on July 21, 2008 with rehabilitation commencing within ninety (90) days. The Economic Development Committee has reviewed the proposed project and approved it for Agency consideration. The Agency's fiscal consultant, Keyser Marston Associates, Inc., has reviewed the project and recommends the financing provided in the Agreement.

Strategic Plan Goal: L-3 "Preserve the quality of our neighborhoods"

E8.3

REQUEST FOR COUNCIL/REDEVELOPMENT AGENCY ACTION

MEETING DATE: 7/7/2008

DEPARTMENT ID NUMBER: ED 08-29

Environmental Status: Categorically excluded under the National Environmental Protection Act (NEPA). Categorically exempt under the California Environmental Quality Act (CEQA), Section 15061 (b) (3).

Attachment(s):

City Clerk's Page Number	No.	Description
5	1.	Resolution No 2008-3 Resolution of the City Council of the City of Huntington Beach Approving an Affordable Housing Agreement with Pacific Court Apartments, L.P., Approving a Relocation Plan, Approving a Loan of HOME Funds and making certain findings.
10	2.	Resolution No. 372 Resolution of the Redevelopment Agency of the City of Huntington Beach Approving an Affordable Housing Agreement with Pacific Court Apartments, L.P., Approving a Relocation Plan, Approving a Loan of Housing Set Aside Funds and making certain findings.
15	3.	Affordable Housing Agreement
228	4.	Keyser Marston Associations- Delaware Apartments: Financial Gap and HOME Layering Analysis dated June 16, 2008
242	5.	March 17, 2008 RCA TEFRA Public Hearing
252	6.	Fiscal Impact Statement

ATTACHMENT #1

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RESOLUTION NO. 2008-36

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF HUNTINGTON BEACH APPROVING AN AFFORDABLE HOUSING AGREEMENT WITH PACIFIC COURT APARTMENTS, L.P., APPROVING A RELOCATION PLAN, APPROVING A LOAN OF HOME FUNDS AND MAKING CERTAIN FINDINGS

WHEREAS, the Redevelopment Agency of the City of Huntington Beach (the "Agency") is engaged in activities necessary to carry out and implement the Redevelopment Plan for the Merged Redevelopment Project Area (the "Project Area") of the City of Huntington Beach; and

Sections 33334.2 and 33334.3 of California Community Redevelopment Law (Health & Safety Code Section 33000 et seq.) ("CRL") require the Agency to use 20 percent of taxes allocated to the Agency pursuant to Section 33670 of the CRL for the purpose of increasing, improving, and preserving the community's supply of low and moderate income housing ("Housing Set Aside Funds"); and

The Agency and the City desire to enter into an Affordable Housing Agreement with Pacific Court Apartments, L.P. (the "Developer") by which the Agency will make a loan of Housing Set Aside Funds and the City will make a loan of HOME Investment Partnerships Program (HOME) funds, which will be used together with tax-exempt mortgage revenue bonds and equity in the form of federal tax credits to finance the acquisition and rehabilitation of a 48-unit apartment complex located at 2200 Delaware Street for operation as affordable rental housing for very low income and low income households for not less than 60 years (the "Project"); and

Section 33334.2(g) of the CRL provides that the Agency may use its Housing Set Aside Funds outside of the Project Area upon a resolution by the Agency and the City Council that the use will be of benefit to the Project Area; and

The Project will require the permanent relocation of those current tenants whose household incomes exceed the qualifying limits for occupancy in the completed Project; and

A Relocation Plan has been prepared that conforms to the requirements of the federal Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (URA), as amended, the implementing regulations contained in Handbook 1378 of the Department of Housing and Urban Development, the California Relocation Assistance Law, Government Code Section 7260, et seq, and the Relocation Assistance and Real Property Acquisition Guidelines adopted by the

Department of Housing and Community Development set forth in Title 25, California Code of Regulations Section 6000, et seq. (the "Guidelines"); and

The Relocation Plan was made available for at least 30 days for review and comment and notice of that availability was given to the current tenants of the Project in both English and Spanish and no comments have been received; and

It is in the best interests of the City and for the common benefit of the residents and the City as a whole for the City and the Agency to enter into the Affordable Housing Agreement; and

All other legal prerequisites to the adoption of this Resolution have occurred.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF HUNTINGTON BEACH AS FOLLOWS:

1. The City Council hereby finds and determines that the foregoing recitals are true and correct.
2. Based on substantial evidence in the record, the City Council hereby finds and determines that:
 - a. The Agency's use of its Housing Set Aside Funds for the Project will be of benefit to the Project Area; and
 - b. Fair and reasonable relocation payments will be provided to eligible persons as required by Article 3 of the Guidelines; and
 - c. A relocation assistance program offering the services described in Article 2 of the Guidelines will be established; and
 - d. Eligible persons will be adequately informed of the assistance, benefits, policies, practices and procedures, including grievance procedures, provided for in the Guidelines; and
 - e. Based upon recent survey and analysis of both the housing needs of persons who will be displaced and available replacement housing and considering competing demands for that housing, comparable replacement dwellings will be available, or provided, if necessary, within a reasonable period of time prior to displacement sufficient in number, size and cost for the eligible persons who require them; and
 - f. Adequate provisions have been made to provide orderly, timely and efficient relocation of eligible persons to comparable replacement housing available

without regard to race, color, religion, sex, marital status, or national origin with minimum hardship to those affected; and

- g. A Relocation Plan meeting the requirements of section 6038 of the Guidelines has been prepared and is hereby approved.
- 4. The City Council has duly considered the terms and conditions of the proposed transaction and determines that the proposed Affordable Housing Agreement is in the best interests of the Project Area and the City and the health, safety, morals and welfare of its residents, and in accord with the public purposes and provisions of applicable State and local law and requirements.
- 5. The City Council hereby approves a loan of HOME funds to the Developer to pay acquisition costs for the Project, in an amount not to exceed \$500,000.
- 4. The City Administrator (or designee) and the Mayor are authorized to take any action and execute any and all documents and agreements necessary to implement this Resolution without the necessity of further action by the City Council except to the extent required by law.
- 5. This Resolution shall take effect immediately upon its adoption.

PASSED AND ADOPTED by the City Council of the City of Huntington Beach at a regular meeting held thereof on the _____ day of _____, 200_.

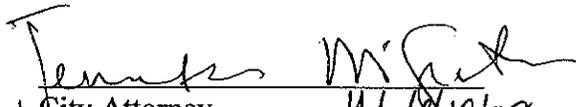
Mayor

REVIEWED AND APPROVED



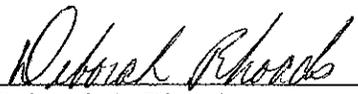
City Administrator

APPROVED AS TO FORM:



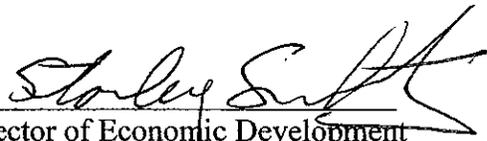
City Attorney
6-22-08 M 6/19/08

KANE, BALLMER & BERKMAN
Special Counsel



Deborah L. Rhoads

INITIATED AND APPROVED:



Director of Economic Development

ATTACHMENT #2

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REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH

RESOLUTION NO. 372

RESOLUTION OF THE REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH APPROVING AN AFFORDABLE HOUSING AGREEMENT WITH PACIFIC COURT APARTMENTS, L.P., APPROVING A RELOCATION PLAN, APPROVING A LOAN OF HOUSING SET ASIDE FUNDS AND MAKING CERTAIN FINDINGS

WHEREAS, the Redevelopment Agency of the City of Huntington Beach (the "Agency") is engaged in activities necessary to carry out and implement the Redevelopment Plan for the Merged Redevelopment Project Area (the "Project Area") of the City of Huntington Beach; and

Sections 33334.2 and 33334.3 of California Community Redevelopment Law (Health & Safety Code Section 33000 et seq.) ("CRL") require the Agency to use 20 percent of taxes allocated to the Agency pursuant to Section 33670 of the CRL for the purpose of increasing, improving, and preserving the community's supply of low and moderate income housing ("Housing Set Aside Funds"); and

The Agency and the City of Huntington Beach (the "City") desire to enter into an Affordable Housing Agreement with Pacific Court Apartments, L.P. (the "Developer") by which the Agency will make a loan of Housing Set Aside Funds and the City will make a loan of HOME Investment Partnerships Program (HOME) funds, which will be used together with tax-exempt mortgage revenue bonds and equity in the form of federal tax credits to finance the acquisition and rehabilitation of a 48-unit apartment complex located at 2200 Delaware Street for operation as affordable rental housing for very low income and low income households for not less than 60 years (the "Project"); and

Section 33334.2(g) of the CRL provides that the Agency may use its Housing Set Aside Funds outside of the Project Area upon a resolution by the Agency and the City Council that the use will be of benefit to the Project Area; and

The Project will require the permanent relocation of those current tenants whose household incomes exceed the qualifying limits for occupancy in the completed Project; and

A Relocation Plan has been prepared that conforms to the requirements of the federal Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (URA), as amended, the implementing regulations contained in Handbook 1378 of the Department of Housing

and Urban Development, the California Relocation Assistance Law, Government Code Section 7260, et seq, and the Relocation Assistance and Real Property Acquisition Guidelines adopted by the Department of Housing and Community Development set forth in Title 25, California Code of Regulations Section 6000, et seq. (the "Guidelines"); and

The Relocation Plan was made available for at least 30 days for review and comment and notice of that availability was given to the current tenants of the Project in both English and Spanish and no comments have been received; and

It is in the best interests of the City and for the common benefit of the residents and the City as a whole for the City and the Agency to enter into the Affordable Housing Agreement; and

All other legal prerequisites to the adoption of this Resolution have occurred.

NOW, THEREFORE, BE IT RESOLVED BY THE REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH AS FOLLOWS:

1. The Agency hereby finds and determines that the foregoing recitals are true and correct.
2. Based on substantial evidence in the record, the Agency hereby finds and determines that:
 - a. The Agency's use of its Housing Set Aside Funds for the Project will be of benefit to the Project Area; and
 - b. Fair and reasonable relocation payments will be provided to eligible persons as required by Article 3 of the Guidelines; and
 - c. A relocation assistance program offering the services described in Article 2 of the Guidelines will be established; and
 - d. Eligible persons will be adequately informed of the assistance, benefits, policies, practices and procedures, including grievance procedures, provided for in the Guidelines; and
 - e. Based upon recent survey and analysis of both the housing needs of persons who will be displaced and available replacement housing and considering competing demands for that housing, comparable replacement dwellings will be available, or provided, if necessary, within a reasonable period of time prior to displacement sufficient in number, size and cost for the eligible persons who require them; and

- f. Adequate provisions have been made to provide orderly, timely and efficient relocation of eligible persons to comparable replacement housing available without regard to race, color, religion, sex, marital status, or national origin with minimum hardship to those affected; and
 - g. A Relocation Plan meeting the requirements of section 6038 of the Guidelines has been prepared and is hereby approved.
- 4. The Agency has duly considered the terms and conditions of the proposed transaction and determines that the proposed Affordable Housing Agreement is in the best interests of the Project Area and the City and the health, safety, morals and welfare of its residents, and in accord with the public purposes and provisions of applicable State and local law and requirements.
 - 5. The Agency hereby approves a loan of Housing Set Aside funds to the Developer to pay acquisition and rehabilitation costs for the Project, in an amount not to exceed \$8,784,224.
 - 4. The Agency Executive Director (or designee) and the Agency Chairperson are authorized to take any action and execute any and all documents and agreements necessary to implement this Resolution without the necessity of further action by the Agency except to the extent required by law.
 - 5. This Resolution shall take effect immediately upon its adoption.

PASSED AND ADOPTED by the Redevelopment Agency of the City of Huntington Beach at a regular meeting held thereof on the _____ day of _____, 200_.

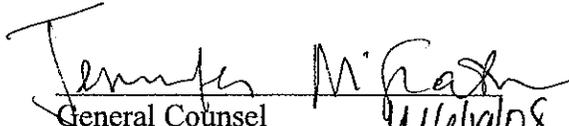
_____ Chairman

REVIEWED AND APPROVED:



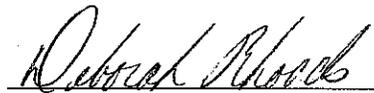
Executive Director

APPROVED AS TO FORM:



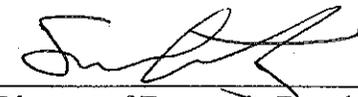
General Counsel
6-20-08

KANE, BALLMER & BERKMAN
Agency Special Counsel



Deborah L. Rhoads

INITIATED AND APPROVED:



Director of Economic Development

ATTACHMENT #3

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AFFORDABLE HOUSING AGREEMENT

By And Among

THE REDEVELOPMENT AGENCY
OF THE CITY OF HUNTINGTON BEACH,
a public body, corporate and politic,

and

THE CITY OF HUNTINGTON BEACH,
a municipal corporation of the State of California

and

PACIFIC COURT APARTMENTS, L.P.,
a California limited partnership

(2200 Delaware Street)

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TABLE OF CONTENTS

	<u>Page</u>
ARTICLE I DEFINITIONS	2
ARTICLE II SUBJECT OF THIS AGREEMENT.....	13
Section 201 Purpose of Agreement.....	13
Section 202 The Redevelopment Plan	13
Section 203 Prohibition Against Transfers; Right of First Refusal	13
ARTICLE III ACQUISITION OF THE SITE.....	15
Section 301 Ownership of the Site	15
Section 302 Agency Financial Assistance	16
Section 303 City Financial Assistance.....	16
Section 304 Disbursement of City Loan and Agency Acquisition Loan.....	16
Section 305 Close of Escrow	16
Section 306 Broker's Fees	16
ARTICLE IV REHABILITATION OF THE SITE.....	16
Section 401 Scope of Development.....	16
Section 402 Construction Drawings and Related Documents	17
Section 403 Agency Approval of Plans, Drawings and Related Documents	17
Section 404 Cost of Rehabilitation	18
Section 405 Schedule of Performance	18
Section 406 Local, State, and Federal Laws	18
Section 407 Nondiscrimination During Construction	20
Section 408 Insurance	20
Section 409 Indemnification	21
Section 410 Disclaimer of Responsibility by the Agency	22
Section 411 Rights of Access	22
Section 412 Taxes, Assessments, Encumbrances and Liens	22
Section 413 Security Financing; Right of Holders	23
Section 414 Rights to Plans	23
Section 415 Hazardous Materials	24
Section 416 Release of Construction Covenants	24
ARTICLE V USE OF THE SITE.....	25
Section 501 Uses.....	25
Section 502 Developer's Relocation Obligations.....	25
Section 503 Management Plan; Annual Project Budget; Quarterly Reports.....	26
Section 504 Maintenance of the Site	27
Section 505 Lead-Based Paint.	27
Section 506 Barriers to the Disabled	28
Section 507 Creation of Capital Reserve Account	28
Section 508 Capital Reserves.	28
Section 509 Obligation to Refrain from Discrimination	28

Section 510	Form of Nondiscrimination and Nonsegregation Clauses.....	29
Section 511	Effect and Duration of Covenants.....	30
Section 512	Effect of Violation of Covenants.....	30
Section 513	Monitoring.....	30
ARTICLE VI DEFAULTS, REMEDIES AND TERMINATION.....		31
Section 601	Defaults; Notice of Cure; Cure Rights.....	31
Section 602	Institution of Legal Actions.....	32
Section 603	Applicable Law.....	32
Section 604	Acceptance of Service of Process.....	32
Section 605	Rights and Remedies Are Cumulative.....	33
Section 606	Specific Performance.....	33
Section 607	Termination by Agency or City.....	33
Section 608	Termination by Any Party.....	33
Section 609	Limited Recourse Obligations.....	33
Section 610	Developer's Remedies.....	34
Section 611	Attorney's Fees.....	34
ARTICLE VII GENERAL PROVISIONS.....		35
Section 701	Developer's Warranties.....	35
Section 702	Notices, Demands and Communications between the Parties.....	35
Section 703	Conflicts of Interest.....	36
Section 704	Nonliability of Agency and City Officials and Employees.....	36
Section 705	Extension of Times of Performance.....	36
Section 706	Inspection of Books and Records.....	37
Section 707	Assurances to Act in Good Faith; Approval by Both Agency and City.....	37
Section 708	Real Estate Commissions.....	37
Section 709	Interpretation.....	37
Section 710	Severability.....	37
Section 711	No Third Party Beneficiaries.....	38
Section 712	Authority to Sign.....	38
Section 713	Titles and Captions.....	38
Section 714	Gender and Number.....	38
ARTICLE VIII ENTIRE AGREEMENT, WAIVERS AND AMENDMENTS.....		38
ARTICLE IX TIME FOR ACCEPTANCE OF AGREEMENT BY THE AGENCY; DATE OF AGREEMENT.....		39

EXHIBITS

EXHIBIT NO. 1	-	LEGAL DESCRIPTION
EXHIBIT NO. 2	-	SITE MAP
EXHIBIT NO. 3	-	METHOD OF FINANCING
EXHIBIT NO. 4	-	SCHEDULE OF PERFORMANCE
EXHIBIT NO. 5	-	SCOPE OF DEVELOPMENT
EXHIBIT NO. 6	-	PROJECT BUDGET
EXHIBIT NO. 7	-	AGENCY PROMISSORY NOTE
EXHIBIT NO. 8	-	AGENCY DEED OF TRUST
EXHIBIT NO. 9	-	CITY PROMISSORY NOTE
EXHIBIT NO. 10	-	CITY DEED OF TRUST
EXHIBIT NO. 11	-	REGULATORY AGREEMENT
EXHIBIT NO. 12	-	SUBORDINATION AGREEMENT
EXHIBIT NO. 13	-	ASSIGNMENT OF RENTS AND LEASES
EXHIBIT NO. 14	-	ASSIGNMENT OF AGREEMENTS
EXHIBIT NO. 15	-	ENVIRONMENTAL INDEMNITY
EXHIBIT NO. 16	-	UCC1 FINANCING STATEMENT
EXHIBIT NO. 17	-	NOTICE OF AFFORDABILITY RESTRICTIONS ON TRANSFER OF PROPERTY
EXHIBIT NO. 18	-	RELEASE OF CONSTRUCTION COVENANTS

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AFFORDABLE HOUSING AGREEMENT

This AFFORDABLE HOUSING AGREEMENT (“Housing Agreement”) is entered into _____, 2008 (the “Effective Date”) by and between THE REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH, a public body, corporate and politic, (“Agency”), THE CITY OF HUNTINGTON BEACH, a municipal corporation of the State of California (“City”) and PACIFIC COURT APARTMENTS, L.P., a California limited partnership (“Developer”). Agency, City and Developer (collectively, the “Parties”) hereby agree as follows:

RECITALS

A. Developer has entered into a Purchase and Sale Agreement to acquire the “Site” (as such term is defined herein) from George Galanoudes (the “Seller”) and intends to implement the “Project” (as such term is defined herein) on the Site in accordance with the terms of this Housing Agreement.

B. Agency is a public body, corporate and politic, exercising governmental functions and powers and organized and existing under the Community Redevelopment Law of the State of California (California Health and Safety Code Section 33000 et seq.).

C. Pursuant to the California Redevelopment Law, Agency has established a Housing Set Aside Fund and has deposited therein certain tax revenues made available to the Agency exclusively for the purpose of increasing, improving and preserving the community’s supply of affordable low and moderate income housing, including very low income housing (“Set Aside Funds”).

D. Agency desires to meet its affordable housing goals pursuant to the California Community Redevelopment Law by making a loan of Set Aside Funds in the approximate amount of EIGHT MILLION SEVEN HUNDRED EIGHTY-FOUR THOUSAND TWO HUNDRED TWENTY-FOUR DOLLARS (\$8,784,224.00) (the “Agency Loan”) to assist Developer in funding the acquisition and rehabilitation of the Site, which will be maintained for not less than 60 years as affordable rental housing units for very low income and low income persons and families, more specifically, the Project as hereinafter defined.

E. City desires to improve and preserve affordable housing in the community by assisting Developer in acquisition of the Site and implementation of the Project. City’s assistance shall be in the form of a loan of HOME Investment Partnership Program funds (“HOME Funds”) in the amount of FIVE HUNDRED THOUSAND DOLLARS (\$500,000.00) (the “City Loan”) to assist Developer in acquiring the Site and implementing the Project.

NOW, THEREFORE, in consideration of the promises and covenants contained herein, the above recitals, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I DEFINITIONS

For purposes of this Housing Agreement, the following capitalized terms shall have the following meanings:

The term “**Affiliate**” shall mean (i) any party directly or indirectly controlling, controlled by or under common control with another party, (ii) any party owning or controlling 10% or more of the outstanding voting securities of such other party, (iii) any officer, director or partner of such party, or (iv) if such other party is an officer, director or partner, any company for which such party acts in any such capacity.

The term “**Affordable Low Income Unit**” shall mean one of the twenty-four (24) two-bedroom rental dwelling units in the Project restricted to occupancy by Low Income Households. The term “Affordable Low Income Unit” and “Affordable Low Income Units” shall be used as the context mandates and shall be reasonably interpreted in light of the context in which the term appears.

The term “**Affordable Rent**” shall mean,

(a) for Affordable Very Low Income Units, rental rates not to exceed the lesser of (1) “very low income” affordable rent as defined by California *Health & Safety Code* Section 50053(b)(2), or its successor, and (2) the rent limits set forth by the HOME Program in 24 C.F.R. 92.252(b)(1) and 24 C.F.R. 92.252(b)(2), or its successor.

(b) for Affordable Low Income Units, rental rates not to exceed the lesser of (1) “low income” affordable rent as defined by California *Health & Safety Code* Section 50053(b)(3), or its successor, and (2) the rent limits set forth by the HOME Program in 24 C.F.R. 92.252(a)(1) and 24 C.F.R. 92.252(a)(2), or its successor.

Affordable Rent shall include a reasonable utility allowance for tenant-paid utilities based on the Orange County Housing Authority’s published utility schedules.

The term “**Affordable Very Low Income Unit**” shall mean one of the twenty-three (23) two-bedroom rental dwelling units in the Project restricted to occupancy by Very Low Income Households. The term “Affordable Very Low Income Unit” and “Affordable Very Low Income Units” shall be used as the context mandates and shall be reasonably interpreted in light of the context in which the term appears.

The term “**Agency**” shall mean the Redevelopment Agency of the City of Huntington Beach, a public body, corporate and politic, having its offices at 2000 Main Street, Huntington Beach, CA 92648, and any assignee of, or successor to, the rights, powers, and responsibilities of Agency.

The term “**Agency Deed of Trust**” shall mean the Deed of Trust with Assignment of Rents attached as Exhibit No. “8” hereto, in which Developer is the Trustor and Agency is the Beneficiary, which secures the Agency Loan.

The term “**Agency Executive Director**” shall mean the individual duly appointed to the position of Executive Director of the Agency, or authorized designee. Whenever an administrative action is required by Agency to implement the terms of this Housing Agreement, the Agency Executive Director, or an authorized designee, shall have authority to act on behalf of Agency, except with respect to matters reserved under California law wholly for determination by the Agency’s governing body.

The term “**Agency Loan**” shall mean the Agency’s loan to Developer in an amount not to exceed EIGHT MILLION SEVEN HUNDRED EIGHTY-FOUR THOUSAND TWO HUNDRED TWENTY-FOUR DOLLARS (\$8,784,224.00) of Set Aside Funds, as evidenced by the Agency Note and secured by the Agency Deed of Trust.

The term “**Agency Loan Documents**” shall have the meaning given to it in the Method of Financing.

The term “**Agency Note**” shall mean that certain Promissory Note evidencing the Agency Loan, substantially in the form attached hereto as Exhibit No. “7.”

The term “**Assignment of Agreements**” shall mean the assignments by Developer to Agency and City of plans, contracts and permits, substantially in the form attached hereto as Exhibit No. “14”, which is incorporated herein by this reference.

The term “**Assignment of Rents and Leases**” shall mean a document substantially in the form attached hereto as Exhibit No. “13”, which is incorporated herein by this reference.

The term “**Bonds**” shall mean the California Statewide Communities Development Authority Multifamily Housing Revenue Bonds (Pacific Court Apartments) Series ____ constituting the mortgage revenue bonds issued for the Project as described in the Method of Financing attached hereto as Exhibit No. “3”, which is incorporated herein by this reference.

The term “**Bond Deed of Trust**” shall mean the first priority deed of trust on the Site, which secures the Series X-1 Bond Loan and the Series X-2 Bond Loan.

The term “**Bond Documents**” shall mean, individually and collectively, the Series X-1 Bond Documents and the Series X-2 Bond Documents.

The term “**Bond Loans**” shall mean the Series X-1 Bond Loan and the Series X-2 Bond Loan.

The term “**City**” shall mean the City of Huntington Beach, a municipal corporation of the State of California, having its offices at 2000 Main Street, Huntington Beach, CA 92648, and any assignee of, or successor to, the rights, powers, and responsibilities of City.

The term “**City Administrator**” shall mean the individual duly appointed to the position of City Administrator of the City, or authorized designee. Whenever an administrative action is required by City to implement the terms of this Housing Agreement, the City Administrator, or an authorized designee, shall have authority to act on behalf of City, except with respect to matters reserved under California law or the City’s Charter wholly for City Council determination.

The term “**City Deed of Trust**” shall mean the Deed of Trust with Assignment of Rents attached as Exhibit No. “10” hereto, in which Developer is the Trustor and City is the Beneficiary, which secures the City Loan.

The term “**City Loan**” shall mean the City’s loan to Developer in an amount not to exceed FIVE HUNDRED THOUSAND DOLLARS (\$500,000.00) of HOME Funds, as evidenced by the City Note and secured by the City Deed of Trust.

The term “**City Loan Documents**” shall have the meaning given to it in the Method of Financing.

The term “**City Note**” shall mean that certain Promissory Note, substantially in the form attached hereto as Exhibit No. “9”, which is incorporated herein by this reference.

The term “**Completion**” shall mean, with regard to rehabilitation of the Site, the satisfaction of each of the following events: (i) the Agency and the City shall have determined that rehabilitation of the Site has been completed substantially in accordance with the plans approved by the Agency and the City, (ii) certificates of occupancy shall have been issued by the City with respect to all of the Units, (iii) the time for Developer’s contractor, suppliers and subcontractors to file a claim pursuant to Civil Code Sections 3115-3117 has expired or Developer has delivered to the Agency and the City unconditional lien releases for its contractor, suppliers and subcontractors, and any mechanic’s liens that have been recorded or stop notices that have been delivered have been paid, settled or otherwise extinguished, discharged, released, waived, bonded around or insured against, provided that a notice of completion pursuant to Civil Code Section 3117 has been duly recorded in the land records of Orange County.

The term “**Construction Financing Event**” shall mean the point in time when all conditions precedent to the conveyance of the Site from the Seller to Developer and the funding of the Series X-1 Bond Loan, the Series X-2 Bond Loan, the City Loan and the Agency Acquisition Loan and Relocation Funds have been satisfied, in accordance with the Method of Financing.

The term “**Construction Lender**” shall mean Washington Mutual Bank, as the initial purchaser of the Bonds.

The term “**Construction Period**” shall mean the period of time commencing upon the Construction Financing Event and ending upon the repayment of the Series X-2 Bond Loan and the deposit of the additional Limited Partner Capital Contribution (less that portion of the Limited Partner Capital Contribution that will be funded upon receipt of Form(s) 8609).

The term “**Conversion Date**” shall have the meaning given to such term in the Master Pledge and Assignment, dated July 1, 2008 between the California Statewide Communities Development Authority and Washington Mutual Bank, as the initial Bondowner Representative.

The term “**Days**” shall mean calendar days and the statement of any time period herein shall be calendar days and not working days, unless otherwise specified.

The term “**Developer**” shall mean PACIFIC COURT APARTMENTS, L.P., a California limited partnership, whose address is 414 E. Chapman Ave., Orange, CA 92866, and any permitted assignee or nominee. Prior to the admission of the Investor Limited Partner and the Special Limited Partner (if any), the Developer shall submit to the Agency for review and approval the proposed Limited Partnership Documents, which approval shall not be unreasonably withheld. The Limited Partnership Documents must verify that C&C Delaware, LLC will be the developer general partner and OHDC Delaware, LLC will be the managing general partner of the Limited Partnership.

The term “**Developer Equity**” shall mean funds provided by the Developer for payment of Project Costs and shall not include the Bond Loans, the Agency Loan, the City Loan or any other borrowed funds, and shall include the Deferred Developer Fee, the Limited Partner Capital Contribution as well as any other funds of the Developer.

The term “**Developer General Partner**” shall mean C&C Delaware, LLC, a California limited liability company.

The term “**Effective Date**” shall mean the date the City Council and the governing body of the Agency approve this Housing Agreement and authorize its execution, which date shall be inserted into the preamble of this Housing Agreement.

The term “**Eligible Tenant**” shall mean any person entitled to rent an Affordable Very Low Income Unit or an Affordable Low Income Unit as set forth in the Regulatory Agreement.

The term “**Environmental Indemnity**” shall mean the indemnity by Developer, substantially in the form attached hereto as Exhibit No. “15”, which is incorporated herein by this reference.

The term “**Escrow**” shall mean that certain escrow with Stewart Title Company, which has been established for the Construction Financing Event.

The term “**Force Majeure**” or “**Force Majeure Event**” shall mean the following events, provided that they actually delay and interfere with the timely performance of the matter to which it would apply and despite the exercise of diligence and good business practices are or would be beyond the reasonable control of the party claiming such interference: war; insurrection; strikes; lock-outs; riots; floods; earthquakes; fires; casualties; acts of God; acts of the public enemy; epidemics; quarantine restrictions; freight embargoes; lack of transportation; governmental restrictions or priority; litigation including litigation challenging the validity of this transaction or any element thereof; unusually severe weather; inability to secure necessary labor, materials or tools; delays of any contractor, subcontractor, or suppliers; acts of the other party; acts or failure to act of any Governmental Agency (except acts or failure to act of the Agency or the City shall not excuse performance by the Agency or the City); the imposition of any applicable moratorium by a Governmental Agency; or any other causes which despite the exercise of diligence and good business practices are or would be beyond the reasonable control of the party claiming such delay and interference. Notwithstanding the foregoing, none of the foregoing events shall constitute a Force Majeure Event unless and until the party claiming such delay and interference delivers to the other party written notice describing the event, its cause, when and how such party obtained knowledge, the date the event commenced, and the estimated delay resulting therefrom. Any party claiming a Force Majeure Delay shall deliver such written notice within ten (10) business days after it obtains actual knowledge of the event.

The term “**Force Majeure Delay**” shall mean any delay in taking any action required by this Housing Agreement, proximately caused by the occurrence of any Force Majeure Event.

The term “**Four Percent Tax Credit**” shall mean the federal tax credit allocated to the Project by the California Tax Credit Allocation Committee. “Four Percent” refers to the applicable percentage of the qualified basis for a building that is federally subsidized, as provided in Internal Revenue Code Section 42(b)(1).

The term “**Governmental Approvals**” shall mean and include any and all general plan amendments, zoning approvals or changes, required approvals and certifications under the California Environmental Quality Act, tentative and final tract maps, variances, conditional use permits, demolition permits, excavation/foundation permits, grading permits, building permits, inspection

reports and approvals, certificates of occupancy, and other approvals, permits, certificates, authorizations, consents, orders, entitlements, filings or registrations, and actions of any nature whatsoever required from any Governmental Agency in order to commence and complete the Project.

The term “**Governmental Agency**” means the United States, the State of California, the County of Orange, the City of Huntington Beach or any other political subdivision in which the Site is located, and any court or political subdivision, agency or instrumentality having jurisdiction over the Site.

The term “**Grant Deed**” shall mean that certain Grant Deed that conveys the Site from the current owner, the Seller, to Developer.

The term “**Hazardous Substances**” shall have the meaning set forth in the Environmental Indemnity.

The term “**HOME**” means the HOME Investment Partnership Program created by the National Affordable Housing Act of 1990.

The term “**HOME Regulations**” shall mean 24 CFR Part 92, as amended from time to time.

The term “**Housing Agreement**” or any reference to this “**Housing Agreement**” shall mean this Affordable Housing Agreement executed by and between Agency, City and Developer, including all exhibits attached hereto, which exhibits are incorporated herein by this reference and all other documents incorporated herein by reference.

The term “**HUD**” means the United States Department of Housing and Urban Development.

The term “**Investor Limited Partner**” shall mean the entity, or any successor thereof, that will provide the Limited Partner Capital Contribution set forth in the Method of Financing and identified in the Limited Partnership Agreement and the related contribution agreement.

The term “**Improvements**” shall mean the improvements located on the Site, to be rehabilitated in accordance with this Housing Agreement, including but not limited to the Scope of Development.

The term “**Lease**” means the lease entered into between Developer and an Eligible Tenant of an Affordable Very Low Income Unit or an Affordable Low Income Unit in the Project.

The term “**Limited Partnership**” shall mean the single purpose entity referred to herein as “Developer”, formed for the syndication of the Four Percent Tax Credit.

The term “**Limited Partnership Agreement**” shall mean the agreement governing the Limited Partnership and shall include the Limited Partnership Agreement as amended and restated on the admission of the Investor Limited Partner.

The term “**Limited Partnership Documents**” shall mean all of those documents required to create the Limited Partnership and to obtain the Four Percent Tax Credit investment, including but not limited to, the Limited Partnership Agreement as amended and restated on the admission of the Investor Limited Partner, the related contribution agreement, and the Guaranty Agreements.

The term “**Low Income Households**” shall have the meaning given in Health and Safety Code section 50079.5(a), generally being a household whose income does not exceed 80% of Median Income adjusted for family size.

The term “**Managing General Partner**” shall mean OHDC Delaware, LLC, a California limited liability company, unless and until removed or replaced with another nonprofit (or limited liability company with a nonprofit as its sole member) reasonably acceptable to the Agency, pursuant to the terms of this Housing Agreement and the Limited Partnership Agreement. Orange Housing Development Corporation, a California nonprofit corporation is the sole member of OHDC Delaware, LLC. Orange Housing Development Corporation has been certified by the City as a Community Housing Development Organization (“CHDO”) for purposes of the HOME Investment Partnerships Program reservation of funds for CHDO-eligible projects.

The term “**Median Income**” shall mean the area median income of the Orange County metropolitan statistical area (PMSA), with adjustments for household size, as estimated annually by the United States Department of Housing and Urban Development pursuant to Section 8 of the United States Housing Act of 1937 as amended and published by California’s Housing and Community Development Department pursuant to Health and Safety Code section 50093.

The term “**Method of Financing**” shall mean the Method of Financing attached hereto as Exhibit No. “3”, which is incorporated herein by this reference.

The term “**Operating Costs**” shall have the same meaning as the definition of Annual Operating Expenses set forth in the Method of Financing.

The term “**Permitted Transfer**” shall mean any Transfer that is approved by the Agency or expressly permitted by the terms of this Housing Agreement.

The term “**Plans**” shall mean any architectural and construction plans and drawings prepared on behalf of Developer for the Project in accordance with this Housing Agreement.

The term “**Project**” shall mean generally the acquisition, rehabilitation and operation of the existing apartment building on the Site, consisting of 48 Units (including one manager’s unit), and the subsequent rental of the twenty-three (23) Affordable Very Low Income Units and the twenty-four (24) Affordable Low Income Units to Eligible Tenants, all at Affordable Rent for a period of not less than 60 years, pursuant to the procedures set forth herein and more particularly described in the Scope of Development and Regulatory Agreement.

The term “**Project Budget**” shall mean the sources and uses of funds for acquisition of the Site and the rehabilitation and operation of the Units as set forth in Exhibit No. “6.” The Project Budget and Developer’s proposed method of financing shall be subject to change from time-to-time, subject to the prior written approval of Developer, the Agency Executive Director and the City Administrator and subject to and conditioned on such further review and approval by the Agency’s governing board and the City Council as is needed to satisfy applicable law, policies and procedures, upon which approval the Project Budget shall be replaced by the approved revised Project Budget.

The term “**Project Costs**” shall mean all costs which are actually incurred by Developer for the acquisition of the Site and the financing and rehabilitation of the Project, and shall include, without limitation, all of the items of cost set forth in the Project Budget and similar costs, fees and expenses as approved by the Agency Executive Director and City Administrator, but not including Operating Costs.

The term “**Regulatory Agreement**” shall mean that certain Regulatory Agreement and Declaration of Covenants and Restrictions, substantially in the form attached hereto as Exhibit No. “11”, which is incorporated herein by this reference.

The term “**Release of Construction Covenants**” shall have the meaning set forth in Section 416 of this Housing Agreement.

The term “**Restricted Period**” shall mean not less than sixty (60) years from the recordation of the Release of Construction Covenants for the Project.

The term “**Schedule of Performance**” shall mean that certain schedule attached hereto as Exhibit No. “4”, setting forth the times upon which performance by the parties under this Housing Agreement is due.

The term “**Scope of Development**” shall mean that certain exhibit attached hereto as Exhibit No. “5.”

The term “**Seller**” shall mean George Galanoudes.

The term “**Series X-1 Bonds**” shall mean the portion of the Bonds used to fund the Series X-1 Bond Loan and to be repaid from payments on the Series X-1 Bond Loan.

The term “**Series X-1 Bond Documents**” shall mean, in addition to the Bond Deed of Trust, a loan agreement, promissory note, financing statement, guaranties, security agreements, assignments, and similar documents and instruments to be executed by Developer in connection with the Series X-1 Bonds.

The term “**Series X-1 Bond Loan**” shall mean the portion of the loan funded with proceeds of the Bonds used to pay a portion of the Project Costs, secured by the Bond Deed of Trust and other security instruments having a lien on the Site, the principal of which Series X-1 Bond Loan is expected to be repaid following the Conversion Date.

The term “**Series X-2 Bonds**” shall mean the portion of the Bonds used to fund the Series X-2 Bond Loan and to be repaid from payments on the Series X-2 Bond Loan.

The term “**Series X-2 Bond Documents**” shall mean, in addition to the Bond Deed of Trust, a loan agreement, promissory note, financing statement, guaranties, security agreements, assignments, and similar documents and instruments to be executed by Developer in connection with the Series X-2 Bonds.

The term “**Series X-2 Bond Loan**” shall mean the portion of the loan funded with proceeds of the Bonds used to pay a portion of the Project Costs, secured by the Bond Deed of Trust and other security instruments having a lien on the Site, the principal of which Series X-2 Bond Loan is expected to be repaid on or before the Conversion Date.

The term “**Site**” shall mean that certain real property located in the City of Huntington Beach, County of Orange, State of California, commonly known as 2200 Delaware Street, Huntington Beach, California, and legally described in Exhibit No. “1” and depicted on the Site Map attached hereto as Exhibit No. “2”.

The term “**Special Limited Partner**” shall mean the entity, if any, identified as the Special Limited Partner in the Limited Partnership Agreement as amended upon admission of the Investor Limited Partner.

The term “**Transfer**” shall mean:

(i) the sale, agreement to sell, transfer or conveyance of the Site, the Project, or any portion thereof or interest therein, whether voluntary, involuntary, by operation of law or otherwise, the execution of any installment sale contract or similar instrument affecting all or a portion of the Site

or Project, or the lease of all or substantially all of the Site or Project, except as provided in subparagraph (iii), below.

(ii) "Transfer" shall also include the transfer, assignment, hypothecation or conveyance of legal or beneficial ownership of any interest in Developer, or any conversion of Developer to an entity form other than that of Developer at the time of execution of this Housing Agreement, except that, a cumulative change in ownership interest of any general partner of the Developer of forty-nine percent (49%) or less shall not be deemed a "Transfer" for purposes of this Housing Agreement.

(iii) Notwithstanding paragraphs (i) and (ii), "Transfer" shall not include any of the following Permitted Transfers:

(A) a conveyance of a security interest to the beneficiary of the Bond Deed of Trust, the City Deed of Trust, and the Agency Deed of Trust or the conveyance of title to the Site or Project in connection with a foreclosure, a deed in lieu of foreclosure or similar conversion of such loan;

(B)(1) A conveyance of the Project to a limited partnership in which the Managing General Partner and/or Developer General Partner is Developer or Developer's Developer General Partner or (following the Agency's issuance of a Release of Construction Covenants for the Project) Managing General Partner or Developer General Partner, or a sale back from such partnership to Developer or either such General Partner.

(2) The substitution of a General Partner as directed by the Investor Limited Partner in accordance with the terms of the Limited Partnership Agreement, subject to the following terms and conditions. The Investor Limited Partner may substitute NEF Communities Investment, Inc. (or another affiliate of NEF) (the "Interim General Partner") on an interim basis for a period reasonably calculated to identify and admit into the partnership a new General Partner, whether the Managing General Partner or the Developer General Partner, as set forth below (the "Substitute General Partner"). The Interim General Partner is hereby approved by the Agency and the City. It is the desire of the Investor Limited Partner, the Agency and the City that the Managing General Partner shall be a Community Housing Development Organization ("CHDO") and reasonable efforts shall be made to accomplish that objective.

If a substitution for the Interim General Partner occurs prior to the Permanent Financing Event, the Substitute General Partner must be an entity reasonably acceptable to the Agency Executive Director and the City Administrator, which approval shall not be unreasonably withheld or delayed.

If a substitution for the Interim General Partner occurs after the Permanent Financing Event, the Investor Limited Partner agrees to cooperate with the City and the Agency in identifying a CHDO that is reasonably acceptable to the Agency Executive Director and the City Administrator, which approval shall not be unreasonably withheld or delayed. If the Investor Limited Partner, the City and the Agency are unable to identify a reasonably acceptable CHDO, then the Investor Limited

Partner may propose another entity to serve as the Substitute General Partner, subject to the approval of the Agency Executive Director and the City Administrator, which approval shall not be unreasonably withheld or delayed.

(C) Any refinancing that repays any of the Bond Loan (referred to herein as a "Take-out Loan"), if the Agency Executive Director reasonably determines (which determination shall not be unreasonably withheld) that the resulting loan-to-value ratio (including the Take-out Loan, any of the remaining Bond Loan not repaid by the refinancing, the City Loan and the Agency Loan) will not exceed the loan-to-value ratio in effect at the time of the Permanent Financing Event for the initial acquisition and rehabilitation of the Project, and the repayment terms of the Take-out Loan do not materially impair the Developer's ability to repay the Agency Loan and the City Loan.

(D) The leasing for occupancy of all or any part of the Site or Project in accordance with this Housing Agreement and the Regulatory Agreement.

(E) The inclusion of equity participation by Developer by transfer or addition of limited partners to the Developer or similar mechanism.

(F) The pledge by General Partner to the Investor Limited Partner of the General Partner's interest in the Developer, as security for the performance of all of the General Partner's obligations under the Limited Partnership Agreement.

(G) The sale, transfer or pledge of any limited partnership interest in the Developer or of any partnership interest in the Investor Limited Partner.

(H) The appointment by the Investor Limited Partner, in accordance with the Limited Partnership Agreement, of an additional or substitute General Partner that is an Affiliate of the Investor Limited Partner or, if not an Affiliate of the Investor Limited Partner, is reasonably acceptable to the Agency.

(I) Any dilution of the General Partner's interest in the Developer in accordance with the Limited Partnership Agreement.

The term "**Units**" shall mean the forty-eight (48) two-bedroom dwelling units, including one manager's unit, comprising the Project.

The term "**Very Low Income Households**" shall have the meaning given in Health and Safety Code section 50105(a), generally being a household whose income does not exceed 50% of Median Income adjusted for family size.

ARTICLE II SUBJECT OF THIS AGREEMENT

Section 201 Purpose of Agreement

(a) The purpose of this Housing Agreement is to promote affordable housing by providing the Agency Loan in an amount not to exceed EIGHT MILLION SEVEN HUNDRED EIGHTY-FOUR THOUSAND TWO HUNDRED TWENTY-FOUR DOLLARS (\$8,784,224.00), as evidenced by the Agency Note secured by the Agency Deed of Trust, and the City Loan in an amount not to exceed FIVE HUNDRED THOUSAND DOLLARS (\$500,000.00), as evidenced by the City Note secured by the City Deed of Trust, to assist Developer in the acquisition, rehabilitation and operation of affordable housing in the City of Huntington Beach.

(b) This Housing Agreement is intended to facilitate Developer's acquisition of the Site and existing 48-unit apartment building located thereon for rehabilitation and rental to Low Income and Very Low Income Households for a period of not less than 60 years. The Project pursuant to this Housing Agreement and the fulfillment generally of this Housing Agreement are in the best interests of the City and the welfare of its residents, and are in accordance with the public purposes and provisions of applicable federal, state, and local laws and requirements under which the Project has been undertaken and is being assisted.

(c) The Project will be used and operated for not less than sixty (60) years as rental housing, with 47 of the Units restricted to occupancy by Low Income and Very Low Income Households in accordance with the Regulatory Agreement.

Section 202 The Redevelopment Plan

This Housing Agreement conforms to the Redevelopment Plan for the Huntington Beach Redevelopment Project (the "Merged Redevelopment Project") which was approved by adoption of Ordinance No. 3343 on December 16, 1996, and which merged together four different, previously approved project areas. The City Council and the governing body of the Agency have determined that the use of the Agency's Set Aside Funds as set forth in this Housing Agreement will be of benefit to the Merged Redevelopment Project. The Agency intends this Housing Agreement to meet its obligations pursuant to *Health and Safety Code* Sections 33413, 33334.2 and, if applicable, 33413(b)(2)(A)(ii).

Section 203 Prohibition Against Transfers; Right of First Refusal

(a) The qualifications and identity of the Developer are of particular concern to the City and the Agency. It is because of those qualifications and identity that the Agency has entered into this Housing Agreement with the Developer. No voluntary or involuntary successor in interest of the Developer shall acquire any rights or powers under this Housing Agreement except as expressly set forth herein.

(b) Except for the Permitted Transfers set forth in this Housing Agreement's definition of the term "Transfer," the Developer shall not assign all or any part of this Housing Agreement without the prior written approval of the Agency Executive Director and the City Administrator. Any proposed transferee shall have the qualifications and financial responsibility necessary and adequate as may be reasonably determined by the Agency and City, to fulfill the obligations undertaken in this Housing Agreement by the Developer. Any such proposed transferee, by instrument in writing satisfactory to the Agency and City and in form recordable among the land records, for itself and its successors and assigns, and for the benefit of the Agency and City shall expressly assume all of the obligations of the Developer under this Housing Agreement and agree to be subject to all conditions and restrictions applicable to the Developer in this Housing Agreement. There shall be submitted to the Agency and City for review all instruments and other legal documents proposed to affect any such Transfer, and if approved by the Agency Executive Director and City Administrator, its approval shall be indicated to the Developer in writing.

(c) For the reasons cited above, the Developer represents and agrees for itself and any successor in interest that, except for the Permitted Transfers set forth in this Housing Agreement's definition of the term "Transfer," without the prior written approval of the Agency Executive Director and City Administrator, there shall be no cumulative change in ownership interest of any general partner of greater than 49%, or with respect to the identity of the parties in control of the Developer or the degree thereof, by any method or means.

(d) The Developer shall promptly notify the Agency and the City of any and all changes whatsoever in the identity of the parties in control of the Developer or the degree thereof, of which it or any of its officers have been notified or otherwise have knowledge or information. This Housing Agreement may be terminated by the Agency or the City, and the Agency and the City may exercise any and all available remedies, if there is any significant change (voluntary or involuntary) in membership, management or control, of the Developer (other than such changes occasioned by the death or incapacity of any individual).

(e) The Developer shall not, except as permitted by this Housing Agreement, assign or attempt to assign this Housing Agreement or any right herein, nor make any total or partial sale, transfer, conveyance or assignment of the whole or any part of the Site (referred to hereinafter as a "Transfer"), without prior written approval of the Agency and the City, except as expressly permitted by this Housing Agreement. Any such proposed transferee shall have the qualifications and financial responsibility necessary and adequate as may be reasonably determined by the Agency and the City, to fulfill the obligations undertaken in this Housing Agreement by the Developer. Any such proposed transferee, by instrument in writing satisfactory to the Agency and the City and in form recordable among the land records, for itself and its successors and assigns, and for the benefit of the Agency and the City shall expressly assume all of the obligations of the Developer under this Housing Agreement and agree to be subject to all conditions and restrictions applicable to the Developer in this Housing Agreement. There shall be submitted to the Agency and the City for review all instruments and other legal documents proposed to effect any such transfer; and if

approved by the Agency Executive Director and the City Administrator, its approval shall be indicated to the Developer in writing.

(f) A Transfer approved by the Agency Executive Director and the City Administrator shall be deemed to relieve the Developer from its obligations under this Housing Agreement only if the approved transferee expressly assumes all of the obligations of the Developer under this Housing Agreement and agrees to be subject to all conditions and restrictions applicable to the Developer in this Housing Agreement. Notwithstanding the foregoing, no Transfer, approved or otherwise, shall operate to relieve the Developer of its indemnification obligations related to the Developer's ownership and operation of the Project.

(g) Consent to one Transfer shall not be deemed to be a waiver of the right to require consent to future or successive Transfers.

(h) Developer agrees that, with the exception of the Permitted Transfers described in this Housing Agreement's definition of the term "Transfer," Developer shall not sell the Site during the term of this Housing Agreement, unless and until Developer has given to Agency and City notice in writing of its intent to sell, specifying the identity of the prospective buyer and the price and terms of the contemplated sale. Within ninety (90) days after Developer gives Agency and City written notice of Developer's intent to sell, Agency shall have the right to purchase the Site at the same price and on the same terms and conditions set forth in Developer's written notice of intent to sell. To exercise this right, Agency must, within the same ninety (90) day period, deposit in escrow with any escrow company in Orange County, California, all moneys and instruments required by the terms of the Developer's notice of intent to sell to be paid or delivered to Developer on close of escrow and shall also give Developer written notice of the deposit. If Agency does not exercise the right in accordance with the provisions of this Section, Developer may sell the Site to the prospective buyer for the price and on the terms contained in the notice; provided, however, that Developer has made every reasonable effort to sell the Site to a nonprofit housing corporation with Developer's similar experience and reputation in the field of low-income housing (including the management of properties with income and affordability restrictions), and provided further that Agency has approved such prospective buyer in advance in writing.

(i) Upon expiration of the term of the Regulatory Agreement, the provisions of this Section 203 shall be of no further force or effect.

ARTICLE III ACQUISITION OF THE SITE

Section 301 Ownership of the Site

As of the Effective Date of this Agreement, Developer is in escrow to acquire the Site from the Seller.

Section 302 Agency Financial Assistance

The Agency shall, conditioned upon and subject to the terms of this Housing Agreement and a disbursement agreement to be entered into between the Agency, the City, the Developer and the Construction Lender (the "Disbursement Agreement"), provide to Developer the Agency Loan. It is anticipated that, upon satisfaction of all conditions precedent to the Construction Financing Event set forth in the Method of Financing (or waiver by Agency), Agency shall deposit the amount of the Agency Acquisition Loan set forth in the Method of Financing into Escrow. The balance of the Agency Loan will be funded pursuant to the Method of Financing.

Section 303 City Financial Assistance.

The City shall, conditioned upon and subject to the terms of this Housing Agreement and the Disbursement Agreement, provide to Developer the City Loan. It is anticipated that, upon satisfaction of all conditions precedent to the Construction Financing Event as set forth in the Method of Financing (or waiver by City), City shall deposit the City Loan funds into Escrow.

Section 304 Disbursement of City Loan and Agency Loan.

Upon satisfaction of the conditions precedent to the Construction Financing Event, the Escrow Agent shall disburse the Sale Price to the Seller as provided in the Disbursement Agreement. The Escrow Agent shall also pay from the Agency Loan and the City Loan the cost of the City's and the Agency's Lender's Title Policies. The Agency shall subsequently disburse the balance of the Agency Loan pursuant to the Method of Financing and the Disbursement Agreement.

Section 305 Close of Escrow

If, for any reason, the Construction Financing Event has not occurred by the date provided therefor in the Schedule of Performance, the Agency or the City may terminate this Agreement by providing written notice of termination to the other parties.

Section 306 Broker's Fees

Developer, Agency and City shall each indemnify, defend, and hold harmless the other from any claims or damages for payment of any real estate commissions or broker's fees or finder's fees arising out of the acts or representations of the other with respect to any of the transactions contemplated by this Housing Agreement.

ARTICLE IV REHABILITATION OF THE SITE

Section 401 Scope of Development

The Site shall be rehabilitated in accordance with and within the limitations established in the Scope of Development and plans approved by the Agency pursuant to this Housing Agreement and permits issued by the City. It is anticipated that Developer will contract for performance of specific activities, including but not limited to activities such as relocation services, site inspections, and management of the Units. Such contracts shall not in any way diminish or waive Developer's obligations under this Housing Agreement.

Section 402 Construction Drawings and Related Documents

(a) If construction drawings are required for City permitting purposes, Developer shall prepare and submit construction drawings and related documents for the rehabilitation of the Site to the Agency and the City for review (including, but not limited to, architectural review) and written approval at the times established in the Schedule of Performance. The construction drawings and related documents shall be submitted in two stages, preliminary and final drawings, plans and specifications. Final drawings, plans, and specifications are hereby defined as those in sufficient detail to obtain a building permit. Any items so submitted and approved in writing by the Agency shall not be subject to subsequent disapproval. Agency approval shall not be unreasonably withheld.

(b) Progressively detailed plans shall be approved by the Agency if exterior spaces and areas open to public view do not vary and the plans otherwise do not materially vary from previously approved plans, and if they are a logical evolution of previously approved plans and conform to the provisions of the Scope of Development. In the event of the disapproval by the Agency of any plans submitted by Developer, Agency shall promptly communicate in writing to Developer all reasons for such disapproval and all requirements for subsequent approval of revised plans.

(c) During the preparation of all drawings and plans, the Agency staff and Developer shall hold regular progress meetings to coordinate the preparation of, submission to, and review of construction plans and related documents by the Agency. The Agency staff and Developer shall communicate and consult informally as frequently as is necessary to insure that the formal submittal of any documents to the Agency can receive prompt and speedy consideration.

(d) If any revisions or corrections of plans approved by the Agency shall be required by a governmental official, agency, department or bureau having jurisdiction over the development of the Site, Developer and the Agency shall cooperate in efforts to obtain waiver of such requirements or to develop a mutually acceptable alternative. Neither the Agency nor Developer shall unreasonably withhold approval of a mutually acceptable alternative.

Section 403 Agency Approval of Plans, Drawings and Related Documents

(a) As provided in Section 402, the Agency shall have the right of reasonable review (including, but not limited to, architectural review) of all plans, drawings and related documents for the rehabilitation of the Site, including any proposed changes therein. The Agency Executive Director or designee shall approve or disapprove such plans, drawings, and related documents referred to in this Housing Agreement (and any proposed changes therein), in writing, within the times established in the Schedule of Performance. Any disapproval shall state, in writing, the reasons for disapproval. Developer, upon receipt of a disapproval shall revise such portions of the plans, drawings or related documents in a manner that satisfactorily addresses the reasons for disapproval and resubmit such revised portions to the Agency as soon as possible after receipt of the notice of disapproval. The Agency shall approve or disapprove such revised portions in the same manner and within the same times as provided in this Section 403 for approval or disapproval of

plans, drawings, and related documents initially submitted to the Agency. No matter once approved shall be subsequently disapproved.

Section 404 Cost of Rehabilitation

(a) Except as otherwise expressly set forth in this Housing Agreement, the cost of rehabilitating the Site shall be the responsibility of the Developer, as provided in the Method of Financing. The Project Costs are set forth in the Project Budget, which shall be subject to change from time-to-time as provided in the Method of Financing.

(b) The Developer has proposed, and the Agency and City have approved, the Project Budget appended to this Housing Agreement. Developer acknowledges that the Agency and the City are relying on Developer's experience and expertise in establishing the costs for the Project and Developer represents that the Project Budget is based on the best, good faith estimate of the Developer of the costs that are likely to be incurred for the Project.

Section 405 Schedule of Performance

(a) Developer, City and Agency shall perform all acts respectively required of such party in this Housing Agreement within the times provided in the Schedule of Performance.

(b) After the Construction Financing Event, Developer shall promptly begin and thereafter diligently prosecute to completion the rehabilitation of the Site as provided in the Scope of Development. Developer shall begin and complete all rehabilitation within the times specified in the Schedule of Performance, with such reasonable extensions of said times as may be granted by the Agency and the City. The Schedule of Performance is subject to revision from time to time as mutually agreed upon in writing by Developer, the City Administrator and the Agency Executive Director.

(c) During periods of construction, Developer shall submit to the Agency and the City a written report of the progress of the rehabilitation when and as requested by the Agency or the City. The report shall be in such form and detail as may be reasonably required by the Agency or the City and shall include a reasonable number of construction photographs (if requested) taken since the last report by Developer.

Section 406 Local, State, and Federal Laws

(a) Developer hereby agrees to carry out development, construction (as defined by applicable law) and operation of the Project on the Site, including, without limitation, any and all public works (as defined by applicable law), in conformity with all applicable local, state and federal laws, rules and regulations and all applicable federal and state labor laws (including, without limitation, any requirement to pay state prevailing wages). Developer hereby expressly acknowledges and agrees that neither City nor Agency has ever previously affirmatively represented to the Developer or its contractor(s) for the Project in writing or otherwise, in a call for bids or otherwise, that the work to be covered by the bid or contract is not a "public work," as defined in

Section 1720 of the Labor Code. Developer hereby agrees that Developer shall have the obligation to provide any and all disclosures, representations, statements, rebidding, and/or identifications which may be required by Labor Code Sections 1726 and 1781, as the same may be enacted, adopted or amended from time to time, or any other provision of law. Developer hereby agrees that Developer shall have the obligation to provide and maintain any and all bonds to secure the payment of contractors (including the payment of wages to workers performing any public work) which may be required by the Civil Code, Labor Code Section 1781, as the same may be enacted, adopted or amended from time to time, or any other provision of law. The Developer hereby agrees that the Developer shall have the obligation, at the Developer's sole cost, risk and expense, to obligate any party as may be required by Labor Code Sections 1726 and 1781, as the same may be enacted, adopted or amended from time to time, or any other provision of law. Developer shall indemnify, protect, defend and hold harmless the Agency, City and their respective officers, employees, contractors and agents, with counsel reasonably acceptable to Agency and City, from and against any and all loss, liability, damage, claim, cost, expense, and/or "increased costs" (including labor costs, penalties, reasonable attorneys fees, court and litigation costs, and fees of expert witnesses) which, in connection with the development, construction (as defined by applicable law) and/or operation of the Project, including, without limitation, any and all public works (as defined by applicable law), results or arises in any way from any of the following: (1) the noncompliance by Developer of any applicable local, state and/or federal law, including, without limitation, any applicable federal and/or state labor laws (including, without limitation, if applicable, the requirement to pay state prevailing wages); (2) the implementation of Sections 1726 and 1781 of the Labor Code, as the same may be enacted, adopted or amended from time to time, or any other similar law; (3) failure by Developer to provide any required disclosure, representation, statement, rebidding and/or identification which may be required by Labor Code Sections 1726 and 1781, as the same may be enacted, adopted or amended from time to time, or any other provision of law; (4) failure by Developer to provide and maintain any and all bonds to secure the payment of contractors (including the payment of wages to workers performing any public work) which may be required by the Civil Code, Labor Code Section 1781, as the same may be enacted, adopted or amended from time to time, or any other provision of law; and/or (5) failure by the Developer to obligate any party as may be required by Labor Code Sections 1726 and 1781, as the same may be enacted, adopted or amended from time to time, or any other provision of law. It is agreed by the parties that, in connection with the development, construction (as defined by applicable law) and operation of the Project, including, without limitation, any public work (as defined by applicable law), Developer shall bear all risks of payment or non-payment of state prevailing wages and/or the implementation Labor Code Sections 1726 and 1781, as the same may be enacted, adopted or amended from time to time, and/or any other provision of law. "Increased costs" as used in this Section shall have the meaning ascribed to it in Labor Code Section 1781, as the same may be enacted, adopted or amended from time to time. The foregoing indemnity shall survive termination of this Housing Agreement and shall continue after recordation of the Release of Construction Covenants.

(b) Developer shall be responsible for obtaining all Permits and land use approvals required by the City for the rehabilitation of the Site, ensuring that the use of the Site for the purposes

described in this Housing Agreement complies with the zoning and other City land use regulations (including any applicable exemptions and/or exceptions) applicable to the Site at the time of Construction Financing Event.

(c) Prior to or concurrently with the Construction Financing Event, Developer shall satisfy all conditions to the issuance of any Permit required for the rehabilitation of the Site. The Agency shall provide reasonable assistance to Developer in obtaining these permits.

(d) This Housing Agreement is not a "Development Agreement" as provided in Section 65864 *et seq.* of the California Government Code. Developer shall comply with all applicable conditions of approval required by the City of Huntington Beach.

Section 407 Nondiscrimination During Construction

Developer, for itself and its successors and assigns, agrees that during the construction of the Improvements provided for in the Housing Agreement, Developer will not discriminate against any employee or applicant for employment because of race, color, religion, sex, or national origin.

Section 408 Insurance

Developer shall procure and maintain, during the term of this Housing Agreement, at its sole cost and expense, until the date that Agency or City waives any such insurance requirement or requirements in writing, the following policies of insurance on a Project specific basis:

(a) Workers' Compensation Insurance. Pursuant to *California Labor Code* Section 1861, Developer acknowledges awareness of Section 3700 *et seq.* of said code, which requires every employer to be insured against liability for workers' compensation. Developer covenants that it will comply with such laws and provisions prior to commencing any work of construction or rehabilitation on the Site. To the extent Developer directly employs personnel at the Project, Developer shall maintain such Workers' Compensation Insurance in an amount not less than the statutory requirements in California for bodily injury and disease and must maintain employer's liability coverage in an amount not less than ONE MILLION DOLLARS (\$1,000,000.00). Developer shall require all contractors to provide such Workers' Compensation Insurance for all of the contractors' and subcontractors' employees. Developer shall furnish Agency and City with a certificate of waiver of subrogation under the terms of the Workers' Compensation Insurance and Developer shall similarly require all contractors and subcontractors to waive subrogation.

(b) General Liability and Auto Insurance. Developer shall carry general commercial liability insurance, including coverage for bodily injury, property damage, products/completed operations and blanket contractual liability in an amount not less than TWO MILLION DOLLARS (\$2,000,000.00) per occurrence and FOUR MILLION DOLLARS (\$4,000,000.00) annual aggregate, combined single limit for bodily injury and property damage. All such insurance shall be provided by insurance companies admitted in California, or if not admitted in California, then reasonably acceptable to Agency and City. Such insurance shall name the City and Agency and their officers,

agents, and employees acting in their official capacity, as additional insureds. Developer shall carry automobile insurance, including liability coverage for bodily injury and property damage in an amount not less than ONE MILLION DOLLARS (\$1,000,000.00) per occurrence. Developer shall require its insurer to waive its subrogation rights against Agency and City and shall provide certificates of insurance evidencing same.

(c) Property Insurance. Developer shall obtain and maintain in force, all-perils (to include fire and vandalism protection) property insurance with extended coverage endorsements thereon, on the Site, in an amount equal to the full replacement costs and/or value thereof; this policy shall contain a replacement cost endorsement naming Agency and City as the insureds and shall not contain a coinsurance penalty provision. The policy shall contain a lender's loss payable endorsement that such proceeds shall be used to repair or rebuild any Units or other improvements situated on the Site so damaged or destroyed; and, if not so used, such proceeds shall be paid to Agency and City. The proceeds of any such insurance payable to Agency and City shall be used for rebuilding or repair as necessary to restore the site at the sole discretion of Agency and City. The policy shall name Agency and City, officers, agents and employees acting in their official capacity as additional insureds.

(d) Certificate of Insurance: Additional Insured Endorsements. Prior to the Construction Financing Event, Developer shall furnish to Agency and City certificates of insurance and additional insured endorsements evidencing the foregoing insurance coverages as required by this Housing Agreement. Such certificates and endorsements shall be subject to the reasonable approval of the City Attorney and shall provide the name and policy number of each carrier and policy and shall state that the policy is currently in force and shall promise to provide that such policies will not be cancelled without thirty (30) days prior written notice to Agency and City.

(e) If Developer fails or refuses to procure or maintain insurance as required by this Housing Agreement, Agency shall have the right, at Agency's election, and upon ten (10) days prior notice to Developer, to procure and maintain such insurance. The premiums paid by Agency shall be treated as a loan, due from Developer, to be paid on the first day of the month following the date on which the premiums were paid. Agency shall give prompt notice of the payment of such premiums, stating the amounts paid and the name of the insured(s).

Section 409 Indemnification

During the term of this Agreement, Developer agrees to and shall protect, defend, indemnify and hold harmless the Agency, the City their respective members, officers, officials, employees, agents, representatives, servants, contractors, successors and assigns from and against all liability, loss, damage, cost or expenses (including reasonable attorneys' fees and court costs) arising from or as a result of (i) Developer's failure to perform any obligations as and when required by this Agreement or any document referred to herein, and (ii) the death of any person or any accident, injury loss, or damage whatsoever caused to any person or to the property of any person which shall occur on the Site and which shall be directly or indirectly caused by the acts of, or any errors or

omissions of, the Developer or its officers, shareholders, directors, members, agents, servants, employees, contractors, or invitees. Developer shall not be responsible for, and the Agency and City shall protect, defend, hold harmless and indemnify Developer against any liability, loss, damage, cost, or expense (including reasonable attorney's fees and court costs) arising from or as a result of the active concurrent negligence, sole negligence or sole willful misconduct of the Agency or the City or their respective members, officers, officials, employees, agents, representatives, servants, or contractors.

Section 410 Disclaimer of Responsibility by the Agency

Except as otherwise expressly provided in this Housing Agreement, the Agency neither undertakes nor assumes nor will have any responsibility, right or duty to Developer or to any third party to review, inspect, supervise, pass judgment upon or inform Developer or any third party of any matter in connection with the Site, whether with respect to the quality, adequacy or suitability of the plans, any labor, service, equipment or material furnished to the Project, any person furnishing the same or otherwise. Developer and all third parties shall rely upon its or their own judgment regarding such matters, and any review, inspection, supervision, exercise of judgment or information supplied to Developer or to any third party by the Agency in connection with such matter is for the public purpose of providing affordable housing, and neither Developer (except for the purposes set forth in this Housing Agreement) nor any third party is entitled to rely thereon.

Section 411 Rights of Access

The Agency shall have the right, at its sole risk and expense, to enter the Site or any part thereof at reasonable times and with as little interference as possible, for the purpose of inspecting the Site to determine Developer's compliance with this Housing Agreement. All residential leases shall provide for such right of the Agency. The representatives of the Agency entering the Site shall be identified in writing in advance by the Agency Executive Director (or his or her designee). Any such entry shall be made only after reasonable notice to Developer, and the Agency shall indemnify and hold Developer harmless from any claims or liabilities pertaining to such entry. Any damage or injury to the Site resulting from such entry shall be promptly repaired at the sole expense of the Agency.

Section 412 Taxes, Assessments, Encumbrances and Liens

Subject to Developer's right to claim any exemption to which it may be entitled under State law, Developer shall be responsible for paying when due all real estate taxes and assessments, if any, assessed and levied on or against the Site or any portion thereof or interest therein. Developer shall not place, or allow to be placed, on the Site or any portion thereof or interest therein, any mortgage, trust deed, encumbrance (excluding easements not unreasonably interfering with the use of the Site) or lien (excluding mechanic's liens paid prior to foreclosure or liens for current year property taxes not paid) except the Permitted Transfers. Developer shall remove, or shall have removed, any levy or attachment made on the Site (or any portion thereof or interest therein), or shall assure the satisfaction thereof within a reasonable time but in any event prior to foreclosure. Nothing herein contained shall be deemed to prohibit Developer from contesting the validity or amount of any tax,

assessment, encumbrance or lien, nor to limit the remedies available to Developer in respect thereto. The covenants of Developer set forth in this Section 412 relating to the placement of any unauthorized mortgage, trust deed, encumbrance or lien, shall remain in effect until issuance of the Release of Construction Covenants.

Section 413 Security Financing; Right of Holders

(a) **Permitted Encumbrances.** Developer shall be permitted to enter into mortgages, deeds of trust, conveyances, and leases-back or any other form of conveyance in which the Site is used as security for the purpose of securing loans of funds to be used for the implementation of the Project provided such conveyance (i) is for the purposes permitted herein and (ii) is given to a financial or lending institution or other acceptable person or entity capable of performing or causing to be performed Developer's obligations under this Agreement, including without limitation a pension fund, insurance company, or real estate investment trust. Any and all such loan amounts and security conveyances shall be subject to the prior approval of the Agency's Executive Director and the City Administrator, which approval shall not be unreasonably withheld.

(b) **Notice of Default to Mortgage, Deed of Trust or Other Security Interest Holders; Right to Cure.** Whenever Agency or City shall deliver any notice or demand to Developer with respect to any breach by Developer in performance of this Housing Agreement, it will endeavor at the same time to deliver a copy of such notice or demand to each approved holder of record of any mortgage, deed of trust, or other security interest which has previously requested such notice in writing. Each such holder shall (insofar as the rights of Agency or City are concerned) have the right, at its option within ninety (90) days after the receipt of the notice, to commence and thereafter to diligently proceed to cure or remedy such default and add the cost thereof to the security interest debt and the lien on its security interest. Any holder completing the rehabilitation of the Site in accordance with this Housing Agreement shall be entitled to a Release of Construction Covenants upon written request made to Agency and City.

Section 414 Rights to Plans

(a) Subject to the rights of, and senior assignments to, the beneficiaries of the Bond Deed of Trust (the "Bond Beneficiaries"), all work product prepared pursuant to this Housing Agreement, including (but not limited to), all Plans, construction documents, soils tests and similar reports, Permits and other entitlements are hereby assigned to the Agency as security for Developer's obligations hereunder. In the event that this Housing Agreement is terminated by the Agency, Developer shall, within ten (10) days of such termination, transmit all such work product to the Agency.

(b) To effectuate the assignment described in paragraph (a), concurrently with executing this Housing Agreement, Developer shall execute and deliver to the Agency an Assignment of Agreements (the "Assignment"), substantially in the form attached to this Housing Agreement as Exhibit No. 14" in a form that is acceptable to the Agency Executive Director, granting to the Agency all of Developer's rights to: (1) the Plans prepared pursuant to this Housing Agreement; (2)

the contracts between Developer and its architect and between Developer and its general contractor; (3) all Permits relating to the Project; and all similar rights and property interests.

Section 415 Hazardous Materials

(a) Lead-Based Paint and Asbestos Containing Materials. Developer shall inspect the Site for lead-based paint and asbestos hazards in accordance with Title X of the 1992 Housing and Community Development Act. Any lead-based paint and asbestos hazards identified must be abated as part of the rehabilitation of the Site. Prior to the Permanent Financing Event, Developer must submit to the Agency and the City a written certification that it has completed the abatement of any lead-based paint and/or asbestos hazards on the Site in compliance with all applicable Hazardous Materials Laws (as such term is defined in the Environmental Indemnity) and shall also submit a copy of any closure letter or similar clearance received by Developer from the appropriate governmental entity having jurisdiction over the Site indicating that all lead-based paint and asbestos hazards have been fully abated to the satisfaction of such governmental entity.

(b) Indemnification. Developer, from and after the Construction Financing Event shall indemnify, defend, and hold harmless Agency and City and their respective officers, employees, agents and representatives (collectively, the "Indemnified Parties") from and against any and all liabilities (including penalties, fines and monetary sanctions) arising from a violation of state or federal law pertaining to (i) the storage of Hazardous Materials on the Site or (ii) contamination of the Site by a release of Hazardous Materials. Developer, prior to the Construction Financing Event, shall provide to Agency and City a copy of any notices, orders, or reports concerning the presence of any Hazardous Materials on or affecting the Site that is in Developer's possession. As a condition precedent to the Construction Financing Event, Developer shall execute and deliver to the Agency and the City an Environmental Indemnity, substantially in the form of Exhibit No. "15" to this Housing Agreement.

Section 416 Release of Construction Covenants

(a) Promptly after Completion of the rehabilitation of the Site, as generally and specifically required by this Housing Agreement and in particular the Scope of Development, the Agency shall furnish Developer with a Release of Construction Covenants in the form of Exhibit No. 18" to this Housing Agreement, upon written request therefor by Developer. The Agency shall not unreasonably withhold such Release of Construction Covenants and such Release of Construction Covenants shall be issued so long as Developer has rehabilitated the Site in accordance with this Housing Agreement and the Plans approved by the Agency pursuant hereto. Such Release of Construction Covenants shall be, and shall so state, conclusive determination of satisfactory completion of all of the construction required by this Housing Agreement.

(b) The Release of Construction Covenants shall be in such form as to permit it to be recorded in the Recorder's Office of Orange County. A Release of Construction Covenants for rehabilitation of less than the entire Site shall not be recorded.

(c) If the Agency refuses or fails to furnish a Release of Construction Covenants for the Site after written request from Developer, the Agency shall, within thirty (30) days of the written request, provide Developer with a written statement of the reasons the Agency refused or failed to furnish a Release of Construction Covenants. The statement shall also contain the Agency's opinion of the action Developer must take to obtain a Release of Construction Covenants. If the reason for such refusal is confined to the immediate availability of specific items or materials for landscaping, and/or minor items, the Agency will issue its Release of Construction Covenants upon the posting of a bond by Developer with the Agency in an amount representing the fair value of the work not yet completed. If the Agency shall have failed to provide such written statement within said 30-day period, Developer shall be deemed to have received the Release of Construction Covenants.

(d) Such Release of Construction Covenants shall not constitute evidence of compliance with, or satisfaction of any obligation of Developer to the beneficiary of, the Bond Deed of Trust or the City Deed of Trust. Such Release of Construction Covenants is not a notice of completion as referred to in Section 3093 of the California Civil Code.

ARTICLE V USE OF THE SITE

Section 501 Uses

(a) Developer covenants and agrees (for itself, its successors, its assigns, and every successor in interest to the Site or any part thereof or any interest therein) that Developer, its successors and assigns shall use the Site exclusively to provide affordable housing for Very Low Income and Low Income Households. Developer further covenants and agrees, for itself, its successors, its assigns, and every successor in interest to the Site, or any part thereof, that for the period beginning on the Close of Escrow and ending on the expiration date of the Regulatory Agreement, Developer and such successors shall not devote the Site to uses inconsistent with the applicable zoning restrictions, this Agreement, and the Regulatory Agreement; provided that, in the event of any inconsistency, the provisions of the Regulatory Agreement shall prevail over this Agreement.

Section 502 Developer's Relocation Obligations

(a) Relocation Plan. Developer shall use reasonable efforts to avoid displacing any existing tenants and/or persons residing in or on the Site. In the event, however, that temporary or permanent relocation of existing tenants and/or persons residing in or on the Site becomes necessary as a result of Developer's implementation of the Project, Developer shall comply with the provisions of a relocation plan prepared by Developer and reviewed and approved by the City and the Agency ("Relocation Plan"). The Relocation Plan shall comply with the requirements of the Uniform Relocation Act and the California Relocation Assistance Act and any guidelines promulgated in connection therewith.

(b) Relocation Activities and Costs. Developer shall comply with the requirements of all applicable relocation laws, including, but not limited to, the Uniform Relocation Act and the

California Relocation Assistance Act, and shall comply with related tenant notice requirements and shall provide the City and Agency with true and correct copies of such notices to tenants. Developer shall also retain all required records and the originals and/or copies of tenant notices in its files as mandated by applicable law. Except as otherwise expressly set forth in the Method of Financing, the cost of complying with all applicable relocation requirements for the Project shall be the responsibility of the Developer.

Section 503 Management Plan; Annual Project Budget; Quarterly Reports

(a) Prior to the Construction Financing Event, Developer shall submit to the Agency Executive Director a Management Plan reasonably acceptable to the Agency Executive Director, describing the proposed plans for managing and operating the Site. Approval of the Management Plan by the Agency Executive Director or designee shall be a condition precedent to the Construction Financing Event. Developer shall manage and operate the Site in accordance with the approved Management Plan, including such amendments as may be approved in writing from time to time by the Developer and the Agency Executive Director or designee, for the entire Restricted Period.

(b) In addition, the Developer shall submit on or before the first day of each fiscal year of the Restricted Period an estimated annual budget for management of the Site (the "Annual Project Budget") in accordance with the Management Plan. The Annual Project Budget shall include all necessary operating expenses, current maintenance charges, expenses of reasonable upkeep and repairs, taxes and special assessment levies, prorated amount required for insurance and all other expenses incident to the operation of the Project; and shall show the expected revenues to pay such expenses, including annual debt service requirements and reserve fund deposits and balances. The Annual Project Budget, including any amendments proposed by the Developer, shall be subject to the approval of the Agency Executive Director.

(c) Beginning on the date of first occupancy, and for each fiscal year thereafter of the Restricted Period, Developer shall also submit on a quarterly basis a quarterly report for the management of the Site (the "Quarterly Report"). The Quarterly Report shall include a profit and loss statement, budget to date figures, and occupancy report and shall clearly show project revenues, operating expenses, deposits to and withdrawals from the Project's Capital Reserve Account, and cash flow available for residual receipts payments. The Quarterly Report shall be in a form that is reasonably acceptable to the Agency Executive Director. The Agency Executive Director, in his/her sole discretion may waive the requirement of the Quarterly Report for one or more quarterly reporting periods. However, such waiver shall not operate to waive any subsequent requirement of the Quarterly Report for the Restricted Period. After receipt of such certified financial statements for the Project, Agency or City may request additional financial analyses or obtain a third party review at City's and Agency's own expense, of financial statements for the Project to verify the accuracy of the payments by Developer on the Agency Note and the City Note or the required deposits into the Capital Reserve Account.

Section 504 Maintenance of the Site

(a) Prior to the Construction Financing Event, the Developer shall prepare and submit to the Agency Executive Director or his designee for review and approval a program (the "Maintenance Program") for the exterior and interior maintenance of the Site and the Improvements. The Agency and the City shall have the right at all reasonable times to enter and inspect the Site in order to ensure compliance with the foregoing requirements.

(b) The Maintenance Program shall describe in reasonable detail the standards to be followed in maintaining the interior and exterior of the Improvements, including a schedule indicating the proposed frequency of each element of maintenance, and shall include, at a minimum, the following: periodic cleaning of the interior and exterior of the Improvements, including windows; removing graffiti; removing debris and waste materials and otherwise maintaining indoor and outdoor areas of the Site; maintaining any lawns, plants, shrubs and trees or other landscaping planted on the Site; performing inspections of all exterior features to determine whether repairs are required; conducting periodic protective treatments such as rust removal and caulking; conducting repairs to facades, roof, doors, windows and other exterior features; maintaining fencing and other security devices and systems; periodic repainting of the exterior; periodic repainting of the interior units and common areas; periodic replacing of the interior unit carpets; checking building systems, including, but not limited to the heating and cooling systems, smoke alarms and water heaters; checking interior unit appliances; and monitoring interior unit bathrooms for mold/mildew. The Maintenance Program, including any amendments proposed by the Developer, shall be subject to the approval of the Agency Executive Director.

(c) At all times during the Restricted Period, the Developer shall maintain the Site and the Improvements in accordance with the approved Maintenance Program and in compliance with Federal Housing Quality Standards (24 CFR § 982.401) and other applicable state and local laws and codes. To implement this requirement, Developer agrees to budget sufficient funds to pay for all reasonably anticipated costs (as indicated in the Annual Maintenance Budget). In the event Developer fails to maintain the Site as required by this Section, Developer shall, within thirty (30) days after Agency's or City's notification or Developer's own discovery of any deficiency, take all necessary steps to correct such deficiency, provided that, if such deficiency is not reasonably capable of being cured within thirty (30) days, Developer shall commence to cure said deficiency within thirty (30) days and diligently and in good faith continue to take all necessary steps to correct such deficiency. In the event the Developer fails to cure said deficiency within the time allowed, the Agency shall have the right, but not the obligation, to enter the Site, correct any violation, and hold the Developer responsible for the cost thereof, and such cost, until paid, shall constitute a lien on the Site.

Section 505 Lead-Based Paint.

Developer shall ensure that it and its contractors and subcontractors shall not use lead-based paint in the rehabilitation or maintenance of the Project. Developer shall insert this provision in all

contracts and subcontracts for work performed on the Project which involves the application of paint.

Section 506 Barriers to the Disabled

Developer shall ensure that the Project will be rehabilitated and operated to comply with all federal, state, and local requirements for access for disabled persons that apply to the acquisition and rehabilitation of existing multi-family rental units.

Section 507 Creation of Capital Reserve Account

Concurrently with the Permanent Financing Event, Developer shall create a "Capital Reserve Account" in the initial amount shown on the Project Budget. No later than thirty (30) days after the Capital Reserve Account has been created, Developer shall provide to Agency and City a pro forma statement concerning the account, for review and approval. At any time thereafter during the term of this Agreement, Agency or City, on ten (10) days prior written notice to Developer, may request that Developer submit to it an updated, revised Capital Reserve Account statement. Agency or City, at its own expense, may audit any updated, revised Capital Reserve Account statement submitted to it by Developer.

Section 508 Capital Reserves.

Beginning at the Permanent Financing Event and every succeeding year during the Restricted Period, Developer shall deposit the amount set forth in the definition of Operating Expenses in the Method of Financing into the Capital Reserve Account for repairs to the Site. The Capital Reserve Account shall only be used to fund the cost of repairs and improvements to the Site and to maintain the Site in compliance with the requirements of Section 504. Developer shall exhaust funds in the Capital Reserve Account prior to utilizing operating revenues to pay for repairs and improvements to the Site. Interest earned on the Capital Reserve Account shall remain in said account and be used as Capital Reserves.

Section 509 Obligation to Refrain from Discrimination

There shall be no discrimination against or segregation of any person, or group of persons, on account of race, color, creed, age, class, income, religion, sex, sexual orientation, marital status, national origin or ancestry in the sale, lease, sublease, transfer, use, occupancy, tenure or enjoyment of the Site, or any part thereof, or in the awarding of contracts for the Project, nor shall Developer, or any person claiming under or through it, 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 of the Site, or any part thereof, or in the awarding of contracts for the Project. Developer shall comply with all applicable federal, state and local nondiscrimination, fair housing, and equal opportunity requirements. In addition, Developer shall conduct affirmative marketing and minority outreach activities if and as required by Federal regulations.

Section 510 Form of Nondiscrimination and Nonsegregation Clauses

The Developer shall refrain from restricting the rental, sale or lease of the Site or the Units on the basis of race, color, creed, age, class, income, religion, sex, sexual orientation, marital status, national origin or ancestry of any person. All such deeds, leases or contracts shall contain or be subject to substantially the following nondiscrimination or nonsegregation clause:

(a) In Deeds: “The grantee herein covenants by and for himself or herself, his or her heirs, executors, administrators, and assigns, and all persons claiming under or through them, that there shall be no discrimination against or segregation of, any person or group of persons on account of any basis listed in subdivision (a) or (d) of Section 12955 of the Government Code, as those bases are defined in Sections 12926, 12926.1, subdivision (m) and paragraph (1) of subdivision (p) of Section 12955, and Section 12955.2 of the Government Code, in the sale, lease, sublease, transfer, use, occupancy, tenure, or enjoyment of the premises herein conveyed, nor shall the grantee or any person claiming under or through him or her, establish or permit any 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 premises herein conveyed. The foregoing covenants shall run with the land.”

(b) In Leases: “The lessee herein covenants by and for himself or herself, his or her heirs, executors, administrators, and assigns, and all persons claiming under or through him or her, and this lease is made and accepted upon and subject to the following conditions:

That there shall be no discrimination against or segregation of any person or group of persons, on account of any basis listed in subdivision (a) or (d) of Section 12955 of the Government Code, as those bases are defined in Sections 12926, 12926.1, subdivision (m) and paragraph (1) of subdivision (p) of Section 12955, and Section 12955.2 of the Government Code, in the leasing, subleasing, transferring, use, occupancy, tenure, or enjoyment of the premises herein leased nor shall the lessee himself or herself, or any person claiming under or through him or her, 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, sublessees, subtenants, or vendees in the premises herein leased.”

(c) In Contracts: “There shall be no discrimination against or segregation of any person or group of persons, on account of any basis listed in subdivision (a) or (d) of Section 12955 of the Government Code, as those bases are defined in Sections 12926, 12926.1, subdivision (m) and paragraph (1) of subdivision (p) of Section 12955, and Section 12955.2 of the Government Code, in the sale, lease, sublease, transfer, use, occupancy, tenure, or enjoyment of the land, nor shall the transferee itself or any person claiming under or through him or her, 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, sublessees, subtenants, or vendees of the land.”

Section 511 Effect and Duration of Covenants

The covenants established in this Housing Agreement shall, without regard to technical classification and designation, be binding on Developer and any successor in interest to the Site or any part thereof or interest therein for the benefit and in favor of the Agency, its successors and assigns, and the City of Huntington Beach. Every covenant and condition and restriction contained in the Regulatory Agreement shall remain in effect for sixty (60) years from the Effective Date of the Regulatory Agreement (regardless of whether the Agency Loan or the City Loan have been repaid prior to the end of such 60-year period), except that the covenants against discrimination set forth in the Regulatory Agreement and in Section 509 and Section 510 hereof shall remain in effect in perpetuity.

Section 512 Effect of Violation of Covenants

The Agency and the City are deemed beneficiaries of the terms and provisions of this Housing Agreement and the covenants herein, both for and in their own right and for the purposes of protecting the interests of the community and other parties, public or private, for whose benefit this Housing Agreement and the covenants running with the land have been provided. The Agency and the City shall have the right if the covenants contained in this Housing Agreement are breached, to exercise all rights and remedies, and to maintain any actions or suits at law or in equity or other proper proceedings to enforce the curing of such breaches to which it or any other beneficiaries of this Housing Agreement and covenants are entitled.

Section 513 Monitoring

The parties acknowledge that this Housing Agreement is subject to the provisions of Section 33418 of the California Health and Safety Code, which provides in pertinent part:

“(a) An Agency shall monitor, on an ongoing basis, any housing affordable to persons and families of low or moderate income developed or otherwise made available pursuant to any provisions of this part. As part of this monitoring, an agency shall require owners or managers of the housing to submit an annual report to the agency. The annual reports shall include for each rental unit the rental rate and the income and family size of the occupants. The income information required by this section shall be supplied by the tenant in a certified statement of a form provided by the agency.”

Developer shall submit to the Agency on an annual basis the annual report required by said Section 33418. The annual report shall include for each residential unit the rental rate and the income and family size of the occupants. The income information shall be supplied by the tenant in a certified statement on a form provided by the Agency. Developer shall provide for the submission of such information in its lease or occupancy agreement with tenants.

ARTICLE VI DEFAULTS, REMEDIES AND TERMINATION

Section 601 Defaults; Notice of Cure; Cure Rights

(a) Subject to Force Majeure Delay, as such term is defined in this Housing Agreement, failure or delay by either party to perform any term or provision of this Housing Agreement constitutes a default under this Housing Agreement. The party who fails or delays must immediately commence to cure, correct or remedy such failure or delay and shall complete such cure, correction or remedy with reasonable diligence.

(b) The injured party shall give written notice of default to the party in default, specifying the default complained of by the injured party. Failure or delay in giving such notice shall not constitute a waiver of any default, nor shall it change the time of default. Except as otherwise expressly provided in this Housing Agreement, any failures or delays by either party in asserting any of its rights and remedies as to any default shall not operate as a waiver of any default or of any such rights or remedies. Delays by either party in asserting any of its rights and remedies shall not deprive either party of its right to institute and maintain any actions or proceedings which it may deem necessary to protect, assert or enforce any such rights or remedies.

(c) If a monetary event of default occurs, prior to exercising any remedies hereunder, the injured party shall give the party in default written notice of such default. The party in default shall have a period of ten (10) days after such notice is given within which to cure the default prior to exercise of remedies by the injured party.

(d) If a non-monetary event of default occurs, prior to exercising any remedies hereunder, the injured party shall give the party in default notice of such default. If the default is reasonably capable of being cured within thirty (30) days, the party in default shall have such period to effect a cure prior to exercise of remedies by the injured party. If the default is such that it is not reasonably capable of being cured within thirty (30) days, and the party in default (i) initiates corrective action within said period, and (ii) diligently, continually, and in good faith works to effect a cure as soon as possible, then the party in default shall have such additional time as is reasonably necessary to cure the default prior to exercise of any remedies by the injured party. If Developer fails to take corrective action or cure the default within a reasonable time, the Agency shall give Developer and, as provided in paragraph (e), below, the Investor Limited Partner, notice thereof, whereupon the Investor Limited Partner may remove and replace the general partner with a substitute general partner, who shall effect a cure within a reasonable time thereafter in accordance with the foregoing provisions. The Agency agrees to accept cures tendered by the Investor Limited Partner within the cure periods provided in this Housing Agreement or within the time periods provided in Civil Code Section 2924c, whichever is longer. Additionally, in the event the Investor Limited Partner is precluded from curing a non-monetary default due to an inability to remove the General Partner as a result of a bankruptcy, injunction, or similar proceeding by or against Developer or its General Partner, the Agency agrees to forbear from completing a foreclosure

(judicial or nonjudicial) during the period during which the Investor Limited Partner is so precluded from acting, not to exceed 90 days, provided such limited partner is otherwise in compliance with the foregoing provisions. In no event shall the injured party be precluded from exercising remedies if its security becomes or is about to become materially jeopardized by any failure to cure a default or the default is not cured within ninety (90) days after the first notice of default is given.

(f) After Developer gives written notice to Agency and City that the Investor Limited Partner has been admitted to the Developer, Agency and City shall send to the Investor Limited Partner a copy of all notices of default and all other notices that Agency or City sends to Developer, at the address for the Investor Limited Partner as provided by written notice to Agency and City by Developer.

Section 602 Institution of Legal Actions

Subject to the notice and cure provisions of Section 601 and the limited recourse provisions of Section 609, in addition to any other rights or remedies (and except as otherwise provided in this Housing Agreement), either party may institute legal action to cure, correct or remedy any default, to recover damages for any default, or to obtain any other remedy consistent with the purpose of this Housing Agreement. Such legal actions must be instituted in the Superior Court of the County of Orange, State of California, in any other appropriate court of that county, or in the United States District Court for the Central District of California.

Section 603 Applicable Law

The internal laws of the State of California shall govern the interpretation and enforcement of this Housing Agreement.

Section 604 Acceptance of Service of Process

(a) In the event that any legal action is commenced by the Agency against the Developer, service of process on the Developer shall be made by personal service upon the Developer (or upon an officer of the Developer) and shall be valid whether made within or without the State of California, or in such manner as may be provided by law.

(b) In the event that any legal action is commenced by the Developer against the Agency, service of process on the Agency shall be made by personal service upon the Executive Director of the Agency or the Agency Secretary or in such other manner as may be provided by law.

(c) In the event that any legal action is commenced by the Developer against the City, service of process on the City shall be made by personal service upon the City Administrator or the City Clerk or in such other manner as may be provided by law.

Section 605 Rights and Remedies Are Cumulative

Except with respect to rights and remedies expressly declared to be exclusive in this Housing Agreement, the rights and remedies of the parties are cumulative, and the exercise by either party of one or more of such rights or remedies shall not preclude the exercise by it, at the same or different times, of any other rights or remedies for the same default or any other default by the other party.

Section 606 Specific Performance

If either party defaults with regard to any of the provisions of this Housing Agreement, subject to the notice and cure provisions of Section 601, the non-defaulting party, at its option, may, after such notice and opportunity to cure (but not before) commence an action for specific performance of the terms of this Housing Agreement pertaining to such default.

Section 607 Termination by Agency or City

Notwithstanding anything in this Housing Agreement to the contrary, the Agency or the City shall have the right to terminate this Housing Agreement, in its sole discretion and without further notice to Developer and without requirement of the expiration of any cure period, in the event of any one or more of the following:

- (a) The Statewide Communities Development Authority determines that the issuance of the Bonds described in the Method of Financing is not feasible.
- (b) The Developer fails to obtain its Four Percent Tax Credit allocation within the time specified in the Schedule of Performance.
- (c) Subject to Force Majeure Delay, the Construction Financing Event fails to occur within the time specified in the Schedule of Performance.

Section 608 Termination by Any Party

Prior to the Construction Financing Event, any party shall have the right to terminate this Housing Agreement in the event any other party is in default of any material term or provision of this Housing Agreement, and, following notice, fails to cure such default within the time provided in Section 601.

Section 609 Limited Recourse Obligations

Each obligation of the Developer under this Housing Agreement is a nonrecourse obligation of the Developer and its partners. Except as provided otherwise in this Housing Agreement, neither the Developer nor any of its general or limited partners, nor any other party, shall have any personal liability for payment of obligations to the Agency or the City. The sole recourse of the Agency shall be the exercise of its rights against the Site and the Project and any related security for the Agency Loan. The sole recourse of the City shall be the exercise of its rights against the Site and the Project and any related security for the City Loan.

Notwithstanding the foregoing, Agency and City may obtain a judgment or order (including, without limitation, an injunction) requiring Developer or any other party to perform (or refrain from) specified acts other than repayment of the Agency Loan; may proceed against any person or entity whatsoever with respect to the enforcement of any guarantees, surety bonds, letters of credit, reimbursement agreements or similar rights to payment or performance; and may recover directly from Developer or any other party:

(a) any damages, costs and expenses incurred by Agency or City as a result of fraud or any criminal act or acts of Developer or any partner, shareholder, officer, director or employee of Developer or of any general partners;

(b) any damages, costs and expenses incurred by Agency or City as a result of any misappropriation of funds provided for the rehabilitation of the Site, as described in this Housing Agreement, rents and revenues from the operation of the Project, or proceeds of insurance policies or condemnation proceeds;

(c) any and all amounts owing by Developer pursuant to Developer's indemnification regarding Hazardous Substances; and

(d) all court costs and attorneys' fees reasonably incurred in enforcing or collecting upon any of the foregoing exceptions.

Section 610 Developer's Remedies.

Subject to any applicable cure periods and the right to notice provided for in this Housing Agreement, upon a default or breach of this Housing Agreement by Agency or City, Developer may bring an action for specific performance of this Housing Agreement or any term or provision hereof, or, if prior to the Construction Financing Event, may terminate this Housing Agreement. Developer cannot sue for monetary damages and hereby fully and finally releases Agency and City from any claims for monetary damages arising directly or indirectly from Agency's or City's breach of their obligations under this Housing Agreement.

Section 611 Attorney's Fees

Except as otherwise expressly provided in this Housing Agreement, in the event that any action, suit or other proceeding is brought to enforce the obligations of any party under this Housing Agreement, each party shall bear its own costs and expenses of suit, including attorneys' fees, expert witness fees and all costs incurred in each and every such action, suit or other proceeding, including any and all appeals or petitions therefrom.

ARTICLE VII GENERAL PROVISIONS

Section 701 Developer's Warranties.

Developer represents and warrants (1) that it has access to professional advice and support to the extent necessary to enable Developer to fully comply with the terms of this Housing Agreement; (2) that it and its general partners are duly organized, validly existing and in good standing under the laws of the State of California; (3) that it has the full power and authority to undertake the Project and to execute this Housing Agreement; (4) that the persons executing and delivering this Housing Agreement are authorized to execute and deliver such documents on behalf of Developer; (5) except as disclosed to the City and Agency in writing, there are no actions or proceedings pending or, to the best of the Developer's knowledge, threatened against the Developer or Developer's general partners before any court or administrative agency in any way connected with the Site or the Project which could adversely affect the Developer's ability to perform the activities contemplated hereunder; (6) neither this Housing Agreement nor anything provided to be done hereunder violates or shall violate any contract, agreement or instrument to which the Developer or a general partner of Developer is a party or which affects the Project or any part thereof; (7) the Developer is not in default in respect of any of its obligations or liabilities pertaining to this Housing Agreement, nor is there any state of facts or circumstances or conditions or events which, after notice, lapse of time, or both, would constitute or result in any such default under this Housing Agreement; and (8) neither the Developer nor its general partners has not entered into any agreements which will adversely affect the title to the Project or the Developer's right to develop and use the Project as provided in this Housing Agreement, and neither the Developer nor its general partners will not enter into any such agreements after the date hereof.

Section 702 Notices, Demands and Communications between the Parties

Formal notices, demands, and communications between Agency, City and Developer shall be sufficiently given if: (i) personally delivered; (ii) delivered by same day or overnight courier (acknowledged by receipt showing date and time of delivery); or (iii) dispatched by registered or certified mail, postage prepaid, return receipt requested, to the addresses set forth below:

If to Developer: Pacific Court Apartments, LP
414 E. Chapman Ave.
Orange, CA 92866
Attn: Managing General Partner

With a copy to: NEF Assignment Corporation
c/o General Counsel
120 S. Riverside Plaza, 15th Floor
Chicago, IL 60606

time for a Force Majeure Event shall be limited to the period of such event, and shall commence to run from the time of the commencement of the cause, provided notice by the party claiming such extension is sent to the other party within fifteen (15) days of the commencement of the cause. In the event of such delay, the party delayed shall continue to exercise reasonable diligence to minimize the period of delay.

(b) Times of performance under this Agreement may also be extended by mutual written agreement by Agency, City and Developer. In addition, the Agency Executive Director and the City Administrator shall have the authority on behalf of Agency and City, respectively, to approve extensions of time not to exceed a cumulative total of one (1) year.

Section 706 Inspection of Books and Records

The Developer shall maintain at a location in Orange County complete, accurate, and current records pertaining to the Site and the Project for a period of five (5) years after the creation of such records, and shall permit any duly authorized representative of the Agency or the City to inspect and copy records, during regular business hours. Records must be kept accurate and current.

Section 707 Assurances to Act in Good Faith; Approval by Both Agency and City.

Developer, Agency and City each agree to execute all documents and instruments and to take all action, including timely depositing funds as required hereby, and shall use their respective best efforts to accomplish the acquisition and rehabilitation of the Site in accordance with the provisions hereof. Any matter for which approval is required by both the Agency and the City shall be deemed approved if such approval is given by either the Agency or the City. Approvals required of the Agency, the City or the Developer shall not be unreasonably withheld.

Section 708 Real Estate Commissions

Neither the Agency, the City nor the Developer shall be liable for any real estate commissions, brokerage fees or finders fees which may arise from this transaction. The Agency, the City and the Developer each represent to the other that it has employed no broker, agent, or finder in connection with this transaction.

Section 709 Interpretation

The terms of this Housing Agreement shall be construed in accordance with the meaning of the language used and shall not be construed for or against any party by reason of the authorship of this Housing Agreement or any other rule of construction which might otherwise apply.

Section 710 Severability

If any provision of this Housing Agreement shall be adjudged invalid, illegal or unenforceable by a court of competent jurisdiction, the remaining provisions of this Housing Agreement shall not be affected thereby, but this Housing Agreement shall be construed as if such invalid, illegal or unenforceable provisions had not been contained herein, and the remainder of this Housing Agreement shall be valid and enforceable to the fullest extent permitted by law.

Section 711 No Third Party Beneficiaries

This Housing Agreement is made solely and specifically between the Agency, the City and Developer and their respective successors and assigns; and, except as expressly provided otherwise in this Housing Agreement, no other person will have any rights, interest or claims under this Housing Agreement or be entitled to any benefits under or on account of this Housing Agreement as a third party beneficiary or otherwise.

Section 712 Authority to Sign

Developer hereby represents that the person executing this Housing Agreement on behalf of Developer has full authority to do so and to bind Developer to perform pursuant to the terms and conditions of this Housing Agreement.

Section 713 Titles and Captions.

Titles and captions are for convenience only and shall not be construed to limit or extend the meaning of this Agreement.

Section 714 Gender and Number.

As used in this Agreement, masculine, feminine or neuter gender and the singular or plural number shall each be deemed to include the others wherever and whenever the context so dictates.

ARTICLE VIII ENTIRE AGREEMENT, WAIVERS AND AMENDMENTS

(a) This Housing Agreement shall be executed in three duplicate originals each of which is deemed to be an original. This Housing Agreement and its attached Exhibits shall constitute the entire understanding and agreement of the parties.

(b) This Housing Agreement integrates all of the terms and conditions mentioned herein or incidental hereto, and supersedes all negotiations or previous agreements between the parties with respect to all (or any part of or any interest in) the Site. This Housing Agreement and all documents incorporated herein contain the entire understanding among the parties hereto relating to the transactions contemplated herein and all prior or contemporaneous agreements, understandings, representations, and statements, oral or written.

(c) All waivers of the provisions of this Housing Agreement must be in writing and signed by the appropriate authorities of the Agency, the City or the Developer, and all amendments hereto must be in writing and signed by the appropriate authorities of the parties to be bound thereby. This Housing Agreement and any provisions hereof may be amended by mutual written agreement by the Developer and the Agency Executive Director and City Administrator, subject to review and approval by the Agency Board or City Council as needed to comply with applicable law and internal policies and procedures. The waiver by Agency, City or Developer of any term, covenant, or condition herein contained shall not be a waiver of such term, covenant, or condition on any subsequent breach.

(d) This Housing Agreement may be executed in any number of counterparts, each of which, when so executed and delivered, shall be an original, but all of which together shall constitute one agreement binding on the Agency, the City and the Developer.

ARTICLE IX TIME FOR ACCEPTANCE OF AGREEMENT BY THE AGENCY; DATE OF AGREEMENT

(a) This Housing Agreement consists of forty (40) pages and eighteen (18) attachments which constitute the entire understanding and agreement of the parties.

(b) This Housing Agreement does not take effect until executed by the Developer, Agency and City. This Housing Agreement, when executed by the Developer and delivered to the Agency and City, must be authorized, executed and delivered by the Agency and City within thirty (60) days after the date of signature by the Developer, or the Developer shall have the right to withdraw its offer to enter into this Housing Agreement by providing written notice to the Agency and the City. This Housing Agreement shall not be effective until executed by the Agency Executive Director and the City Administrator.

(c) The Agency Executive Director and the City Administrator are hereby authorized and directed to take such other and further actions, and sign such other and further agreements and documents on behalf of the Agency and the City, respectively, as may be necessary or proper to effect the terms of this Housing Agreement.

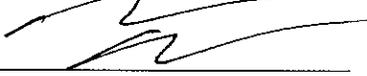
[SIGNATURES APPEAR ON NEXT PAGE]

IN WITNESS WHEREOF, the parties hereto have entered into this Agreement as of the Effective Date.

"DEVELOPER"

PACIFIC COURT APARTMENTS, LP,
a California limited partnership

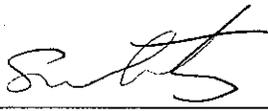
By: C&C Delaware, LLC,
a California limited liability corporation,
Its: Developer General Partner

By: 
Todd R. Cottle
Its: Managing Member

By: OHDC Delaware, LLC,
a California limited liability corporation,
Its: Managing General Partner

By: Orange Housing Development
Corporation,
a California nonprofit
corporation
Its: Sole Member
By: 
Eunice Bobert
Its: Chief Executive Officer

INITIATED AND APPROVED:


Director of Economic Development

"CITY"

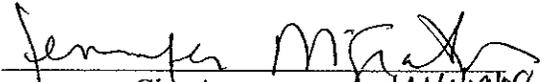
THE CITY OF HUNTINGTON BEACH, a
municipal corporation of the State of California

By: _____
Mayor

ATTEST:

By: _____
City Clerk

APPROVED AS TO FORM:

By: 
City Attorney
6-20-88

"AGENCY"

REDEVELOPMENT AGENCY OF THE CITY
OF HUNTINGTON BEACH, a public body
corporate and politic

By: _____
Chairperson

ATTEST:

By: _____
Agency Secretary

APPROVED AS TO FORM:

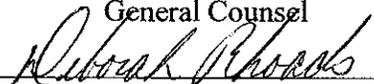
By: _____
General Counsel
By: 
KANE, BALLMER & BERKMAN
Agency Special Counsel

EXHIBIT NO. 1

LEGAL DESCRIPTION

The land referred to herein is situated in the State of California, County of Orange, and described as follows:

PARCEL 1:

BLOCK 2205 OF EAST SIDE VILLA TRACT, AS PER MAP RECORDED IN BOOK 4, PAGE 65, MISCELLANEOUS MAPS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY

PARCEL 2:

AN EASEMENT FOR INGRESS AND EGRESS OVER THE EASTERLY 15 FEET OF THE SOUTH 72 FEET OF BLOCK 2305 OF THE EAST SIDE VILLA TRACT

PARCEL 3:

AN EASEMENT FOR INGRESS AND EGRESS OVER THE WEST 20 FEET OF BLOCK 2306 OF EAST SIDE VILLA TRACT

APN: 025-121-50

LEGAL DESCRIPTION

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EXHIBIT NO. 2

Site Map

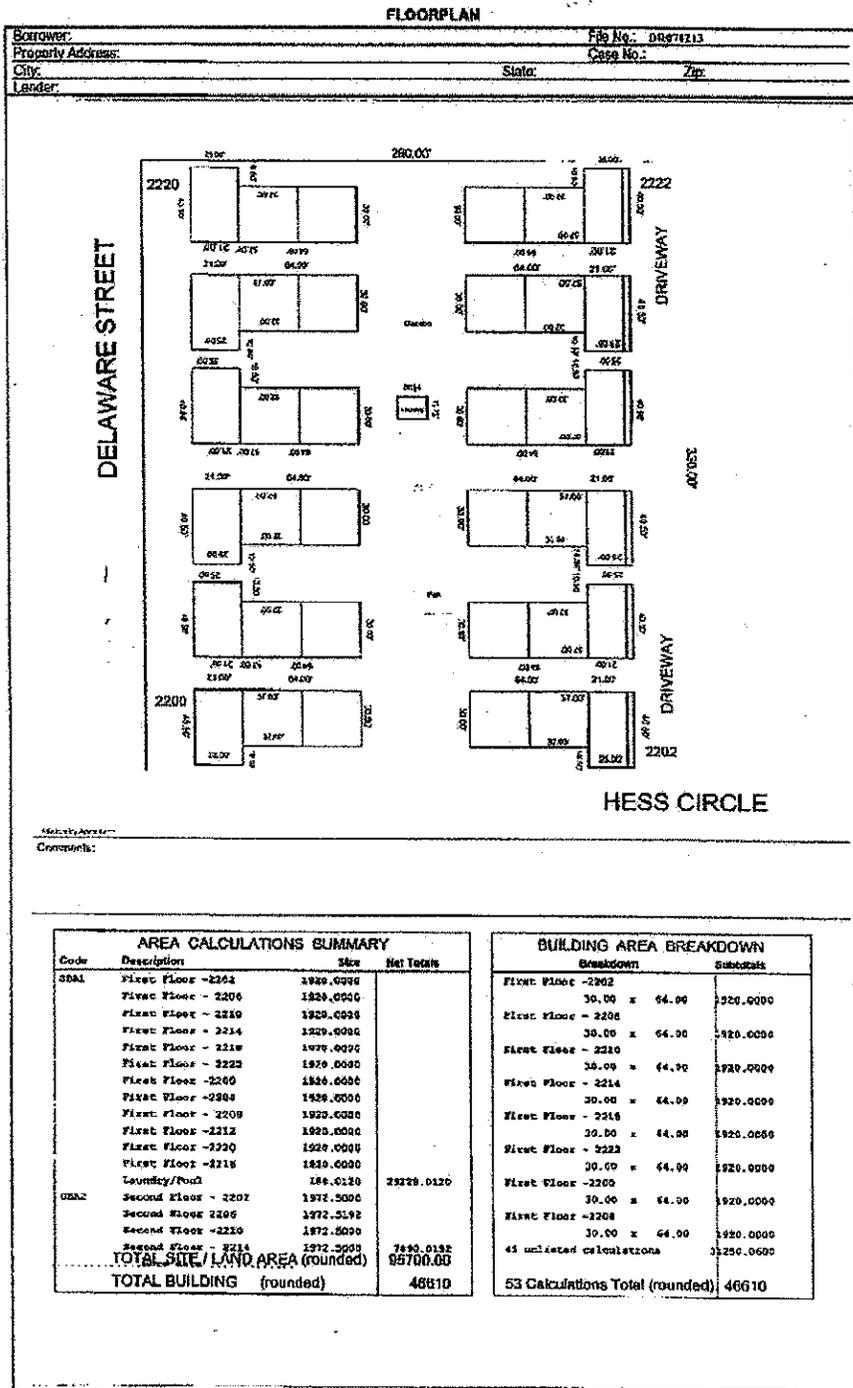


EXHIBIT NO. 2
SITE MAP

KACGABA Pacific Ct - 2200 Delaware St

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METHOD OF FINANCING

This is the Method of Financing attached to the Affordable Housing Agreement (the "Housing Agreement") between the Redevelopment Agency of the City of Huntington Beach (the "Agency"), the City of Huntington Beach (the "City") and Pacific Court Apartments, L.P. ("Developer"), relating to Developer's acquisition and rehabilitation of a 48-unit multifamily housing project (including one manager's unit), to be rented, at Affordable Rents, to Very Low Income and Low Income Households. Any capitalized term not otherwise defined herein shall have the meaning ascribed to it in the Housing Agreement.

The Project will be financed by a combination of the Bond Loans, the Agency Loan, the City Loan and Developer Equity derived in part from the syndication of the Four Percent Tax Credits.

The Agency Loan of \$8,784,224 will include the Agency Acquisition Loan in the amount of \$6,969,403 to pay a portion of Developer's cost of acquiring the Site and the Agency Permanent Loan in the amount of \$1,814,821 to assist in repaying the Series X-2 Bond Loan. The Agency Acquisition Loan will be funded at the Construction Financing Event and will convert to permanent financing at the Permanent Financing Event. The Agency Permanent Loan will be funded at the Permanent Financing Event. The Agency Acquisition Loan and the Agency Permanent Loan comprise the Agency Loan and shall be repaid during the Permanent Period from Residual Receipts pursuant to Section 12 herein and the Agency Note.

The City Loan of \$500,000 will be used to pay a portion of Developer's cost of acquiring the Site. The City Loan will be funded at the Construction Financing Event and will convert to permanent financing at the Permanent Financing Event

1. **Definitions.** The following capitalized terms shall mean as follows:

The term "**Agency Acquisition Loan**" shall mean the loan of LMIFH funds from the Agency to Developer to pay a portion of the cost of acquiring the Site, in the amount and pursuant to the terms and conditions described in this Method of Financing, secured by the Agency Deed of Trust and the other Agency Loan Documents.

The term "**Agency Deed of Trust**" shall mean the Deed of Trust with Assignment of Rents attached as Exhibit No. "8" to the Housing Agreement, in which Developer is the Trustor and Agency is the Beneficiary, which secures the Agency Loan.

The term "**Agency Loan**" shall mean the Agency Acquisition Loan and the Agency Permanent Loan.

The term "**Agency Loan Documents**" shall mean the Housing Agreement, the Agency Note, the Agency Deed of Trust, the Assignment of Rents and Leases, the Assignment of Agreements and

the UCC1 Financing Statement. The Agency Loan Documents do not include the Regulatory Agreement or the Environmental Indemnity.

The term “**Agency Permanent Loan**” shall mean the permanent loan of LMIHF funds from the Agency to Developer to assist in Developer’s repayment of the Series X-2 Bond Loan, in the amount and pursuant to the terms and conditions described in this Method of Financing, secured by the Agency Deed of Trust and the other Agency Loan Documents.

The term “**Agency Note**” shall mean that certain Promissory Note evidencing the Agency Loan, substantially in the form attached to the Housing Agreement as Exhibit No. “7.”

The term “**Assignment of Agreements**” shall mean the assignments by Developer to Agency and City of plans, contracts and permits, substantially in the form attached to the Housing Agreement as Exhibit No. “14”, which is incorporated herein by this reference.

The term “**Assignment of Rents and Leases**” shall mean a document substantially in the form attached to the Housing Agreement as Exhibit No. “13”, which is incorporated herein by this reference.

The term “**Bonds**” shall mean the California Statewide Communities Development Authority Multifamily Housing Revenue Bonds (Pacific Court Apartments) Series X constituting the mortgage revenue bonds issued for the Project as described in this Method of Financing.

The term “**Bond Deed of Trust**” shall mean the first priority deed of trust on the Site, which secures the Series X-1 Bond Loan and the Series X-2 Bond Loan.

The term “**Bond Documents**” shall mean, individually and collectively, the Series X-1 Bond Documents and the Series X-2 Bond Documents.

The term “**Bond Loans**” shall mean the Series X-1 Bond Loan and the Series X-2 Bond Loan.

The term “**City Deed of Trust**” shall mean the Deed of Trust with Assignment of Rents attached as Exhibit No. “10” to the Housing Agreement, in which Developer is the Trustor and City is the Beneficiary, which secures the City Loan.

The term “**City Loan**” shall mean the City’s loan to Developer in an amount not to exceed FIVE HUNDRED THOUSAND DOLLARS (\$500,000.00) of HOME Funds, as evidenced by the City Note and secured by the City Deed of Trust.

The term “**City Loan Documents**” shall mean the Housing Agreement, the City Note, the City Deed of Trust, the Assignment of Rents and Leases, the Assignment of Agreements and the

UCC1 Financing Statement. The City Loan Documents do not include the Regulatory Agreement or the Environmental Indemnity.

The term "**City Note**" shall mean that certain Promissory Note, substantially in the form attached to the Housing Agreement as Exhibit No. "9", which is incorporated herein by this reference.

The term "**Construction Financing Event**" shall mean the point in time when all conditions precedent to the conveyance of the Site from the Seller to Developer and the funding of the Series X-1 Bond Loan, the Series X-2 Bond Loan, the City Loan and the Agency Acquisition Loan have been satisfied, in accordance with this Method of Financing.

The term "**Construction Lender**" shall mean Washington Mutual Bank, as the initial purchaser of the Bonds.

The term "**Construction Period**" shall mean the period of time commencing upon the Construction Financing Event and ending upon the repayment of the Series X-2 Bond Loan and the deposit of the additional Limited Partner Capital Contribution (less that portion of the Limited Partner Capital Contribution that will be funded upon receipt of Form(s) 8609).

The term "**Conversion Date**" shall have the meaning given to such term in the Master Pledge and Assignment, dated July 1, 2008 between the California Statewide Communities Development Authority and Washington Mutual Bank, as the initial Bondowner Representative.

The term "**Developer Equity**" shall mean funds provided by the Developer for payment of Project Costs and shall not include the Bond Loans, the Agency Loan, the City Loan or any other borrowed funds, and shall include the Deferred Developer Fee, the Limited Partner Capital Contribution, as well as any other funds of the Developer.

The term "**Environmental Indemnity**" shall mean the indemnity by Developer, substantially in the form attached to the Housing Agreement as Exhibit No. "15", which is incorporated herein by this reference.

The term "**Four Percent Tax Credit**" shall mean the federal tax credit allocated to the Project by the California Tax Credit Allocation Committee. "Four Percent" refers to the applicable percentage of the qualified basis for a building that is federally subsidized, as provided in Internal Revenue Code Section 42(b)(1).

The term "**Limited Partner Capital Contribution**" shall mean and refer to the Developer Equity derived from the sale of the Four Percent Tax Credits, in the form of the initial Limited Partner Capital Contribution in the estimated amount of \$63,000 and the additional Limited Partner Capital Contribution in the estimated amount of \$4,863,796 (including that portion of the Limited Partner Capital Contribution that will be funded upon receipt of Form(s) 8609). The allocation, but

not the estimated total amount, of the Limited Partner Capital Contribution may vary, provided, however, that the initial Limited Partner Capital Contribution shall be not less than \$63,000.

The term “**Net Proceeds**” shall mean the amount, if any, by which a refinancing exceeds the amount needed to repay the Bond Loan, or successor permitted mortgage loan, in full, including principal and interest, any early redemption or prepayment penalty, and customary and reasonable fees and costs of the transaction.

The term “**Permanent Financing Event**” shall mean the point in time when all conditions precedent to the release of the Agency Permanent Loan funds have been satisfied, in accordance with this Method of Financing.

The term “**Permanent Lender**” shall mean the Bondowner Representative following the Conversion Date.

The term “**Permanent Period**” shall mean the period of time commencing upon the repayment of the Series X-2 Bond Loan and the payment of the additional Limited Partner Capital Contribution (less that portion of the Limited Partner Capital Contribution that will be funded upon receipt of Form(s) 8609).

The term “**Pro Rata Percentages**” shall mean the pro rata application of Residual Receipts to the repayment of the Agency Loan and the City Loan, reflecting the relative amounts of the Agency Loan and the City Loan. The Pro Rata Percentages shall be ninety-five percent (95%) for the Agency Loan and five percent (5%) for the City Loan.

The term “**Regulatory Agreement**” shall mean that certain Regulatory Agreement and Declaration of Covenants and Restrictions, substantially in the form attached to the Housing Agreement as Exhibit No. “11”, which is incorporated herein by this reference.

The term “**Series X-1 Bonds**” shall mean the portion of the Bonds used to fund the Series X-1 Bond Loan and to be repaid from payments on the Series X-1 Bond Loan.

The term “**Series X-1 Bond Documents**” shall mean, in addition to the Bond Deed of Trust, a loan agreement, promissory note, financing statement, guaranties, security agreements, assignments, and similar documents and instruments to be executed by Developer in connection with the Series X-1 Bonds.

The term “**Series X-1 Bond Loan**” shall mean the portion of the loan funded with proceeds of the Bonds used to pay a portion of the Project Costs, secured by the Bond Deed of Trust and other security instruments having a lien on the Site, the principal of which Series X-1 Bond Loan is expected to be repaid following the Conversion Date.

The term “**Series X-2 Bonds**” shall mean the portion of the Bonds used to fund the Series X-2 Bond Loan and to be repaid from payments on the Series X-2 Bond Loan.

The term “**Series X-2 Bond Documents**” shall mean, in addition to the Bond Deed of Trust, a loan agreement, promissory note, financing statement, guaranties, security agreements, assignments, and similar documents and instruments to be executed by Developer in connection with the Series X-2 Bonds.

The term “**Series X-2 Bond Loan**” shall mean the portion of the loan funded with proceeds of the Bonds used to pay a portion of the Project Costs, secured by the Bond Deed of Trust and other security instruments having a lien on the Site, the principal of which Series X-2 Bond Loan is expected to be repaid on or before the Conversion Date.

The term “**Subordination Agreement**” shall mean Subordination Agreement attached to the Housing Agreement as Exhibit No. “12”.

The term “**TCAC Regulatory Agreement**” shall mean the regulatory agreement entered into between Developer and the California Tax Credit Allocation Committee to be recorded against the Site in connection with the Four Percent Tax Credits.

The term “**UCC1 Financing Statement**” shall mean a document substantially in the form attached to the Housing Agreement as Exhibit No. “16”, which is incorporated herein by this reference.

2. **Total Project Cost.** The parties estimate that the total Project Costs shall be approximately \$18,631,993.

3. **Sources of Acquisition and Rehabilitation Financing.** The parties anticipate that the Project Costs shall be financed during the Construction Period with the following combinations of funds. Developer must make every reasonable effort to structure the terms of the construction financing in a way that will minimize the amount of the Agency Loan.

- (a) An initial Limited Partner Capital Contribution in the amount of \$63,000 to be disbursed in accordance with Developer’s Limited Partnership Agreement.
- (b) The Series X-1 Bond Loan derived from the issuance of the Series X-1 Bonds, in the approximate original principal amount of \$3,632,400 to be secured by the Bond Deed of Trust.
- (c) The Series X-2 Bond Loan derived from the issuance of the Series X-2 Bonds, in the approximate original principal amount of \$5,715,167 to be secured by the Bond Deed of Trust.

- (d) A loan of HOME funds from the City in the original principal amount of \$500,000 to be secured by the City Deed of Trust.
- (e) A loan from the Agency in the original principal amount of \$6,915,129 (the "Agency Acquisition Loan"), evidenced by the Agency Note and secured by the Agency Deed of Trust.
- (f) Costs deferred until completion in the amount of \$236,970.
- (g) Developer Equity consisting of (i) \$100 in cash and (ii) the deferral of the Developer Fee in the approximate amount of \$1,514,953 ("Deferred Developer Fee"), of which \$726,840 will be paid to Developer at the Permanent Financing Event and \$788,473 will be paid to Developer to the extent available from the gross cash flow of the Project. In addition, Developer shall be responsible during the Construction Period to provide funds, if and as needed, to pay for any cost overruns not funded and contingencies not otherwise funded by the sources of funds as described herein.

4. **Sources of Permanent Financing.** The parties anticipate that the Project Costs shall be financed during the Permanent Period with the following combinations of funds. Developer must make every reasonable effort to structure the terms of the permanent financing in a way that will minimize the amount of the Agency Loan.

- (a) The initial Limited Partner Capital Contribution referenced in paragraph 3(a) above in the amount of \$63,000.
- (b) The Series X-1 Bond Loan referenced in paragraph 3(b) above, in the approximate original principal amount of \$3,632,400, to be secured by the Bond Deed of Trust.
- (c) The City Loan referenced in paragraph 3(d) above in the original principal amount of \$500,000, to be secured by the City Deed of Trust.
- (d) The Agency Acquisition Loan referenced in paragraph 3(e) above in the original principal amount of \$6,969,403, to be secured by the Agency Deed of Trust.
- (e) A permanent loan from the Agency (the "Agency Permanent Loan") in the original principal amount of \$1,814,821 to be secured by the Agency Deed of Trust. If actual Project Costs, as set forth in the audited certification contained in the placed-in-service application submitted by Developer to the California Tax Credit Allocation Committee pursuant to Section 10322(i)(1)

of Title 4 of the California Code of Regulations, are less than the total Project Costs set forth in the most recently approved Project Budget, the resulting cost savings shall be allocated to reduce the principal amount of the Agency Loan.

- (g) A "Deferred Developer Fee," consisting of a portion of the fee payable to the Project's developer under the Limited Partnership Agreement, in an amount estimated to be \$788,473. (The Deferred Developer Fee is a Project Cost, payment of which will be deferred until funds are available.)
- (h) Developer Equity in the form of (i) \$100 in cash and (ii) an additional Limited Partner Capital Contribution, in the approximate amount of \$4,863,796 (including that portion of the Limited Partner Capital Contribution that will be funded upon receipt of Form(s) 8609), which amount may be adjusted pursuant to the provisions and requirements of the federal Internal Revenue Code, the TCAC Regulatory Agreement and the provisions of the Limited Partnership Agreement and the Contribution Agreement. In the event the Limited Partner Capital Contribution is less than anticipated, the amount of the Deferred Developer Fee will be increased commensurately. In the event the Limited Partner's Capital Contribution, when added to the Bond Loans, the City Loan, the Agency Loan and the Deferred Developer Fee, is greater than the amount need to pay the Project Costs, as set forth in the audited certification contained in the placed-in-service application submitted by Developer to the California Tax Credit Allocation Committee pursuant to Section 10322(i)(1) of Title 4 of the California Code of Regulations ("Placed-In-Service Application"), such funds shall be applied to reduce the amount of the Agency Loan. Developer shall submit to the Agency and the City a copy of the Placed-In-Service Application, which must include a certification of the amount of tax credit equity raised and the syndication costs. In addition, if Developer obtains additional equity from the sale of Business Tax Credits related to the installation of a photovoltaic system at the Project, such additional equity shall be used to reduce the amount of the Agency Loan.

5. **Minimum Reserves and Guaranties.** Developer agrees to the following reserves and guaranties, however named or described, which will be executed in favor of the Limited Partner of the Developer in a form reasonably approved by the Agency ("Guaranty and Reserve Agreements"). The Guaranty and Reserve Agreements may not be modified or discontinued for any reason (including, without limitation, a change of parties or a refinancing of the Project) without the prior written consent of the Agency and the City, which consent shall not be unreasonably withheld. The Guaranty and Reserve Agreements are generally summarized as follows:

- (a) A Development Deficit Guaranty Agreement pursuant to which the guarantor thereunder agrees, among other things, to: (a) pay any "Development Deficits" (as that term or a similar term is defined therein) which may arise during the construction of the Project and any tax credit adjusters, (b) buy out the interest of the Limited Partner (at the request of the Limited Partner), and (c) pay all expenses of operating and maintaining the Project in order for the Project to achieve "Break-Even Operations" (as that term or a similar term is defined therein).
- (b) An Operating Deficit Guaranty Agreement pursuant to which the guarantor thereunder agrees to, among other things, cover any "Operating Deficits" (as that term or a similar term is defined therein) of the Project during the "Guaranty Period" (as that term or a similar term is defined therein).
- (c) A Replacement Reserve Guaranty Agreement pursuant to which the guarantor thereunder agrees to, among other things, guaranty minimum reserves in the amount required by the Limited Partnership Agreement.
- (d) An Operating Deficit Escrow Agreement pursuant to which the guarantor thereunder agrees to, among other things, secure a portion of its obligations under the Operating Deficit Guaranty Agreement by making a cash deposit into an escrow account established for that purpose.

6. **Project Budget.** The parties anticipate that all Project Costs shall be as set forth in the Project Budget attached to the Housing Agreement as Exhibit No. "6". The Project Budget shall be subject to change from time-to-time, subject to the prior written approval of the Agency Executive Director or designee and the City Administrator or designee (which approval shall not be unreasonably withheld), upon which approval the Project Budget shall be replaced by the approved revised Project Budget. Within the respective times provided therefor in the Schedule of Performance, the Developer shall obtain all approvals needed for the Bond Loans and demonstrate, to the satisfaction of the Agency Executive Director and the City Administrator, that all Developer Equity will be available for payment or refinancing of Project Costs when and as required by this Method of Financing.

7. **Evidence of Financing.** The sum of the Series X-1 Bond Loan and the Series X-2 Bond Loan plus the Agency Loan plus the City Loan plus the Developer's Equity, as provided in Sections 3 and 4 above, shall, at all times, be sufficient to pay all Project Costs as set forth in the most recently approved Project Budget. Prior to the Construction Financing Event, Developer shall submit for Agency and City review and approval evidence of such financing, including: (a) copies of all documents required by the issuer of any of the Bonds to obtain such financing; (b) the Limited Partnership Agreement, the Contribution Agreement, and other documentation evidencing the availability of the Developer Equity, including the Limited Partner Capital Contribution; and, (c)

any other documents reasonably required by the Agency and the City. The Agency and the City shall not unreasonably withhold their approval of the Developer's evidence of financing.

8. **Agency Loan and City Loan.**

(a) In accordance with and subject to the terms and conditions of the Housing Agreement and this Method of Financing, the Agency agrees to make the Agency Loan to Developer and the City agrees to make the City Loan to Developer and Developer agrees to borrow such funds for the purpose of payment of Project Costs.

(b) The Developer hereby acknowledges that the Agency Loan and the City Loan are intended to be "gap" loans, not to exceed the amount needed to bridge the gap between the total Project Costs and the maximum Bond Loans obtainable by Developer plus the maximum amount of Developer's Equity set forth above, but in any event not to exceed the respective dollar amounts of the Agency Loan and the City Loan set forth above.

(c) The Agency Loan and the City Loan shall be used exclusively to pay Project Costs identified in the Project Budget.

(d) At the Construction Financing Event, the Agency, the City and the Developer shall execute and deliver such instruments and documents as may be necessary to evidence and secure the affordability restrictions on the Site and to evidence and secure the Agency Loan and the City Loan, consistent with the terms of the Housing Agreement and this Method of Financing, and each in a form that is acceptable to the Agency Executive Director or designee and the City Administrator or designee, including the following:

- (1) the Regulatory Agreement;
- (2) the Promissory Note evidencing the Agency Loan;
- (3) the Deed of Trust securing the Agency Loan;
- (4) the Promissory Note evidencing the City Loan;
- (5) the Deed of Trust securing the City Loan;
- (6) the Assignment of Rents and Leases;
- (7) the Assignment of Agreements;
- (8) the Environmental Indemnity;
- (9) the UCC1 Financing Statement; and

- (10) the Notice of Affordability Restrictions on Transfer of Property attached to the Housing Agreement as Exhibit No. 17.

9. **Subordination.** The Regulatory Agreement shall unconditionally be and at all times remain prior and superior to the lien created by the Bond Deed of Trust and any other of the Bond Documents and all of the terms and conditions contained in the Bond Documents. However, the Agency and the City, as applicable, shall subordinate the Agency Loan Documents and the City Loan Documents to the lien created by the Bond Deed of Trust and any other of the Bond Documents and all of the terms and conditions contained in the Bond Documents.

Subject to the terms and conditions of this Section 9, prior to the Construction Financing Event, the Executive Director of the Agency or designee and the City Administrator or designee shall execute subordination agreements to, among other things, subordinate the Agency Loan Documents and the City Loan Documents to the Bond Deed of Trust and other Bond Documents, provided, however, that such subordination agreements must contain provisions reasonably satisfactory to the Agency Executive Director or designee and the City Administrator or designee, to protect the Agency's and the City's investments in the event of default, including those set forth in the Subordination Agreement attached as Exhibit No. "12" to the Housing Agreement.

10. **Recordation.** Upon the Construction Financing Event, the Title Company shall record the Regulatory Agreement, the Bond Documents, the Agency Loan Documents and the City Loan Documents in accordance with instructions provided by the Agency, the City, the Construction Lender and the Developer, and shall be prepared to issue to the Agency and the City ALTA policies of title insurance, insuring the priority of the Agency Deed of Trust and the City Deed of Trust, in amounts and with endorsements as the Agency and the City may require.

11. **Disbursement of Agency Loan and City Loan; Approval of Relocation Costs.**

(a) **Conditions Precedent to Construction Financing Event.** The Agency's and the City's obligations to deposit the Agency Acquisition Loan funds and the City Loan funds in Escrow shall be conditioned and contingent upon satisfaction or Agency's and City's waiver of each of the following conditions precedent (collectively, the "Conditions to Closing"):

- (i) Developer shall have completed the inspection of the Site for lead-based paint and asbestos hazards as required by the Housing Agreement and shall have delivered the inspection report to the Agency and the City;
- (ii) Developer shall have delivered to the Agency and the City for approval the Purchase and Sale Agreement between Developer and Seller, as well as any modifications thereto, and the Seller shall have executed the Grant Deed in recordable form and shall have deposited same in Escrow;

- (iii) If required for City permitting of the Project, Developer shall submit evidence that the final working drawings have been approved by the City, and, to the extent required by the Housing Agreement, the Agency Executive Director or designee;
- (iv) Developer submits a copy of the fully executed general construction contract with a licensed general contractor, covering all construction work required by the Housing Agreement and the approved final working drawings;
- (v) Developer submits a final Project Budget, current as of the Construction Financing Event, demonstrating to the satisfaction of the Agency Executive Director and City Administrator, or designee, the availability of sufficient funds to pay all Project Costs;
- (vi) Developer submits evidence satisfactory to the Agency Executive Director and the City Administrator, or designee, that Developer has satisfied all conditions precedent to the issuance of all Permits necessary for the Project, other than payment of fees (for which funds have been budgeted in the Project Budget);
- (vii) Developer submits the Maintenance Program to the Agency and the City for approval, including the Maintenance Budget, as required by the Housing Agreement;
- (viii) Developer submits the Annual Project Budget for the first year of operation to the Agency and the City for approval, as required by the Housing Agreement;
- (ix) Developer submits the Management Plan to the Agency and the City for approval, as required by the Housing Agreement;
- (x) Title Insurance Company is prepared to issue the title insurance policies required by the Agency and the City;
- (xi) Developer shall have delivered evidence acceptable to the Agency and the City that Developer has obtained the insurance policies required by the Housing Agreement;
- (xii) Developer shall have deposited into Escrow all of the funds and duly executed instruments required of it by the Housing Agreement, the Purchase and Sale Agreement, the Bond Documents, the Limited Partnership Agreement and this Method of Financing to close the Escrow;

- (xiii) Developer shall have delivered the Bond Documents to the Agency and the City for approval;
- (xiv) Developer shall have delivered to the Agency and the City for approval the Limited Partnership Agreement, as amended upon admission of the Investor Limited Partner and the Special Limited Partner, if any, and the Guaranty and Reserve Agreements;
- (xv) Developer, Construction Lender, Agency and City shall have entered into a Disbursement Agreement, consistent with the terms of this Method of Financing, setting forth the timing and conditions of the disbursement of the Developer Equity, the Bond Loans, the Agency Loan and the City Loan;
- (xvi) Developer shall have delivered satisfactory evidence to the Agency and the City that Developer and its General Partners are in current good standing and are duly authorized to execute and implement the Housing Agreement; and
- (xvii) Developer is in full compliance with the terms and conditions of the Housing Agreement and all documents and instruments referred to therein or executed by Developer in furtherance of the Housing Agreement.

In the event any of the Conditions to Closing are not satisfied (or waived by Agency and City) by the date set forth in the Schedule of Performance for the occurrence of the Construction Financing Event, Agency and City may cancel the Escrow and terminate the Housing Agreement by delivering ten (10) days prior written notice to Developer and the Escrow agent. Developer may nullify the notice to terminate if, within such ten (10) day period Developer (at no cost to Agency or City) cures any unsatisfied Conditions to Closing and notifies the Escrow agent of such cure. In the event of termination pursuant to this paragraph, (i) the Escrow shall be cancelled and any funds deposited by Agency and City shall be returned to them with any interest earned on such funds; (ii) Developer shall be responsible for any escrow cancellation fees imposed by the Escrow agent; and (iii) the Housing Agreement shall be terminated and the parties shall have no further rights or obligations thereunder.

(b) Approval of Relocation Costs. Following the Construction Financing Event, Developer will pay approved relocation costs of those Project tenants who meet the eligibility requirements of the Uniform Relocation Act and the California Relocation Assistance Act and the guidelines promulgated in connection therewith. Prior to drawing funds for such payments, Developer shall submit to the Agency Executive Director or designee for approval a summary of the proposed relocation payments supported by documentation acceptable to the Agency supporting the amount and use of such funds.

(c) Conditions Precedent to Permanent Financing Event. The Agency's obligation to fund the Agency Permanent Loan shall be conditioned and contingent upon the satisfaction (or Agency's waiver) of the following conditions precedent:

(i) All conditions precedent to the Agency's issuance of the Release of Construction Covenants for the Project shall have been satisfied;

(ii) All conditions precedent to the Conversion Date shall have been satisfied or waived by the Permanent Lender;

(iii) All conditions precedent to the payment of the additional Limited Partner Capital Contribution (less that portion of the Limited Partner Capital Contribution that will be funded upon receipt of Form(s) 8609) shall have been satisfied or waived by the Investor Limited Partner;

(iv) Developer shall have submitted to the Agency the environmental certification and clearances required by Section 415(a) of the Housing Agreement;

(v) The City Administrator or designee shall have determined that the condition of the Project is such that all previous code violations have been corrected and that any pending code enforcement action will be dismissed; and

(vi) Developer shall be in full compliance with the terms and conditions of the Housing Agreement and all documents and instruments referred to therein or executed by Developer in furtherance of the Housing Agreement.

(d) Waiver of Conditions Precedent. Notwithstanding the foregoing, the Agency, in the sole discretion of the Agency Executive Director, and the City, in the sole discretion of the City Administrator, may waive any of the foregoing conditions precedent to the Construction Financing Event or the Permanent Financing Event. A waiver of any of the foregoing conditions shall not operate in any way as a waiver, or estoppel with respect to, any subsequent or other failure to comply with such condition, or any other condition contained in this Method of Financing, the Housing Agreement or any of the Agency Loan Documents or the City Loan Documents.

12. Repayment Terms. The repayment terms of the Agency Loan and the City Loan shall be as follows, as more fully set forth in the Agency Note and City Note attached to the Housing Agreement as Exhibit No. "7" and Exhibit No. "9", respectively. The Agency Loan and the City Loan will be repaid with annual payments from Residual Receipts. The terms of the Agency Loan and the City Loan shall be sixty (60) years. The rate of interest shall be zero percent (0%) per annum.

(a) Residual Receipts. "Residual Receipts" means, in each calendar year, the amount by which Gross Revenue (as defined below) exceeds Annual Operating Expenses (as

defined below), as determined by an audit to be completed not later than ninety (90) days after the end of each calendar year by an independent certified public accountant first approved in writing by the Agency and City, using generally accepted accounting principles and based on the accrual method (the "Audit").

(i) Gross Revenue. "Gross Revenue," with respect to each calendar year, shall mean all revenue, income, receipts, and other consideration actually received from operation or leasing of the Project. "Gross Revenue" shall include, but not be limited to: all rents, fees and charges paid by tenants, Section 8 payments or other rental subsidy payments received for the dwelling units, deposits forfeited by tenants, all cancellation fees, price index adjustments and any other rental adjustments to leases or rental agreements; proceeds from vending and laundry room machines; the proceeds of business interruption or similar insurance; the proceeds of casualty insurance to the extent not utilized to repair or rebuild the Project; and condemnation awards for a taking of part or all of the Project for a temporary period. "Gross Revenue" shall also include the fair market value of any goods or services provided in consideration for the leasing or other use of any portion of the Project, except that the value of services provided by on-site manager(s) shall not be treated as "Gross Revenue" if no more than one dwelling unit is leased to or otherwise used by on-site manager(s). "Gross Revenue" shall not include tenants' security deposits, proceeds from the Bond Loans, the Agency Loan, the City Loan, Developer Equity, including capital contributions or similar advances, or interest that is earned on and allocated to reserve accounts.

(ii) Annual Operating Expenses. "Annual Operating Expenses," with respect to each calendar year shall mean the following costs reasonably and actually incurred for operation and maintenance of the Project to the extent that they are consistent with an annual independent audit performed by a certified public accountant using generally accepted accounting principles: property and other taxes and assessments imposed on the Project; premiums for property damage and liability insurance; utility services not paid for directly or reimbursed by tenants, including but not limited to water, sewer, trash collection, gas and electricity; maintenance and repair including but not limited to pest control, landscaping and grounds maintenance, painting and decorating, cleaning, common systems repairs, general repairs, janitorial, supplies, and similar customary utility services; any license or certificate of occupancy fees required for operation of the Project; general administrative expenses including but not limited to advertising and marketing, security services and systems, professional fees for legal, audit, accounting and tax returns for the limited partnership, and similar customary administrative expenses; property management fees, expenses and costs, not to exceed \$40 per unit per month in the first year with annual increases thereafter in proportion to the increases in Affordable Rent for the Project or six and one-half percent (6 1/2 %) of Revenue, whichever is higher, and pursuant to a management contract approved by the Agency and the City; partnership management fees payable to the Limited Partnership's general partners in an amount not to exceed twenty-five thousand dollars (\$25,000) in the first year and, to the extent permitted by the Limited Partnership Agreement, increased thereafter at an annual rate not to exceed three percent (3%); an annual cumulative asset management fee payable to the Limited Partnership's Investor Limited Partner in an amount not to exceed three thousand dollars (\$3,000) in the first year and increased thereafter at an annual rate not to exceed three percent (3%);

cash deposited into a replacement reserve in the amount of \$300 per unit per year, subject to annual increases not to exceed three percent (3%); cash deposited into an operating reserve in such reasonable amounts as are required by Project lenders, the Tax Credit Allocation Committee, and the tax credit investor from time to time, and approved by the Agency and the City; fixed debt service payments (excluding debt service contingent upon the availability of residual receipts or surplus cash of the Project) on loans associated with the Project and approved by the Agency and the City; bond monitoring fees, issuer's fees, trustee's fees (if any) and other fees and costs payable by Developer in connection with the Bonds. "Annual Operating Expenses" shall not include the following: depreciation, amortization, depletion or other non-cash expenses or any amount expended from a reserve account. Annual Operating Expenses shall be subject to the reasonable approval of the Agency and the City.

(b) Developer must utilize twenty-five percent (25%) of Residual Receipts with respect to each calendar year to repay the Agency Loan and the City Loan through the pro rata application of such share of Residual Receipts, reflecting the relative amounts of the Agency Loan and the City Loan. The Pro Rata Percentages shall be 95% for the Agency Loan and 5% for the City Loan. However, the Agency and the City agree that Developer may first utilize Residual Receipts, with respect to each calendar year, to pay the sponsors of the Project the theretofore unpaid portion of the Deferred Developer Fee. Payments due hereunder must be made no later than one hundred twenty (120) days following the end of the applicable calendar year.

(c) After payment in full of the payments described in paragraph (b) of this Section 12, any remaining Residual Receipts with respect to each calendar year shall be distributed by the Developer in accordance with the Limited Partnership Agreement.

(d) To the extent Developer refinances the Bond Loan at any time during the terms of the Agency Note and the City Note, twenty five percent (25%) of the Net Proceeds shall be allocated and paid to the Agency and to the City to reduce the Agency Loan and the City Loan based on the Pro Rata Percentages.

13. **Relative Priority of Agency and City Security.** Without regard to the recording order of the Agency Deed of Trust and the City Deed of Trust, the Agency Loan Documents shall be of equal priority to the City Loan Documents, and the Agency and the City agree to share foreclosure proceeds as set forth below.

(i) Foreclosure Proceeds. If there is a foreclosure, or any other action, judicial or nonjudicial, under the Agency Deed of Trust and/or the City Deed of Trust (including without limitation the giving of a deed in lieu of foreclosure), the Agency and the City shall be entitled to share based on the Pro Rata Percentages in any proceeds which shall ensue from such action, after payment of all reasonable expenses of the Agency and/or the City incurred in connection with the action. The Agency Deed of Trust shall be of equal priority to the City Deed of Trust. As among those two deeds of trust, if either deed of trust is otherwise determined to be senior to the other, then notwithstanding the otherwise applicable effects of the California Civil Code and the California

Code of Civil Procedure, upon foreclosure of the senior deed of trust and the elimination of the security created by the junior deed of trust, the holder of the foreclosing senior deed of trust shall share the foreclosure sale proceeds with the holder of the junior deed of trust based on the Pro Rata Percentages set forth above, unless otherwise mutually agreed by the Agency and the City.

(ii) Title to Property Following Foreclosure. If either the Agency or the City acquires title to the Site as the result of a foreclosure or a deed in lieu of foreclosure, title shall be held as tenancy in common by the Agency and the City, with the percentage ownership of each based on the Pro Rata Percentages set forth above. Subsequent decisions to hold or sell the property shall be made by joint decision of the Agency and the City.

EXHIBIT NO. 4

SCHEDULE OF PERFORMANCE

ACTION ITEM	TIME OF PERFORMANCE	REFERENCE
1. <u>Submittal - Final Construction Drawings and Specifications.</u> If necessary for City permitting of the Project, the Developer shall prepare and submit to the Agency for approval the Final Construction Drawings and Specifications.	At least thirty (30) days prior to the Construction Financing Event.	Section 402
2. <u>Submittal - Management Plan.</u> Developer shall submit to the Agency for approval the proposed Management Plan.	At least thirty (30) days prior to the Construction Financing Event.	Section 503 and Section 4.4 of Regulatory Agreement
3. <u>Submittal - Annual Project Budget.</u> Developer shall submit to the Agency for approval the proposed Annual Project Budget for the first year of operation.	At least thirty (30) days prior to the Construction Financing Event.	Section 503 and Section 4.4(a)(5) of Regulatory Agreement
4. <u>Submittal - Maintenance Program.</u> Developer shall submit to the Agency for approval the proposed Maintenance Program for the Project.	At least thirty (30) days prior to the Construction Financing Event.	Section 504
5. <u>Evidence of Financing.</u> The Developer shall submit to the Agency substantially final Bond Loan documents and documentation of Developer Equity, as provided in the Method of Financing.	Within thirty (30) days prior to the scheduled date for the Construction Financing Event.	Section 7 of Method of Financing
6. <u>Deposits Into Escrow.</u> The Developer, Agency and City shall execute documents and deposit documents and funds into Escrow as provided in the Method of Financing.	Not later than twelve noon on the business day immediately prior to the scheduled Construction Financing Event.	Sections 8, 9 and 11.(a) of the Method of Financing

SCHEDULE OF PERFORMANCE

PAGE I

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| 7. | <u>Construction Financing Event.</u> All conditions precedent to the Construction Financing Event shall have been satisfied. | Not later than July 21, 2008. | Section 11.(a) of Method of Financing |
| 8. | <u>Commencement of Construction.</u> The Developer shall commence rehabilitation of the improvements on the Site. | Within ninety (90) days after the Construction Financing Event. | Section 405 |
| 9. | <u>Completion of Construction.</u> The Developer shall achieve Completion of rehabilitation of the improvements on the Site. | Not later than twenty-four (24) months following commencement of rehabilitation. | Section 405 |
| 10. | <u>Submission - Tenant Lease.</u> The Developer shall prepare and submit to the Agency for approval the proposed tenant lease as provided in the Regulatory Agreement. | Within thirty (30) days prior to occupancy, but no later than December 31, 2009. | Section 4.4(a)(4) of Regulatory Agreement |
| 11. | <u>Submission - Annual Reports.</u> The Developer submits annual financial statements and rent records/tenant eligibility certifications to the Agency. | Within one hundred twenty (120) days after the end of each calendar year. | Sections 4.3 and 4.4(a)(5) of Regulatory Agreement |

NOTES:

It is understood that this Schedule of Performance is subject to all of the terms and conditions of the text of the Housing Agreement. The summary of the items in this Schedule of Performance is not intended to supersede or modify the more complete description in the text; in the event of any conflict or inconsistency between this Schedule of Performance and the text of the Housing Agreement, the text shall govern.

The time periods set forth in this Schedule of Performance may be altered or amended only by written agreement signed by the Developer, the Agency and the City. The City Administrator and the Agency Executive Director shall have the authority to approve extensions of time without action of the City Council and the Agency's governing board, not to exceed a cumulative total extension of one (1) year.

EXHIBIT NO. 5

SCOPE OF DEVELOPMENT

Developer's acquisition of the existing apartment building consisting of a total of forty eight (48) units located at 2200 Delaware Street in the City of Huntington Beach, the rehabilitation of those units in conformity with the following rehabilitation outline and applicable requirements of local, state and federal laws, rules and regulations, and the subsequent rental of the Units (with the exception of one manager's unit) to Very Low Income and Low Income Households at Affordable Rents for a period of not less than 60 years, as further described in the Affordable Housing Agreement and the Regulatory Agreement. In addition, the Project should meet the goals of the City regarding Green Building standards.

Interior Work

The interior of each apartment unit will undergo a complete rehabilitation.

- Interior Demolition- Demolition work will include the removal of the carpet and vinyl flooring, finished hardware, appliances, heater units, cabinets, electrical fixtures and finished items, and a complete demolition of the existing bathroom down to the framing.
- Framing- Existing walls and subfloors to be reframed on an as needed basis due to dryrot and termite infestation.
- Insulation- New formaldehyde-free fiberglass or 100% borate-based cellulose insulation will be installed in the attic space.
- Electrical- Existing electrical sub panels will be retrofitted and new outlets, switches, finished items and electrical fixtures will be installed. Fluorescent fixtures will be used for at least 75% of the light fixtures at the property.
- Low Voltage- New cable and telephone lines will be run.
- Plumbing- The units will receive new angle stops, shower valves and assemblies, tubs, sinks and garbage disposals. New energy-efficient hot water heaters will be installed and repairs will be made to the existing hot and cold water lines. Water saving, low-flow restrictors will be installed on all kitchen and bathroom faucets.
- Ventilation- New ventilation will be installed and vented to the exterior in the bathroom and kitchen hood vent areas.

SCOPE OF DEVELOPMENT

PAGE 1

- Drywall- New drywall will be installed where necessary. Bathroom locations will receive new drywall.
- Tub Surrounds- Each tub will receive a new tile tub surround with shower enclosure.
- Paint- Each unit will be painted.
- Finished Hardware- New finished hardware will be installed throughout. This will include but not be limited to new doors, base, casing, handles, stops, etc. New exterior doors are to be solid core doors with weather-stripping and seals.
- Cabinets- New cabinets will be installed.
- Countertops- New countertops will be installed.
- Flooring- Vinyl, carpet pad and carpet will be installed. Existing subfloor to be screwed down and repair to occur where necessary. Carpet to contain at least 25% recycled materials.
- HVAC- New wall heating units will be installed. New bath and kitchen fans to be installed which will be vented to the exterior to improve air quality.
- Appliances- New Energy Star rated refrigerators, gas stoves and hood vents to be installed.
- Windows- New dual panel windows with a U Factor of .35 or less and a Solar Heat Gain Coefficient of .32 or less (Low-E Glass) to be installed.
- Window Coverings- New window blinds to be installed.

Exterior Work

- Exterior Demolition – Remove pool for safety and to decrease energy and water consumption.
- Decks - Existing decking system at the second story landing areas to be demolished. Decks to be re-sheathed and new decking system to be applied.
- Wrought Iron- New wrought iron trash enclosures, access gates, fencing and stairs to be installed.

- Stucco- New stucco color coat and treatments to be applied to the exterior of each building. New stucco treatments to be applied to the façade of the buildings along Delaware.
- Siding- New siding to be installed along exterior elevations.
- Electrical- New electrical site lighting throughout property. Photo cells will be installed to regulate the use of exterior electrical fixtures. Solar panels will be installed to offset the use of common area electricity.
- Asphalt- New asphalt and repair throughout entire property.
- Landscaping- Landscaping rework and installation of new drought tolerant landscaping to occur throughout. New tot lot and hardscape areas to be installed.
- Roofing- Each building shall receive a new roof and fascia.
- Painting- Exterior painting to occur throughout property.
- Garage Doors- new two car garage doors to be installed.

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EXHIBIT NO. 6

PROJECT BUDGET

SOURCES OF ACQUISITION AND CONSTRUCTION FUNDS:

Tax-Exempt Housing Revenue Bonds (Series X-1)	\$ 3,632,400
Tax-Exempt Housing Revenue Bonds (Series X-2)	\$ 5,715,167
City HOME Funds	\$ 500,000
Agency LMIHF	\$ 6,969,403
Deferred Developer Fee	\$ 1,514,953
Costs Deferred Until Completion	\$ 236,970
General Partner Capital Contribution	\$ 100
Four Percent Tax Credit Equity Investment	\$ 63,000

TOTAL SOURCES: \$ 18,631,993

SOURCES OF PERMANENT FUNDS:

Tax-Exempt Housing Revenue Bonds (Series X-1)	\$ 3,632,400
City HOME Funds	\$ 500,000
Agency LMIHF	\$ 8,784,224
Deferred Developer Fee	\$ 788,235
General Partner Capital Contribution	\$ 100
Four Percent Tax Credit Equity Investment	\$ 4,926,796

TOTAL SOURCES: \$ 18,631,993

PROJECT COSTS:

Property Acquisition; Closing Costs	\$ 12,075,000
Relocation Costs	\$ 204,000
Rehabilitation Costs	\$ 2,669,428
Developer's Fee	\$ 1,888,473
Other Soft Costs	\$ 1,225,025
Reserves	\$ 298,601
Financing Costs	\$ 271,466

TOTAL PROJECT COSTS: \$ 18,631,993

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**RESIDUAL RECEIPTS PROMISSORY NOTE
SECURED BY DEED OF TRUST
TO THE REDEVELOPMENT AGENCY
OF THE CITY OF HUNTINGTON BEACH, CALIFORNIA**

0% Interest
\$8,784,224

Huntington Beach, California
_____, 2008

FOR VALUE RECEIVED, PACIFIC COURT APARTMENTS, L.P., a California limited partnership ("Borrower"), hereby promises to pay to the REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH ("Agency"), a public body, corporate and politic, or order, a principal amount of Eight Million Seven Hundred Eighty-Four Thousand Two Hundred Twenty-Four Dollars (\$8,784,224), or so much thereof as may be advanced by the Agency to the Borrower as the Agency Loan pursuant to the Affordable Housing Agreement dated _____, 2008 (the "Housing Agreement") between Borrower ("Developer" therein), the Agency, and the City of Huntington Beach, incorporated herein by this reference. The Housing Agreement is a public record on file in the offices of the Agency. The Borrower shall pay interest at the rate, in the amount and at the time hereinafter provided.

1. Definitions. Any capitalized term not otherwise defined herein shall have the meaning ascribed to such term in the Housing Agreement. In addition, the following terms shall have the following meanings:

The term "**Agency Acquisition Loan**" shall mean the loan of Set Aside funds from the Agency to Borrower to pay a portion of the cost of acquiring the Site, in the amount and pursuant to the terms and conditions described in the Method of Financing, secured by the Agency Deed of Trust and the other Agency Loan Documents.

The term "**Agency Deed of Trust**" shall mean the Deed of Trust with Assignment of Rents, dated on or about the date hereof and recorded against the Site, in which Borrower is the Trustor and the Agency is the Beneficiary, which secures the Agency Loan.

The term "**Agency Loan**" shall mean the Agency Acquisition Loan and the Agency Permanent Loan.

The term "**Agency Loan Documents**" shall mean the Housing Agreement, this Promissory Note, the Agency Deed of Trust, the Assignment of Rents and Leases, the Assignment of Agreements, and the UCC1 Financing Statement. The Agency Loan Documents do not include the Regulatory Agreement or the Environmental Indemnity.

The term "**Agency Permanent Loan**" shall mean the permanent loan of Set Aside funds from the Agency to Borrower to assist in Borrower's repayment of the Series X-2 Bond Loan, in the

amount and pursuant to the terms and conditions described in the Method of Financing, secured by the Agency Deed of Trust and the other Agency Loan Documents.

The term “**Assignment of Agreements**” shall mean the unrecorded assignment of plans, contracts and permits entered into by the Borrower in favor of the Agency and the City, dated on or about the date hereof.

The term “**Assignment of Rents and Leases**” shall mean the Assignment of Rents and Leases entered into by the Borrower in favor of the Agency and the City, dated on or about the date hereof and recorded against the Site.

The term “**Bonds**” shall mean the California Statewide Communities Development Authority Multifamily Housing Revenue Bonds (Pacific Court Apartments) Series X constituting the mortgage revenue bonds issued for the Project as described in the Method of Financing.

The term “**Bond Deed of Trust**” shall mean the first priority deed of trust on the Site, which secures the Series X-1 Bond Loan and the Series X-2 Bond Loan.

The term “**Bond Documents**” shall mean, individually and collectively, the Series X-1 Bond Documents and the Series X-2 Bond Documents.

The term “**Bond Loans**” shall mean the Series X-1 Bond Loan and the Series X-2 Bond Loan.

The term “**City Deed of Trust**” shall mean the Deed of Trust with Assignment of Rents recorded against the Site, in which Borrower is the Trustor and the City of Huntington Beach is the Beneficiary, which secures the City Loan.

The term “**City Loan**” shall mean the City’s loan to Borrower in an amount not to exceed FIVE HUNDRED THOUSAND DOLLARS (\$500,000) of HOME Funds, as evidenced by the City Note and secured by the City Deed of Trust.

The term “**City Loan Documents**” shall mean the Housing Agreement, the City Note, the City Deed of Trust, the Assignment of Rents and Leases, the Assignment of Agreements, and the UCC1 Financing Statement. The City Loan Documents do not include the Regulatory Agreement or the Environmental Indemnity.

The term “**City Note**” shall mean that certain Promissory Note, substantially in the form attached to the Housing Agreement as Exhibit No. “9”, which is incorporated herein by this reference.

The term “**Construction Financing Event**” shall mean the point in time when all conditions precedent to the conveyance of the Site from the Seller to Borrower and the funding of the Series X-

1 Bond Loan, the Series X-2 Bond Loan, the City Loan and the Agency Acquisition Loan have been satisfied, in accordance with the Method of Financing.

The term “**Construction Lender**” shall mean Washington Mutual Bank, as the initial purchaser of the Bonds.

The term “**Conversion Date**” shall have the meaning given to such term in the Master Pledge and Assignment, dated July 1, 2008 between the California Statewide Communities Development Authority and Washington Mutual Bank, as the initial Bondowner Representative.

The term “**Developer Equity**” shall mean funds provided by the Borrower for payment of Project Costs and shall not include the Bond Loans, the Agency Loan, the City Loan or any other borrowed funds, and shall include the Deferred Borrower Fee, the Limited Partner Capital Contribution, as well as any other funds of the Borrower.

The term “**Environmental Indemnity**” shall mean the unrecorded environmental indemnity entered into by Borrower in favor of the Agency and the City of Huntington Beach, dated on or about the date hereof.

The term “**Four Percent Tax Credit**” shall mean the federal tax credit allocated to the Project by the California Tax Credit Allocation Committee. “Four Percent” refers to the applicable percentage of the qualified basis for a building that is federally subsidized, as provided in Internal Revenue Code Section 42(b)(1).

The term “**Limited Partner Capital Contribution**” shall mean and refer to the Developer Equity derived from the sale of the Four Percent Tax Credits, in the form of the initial Limited Partner Capital Contribution in the estimated amount of \$63,000 and the additional Limited Partner Capital Contribution in the estimated amount of \$4,863,796 (including that portion of the Limited Partner Capital Contribution that will be funded upon receipt of Form(s) 8609). The allocation, but not the estimated total amount, of the Limited Partner Capital Contribution may vary, provided, however, that the initial Limited Partner Capital Contribution shall be not less than \$63,000.

The term “**Method of Financing**” shall mean the Method of Financing attached to the Housing Agreement as Exhibit No. “3”, incorporated herein by this reference.

The term “**Net Proceeds**” shall mean the amount, if any, by which a refinancing exceeds the amount needed to repay the Bond Loan, or successor permitted mortgage loan, in full, including principal and interest, any early redemption or prepayment penalty, and customary and reasonable fees and costs of the transaction.

The term “**Pro Rata Percentages**” shall mean the pro rata application of Residual Receipts to the repayment of the Agency Loan and the City Loan, reflecting the relative amounts of the Agency Loan and the City Loan. The Pro Rata Percentages shall be ninety-five percent (95%) for the Agency Loan and five percent (5%) for the City Loan.

The term “**Regulatory Agreement**” shall mean that certain Regulatory Agreement and Declaration of Covenants and Restrictions entered into by the Agency, the City of Huntington Beach and the Borrower, dated on or about the date hereof and recorded against the Site.

The term “**Residual Receipts**” shall mean, in each calendar year, the amount by which Gross Revenue (as defined below) exceeds Annual Operating Expenses (as defined below), as determined by an audit to be completed not later than ninety (90) days after the end of each calendar year by an independent certified public accountant first approved in writing by the Agency and City, using generally accepted accounting principles and based on the accrual method (the “Audit”).

(i) “**Gross Revenue**,” with respect to each calendar year, shall mean all revenue, income, receipts, and other consideration actually received from operation or leasing of the Project. “Gross Revenue” shall include, but not be limited to: all rents, fees and charges paid by tenants, Section 8 payments or other rental subsidy payments received for the dwelling units, deposits forfeited by tenants, all cancellation fees, price index adjustments and any other rental adjustments to leases or rental agreements; proceeds from vending and laundry room machines; the proceeds of business interruption or similar insurance; the proceeds of casualty insurance to the extent not utilized to repair or rebuild the Project; and condemnation awards for a taking of part or all of the Project for a temporary period. “Gross Revenue” shall also include the fair market value of any goods or services provided in consideration for the leasing or other use of any portion of the Project, except that the value of services provided by on-site manager(s) shall not be treated as “Gross Revenue” if no more than one dwelling unit is leased to or otherwise used by on-site manager(s). “Gross Revenue” shall not include tenants’ security deposits, proceeds from the Bond Loans, the Agency Loan, the City Loan, Developer Equity, including capital contributions or similar advances, or interest that is earned on and allocated to reserve accounts.

(ii) “**Annual Operating Expenses**,” with respect to each calendar year shall mean the following costs reasonably and actually incurred for operation and maintenance of the Project to the extent that they are consistent with an annual independent audit performed by a certified public accountant using generally accepted accounting principles: property and other taxes and assessments imposed on the Project; premiums for property damage and liability insurance; utility services not paid for directly or reimbursed by tenants, including but not limited to water, sewer, trash collection, gas and electricity; maintenance and repair including but not limited to pest control, landscaping and grounds maintenance, painting and decorating, cleaning, common systems repairs, general repairs, janitorial, supplies, and similar customary utility services; any license or certificate of occupancy fees required for operation of the Project; general administrative expenses including but not limited to advertising and marketing, security services and systems, professional fees for legal, audit, accounting and tax returns for the limited partnership, and similar customary administrative expenses; property management fees, expenses and costs, not to exceed \$40 per unit per month in the first year with annual increases thereafter in proportion to the increases in Affordable Rent for the Project or six and one-half percent (6 ½ %) of Revenue, whichever is higher, and pursuant to a management contract approved by the Agency and the City; partnership management fees payable to the Limited Partnership’s general partners in an amount not to exceed twenty-five thousand dollars

(\$25,000) in the first year and, to the extent permitted by the Limited Partnership Agreement, increased thereafter at an annual rate not to exceed three percent (3%); an annual cumulative asset management fee payable to the Limited Partnership's Investor Limited Partner in an amount not to exceed three thousand dollars (\$3,000) in the first year and increased thereafter at an annual rate not to exceed three percent (3%); cash deposited into a replacement reserve in the amount of \$300 per unit per year, subject to annual increases not to exceed three percent (3%); cash deposited into an operating reserve in such reasonable amounts as are required by Project lenders, the Tax Credit Allocation Committee, and the tax credit investor from time to time, and approved by the Agency and the City; fixed debt service payments (excluding debt service contingent upon the availability of residual receipts or surplus cash of the Project) on loans associated with the Project and approved by the Agency and the City; bond monitoring fees, issuer's fees, trustee's fees (if any) and other fees and costs payable by Developer in connection with the Bonds. "Annual Operating Expenses" shall not include the following: depreciation, amortization, depletion or other non-cash expenses or any amount expended from a reserve account. Annual Operating Expenses shall be subject to the reasonable approval of the Agency and the City.

The term "**Series X-1 Bonds**" shall mean the portion of the Bonds used to fund the Series X-1 Bond Loan and to be repaid from payments on the Series X-1 Bond Loan.

The term "**Series X-1 Bond Documents**" shall mean, in addition to the Bond Deed of Trust, a loan agreement, promissory note, financing statement, guaranties, security agreements, assignments, and similar documents and instruments to be executed by Borrower in connection with the Series X-1 Bonds.

The term "**Series X-1 Bond Loan**" shall mean the portion of the loan funded with proceeds of the Bonds used to pay a portion of the Project Costs, secured by the Bond Deed of Trust and other security instruments having a lien on the Site, the principal of which Series X-1 Bond Loan is expected to be repaid following the Conversion Date.

The term "**Series X-2 Bonds**" shall mean the portion of the Bonds used to fund the Series X-2 Bond Loan and to be repaid from payments on the Series X-2 Bond Loan.

The term "**Series X-2 Bond Documents**" shall mean, in addition to the Bond Deed of Trust, a loan agreement, promissory note, financing statement, guaranties, security agreements, assignments, and similar documents and instruments to be executed by Borrower in connection with the Series X-2 Bonds.

The term "**Series X-2 Bond Loan**" shall mean the portion of the loan funded with proceeds of the Bonds used to pay a portion of the Project Costs, secured by the Bond Deed of Trust and other security instruments having a lien on the Site, the principal of which Series X-2 Bond Loan is expected to be repaid on or before the Conversion Date.

The term “**Subordination Agreement**” shall mean the Subordination Agreement entered into by the Agency, the City, the Construction Lender and the Borrower, dated on or about the date hereof and recorded against the Site.

The term “**TCAC Regulatory Agreement**” shall mean the regulatory agreement entered into between Borrower and the California Tax Credit Allocation Committee to be recorded against the Site in connection with the Four Percent Tax Credits.

The term “**UCC1 Financing Statement**” shall mean the UCC1 Financing Statement dated on or about the date hereof and recorded against the Site and filed in the California Secretary of State’s Office in connection with the Agency Loan.

2. This Note evidences the obligation of the Borrower to the Agency for the repayment of the Agency Loan. Borrower may prepay the principal balance of this Note at any time without penalty. However, even if Borrower prepays the entire balance of this Note including all accrued interest, costs and penalties, the covenants, conditions and restrictions imposed on the Site by the Regulatory Agreement shall remain in full force and effect for the full 60-year term as specified therein.

3. This Note is payable at the principal office of Agency, 2000 Main Street, Huntington Beach, California 92648, or at such other place as the holder hereof may inform the Borrower in writing, in lawful money of the United States.

4. This Note is secured by the Agency Deed of Trust.

5. This Note shall accrue simple interest at the rate of zero percent (0%) per annum on the principal amount outstanding, from the date of disbursement. However, if any event occurs giving the Agency the right to accelerate repayment of this Note, the entire unpaid and unforgiven principal balance owing hereunder shall, as of the date of such default, commence to accrue interest at a rate equal to two percentage points above the reference rate published by Bank of America N.A., or the maximum non-usurious interest rate permitted by law, whichever is less (the “Default Rate”). Further, in the event Borrower fails to reimburse the Agency for any amount advanced by or for the account of the Agency which is due hereunder or under the Agency Deed of Trust within ten (10) days after written notice of such advance is made by the Agency to Borrower, then such unreimbursed amount shall thereafter bear interest at the Default Rate until paid

6. The unpaid principal balance of this Note and all accrued but unpaid interest shall be due and payable on the earliest to occur of the following (which shall be referred to herein as the “Maturity Date”):

(a) June 30, 2070;

(b) the sixtieth (60th) anniversary of the date on which a Release of Construction Covenants for the Project is recorded in the Official Records of Orange County;

(c) the date the Site or the improvements thereon or any portion thereof or interest therein is sold, transferred, assigned or refinanced, without the prior written approval of the Agency, except as permitted by the provisions of Section 203 (titled “Prohibition Against Transfers”) of the Housing Agreement; or

(d) the date on which there is a Default by the Borrower under the terms of this Note, the Housing Agreement, the Agency Deed of Trust, the Regulatory Agreement, the Environmental Indemnity, or any deed of trust or other instrument securing the Bond Loan or the City Loan, which is not cured or waived within the respective time period provided herein and therein.

7. Prior to the Maturity Date, Borrower shall be obligated to repay the Agency Loan as follows:

(a) Borrower must utilize twenty-five percent (25%) of Residual Receipts with respect to each calendar year to repay the Agency Loan and the City Loan through the pro rata application of such share of Residual Receipts, reflecting the relative amounts of the Agency Loan and the City Loan. The Pro Rata Percentages shall be 95% for the Agency Loan and 5% for the City Loan. However, the Agency and the City agree that Borrower may first utilize Residual Receipts, with respect to each calendar year, to pay the sponsors of the Project the theretofore unpaid portion of the Deferred Developer Fee. Payments due hereunder must be made no later than one hundred twenty (120) days following the end of the applicable calendar year.

(b) In the event Developer refinances the Bond Loan at any time prior to the Maturity Date, twenty five percent (25%) of the Net Proceeds shall be allocated and paid to the Agency and to the City to reduce the Agency Loan and the City Loan based on the Pro Rata Percentages.

(c) All payments to the Agency shall be applied first to the payment of all expenses, charges, costs and fees incurred by or payable to Agency by Borrower pursuant to the terms of the Agency Loan Documents (in such order and manner as Agency, in its sole discretion, may elect), then to the payment of all interest accrued to the date of such payment, and then to reduce the principal amount owed. All prepayment of principal on this Note shall be applied to the most remote principal installment or installments until paid. Notwithstanding anything to the contrary contained herein, after the occurrence and during the continuation of a default under the Agency Deed of Trust, all amounts received by the Agency from any party shall be applied in such order as the Agency, in its sole discretion, may elect.

8. Any breach by Borrower of the provisions of Section 203 (entitled “Prohibition Against Transfers”) of the Housing Agreement shall constitute a default under this Note. The cure periods under the Housing Agreement and this Note in connection with such a default shall run concurrently.

9. Borrower waives presentment for payment, demand, protest, and notices of dishonor and of protest; the benefits of all waivable exemptions; and all defenses and pleas on the ground of any extension or extensions of the time of payment or of any due date under this Note, in whole or in part, whether before or after maturity and with or without notice. Borrower hereby agrees to pay all costs and expenses, including reasonable attorney's fees, which may be incurred by the holder hereof, in the enforcement of this Note, the Agency Deed of Trust or any term or provision of either.

10. Upon the failure of Borrower to perform or observe any term or provision of this Note, or upon the occurrence of any event of default under the terms of the Housing Agreement, the Agency Deed of Trust, the Environmental Indemnity, or the Regulatory Agreement, the holder may exercise its rights or remedies hereunder or thereunder. All such rights and remedies shall be cumulative. Upon the event of a default that is not cured or waived within the time provided therefore, the whole of the unpaid principal and interest owing on this Note shall, at the option of Agency and without notice, become immediately due and payable. This option may be exercised at any time after any such event and the acceptance of one or more payments from any person thereafter shall not constitute a waiver of Agency's option. Agency's failure to exercise said option in connection with any particular event or series of events shall not be construed as a waiver of the provisions hereof as regards that event or any subsequent event.

11. (a) Subject to the extensions of time set forth in Section 12, and subject to the further provisions of this Section 11, failure or delay by Borrower to perform any material term or provision of this Note, the Housing Agreement, the Agency Deed of Trust, the Environmental Indemnity, or the Regulatory Agreement constitutes a default under this Note.

(b) Agency shall give written notice of default to Borrower, specifying the default complained of by the Agency. Delay in giving such notice shall not constitute a waiver of any default nor shall it change the time of default.

(c) Any failures or delays by Agency in asserting any of its rights and remedies as to any default shall not operate as a waiver of any default or of any such rights or remedies. Delays by Agency in asserting any of its rights and remedies shall not deprive Agency of its right to institute and maintain any actions or proceedings which it may deem necessary to protect, assert, or enforce any such rights or remedies.

(d) If a monetary event of default occurs, prior to exercising any remedies hereunder, the Agency shall give the Borrower written notice of such default. The Borrower shall have a period of ten (10) days after such notice is given within which to cure the default prior to exercise of remedies by the Agency.

(e) If a non-monetary event of default occurs, prior to exercising any remedies hereunder, Agency shall give Borrower notice of such default. If the default is reasonably capable of being cured within thirty (30) days, Borrower shall have such period to effect a cure prior to exercise of remedies by Agency. If the default is such that it is not reasonably capable of being cured within thirty (30) days, and Borrower (i) initiates corrective action within said period, and (ii) diligently,

continually, and in good faith works to effect a cure as soon as possible, then Borrower shall have such additional time as is reasonably necessary to cure the default prior to exercise of any remedies by Agency. If Borrower fails to take corrective action or cure the default within a reasonable time, Agency shall give Borrower and, as provided in paragraph (d), below, the Investor Limited Partner, notice thereof, whereupon the Investor Limited Partner may remove and replace the General Partner with a substitute general partner, who shall effect a cure within a reasonable time thereafter in accordance with the foregoing provisions. Agency agrees to accept cures tendered by the Investor Limited Partner within the cure periods provided in this Note or within the time periods provided in Civil Code Section 2924c, whichever is longer. Additionally, in the event the Investor Limited Partner is precluded from curing a non-monetary default due to an inability to remove the General Partner as a result of a bankruptcy, injunction, or similar proceeding by or against Borrower or its General Partner, Agency agrees to forbear from completing a foreclosure (judicial or non-judicial) during the period during which the Investor Limited Partner is so precluded from acting, not to exceed 90 days, provided such limited partner is otherwise in compliance with the foregoing provisions. In no event shall Agency be precluded from exercising remedies if its security becomes or is about to become materially jeopardized by any failure to cure a default or the default is not cured within ninety (90) days after the first notice of default is given.

(f) After Borrower gives written notice to Agency that the Investor Limited Partner has been admitted to the Limited Partnership, Agency shall send to the Investor Limited Partner a copy of all notices of default and all other notices that Agency sends to Borrower, at the address for the Investor Limited Partner given in Section 16 of this Note.

(g) Any notice of default shall be deemed given only if either (i) dispatched by first class mail, registered or certified, postage prepaid, return receipt requested, to the addresses specified for the Borrower and the Investor Limited Partner in Section 16 of this Note, or (ii) by electronic facsimile transmission to the facsimile numbers specified for the Borrower and the Investor Limited Partner in Section 16 of this Note, followed by delivery by the method described in clause (i), or (iii) by personal delivery (including by means of professional messenger or courier service such as United Parcel Service or Federal Express) to the addresses specified for the Borrower and the Investor Limited Partner in Section 16 of this Note. Receipt shall be deemed to have occurred on the earlier of (i) the date of successfully completed electronic facsimile transmission or (ii) the date marked on a written postal service or messenger or courier service receipt as the date of delivery or refusal of delivery (or attempted delivery if undeliverable). If either party gives notice of a change of address in the manner specified in this paragraph, all notices, demands and communications originated after receipt of the change of address (or the effective date specified in the notice of change of address, if later) shall be transmitted, delivered or sent to the new address.

12. Notwithstanding specific provisions of this Note, non-monetary performance hereunder shall not be deemed to be in default where delays are due to causes beyond the control and without the fault of the party claiming an extension of time to perform (a "Force Majeure Delay"), provided that they actually delay and interfere with the timely performance of the matter to which they would apply and despite the exercise of diligence and good business practices are or would be beyond the reasonable control of the party claiming such interference, including: war; insurrection;

AGENCY PROMISSORY NOTE

PAGE 9

E8 . 92

strikes; lock-outs; riots; floods; earthquakes; fires; casualties; acts of God; acts of the public enemy; epidemics; quarantine restrictions; freight embargoes; lack of transportation; governmental restrictions or priority; litigation including litigation challenging the validity of this transaction or any element thereof; unusually severe weather; inability to secure necessary labor, materials or tools; delays of any contractor, subcontractor, or suppliers; acts of the other party; acts or failure to act of any Governmental Agency (except acts or failure to act of Agency shall not excuse performance by Agency); the imposition of any applicable moratorium by a Governmental Agency; or any other causes which despite the exercise of diligence and good business practices are or would be beyond the reasonable control of the party claiming such delay and interference. Notwithstanding the foregoing, none of the foregoing events shall constitute a Force Majeure Delay unless and until the party claiming such delay and interference delivers to the other party written notice describing the event, its cause, when and how such party obtained knowledge, the date the event commenced, and the estimated delay resulting therefrom. Any party claiming a Force Majeure Delay shall deliver such written notice within ten (10) business days after it obtains actual knowledge of the event.

13. If the rights created by this Note shall be held by a court of competent jurisdiction to be invalid or unenforceable as to any part of the obligations described herein, the remaining obligations must be completely performed and paid.

14. (a) The Agency Deed of Trust securing this Note shall be subordinate and junior to the Bond Deed of Trust, to the extent and in the manner provided in that certain subordination agreement dated on or about the date hereof (the "Bond Subordination Agreement"). The Agency Deed of Trust securing this Note is and shall be subject and subordinate in all respects to the liens, terms, covenants and conditions of the Bond Deed of Trust as more fully set forth in the Bond Subordination Agreement. The rights and remedies of the payee and each subsequent holder of this Note under the Agency Deed of Trust securing this Note are subject to the restrictions and limitations set forth in the Bond Subordination Agreement. Each subsequent holder of this Note shall be deemed, by virtue of such holder's acquisition of the Note, to have agreed to perform and observe all of the terms, covenants and conditions to be performed or observed by the Agency under the Bond Subordination Agreement.

(b) Without regard to the recording order of the Agency Deed of Trust and the City Deed of Trust, the Agency Loan Documents shall be of equal priority to the City Loan Documents, and the Agency and the City agree to share foreclosure proceeds as follows. If there is a foreclosure, or any other action, judicial or nonjudicial, under the Agency Deed of Trust and/or the City Deed of Trust (including without limitation the giving of a deed in lieu of foreclosure), the Agency and the City shall be entitled to share based on the Pro Rata Percentages in any proceeds which shall ensue from such action, after payment of all reasonable expenses of the Agency and/or the City incurred in connection with the action. The Agency Deed of Trust shall be of equal priority to the City Deed of Trust. As among those two deeds of trust, if either deed of trust is otherwise determined to be senior to the other, then notwithstanding the otherwise applicable effects of the California Civil Code and the California Code of Civil Procedure, upon foreclosure of the senior deed of trust and the elimination of the security created by the junior deed of trust, the holder of the foreclosing senior deed of trust shall share the foreclosure sale proceeds with the holder of the junior

deed of trust based on the Pro Rata Percentages set forth above, unless otherwise mutually agreed by the Agency and the City.

15. The obligation to repay the Agency Loan is a nonrecourse obligation of the Borrower and its partners. Neither the Borrower nor any of its general or limited partners, nor any other party, shall have any personal liability for repayment of the loan. The sole recourse of the Agency with respect to repayment of the Agency Loan shall be the exercise of its rights against the Site and the improvements thereon and any related security for the Agency Loan. Notwithstanding the foregoing, the Agency

(a) may obtain a judgment or order (including, without limitation, an injunction) requiring Borrower or any other party to perform (or refrain from) specified acts other than repayment of the Agency Loan; and

(b) may recover directly from Borrower or any other party:

(i) any damages, costs and expenses incurred by Agency as a result of fraud or any criminal act or acts of Borrower or any partner, shareholder, officer, director or employee of Borrower or of any general partner of Borrower;

(ii) any damages, costs and expenses incurred by Agency as a result of any misappropriation of funds provided for the Project as described in the Housing Agreement, rents and revenues from the operation of the Project, or proceeds of insurance policies or condemnation proceeds;

(iii) any and all amounts owing by Borrower pursuant to Borrower's indemnification regarding Hazardous Substances; and

(iv) all court costs and attorneys' fees reasonably incurred in enforcing or collecting upon any of the foregoing exceptions.

16. The address of Borrower for purposes of receiving notices pursuant to this Note is as follows: 414 E. Chapmen Avenue, Orange, CA 92866, Attention: Managing General Partner. The address of Investor Limited Partner for purposes of receiving notices pursuant to this Note is as follows: NEF Assignment Corporation, c/o National Equity Fund, Inc., 120 South Riverside Plaza, 15th Floor, Chicago, IL 60606.

17. In addition to the other terms of this Note, the Borrower hereby agrees and acknowledges that, notwithstanding any internal accounting procedures or provision pertaining to the use of receipts, payments, reserves and distributions contained in its agreement of partnership or other organizational document, the terms of this Note and the Housing Agreement shall control as to the use of the Agency funds provided under the Housing Agreement and all operating income from the Project.

18. Neither this Note nor any term hereof may be waived, amended, discharged, modified, changed or terminated orally; nor shall any waiver of any provision hereof be effective except by an instrument in writing signed by Agency and Borrower.

19. Notwithstanding any provision in this Note, the Agency Deed of Trust or other document securing same, the total liability for payment in the nature of interest shall not exceed the limit now imposed by applicable laws of the State of California.

20. This Note has been executed and delivered by Borrower in the State of California and is to be governed and construed in accordance with the internal laws thereof.

21. Every provision of this Note is intended to be severable. In the event any term or provision hereof is declared by a court of competent jurisdiction to be illegal, invalid or unenforceable for any reason whatsoever, such illegality, invalidity or unenforceability shall not affect the balance of the terms and provisions hereof, which terms and provisions shall remain binding and enforceable, and this Note shall be construed as if such illegal, invalid or unenforceable term or provision had not been contained herein.

22. Time is of the essence in the performance of each provision hereof.

[SIGNATURES APPEAR ON FOLLOWING PAGE]

IN WITNESS WHEREOF Borrower has executed this Note as of the day and year set forth above.

BORROWER:

PACIFIC COURT APARTMENTS, LP,
a California limited partnership

By: C&C Delaware, LLC,
a California limited liability corporation,
Its: Developer General Partner

By: _____
Todd R. Cottle
Its: Managing Member

By: OHDC Delaware, LLC,
a California limited liability corporation,
Its: Managing General Partner
By: Orange Housing Development Corporation,
a California nonprofit corporation
Its: Sole Member

By: _____
Eunice Bobert
Its: Chief Executive Officer

**INTENTIONALLY
LEFT
BLANK**

FREE RECORDING REQUESTED BY
AND WHEN RECORDED MAIL TO:

THE CITY OF HUNTINGTON BEACH
2000 Main Street
Huntington Beach, CA 92648
Attn: City Clerk

(Space Above This Line for Recorder's Office Use Only)
(Exempt from Recording Fee per *Gov. Code* § 6103 & 27383)

APN: 025-121-50

**DEED OF TRUST, SECURITY AGREEMENT AND FIXTURE FILING
(WITH ASSIGNMENT OF RENTS)
BY PACIFIC COURT APARTMENTS, L.P. FOR THE BENEFIT OF
THE REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH**

This Deed of Trust, Security Agreement and Fixture Filing (With Assignment of Rents) is made this ___ day of _____, 2008 by PACIFIC COURT APARTMENTS, L.P., a California limited partnership (hereinafter referred to as "Trustor") (whose address is 414 E. Chapman Avenue, Orange, CA 92866, to _____, (hereinafter called "Trustee"), for the benefit of the COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH, a public body corporate and politic (hereinafter called "Beneficiary"), whose address is 2000 Main Street, Huntington Beach, California 92648.

Witnesseth: That Trustor IRREVOCABLY GRANTS, TRANSFERS AND ASSIGNS to Trustee, its successors and assigns, in Trust, with POWER OF SALE TOGETHER WITH RIGHT OF ENTRY AND POSSESSION all present and future right, title and interest of Trustor in and to the following property (the "Trust Estate"):

(1) All of Trustor's rights, title and interest in and to that certain real property in the City of Huntington Beach, County of Orange, State of California more particularly described in Exhibit "A" attached hereto and by this reference made a part hereof (hereafter referred to as the "Subject Property");

(2) All buildings, structures and other improvements now or in the future located or to be constructed on the Subject Property (the "Improvements");

AGENCY DEED OF TRUST
PAGE 1

K:\cg\hbpacific Ct - 2200 Delaware St\affordable Housing Agmt\final\Agency Deed of Trust.doc

EXHIBIT NO. 8

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(3) all tenements, hereditaments, appurtenances, privileges, franchises and other rights and interests now or in the future benefiting or otherwise relating to the Subject Property or the Improvements, including easements, rights-of-way and development rights (the "Appurtenances"). (The Appurtenances, together with the Subject Property and the Improvements, are hereafter referred to as the "Real Property");

(4) subject to the assignment to Beneficiary set forth in Paragraph 4 below, all rents, issues, income, revenues, royalties and profits now or in the future payable with respect to or otherwise derived from the Trust Estate or the ownership, use, management, operation, leasing or occupancy of the Trust Estate, including those past due and unpaid (the "Rents");

(5) all inventory, equipment, fixtures and other goods (as those terms are defined in Division 9 of the California Uniform Commercial Code (the "UCC"), and whether existing now or in the future) now or in the future located at, upon or about, or affixed or attached to or installed in, the Real Property, or used or to be used in connection with or otherwise relating to the Real Property or the ownership, use, development, construction, maintenance, management, operation, marketing, leasing or occupancy of the Real Property, including furniture, furnishings, machinery, appliances, building materials and supplies, generators, boilers, furnaces, water tanks, heating ventilating and air conditioning equipment and all other types of tangible personal property of any kind or nature, and all accessories, additions, attachments, parts, proceeds, products, repairs, replacements and substitutions of or to any of such property, but not including personal property that is donated to Trustor (the "Goods," and together with the Real Property, the "Property"); and

(6) all accounts, general intangibles, chattel paper, deposit accounts, money, instruments and documents (as those terms are defined in the UCC) and all other agreements, obligations, rights and written material (in each case whether existing now or in the future) now or in the future relating to or otherwise arising in connection with or derived from the Property or any other part of the Trust Estate or the ownership, use, development, construction, maintenance, management, operation, marketing, leasing, occupancy, sale or financing of the property or any other part of the Trust Estate, including (to the extent applicable to the Property or any other portion of the Trust Estate) (i) permits, approvals and other governmental authorizations, (ii) improvement plans and specifications and architectural drawings, (iii) agreements with contractors, subcontractors, suppliers, project managers, supervisors, designers, architects, engineers, sales agents, leasing agents, consultants and property managers, (iv) takeout, refinancing and permanent loan commitments, (v) warranties, guaranties, indemnities and insurance policies, together with insurance payments and unearned insurance premiums, (vi) claims, demands, awards, settlements, and other payments arising or resulting from or otherwise relating to any insurance or any loss or destruction of, injury or damage to, trespass on or taking, condemnation (or conveyance in lieu of condemnation) or public use of any of the Property, (vii) license agreements, service and maintenance agreements, purchase and sale agreements and purchase options, together with advance payments, security deposits and other amounts paid to or deposited with Trustor under any such agreements, (viii) reserves, deposits, bonds, deferred payments, refunds, rebates, discounts, cost savings, escrow proceeds, sale proceeds

AGENCY DEED OF TRUST

PAGE 2

K:\cg\hbpacific Ct - 2200 Delaware St\affordable Housing Agmt\final\Agency Deed of Trust.doc

and other rights to the payment of money, trade names, trademarks, goodwill and all other types on intangible personal property of any kind or nature, and (ix) all supplements, modifications, amendments, renewals, extensions, proceeds, replacements and substitutions of or to any of such property (the "Intangibles").

Trustor further grants to Trustee and Beneficiary, pursuant to the UCC, a security interest in all present and future right, title and interest of Trustor in and to all Goods and Intangibles and all of the Trust Estate described above in which a security interest may be created under the UCC (collectively, the "Personal Property"). This Deed of Trust constitutes a security agreement under the UCC, conveying a security interest in the Personal Property to Trustee and Beneficiary. Trustee and Beneficiary shall have, in addition to all rights and remedies provided herein, all the rights and remedies of a "secured party" under the UCC and other applicable California law. Trustor covenants and agrees that this Deed of Trust constitutes a fixture filing under Sections 9502(c) and 9604 of the UCC.

FOR THE PURPOSE OF SECURING, in such order of priority as Beneficiary may elect, all of the following:

(1) Due, prompt and complete observance, performance and discharge of each and every condition, obligation, covenant and agreement contained herein or contained in the following:

(a) a promissory note in the original principal amount of \$8,784,224, payable from the residual receipts of the Project, executed by Trustor ("Borrower" therein) of even date herewith (the "Agency Note");

(b) the Affordable Housing Agreement dated _____, 2008, by and among Trustor ("Developer" therein), Beneficiary ("Agency" therein) and the City of Huntington Beach (the "Housing Agreement"); and

(c) the Regulatory Agreement and Declaration of Covenants and Restrictions (including rental restrictions) dated on or about the date hereof, by and among Trustor ("Developer" therein), Beneficiary ("Agency" therein) and the City of Huntington Beach, recorded concurrently herewith ("Regulatory Agreement").

(2) Payment of indebtedness of the Trustor to the Beneficiary in the principal sum of \$8,784,224 or so much thereof as shall be advanced, evidenced by the Agency Note, with interest, according to the terms of the Agency Note.

(3) Payment and performance of all future advances and other obligations that the then record owner of all or part of the Property may agree to pay and/or perform (whether as principal, surety or guarantor) for the benefit of Beneficiary, when such future advance of obligation is evidenced by a writing which recites that it is secured by this Deed of Trust.

AGENCY DEED OF TRUST

PAGE 3

The Housing Agreement, including all Attachments thereto, and the documents and instruments executed by Trustor in connection with the Project, including the Regulatory Agreement, the Agency Note, the Assignment of Rents, the Assignment of Agreements, and the UCC1 Financing Statement, all as described in the Housing Agreement (collectively referred to as the "Secured Obligations") and all of their terms are incorporated herein by reference and this conveyance shall secure any and all extensions, amendments, modifications or renewals thereof however evidenced. Any capitalized term that is not otherwise defined in this Deed of Trust shall have the meaning ascribed to such term in the Housing Agreement.

AND TO PROTECT THE SECURITY OF THIS DEED OF TRUST, TRUSTOR COVENANTS AND AGREES:

1. That Trustor shall pay the Agency Note at the time and in the manner provided therein, and perform the obligations of the Trustor as set forth in the Secured Obligations at the time and in the manner respectively provided therein;

2. That Trustor shall not permit or suffer the use of any of the Property for any purpose other than the uses permitted by the Secured Obligations;

3. That the Secured Obligations are incorporated in and made a part of this Deed of Trust. Upon default of a Secured Obligation, and after the giving of notice and the expiration of any applicable cure period, the Beneficiary, at its option, may declare the whole of the indebtedness secured hereby to be due and payable.

4. That, subject to the prior rights, if any, of a lender whose lien is senior to this Deed of Trust ("Senior Lender"), all rents, profits and income from the Trust Estate are assigned to the Beneficiary for the purpose of discharging the debt hereby secured. Permission is hereby given to Trustor so long as no default exists hereunder after the giving of notice and the expiration of any applicable cure period, to collect such rents, profits and income for use in accordance with the provisions of the Secured Obligations.

5. That upon default hereunder or under the aforementioned agreements, and after the giving of notice and the expiration of any applicable cure period, Beneficiary shall be entitled to the appointment of a receiver by any court having jurisdiction, without notice, to take possession and protect the Trust Estate and operate same and collect the rents, profits and income therefrom;

6. That Trustor will keep the Improvements insured against loss by fire and such other hazards, casualties, and contingencies as may reasonably be required in writing from time to time by the Beneficiary, and all such insurance shall be evidenced by standard fire and extended coverage insurance policy or policies. In no event shall the amounts of coverage be less than 100 percent of the insurable value of the Property. Such policies shall be endorsed with standard mortgage clause

AGENCY DEED OF TRUST
PAGE 4

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with loss payable to the Beneficiary and certificates thereof together with copies of original policies shall be deposited with the Beneficiary;

7. To pay, at least 10 days before delinquency, any taxes and assessments affecting the Property; to pay, when due, all encumbrances, charges and liens, with interest, on the Property or any part thereof which appear to be prior or superior hereto; and to pay all costs, fees, and expenses of this Trust. Notwithstanding anything to the contrary contained in this Deed of Trust, Trustor shall not be required to pay and discharge any such tax, assessment, charge or levy so long as Trustor is contesting the legality thereof in good faith and by appropriate proceedings, and Trustor has adequate funds to pay any liabilities contested pursuant to this Section 7.

8. To keep the Property in good condition and repair, subject to ordinary wear and tear, casualty and condemnation, not to remove or demolish any buildings thereon; to complete or restore promptly and in good and workmanlike manner any building which may be constructed, damaged, or destroyed thereon and to pay when due all claims for labor performed and materials furnished therefor; to comply with all laws affecting the Property or requiring any alterations or improvements to be made thereon (subject to Trustor's right to contest the validity or applicability of laws or regulations); not to commit or permit waste thereof; not to commit, suffer or permit any act upon the Property in violation of law and/or covenants, conditions and/or restrictions affecting the Property; not to permit or suffer any material alteration of or addition to the Improvements without the consent of the Beneficiary;

9. To appear in and defend any action or proceeding purporting to affect the security hereof or the rights or powers of Beneficiary or Trustee, and to pay all costs and expenses, including cost of evidence of title and reasonable attorney's fees in a reasonable sum, in any such action or proceeding in which Beneficiary or Trustee may appear;

10. Should Trustor fail to make any payment or do any act as herein provided, then Beneficiary or Trustee, but without obligation so to do and without notice to or demand upon Trustor and without releasing Trustor from any obligation hereof, may make or do the same in such manner and to such extent as either may deem necessary to protect the security hereof. Following default, after the giving of notice and the expiration of any applicable cure period, Beneficiary or Trustee being authorized to enter upon said property for such purposes, may commence, appear in and/or defend any action or proceeding purporting to affect the security hereof or the rights or powers of Beneficiary or Trustee; may pay, purchase, contest, or compromise any encumbrance, charge, or lien which in the judgment of either appears to be prior or superior hereto; and, in exercising any such powers, may pay necessary expenses, employ counsel, and pay reasonable attorney fees. Notwithstanding the foregoing, in the event of default under this Deed of Trust, the Beneficiary may also require Trustor to maintain and submit additional records. Beneficiary shall specify in writing the particular records that must be maintained and the information or reports that must be submitted;

11. Beneficiary shall have the right to pay fire and other property insurance premiums when due should Trustor fail to make any required premium payments. All such payments made by the Beneficiary shall be added to the principal sum secured hereby;

12. To pay immediately and without demand all sums so expended by Beneficiary or Trustee, under permission given under this Deed of Trust, with interest from date of expenditure at the rate specified in the Agency Note;

13. That the funds to be advanced hereunder are to be used in accordance with the Secured Obligations and upon the failure of Trustor to keep and perform all the covenants, conditions, and agreements of said agreements, the principal sum and all arrears of interest, and other charges provided for in the Agency Note shall at the option of the Beneficiary of this Deed of Trust become due and payable, anything contained herein to the contrary notwithstanding;

14. Trustor further covenants that it will not voluntarily create, suffer, or permit to be created against the property subject to this Deed of Trust any lien or liens except as permitted by the Secured Obligations or otherwise approved by Beneficiary, and further that it will keep and maintain the Property free from the claims of all persons supplying labor or materials which will enter into the construction of any and all buildings now being erected or to be erected on said premises. Notwithstanding anything to the contrary contained in this Deed of Trust, Trustor shall not be obligated to pay any claims for labor, materials or services which Trustor in good faith disputes and is diligently contesting, provided that Trustor shall, at Beneficiary's written request, within thirty (30) days after the filing of any claim or lien (but in any event, and without any requirement that Beneficiary must first provide a written request, prior to foreclosure) record in the Office of the Recorder of Orange County, a surety bond in an amount one-and-one-half (1 1/2) times the amount of such claim item to protect against a claim of lien, or provide such other security reasonably satisfactory to Beneficiary;

15. That any and all improvements made or about to be made upon the premises covered by the Deed of Trust, and all plans and specifications, comply with all applicable municipal ordinances and regulations and all other applicable regulations made or promulgated, now or hereafter, by lawful authority, and that the same will upon completion comply with all such municipal ordinances and regulations and with the rules of the applicable fire rating or inspection organization, bureau, association or office;

16. Trustor herein agrees to pay to Beneficiary or to the authorized loan servicing representative of the Beneficiary a reasonable charge for providing a statement regarding the obligation secured by this Deed of Trust as provided by Section 2954, Article 2, Chapter 2 Title 14, Division 3, of the California Civil Code.

IT IS MUTUALLY AGREED THAT:

AGENCY DEED OF TRUST
PAGE 6

K:\cg\hb\pacific Ct - 2200 Delaware St\affordable Housing Agmt\final\Agency Deed of Trust.doc

17. Should the Property or any part thereof be taken or damaged by reason of any public improvement or condemnation proceeding, or damaged by fire, or earthquake, or in any other manner, subject to the rights of Senior Lender, Beneficiary shall be entitled to all compensation, awards, and other payments or relief therefor which are not used to reconstruct, restore or otherwise improve the Property or part thereof that was taken or damaged, and shall be entitled at its option to commence, appear in and prosecute in its own name, any action or proceedings, or to make any compromise or settlement, in connection with such taking or damage. Subject to the rights of the Senior Lenders, all such compensation, awards, damages, rights of action and proceeds which are not used to reconstruct, restore or otherwise improve the Property or part thereof that was taken or damaged, including the proceeds of any policies of fire and other insurance affecting the Property, are hereby assigned to Beneficiary. After deducting therefrom all its expenses, including attorney's fees, the balance of the proceeds which are not used to reconstruct, restore or otherwise improve the Property or part thereof that was taken or damaged, shall be applied to the amount due under the Agency Note secured hereby. No amount applied to the reduction of the principal shall relieve the Trustor from making regular payments as required by the Agency Note. If the Agency Note has been repaid, the remainder of the balance shall revert to the Trustor;

18. Upon default by Trustor in making any payments provided for in the Agency Note secured hereby or in this Deed of Trust, or in performing any obligation set forth in any of the Secured Obligations, and if such default is not cured within the respective time provided therefor in Section 34 of this Deed of Trust, below, Beneficiary may declare all sums secured hereby immediately due and payable by delivery to Trustee of written declaration of default and demand for sale, and of written notice of default and of election to cause the property to be sold, which notice Trustee shall cause to be duly filed for record and Beneficiary may foreclose this Deed of Trust. Beneficiary shall also deposit with Trustee this Deed of Trust, the Note and all documents evidencing expenditures secured hereby;

19. a. Prior to the repayment in full of the Agency Loan, the Trustor shall not assign or attempt to assign the Housing Agreement or any right therein, nor make any total or partial sale, transfer, conveyance or assignment of the whole or any part of the Property, the Improvements, or any portion thereof or interest therein (referred to hereinafter as a "Transfer"), without prior written approval of the Beneficiary, except as otherwise permitted in the Secured Obligations. Consent to one such transaction shall not be deemed to be a waiver of the right to require consent to future or successive transactions. Beneficiary shall not unreasonably withhold or delay its consent. If consent should be given, any such transfer shall be subject to this Section 19, and any such transferee shall assume all obligations hereunder and agree to be bound by all provisions contained herein, subject to the provisions of paragraph e.(3) of this Section 19, below.

b. Any such proposed transferee shall have the qualifications and financial responsibility necessary and adequate as may be reasonably determined by the Beneficiary, to fulfill the obligations undertaken by Trustor in the Secured Obligations. Any such proposed transferee, by instrument in writing satisfactory to the Beneficiary and in form recordable among the land records

of Orange County, for itself and its successors and assigns, and for the benefit of the Beneficiary shall expressly assume all of the obligations of the Trustor under the Secured Obligations, and agree to be subject to all conditions and restrictions applicable to the Trustor in this Deed of Trust, subject to the provisions of paragraph e.(3) of this Section 19. There shall be submitted to the Beneficiary for review all instruments and other legal documents proposed to effect any such transfer; and if approved by the Beneficiary its approval shall be indicated to the Trustor in writing.

c. In the absence of specific written agreement by the Beneficiary, no unauthorized Transfer, or approval thereof by the Beneficiary, shall be deemed to relieve the Trustor or any other party from any obligations under the Secured Obligations.

d. In the event of a Transfer prior to the time the Agency Loan is paid in full and without the prior written consent of the Beneficiary, the net proceeds (after repayment in full of the loan from the proceeds of the Series X-1 Bonds and Series X-2 Bonds (the "Bond Loans") and the reconveyance of the Bond Deed of Trust), shall be paid to the Beneficiary to the extent necessary to pay in full the accrued interest, if any, current interest and remaining principal balance of the Agency Loan.

e. (1) As used herein, "Transfer" includes the sale, agreement to sell, transfer or conveyance of the Property, the Project, or any portion thereof or interest therein, whether voluntary, involuntary, by operation of law or otherwise, the execution of any installment land sale contract or similar instrument affecting all or a portion of the Property or Project, or the lease of all or substantially all of the Property or Project, except as provided in subparagraph e.(3) of this Section 19, below.

(2) "Transfer" shall also include the transfer, assignment, hypothecation or conveyance of legal or beneficial ownership of any interest in Trustor, or any conversion of Trustor to an entity form other than that of Trustor at the time of execution of the Housing Agreement, except that a cumulative change in ownership interest of any general partner of forty-nine percent (49%) or less shall not be deemed a "Transfer" for purposes of this Deed of Trust.

(3) Notwithstanding paragraphs (1) and (2), above, "Transfer" shall not include any of the following Permitted Transfers:

(a) a conveyance of a security interest to the beneficiary of the Bond Deed of Trust or the City Deed of Trust or the conveyance of title to the Property or Project in connection with a foreclosure, a deed in lieu of foreclosure or similar conversion of such loan;

(b)(i) a conveyance of the Property or Project to a limited partnership in which the Managing General Partner and/or Developer General Partner is Trustor or Trustor's Developer General Partner or (following Beneficiary's issuance of a Release of Construction

Covenants for the Project) Managing General Partner or Developer General Partner, or a sale back from such partnership to Trustor or either such General Partner.

(ii) The substitution of a General Partner as directed by the Investor Limited Partner in accordance with the terms of the Limited Partnership Agreement, subject to the following terms and conditions. The Investor Limited Partner may substitute NEF Communities Investment, Inc. (or another affiliate of NEF) (the "Interim General Partner") on an interim basis for a period reasonably calculated to identify and admit into the partnership a new General Partner, whether the Managing General Partner or the Developer General Partner, as set forth below (the "Substitute General Partner"). The Interim General Partner is hereby approved by the Agency and the City. It is the desire of the Investor Limited Partner, the Agency and the City that the Managing General Partner shall be a Community Housing Development Organization ("CHDO") and reasonable efforts shall be made to accomplish that objective.

If a substitution for the Interim General Partner occurs prior to the Permanent Financing Event, the Substitute General Partner must be an entity reasonably acceptable to the Agency Executive Director and the City Administrator, which approval shall not be unreasonably withheld or delayed.

If a substitution for the Interim General Partner occurs after the Permanent Financing Event, the Investor Limited Partner agrees to cooperate with the City and the Agency in identifying a CHDO that is reasonably acceptable to the Agency Executive Director and the City Administrator, which approval shall not be unreasonably withheld or delayed. If the Investor Limited Partner, the City and the Agency are unable to identify a reasonably acceptable CHDO, then the Investor Limited Partner may propose another entity to serve as the Substitute General Partner, subject to the approval of the Agency Executive Director and the City Administrator, which approval shall not be unreasonably withheld or delayed.

(c) Any refinancing that repays any of the Bond Loans (referred to herein as a "Take-out Loan"), if Beneficiary's Executive Director reasonably determines (which determination shall not be unreasonably withheld) that the resulting loan-to-value ratio (including the Take-out Loan, any of the remaining Bond Loans not repaid by the refinancing, the City Loan and the Agency Loan) will not exceed the loan-to-value ratio in effect at the time of the Permanent Financing Event for the initial acquisition and rehabilitation of the Project, and the repayment terms of the Take-out Loan do not materially impair Beneficiary's ability to repay the Agency Loan.

(d) The leasing for occupancy of all or any part of the Property or Project in accordance with the Housing Agreement and the Regulatory Agreement.

(e) The inclusion of equity participation by Trustor by transfer or addition of limited partners to Trustor or similar mechanism.

(f) The pledge by General Partner to the Investor Limited Partner of the General Partner's interest in Trustor, as security for the performance of all of the General Partner's obligations under the Limited Partnership Agreement.

(g) The sale, transfer or pledge of any limited partnership interest in Trustor or of any partnership interest in the Investor Limited Partner.

(h) The appointment by the Investor Limited Partner, in accordance with the Limited Partnership Agreement, of an additional or substitute General Partner that is an Affiliate of the Investor Limited Partner or, if not an Affiliate of the Investor Limited Partner, is reasonably acceptable to Beneficiary.

(i) Any dilution of the General Partner's interest in Trustor in accordance with the Limited Partnership Agreement.

f. Beneficiary shall not unreasonably withhold, condition or delay its approval of any matter for which its approval is required hereunder. Any disapproval shall be in writing and contain Beneficiary's reasons for disapproval.

20. After the lapse of such time as may then be required by law following the recordation of a notice of default, and notice of sale having been given as then required by law, Trustee, without demand on Trustor, shall sell the Property at the time and place fixed by it in the notice of sale, either as a whole or in separate parcels, and in such order as it may determine at public auction to the highest bidder for cash in lawful money of the United States, payable at time of sale. Trustee may postpone sale of all or any portion of the Property by public announcement at the time and place of sale, and from time to time thereafter may postpone the sale by public announcement at the time and place of sale, and from time to time thereafter may postpone the sale by public announcement at the time fixed by the preceding postponement. Trustee shall deliver to the purchaser its deed conveying the property so sold, but without any covenant or warranty, express or implied. The recitals in the deed of any matters or facts shall be conclusive proof of the truthfulness thereof. Any person, including Trustor, Trustee or Beneficiary, may purchase at the sale. The Trustee shall apply the proceeds of sale to payment of (1) the expenses of such sale, together with the reasonable expenses of this trust including therein reasonable Trustee's fees or attorney's fees for conducting the sale, and the actual cost of publishing, recording, mailing and posting notice of the sale; (2) the cost of any search and/or other evidence of title procured in connection with such sale and revenue stamps on Trustee's deed; (3) all sums expended under the terms hereof, not then repaid, with accrued interest at the rate specified in the Agency Note; (4) all other sums then secured hereby; and (5) the remainder, if any, to the person or persons legally entitled thereto;

21. Beneficiary may from time to time substitute a successor or successors to any Trustee named herein or acting hereunder to execute this Trust. Upon such appointment, and without conveyance to the successor trustee, the latter shall be vested with all title, powers, and duties

AGENCY DEED OF TRUST

PAGE 10

K:\cg\hb\pacific Ct - 2200 Delaware St\affordable Housing Agmt\final\Agency Deed of Trust.doc

conferred upon any Trustee herein named or acting hereunder. Each such appointment and substitution shall be made by written instrument executed by Beneficiary, containing reference to this Deed of Trust and its place of record, which, when duly recorded in the proper office of the county or counties in which the property is situated, shall be conclusive proof of proper appointment of the successor trustee;

22. The pleading of any statute of limitations as a defense to any and all obligations secured by this Deed of Trust is hereby waived to the full extent permissible by law;

23. Upon written request of Beneficiary stating that all sums secured hereby have been paid and all obligations secured hereby have been satisfied, including but not limited to the obligations set forth in the Regulatory Agreement, and upon surrender of this Deed of Trust and any note, instrument or instruments setting forth all obligations secured hereby to Trustee for cancellation and retention and upon payment of its fees, Trustee shall reconvey, without warranty, the Property then held hereunder. The recitals in such reconveyance of any matters or fact shall be conclusive proof of the truthfulness thereof. To the extent permitted by law, the grantee in such reconveyance may be described as "the person or persons legally entitled thereto." Neither Beneficiary nor Trustee shall have any duty to determine the rights of persons claiming to be rightful grantees of any reconveyance. When the Property has been fully reconveyed, the last such reconveyance shall operate as a reassignment of all future rents, issues and profits of the Property to the person or persons legally entitled thereto;

24. The trust created hereby is irrevocable by Trustor;

25. This Deed of Trust applies to, inures to the benefit of, and binds all parties hereto, their heirs, legatees, devisees, administrators, executors, successors, and assigns. The term "Beneficiary" shall include not only the original Beneficiary hereunder but also any future owner and holder including pledgees, of the Agency Note secured hereby. In this Deed of Trust, whenever the context so requires, the masculine gender includes the feminine and/or neuter, and the singular number includes the plural. All obligations of Trustor hereunder are joint and several;

26. Trustee accepts this Trust when this Deed of Trust, duly executed and acknowledged, is made public record as provided by law. Except as otherwise provided by law the Trustee is not obligated to notify any party hereto of pending sale under this Deed of Trust or of any action or proceeding in which Trustor, Beneficiary, or Trustee shall be a party unless brought by Trustee. Beneficiary, at its option, may from time to time remove Trustee and appoint a successor trustee to any Trustee appointed hereunder. Without conveyance of the Property, the successor trustee shall succeed to all the title, power and duties conferred upon the Trustee herein and by applicable law;

27. The undersigned Trustor requests that a copy of any notice of default and of any notice of sale hereunder be mailed to Trustor at the address set forth on the first page of this Deed of Trust. After Trustor gives written notice to Beneficiary that the Investor Limited Partner has been

admitted to the Trustor, Beneficiary shall send to the Investor Limited Partner a copy of all notices of default and all other notices that Beneficiary sends to Trustor, at the address for the Investor Limited Partner as provided by written notice to Beneficiary by Trustor.

28. Trustor agrees at any time and from time to time upon receipt of a written request from Beneficiary, to furnish to Beneficiary detailed statements in writing of income, rents, profits, and operating expenses of the premises, and the names of the occupants and tenants in possession, together with the expiration dates of their leases and full information regarding all rental and occupancy agreements, and the rents provided for by such leases and rental and occupancy agreements, and such other information regarding the premises and their use as may be requested by Beneficiary.

29. Trustor agrees that the loan secured by this Deed of Trust is made expressly for the purpose of financing the rehabilitation of Improvements on the Property, including 47 dwelling units of affordable housing for Very Low Income and Low Income Households, and such dwelling units shall be occupied exclusively by such persons as set forth in the Secured Obligations.

30. Trustor agrees that, except as otherwise provided in the Agency Note, upon sale or refinancing of the property, the entire principal balance of the debt secured by this Deed of Trust, plus any accrued but unpaid interest thereon, shall at the option of Beneficiary be immediately due and payable.

31. The obligation to repay the Agency Loan is a nonrecourse obligation of the Trustor and its partners. Neither Trustor nor any of its general or limited partners, nor any other party, shall have any personal liability for repayment of the loan. The sole recourse of Beneficiary shall be the exercise of its rights against the Property and any related security for the Agency Loan. Notwithstanding the foregoing, Beneficiary may obtain a judgment or order (including, without limitation, an injunction) requiring Trustor or any other party to perform (or refrain from) specified acts other than repayment of the Agency Loan; and may recover directly from Trustor or from any other party:

- (a) any damages, costs and expenses incurred by Beneficiary as a result of fraud or any criminal act or acts of Trustor or any partner, shareholder, officer, director or employee of Trustor, or of any general partner of Trustor;
- (b) any damages, costs and expenses incurred by Beneficiary as a result of any misappropriation of funds provided for the rehabilitation of the Property as described in the Housing Agreement, rents and revenues from the operation of the Project, or proceeds of insurance policies or condemnation proceeds;
- (c) any and all amounts owing by Trustor pursuant to the indemnification regarding Hazardous Substances pursuant to the Environmental Indemnity; and

(d) all court costs and attorneys' fees reasonably incurred in enforcing or collecting upon any of the foregoing exceptions.

32. Notwithstanding specific provisions of this Deed of Trust, non-monetary performance hereunder shall not be deemed to be in default where delays or defaults are proximately caused by any of the following Force Majeure events, provided such event actually delays and interferes with the timely performance of the matter, and, despite the exercise of diligence and good business practices, such event is beyond the reasonable control of Trustor: War; insurrection; strikes; lock-outs; riots; floods; earthquakes; fires; casualties; acts of God; acts of the public enemy; epidemics; quarantine restrictions; freight embargoes; lack of transportation; governmental restrictions or priority; litigation including litigation challenging the validity of this transaction or any element thereof; unusually severe weather; inability to secure necessary labor, materials or tools; delays of any contractor, subcontractor, or suppliers; acts of the other party; acts or failure to act of any Governmental Authority (except acts or failure to act of the Beneficiary shall not excuse performance by the Beneficiary); the imposition of any applicable moratorium by a Governmental Authority; or any other causes which despite the exercise of diligence and good business practices are or would be beyond the reasonable control of the party claiming such delay and interference. Notwithstanding the foregoing, none of the foregoing events shall constitute a Force Majeure Event unless and until Trustor delivers to Beneficiary written notice describing the event, its cause, when and how Trustor obtained knowledge, the date the event commenced, and the estimated delay resulting therefrom. Trustor shall deliver such written notice within ten (10) business days after it obtains actual knowledge of the event.

33. If the rights and liens created by this Deed of Trust shall be held by a court of competent jurisdiction to be invalid or unenforceable as to any part of the Secured Obligations, the unsecured portion of such obligations shall be completely performed and paid prior to the performance and payment of the remaining and secured portion of the obligations, and all performance and payments made by Trustor shall be considered to have been performed and paid on and applied first to the complete payment of the unsecured portion of the obligations.

34. (a) Subject to the extensions of time set forth in Section 32, and subject to the further provisions of this Section 34, failure or delay by Trustor to perform any term or provision respectively required to be performed under the Secured Obligations or this Deed of Trust constitutes a default under this Deed of Trust.

(b) Beneficiary shall give written notice of default to Trustor, specifying the default complained of by the Beneficiary. Failure or delay in giving such notice shall not constitute a waiver of any default nor shall it change the time of default.

(c) Any failures or delays by Beneficiary in asserting any of its rights and remedies as to any default shall not operate as a waiver of any default or of any such rights or

remedies. Delays by Beneficiary in asserting any of its rights and remedies shall not deprive Beneficiary of its right to institute and maintain any actions or proceedings which it may deem necessary to protect, assert, or enforce any such rights or remedies.

(d) If a monetary event of default occurs, prior to exercising any remedies hereunder, Beneficiary shall give Trustor written notice of such default. Trustor shall have a period of seven (7) days after such notice is given within which to cure the default prior to exercise of remedies by Beneficiary.

(e) If a non-monetary event of default occurs, prior to exercising any remedies hereunder, Beneficiary shall give Trustor notice of such default. If the default is reasonably capable of being cured within thirty (30) days, Trustor shall have such period to effect a cure prior to exercise of remedies by Beneficiary. If the default is such that it is not reasonably capable of being cured within thirty (30) days, and Trustor (i) initiates corrective action within said period, and (ii) diligently, continually, and in good faith works to effect a cure as soon as possible, then Trustor shall have such additional time as is reasonably necessary to cure the default prior to exercise of any remedies by Beneficiary. If Trustor fails to take corrective action or cure the default within a reasonable time, Beneficiary shall give Trustor and, as provided in paragraph (f), below, the Investor Limited Partner notice thereof, whereupon the Investor Limited Partner may remove and replace the general partner with a substitute general partner, who shall effect a cure within a reasonable time thereafter in accordance with the foregoing provisions. Beneficiary agrees to accept cures tendered by the Investor Limited Partner within the cure periods provided in this Deed of Trust or within the time periods provided in Civil Code Section 2924c, whichever is longer. Additionally, in the event the Investor Limited Partner is precluded from curing a non-monetary default due to an inability to remove the general partner as a result of a bankruptcy, injunction, or similar proceeding by or against Trustor or its general partner, Beneficiary agrees to forbear from completing a foreclosure (judicial or nonjudicial) during the period during which the Investor Limited Partner is so precluded from acting, not to exceed 90 days, provided such limited partner is otherwise in compliance with the foregoing provisions. In no event shall Beneficiary be precluded from exercising remedies if its security becomes or is about to become materially jeopardized by any failure to cure a default or the default is not cured within ninety (90) days after the first notice of default is given.

(f) After Trustor gives written notice to Beneficiary that the Investor Limited Partner has been admitted to the Trustor, Beneficiary shall send to the Investor Limited Partner a copy of all notices of default and all other notices that Beneficiary sends to Trustor, at the address for the limited partner as provided by written notice to Beneficiary by Trustor.

(g) Except as otherwise required to comply with the provisions of California Civil Code Section 2924 et seq. that are applicable thereto, any notice of default that is transmitted by electronic facsimile transmission followed by delivery of a "hard" copy, shall be deemed delivered upon its transmission; any notice of default that is personally delivered (including by means of professional messenger service, courier service such as United Parcel Service or Federal Express, or

by U.S. Postal Service), shall be deemed received on the documented date of receipt by Trustor; and any notice of default that is sent by registered or certified mail, postage prepaid, return receipt required shall be deemed received on the date of receipt thereof.

35. This Deed of Trust shall be subordinate and junior to the Bond Deed of Trust. Following the reconveyance of the Bond Deed of Trust, this Deed of Trust will be subordinate and junior to the deed of trust in favor of the maker of any permanent or take-out loan (each of which loans is referred to herein as a "Senior Loan"), as described in the Agency Note. The Executive Director of the Beneficiary or his designee shall execute such instruments as may be necessary to subordinate the lien of this Deed of Trust, to the deed of trust securing any Senior Loan, any regulatory agreement recorded in connection with the issuance of the Bonds or the Four Percent Tax Credit. In the event of a default or breach by Trustor of any security instrument securing a Senior Loan described in this Section 35, Beneficiary shall have the right to cure the default prior to completion of any foreclosure. In such event, Beneficiary shall be entitled to reimbursement by Trustor of all costs and expenses incurred by Beneficiary in curing the default. The amount of any such disbursements shall be a lien against the Property and added to the obligation secured by this Deed of Trust until repaid, with interest at the highest rate permitted by law.

36. The Trustor has informed the Beneficiary that Trustor intends that the Project qualify for an allocation of low-income housing tax credits under Section 42 of the Internal Revenue Code ("Four Percent Tax Credit"). In order to receive an allocation of tax credits, the Trustor will be required to record in the real property records of the County of Orange an "extended low-income housing commitment" (as defined in Code Section 42(h)(6)(B)) (the "Extended Use Agreement"). If the Trustor demonstrates to the reasonable satisfaction of Beneficiary that the California Department of Housing and Community Development or applicable federal law requires that the lien of this Deed of Trust be subordinate to the Extended Use Agreement, then the Beneficiary shall execute a subordination agreement ("Extended Use Subordination Agreement") wherein the lien of this Deed of Trust is subordinated to the Extended Use Agreement. The Extended Use Subordination Agreement will:

(a) provide that, if the Beneficiary or its successors or assigns (collectively, the "REO Owner") acquires the Property by foreclosure (or instrument in lieu of foreclosure), then the "extended use period" (as defined in Code Section 42(h)(6)(D)) shall terminate, except for the obligation of the REO Owner to comply with the limitations on evictions, termination of tenancy and increase in rents for the three year period following the REO Owner's acquisition of the mortgaged property, as set forth in Code Section 42(h)(6)(E)(ii); and

(b) otherwise be in a form reasonably acceptable to Beneficiary.

37. Without regard to the recording order of this Deed of Trust and the City Deed of Trust, the Agency Loan Documents shall be of equal priority to the City Loan Documents, and

Beneficiary and the City of Huntington Beach ("City") agree to share foreclosure proceeds as set forth below.

(a) If there is a foreclosure, or any other action, judicial or nonjudicial, under this Deed of Trust and/or the City Deed of Trust (including without limitation the giving of a deed in lieu of foreclosure), Beneficiary and the City shall be entitled to share based on the Pro Rata Percentages set forth in the Agency Note in any proceeds which shall ensue from such action, after payment of all reasonable expenses of Beneficiary and/or the City incurred in connection with the action. This Deed of Trust shall be of equal priority to the City Deed of Trust. As among those two deeds of trust, if either deed of trust is otherwise determined to be senior to the other, then notwithstanding the otherwise applicable effects of the California Civil Code and the California Code of Civil Procedure, upon foreclosure of the senior deed of trust and the elimination of the security created by the junior deed of trust, the holder of the foreclosing senior deed of trust shall share the foreclosure sale proceeds with the holder of the junior deed of trust based on the Pro Rata Percentages set forth in the Agency Note, unless otherwise mutually agreed by Beneficiary and the City.

(b) If either Beneficiary or the City acquires title to the Property as the result of a foreclosure or a deed in lieu of foreclosure, title shall be held as tenancy in common by Beneficiary and the City, with the percentage ownership of each based on the Pro Rata Percentages set forth in the Agency Note. Subsequent decisions to hold or sell the property shall be made by joint decision of Beneficiary and the City.

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38. This Deed of Trust shall be subject to the terms and conditions set forth in that certain Subordination Agreement, dated on or about the date hereof, by and among the Trustor, Washington Mutual Bank, the City and Beneficiary, as the same may be amended, restated, supplemented or modified from time to time.

IN WITNESS WHEREOF Trustor has executed this Deed of Trust as of the day and year set forth above.

“TRUSTOR”
PACIFIC COURT APARTMENTS, LP,
a California limited partnership

By: C&C Delaware, LLC,
a California limited liability corporation,
Its: Developer General Partner

By: _____
Todd R. Cottle
Its: Managing Member

By: OHDC Delaware, LLC,
a California limited liability corporation,
Its: Managing General Partner
By: Orange Housing Development
Corporation, a California nonprofit
corporation
Its: Sole Member

By: _____
Eunice Bobert
Its: Chief Executive Officer

AGENCY DEED OF TRUST
PAGE 17

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APPROVED BY:
REDEVELOPMENT AGENCY OF THE CITY OF
HUNTINGTON BEACH, a public body corporate
and politic

By: _____
Chairperson

ATTEST:

By: _____
Agency Secretary

APPROVED AS TO FORM:

By: _____
General Counsel

By: _____
KANE, BALLMER & BERKMAN
Agency Special Counsel

State of California)

County of Orange)

On _____ before me, _____, a Notary Public, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____ (Seal)

State of California)

County of Orange)

On _____ before me, _____, a Notary Public, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____ (Seal)

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Exhibit A

LEGAL DESCRIPTION

The land referred to herein is situated in the State of California, County of Orange, and described as follows:

PARCEL 1:

BLOCK 2205 OF EAST SIDE VILLA TRACT, AS PER MAP RECORDED IN BOOK 4, PAGE 65, MISCELLANEOUS MAPS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY

PARCEL 2:

AN EASEMENT FOR INGRESS AND EGRESS OVER THE EASTERLY 15 FEET OF THE SOUTH 72 FEET OF BLOCK 2305 OF THE EAST SIDE VILLA TRACT

PARCEL 3:

AN EASEMENT FOR INGRESS AND EGRESS OVER THE WEST 20 FEET OF BLOCK 2306 OF EAST SIDE VILLA TRACT

APN: 025-121-50

AGENCY DEED OF TRUST
LEGAL DESCRIPTION

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**RESIDUAL RECEIPTS PROMISSORY NOTE
SECURED BY DEED OF TRUST
TO THE CITY OF HUNTINGTON BEACH, CALIFORNIA**

0% Interest
\$500,000

Huntington Beach, California
_____, 2008

FOR VALUE RECEIVED, PACIFIC COURT APARTMENTS, L.P., a California limited partnership ("Borrower"), hereby promises to pay to THE CITY OF HUNTINGTON BEACH ("City"), a municipal corporation of the State of California, or order, a principal amount of Five Hundred Thousand Dollars (\$500,000), or so much thereof as may be advanced by the City to the Borrower as the City Loan pursuant to the Affordable Housing Agreement dated _____, 2008 (the "Housing Agreement") between Borrower ("Developer" therein), the City, and the Redevelopment Agency of the City of Huntington Beach ("Agency"), incorporated herein by this reference. The Housing Agreement is a public record on file in the offices of the City. The Borrower shall pay interest at the rate, in the amount and at the time hereinafter provided.

1. **Definitions.** Any capitalized term not otherwise defined herein shall have the meaning ascribed to such term in the Housing Agreement. In addition, the following terms shall have the following meanings:

The term "**Agency Acquisition Loan**" shall mean the loan of Set Aside funds from the Agency to Borrower to pay a portion of the cost of acquiring the Site, in the amount and pursuant to the terms and conditions described in the Method of Financing, secured by the Agency Deed of Trust and the other Agency Loan Documents.

The term "**Agency Deed of Trust**" shall mean the Deed of Trust with Assignment of Rents, dated on or about the date hereof and recorded against the Site, in which Borrower is the Trustor and the Agency is the Beneficiary, which secures the Agency Loan.

The term "**Agency Loan**" shall mean the Agency Acquisition Loan and the Agency Permanent Loan.

The term "**Agency Loan Documents**" shall mean the Housing Agreement, the Agency Note, the Agency Deed of Trust, the Assignment of Rents and Leases, the Assignment of Agreements, and the UCC1 Financing Statement. The Agency Loan Documents do not include the Regulatory Agreement or the Environmental Indemnity.

The term "**Agency Note**" shall mean that certain Promissory Note, substantially in the form attached to the Housing Agreement as Exhibit No. "7", which is incorporated herein by this reference.

The term “**Agency Permanent Loan**” shall mean the permanent loan of Set Aside funds from the Agency to Borrower to assist in Borrower’s repayment of the Series X-2 Bond Loan, in the amount and pursuant to the terms and conditions described in the Method of Financing, secured by the Agency Deed of Trust and the other Agency Loan Documents.

The term “**Assignment of Agreements**” shall mean the unrecorded assignment of plans, contracts and permits entered into by the Borrower in favor of the City and the Agency, dated on or about the date hereof.

The term “**Assignment of Rents and Leases**” shall mean the Assignment of Rents and Leases entered into by the Borrower in favor of the City and the Agency, dated on or about the date hereof and recorded against the Site.

The term “**Bonds**” shall mean the California Statewide Communities Development Authority Multifamily Housing Revenue Bonds (Pacific Court Apartments) Series X constituting the mortgage revenue bonds issued for the Project as described in the Method of Financing.

The term “**Bond Deed of Trust**” shall mean the first priority deed of trust on the Site, which secures the Series X-1 Bond Loan and the Series X-2 Bond Loan.

The term “**Bond Documents**” shall mean, individually and collectively, the Series X-1 Bond Documents and the Series X-2 Bond Documents.

The term “**Bond Loans**” shall mean the Series X-1 Bond Loan and the Series X-2 Bond Loan.

The term “**City Deed of Trust**” shall mean the Deed of Trust with Assignment of Rents recorded against the Site, in which Borrower is the Trustor and City is the Beneficiary, which secures the City Loan.

The term “**City Loan**” shall mean the City’s loan to Borrower in an amount not to exceed FIVE HUNDRED THOUSAND DOLLARS (\$500,000) of HOME Funds, as evidenced by this Note and secured by the City Deed of Trust.

The term “**City Loan Documents**” shall mean the Housing Agreement, this Note, the City Deed of Trust, the Assignment of Rents and Leases, the Assignment of Agreements, and the UCC1 Financing Statement. The City Loan Documents do not include the Regulatory Agreement or the Environmental Indemnity.

The term “**Construction Financing Event**” shall mean the point in time when all conditions precedent to the conveyance of the Site from the Seller to Borrower and the funding of the Series X-1 Bond Loan, the Series X-2 Bond Loan, the City Loan and the Agency Acquisition Loan have been satisfied, in accordance with the Method of Financing.

The term “**Construction Lender**” shall mean Washington Mutual Bank, as the initial purchaser of the Bonds.

The term “**Conversion Date**” shall have the meaning given to such term in the Master Pledge and Assignment, dated July 1, 2008 between the California Statewide Communities Development Authority and Washington Mutual Bank, as the initial Bondowner Representative.

The term “**Developer Equity**” shall mean funds provided by the Borrower for payment of Project Costs and shall not include the Bond Loans, the Agency Loan, the City Loan or any other borrowed funds, and shall include the Deferred Borrower Fee, the Limited Partner Capital Contribution, as well as any other funds of the Borrower.

The term “**Environmental Indemnity**” shall mean the unrecorded environmental indemnity entered into by Borrower in favor of the City and the Agency, dated on or about the date hereof.

The term “**Four Percent Tax Credit**” shall mean the federal tax credit allocated to the Project by the California Tax Credit Allocation Committee. “Four Percent” refers to the applicable percentage of the qualified basis for a building that is federally subsidized, as provided in Internal Revenue Code Section 42(b)(1).

The term “**Limited Partner Capital Contribution**” shall mean and refer to the Developer Equity derived from the sale of the Four Percent Tax Credits, in the form of the initial Limited Partner Capital Contribution in the estimated amount of \$36,000 and the additional Limited Partner Capital Contribution in the estimated amount of \$4,863,796 (including that portion of the Limited Partner Capital Contribution that will be funded upon receipt of Form(s) 8609). The allocation, but not the estimated total amount, of the Limited Partner Capital Contribution may vary, provided, however, that the initial Limited Partner Capital Contribution shall be not less than \$63,000.

The term “**Method of Financing**” shall mean the Method of Financing attached to the Housing Agreement as Exhibit No. “3”, incorporated herein by this reference.

The term “**Net Proceeds**” shall mean the amount, if any, by which a refinancing exceeds the amount needed to repay the Bond Loan, or successor permitted mortgage loan, in full, including principal and interest, any early redemption or prepayment penalty, and customary and reasonable fees and costs of the transaction.

The term “**Pro Rata Percentages**” shall mean the pro rata application of Residual Receipts to the repayment of the Agency Loan and the City Loan, reflecting the relative amounts of the Agency Loan and the City Loan. The Pro Rata Percentages shall be ninety-five percent (95%) for the Agency Loan and five percent (5%) for the City Loan.

The term “**Regulatory Agreement**” shall mean that certain Regulatory Agreement and Declaration of Covenants and Restrictions entered into by the Agency, the City and the Borrower, dated on or about the date hereof and recorded against the Site.

The term “**Residual Receipts**” shall mean, in each calendar year, the amount by which Gross Revenue (as defined below) exceeds Annual Operating Expenses (as defined below), as determined by an audit to be completed not later than ninety (90) days after the end of each calendar year by an independent certified public accountant first approved in writing by the Agency and City, using generally accepted accounting principles and based on the accrual method (the “Audit”).

(i) “**Gross Revenue**,” with respect to each calendar year, shall mean all revenue, income, receipts, and other consideration actually received from operation or leasing of the Project. “Gross Revenue” shall include, but not be limited to: all rents, fees and charges paid by tenants, Section 8 payments or other rental subsidy payments received for the dwelling units, deposits forfeited by tenants, all cancellation fees, price index adjustments and any other rental adjustments to leases or rental agreements; proceeds from vending and laundry room machines; the proceeds of business interruption or similar insurance; the proceeds of casualty insurance to the extent not utilized to repair or rebuild the Project; and condemnation awards for a taking of part or all of the Project for a temporary period. “Gross Revenue” shall also include the fair market value of any goods or services provided in consideration for the leasing or other use of any portion of the Project, except that the value of services provided by on-site manager(s) shall not be treated as “Gross Revenue” if no more than one dwelling unit is leased to or otherwise used by on-site manager(s). “Gross Revenue” shall not include tenants’ security deposits, proceeds from the Bond Loans, the Agency Loan, the City Loan, Developer Equity, including capital contributions or similar advances, or interest that is earned on and allocated to reserve accounts.

(ii) “**Annual Operating Expenses**,” with respect to each calendar year shall mean the following costs reasonably and actually incurred for operation and maintenance of the Project to the extent that they are consistent with an annual independent audit performed by a certified public accountant using generally accepted accounting principles: property and other taxes and assessments imposed on the Project; premiums for property damage and liability insurance; utility services not paid for directly or reimbursed by tenants, including but not limited to water, sewer, trash collection, gas and electricity; maintenance and repair including but not limited to pest control, landscaping and grounds maintenance, painting and decorating, cleaning, common systems repairs, general repairs, janitorial, supplies, and similar customary utility services; any license or certificate of occupancy fees required for operation of the Project; general administrative expenses including but not limited to advertising and marketing, security services and systems, professional fees for legal, audit, accounting and tax returns for the limited partnership, and similar customary administrative expenses; property management fees, expenses and costs, not to exceed \$40 per unit per month in the first year with annual increases thereafter in proportion to the increases in Affordable Rent for the Project or six and one-half percent (6 ½ %) of Revenue, whichever is higher, and pursuant to a management contract approved by the Agency and the City; partnership management fees payable to the Limited Partnership’s general partners in an amount not to exceed twenty-five thousand dollars (\$25,000) in the first year and, to the extent permitted by the Limited Partnership Agreement, increased thereafter at an annual rate not to exceed three percent (3%); an annual cumulative asset management fee payable to the Limited Partnership’s Investor Limited Partner in an amount not to exceed three thousand dollars (\$3,000) in the first year and increased

thereafter at an annual rate not to exceed three percent (3%); cash deposited into a replacement reserve in the amount of \$300 per unit per year, subject to annual increases not to exceed three percent (3%); cash deposited into an operating reserve in such reasonable amounts as are required by Project lenders, the Tax Credit Allocation Committee, and the tax credit investor from time to time, and approved by the Agency and the City; fixed debt service payments (excluding debt service contingent upon the availability of residual receipts or surplus cash of the Project) on loans associated with the Project and approved by the Agency and the City; bond monitoring fees, issuer's fees, trustee's fees (if any) and other fees and costs payable by Developer in connection with the Bonds. "Annual Operating Expenses" shall not include the following: depreciation, amortization, depletion or other non-cash expenses or any amount expended from a reserve account. Annual Operating Expenses shall be subject to the reasonable approval of the Agency and the City.

The term "**Series X-1 Bonds**" shall mean the portion of the Bonds used to fund the Series X-1 Bond Loan and to be repaid from payments on the Series X-1 Bond Loan.

The term "**Series X-1 Bond Documents**" shall mean, in addition to the Bond Deed of Trust, a loan agreement, promissory note, financing statement, guaranties, security agreements, assignments, and similar documents and instruments to be executed by Borrower in connection with the Series X-1 Bonds.

The term "**Series X-1 Bond Loan**" shall mean the portion of the loan funded with proceeds of the Bonds used to pay a portion of the Project Costs, secured by the Bond Deed of Trust and other security instruments having a lien on the Site, the principal of which Series X-1 Bond Loan is expected to be repaid following the Conversion Date.

The term "**Series X-2 Bonds**" shall mean the portion of the Bonds used to fund the Series X-2 Bond Loan and to be repaid from payments on the Series X-2 Bond Loan.

The term "**Series X-2 Bond Documents**" shall mean, in addition to the Bond Deed of Trust, a loan agreement, promissory note, financing statement, guaranties, security agreements, assignments, and similar documents and instruments to be executed by Borrower in connection with the Series X-2 Bonds.

The term "**Series X-2 Bond Loan**" shall mean the portion of the loan funded with proceeds of the Bonds used to pay a portion of the Project Costs, secured by the Bond Deed of Trust and other security instruments having a lien on the Site, the principal of which Series X-2 Bond Loan is expected to be repaid on or before the Conversion Date.

The term "**Subordination Agreement**" shall mean the Subordination Agreement entered into by the City, the Agency, the Construction Lender and the Borrower, dated on or about the date hereof and recorded against the Site.

The term “**TCAC Regulatory Agreement**” shall mean the regulatory agreement entered into between Borrower and the California Tax Credit Allocation Committee to be recorded against the Site in connection with the Four Percent Tax Credits.

The term “**UCC1 Financing Statement**” shall mean the UCC1 Financing Statement dated on or about the date hereof and recorded against the Site and filed in the California Secretary of State’s Office in connection with the City Loan.

2. This Note evidences the obligation of the Borrower to the City for the repayment of the City Loan. Borrower may prepay the principal balance of this Note at any time without penalty. However, even if Borrower prepays the entire balance of this Note including all accrued interest, costs and penalties, the covenants, conditions and restrictions imposed on the Site by the Regulatory Agreement shall remain in full force and effect for the full 60-year term as specified therein.

3. This Note is payable at the principal office of City, 2000 Main Street, Huntington Beach, California 92648, or at such other place as the holder hereof may inform the Borrower in writing, in lawful money of the United States.

4. This Note is secured by the City Deed of Trust.

5. This Note shall accrue simple interest at the rate of zero percent (0%) per annum on the principal amount outstanding, from the date of disbursement. However, if any event occurs giving the City the right to accelerate repayment of this Note, the entire unpaid and unforgiven principal balance owing hereunder shall, as of the date of such default, commence to accrue interest at a rate equal to two percentage points above the reference rate published by Bank of America N.A., or the maximum non-usurious interest rate permitted by law, whichever is less (the “Default Rate”). Further, in the event Borrower fails to reimburse the City for any amount advanced by or for the account of the City which is due hereunder or under the City Deed of Trust within ten (10) days after written notice of such advance is made by the City to Borrower, then such unreimbursed amount shall thereafter bear interest at the Default Rate until paid

6. The unpaid principal balance of this Note and all accrued but unpaid interest shall be due and payable on the earliest to occur of the following (which shall be referred to herein as the “Maturity Date”):

(a) June 30, 2070;

(b) the sixtieth (60th) anniversary of the date on which a Release of Construction Covenants for the Project is recorded in the Official Records of Orange County;

(c) the date the Site or the improvements thereon or any portion thereof or interest therein is sold, transferred, assigned or refinanced, without the prior written approval of the City, except as permitted by the provisions of Section 203 (titled “Prohibition Against Transfers”) of the Housing Agreement; or

(d) the date on which there is a Default by the Borrower under the terms of this Note, the Housing Agreement, the City Deed of Trust, the Regulatory Agreement, the Environmental Indemnity, or any deed of trust or other instrument securing the Bond Loan or the Agency Loan, which is not cured or waived within the respective time period provided herein and therein.

7. Prior to the Maturity Date, Borrower shall be obligated to repay the City Loan as follows:

(a) Borrower must utilize twenty-five percent (25%) of Residual Receipts with respect to each calendar year to repay the Agency Loan and the City Loan through the pro rata application of such share of Residual Receipts, reflecting the relative amounts of the Agency Loan and the City Loan. The Pro Rata Percentages shall be 95% for the Agency Loan and 5% for the City Loan. However, the Agency and the City agree that Borrower may first utilize Residual Receipts, with respect to each calendar year, to pay the sponsors of the Project the theretofore unpaid portion of the Deferred Developer Fee. Payments due hereunder must be made no later than one hundred twenty (120) days following the end of the applicable calendar year.

(b) In the event Developer refinances the Bond Loan at any time prior to the Maturity Date, twenty five percent (25%) of the Net Proceeds shall be allocated and paid to the Agency and to the City to reduce the Agency Loan and the City Loan based on the Pro Rata Percentages.

(c) All payments to the City shall be applied first to the payment of all expenses, charges, costs and fees incurred by or payable to City by Borrower pursuant to the terms of the City Loan Documents (in such order and manner as City, in its sole discretion, may elect), then to the payment of all interest accrued to the date of such payment, and then to reduce the principal amount owed. All prepayment of principal on this Note shall be applied to the most remote principal installment or installments until paid. Notwithstanding anything to the contrary contained herein, after the occurrence and during the continuation of a default under the City Deed of Trust, all amounts received by the City from any party shall be applied in such order as the City, in its sole discretion, may elect.

8. Any breach by Borrower of the provisions of Section 203 (entitled "Prohibition Against Transfers") of the Housing Agreement shall constitute a default under this Note. The cure periods under the Housing Agreement and this Note in connection with such a default shall run concurrently.

9. Borrower waives presentment for payment, demand, protest, and notices of dishonor and of protest; the benefits of all waivable exemptions; and all defenses and pleas on the ground of any extension or extensions of the time of payment or of any due date under this Note, in whole or in part, whether before or after maturity and with or without notice. Borrower hereby agrees to pay all

costs and expenses, including reasonable attorney's fees, which may be incurred by the holder hereof, in the enforcement of this Note, the City Deed of Trust or any term or provision of either.

10. Upon the failure of Borrower to perform or observe any term or provision of this Note, or upon the occurrence of any event of default under the terms of the Housing Agreement, the City Deed of Trust, the Environmental Indemnity, or the Regulatory Agreement, the holder may exercise its rights or remedies hereunder or thereunder. All such rights and remedies shall be cumulative. Upon the event of a default that is not cured or waived within the time provided therefore, the whole of the unpaid principal and interest owing on this Note shall, at the option of City and without notice, become immediately due and payable. This option may be exercised at any time after any such event and the acceptance of one or more payments from any person thereafter shall not constitute a waiver of City's option. City's failure to exercise said option in connection with any particular event or series of events shall not be construed as a waiver of the provisions hereof as regards that event or any subsequent event.

11. (a) Subject to the extensions of time set forth in Section 12, and subject to the further provisions of this Section 11, failure or delay by Borrower to perform any material term or provision of this Note, the Housing Agreement, the City Deed of Trust, the Environmental Indemnity, or the Regulatory Agreement constitutes a default under this Note.

(b) City shall give written notice of default to Borrower, specifying the default complained of by the City. Delay in giving such notice shall not constitute a waiver of any default nor shall it change the time of default.

(c) Any failures or delays by City in asserting any of its rights and remedies as to any default shall not operate as a waiver of any default or of any such rights or remedies. Delays by City in asserting any of its rights and remedies shall not deprive City of its right to institute and maintain any actions or proceedings which it may deem necessary to protect, assert, or enforce any such rights or remedies.

(d) If a monetary event of default occurs, prior to exercising any remedies hereunder, the City shall give the Borrower written notice of such default. The Borrower shall have a period of ten (10) days after such notice is given within which to cure the default prior to exercise of remedies by the City.

(e) If a non-monetary event of default occurs, prior to exercising any remedies hereunder, City shall give Borrower notice of such default. If the default is reasonably capable of being cured within thirty (30) days, Borrower shall have such period to effect a cure prior to exercise of remedies by City. If the default is such that it is not reasonably capable of being cured within thirty (30) days, and Borrower (i) initiates corrective action within said period, and (ii) diligently, continually, and in good faith works to effect a cure as soon as possible, then Borrower shall have such additional time as is reasonably necessary to cure the default prior to exercise of any remedies by City. If Borrower fails to take corrective action or cure the default within a reasonable time, City shall give Borrower and, as provided in paragraph (d), below, the Investor Limited Partner, notice

thereof, whereupon the Investor Limited Partner may remove and replace the General Partner with a substitute general partner, who shall effect a cure within a reasonable time thereafter in accordance with the foregoing provisions. City agrees to accept cures tendered by the Investor Limited Partner within the cure periods provided in this Note or within the time periods provided in Civil Code Section 2924c, whichever is longer. Additionally, in the event the Investor Limited Partner is precluded from curing a non-monetary default due to an inability to remove the General Partner as a result of a bankruptcy, injunction, or similar proceeding by or against Borrower or its General Partner, City agrees to forbear from completing a foreclosure (judicial or non-judicial) during the period during which the Investor Limited Partner is so precluded from acting, not to exceed 90 days, provided such limited partner is otherwise in compliance with the foregoing provisions. In no event shall City be precluded from exercising remedies if its security becomes or is about to become materially jeopardized by any failure to cure a default or the default is not cured within ninety (90) days after the first notice of default is given.

(f) After Borrower gives written notice to City that the Investor Limited Partner has been admitted to the Limited Partnership, City shall send to the Investor Limited Partner a copy of all notices of default and all other notices that City sends to Borrower, at the address for the Investor Limited Partner given in Section 16 of this Note.

(g) Any notice of default shall be deemed given only if either (i) dispatched by first class mail, registered or certified, postage prepaid, return receipt requested, to the addresses specified for the Borrower and the Investor Limited Partner in Section 16 of this Note, or (ii) by electronic facsimile transmission to the facsimile numbers specified for the Borrower and the Investor Limited Partner in Section 16 of this Note, followed by delivery by the method described in clause (i), or (iii) by personal delivery (including by means of professional messenger or courier service such as United Parcel Service or Federal Express) to the addresses specified for the Borrower and the Investor Limited Partner in Section 16 of this Note. Receipt shall be deemed to have occurred on the earlier of (i) the date of successfully completed electronic facsimile transmission or (ii) the date marked on a written postal service or messenger or courier service receipt as the date of delivery or refusal of delivery (or attempted delivery if undeliverable). If either party gives notice of a change of address in the manner specified in this paragraph, all notices, demands and communications originated after receipt of the change of address (or the effective date specified in the notice of change of address, if later) shall be transmitted, delivered or sent to the new address.

12. Notwithstanding specific provisions of this Note, non-monetary performance hereunder shall not be deemed to be in default where delays are due to causes beyond the control and without the fault of the party claiming an extension of time to perform (a "Force Majeure Delay"), provided that they actually delay and interfere with the timely performance of the matter to which they would apply and despite the exercise of diligence and good business practices are or would be beyond the reasonable control of the party claiming such interference, including: war; insurrection; strikes; lock-outs; riots; floods; earthquakes; fires; casualties; acts of God; acts of the public enemy; epidemics; quarantine restrictions; freight embargoes; lack of transportation; governmental restrictions or priority; litigation including litigation challenging the validity of this

transaction or any element thereof; unusually severe weather; inability to secure necessary labor, materials or tools; delays of any contractor, subcontractor, or suppliers; acts of the other party; acts or failure to act of any Governmental agency (except acts or failure to act of Agency or City shall not excuse performance by Agency or City); the imposition of any applicable moratorium by a Governmental Agency; or any other causes which despite the exercise of diligence and good business practices are or would be beyond the reasonable control of the party claiming such delay and interference. Notwithstanding the foregoing, none of the foregoing events shall constitute a Force Majeure Delay unless and until the party claiming such delay and interference delivers to the other party written notice describing the event, its cause, when and how such party obtained knowledge, the date the event commenced, and the estimated delay resulting therefrom. Any party claiming a Force Majeure Delay shall deliver such written notice within ten (10) business days after it obtains actual knowledge of the event.

13. If the rights created by this Note shall be held by a court of competent jurisdiction to be invalid or unenforceable as to any part of the obligations described herein, the remaining obligations must be completely performed and paid.

14. (a) The City Deed of Trust securing this Note shall be subordinate and junior to the Bond Deed of Trust, to the extent and in the manner provided in that certain subordination agreement dated on or about the date hereof (the "Bond Subordination Agreement"). The City Deed of Trust securing this Note is and shall be subject and subordinate in all respects to the liens, terms, covenants and conditions of the Bond Deed of Trust as more fully set forth in the Bond Subordination Agreement. The rights and remedies of the payee and each subsequent holder of this Note under the City Deed of Trust securing this Note are subject to the restrictions and limitations set forth in the Bond Subordination Agreement. Each subsequent holder of this Note shall be deemed, by virtue of such holder's acquisition of the Note, to have agreed to perform and observe all of the terms, covenants and conditions to be performed or observed by the City under the Bond Subordination Agreement.

(b) Without regard to the recording order of the Agency Deed of Trust and the City Deed of Trust, the Agency Loan Documents shall be of equal priority to the City Loan Documents, and the Agency and the City agree to share foreclosure proceeds as follows. If there is a foreclosure, or any other action, judicial or nonjudicial, under the Agency Deed of Trust and/or the City Deed of Trust (including without limitation the giving of a deed in lieu of foreclosure), the Agency and the City shall be entitled to share based on the Pro Rata Percentages in any proceeds which shall ensue from such action, after payment of all reasonable expenses of the Agency and/or the City incurred in connection with the action. The Agency Deed of Trust shall be of equal priority to the City Deed of Trust. As among those two deeds of trust, if either deed of trust is otherwise determined to be senior to the other, then notwithstanding the otherwise applicable effects of the California Civil Code and the California Code of Civil Procedure, upon foreclosure of the senior deed of trust and the elimination of the security created by the junior deed of trust, the holder of the foreclosing senior deed of trust shall share the foreclosure sale proceeds with the holder of the junior deed of trust based on the Pro Rata Percentages set forth above, unless otherwise mutually agreed by the Agency and the City.

15. The obligation to repay the City Loan is a nonrecourse obligation of the Borrower and its partners. Neither the Borrower nor any of its general or limited partners, nor any other party, shall have any personal liability for repayment of the loan. The sole recourse of the City with respect to repayment of the City Loan shall be the exercise of its rights against the Site and the improvements thereon and any related security for the City Loan. Notwithstanding the foregoing, the City

(a) may obtain a judgment or order (including, without limitation, an injunction) requiring Borrower or any other party to perform (or refrain from) specified acts other than repayment of the City Loan; and

(b) may recover directly from Borrower or any other party:

(i) any damages, costs and expenses incurred by City as a result of fraud or any criminal act or acts of Borrower or any partner, shareholder, officer, director or employee of Borrower or of any general partner of Borrower;

(ii) any damages, costs and expenses incurred by City as a result of any misappropriation of funds provided for the Project as described in the Housing Agreement, rents and revenues from the operation of the Project, or proceeds of insurance policies or condemnation proceeds;

(iii) any and all amounts owing by Borrower pursuant to Borrower's indemnification regarding Hazardous Substances; and

(iv) all court costs and attorneys' fees reasonably incurred in enforcing or collecting upon any of the foregoing exceptions.

16. The address of Borrower for purposes of receiving notices pursuant to this Note is as follows: 414 E. Chapman Avenue, Orange, CA 92866, Attention: Managing General Partner. The address of Investor Limited Partner for purposes of receiving notices pursuant to this Note is as follows: NEF Assignment Corporation, c/o National Equity Fund, Inc., 120 South Riverside Plaza, 15th Floor, Chicago, IL 60606.

17. In addition to the other terms of this Note, the Borrower hereby agrees and acknowledges that, notwithstanding any internal accounting procedures or provision pertaining to the use of receipts, payments, reserves and distributions contained in its agreement of partnership or other organizational document, the terms of this Note and the Housing Agreement shall control as to the use of the City funds provided under the Housing Agreement and all operating income from the Project.

18. Neither this Note nor any term hereof may be waived, amended, discharged, modified, changed or terminated orally; nor shall any waiver of any provision hereof be effective except by an instrument in writing signed by City and Borrower.

19. Notwithstanding any provision in this Note, the City Deed of Trust or other document securing same, the total liability for payment in the nature of interest shall not exceed the limit now imposed by applicable laws of the State of California.

20. This Note has been executed and delivered by Borrower in the State of California and is to be governed and construed in accordance with the internal laws thereof.

21. Every provision of this Note is intended to be severable. In the event any term or provision hereof is declared by a court of competent jurisdiction to be illegal, invalid or unenforceable for any reason whatsoever, such illegality, invalidity or unenforceability shall not affect the balance of the terms and provisions hereof, which terms and provisions shall remain binding and enforceable, and this Note shall be construed as if such illegal, invalid or unenforceable term or provision had not been contained herein.

22. Time is of the essence in the performance of each provision hereof.

[SIGNATURES APPEAR ON FOLLOWING PAGE]

IN WITNESS WHEREOF Borrower has executed this Note as of the day and year set forth above.

BORROWER:

PACIFIC COURT APARTMENTS, LP,
a California limited partnership

By: C&C Delaware, LLC,
a California limited liability corporation,
Its: Developer General Partner

By: _____
Todd R. Cottle
Its: Managing Member

By: OHDC Delaware, LLC,
a California limited liability corporation,
Its: Managing General Partner
By: Orange Housing Development Corporation,
a California nonprofit corporation
Its: Sole Member

By: _____
Eunice Bobert
Its: Chief Executive Officer

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FREE RECORDING REQUESTED BY
AND WHEN RECORDED MAIL TO:

THE CITY OF HUNTINGTON BEACH
2000 Main Street
Huntington Beach, CA 92648
Attn: City Clerk

(Space Above This Line for Recorder's Office Use Only)
(Exempt from Recording Fee per *Gov. Code* § 6103 & 27383)

APN: 025-121-50

**DEED OF TRUST, SECURITY AGREEMENT AND FIXTURE FILING
(WITH ASSIGNMENT OF RENTS)
BY PACIFIC COURT APARTMENTS, L.P. FOR THE BENEFIT OF
THE CITY OF HUNTINGTON BEACH**

This Deed of Trust, Security Agreement and Fixture Filing (With Assignment of Rents) is made this ___ day of _____, 2008 by PACIFIC COURT APARTMENTS, L.P., a California limited partnership (hereinafter referred to as "Trustor") (whose address is 414 E. Chapman Avenue, Orange, CA 92866, to _____, (hereinafter called "Trustee"), for the benefit of THE CITY OF HUNTINGTON BEACH, a municipal corporation of the State of California (hereinafter called "Beneficiary"), whose address is 2000 Main Street, Huntington Beach, California 92648.

Witnesseth: That Trustor IRREVOCABLY GRANTS, TRANSFERS AND ASSIGNS to Trustee, its successors and assigns, in Trust, with POWER OF SALE TOGETHER WITH RIGHT OF ENTRY AND POSSESSION all present and future right, title and interest of Trustor in and to the following property (the "Trust Estate"):

(1) All of Trustor's rights, title and interest in and to that certain real property in the City of Huntington Beach, County of Orange, State of California more particularly described in Exhibit "A" attached hereto and by this reference made a part hereof (hereafter referred to as the "Subject Property");

(2) All buildings, structures and other improvements now or in the future located or to be constructed on the Subject Property (the "Improvements");

CITY DEED OF TRUST
PAGE 1

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EXHIBIT NO. 10

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(3) all tenements, hereditaments, appurtenances, privileges, franchises and other rights and interests now or in the future benefiting or otherwise relating to the Subject Property or the Improvements, including easements, rights-of-way and development rights (the "Appurtenances"). (The Appurtenances, together with the Subject Property and the Improvements, are hereafter referred to as the "Real Property");

(4) subject to the assignment to Beneficiary set forth in Paragraph 4 below, all rents, issues, income, revenues, royalties and profits now or in the future payable with respect to or otherwise derived from the Trust Estate or the ownership, use, management, operation, leasing or occupancy of the Trust Estate, including those past due and unpaid (the "Rents");

(5) all inventory, equipment, fixtures and other goods (as those terms are defined in Division 9 of the California Uniform Commercial Code (the "UCC"), and whether existing now or in the future) now or in the future located at, upon or about, or affixed or attached to or installed in, the Real Property, or used or to be used in connection with or otherwise relating to the Real Property or the ownership, use, development, construction, maintenance, management, operation, marketing, leasing or occupancy of the Real Property, including furniture, furnishings, machinery, appliances, building materials and supplies, generators, boilers, furnaces, water tanks, heating ventilating and air conditioning equipment and all other types of tangible personal property of any kind or nature, and all accessories, additions, attachments, parts, proceeds, products, repairs, replacements and substitutions of or to any of such property, but not including personal property that is donated to Trustor (the "Goods," and together with the Real Property, the "Property"); and

(6) all accounts, general intangibles, chattel paper, deposit accounts, money, instruments and documents (as those terms are defined in the UCC) and all other agreements, obligations, rights and written material (in each case whether existing now or in the future) now or in the future relating to or otherwise arising in connection with or derived from the Property or any other part of the Trust Estate or the ownership, use, development, construction, maintenance, management, operation, marketing, leasing, occupancy, sale or financing of the property or any other part of the Trust Estate, including (to the extent applicable to the Property or any other portion of the Trust Estate) (i) permits, approvals and other governmental authorizations, (ii) improvement plans and specifications and architectural drawings, (iii) agreements with contractors, subcontractors, suppliers, project managers, supervisors, designers, architects, engineers, sales agents, leasing agents, consultants and property managers, (iv) takeout, refinancing and permanent loan commitments, (v) warranties, guaranties, indemnities and insurance policies, together with insurance payments and unearned insurance premiums, (vi) claims, demands, awards, settlements, and other payments arising or resulting from or otherwise relating to any insurance or any loss or destruction of, injury or damage to, trespass on or taking, condemnation (or conveyance in lieu of condemnation) or public use of any of the Property, (vii) license agreements, service and maintenance agreements, purchase and sale agreements and purchase options, together with advance payments, security deposits and other amounts paid to or deposited with Trustor under any such agreements, (viii) reserves, deposits, bonds, deferred payments, refunds, rebates, discounts, cost savings, escrow proceeds, sale proceeds

and other rights to the payment of money, trade names, trademarks, goodwill and all other types on intangible personal property of any kind or nature, and (ix) all supplements, modifications, amendments, renewals, extensions, proceeds, replacements and substitutions of or to any of such property (the "Intangibles").

Trustor further grants to Trustee and Beneficiary, pursuant to the UCC, a security interest in all present and future right, title and interest of Trustor in and to all Goods and Intangibles and all of the Trust Estate described above in which a security interest may be created under the UCC (collectively, the "Personal Property"). This Deed of Trust constitutes a security agreement under the UCC, conveying a security interest in the Personal Property to Trustee and Beneficiary. Trustee and Beneficiary shall have, in addition to all rights and remedies provided herein, all the rights and remedies of a "secured party" under the UCC and other applicable California law. Trustor covenants and agrees that this Deed of Trust constitutes a fixture filing under Sections 9502(c) and 9604 of the UCC.

FOR THE PURPOSE OF SECURING, in such order of priority as Beneficiary may elect, all of the following:

(1) Due, prompt and complete observance, performance and discharge of each and every condition, obligation, covenant and agreement contained herein or contained in the following:

(a) a promissory note in the original principal amount of \$500,000, payable from the residual receipts of the Project, executed by Trustor ("Borrower" therein) of even date herewith (the "City Note");

(b) the Affordable Housing Agreement dated _____, 2008, by and among Trustor ("Developer" therein), Beneficiary ("City" therein) and the Redevelopment Agency of the City of Huntington Beach (the "Housing Agreement"); and

(c) the Regulatory Agreement and Declaration of Covenants and Restrictions (including rental restrictions) dated on or about the date hereof, by and among Trustor ("Developer" therein), Beneficiary ("City" therein) and the Redevelopment Agency of the City of Huntington Beach, recorded concurrently herewith ("Regulatory Agreement").

(2) Payment of indebtedness of the Trustor to the Beneficiary in the principal sum of \$500,000 or so much thereof as shall be advanced, evidenced by the City Note, with interest, according to the terms of the City Note.

(3) Payment and performance of all future advances and other obligations that the then record owner of all or part of the Property may agree to pay and/or perform (whether as principal,

CITY DEED OF TRUST
PAGE 3

surety or guarantor) for the benefit of Beneficiary, when such future advance of obligation is evidenced by a writing which recites that it is secured by this Deed of Trust.

The Housing Agreement, including all Attachments thereto, and the documents and instruments executed by Trustor in connection with the Project, including the Regulatory Agreement, the City Note, the Assignment of Rents, the Assignment of Agreements, and the UCC1 Financing Statement, all as described in the Housing Agreement (collectively referred to as the "Secured Obligations") and all of their terms are incorporated herein by reference and this conveyance shall secure any and all extensions, amendments, modifications or renewals thereof however evidenced. Any capitalized term that is not otherwise defined in this Deed of Trust shall have the meaning ascribed to such term in the Housing Agreement.

AND TO PROTECT THE SECURITY OF THIS DEED OF TRUST, TRUSTOR COVENANTS AND AGREES:

1. That Trustor shall pay the City Note at the time and in the manner provided therein, and perform the obligations of the Trustor as set forth in the Secured Obligations at the time and in the manner respectively provided therein;

2. That Trustor shall not permit or suffer the use of any of the Property for any purpose other than the uses permitted by the Secured Obligations;

3. That the Secured Obligations are incorporated in and made a part of this Deed of Trust. Upon default of a Secured Obligation, and after the giving of notice and the expiration of any applicable cure period, the Beneficiary, at its option, may declare the whole of the indebtedness secured hereby to be due and payable.

4. That, subject to the prior rights, if any, of a lender whose lien is senior to this Deed of Trust ("Senior Lender"), all rents, profits and income from the Trust Estate are assigned to the Beneficiary for the purpose of discharging the debt hereby secured. Permission is hereby given to Trustor so long as no default exists hereunder after the giving of notice and the expiration of any applicable cure period, to collect such rents, profits and income for use in accordance with the provisions of the Secured Obligations.

5. That upon default hereunder or under the aforementioned agreements, and after the giving of notice and the expiration of any applicable cure period, Beneficiary shall be entitled to the appointment of a receiver by any court having jurisdiction, without notice, to take possession and protect the Trust Estate and operate same and collect the rents, profits and income therefrom;

6. That Trustor will keep the Improvements insured against loss by fire and such other hazards, casualties, and contingencies as may reasonably be required in writing from time to time by the Beneficiary, and all such insurance shall be evidenced by standard fire and extended coverage

insurance policy or policies. In no event shall the amounts of coverage be less than 100 percent of the insurable value of the Property. Such policies shall be endorsed with standard mortgage clause with loss payable to the Beneficiary and certificates thereof together with copies of original policies shall be deposited with the Beneficiary;

7. To pay, at least 10 days before delinquency, any taxes and assessments affecting the Property; to pay, when due, all encumbrances, charges and liens, with interest, on the Property or any part thereof which appear to be prior or superior hereto; and to pay all costs, fees, and expenses of this Trust. Notwithstanding anything to the contrary contained in this Deed of Trust, Trustor shall not be required to pay and discharge any such tax, assessment, charge or levy so long as Trustor is contesting the legality thereof in good faith and by appropriate proceedings, and Trustor has adequate funds to pay any liabilities contested pursuant to this Section 7.

8. To keep the Property in good condition and repair, subject to ordinary wear and tear, casualty and condemnation, not to remove or demolish any buildings thereon; to complete or restore promptly and in good and workmanlike manner any building which may be constructed, damaged, or destroyed thereon and to pay when due all claims for labor performed and materials furnished therefor; to comply with all laws affecting the Property or requiring any alterations or improvements to be made thereon (subject to Trustor's right to contest the validity or applicability of laws or regulations); not to commit or permit waste thereof; not to commit, suffer or permit any act upon the Property in violation of law and/or covenants, conditions and/or restrictions affecting the Property; not to permit or suffer any material alteration of or addition to the Improvements without the consent of the Beneficiary;

9. To appear in and defend any action or proceeding purporting to affect the security hereof or the rights or powers of Beneficiary or Trustee, and to pay all costs and expenses, including cost of evidence of title and reasonable attorney's fees in a reasonable sum, in any such action or proceeding in which Beneficiary or Trustee may appear;

10. Should Trustor fail to make any payment or do any act as herein provided, then Beneficiary or Trustee, but without obligation so to do and without notice to or demand upon Trustor and without releasing Trustor from any obligation hereof, may make or do the same in such manner and to such extent as either may deem necessary to protect the security hereof. Following default, after the giving of notice and the expiration of any applicable cure period, Beneficiary or Trustee being authorized to enter upon said property for such purposes, may commence, appear in and/or defend any action or proceeding purporting to affect the security hereof or the rights or powers of Beneficiary or Trustee; may pay, purchase, contest, or compromise any encumbrance, charge, or lien which in the judgment of either appears to be prior or superior hereto; and, in exercising any such powers, may pay necessary expenses, employ counsel, and pay reasonable attorney fees. Notwithstanding the foregoing, in the event of default under this Deed of Trust, the Beneficiary may also require Trustor to maintain and submit additional records. Beneficiary shall specify in writing the particular records that must be maintained and the information or reports that must be submitted;

11. Beneficiary shall have the right to pay fire and other property insurance premiums when due should Trustor fail to make any required premium payments. All such payments made by the Beneficiary shall be added to the principal sum secured hereby;

12. To pay immediately and without demand all sums so expended by Beneficiary or Trustee, under permission given under this Deed of Trust, with interest from date of expenditure at the rate specified in the City Note;

13. That the funds to be advanced hereunder are to be used in accordance with the Secured Obligations and upon the failure of Trustor to keep and perform all the covenants, conditions, and agreements of said agreements, the principal sum and all arrears of interest, and other charges provided for in the City Note shall at the option of the Beneficiary of this Deed of Trust become due and payable, anything contained herein to the contrary notwithstanding;

14. Trustor further covenants that it will not voluntarily create, suffer, or permit to be created against the property subject to this Deed of Trust any lien or liens except as permitted by the Secured Obligations or otherwise approved by Beneficiary, and further that it will keep and maintain the Property free from the claims of all persons supplying labor or materials which will enter into the construction of any and all buildings now being erected or to be erected on said premises. Notwithstanding anything to the contrary contained in this Deed of Trust, Trustor shall not be obligated to pay any claims for labor, materials or services which Trustor in good faith disputes and is diligently contesting, provided that Trustor shall, at Beneficiary's written request, within thirty (30) days after the filing of any claim or lien (but in any event, and without any requirement that Beneficiary must first provide a written request, prior to foreclosure) record in the Office of the Recorder of Orange County, a surety bond in an amount one-and-one-half (1½) times the amount of such claim item to protect against a claim of lien, or provide such other security reasonably satisfactory to Beneficiary;

15. That any and all improvements made or about to be made upon the premises covered by the Deed of Trust, and all plans and specifications, comply with all applicable municipal ordinances and regulations and all other applicable regulations made or promulgated, now or hereafter, by lawful authority, and that the same will upon completion comply with all such municipal ordinances and regulations and with the rules of the applicable fire rating or inspection organization, bureau, association or office;

16. Trustor herein agrees to pay to Beneficiary or to the authorized loan servicing representative of the Beneficiary a reasonable charge for providing a statement regarding the obligation secured by this Deed of Trust as provided by Section 2954, Article 2, Chapter 2 Title 14, Division 3, of the California Civil Code.

IT IS MUTUALLY AGREED THAT:

CITY DEED OF TRUST
PAGE 6

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17. Should the Property or any part thereof be taken or damaged by reason of any public improvement or condemnation proceeding, or damaged by fire, or earthquake, or in any other manner, subject to the rights of Senior Lender, Beneficiary shall be entitled to all compensation, awards, and other payments or relief therefor which are not used to reconstruct, restore or otherwise improve the Property or part thereof that was taken or damaged, and shall be entitled at its option to commence, appear in and prosecute in its own name, any action or proceedings, or to make any compromise or settlement, in connection with such taking or damage. Subject to the rights of the Senior Lenders, all such compensation, awards, damages, rights of action and proceeds which are not used to reconstruct, restore or otherwise improve the Property or part thereof that was taken or damaged, including the proceeds of any policies of fire and other insurance affecting the Property, are hereby assigned to Beneficiary. After deducting therefrom all its expenses, including attorney's fees, the balance of the proceeds which are not used to reconstruct, restore or otherwise improve the Property or part thereof that was taken or damaged, shall be applied to the amount due under the City Note secured hereby. No amount applied to the reduction of the principal shall relieve the Trustor from making regular payments as required by the City Note. If the City Note has been repaid, the remainder of the balance shall revert to the Trustor;

18. Upon default by Trustor in making any payments provided for in the City Note secured hereby or in this Deed of Trust, or in performing any obligation set forth in any of the Secured Obligations, and if such default is not cured within the respective time provided therefor in Section 34 of this Deed of Trust, below, Beneficiary may declare all sums secured hereby immediately due and payable by delivery to Trustee of written declaration of default and demand for sale, and of written notice of default and of election to cause the property to be sold, which notice Trustee shall cause to be duly filed for record and Beneficiary may foreclose this Deed of Trust. Beneficiary shall also deposit with Trustee this Deed of Trust, the Note and all documents evidencing expenditures secured hereby;

19. a. Prior to the repayment in full of the City Loan, the Trustor shall not assign or attempt to assign the Housing Agreement or any right therein, nor make any total or partial sale, transfer, conveyance or assignment of the whole or any part of the Property, the Improvements, or any portion thereof or interest therein (referred to hereinafter as a "Transfer"), without prior written approval of the Beneficiary, except as otherwise permitted in the Secured Obligations. Consent to one such transaction shall not be deemed to be a waiver of the right to require consent to future or successive transactions. Beneficiary shall not unreasonably withhold or delay its consent. If consent should be given, any such transfer shall be subject to this Section 19, and any such transferee shall assume all obligations hereunder and agree to be bound by all provisions contained herein, subject to the provisions of paragraph e.(3) of this Section 19, below.

b. Any such proposed transferee shall have the qualifications and financial responsibility necessary and adequate as may be reasonably determined by the Beneficiary, to fulfill the obligations undertaken by Trustor in the Secured Obligations. Any such proposed transferee, by

instrument in writing satisfactory to the Beneficiary and in form recordable among the land records of Orange County, for itself and its successors and assigns, and for the benefit of the Beneficiary shall expressly assume all of the obligations of the Trustor under the Secured Obligations, and agree to be subject to all conditions and restrictions applicable to the Trustor in this Deed of Trust, subject to the provisions of paragraph e.(3) of this Section 19. There shall be submitted to the Beneficiary for review all instruments and other legal documents proposed to effect any such transfer; and if approved by the Beneficiary its approval shall be indicated to the Trustor in writing.

c. In the absence of specific written agreement by the Beneficiary, no unauthorized Transfer, or approval thereof by the Beneficiary, shall be deemed to relieve the Trustor or any other party from any obligations under the Secured Obligations.

d. In the event of a Transfer prior to the time the City Loan is paid in full and without the prior written consent of the Beneficiary, the net proceeds (after repayment in full of the loan from the proceeds of the Series X-1 Bonds and Series X-2 Bonds (the "Bond Loans") and the reconveyance of the Bond Deed of Trust), shall be paid to the Beneficiary to the extent necessary to pay in full the accrued interest, if any, current interest and remaining principal balance of the City Loan.

e. (1) As used herein, "Transfer" includes the sale, agreement to sell, transfer or conveyance of the Property, the Project, or any portion thereof or interest therein, whether voluntary, involuntary, by operation of law or otherwise, the execution of any installment land sale contract or similar instrument affecting all or a portion of the Property or Project, or the lease of all or substantially all of the Property or Project, except as provided in subparagraph e.(3) of this Section 19, below.

(2) "Transfer" shall also include the transfer, assignment, hypothecation or conveyance of legal or beneficial ownership of any interest in Trustor, or any conversion of Trustor to an entity form other than that of Trustor at the time of execution of the Housing Agreement, except that a cumulative change in ownership interest of any general partner of forty-nine percent (49%) or less shall not be deemed a "Transfer" for purposes of this Deed of Trust.

(3) Notwithstanding paragraphs (1) and (2), above, "Transfer" shall not include any of the following Permitted Transfers:

(a) a conveyance of a security interest to the beneficiary of the Bond Deed of Trust or the City Deed of Trust or the conveyance of title to the Property or Project in connection with a foreclosure, a deed in lieu of foreclosure or similar conversion of such loan;

(b)(i) a conveyance of the Property or Project to a limited partnership in which the Managing General Partner and/or Developer General Partner is Trustor or Trustor's Developer General Partner or (following Beneficiary's issuance of a Release of Construction

CITY DEED OF TRUST

PAGE 8

K:\CG\HB\Pacific Ct - 2200 Delaware St\Affordable Housing Agrmt\final\City Deed of Trust.doc

Covenants for the Project) Managing General Partner or Developer General Partner, or a sale back from such partnership to Trustor or either such General Partner.

(ii) The substitution of a General Partner as directed by the Investor Limited Partner in accordance with the terms of the Limited Partnership Agreement, subject to the following terms and conditions. The Investor Limited Partner may substitute NEF Communities Investment, Inc. (or another affiliate of NEF) (the "Interim General Partner") on an interim basis for a period reasonably calculated to identify and admit into the partnership a new General Partner, whether the Managing General Partner or the Developer General Partner, as set forth below (the "Substitute General Partner"). The Interim General Partner is hereby approved by the Agency and the City. It is the desire of the Investor Limited Partner, the Agency and the City that the Managing General Partner shall be a Community Housing Development Organization ("CHDO") and reasonable efforts shall be made to accomplish that objective.

If a substitution for the Interim General Partner occurs prior to the Permanent Financing Event, the Substitute General Partner must be an entity reasonably acceptable to the Agency Executive Director and the City Administrator, which approval shall not be unreasonably withheld or delayed.

If a substitution for the Interim General Partner occurs after the Permanent Financing Event, the Investor Limited Partner agrees to cooperate with the City and the Agency in identifying a CHDO that is reasonably acceptable to the Agency Executive Director and the City Administrator, which approval shall not be unreasonably withheld or delayed. If the Investor Limited Partner, the City and the Agency are unable to identify a reasonably acceptable CHDO, then the Investor Limited Partner may propose another entity to serve as the Substitute General Partner, subject to the approval of the Agency Executive Director and the City Administrator, which approval shall not be unreasonably withheld or delayed.

(c) Any refinancing that repays any of the Bond Loans (referred to herein as a "Take-out Loan"), if Beneficiary's Executive Director reasonably determines (which determination shall not be unreasonably withheld) that the resulting loan-to-value ratio (including the Take-out Loan, any of the remaining Bond Loans not repaid by the refinancing, the City Loan and the Agency Loan) will not exceed the loan-to-value ratio in effect at the time of the Permanent Financing Event for the initial acquisition and rehabilitation of the Project, and the repayment terms of the Take-out Loan do not materially impair Beneficiary's ability to repay the City Loan.

(d) The leasing for occupancy of all or any part of the Property or Project in accordance with the Housing Agreement and the Regulatory Agreement.

(e) The inclusion of equity participation by Trustor by transfer or addition of limited partners to Trustor or similar mechanism.

(f) The pledge by General Partner to the Investor Limited Partner of the General Partner's interest in Trustor, as security for the performance of all of the General Partner's obligations under the Limited Partnership Agreement.

(g) The sale, transfer or pledge of any limited partnership interest in Trustor or of any partnership interest in the Investor Limited Partner.

(h) The appointment by the Investor Limited Partner, in accordance with the Limited Partnership Agreement, of an additional or substitute General Partner that is an Affiliate of the Investor Limited Partner or, if not an Affiliate of the Investor Limited Partner, is reasonably acceptable to Beneficiary.

(i) Any dilution of the General Partner's interest in Trustor in accordance with the Limited Partnership Agreement.

f. Beneficiary shall not unreasonably withhold, condition or delay its approval of any matter for which its approval is required hereunder. Any disapproval shall be in writing and contain Beneficiary's reasons for disapproval.

20. After the lapse of such time as may then be required by law following the recordation of a notice of default, and notice of sale having been given as then required by law, Trustee, without demand on Trustor, shall sell the Property at the time and place fixed by it in the notice of sale, either as a whole or in separate parcels, and in such order as it may determine at public auction to the highest bidder for cash in lawful money of the United States, payable at time of sale. Trustee may postpone sale of all or any portion of the Property by public announcement at the time and place of sale, and from time to time thereafter may postpone the sale by public announcement at the time and place of sale, and from time to time thereafter may postpone the sale by public announcement at the time fixed by the preceding postponement. Trustee shall deliver to the purchaser its deed conveying the property so sold, but without any covenant or warranty, express or implied. The recitals in the deed of any matters or facts shall be conclusive proof of the truthfulness thereof. Any person, including Trustor, Trustee or Beneficiary, may purchase at the sale. The Trustee shall apply the proceeds of sale to payment of (1) the expenses of such sale, together with the reasonable expenses of this trust including therein reasonable Trustee's fees or attorney's fees for conducting the sale, and the actual cost of publishing, recording, mailing and posting notice of the sale; (2) the cost of any search and/or other evidence of title procured in connection with such sale and revenue stamps on Trustee's deed; (3) all sums expended under the terms hereof, not then repaid, with accrued interest at the rate specified in the City Note; (4) all other sums then secured hereby; and (5) the remainder, if any, to the person or persons legally entitled thereto;

21. Beneficiary may from time to time substitute a successor or successors to any Trustee named herein or acting hereunder to execute this Trust. Upon such appointment, and without conveyance to the successor trustee, the latter shall be vested with all title, powers, and duties

CITY DEED OF TRUST

PAGE 10

K:\CG\HBA\Pacific Ct - 2200 Delaware St\Affordable Housing Agmt\final\City Deed of Trust.doc

conferred upon any Trustee herein named or acting hereunder. Each such appointment and substitution shall be made by written instrument executed by Beneficiary, containing reference to this Deed of Trust and its place of record, which, when duly recorded in the proper office of the county or counties in which the property is situated, shall be conclusive proof of proper appointment of the successor trustee;

22. The pleading of any statute of limitations as a defense to any and all obligations secured by this Deed of Trust is hereby waived to the full extent permissible by law;

23. Upon written request of Beneficiary stating that all sums secured hereby have been paid and all obligations secured hereby have been satisfied, including but not limited to the obligations set forth in the Regulatory Agreement, and upon surrender of this Deed of Trust and any note, instrument or instruments setting forth all obligations secured hereby to Trustee for cancellation and retention and upon payment of its fees, Trustee shall reconvey, without warranty, the Property then held hereunder. The recitals in such reconveyance of any matters or fact shall be conclusive proof of the truthfulness thereof. To the extent permitted by law, the grantee in such reconveyance may be described as "the person or persons legally entitled thereto." Neither Beneficiary nor Trustee shall have any duty to determine the rights of persons claiming to be rightful grantees of any reconveyance. When the Property has been fully reconveyed, the last such reconveyance shall operate as a reassignment of all future rents, issues and profits of the Property to the person or persons legally entitled thereto;

24. The trust created hereby is irrevocable by Trustor;

25. This Deed of Trust applies to, inures to the benefit of, and binds all parties hereto, their heirs, legatees, devisees, administrators, executors, successors, and assigns. The term "Beneficiary" shall include not only the original Beneficiary hereunder but also any future owner and holder including pledgees, of the City Note secured hereby. In this Deed of Trust, whenever the context so requires, the masculine gender includes the feminine and/or neuter, and the singular number includes the plural. All obligations of Trustor hereunder are joint and several;

26. Trustee accepts this Trust when this Deed of Trust, duly executed and acknowledged, is made public record as provided by law. Except as otherwise provided by law the Trustee is not obligated to notify any party hereto of pending sale under this Deed of Trust or of any action or proceeding in which Trustor, Beneficiary, or Trustee shall be a party unless brought by Trustee. Beneficiary, at its option, may from time to time remove Trustee and appoint a successor trustee to any Trustee appointed hereunder. Without conveyance of the Property, the successor trustee shall succeed to all the title, power and duties conferred upon the Trustee herein and by applicable law;

27. The undersigned Trustor requests that a copy of any notice of default and of any notice of sale hereunder be mailed to Trustor at the address set forth on the first page of this Deed of Trust. After Trustor gives written notice to Beneficiary that the Investor Limited Partner has been

admitted to the Trustor, Beneficiary shall send to the Investor Limited Partner a copy of all notices of default and all other notices that Beneficiary sends to Trustor, at the address for the Investor Limited Partner as provided by written notice to Beneficiary by Trustor.

28. Trustor agrees at any time and from time to time upon receipt of a written request from Beneficiary, to furnish to Beneficiary detailed statements in writing of income, rents, profits, and operating expenses of the premises, and the names of the occupants and tenants in possession, together with the expiration dates of their leases and full information regarding all rental and occupancy agreements, and the rents provided for by such leases and rental and occupancy agreements, and such other information regarding the premises and their use as may be requested by Beneficiary.

29. Trustor agrees that the loan secured by this Deed of Trust is made expressly for the purpose of financing the rehabilitation of Improvements on the Property, including 47 dwelling units of affordable housing for Very Low Income and Low Income Households, and such dwelling units shall be occupied exclusively by such persons as set forth in the Secured Obligations.

30. Trustor agrees that, except as otherwise provided in the City Note, upon sale or refinancing of the property, the entire principal balance of the debt secured by this Deed of Trust, plus any accrued but unpaid interest thereon, shall at the option of Beneficiary be immediately due and payable.

31. The obligation to repay the City Loan is a nonrecourse obligation of the Trustor and its partners. Neither Trustor nor any of its general or limited partners, nor any other party, shall have any personal liability for repayment of the loan. The sole recourse of Beneficiary shall be the exercise of its rights against the Property and any related security for the City Loan. Notwithstanding the foregoing, Beneficiary may obtain a judgment or order (including, without limitation, an injunction) requiring Trustor or any other party to perform (or refrain from) specified acts other than repayment of the City Loan; and may recover directly from Trustor or from any other party:

- (a) any damages, costs and expenses incurred by Beneficiary as a result of fraud or any criminal act or acts of Trustor or any partner, shareholder, officer, director or employee of Trustor, or of any general partner of Trustor;
- (b) any damages, costs and expenses incurred by Beneficiary as a result of any misappropriation of funds provided for the rehabilitation of the Property as described in the Housing Agreement, rents and revenues from the operation of the Project, or proceeds of insurance policies or condemnation proceeds;
- (c) any and all amounts owing by Trustor pursuant to the indemnification regarding Hazardous Substances pursuant to the Environmental Indemnity; and

(d) all court costs and attorneys' fees reasonably incurred in enforcing or collecting upon any of the foregoing exceptions.

32. Notwithstanding specific provisions of this Deed of Trust, non-monetary performance hereunder shall not be deemed to be in default where delays or defaults are proximately caused by any of the following Force Majeure events, provided such event actually delays and interferes with the timely performance of the matter, and, despite the exercise of diligence and good business practices, such event is beyond the reasonable control of Trustor: War; insurrection; strikes; lock-outs; riots; floods; earthquakes; fires; casualties; acts of God; acts of the public enemy; epidemics; quarantine restrictions; freight embargoes; lack of transportation; governmental restrictions or priority; litigation including litigation challenging the validity of this transaction or any element thereof; unusually severe weather; inability to secure necessary labor, materials or tools; delays of any contractor, subcontractor, or suppliers; acts of the other party; acts or failure to act of any Governmental Authority (except acts or failure to act of the Beneficiary shall not excuse performance by the Beneficiary); the imposition of any applicable moratorium by a Governmental Authority; or any other causes which despite the exercise of diligence and good business practices are or would be beyond the reasonable control of the party claiming such delay and interference. Notwithstanding the foregoing, none of the foregoing events shall constitute a Force Majeure Event unless and until Trustor delivers to Beneficiary written notice describing the event, its cause, when and how Trustor obtained knowledge, the date the event commenced, and the estimated delay resulting therefrom. Trustor shall deliver such written notice within ten (10) business days after it obtains actual knowledge of the event.

33. If the rights and liens created by this Deed of Trust shall be held by a court of competent jurisdiction to be invalid or unenforceable as to any part of the Secured Obligations, the unsecured portion of such obligations shall be completely performed and paid prior to the performance and payment of the remaining and secured portion of the obligations, and all performance and payments made by Trustor shall be considered to have been performed and paid on and applied first to the complete payment of the unsecured portion of the obligations.

34. (a) Subject to the extensions of time set forth in Section 32, and subject to the further provisions of this Section 34, failure or delay by Trustor to perform any term or provision respectively required to be performed under the Secured Obligations or this Deed of Trust constitutes a default under this Deed of Trust.

(b) Beneficiary shall give written notice of default to Trustor, specifying the default complained of by the Beneficiary. Failure or delay in giving such notice shall not constitute a waiver of any default nor shall it change the time of default.

(c) Any failures or delays by Beneficiary in asserting any of its rights and remedies as to any default shall not operate as a waiver of any default or of any such rights or

remedies. Delays by Beneficiary in asserting any of its rights and remedies shall not deprive Beneficiary of its right to institute and maintain any actions or proceedings which it may deem necessary to protect, assert, or enforce any such rights or remedies.

(d) If a monetary event of default occurs, prior to exercising any remedies hereunder, Beneficiary shall give Trustor written notice of such default. Trustor shall have a period of seven (7) days after such notice is given within which to cure the default prior to exercise of remedies by Beneficiary.

(e) If a non-monetary event of default occurs, prior to exercising any remedies hereunder, Beneficiary shall give Trustor notice of such default. If the default is reasonably capable of being cured within thirty (30) days, Trustor shall have such period to effect a cure prior to exercise of remedies by Beneficiary. If the default is such that it is not reasonably capable of being cured within thirty (30) days, and Trustor (i) initiates corrective action within said period, and (ii) diligently, continually, and in good faith works to effect a cure as soon as possible, then Trustor shall have such additional time as is reasonably necessary to cure the default prior to exercise of any remedies by Beneficiary. If Trustor fails to take corrective action or cure the default within a reasonable time, Beneficiary shall give Trustor and, as provided in paragraph (f), below, the Investor Limited Partner notice thereof, whereupon the Investor Limited Partner may remove and replace the general partner with a substitute general partner, who shall effect a cure within a reasonable time thereafter in accordance with the foregoing provisions. Beneficiary agrees to accept cures tendered by the Investor Limited Partner within the cure periods provided in this Deed of Trust or within the time periods provided in Civil Code Section 2924c, whichever is longer. Additionally, in the event the Investor Limited Partner is precluded from curing a non-monetary default due to an inability to remove the general partner as a result of a bankruptcy, injunction, or similar proceeding by or against Trustor or its general partner, Beneficiary agrees to forbear from completing a foreclosure (judicial or nonjudicial) during the period during which the Investor Limited Partner is so precluded from acting, not to exceed 90 days, provided such limited partner is otherwise in compliance with the foregoing provisions. In no event shall Beneficiary be precluded from exercising remedies if its security becomes or is about to become materially jeopardized by any failure to cure a default or the default is not cured within ninety (90) days after the first notice of default is given.

(f) After Trustor gives written notice to Beneficiary that the Investor Limited Partner has been admitted to the Trustor, Beneficiary shall send to the Investor Limited Partner a copy of all notices of default and all other notices that Beneficiary sends to Trustor, at the address for the limited partner as provided by written notice to Beneficiary by Trustor.

(g) Except as otherwise required to comply with the provisions of California Civil Code Section 2924 et seq. that are applicable thereto, any notice of default that is transmitted by electronic facsimile transmission followed by delivery of a "hard" copy, shall be deemed delivered upon its transmission; any notice of default that is personally delivered (including by means of professional messenger service, courier service such as United Parcel Service or Federal Express, or

CITY DEED OF TRUST

PAGE 14

K:\CG\HB\Pacific Ct - 2200 Delaware St\Affordable Housing Agmt\final\City Deed of Trust.doc

by U.S. Postal Service), shall be deemed received on the documented date of receipt by Trustor; and any notice of default that is sent by registered or certified mail, postage prepaid, return receipt required shall be deemed received on the date of receipt thereof.

35. This Deed of Trust shall be subordinate and junior to the Bond Deed of Trust. Following the reconveyance of the Bond Deed of Trust, this Deed of Trust will be subordinate and junior to the deed of trust in favor of the maker of any permanent or take-out loan (each of which loans is referred to herein as a "Senior Loan"), as described in the City Note. The Executive Director of the Beneficiary or his designee shall execute such instruments as may be necessary to subordinate the lien of this Deed of Trust, to the deed of trust securing any Senior Loan, any regulatory agreement recorded in connection with the issuance of the Bonds or the Four Percent Tax Credit. In the event of a default or breach by Trustor of any security instrument securing a Senior Loan described in this Section 35, Beneficiary shall have the right to cure the default prior to completion of any foreclosure. In such event, Beneficiary shall be entitled to reimbursement by Trustor of all costs and expenses incurred by Beneficiary in curing the default. The amount of any such disbursements shall be a lien against the Property and added to the obligation secured by this Deed of Trust until repaid, with interest at the highest rate permitted by law.

36. The Trustor has informed the Beneficiary that Trustor intends that the Project qualify for an allocation of low-income housing tax credits under Section 42 of the Internal Revenue Code ("Four Percent Tax Credit"). In order to receive an allocation of tax credits, the Trustor will be required to record in the real property records of the County of Orange an "extended low-income housing commitment" (as defined in Code Section 42(h)(6)(B)) (the "Extended Use Agreement"). If the Trustor demonstrates to the reasonable satisfaction of Beneficiary that the California Department of Housing and Community Development or applicable federal law requires that the lien of this Deed of Trust be subordinate to the Extended Use Agreement, then the Beneficiary shall execute a subordination agreement ("Extended Use Subordination Agreement") wherein the lien of this Deed of Trust is subordinated to the Extended Use Agreement. The Extended Use Subordination Agreement will:

- (a) provide that, if the Beneficiary or its successors or assigns (collectively, the "REO Owner") acquires the Property by foreclosure (or instrument in lieu of foreclosure), then the "extended use period" (as defined in Code Section 42(h)(6)(D)) shall terminate, except for the obligation of the REO Owner to comply with the limitations on evictions, termination of tenancy and increase in rents for the three year period following the REO Owner's acquisition of the mortgaged property, as set forth in Code Section 42(h)(6)(E)(ii); and
- (b) otherwise be in a form reasonably acceptable to Beneficiary.

37. Without regard to the recording order of this Deed of Trust and the Agency Deed of Trust, the City Loan Documents shall be of equal priority to the Agency Loan Documents, and

CITY DEED OF TRUST
PAGE 15

Beneficiary and the Redevelopment Agency of the City of Huntington Beach (“Agency”) agree to share foreclosure proceeds as set forth below.

(a) If there is a foreclosure, or any other action, judicial or nonjudicial, under this Deed of Trust and/or the City Deed of Trust (including without limitation the giving of a deed in lieu of foreclosure), Beneficiary and the Agency shall be entitled to share based on the Pro Rata Percentages set forth in the Agency Note in any proceeds which shall ensue from such action, after payment of all reasonable expenses of Beneficiary and/or the Agency incurred in connection with the action. This Deed of Trust shall be of equal priority to the Agency Deed of Trust. As among those two deeds of trust, if either deed of trust is otherwise determined to be senior to the other, then notwithstanding the otherwise applicable effects of the California Civil Code and the California Code of Civil Procedure, upon foreclosure of the senior deed of trust and the elimination of the security created by the junior deed of trust, the holder of the foreclosing senior deed of trust shall share the foreclosure sale proceeds with the holder of the junior deed of trust based on the Pro Rata Percentages set forth in the Agency Note, unless otherwise mutually agreed by Beneficiary and the Agency.

(b) If either Beneficiary or the Agency acquires title to the Property as the result of a foreclosure or a deed in lieu of foreclosure, title shall be held as tenancy in common by Beneficiary and the Agency, with the percentage ownership of each based on the Pro Rata Percentages set forth in the Agency Note. Subsequent decisions to hold or sell the property shall be made by joint decision of Beneficiary and the Agency.

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38. This Deed of Trust shall be subject to the terms and conditions set forth in that certain Subordination Agreement, dated on or about the date hereof, by and among the Trustor, Washington Mutual Bank, the Agency and Beneficiary, as the same may be amended, restated, supplemented or modified from time to time.

IN WITNESS WHEREOF Trustor has executed this Deed of Trust as of the day and year set forth above.

“TRUSTOR”
PACIFIC COURT APARTMENTS, LP,
a California limited partnership

By: C&C Delaware, LLC,
a California limited liability corporation,
Its: Developer General Partner

By: _____
Todd R. Cottle
Its: Managing Member

By: OHDC Delaware, LLC,
a California limited liability corporation,
Its: Managing General Partner
By: Orange Housing Development
Corporation, a California nonprofit
corporation
Its: Sole Member

By: _____
Eunice Bobert
Its: Chief Executive Officer

APPROVED BY:
THE CITY OF HUNTINGTON BEACH, a
municipal corporation of the State of California

By: _____
Mayor

ATTEST:

By: _____
City Clerk

APPROVED AS TO FORM:

By: _____
City Attorney

State of California)

County of Orange)

On _____ before me, _____, a Notary Public, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____ (Seal)

State of California)

County of Orange)

On _____ before me, _____, a Notary Public, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____ (Seal)

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Exhibit A

LEGAL DESCRIPTION

The land referred to herein is situated in the State of California, County of Orange, and described as follows:

PARCEL 1:

BLOCK 2205 OF EAST SIDE VILLA TRACT, AS PER MAP RECORDED IN BOOK 4, PAGE 65, MISCELLANEOUS MAPS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY

PARCEL 2:

AN EASEMENT FOR INGRESS AND EGRESS OVER THE EASTERLY 15 FEET OF THE SOUTH 72 FEET OF BLOCK 2305 OF THE EAST SIDE VILLA TRACT

PARCEL 3:

AN EASEMENT FOR INGRESS AND EGRESS OVER THE WEST 20 FEET OF BLOCK 2306 OF EAST SIDE VILLA TRACT

APN: 025-121-50

CITY DEED OF TRUST
LEGAL DESCRIPTION

K:\CG\HB\Pacific Ct - 2200 Delaware St\Affordable Housing Agmt\final\City Deed of Trust.doc

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FREE RECORDING REQUESTED BY
AND WHEN RECORDED MAIL TO:

THE CITY OF HUNTINGTON BEACH
2000 Main Street
Huntington Beach, CA 92648
Attn: City Clerk

(Space Above This Line for Recorder's Office Use Only)
(Exempt from Recording Fee per *Gov. Code* § 6103 & 27383)

APN: 025-121-50

REGULATORY AGREEMENT AND
DECLARATION OF COVENANTS AND RESTRICTIONS

THIS REGULATORY AGREEMENT AND DECLARATION OF COVENANTS AND RESTRICTIONS ("Agreement") is made and entered into this _____ day of _____, 2008, by and among THE REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH, a public body, corporate and politic ("Agency"), THE CITY OF HUNTINGTON BEACH, a municipal corporation of the State of California ("City") and PACIFIC COURT APARTMENTS, L.P., a California limited partnership ("Owner").

RECITALS:

A. Agency is responsible for the use of certain low- and moderate-income housing funds pursuant to California's Community Redevelopment Law [*California Health & Safety Code* §§33000, *et seq.*] ("Set Aside Funds").

B. City is responsible for the use of certain funds ("HOME Funds") made available to the City of Huntington Beach by the United States Department of Housing and Urban Development ("HUD") under the HOME Investment Partnerships Program (the "HOME Program").

C. City, Agency and Owner ("Developer" therein) have entered into that certain Affordable Housing Agreement, dated _____, 2008 (the "Housing Agreement"), concerning Owner's acquisition and rehabilitation of that certain real property, to be owned in fee by Owner, more particularly described in Exhibit No. 1 attached hereto and incorporated by reference herein (the "Site"). The Housing Agreement describes the "Project" which generally consists of Owner's acquisition of the existing apartment building consisting of a total of forty-eight (48) two-bedroom dwelling units on the Site and subsequent rehabilitation and management thereof as an affordable rental housing complex, each of the dwelling units, with the exception of one manager's unit, to be restricted to Very Low Income and Low Income Households. The Housing Agreement is hereby incorporated herein by this reference as though

REGULATORY AGREEMENT
PAGE 1

fully set forth herein. Any capitalized terms not defined herein shall have the meanings ascribed to such terms in the Housing Agreement.

D. Owner has executed that certain promissory note (the "Agency Note") dated _____, 2008, pursuant to which Agency has provided Owner with a loan of Set Aside Funds in the principal amount of Eight Million Seven Hundred Eighty-Four Thousand Two Hundred Twenty-Four Dollars (\$8,784,224) ("Agency Loan"). The Agency Note is secured by a Deed of Trust With Assignment of Rents dated on or about the date of the Note, naming Agency as beneficiary ("Agency Deed of Trust").

E. Owner has executed that certain promissory note (the "City Note") dated _____, 2008, pursuant to which City has provided Owner with a loan of HOME Funds in the principal amount of Five Hundred Thousand Dollars (\$500,000) ("City Loan"). The City Note is secured by a Deed of Trust With Assignment of Rents dated on or about the date of the Note, naming City as beneficiary ("City Deed of Trust"). In consideration of the City Loan and in satisfaction of HOME Program requirements, eleven (11) of the Units are designated as HOME Units.

F. Agency, City and Owner now desire to place restrictions upon the use and operation of the Project, in order to ensure that the Project shall be operated continuously as an affordable housing project available for rental to Very Low Income and Low Income Households in accordance with the terms set forth below for the term of this Agreement.

AGREEMENT:

NOW, THEREFORE, the Owner, Agency and City declare, covenant and agree, by and for themselves, their heirs, executors, administrators and assigns, and all persons claiming under or through them, that the Site, for the term of this agreement, shall be held transferred, encumbered, used, sold, conveyed, leased and occupied, subject to the covenants and restrictions hereinafter set forth:

1. DEFINITIONS.

1.1 Affordable Low Income Unit. As used in this Agreement, the term "Affordable Low Income Unit" shall mean one of the twenty-four (24) Affordable Units restricted to occupancy by Low Income Households at Affordable Rent. The term "Affordable Low Income Unit" and "Affordable Low Income Units" shall be used as the context mandates and shall be reasonably interpreted in light of the context in which the term appears.

1.2 Affordable Low Income HOME Unit. As used in this Agreement, the term "Affordable Low Income HOME Unit" shall mean one of the eight (8) Affordable Low Income Units designated hereby as a HOME Unit in satisfaction of HOME Program requirements. The Affordable Low Income HOME Units are designated as "floating" units pursuant to 24 C.F.R. 92.252(j).

1.3 Affordable Rent. As used in this Agreement, the term “Affordable Rent” shall mean:

a. for Affordable Very Low Income Units, rental rates not to exceed “affordable rent” for very low income households as defined by California *Health & Safety Code* Section 50053(b)(2), or its successor.

b. for Affordable Very Low Income HOME Units, rental rates not to exceed the lesser of (1) “affordable rent” for very low income households as defined by California *Health & Safety Code* Section 50053(b)(2), or its successor, and (2) the rent limits set forth by the HOME Program in 24 C.F.R. 92.252(b)(1) and 24 C.F.R. 92.252(b)(2), or its successor.

c. for Affordable Low Income Units, rental rates not to exceed “affordable rent” for low income households as defined by California *Health & Safety Code* Section 50053(b)(3), or its successor.

d. for Affordable Low Income HOME Units, rental rates not to exceed the lesser of (1) “affordable rent” for low income households as defined by California *Health & Safety Code* Section 50053(b)(3), or its successor, and (2) the rent limits set forth by the HOME Program in 24 C.F.R. 92.252(a)(1) and 24 C.F.R. 92.252(a)(2), or its successor.

Affordable Rent shall include a reasonable utility allowance for tenant-paid utilities based on the Orange County Housing Authority’s published utility schedules.

1.4 Affordable Unit. As used in this Agreement, the term “Affordable Unit” shall mean one of the forty-seven (47) rental dwelling units in the Project restricted to occupancy by Very Low Income and Low Income Households. The term “Affordable Unit” and “Affordable Units” shall be used as the context mandates and shall be reasonably interpreted in light of the context in which the term appears.

1.5 Affordable Very Low Income Unit. As used in this Agreement, the term “Affordable Very Low Income Unit” shall mean one of the twenty-three (23) Affordable Units restricted to occupancy by Very Low Income Households at Affordable Rent. The term “Affordable Very Low Income Unit” and “Affordable Very Low Income Units” shall be used as the context mandates and shall be reasonably interpreted in light of the context in which the term appears.

1.6 Affordable Very Low Income HOME Unit. As used in this Agreement, the term “Affordable Very Low Income HOME Unit” shall mean one of the three (3) Affordable Very Low Income Units designated hereby as a HOME Unit in satisfaction of HOME Program requirements. The Affordable Very Low Income HOME Units are designated as “floating” units pursuant to 24 C.F.R. 92.252(j).

1.7 Eligible Tenant. As used in this Agreement, the term “Eligible Tenant” shall mean any person entitled to rent an Affordable Unit as set forth in this Agreement.

1.8 Low Income Household. As used in this Agreement, the term “Low Income Household” shall have meaning given to “lower income households” in Health and Safety Code section 50079.5(a).

1.9 Median Income or Orange County Median Income. For purposes of this Agreement, the terms “Median Income” and “Orange County Median Income” shall mean the median income for the Orange County Primary Metropolitan Statistical Area, with adjustment for household size, as estimated annually by the United States Department of Housing and Urban Development pursuant to Section 8 of the United States Housing Act of 1937 as amended and published by California’s Housing and Community Development Department pursuant to Health and Safety Code section 50093.

1.10 Very Low Income Household. As used in this Agreement, the term “Very Low Income Household” shall have meaning given in Health and Safety Code section 50105(a).

2. TERM OF AGREEMENT; PRIORITY OF AGREEMENT; USE OF PROPERTY. As required by California *Health and Safety Code* Section 33334.3 and in satisfaction of 24 CFR 92.252(e), this Agreement shall commence upon its execution and shall remain in effect for the longest feasible period but not less than the period terminating sixty (60) years following the date on which a Release of Construction Covenants is recorded for the Project. This Agreement shall remain in effect throughout its 60-year term, notwithstanding the payment in full of the Agency Loan or the City Loan. This Agreement is secured by the Agency Deed of Trust and the City Deed of Trust and Owner shall not be entitled to a reconveyance of either the Agency Deed of Trust or the City Deed of Trust prior to the expiration of the 60-year term of this Agreement. This Agreement shall unconditionally be and remain at all times prior and superior to the lien created by the Bond Deed of Trust and any other of the Bond Documents and all of the terms and conditions contained in the Bond Documents and to the lien of any new mortgage debt which is for the purpose of refinancing all or any part of the Bond Loans. Owner hereby agrees that the Project is to be owned, managed, and operated as a project for Eligible Tenants for the term of this Agreement. To that end, and for the term of this Agreement, the Owner hereby represents, covenants, warrants and agrees as follows:

2.1 Compliance With HOME Regulations. Owner, its successor and assigns, covenant and agree that the Project shall at all times during the term of this Agreement comply with applicable requirements set forth in Subpart F of Part 92 of Title 24 of the Code of Federal Regulations.

2.2 Purpose; Disbursement and Use of HOME Funds. The Site is being acquired and the Project developed for the purposes of providing Eligible Tenants affordable rental housing. The City Loan of HOME Funds shall be used exclusively for the payment of costs incurred in connection with the acquisition of the Site in accordance with the Housing Agreement. The amount of the City Loan of HOME Funds shall not exceed the per unit dollar

limits established by HUD pursuant to section 221(d)(3)(ii) of the National Housing Act, as implemented in regulations issued by HUD, 24 CFR 221.514(b)(1) and (c). Owner shall not request disbursement of HOME funds until the funds are needed to pay eligible costs. The amount of each disbursement request shall be limited to the amount needed. The City shall have the right to disapprove any request if the City determines the request is for an ineligible item or is otherwise not in compliance with or inconsistent with the Housing Agreement and this Agreement.

2.3 Schedule. The Project activities shall be accomplished within the time provided in the Schedule of Performance, which is attached to the Housing Agreement.

2.4 Tasks and Budget. The Project Costs are indicated in the Project Budget attached to the Housing Agreement. The HOME Funds shall be used exclusively for acquisition of the Site.

2.5 Construction Covenant. Owner hereby covenants and agrees on behalf of itself and its successors and assigns in the Site or any portion thereof or any improvements thereon or any interest therein that Owner and such successors and assigns shall rehabilitate the Units in accordance with the Housing Agreement (including but not limited to the Scope of Development), the Redevelopment Plan for the Huntington Beach Redevelopment Project, this Agreement, and plans approved by the City of Huntington Beach.

2.6 Facilities. All of the Units in the Project shall contain facilities adequate for living, sleeping, eating, cooking and sanitation in accordance with all applicable federal, state and local laws and codes. The rehabilitation and maintenance of the Units shall comply with the City's building code and all other applicable local codes, rehabilitation standards, ordinances and zoning ordinances in effect, and the Units shall be decent, safe and sanitary and shall conform to the building, electrical, plumbing, mechanical and energy codes that have been adopted by the City of Huntington Beach. To the extent applicable, the Project shall comply with the accessibility requirements at 24 CFR Part 8, which implements Section 504 of the Rehabilitation Act of 1973 (29 U.S.C. 794) and, if applicable, the design and construction requirements at 24 CFR 100.205 for covered multifamily dwellings, as defined at 24 CFR 100.201, which implements the Fair Housing Act (42 U.S.C. 3601-3619).

2.7 Residential Use. None of the Units in the Project will at any time be utilized on a transient basis or will ever be used as a hotel, motel, dormitory, fraternity house, sorority house, rooming house, nursing home, hospital, sanitarium, or trailer court or park, or any other use that is inconsistent or incompatible with this Regulatory Agreement.

2.8 Faith-Based Activities. Owner covenants that it will comply with all terms and provisions contained in 24 CFR 92.257. Owner further certifies that HOME funds will not be used for the acquisition, construction or rehabilitation of structures to the extent that those structures are used for inherently religious activities.

2.9 Conversion of Units. No part of the Project will at any time be owned by a cooperative housing corporation nor shall the Owner take any steps in connection with the conversion to such ownership or uses to condominiums, or to any other form of ownership without prior written approval by both Agency and City. Any such conversion shall comply with the requirements of 24 C.F.R. Section 92.255.

2.10 Tenant Preference. All of the Affordable Units will be made available to Eligible Tenants for rental in accordance with the terms of this Agreement, and the Owner shall not give preference to any particular class or group in renting the Affordable Units, except to the extent that the Affordable Units are required to be leased or rented to Eligible Tenants and except as provided in Section 3.6 below.

2.11 Tenant Protections. Owner shall comply with the tenant protections provisions of 24 C.F.R. Section 92.253, including but not limited to:

a. The lease of an Affordable Unit must be for not less than one year, unless by mutual agreement between tenant and Owner.

b. The lease may not contain any of the following provisions:

(1) Agreement by the tenant to be sued, to admit guilt or to a judgment in favor of Owner in a lawsuit brought in connection with the lease;

(2) Agreement by the tenant that the Owner may take, hold, or sell personal property of household members without notice to the tenant and a court decision on the rights of the parties. This prohibition, however, does not apply to an agreement by the tenant concerning disposition of personal property remaining in the Unit after the tenant has moved out of the Unit. The Owner may dispose of this personal property in accordance with state law.

(3) Agreement by the tenant not to hold the Owner or the Owner's agents legally responsible for any action or failure to act, whether intentional or negligent;

(4) Agreement by the tenant that the Owner may institute a lawsuit without notice to the tenant;

(5) Agreement by the tenant that the Owner may evict the tenant or household members without instituting a civil court proceeding in which the tenant has the opportunity to present a defense, or before a court decision on the rights of the parties;

(6) Agreement by the tenant to waive any right to a trial by jury;

(7) Agreement by the tenant to waive the tenant's right to appeal, or to otherwise challenge in court, a court decision in connection with the lease; and

(8) Agreement by the tenant to pay attorney's fees or other legal costs if the tenant wins in a court proceeding by the Owner against the tenant. The tenant, however, may be obligated to pay costs if the tenant loses.

As required by 24 C.F.R. 92.303, Owner shall adhere to a fair lease and grievance procedure approved by the City and provide a plan for and follow a program of tenant participation in management decisions.

2.12 Termination of Tenancy. Owner, its successors or assigns, may not terminate the tenancy or refuse to renew the lease of a tenant, except (i) for serious or repeated violation of the terms and conditions of the lease; (ii) for violation of applicable federal, state, or local law; (iii) violation of occupancy rules as described in Section 3 below; or (iv) for other good cause. Pursuant to 24 C.F.R. 92.253(c), any termination or refusal to renew must be preceded by not less than 30 days by the Owner's service upon the tenant of a written notice specifying the grounds for the action.

3. OCCUPANCY OF PROJECT BY ELIGIBLE TENANTS. Owner hereby represents, warrants, and covenants as follows:

3.1 Income Restrictions. Except as expressly provided herein, throughout the term of this Agreement, the Affordable Units shall be rented only to, and occupied only by, Eligible Tenants.

3.2 Rental Rates. Owner shall rent the Affordable Units to Eligible Tenants at no more than the allowable Affordable Rents for a household size appropriate to the unit, which is the number of bedrooms plus one. Therefore, a two-bedroom Affordable Unit shall be rented at no more than the applicable Affordable Rent for a three-person household. The rental rates for the Affordable Units shall be adjusted annually based upon annual updates of the applicable income and rent standards, including but not limited to updates published by the California Housing and Community Development Department and the United States Department of Housing and Urban Development. In no event shall any of the Affordable Units be rented at a rate greater than the applicable Affordable Rent. Failure to comply with the affordability requirements of this Agreement is an event of default under the terms of both the Agency Loan and the City Loan. Subject to the right to cure, the Agency Loan of Set Aside Funds and the City Loan of HOME Funds will each be due and payable immediately if the Affordable Units do not meet the requirements of this Agreement.

3.3 Occupancy By Eligible Tenant. An Affordable Very Low Income Unit initially occupied by an Eligible Tenant shall be deemed occupied by an Eligible Tenant until such Affordable Unit is vacated, even if the tenant's household income subsequently increases to an amount that exceeds the maximum allowable income level for a Very Low Income Household, so long as satisfactory actions are taken to ensure that all vacancies are filled in accordance with this Agreement until the noncompliance is corrected.

While an increase in an Eligible Tenant's household income may, after initially qualifying, subsequently exceed the allowable income level for a Very Low Income Household, such a subsequent increase in household income shall not exceed the allowable income level for a Low Income Household.

If at any time a tenant's household income increases, resulting in disqualification of such tenant as a Low Income Household such tenant shall have a period of ninety (90) days to relocate from the Site. The disqualified tenant shall be fully responsible for the costs and expenses related to the relocation. Should such tenant face extraordinary hardship in relocating from the Site, the tenant may submit a written appeal to the City requesting an extension of the time period within which the tenant must relocate. If the City's Director of Economic Development determines in his or her sole discretion that a hardship exception is justified by the circumstances, he or she may extend the relocation period for up to a maximum of ninety (90) additional days.

The provisions set forth in this Section 3.3 shall apply only to the extent such provisions are not in conflict with any applicable federal or state law or any regulatory agreement affecting the Project that is recorded in superior priority to this Agreement.

3.4 Maximum Occupancy. The maximum number of persons residing in a two-bedroom unit may not exceed five persons. Owner shall be responsible for enforcing this maximum occupancy limit. Upon discovery of a violation of this Section 3.4, Owner shall immediately notify the Eligible Tenant of record in writing ("Occupancy Violation Notice"). In the Occupancy Violation Notice, Owner shall inform the Eligible Tenant of the occupancy violation and provide the Eligible Tenant with an opportunity to cure the violation within thirty (30) days from the date of the Notice. It shall not be a violation of this Agreement if a household occupying a Unit in the Project prior to Initial Rehabilitation (as defined in Section 3.6(a)) exceeds the maximum occupancy limit of five persons in a two-bedroom unit; provided that, any subsequent increase in the size of such a household or any change in the composition of such a household that results in a household size that continues to exceed the maximum occupancy limit of five persons shall be a violation of this Agreement.

3.5 Income Computation. Immediately prior to a prospective tenant's occupancy of an Affordable Unit, Owner shall obtain and maintain on file an income computation and certification form from such prospective tenant dated immediately prior to the date of initial occupancy of an Affordable Unit by such prospective tenant. Owner shall verify that the income information provided by an applicant is accurate by following all applicable City or Agency policies and procedures and by taking one or more of the following steps as a part of the verification process: (i) obtain two (2) pay stubs from the most recent pay periods; (ii) obtain a written verification of income and employment from applicant's current employer; (iii) obtain an income verification form from the Social Security Administration and/or California Department of Social Services if the applicant receives assistance from either agency; (iv) if an applicant is unemployed or did not file a tax return for the previous calendar year, obtain other verification of such applicant's income as is reasonably satisfactory; or (v) obtain such other information as may be reasonably required. Owner shall update the foregoing records annually and shall provide copies of updated tenant eligibility records and monthly rental records to City

for review. Upon review of such records, City may at its option perform an independent audit of the tenant eligibility records in order to verify compliance with the income and affordability requirements set forth herein. Costs for such an audit performed by the City shall be deemed a Project Operating Expense, deductible from the Project's Revenue (as such term is defined in the City Note). Owner shall retain the records described in this Section, including the documentation submitted pursuant to 24 C.F.R. 92.203(a)(1), for a period of five (5) years after the date the respective records were created.

3.6 Rental Priority. Subject to Owner's policies and procedures for screening potential tenants, which must be approved by the City and Agency, the Affordable Units shall be rented according to the following priorities:

a. Tenants living in the Project prior to Owner's rehabilitation of the Units under the Housing Agreement ("Initial Rehabilitation") who are Eligible Tenants meeting the applicable income restrictions of the Affordable Units shall be given first priority in re-leasing Affordable Units in the Project following completion of the Initial Rehabilitation.

b. When an Affordable Unit becomes available as a result of a tenant vacation, Owner shall give first priority in renting the Affordable Unit to an Eligible Tenant who has been displaced by activities of the City or the Agency, pursuant to California Health & Safety Code Section 33411.3.

Except as otherwise set forth above, Affordable Units shall be rented to Eligible Tenants on a first-come, first-served basis; provided, however, that Owner shall maintain an "interest list" or "eligibility list" of potential tenants. The rental priority provision set forth in this Section 3.6 shall apply only to the extent such provisions are not in conflict with any applicable federal or state law or any regulatory agreement affecting the Project that is recorded in superior priority to this Agreement.

3.7 Maintenance of Records. Owner shall maintain complete and accurate records pertaining to the Affordable Units, and shall permit any duly authorized representative of the City or the Agency to inspect the books and records of Owner pertaining to the Project including, but not limited to, those records pertaining to tenant eligibility and occupancy of the Affordable Units. Records pertaining to the Project and Affordable Units shall be retained for a period of five (5) years after the termination of this Agreement; records pertaining to tenant eligibility shall be retained for the period set forth in Section 3.5.

To assist the City in meeting its HOME Program recordkeeping and reporting requirements and to assist the Agency in meeting its reporting requirements under California's Community Redevelopment Law, Owner shall prepare, maintain and submit to the City and the Agency, as appropriate, the following records and reports:

a. Records which demonstrate that the Site meets the property standard specified in 24 CFR 92.251 and the lead-based paint requirements of 24 CFR 92.355;

b. Records which demonstrate that each family occupying a HOME Unit is income eligible in accordance with 24 CFR 92.203;

c. Records which demonstrate that the Site meets the affordability and income targeting requirements of California Health and Safety Code Sections 50079.5, 50105 and 50053 and 24 CFR 92.252 for the duration of this Agreement. Records shall be kept for each family occupying an Affordable Unit;

d. Records which demonstrate that each lease complies with the tenant and participant protections, as specified in 24 CFR 92.253. Records shall be kept for each family occupying an Affordable Unit;

e. Equal opportunity and fair housing records, including, as applicable:

(1) data on the extent to which each racial and ethnic group and single-headed household (by gender of household head) have applied for, participated in, or benefited from, any program or activity funded in whole or in part with HOME funds;

(2) documentation of actions undertaken to meet the requirements of 24 CFR Part 135 which implements section 3 of the Housing Development Act of 1968, as amended (12 U.S.C. 1701u);

(3) documentation of the actions taken to affirmatively further fair housing;

f. Affirmative Marketing and MBE/WBE records, including, as applicable:

(1) if applicable, records documenting compliance with the affirmative marketing procedures and requirements of 24 CFR 92.351;

(2) if applicable, documentation and data on the steps taken by Owner to implement the City's outreach programs as set forth in applicable City policies and procedures including data indicating the racial/ethnic or gender character of each business entity receiving a contract or subcontract of \$25,000 or more paid, or to be paid, with HOME funds; the amount of the contract or subcontract, and documentation of the Owner's affirmative steps to assure that minority business and women's business enterprises have an equal opportunity to obtain or compete for contracts and subcontracts as sources of supplies, equipment, construction and services;

g. if applicable, records which demonstrate compliance with the requirements of 24 CFR 92.353 relating to displacement, relocation and real property acquisition, including project occupancy lists identifying the name and address of all persons occupying or moving into the Site on and after the date on which Owner obtained site control;

h. if applicable, records demonstrating compliance with the labor requirements of 24 CFR 92.354, including contract provisions and payroll records;

REGULATORY AGREEMENT
PAGE 10

- i. records demonstrating compliance with the lead-based paint requirements of 24 CFR 92.355;
- j. if applicable, records which support any exceptions to the conflict of interest prohibition pursuant to 24 CFR 92.356;
- k. debarment and suspension certifications required by 24 CFR Parts 24 and 91; and
- l. Equal opportunity and fair housing records, including, as applicable:
 - (1) data on the extent to which each racial and ethnic group and single-headed household (by gender of household head) have applied for, participated in, or benefited from, any program or activity funded in whole or in part with HOME funds;
 - (2) documentation of actions undertaken to meet the requirements of 24 CFR Part 135 which implements section 3 of the Housing Development Act of 1968, as amended (12 U.S.C. 1701u);
 - (3) documentation of the actions the Owner has taken to affirmatively further fair housing.

Owner shall retain all books and records relevant to the Housing Agreement for a minimum of five years after the project completion date, except that records of individual tenant income verifications, project rents and project inspections shall be retained for the most recent five year period until five years after the affordability period terminates, or until the conclusion or resolution of any and all audits or litigation relevant to the Housing Agreement, whichever is later. The Agency, the City, HUD and the Comptroller General of the United States, and any of their representatives, shall have the right of access to any pertinent books, documents, papers or other records of the Owner, in order to make audits, examinations, excerpts and transcripts.

3.8 Reliance on Tenant Representations: Each tenant lease shall contain a provision to the effect that Owner has relied on the income certification and supporting information supplied by the tenant in determining qualification for occupancy of an Affordable Unit, and that any material misstatement in such certification (whether or not intentional) will be cause for immediate termination of such lease.

4. MAINTENANCE

4.1 Maintenance Covenant.

(a) Owner agrees to maintain all interior and exterior improvements, including landscaping, on the Site in good condition and repair (and, as to landscaping, in a healthy condition), reasonable wear and tear excepted, and in accordance with all applicable laws, rules, ordinances, orders, and regulations of all federal, state, county, municipal, and other

governmental agencies and bodies having or claiming jurisdiction (including, but not limited to, Federal Housing Quality Standards as set forth in 24 C.F.R. 982.401). In addition, Owner shall keep the Site free from all graffiti and any accumulation of debris or waste material. Owner shall make all repairs and replacements necessary to keep the improvements in good condition and repair and shall promptly eliminate all graffiti and replace dead and diseased plants and landscaping with comparable materials. The maintenance covenant contained in this Section shall remain in effect for the term of this Agreement.

(b) The Project shall comply with the lead-based paint standards in 24 C.F.R. §92.355. Housing assisted with HOME Program funds constitutes HUD-associated housing for the purpose of Lead-Based Paint Poisoning Prevention Act (42 U.S.C. Section 4821, *et seq.*) and is, therefore, subject to 24 Code of Federal Regulations Part 35. Accordingly, and pursuant to Section 92.355 of the Regulations, the Owner hereby agrees to and shall be responsible for testing and abatement activities specified in the Lead-Based Paint Poisoning Prevention Act and the regulations set forth at 24 Code of Federal Regulations Part 35 with respect to the rehabilitation of the Site.

4.2 City and Agency Rights. City and Agency shall each have the right to enter upon the Site to inspect the Site and both the interiors and exteriors of the Units, upon seventy-two (72) hours notice to Owner. City and Agency may, but are not obligated to, perform or cause to be performed the maintenance necessary to cure any default of these maintenance covenants and Owner shall be liable for payment of reasonable costs to perform such required maintenance; provided, however, that Owner first be given written notice of the actions required to cure any default, and Owner, after receipt of such notice, shall have thirty (30) days to cure such defaults, but Owner shall not be deemed in default of the foregoing maintenance covenant if such default cannot reasonably be cured within the thirty (30) day period referenced above so long as Owner has commenced to cure such default within the same thirty (30) day period and is diligently proceeding with the work to cure such default. Notwithstanding the foregoing, if any property conditions are reasonably identified by City or Agency after a property inspection attended by a representative of Owner that pose an immediate danger to life or limb, Owner shall have three (3) days to effect corrections of such condition(s) to City's and Agency's reasonable satisfaction.

4.3 Annual & Quarterly Reports. Owner covenants and agrees to submit to the City and the Agency an annual report (the "Annual Report"), which shall include the information required by Section 3.5 of this Agreement and by *California Health & Safety Code* Section 33418. The Annual Report shall include for each Affordable Unit the rental rate and the income and family size of the occupants, and shall also include the records described in Section 3.5 herein and the financial statements required by Section 503 of the Housing Agreement. The income information shall be supplied by the tenant in a certified statement on a form provided by the City. The Owner shall submit the Annual Report on or before April 30 of the year following the year covered by the Annual Report. The Owner shall provide for the submission of household information and certification in its leases with tenants.

Beginning on the date of first occupancy, and for each fiscal year thereafter during the term of this Agreement, Owner shall also submit on a quarterly basis a quarterly report for the management of the Site (the "Quarterly Report"). The Quarterly Report shall include a profit and loss statement, budget to date figures, and occupancy report and shall clearly show project revenues, operating expenses, deposits to and withdrawals from the Project's Capital Reserve Account, and cash flow available for residual receipts payments. The Quarterly Report shall be in a form that is reasonably acceptable to the Agency Executive Director. The Agency Executive Director, in his/her sole discretion may waive the requirement of the Quarterly Report for one or more quarterly reporting periods. However, such waiver shall not operate to waive any subsequent requirement of the Quarterly Report for the Restricted Period.

The Owner shall also provide to the Agency a copy of the quarterly Certifications of Compliance and Project Status Reports required by the Regulatory Agreement and Declaration of Restrictive Covenants to be recorded against the Site in connection with the Bonds issued for the Project.

4.4 Management Plan. Within the time set forth in the Schedule of Performance attached to the Housing Agreement, Owner shall prepare and submit to Agency and to City for approval a management plan in accordance with the following ("Management Plan"):

(a) The Management Plan, including such amendments as may be approved in writing by the City, shall remain in effect for the term of this Agreement. Owner shall not amend the Management Plan or any of its components without the prior written consent of the City. The components of the Management Plan shall include:

(1) Management Agent. The name and qualifications of the proposed management agent, which may include but shall not be limited to Advanced Property Services, LLC. The City shall approve or disapprove the proposed management agent, if other than Advanced Property Services, LLC, in writing based on the experience and qualifications of the management agent. The management agent shall have demonstrated experience in operating affordable housing comparable to the Project.

(2) Management Program. A description of the proposed management, maintenance, tenant selection and occupancy policies and procedures for the Affordable Units.

(3) Management Agreement. A copy of the proposed management agreement specifying the amount of the management fee and the relationship and division of responsibilities between Owner and management agent.

(4) Tenant Lease or Rental Agreement. A copy of the proposed tenant lease or rental agreement to be used in renting the Affordable Units.

(5) Annual Operating Budget. Within the time set forth in the Schedule of Performance attached to the Housing Agreement and annually thereafter not later than fifteen (15) days prior to the beginning of the next fiscal or calendar year of the

Project, Owner shall submit a projected operating budget to the City for review and approval. After Owner's initial projected operating budget submittal, Owner shall annually reconcile each previous year's projected budget with actual operating results for the Project ("Budget Reconciliation"). In each Budget Reconciliation, Owner shall set forth an explanation for any major discrepancies between projected and actual budgets. For purposes of this Agreement, a "major discrepancy" shall mean a line item difference between projected and actual budgets of 20% or more.

The City shall not unreasonably withhold, condition or delay its approval of any matter for which its approval is required hereunder, but such matter shall be deemed disapproved unless the City provides to Owner its written approval within thirty (30) days after receipt of a request for approval. Any express disapproval shall be in writing and contain the City's reasons for disapproval. Any matter for which approval is required by both the Agency and the City shall be deemed approved if such approval is given by either the Agency or the City.

(b) Owner hereby covenants and agrees the City shall have the right, at any time and from time to time, to give notice to Owner if the City determines that the Project is not being managed or maintained in accordance with the Management Plan. The City may require the Owner to change management practices or to terminate the management agent and retain a different management agent, approved by the City. The City agrees that prior to requiring the Owner to change its management agent or the management practices the City shall informally consult with Owner, in an attempt to resolve the dispute. If the City determines that such an attempt at informal resolution has been unsuccessful, it shall give the Owner thirty (30) days written notice to change the management agent or practice, as the case may be. If Owner fails to do as requested by the City in the written notice, the City may then require the immediate change of the management practice or agent, as the case may be. The management agreement shall provide that it is subject to termination by the Owner without penalty, upon thirty (30) days prior written notice. Within ten (10) business days following a direction of the City to replace the management agent, the Owner shall select another management agent or make other arrangements satisfactory to the City for continuing management of the Project. The Owner shall notify the City upon learning that there is a voluntary change in the management or control of the management agent, and, if the change is unsatisfactory to the City, the City shall be entitled to require the Owner to change the management agent in accordance with the terms of this paragraph.

4.5 Other HOME Program Requirements.

Owner shall comply with all applicable federal requirements set forth in Subpart H of the HOME regulations, including the following:

a. Other Federal Requirements and Nondiscrimination. 24 CFR 92.350. Owner acknowledges that 24 CFR 92.350 provides that the Federal requirements set forth in 24 CFR Part 5, subpart A, are applicable to participants in the HOME program, and that these Federal requirements include the following:

(i) Nondiscrimination and Equal Opportunity.

(1) Civil Rights, Fair Housing, and Age and Disability Discrimination Acts Assurances:

During the performance of the Housing Agreement, Owner assures that no otherwise qualified person shall be excluded from participation or employment, denied program benefits, or be subjected to discrimination based on race, color, national origin, sex, age, handicap, religion, or religious preference, under any program or activity funded by this Agreement, as required by the Fair Housing Act (42 U.S.C. 3601-19) and implementing regulations at 24 CFR part 100 et seq.; Executive Order 11063, as amended by Executive Order 12259 (3 CFR, 1959-1963 Comp., p. 652 and 3 CFR, 1980 Comp., p. 307) (Equal Opportunity in Housing Programs) and implementing regulations at 24 CFR part 107; title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d- 2000d-4) (Nondiscrimination in Federally Assisted Programs) and implementing regulations at 24 CFR part 1; the Age Discrimination Act of 1975 (42 U.S.C. 6101-6107) and implementing regulations at 24 CFR part 146; section 504 of the Rehabilitation Act of 1973 (29 U.S.C. 794) and implementing regulations at 24 CFR part 8; Title VI of the Civil Rights Act of 1964, the Fair Housing Act (42 U.S.C. 3601-20) and all implementing regulations, and the Age Discrimination Act of 1975, and all implementing regulations.

(2) Training, Employment, and Contracting Opportunities Assurance of Compliance:

The Project Activities to be performed under the Housing Agreement are on a project assisted under a program providing direct federal financial assistance from HUD which is subject to the requirements of Section 3 of the Housing and Urban Development Act of 1968, as amended, 12 U.S.C. 1701u ("Section 3"), and the regulations issued by HUD to implement Section 3 (24 CFR Part 135) (the "Section 3 Regulations"). Pursuant to 24 CFR §135.3, the requirements of the Section 3 Regulations apply to the recipient of such financial assistance only where the amount of federal assistance exceeds \$200,000, and apply to a contractor or subcontractor of such recipient only where the amount of assistance exceeds \$200,000 and the amount of the contract or subcontract exceeds \$100,000. Owner shall provide, to the greatest extent feasible, training, employment and contracting opportunities generated by the financial assistance to low- and very-low income persons and business concerns owned by low- or very-low income persons, or which employ low- or very-low income persons.

(3) MBE/WBE Affirmative Action Outreach Program:

Owner hereby agrees to comply with the City's minority and women business outreach program to the extent required by Executive Order 11625, as amended by Executive Order 12007 (3 CFR, 1971-1975 Comp., p. 616 and 3 CFR, 1977 Comp., p. 139) (Minority Business Enterprises); Executive Order 12432 (3 CFR, 1983 Comp., p. 198) (Minority Business Enterprise Development); and Executive Order 12138, as amended by Executive Order 12608 (3 CFR, 1977 Comp., p. 393 and 3 CFR, 1987 Comp., p. 245) (Women's Business Enterprise).

REGULATORY AGREEMENT
PAGE 15

(ii) Disclosure Requirements. The disclosure requirements and prohibitions of 31 U.S.C. 1352 and implementing regulations at 24 CFR Part 87; and the requirements for funding competitions established by the Housing and Urban Development Reform Act of 1989 (42 U.S.C. 3531 et seq.).

(iii) Debarred, Suspended or Ineligible Contractors. The prohibitions at 24 CFR Part 24 on the use of debarred, suspended or ineligible contractors.

(iv) Drug-free Workplace. The Drug-Free Workplace Act of 1988 (41 U.S.C. 701 et seq.) and HUD's implementing regulations at 24 CFR Part 24.

b. Affirmative Marketing. 24 CFR 92.351. Owner shall comply with the City's Affirmative Marketing requirements.

c. Displacement, Relocation and Acquisition. 24 CFR 92.353. Owner shall prepare a project-specific relocation plan and shall certify that, to the extent applicable, it will comply or has complied with the federal relocation, displacement and acquisition rules governing the HOME Program, which are contained in the Uniform Relocation Act, 49 CFR Part 24, and applicable program regulations. 24 CFR Section 92.353 requires that tenants who are displaced from housing units demolished or converted as a result of HOME-funded activities be provided with relocation assistance.

d. Labor. 24 CFR 92.354. Does not apply to this Project.

e. Lead-based Paint. 24 CFR 92.355. The Project shall comply with the lead-based paint standards in §92.355.

f. Conflict of Interest. 24 CFR 92.356.

(1) Interest of Employees, Officers and Officials. No employee, agent, consultant, officer or elected official or appointed official of the City, or employee, agent, consultant or officer of Owner, and no other public official of the City who exercises any functions or responsibilities with respect to the activities assisted with HOME funds or who are in a position to participate in a decision making process or gain inside information with regard to these activities, during their tenure and for one year thereafter, may obtain a financial interest or benefit from a HOME assisted activity or have an interest in any contract or subcontract, or agreement with respect thereto, or the proceeds thereunder, either for themselves or those with whom they have family or business ties. Owner shall incorporate, or cause to be incorporated, in all such contracts or subcontracts a provision prohibiting such interest pursuant to the purposes of this Section. Fulfillment of "sweat equity" obligations as defined in Section 8201 of the HOME regulations shall not be considered a violation of this prohibition.

(2) Prohibition Against Occupying HOME-Assisted Units. No officer, employee, agent, official or consultant of Owner may occupy the Site.

REGULATORY AGREEMENT
PAGE 16

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g. Consultant Activities. 24 CFR 92.358. No person providing consultant services in an employer-employee type relationship shall receive more than a reasonable rate of compensation for personal services paid for with HOME funds. In no event, however, shall such compensation exceed the limits in effect under the provisions of any applicable statute (e.g., annual HUD appropriations acts which have set the limit at the equivalent of the daily rate paid for Level IV of the Executive Schedule). Such services shall be evidenced by written agreements between the parties which detail the responsibilities, standards and compensation. Consultant services provided under an independent contractor relationship are not subject to the compensation limitation of Level IV of the Executive Schedule.

5. ENFORCEMENT. In the event Owner defaults in the performance or observance of any covenant, agreement or obligation of Owner pursuant to this Agreement, and if such default remains uncured for a period of thirty (30) days after written notice thereof (or such longer period as may apply to the specific alleged default) shall have been given by City, or, in the event said default cannot be cured within said time period, Owner has failed to commence to cure such default within said thirty (30) days and diligently prosecute said cure to completion, then City shall declare an "Event of Default" to have occurred hereunder, and, at its option, may take one or more of the following steps:

(a) By mandamus or other suit, action or proceeding at law or in equity, require Owner to perform its obligations and covenants hereunder or enjoin any acts or things which may be unlawful or in violation of this Agreement; or

(b) Take such other action at law or in equity as may appear necessary or desirable to enforce the obligations, covenants and agreements of participant hereunder, including foreclosure of the Deed of Trust.

Except as otherwise expressly stated in this Agreement, the rights and remedies of the parties are cumulative, and the exercise by any party of one or more of its rights or remedies shall not preclude the exercise by it, at the same or different times, of any other rights or remedies for the same default or any other default by another party.

6. NONDISCRIMINATION. There shall be no discrimination against or segregation of any person, or group of persons, on account of race, color, creed, age, class, income, religion, sex, sexual orientation, marital status, national origin or ancestry in the sale, lease, sublease, transfer, use, occupancy, tenure or enjoyment of the Site, or any part thereof, or in the awarding of contracts for the Project, nor shall participant, or any person claiming under or through it, 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 of the Site, or any part thereof, or in the awarding of contracts for the Project (except as permitted by this Agreement).

Owner shall comply with all applicable federal, state and local nondiscrimination, fair housing, and equal opportunity requirements. In addition, Owner shall conduct affirmative marketing and minority outreach activities as required by federal regulations.

6.1 Form of Nondiscrimination and Nonsegregation Clauses. The Owner shall refrain from restricting the rental, sale or lease of the property on the basis of race, color, creed, age, class, income, religion, sex, sexual orientation, marital status, national origin or ancestry of any person. All such deeds, leases or contracts shall contain or be subject to substantially the following nondiscrimination or nonsegregation clauses:

(a) In deeds: "The grantee herein covenants by and for himself or herself, his or her heirs, executors, administrators, and assigns, and all persons claiming under or through them, that there shall be no discrimination against or segregation of, any person or group of persons on account of any basis listed in subdivision (a) or (d) of Section 12955 of the Government Code, as those bases are defined in Sections 12926, 12926.1, subdivision (m) and paragraph (1) of subdivision (p) of Section 12955, and Section 12955.2 of the Government Code, in the sale, lease, sublease, transfer, use, occupancy, tenure, or enjoyment of the premises herein conveyed, nor shall the grantee or any person claiming under or through him or her, establish or permit any 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 premises herein conveyed. The foregoing covenants shall run with the land."

(b) In leases: "The lessee herein covenants by and for himself or herself, his or her heirs, executors, administrators, and assigns, and all persons claiming under or through him or her, and this lease is made and accepted upon and subject to the following conditions:

That there shall be no discrimination against or segregation of any person or group of persons, on account of any basis listed in subdivision (a) or (d) of Section 12955 of the Government Code, as those bases are defined in Sections 12926, 12926.1, subdivision (m) and paragraph (1) of subdivision (p) of Section 12955, and Section 12955.2 of the Government Code, in the leasing, subleasing, transferring, use, occupancy, tenure, or enjoyment of the premises herein leased nor shall the lessee himself or herself, or any person claiming under or through him or her, 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, sublessees, subtenants, or vendees in the premises herein leased."

(c) In contracts: There shall be no discrimination against or segregation of any person or group of persons, on account of any basis listed in subdivision (a) or (d) of Section 12955 of the Government Code, as those bases are defined in Sections 12926, 12926.1, subdivision (m) and paragraph (1) of subdivision (p) of Section 12955, and Section 12955.2 of the Government Code, in the sale, lease, sublease, transfer, use, occupancy, tenure, or enjoyment of the land, nor shall the transferee itself or any person claiming under or through him or her, 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, sublessees, subtenants, or vendees of the land.”

7. COVENANTS TO RUN WITH THE LAND. Owner hereby subjects the Site to the covenants, reservations, and restrictions set forth in this Agreement. City, Agency and Owner hereby declare their express intent that all such covenants, reservations, and restrictions shall be deemed covenants running with the land and shall pass to and be binding upon the Owner’s successors in title to the Site; provided, however, that on the termination of this Agreement said covenants, reservations and restrictions shall expire, except the nondiscrimination covenants contained in Section 6 and Section 6.1 shall remain in perpetuity. All covenants without regard to technical classification or designation shall be binding for the benefit of the City and Agency, and such covenants shall run in favor of the City and Agency for the entire term of this Agreement, without regard to whether the City or Agency is or remains an owner of any land or interest therein to which such covenants relate.

8. ATTORNEYS’ FEES. In the event that any action, suit or other proceeding is brought to enforce the obligations of under this Agreement, each party shall bear its own costs and expenses of suit, including attorneys’ fees, expert witness fees and all costs incurred in each and every such action, suit or other proceeding, including any and all appeals or petitions therefrom.

9. AMENDMENTS. This Agreement shall be amended only by a written instrument executed by the parties hereto or their successors in title, and duly recorded in the real property records of the County of Orange.

10. NOTICE. Any notice required to be given hereunder shall be made in writing and shall be given by (i) personal delivery, (ii) courier service that provides a receipt showing date and time of delivery, or (iii) certified or registered mail, postage prepaid, return receipt requested, at the addresses specified below, or at such other addresses as may be specified in writing by the parties hereto:

City: City of Huntington Beach
2000 Main Street
Huntington Beach, CA 92648
Attn: Director of Economic Development

Agency: Redevelopment Agency of the City of Huntington Beach
2000 Main Street
Huntington Beach, CA 92648
Attn: Agency Secretary

With a copy to: City Attorney’s Office
City of Huntington Beach
2000 Main Street
Huntington Beach, CA 92648

REGULATORY AGREEMENT
PAGE 19

Owner: Pacific Court Apartments, L.P.
414 E. Chapman Ave.
Orange, CA 92866
Attn: Managing General Partner

With a copy to: Goldfarb & Lipman LLP
1300 Clay Street, 9th Floor
Oakland, CA 94612
Attn: Lynn Hutchins

And a copy to: NEF Assignment Corporation
c/o General Counsel
120 S. Riverside Plaza, 15th Floor
Chicago, IL 60606

Notices personally delivered or delivered by courier shall be effective upon receipt. Mailed notices shall be effective on the earlier of receipt or Noon on the second business day following deposit in the United States mail. Notices, requests and submittals that are required to be given to both the Agency and the City shall be deemed given if such notices, requests and submittals are given to either the Agency or the City and, with regard to notices and requests, a copy is provided to the City Attorney's Office.

11. SEVERABILITY/WAIVER/INTEGRATION.

11.1 Severability. If any provision of this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining portions hereof shall not in any way be affected or impaired thereby.

11.2 Waiver. A waiver by either party of the performance of any covenant or condition herein shall not invalidate this Agreement nor shall it be considered a waiver of any other covenants or conditions, nor shall the delay or forbearance by either party in exercising any remedy or right be considered a waiver of, or an estoppel against, the later exercise of such remedy or right.

11.3 Integration. This Agreement contains the entire Agreement between the parties and neither party relies on any warranty or representation not contained in this Agreement.

12. GOVERNING LAW. This Agreement shall be governed by the internal laws of the State of California.

13. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall constitute one original and all of which shall be one and the

same instrument. This Agreement may be executed by each party on a separate signature page, and when the executed signature pages are combined, shall constitute one single instrument.

IN WITNESS WHEREOF, the City, Agency and Owner have executed this Regulatory Agreement and Declaration of Covenants and Restrictions by duly authorized representatives on the date first written hereinabove.

[SIGNATURES APPEAR ON NEXT PAGE]

“OWNER”

PACIFIC COURT APARTMENTS, L.P.,
a California limited partnership

By: C&C Delaware, LLC,
a California limited liability
corporation,

Its: Developer General Partner

By: _____

Todd R. Cottle

Its: Managing Member

By: OHDC Delaware, LLC,
a California limited liability
corporation,

Its: Managing General Partner

By: Orange Housing Development
Corporation,

a California nonprofit corporation

Its: Sole Member

By: _____

Eunice Bobert

Its: Chief Executive Officer

“CITY”

THE CITY OF HUNTINGTON
BEACH, a municipal corporation of
the State of California

Mayor

ATTEST:

City Clerk

APPROVED AS TO FORM:

City Attorney

“AGENCY”

REDEVELOPMENT AGENCY OF
THE CITY OF HUNTINGTON
BEACH, a public body, corporate
and politic

Chairperson

ATTEST:

Agency Secretary

APPROVED AS TO FORM:

General Counsel

KANE, BALLMER & BERKMAN
Agency Special Counsel

REGULATORY AGREEMENT
PAGE 23

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EXHIBIT NO. 1

LEGAL DESCRIPTION OF SITE

The land referred to herein is situated in the State of California, County of Orange, and described as follows:

PARCEL 1:

BLOCK 2205 OF EAST SIDE VILLA TRACT, AS PER MAP RECORDED IN BOOK 4, PAGE 65, MISCELLANEOUS MAPS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY

PARCEL 2:

AN EASEMENT FOR INGRESS AND EGRESS OVER THE EASTERLY 15 FEET OF THE SOUTH 72 FEET OF BLOCK 2305 OF THE EAST SIDE VILLA TRACT

PARCEL 3:

AN EASEMENT FOR INGRESS AND EGRESS OVER THE WEST 20 FEET OF BLOCK 2306 OF EAST SIDE VILLA TRACT

APN: 025-121-50

REGULATORY AGREEMENT
LEGAL DESCRIPTION

State of California)

County of Orange)

On _____ before me, _____, a Notary Public, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____ (Seal)

State of California)

County of Orange)

On _____ before me, _____, a Notary Public, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____ (Seal)

RECORDING REQUESTED BY:

WHEN RECORDED MAIL TO:

Frankel & Tennant Professional Corporation
765 Baker Street
Costa Mesa, CA 92626
Loan No. _____ and _____

THIS SPACE FOR RECORDER'S USE ONLY

PRIORITY AND SUBORDINATION AGREEMENT

NOTICE: THIS SUBORDINATION AGREEMENT RESULTS IN YOUR SECURITY INTEREST IN THE PROPERTY BECOMING SUBJECT TO AND OF LOWER PRIORITY THAN THE LIEN OF SOME OTHER OR LATER INSTRUMENT.

This Priority and Subordination Agreement ("Agreement") is entered into as of _____, 2008, by and among PACIFIC COURT APARTMENTS, L.P., a California limited partnership ("Borrower"); the REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH, a community redevelopment agency organized and existing under the laws of the State of California ("Agency"), the CITY OF HUNTINGTON BEACH, a municipal corporation ("City") and WASHINGTON MUTUAL BANK, a federal association ("WMB"), as agent for the California Statewide Communities Development Authority, as Issuer ("Issuer") of California Statewide Communities Development Authority Multifamily Housing Revenue Bonds (Pacific Court Apartments) 2008 Series X-1 and X-2 (respectively, the "Series X-1 Bonds" and the "Series X-2 Bonds"). The parties to this Agreement are referred to as the "Parties." WMB, Agency and City are referred to as the "Lenders."

RECITALS

A. Borrower has executed or is about to execute a Deed of Trust, Security Agreement, Assignment of Leases and Rents and Fixture Filing (the "Series X-1 Deed of Trust") for the benefit of WMB as Issuer's agent with respect to the Series X-1 Bonds, to secure a promissory note in the amount of \$3,485,906.00. The Series X-1 Deed of Trust encumbers, among other things, the real property more particularly described in Exhibit A attached to this Agreement (the "Land") and is to be recorded concurrently herewith in the Official Records of Orange County, California ("Official Records"). The Land, together with all improvements now or hereafter located on the Land and all fixtures and personal property located on the Land and encumbered by any of the Recorded Items (as defined below) are referred to, collectively, as the "Property."

B. Borrower has executed or is about to execute a Construction Deed of Trust, Security Agreement, Assignment of Leases and Rents and Fixture Filing (the "Series X-2 Deed of Trust") for the benefit of WMB as Issuer's agent with respect to the Series X-2 Bonds, to secure a promissory note in the amount of \$5,861,661. The Series X-2 Deed of Trust encumbers, among other things, the Property, and is to be recorded concurrently herewith in Official Records.

C. Borrower and Issuer have executed or are about to execute a Regulatory Agreement and Declaration of Restrictive Covenants (the "Bond Regulatory Agreement") which is to be recorded concurrently herewith against the Property in Official Records.

D. Borrower has executed or is about to execute an Agency Deed of Trust (the "Agency Deed of Trust") for the benefit of Agency, to secure a promissory note in the amount of \$8,784,224.00. The Agency Deed of Trust encumbers, among other things, the Property, and is to be recorded concurrently herewith in Official Records.

E. Borrower has executed or is about to execute a City Deed of Trust (the "City Deed of Trust") for the benefit of City, to secure a promissory note in the amount of \$500,000.00. The City Deed of Trust encumbers, among other things, the Property, and is to be recorded concurrently herewith in Official Records.

F. City, Agency and Borrower have executed, or about to execute that certain Regulatory Agreement and Declaration of Covenants and Restrictions ("City/Agency Affordability Restrictions") which are to be recorded concurrently herewith against the Property in Official Records.

G. Agency has executed that certain Notice of Affordability Restrictions on Transfer of Property ("Notice of Affordability Restrictions") which is to be recorded concurrently herewith against the Property in Official Records.

H. The Bond Regulatory Agreement, the City/Agency Affordability Restrictions, the Notice of Affordability Restrictions, the Series X-1 Deed of Trust, the Series X-2 Deed of Trust, the Agency Deed of Trust and the City Deed of Trust are referred to as the "Recorded Items."

I. It is the intent of the Parties that the order of priority of the Recorded Items as liens on or charges against the Property be as follows:

1. Bond Regulatory Agreement
2. City/Agency Affordability Restrictions
3. Notice of Affordability Restrictions
4. Series X-1 Deed of Trust
5. Series X-2 Deed of Trust
6. Agency Deed of Trust

7. City Deed of Trust

J. It is a condition precedent to the respective obligations of each Party under the Recorded Items to which it is a party that such Recorded Item unconditionally be and remain at all times a lien or charge on the Property, having priority with respect to the other Recorded Items in the order set forth above, and that each Party specifically and unconditionally subordinate the lien or charge of each of the Recorded Items to which it is a party as necessary in order that the Recorded Items have the relative priority set forth above. Notwithstanding the foregoing, the relative priorities of the Agency Deed of Trust and the City Deed of Trust, as to each other, shall be as set forth in the Agency Deed of Trust.

In consideration of the mutual benefits accruing to the Parties and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and in order to induce each Party to enter the Recorded Items to which it is a party, the Parties agree as follows:

AGREEMENT

1. **Priority and Subordination.**

(a) Each Recorded Item, and any and all renewals and extensions thereof, shall unconditionally be and remain at all times a lien or charge on the Property, having the relative priority with respect to the other Recorded Items as set forth above. Each Party intentionally and unconditionally waives, relinquishes and subordinates the lien or charge of the Recorded Items to which it is a party in favor of the lien or charge upon the Property of the other Recorded Items to the extent necessary so that the Recorded Items shall have the relative priority set forth above.

(b) Each Party acknowledges that it has been offered a satisfactory opportunity to review each of the Recorded Items and related documents to the extent that it wishes to review them.

2. **Reliance.** The Parties would not enter into the Recorded Items to which they are parties without this Agreement.

3. **Recording.** Each Party consents to the recording of each of the Recorded Items and this Agreement.

4. **No Obligation.** No Lender is under any obligation to any other Lender to, nor has any Lender represented that it will, see to the application of any proceeds of any loan secured by any of the Recorded Items except as may otherwise be set forth in a written agreement (other than this Agreement) executed by the Lender sought to be charged with such an obligation.

5. **Notice of Default; Opportunity to Cure.**

(a) Each Party shall give each of the other Parties notice of default under each Recorded Item in favor of such Party concurrently with giving such notice to Borrower and, in any event, prior to enforcing remedies for such default against Borrower or the Property and each of the other Parties shall have the right to cure such default at any time that Borrower would have a right to cure it. In addition, Agency and City expressly reserve their right to redeem the Property pursuant to California Civil Code section 2904.

(b) If, prior to a foreclosure sale under a Recorded Item, a Lender or an entity wholly owned by a Lender takes title to the Property and cures the default on that Recorded Item, the beneficiary of that Recorded Item will not exercise any right it may have to accelerate the indebtedness secured by that Recorded Item solely by reason of that transfer (or will accept reinstatement if acceleration has already occurred).

(c) In the event a party hereto other than Borrower acquires title to the Property by foreclosure of a Recorded Item or deed in lieu thereof, that party shall have the right to assume and succeed to Borrower's obligations under that Recorded Item and the documents secured by that Recorded Item, under the terms and conditions existing prior to the default, upon compliance with the reasonable requirements of the Lender which is a party to that Recorded Item as to loan assumptions.

6. **Certain Waivers.** Each Lender, without the consent of or notice to any other Lender, may enter into amendments of Recorded Item which is a deed of trust encumbering the Property of which that Lender is beneficiary and the documents and obligations secured thereby in any manner, may release any or all persons or entities liable for any obligation secured thereby, and may release any or all security for the obligations secured thereby, all without affecting the subordinations under this Agreement. Each Party waives any right to require marshaling of assets or to require any Lender to proceed against or exhaust any specific security for the obligations secured by Recorded Item which is a deed of trust encumbering the Property for the benefit of a Lender, and waives any and all defenses arising out of the loss or impairment of any right of subrogation to the lien of a Recorded Item which is a deed of trust encumbering the Property for the benefit of a Lender. Notwithstanding the foregoing, each Lender agrees that it will not increase the principal amount of the promissory note secured by that Lender's deed of trust without the consent of the other Lenders, which consent shall not be unreasonably withheld, conditioned or delayed.

7. **Extended Use Agreement.** The Parties acknowledge that Borrower will be required to enter into a regulatory agreement (the "TCAC Regulatory Agreement") with the California Tax Credit Allocation Committee ("TCAC"), which Extended Use Agreement will be on TCAC's standard form. Each Lender will consent to, and subordinate the lien or charge of the Recorded Items in its favor to, the TCAC Regulatory Agreement, provided that the TCAC Regulatory Agreement includes provisions for termination thereof not later than three years after foreclosure (or deed in lieu of foreclosure) with respect to any Recorded Item which encumbers the Property, and is otherwise reasonably acceptable to such Lender.

8. **Miscellaneous.**

(a) **Entire Agreement.** This Agreement constitutes the entire agreement among the Parties with respect to the priority of the lien and charge of the Recorded Items against the Property and all prior understandings and agreements on that subject, if any, are superseded and replaced by this Agreement.

(b) **Applicable Law.** This Agreement shall be governed by and construed in accordance with the laws of the state where the Land is located.

(c) **Successors; Assignment.** This Agreement is for the benefit of the Lenders and their respective successors and assigns, and any provision hereof may be waived or modified by agreement of Lenders without the consent of Borrower, and without affecting the priority of the liens and charges of the Recorded Items as provided in this Agreement. The heirs, administrators, assigns and successors-in-interest of the Parties shall be bound by this Agreement. This Agreement may be assigned by a Party only as a part of an assignment of such Party's interest in the Property.

(d) **Notices.** All notices to be given pursuant to this Agreement shall be in writing and shall be deemed given when hand-delivered, or two business days after deposit in the U.S. mail, postage prepaid, to the Parties at the addresses set forth below, or to such other place as a Party may from time to time designate for itself by notice to the other Parties. No successor or assign of a Party shall be entitled to notices or opportunity to cure defaults hereunder unless notice of the transfer is given in accordance with this subsection.

(e) **Amendment.** This Agreement may be amended only by a writing signed by the Parties, but this clause shall not impair the validity of any further agreements among fewer than all of the Parties as among themselves.

(f) **Legal Costs.** In the event of any litigation, arbitration or other legal proceeding in which any Party seeks to enforce its rights under this Agreement or to recover damages for the breach thereof, the prevailing Party or Parties shall be entitled to recover its legal costs and expenses, including but not limited to attorneys' fees, from the non-prevailing Party or Parties, whether such costs and expenses are incurred in connection with trial court proceedings, on appeal, in bankruptcy or other insolvency proceedings, in post-judgment collection proceedings, or otherwise.

(g) **Counterparts.** This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and whether or not all Parties execute each counterpart.

(h) **Completion of Recording Information.** If this Agreement is signed without completion of certain recording information called for above, any Party or any escrow agent or title insurance company acting on the instructions of any Party is hereby authorized to insert such information prior to recording this Agreement.

(Remainder of page intentionally left blank)

NOTICE: THIS SUBORDINATION AGREEMENT RESULTS IN YOUR INTEREST IN THE PROPERTY BECOMING SUBJECT TO AND OF LOWER PRIORITY THAN THE LIEN OR CHARGE OF SOME OTHER OR LATER INSTRUMENT.

BORROWER:

PACIFIC COURT APARTMENTS, L.P.
a California limited partnership

By: C&C Delaware, LLC,
a California limited liability corporation,
Its: Developer General Partner

By: _____
Todd R. Cottle
Its: Managing Member

By: OHDC Delaware, LLC,
a California limited liability corporation,
Its: Managing General Partner
By: Orange Housing Development Corporation,
a California nonprofit corporation
Its: Sole Member

By: _____
Eunice Bobert
Its: Chief Executive Officer

Address:
Pacific Court Apartments, L.P.
414 East Chapman Avenue
Orange, CA 92866

(Signature Page of Priority and Subordination Agreement)

NOTICE: THIS SUBORDINATION AGREEMENT RESULTS IN YOUR INTEREST IN THE PROPERTY BECOMING SUBJECT TO AND OF LOWER PRIORITY THAN THE LIEN OR CHARGE OF SOME OTHER OR LATER INSTRUMENT.

WMB:

WASHINGTON MUTUAL BANK,
a federal association

By: _____
Catherine Fredinburg
Its: Vice President

Address:
17877 Von Karman Avenue, 4th Floor
Mail Stop IRB4CLI
Irvine, CA 92614
Attention: Community Lending Loan Administration
Loan No. 71-2885052

(Signature Page of Priority and Subordination Agreement)

NOTICE: THIS SUBORDINATION AGREEMENT RESULTS IN YOUR INTEREST IN THE PROPERTY BECOMING SUBJECT TO AND OF LOWER PRIORITY THAN THE LIEN OR CHARGE OF SOME OTHER OR LATER INSTRUMENT.

AGENCY:

REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH,
a public body corporate and politic

By: _____
Chairperson

ATTEST:

By: _____
Agency Secretary

APPROVED AS TO FORM:

By: _____
General Counsel

By: _____
KANE, BALLMER & BERKMAN
Agency Special Counsel

CITY:

THE CITY OF HUNTINGTON BEACH,
a municipal corporation of the State of California

By: _____
Mayor

ATTEST:

By: _____
City Clerk

APPROVED AS TO FORM:

By: _____
City Attorney

(Signature Page of Priority and Subordination Agreement)

Address:

City: City of Huntington Beach
2000 Main Street
Huntington Beach, CA 92648
Attn: Director of Economic Development

Agency: Redevelopment Agency of the City of Huntington Beach
2000 Main Street
Huntington Beach, CA 92648
Attn: Agency Secretary

With a copy to: City Attorney's Office
City of Huntington Beach
2000 Main Street
Huntington Beach, CA 92648

(Signature Page of Priority and Subordination Agreement)

State of California)

County of Orange)

On _____ before me, _____,
a Notary Public, personally appeared _____, who proved to me
on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the
within instrument and acknowledged to me that he/she/they executed the same in his/her/their
authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or
the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the
foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____ (Seal)

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EXHIBIT A

LEGAL DESCRIPTION

The land referred to herein is situated in the State of California, County of Orange, and described as follows:

PARCEL 1:

BLOCK 2205 OF EAST SIDE VILLA TRACT, AS PER MAP RECORDED IN BOOK 4, PAGE 65, MISCELLANEOUS MAPS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY

PARCEL 2:

AN EASEMENT FOR INGRESS AND EGRESS OVER THE EASTERLY 15 FEET OF THE SOUTH 72 FEET OF BLOCK 2305 OF THE EAST SIDE VILLA TRACT

PARCEL 3:

AN EASEMENT FOR INGRESS AND EGRESS OVER THE WEST 20 FEET OF BLOCK 2306 OF EAST SIDE VILLA TRACT

APN: 025-121-50

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FREE RECORDING REQUESTED BY
AND WHEN RECORDED MAIL TO:

THE CITY OF HUNTINGTON BEACH
2000 Main Street
Huntington Beach, CA 92648
Attn: City Clerk

(Space Above This Line for Recorder's Office Use Only)
(Exempt from Recording Fee per *Gov. Code* § 6103 & 27383)

APN: 025-121-50

**ASSIGNMENT OF RENTS AND LEASES FROM PACIFIC COURT
APARTMENTS, L.P. TO THE CITY OF HUNTINGTON BEACH AND THE
REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH**

THIS ASSIGNMENT OF RENTS AND LEASES (the "Assignment") dated _____, 2008 is made by PACIFIC COURT APARTMENTS, L.P. ("Assignor"), in favor of THE CITY OF HUNTINGTON BEACH, a municipal corporation (the "City"), and THE REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH, a public body, corporate and politic (the "Agency"), (the City and the Agency are referred to, individually and collectively, as the "Assignee").

RECITALS

A. Assignor is the owner of the real property described in Exhibit "A" attached hereto and the owner of all of the personalty, fixtures, and improvements now or hereafter located thereon or attached thereto now existing or to be constructed thereon. Said real property, personalty, fixtures, and the improvements are herein referred to collectively as the "Premises".

B. The City has agreed to make a loan (the "City Loan") to Assignor in the original principal amount of Five Hundred Thousand Dollars (\$500,000) and the Agency has agreed to make a loan (the "Agency Loan") to Assignor in the original principal amount of Eight Million Seven Hundred Eighty-Four Thousand Two Hundred Twenty-Four Dollars (\$8,784,224) (individually and collectively, the "Loans"), pursuant to the terms of that certain Affordable Housing Agreement by and between Assignor and Assignee dated _____, 2008 (the "Housing Agreement"). The City Loan and the Agency Loan are each evidenced by a Residual Receipts Promissory Note Secured by Deed of Trust, of even date herewith, executed by Assignor in favor of the City and the Agency, respectively, (with respect to each Loan, the "Note"). The City Loan and the Agency Loan are each secured by a Deed of Trust, Security Agreement and Fixture

ASSIGNMENT OF RENTS AND LEASES
PAGE 1

Filing (With Assignment of Rents), of even date herewith, executed by Assignor, as Trustor, for the benefit of the City and the Agency, respectively, as Beneficiary (with respect to each Loan, the "Deed of Trust").

In order to induce the City to make the City Loan to Assignor and in order to induce the Agency to make the Agency Loan to Assignor, Assignor has agreed to execute this Assignment.

NOW THEREFORE, with reference to the foregoing and in reliance thereon and for good and valuable consideration, the receipt of which is hereby acknowledged, Assignor agrees as follows:

AGREEMENT

1. All initially capitalized terms used herein, unless otherwise defined or required by context, shall have the meaning ascribed to them in the Housing Agreement.

2. Subject to the prior rights, if any, of a lender whose lien is senior to the Deed of Trust held by Assignee ("Senior Lender"), Assignor hereby absolutely grants, sells, assigns, transfers, and sets over to Assignee, by this Assignment, all of Assignor's interests, whether now existing or hereafter acquired, in all leases and other occupancy agreements of any nature, now or hereafter covering all or any part of the Premises, together with all extensions, renewals, modifications, or replacements of said leases and occupancy agreements, and together with any and all guarantees of the obligations of the lessees and occupants (the "Lessees") thereunder, whether now existing or hereafter executed, and all extensions and renewals of said guarantees. (Said leases and occupancy agreements, together with any and all guarantees, modifications, extensions and renewals thereof, are hereinafter referred to collectively as the "Leases" and individually as a "Lease".)

3. Assignor's purpose in making this Assignment is to relinquish to Assignee its right to collect and enjoy the rents, royalties, issues, profits, income, and other benefits at any time accruing by virtue of the Leases (hereinafter called "Rents and Profits").

4. The parties intend that this Assignment shall be a present, absolute and unconditional assignment and shall, immediately upon execution, give the Assignee the right to collect the Rents and Profits and to apply them in payment of the principal and interest and all other sums payable on the indebtedness and other obligations under the Note and other loan documents, as well as all other sums payable under the Deed of Trust or any other instrument given as security for the indebtedness. However, the Assignee hereby grants to Assignor a license to collect and use, subject to the provisions set forth below, the Rents and Profits as they respectively become due and to enforce the Leases, so long as there is no Default by Assignor in performance of the terms, covenants, or provisions of the Deed of Trust, the Note, or the Housing Agreement, this Assignment or any other loan document. Nothing contained herein, nor any collection of Rents and Profits by Assignee or by a receiver, shall be construed to make Assignee a "mortgagee

in possession" of the Premises so long as Assignee has not entered into actual possession of the Premises.

5. Upon the occurrence of any Default or Event of Default under the terms and conditions of this Assignment, the Note, the Deed of Trust, the Housing Agreement or any other loan document, this Assignment shall constitute a direction and full authority to each Lessee under any Lease and each guarantor of any Lease to pay all Rents and Profits to Assignee without proof of the Default relied upon. Assignor hereby irrevocably authorizes each Lessee and guarantor to rely upon and comply with any notice or demand by Assignee for the payment to Assignee of any Rents and Profits due or to become due.

6. Assignor represents and warrants as to each Lease now or hereafter covering all or any portion of the Premises, unless Assignee has been otherwise advised in writing by Assignor:

- a. That each Lease is in full force and effect;
- b. That no material default exists on the part of the Lessee thereunder or Assignor;
- c. That no rent in excess of one month's rent has been collected in advance;
- d. That no Lease or any interest therein, except to the extent required by the lender of the loan obtained by the issuance of tax-exempt bonds proceeds, has been previously assigned or pledged; and
- e. That all rent due to date under each Lease has been collected and no concession has been granted to any Lessee in the form of a waiver, release, reduction, discount, or other alteration of rent due or to become due except as previously disclosed to Assignor in writing.

7. Assignor agrees with respect to each Lease:

a. If any Lease provides for a security deposit paid by the Lessee to Assignor and subject to the prior rights, if any, of a Senior Lender, this Assignment transfers to Assignee all of Assignor's right, title, and interest in and to each such security deposit; provided, however, that Assignor shall have the right to retain said security deposit so long as Assignor is not in Default under this Assignment, the Deed of Trust, the Note, the Housing Agreement or any other Loan Document; and provided further that Assignee shall have no obligation to the Lessee with respect to such security deposit unless and until Assignee comes into actual possession and control of said security deposit.

b. If any Lease provides for the abatement of rent during repair of the leased premises by reason of fire or other casualty, Assignor shall furnish rental insurance

to Assignee, the policies to be with companies and in form, content, policy limits, and terms as are customary in the case of entities owning similar property or assets similarly situated.

c. Each Lease shall remain in full force and effect despite any merger of the interest of Assignor and any Lessee thereunder. Except as otherwise provided in the Housing Agreement, Assignor shall not terminate any Lease (except pursuant to the terms of the Lease upon a default by any Lessee thereunder), or materially modify or amend any Lease or any of the terms thereof, or grant any concessions in connection therewith or accept a surrender thereof, without the prior written consent of Assignee, which consent shall not be unreasonably withheld.

d. Assignor shall not collect any Rents and Profits more than thirty (30) days in advance of the date on which they become due under the terms of any Lease.

e. Assignor shall not discount any future accruing Rents and Profits.

f. Assignor shall not consent to any assignment of any Lease, or any subletting thereunder, whether or not in accordance with its terms, on any terms less favorable than those that would reflect an arm's length transaction in light of prevailing market conditions (subject to the rent restrictions applicable to the Premises), without the prior written consent of Assignee, except as otherwise provided in the Housing Agreement.

g. Except as otherwise provided in the Housing Agreement, Assignor shall not execute any further assignment of any of the Rents and Profits or any interest therein or suffer or permit any such assignment to occur by operation of law.

h. Assignor shall faithfully perform and discharge all obligations of the lessor under each Lease, and shall give prompt written notice to Assignee of any notice of Assignor's default received from any Lessee or any other person and furnish Assignee with a complete copy of said notice. Assignor shall appear in and defend, at no cost to Assignee, any action or proceeding arising under or in any manner connected with any Lease. If requested by Assignee, Assignor shall enforce each Lease and all remedies available to Assignor against the Lessee in the case of default under the Lease by the Lessee.

i. Except as otherwise provided in the Housing Agreement, and except for residential leases entered into in the ordinary course of business, Assignor shall give Assignee written notice immediately upon entering into a Lease of any part of the Premises and shall promptly upon request of Assignee provide to Assignee a true and correct copy of each executed Lease. Upon written notice from Assignee to Assignor, such Lease shall be deemed included in this Assignment as though originally listed herein. At Assignee's option, such notice may be recorded, without cost to Assignor, in the Official Records of Orange County, California, which notice shall refer to this Assignment.

j. Except as otherwise provided in the Housing Agreement, Assignor shall not hire, retain, or contract with any third party for property management services with respect to the Premises without the prior written approval of Assignee, at Assignee's option, of such party and the terms of its contract for management services.

k. Nothing herein shall be construed to impose any liability or obligation on Assignee under or with respect to any Lease. Assignor shall indemnify, defend, and hold Assignee, its officers, directors, agents, employees, and representatives (the "Indemnitee(s)") harmless from and against any and all liabilities, losses, and damages that any Indemnitee may incur under any Lease or by reason of this Assignment, and of and from any and all claims and demands whatsoever that may be asserted against any Indemnitee by reason of any alleged obligations to be performed or discharged by Assignee under any Lease or this Assignment, unless any of the foregoing arises from or results from the active concurrent negligence, sole negligence or sole willful misconduct of any Indemnitee. Should any Indemnitee incur any liability, loss, or damage under any Lease or by reason of this Assignment and such liability, loss, or damage falls within the foregoing indemnification, Assignor shall immediately upon demand reimburse such Indemnitee for the amount thereof together with all costs and expenses and reasonable attorneys' fees and court costs incurred by such Indemnitee. All of the foregoing sums shall bear interest at the maximum rate permitted by law from demand by Indemnitee until paid. Any Rents and Profits collected by Assignee may be applied by Assignee, in its discretion, in satisfaction of any such liability, loss, damage, claim, demand, cost, expense, or fees.

8. Assignor hereby grants to Assignee the following rights:

a. Upon an Event of Default as defined in the Housing Agreement, Assignee shall be deemed to be the creditor of each Lessee in respect of any assignments for the benefit of creditors and any bankruptcy, arrangement, reorganization, insolvency, dissolution, receivership, or other debtor relief proceedings affecting such Lessee, without obligation on the part of Assignee, however, to file timely claims in such proceedings or otherwise pursue creditor's rights therein.

b. Assignee shall have the right to assign Assignor's right, title, and interest in the Leases to any subsequent holder of the Deed of Trust or any participating interest therein or to any person acquiring title to all or any part of the Premises through foreclosure or otherwise. Any subsequent assignee shall have all the rights and powers herein provided to Assignee.

c. Assignee shall have the right (but not the obligation), upon any Event of Default under the Deed of Trust or the Housing Agreement, to take any action as Assignee may deem necessary or appropriate to protect its security, including but not limited to appearing in any action or proceeding and performing any obligations of the lessor under any Lease; and Assignor agrees to pay, on demand, all costs and expenses, including without limitation reasonable attorneys' fees and court costs incurred by

ASSIGNMENT OF RENTS AND LEASES

PAGE 5

Assignee in connection therewith, together with interest thereon at the rate of ten percent (10%) per annum.

d. Upon any Default under this Assignment, the Deed of Trust, the Note, the Housing Agreement, or any other loan document, and without notice to or consent of Assignor, Assignee shall have the following rights (none of which shall be construed to be obligations of Assignee):

i. Assignee shall have the right under this Assignment to use and possess, without rental or charge, the Fixtures, Equipment, and Personal Property of the Assignor located in or on the Premises and used in the operation or occupancy thereof. Assignee shall have the right to apply any of the Rents and Profits to pay installments due for Personal Property rented or purchased on credit, insurance premiums on Personal Property, or other charges relating to Personal Property in or on the Premises. However, this Assignment shall not make Assignee responsible for the control, care, management, or repair of the Premises or any Personal Property or for the carrying out of any of the terms or provisions of any Lease.

ii. Assignee shall have the right to apply the Rents and Profits and any sums recovered by Assignee hereunder to the outstanding Indebtedness, as well as to charges for taxes, insurance, improvements, maintenance, and other items relating to the operation of the Premises.

iii. Assignee shall have the right to take possession of the Premises, manage and operate the Premises and Assignor's business thereon, and to take possession of and use all books of account and financial records of Assignor and its property managers or representatives relating to the Premises.

iv. Assignee shall have the right to execute new Leases of any part of the Premises, including Leases that extend beyond the term of the Deed of Trust.

v. Assignee shall have the right to cancel or alter any existing Leases.

vi. Assignee shall have the irrevocable authority, as Assignor's attorney-in-fact, such authority being coupled with an interest, to sign the name of Assignor and to bind Assignor on all papers and documents relating to the operation, leasing and maintenance of the Premises.

e. All of the foregoing rights and remedies of Assignee are cumulative, and Assignee shall also have upon the occurrence of any such Default or Event of Default all other rights and remedies provided under the Note, the Housing Agreement, the Deed of Trust, or any other loan document or other agreement between Assignor and Assignee, or otherwise available at law or in equity or by statute.

9. Failure of Assignee to avail itself of any terms, covenants, or conditions of this Assignment for any period of time or for any reason shall not constitute a waiver thereof.

10. Notwithstanding any future modification of the terms of the Note, the Deed of Trust, the Housing Agreement, or any other loan document, this Assignment and the rights and benefits hereby assigned and granted shall continue in favor of Assignee in accordance with the terms of this Assignment.

11. This Assignment shall be binding upon and inure to the benefit of the respective heirs, legal representatives, successors, and assigns of the parties hereto (including without limitation in the case of Assignee, any third parties now or hereafter acquiring any interest in the Indebtedness or other obligations of Assignor under the Note or Deed of Trust or a part thereof, whether by virtue of assignment, participation, or otherwise). The words Assignor, Assignee, and Lessee, wherever used herein, shall include the persons and entities named herein or in any Lease and designated as such and their respective heirs, legal representatives, successors and assigns, provided that any action taken by the named Assignee (or any successor designated as such by an instrument recorded in the Official Records of Orange County, California referring to this Assignment) shall be sufficient for all purposes notwithstanding that Assignee may have theretofore assigned or participated any interest in the obligation to a third party. All words and phrases shall be taken to include the singular or plural number, and the masculine, feminine, or neuter gender, as may fit the case.

12. Any change, amendment, modification, abridgment, cancellation, or discharge of this Assignment or any term or provision hereof shall be invalid without the written consent of Assignee.

13. Upon payment to Assignee of the full amount of the Indebtedness and other obligations secured hereby and by the Note and Deed of Trust, as evidenced by a recorded satisfaction or release of the Deed of Trust, this Assignment shall be void and of no further effect. In such event, Assignee shall cooperate with Assignor to execute such instruments as may be reasonably necessary to remove the lien of this instrument from the Official Records of Orange County.

14. All notices, demands, approvals, and other communications provided for in this Assignment shall be sufficiently given if: (i) personally delivered; (ii) delivered by same day or overnight courier (acknowledged by receipt showing date and time of delivery); or (iii) dispatched by registered or certified mail, postage prepaid, return receipt requested, to the addresses set forth below:

If to Assignor: Pacific Court Apartments, LP
414 E. Chapman Ave.
Orange, CA 92866

If to City: The City of Huntington Beach
2000 Main Street
Huntington Beach, CA 92648
Attn: City Administrator

If to Agency: The Redevelopment Agency of
the City of Huntington Beach
2000 Main Street
Huntington Beach, CA 92648
Attn: Executive Director

With a copy to: City Attorney's Office
City of Huntington Beach
2000 Main Street
Huntington Beach, CA 92648

Notices personally delivered or delivered by courier shall be effective upon receipt or refusal to accept delivery. Mailed notices shall be effective on the earlier of (i) receipt of refusal to accept delivery, or (ii) noon on the second business day following deposit in the United States mail.

15. This Assignment may be recorded in the Official Records of Orange County, California, and Assignor shall pay all fees, charges, costs, and expenses of such recording.

16. If any provision hereof is determined to be illegal or unenforceable for any reason, the remaining provisions hereof shall not be affected thereby.

17. This Assignment shall be governed by and construed in accordance with the internal laws of the State of California.

18. If Assignee should bring any action to enforce its rights hereunder at law or at equity, Assignor shall reimburse Assignee for all reasonable attorneys' fees and costs expended in connection therewith.

19. This Assignment shall be subject to the terms and conditions set forth in that certain Subordination Agreement, dated on or about the date hereof, by and among Assignor, Washington Mutual Bank and Assignee, as the same may be amended, restated, supplemented or modified from time to time.

[SIGNATURES APPEAR ON FOLLOWING PAGE]

IN WITNESS WHEREOF, the undersigned Assignor has executed this Assignment as of the date first above written.

PACIFIC COURT APARTMENTS, L.P.,
a California limited partnership

By: C&C Delaware, LLC,
a California limited liability corporation,
Its: Developer General Partner

By: _____
Todd R. Cottle
Its: Managing Member

By: OHDC Delaware, LLC,
a California limited liability corporation,
Its: Managing General Partner

By: Orange Housing Development
Corporation, a California nonprofit
corporation
Its: Sole Member

By: _____
Eunice Bobert
Its: Chief Executive Officer

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EXHIBIT A

LEGAL DESCRIPTION

The land referred to herein is situated in the State of California, County of Orange, and described as follows:

PARCEL 1:

BLOCK 2205 OF EAST SIDE VILLA TRACT, AS PER MAP RECORDED IN BOOK 4, PAGE 65, MISCELLANEOUS MAPS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY

PARCEL 2:

AN EASEMENT FOR INGRESS AND EGRESS OVER THE EASTERLY 15 FEET OF THE SOUTH 72 FEET OF BLOCK 2305 OF THE EAST SIDE VILLA TRACT

PARCEL 3:

AN EASEMENT FOR INGRESS AND EGRESS OVER THE WEST 20 FEET OF BLOCK 2306 OF EAST SIDE VILLA TRACT

APN: 025-121-50

ASSIGNMENT OF RENTS AND LEASES

State of California)

County of Orange)

On _____ before me, _____, a Notary Public, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____ (Seal)

State of California)

County of Orange)

On _____ before me, _____, a Notary Public, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____ (Seal)

**ASSIGNMENT OF AGREEMENTS FROM PACIFIC COURT APARTMENTS,
L.P. TO THE CITY OF HUNTINGTON BEACH AND THE REDEVELOPMENT
AGENCY OF THE CITY OF HUNTINGTON BEACH**

1. FOR VALUE RECEIVED, the undersigned, PACIFIC COURT APARTMENTS, L.P., a California limited partnership ("Developer"), assigns to THE CITY OF HUNTINGTON BEACH, a municipal corporation, and THE REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH, a public body, corporate and politic, (individually and collectively, the "Assignee"), all of its right, title and interest in and to:

- a. All architectural, design, engineering and development agreements, and any and all amendments, modifications, supplements, addenda and general conditions thereto (collectively, "Architectural Agreements"); and
- b. All plans and specifications, shop drawings, working drawings, amendments, modifications, changes, supplements, general conditions and addenda thereto (collectively "Plans and Specifications")

heretofore or hereafter entered into or prepared by any architect, engineer or other person or entity (collectively "Architect"), for or on behalf of Developer in connection with the rehabilitation of the Improvements on the Property described in Exhibit A attached. This assignment is subject to the prior rights, if any, of a lender whose lien is senior to the Deed of Trust held by Assignee. The Plans and Specifications, as of the date hereof, are those which Developer has heretofore, or will hereafter deliver to Assignee. The Architectural Agreements include, but are not limited to, the architectural contracts for this project between Developer, C&C Delaware, LLC, C&C Development Co., LLC, OHDC Delaware, LLC, or Orange Housing Development Corporation on the one hand and CCA Associates, Inc. on the other hand.

2. This ASSIGNMENT OF AGREEMENTS ("Assignment") constitutes a present and absolute assignment to Assignee as of the Effective Date, subordinate to a lender whose lien is senior to the Deed of Trust held by Assignee ("Senior Lender"); provided, however, Assignee confers upon Developer the right to enforce the terms of the Architectural Agreements and Developer's rights to the Plans and Specifications so long as no Default or event which would constitute a Default after notice or the passage of time, or both, has occurred under the Affordable Housing Agreement dated _____, 2008 between Assignee and Developer (the "Housing Agreement"). Upon the occurrence of a Default or event which would constitute a Default after notice or the passage of time, or both, under the Housing Agreement, Assignee may, in its sole discretion, give notice to Architect of its intent to enforce the rights of Developer under the Architect Agreements and of its rights to the Plans and Specifications and may initiate or participate in any legal proceedings respecting the enforcement of said rights. Developer acknowledges that by accepting this Assignment,

ASSIGNMENT OF AGREEMENTS
PAGE 1

Assignee does not assume any of Developer's obligations under the Architectural Agreements or with respect to the Plans and Specifications.

3. Developer represents and warrants to Assignee, as of the Effective Date, that: (a) all Architectural Agreements entered into by Developer are in full force and effect and are enforceable in accordance with their terms and no default, or event which would constitute a default after notice or the passage of time, or both, exists with respect to said Architectural Agreements; (b) all copies of the Architectural Agreements and Plans and Specifications delivered to Assignee are complete and correct; and (c) Developer has not assigned any of its rights under the Architectural Agreements or with respect to the Plans and Specifications except as expressly permitted by the Housing Agreement.

4. Developer agrees: (a) to pay and perform all obligations of Developer under the Architectural Agreements; (b) to enforce the payment and performance of all obligations of any other person or entity under the Architectural Agreements; (c) not to modify the existing Architectural Agreements nor to enter into any future Architectural Agreements without Assignee's prior written approval except as otherwise expressly permitted in the Housing Agreement; and (d) not to further assign (other than assignment in connection with a loan which is senior in priority to Assignee's assignment), for security or any other purposes, its rights under the Architectural Agreements or with respect to the Plans and Specifications without Assignee's prior written consent.

5. This Assignment secures performance by Developer of all obligations of Developer under the Housing Agreement. This Assignment is supplemented by the provisions of the Housing Agreement and said provisions are incorporated herein by reference.

6. The term "Housing Agreement" as used herein shall mean the Affordable Housing Agreement dated _____, 2008 between Developer and Assignee, as well as any future amendments and implementation agreements between Developer and Assignee which refer to this Assignment. Capitalized terms not otherwise defined herein shall have the meaning set forth in the Housing Agreement.

7. This Assignment shall be governed by the internal laws of the State of California, except to the extent that Federal laws preempt the laws of the State of California, and Developer consents to the jurisdiction of any Federal or State Court within the State of California having proper venue for the filing and maintenance of any action arising hereunder. If Assignee should bring any action to enforce its rights hereunder at law or at equity, Developer shall reimburse Assignee for all reasonable attorneys' fees and costs expended in connection therewith.

8. This Assignment shall be binding upon and inure to the benefit of the heirs, legal representatives, assigns, and successors-in-interest of Developer and Assignee; provided, however, this shall not be construed and is not intended to waive any restrictions on assignment, sale, transfer, mortgage, pledge, hypothecation or encumbrance by Developer contained in the Housing Agreement.

9. The attached Architect's/Engineer's Consent, Schedule 1 and Exhibit A are incorporated by reference.

10. The Effective Date of this Assignment shall be the date it is executed by Developer.

11. This Assignment shall be subject to the terms and conditions set forth in that certain Subordination Agreement, dated on or about the date hereof, by and among Developer, Washington Mutual Bank and Assignee, as the same may be amended, restated, supplemented or modified from time to time.

IN WITNESS WHEREOF, the undersigned has executed this Assignment as of the date set forth below.

PACIFIC COURT APARTMENTS, L.P.,
a California limited partnership

By: C&C Delaware, LLC,
a California limited liability corporation,
Its: Developer General Partner

Date: _____, 2008

By: _____
Todd R. Cottle
Its: Managing Member

By: OHDC Delaware, LLC,
a California limited liability corporation,
Its: Managing General Partner

By: Orange Housing Development
Corporation, a California nonprofit
corporation
Its: Sole Member

Date: _____, 2008

By: _____
Eunice Bobert
Its: Chief Executive Officer

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ARCHITECT'S CONSENT

The undersigned architect ("Architect") hereby consents to the foregoing Assignment to which this Architect's Consent ("Consent") is part, and acknowledges that there presently exists no unpaid claims due to the Architect except as set forth on Schedule 1 attached hereto, arising out of the preparation and delivery of the Plans and Specifications to Developer and/or the performance of the Architect's obligations under the Architectural Agreements.

Architect agrees that if, at any time, Assignee, pursuant to its rights under the Housing Agreement or the loan documents, elects to undertake or cause the completion of the rehabilitation of the Improvements on any portion of the Property, in accordance with the Plans and Specifications, and gives Architect written notice of such election; THEN, so long as Architect has received, receives or continues to receive the compensation called for under the Architectural Agreements, Assignee may, at its option, use and rely on the Plans and Specifications for the purposes for which they were prepared, and Architect will continue to perform its obligations under the Architectural Agreements for the benefit and account of Assignee in the same manner as if performed for the benefit or account of Developer in the absence of the Assignment.

Architect further agrees that, in the event of a breach by Developer of the Architectural Agreements, or any agreement entered into with Architect in connection with the Plans and Specifications, so long as Developer's interest in the Agreements and Plans and Specifications is assigned to Assignee, Architect will give written notice to Assignee of such breach at the address shown below. Assignee shall have thirty (30) days from the receipt of such written notice of default to remedy or cure said default. Nothing herein shall require Assignee to cure said default or to undertake completion of the rehabilitation of the Improvements.

Architect warrants and represents that it/he/she has no knowledge of any prior assignment(s) of any interest in the Plans and Specifications and/or the Architectural Agreements. Except as otherwise defined herein, the terms used herein shall have the meanings given them in the Assignment.

Dated as of the date set forth below.

CCA Associates, Inc.

Date: _____, 2008

By: _____
Its:

ASSIGNMENT OF AGREEMENTS
ARCHITECT'S CONSENT

Assignee's Address:

City of Huntington Beach &
The Redevelopment Agency of
the City of Huntington Beach
2000 Main Street
Huntington Beach, CA 92648
Attn: City Administrator & Agency Executive Director

With a copy to:

City Attorney's Office
City of Huntington Beach
2000 Main Street
Huntington Beach, CA 92648

E8 . 202

ASSIGNMENT OF AGREEMENTS
ARCHITECT'S CONSENT

SCHEDULE OF UNPAID CLAIMS

Schedule 1 to Assignment of Agreements dated _____, 2008 between PACIFIC COURT APARTMENTS, L.P., as Developer, THE CITY OF HUNTINGTON BEACH and THE REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH, as Assignee.

ASSIGNMENT OF AGREEMENTS
ARCHITECT'S CONSENT

PROPERTY DESCRIPTION

Exhibit A to Assignment of Agreements dated _____, 2008, between PACIFIC COURT APARTMENTS, L.P., as Developer, and THE CITY OF HUNTINGTON BEACH and THE REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH.

The land referred to herein is situated in the State of California, County of Orange, and described as follows:

PARCEL 1:

BLOCK 2205 OF EAST SIDE VILLA TRACT, AS PER MAP RECORDED IN BOOK 4, PAGE 65, MISCELLANEOUS MAPS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY

PARCEL 2:

AN EASEMENT FOR INGRESS AND EGRESS OVER THE EASTERLY 15 FEET OF THE SOUTH 72 FEET OF BLOCK 2305 OF THE EAST SIDE VILLA TRACT

PARCEL 3:

AN EASEMENT FOR INGRESS AND EGRESS OVER THE WEST 20 FEET OF BLOCK 2306 OF EAST SIDE VILLA TRACT

APN: 025-121-50

**ENVIRONMENTAL INDEMNITY BY PACIFIC COURT APARTMENTS, L.P. IN
FAVOR OF THE CITY OF HUNTINGTON BEACH AND THE REDEVELOPMENT
AGENCY OF THE CITY OF HUNTINGTON BEACH**

THIS ENVIRONMENTAL INDEMNITY (this "Indemnity"), dated _____, 2008, and made by PACIFIC COURT APARTMENTS, L.P., a California limited partnership (referred to as "Borrower"), whose address for purposes of giving notices is 414 E. Chapman Ave., Orange, CA 92866, in favor of THE CITY OF HUNTINGTON BEACH (the "City") and THE REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH (the "Agency"), whose address for purposes of giving notice is 2000 Main Street, Huntington Beach, California 92648.

WITNESSETH

WHEREAS, Borrower is the owner of the real property in the City of Huntington Beach described on Exhibit "A" attached hereto and made a part hereof, and the improvements thereon (collectively referred to as the "Property");

WHEREAS, Borrower, the City and the Agency, entered into that certain Affordable Housing Agreement, dated _____, 2008 (the "Housing Agreement"), pursuant to which the Agency and the City agreed to make loans to Borrower for the purpose of rehabilitating a 48-unit multifamily rental housing project thereon (the "Loans") (the Housing Agreement and the documents and instruments referred to therein which are being executed by Borrower concurrently herewith are referred to collectively as the "Loan Documents");

WHEREAS, Borrower has agreed to execute and deliver to the Agency and the City this Indemnity to induce the Agency and the City to make the Loans.

NOW, THEREFORE, in consideration of the foregoing and in consideration of the mutual agreements hereinafter set forth, Borrower hereby agrees with the Agency and the City as follows:

1. DEFINITIONS

For the purpose of this Indemnity, "Hazardous Materials" or "Hazardous Substances" shall include, but not be limited to, oil, flammable explosives, asbestos, urea formaldehyde insulation, radioactive materials, hazardous wastes, toxic or contaminated substances or similar materials, including, without limitation, any substances defined as "extremely hazardous substances," "hazardous substances," "hazardous materials," "hazardous waste" or "toxic substances" in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, including the Superfund Amendments and Reauthorization Act of 1986, 42

U.S.C. Sections 9601 et seq. (“CERCLA”); the Hazardous Materials Transportation Act, 49 U.S.C. Sections 1801, et seq.; the Resource Conservation and Recovery Act of 1976, as amended, 42 U.S.C. Sections 6901, et seq.; the Toxic Substances Control Act, as amended, 15 U.S.C. Section 2601 et seq.; the Clean Air Act, as amended, 42 U.S.C. Section 7401 et seq.; the Federal Water Pollution Control Act, as amended, 33 U.S.C. Section 1251 et seq.; the Occupational Safety and Health Act, as amended, 29 U.S.C. Section 651; the Emergency Planning and Community Right-to-Know Act of 1986, 42 U.S.C. Section 11001 et seq.; the Mine Safety and Health Act of 1977, as amended, 30 U.S.C. Section 801 et seq.; the Safe Drinking Water Act, as amended, 42 U.S.C. Section 300f et seq.; and those substances defined as “hazardous waste” in Section 25117 of the California Health and Safety Code, as “infectious waste” in Section 25117.5 of the California Health and Safety Code, or as “hazardous substances” in Section 25316 of the California Health and Safety Code or “hazardous materials” as defined in Section 353 of the California Vehicle Code; and in the regulations adopted and orders and publications promulgated pursuant to said laws. Other capitalized terms used in this Indemnity shall have the meanings ascribed to them in the Housing Agreement with the same force and effect as if set forth in full below.

2. COVENANTS AND INDEMNITY

The following covenants, and indemnities are hereby given and made by Borrower:

2.1 Covenants.

(a) Borrower covenants that it will strictly comply with any and all laws, regulations, and/or orders which may be promulgated from time to time relating to Hazardous Materials (“**Hazardous Materials Laws**”), to immediately take, at Borrower’s sole expense, all remedial action required by any Hazardous Materials Law or any judgment, consent decree, settlement or compromise in respect to any Hazardous Materials Claim (as defined herein below), and to keep the Property free of any lien imposed pursuant to any Hazardous Materials Law or in relation to any Hazardous Materials Claim.

(b) Borrower covenants that the Property will not, while Borrower is the owner of any portion thereof, be used for any activities involving, directly or indirectly, the use, generation, treatment, storage, release, transportation, presence, discharge or disposal of any Hazardous Materials, except for *de minimis* quantities used at the Property in strict compliance with all Hazardous Materials Laws and required in connection with the routine rehabilitation, operation and maintenance of the Property.

(c) The Agency and the City shall have the right, at any time, to conduct an environmental audit of the Property at the Agency’s and City’s expense, unless Hazardous Materials are found, then at Borrower’s sole cost and expense, and Borrower shall cooperate in the conduct of any such environmental audit. Other than in an emergency, such audit shall be conducted only after prior notice has been given to Borrower and only in the presence of a representative of Borrower. Borrower shall give the Agency, the City and their agents and

employees access to the Property to remove, or otherwise to mitigate the effects of, Hazardous Materials and Borrower shall not unreasonably delay or condition such access.

(e) Borrower shall not install, or permit to be installed, on the Property friable asbestos or any substance containing asbestos and deemed hazardous by any Hazardous Materials Laws, and, with respect to any such material currently present in the Property, Borrower shall promptly either (i) remove or cause to be removed any material that such Hazardous Materials Laws deem hazardous and require to be removed, or (ii) otherwise comply with such Hazardous Materials Laws, all at Borrower's sole cost and expense. If Borrower shall fail to so do within the cure period permitted under applicable law, regulation, or order, the Agency and the City may do whatever is necessary to eliminate said substances from the premises or to otherwise comply with all Hazardous Materials Laws, and the costs thereof shall be added to the Obligations (as hereinafter defined) of Borrower under this Section 2.

(f) Borrower shall immediately advise the Agency and the City in writing of any of the following: (i) any pending or threatened claim against Borrower or the Property by any governmental entity or agency or by any other person or entity relating to Hazardous Materials or pursuant to the Hazardous Materials Laws ("**Hazardous Materials Claims**"), (ii) any condition or occurrence on the Property that (A) results in noncompliance by Borrower with any Hazardous Materials Laws, (B) could reasonably be anticipated to cause the Property to be subject to any restrictions on the ownership, occupancy, use or transferability of the Property under any Hazardous Materials Law, or (C) could reasonably be anticipated to form the basis of a Hazardous Materials Claim against the Property or Borrower.

2.2 Indemnity. Borrower hereby agrees to defend, indemnify, protect, and hold harmless the Agency and the City and their respective members, officers, officials, employees, agents, representatives, servants, contractors, successors and assigns from and against any and all damages, losses, liabilities, obligations, penalties, claims (including, without limitation, any third party tort claims), litigation, demands, defenses, judgments, suits, proceedings, costs, disbursements, or expenses (including, without limitation, attorneys' and experts' fees and disbursements) of any kind or of any nature whatsoever, whether foreseeable or unforeseeable, (collectively, the "**Obligations**") which may at any time be imposed upon, incurred by or asserted or awarded against the Agency or the City as a direct or indirect consequence of:

(a) The presence of any Hazardous Materials on, in, under, or affecting all or any portion of the Property or any surrounding areas;

(b) The breach of any covenant made by Borrower in Section 2.1 hereof; or

(c) The enforcement by the Agency or the City of any of the provisions of this Section 2.2 or the assertion by Borrower of any defense to its obligations hereunder.

3. BORROWER'S UNCONDITIONAL OBLIGATIONS

3.1 Unconditional Obligations. Borrower hereby agrees that the Obligations will be paid and performed strictly in accordance with the terms of this Indemnity, regardless of any law, regulation, or order now or hereafter in effect in any jurisdiction affecting any of the Loan Documents or affecting any of the rights of the Agency or the City with respect thereto. The obligations of Borrower hereunder shall be absolute and unconditional irrespective of, and Borrower waives any defense based upon,

(a) The validity, regularity, or enforceability of the Loan Documents or any other instrument or document executed or delivered in connection therewith;

(b) Any alteration, amendment, modification, release, termination, or cancellation of any of the Loan Documents, or any change in the time, manner, or place of payment of, or in any other term in respect of, all or any of the obligations of Borrower contained in any of the Loan Documents;

(c) Any extension of the maturity of the Loans or any waiver of, or consent to any departure from, any provision contained in any of the Loan Documents;

(d) Any exculpatory provision in any of the Loan Documents limiting the Agency's or the City's recourse to property encumbered by the Deed of Trust securing the Loan, or to any other security, or limiting the Agency's or the City's rights to a deficiency judgment against Borrower;

(e) Any exchange, addition, subordination, or release of, or nonperfection of any lien on or security interest in, any collateral for the Loans, or any release, amendment, waiver of, or consent to any departure from any provision of, any other surety or guarantee given in respect of the Loans;

(f) The insolvency or bankruptcy of Borrower or Borrower's General Partners or of any indemnitor or guarantor under any other indemnity or guarantee given in respect of the Loans; or

(g) Any other circumstance that might otherwise constitute a defense available to, or a discharge of, Borrower, Borrower's General Partners, or any other indemnitor or guarantor with respect to the Loans or any or all of the Obligations.

3.2 Continuation. The term of this Indemnity will continue until such time as no legal action can be successfully brought against the Agency or the City due to applicable statutes of limitation. This Indemnity (a) is a continuing indemnity and shall remain in full force and effect until the satisfaction in full of all of the Obligations (notwithstanding the payment in full of the Loans or the release or other extinguishment of the Deeds of Trust, or any other security for the

Loans); and (b) shall continue to be effective or shall be reinstated, as the case may be, if at any time any payment of any of the Obligations is rescinded or must otherwise be returned by the Agency upon the insolvency, bankruptcy, or reorganization of Borrower, Borrower's General Partners or otherwise, all as though such payment had not been made.

3.3 Survival. Borrower's duty to indemnify shall survive any judicial or non-judicial foreclosure under the Agency Deed of Trust and/or the City Deed of Trust or transfer of the Property in lieu thereof, the release and reconveyance or cancellation of the Agency Deed of Trust and/or the City Deed of Trust, and the satisfaction of all of Borrower's obligations under the Loan Documents.

4. WAIVER

Borrower acknowledges that possible defenses to the enforceability of the Obligations may presently exist and/or may arise hereafter and as part of the City's and Agency's consideration for entering into the Housing Agreement, they have specifically bargained for the waiver and relinquishment by Borrower of all such defenses. Borrower agrees that it has had the opportunity to seek and receive legal advice from skilled legal counsel of its choosing and represents and confirms that Borrower is fully informed regarding, and thoroughly understands, the nature of such possible defenses, the circumstances under which they may arise, the benefits that they might confer upon Borrower and the legal consequences to Borrower of waiving such defenses. Borrower makes this Indemnity with the intent that this Indemnity and all of the waivers herein shall each and all be fully enforceable by the City and the Agency and that the City and the Agency are induced to enter into the Housing Agreement in material reliance upon such presumed full enforceability. Without limitation to the foregoing, Borrower hereby waives the following:

- (a) Promptness and diligence;
- (b) Notice of acceptance and notice of the incurrence of any Obligation by Borrower;
- (c) Notice of any action taken by the Agency, City, Borrower, or any other interested party under any Loan Document or under any other agreement or instrument relating thereto;
- (d) All other notices, demands, and protests, and all other formalities of every kind, in connection with the enforcement of the Obligations, the omission of or delay in which, but for the provisions of this Section 4, might constitute grounds for relieving Borrower of its Obligations hereunder;
- (e) The right to a trial by jury with respect to any dispute arising under, or relating to, this Indemnity;

(f) Any requirement that the Agency or the City protect, secure, perfect, or insure any security interest or lien in or on any property subject thereto;

(g) Any requirement that the Agency or the City exhaust any right or take any action against Borrower or any other person or collateral; and

(h) Any defense that may arise by reason of:

(1) The incapacity, lack of authority, death or disability of, or revocation hereof by, any person or persons;

(2) The failure of the Agency or the City to file or enforce any claim against the estate (in probate, bankruptcy, or any other proceedings) of any person or persons; or

(3) Any defense based upon an election of remedies by the Agency or the City, including, without limitation, an election to proceed by nonjudicial foreclosure or which destroys or otherwise impairs the subrogation rights of Borrower or any other right of Borrower to proceed against a guarantor by the operation of Section 580d of the California Code of Civil Procedure or otherwise.

5. NOTICES

Any notice, demand, statement, request, or consent made hereunder shall be in writing and shall be personally served, mailed by first-class registered mail, return receipt requested, to the address set forth in the first paragraph of this Indemnity, above, or given by electronic facsimile ("fax") transmission to the fax numbers stated below, with confirmations mailed by first class registered mail, return receipt requested to the address set forth above, of the party to whom such notice is to be given (or to such other address as the parties hereto, shall designate in writing):

In the case of the Agency and the City: 714-374-1590

In the case of Borrower: 714-771-0394

Any notice that is transmitted by fax transmission followed by delivery of a "hard" copy, shall be deemed delivered upon its transmission; any notice that is personally delivered (including by means of professional messenger service, courier service such as United Parcel Service or Federal Express, or by U.S. Postal Service), shall be deemed received on the documented date of receipt; and any notice that is sent by registered or certified mail, postage prepaid, return receipt required shall be deemed received on the date of receipt thereof.

6. MISCELLANEOUS

6.1 Borrower shall make any payment required to be made hereunder in lawful money of the United States of America, and in same day funds, to the Agency and/or the City, as applicable, at its address specified in the first paragraph hereof.

6.2 No amendment of any provision of this Indemnity shall be effective unless it is in writing and signed by Borrower, the City and the Agency, and no waiver of any provision of this Indemnity, and no consent to any departure by Borrower from any provision of this Indemnity, shall be effective unless it is in writing and signed by the City and Agency, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

6.3 No failure on the part of the Agency or the City to exercise, and no delay in exercising, any right hereunder or under any Loan Document shall operate as a waiver hereof or thereof, nor shall any single or partial exercise of any right preclude any other or further exercise thereof or the exercise of any other right. The rights and remedies of the Agency and the City provided herein and in the Loan Documents are cumulative and are in addition to, and not exclusive of, any rights or remedies provided by law. The rights of the Agency and the City hereunder or under any Loan Document against any party thereto are not conditional or contingent on any attempt by the Agency or the City to exercise any of its rights hereunder or under any other Loan Document against such party or against any other person or collateral.

6.4 If any provision of this Indemnity shall be determined by a court of competent jurisdiction to be invalid, illegal or unenforceable, then that provision shall, as to such jurisdiction, be deemed ineffective to the extent of such prohibition or unenforceability without invalidating the remaining portions hereof and without affecting the validity or enforceability of such provision in any other jurisdiction.

6.5 This Indemnity shall (a) be binding upon Borrower, and Borrower's successors and assigns; and (b) inure, together with all rights and remedies of the Agency and City hereunder, to the benefit of the Agency and the City, their respective directors, officers, employees, and agents, any successors to the Agency's or the City's interest in the Property, any other person who acquires any portion of the Property at a foreclosure sale or otherwise through the exercise of the Agency's or the City's rights and remedies under the Loan Documents, any successors to any such person, and all directors, officers, employees, and agents of all of the aforementioned parties. Without limiting the generality of clause (b) of the immediately preceding sentence, the Agency and the City may, subject to, and in accordance with, the provisions of the Loan Documents, assign or otherwise transfer all or any portion of its rights and obligations under any Loan Document, to any other person, and such other person shall thereupon become vested with all of the rights and obligations in respect thereof that were granted to the Agency and the City herein or otherwise. None of the rights or obligations of

Borrower hereunder may be assigned or otherwise transferred without the prior written consent of the Agency or the City.

6.6 Borrower hereby (a) irrevocably submits to the jurisdiction of any California or federal court sitting, in each instance, in Orange County in any action or proceeding arising out of or relating to this Indemnity, (b) waives any defense based on doctrines of venue or forum *non conveniens* or similar rules or doctrines, and (c) irrevocably agrees that all claims in respect of any such action or proceeding may be heard and determined in such California or federal court. Borrower irrevocably consents to the service of any and all process which may be required or permitted in any such action or proceeding to the address specified in the first paragraph of this Indemnity or in any other manner provided by law. Borrower agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in any other jurisdiction by suit on the judgment or in any other manner provided by law.

6.7 The title of this document and the captions used herein are inserted only as a matter of convenience and for reference and shall in no way define, limit, or describe the scope or the intent of this Indemnity or any of the provisions hereof.

6.8 This Indemnity shall be governed by, and construed and interpreted in accordance with, the internal laws of the State of California applicable to contracts made and to be performed therein, except to the extent that the laws of the United States preempt the laws of the State of California.

6.9 This Indemnity may be executed in any number of counterparts, each of which shall constitute an original and all of which together shall constitute one agreement.

[SIGNATURES APPEAR ON FOLLOWING PAGE]

IN WITNESS WHEREOF, Borrower has duly executed this Indemnity as of the date set forth below.

PACIFIC COURT APARTMENTS, L.P.,
a California limited partnership

By: C&C Delaware, LLC,
a California limited liability corporation,
Its: Developer General Partner

Date: _____

By: _____
Todd R. Cottle
Its: Managing Member

By: OHDC Delaware, LLC,
a California limited liability corporation,
Its: Managing General Partner

By: Orange Housing Development Corporation,
a California nonprofit corporation
Its: Sole Member

Date: _____

By: _____
Eunice Bobert
Its: Chief Executive Officer

**INTENTIONALLY
LEFT
BLANK**

UCC FINANCING STATEMENT

FOLLOW INSTRUCTIONS (front and back) CAREFULLY

A. NAME & PHONE OF CONTACT AT FILER (optional)

B. SEND ACKNOWLEDGMENT TO: (Name and Address)

City of Huntington Beach
 2000 Main Street
 Huntington Beach, CA 92648
 Attn: City Administrator

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

1. DEBTOR'S EXACT FULL LEGAL NAME - insert only one debtor name (1a or 1b) - do not abbreviate or combine names

1a. ORGANIZATION'S NAME
 Pacific Court Apartments, a California limited partnership

OR

1b. INDIVIDUAL'S LAST NAME FIRST NAME MIDDLE NAME SUFFIX

1c. MAILING ADDRESS CITY STATE POSTAL CODE COUNTRY
 414 E. Chapman Avenue Orange CA 92866 US

1d. TAX ID #: SSN OR EIN ADD'L INFO RE ORGANIZATION DEBTOR 1e. TYPE OF ORGANIZATION 1f. JURISDICTION OF ORGANIZATION 1g. ORGANIZATIONAL ID #, if any
 Ltd Partnership California NONE

2. ADDITIONAL DEBTOR'S EXACT FULL LEGAL NAME - insert only one debtor name (2a or 2b) - do not abbreviate or combine names

2a. ORGANIZATION'S NAME

OR

2b. INDIVIDUAL'S LAST NAME FIRST NAME MIDDLE NAME SUFFIX

2c. MAILING ADDRESS CITY STATE POSTAL CODE COUNTRY

2d. TAX ID #: SSN OR EIN ADD'L INFO RE ORGANIZATION DEBTOR 2e. TYPE OF ORGANIZATION 2f. JURISDICTION OF ORGANIZATION 2g. ORGANIZATIONAL ID #, if any
 NONE

3. SECURED PARTY'S NAME (or NAME of TOTAL ASSIGNEE of ASSIGNOR S/P) - insert only one secured party name (3a or 3b)

3a. ORGANIZATION'S NAME
 Redevelopment Agency of the City of Huntington Beach, California, a public body, corporate and politic

OR

3b. INDIVIDUAL'S LAST NAME FIRST NAME MIDDLE NAME SUFFIX

3c. MAILING ADDRESS CITY STATE POSTAL CODE COUNTRY
 2000 Main Street Huntington Beach CA 92648 US

4. This FINANCING STATEMENT covers the following collateral:

Debtor's interest in all property located on or used or acquired in connection with the rehabilitation, operation and maintenance of the real estate described in the attached Exhibit "A", including, without limitation, the collateral described on Schedule "A" attached hereto and made part hereof.

5. ALTERNATIVE DESIGNATION (if applicable): LESSEE/LESSOR CONSIGNEE/CONSIGNOR BAILEE/BAILOR SELLER/BUYER AG. LIEN NON-UCC FILING

6. This FINANCING STATEMENT is to be filed (for record) (or recorded) in the REAL ESTATE RECORDS. Attach Addendum if applicable. 7. Check to REQUEST SEARCH REPORT(S) on Debtor(s) if applicable. (ADDITIONAL FEE) (optional) All Debtors Debtor 1 Debtor 2

8. OPTIONAL FILER REFERENCE DATA

UCC FINANCING STATEMENT ADDENDUM

FOLLOW INSTRUCTIONS (front and back) CAREFULLY

9. NAME OF FIRST DEBTOR (1a or 1b) ON RELATED FINANCING STATEMENT

9a. ORGANIZATION'S NAME

OR

9b. INDIVIDUAL'S LAST NAME

FIRST NAME

MIDDLE NAME, SUFFIX

10. MISCELLANEOUS:

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

11. ADDITIONAL DEBTOR'S EXACT FULL LEGAL NAME - insert only one name (11a or 11b) - do not abbreviate or combine names

11a. ORGANIZATION'S NAME

OR

11b. INDIVIDUAL'S LAST NAME

FIRST NAME

MIDDLE NAME

SUFFIX

11c. MAILING ADDRESS

CITY

STATE

POSTAL CODE

COUNTRY

11d. TAX ID #:

SSN OR EIN

ADD'L INFO RE
ORGANIZATION
DEBTOR

11e. TYPE OF ORGANIZATION

11f. JURISDICTION OF ORGANIZATION

11g. ORGANIZATIONAL ID #, if any

NONE

12. ADDITIONAL SECURED PARTY'S or ASSIGNOR S/P'S NAME - insert only one name (12a or 12b)

12a. ORGANIZATION'S NAME

OR

12b. INDIVIDUAL'S LAST NAME

FIRST NAME

MIDDLE NAME

SUFFIX

12c. MAILING ADDRESS

CITY

STATE

POSTAL CODE

COUNTRY

13. This FINANCING STATEMENT covers timber to be cut or as-extracted collateral, or is filed as a fixture filing.

14. Description of real estate:

16. Additional collateral description:

15. Name and address of a RECORD OWNER of above-described real estate (if Debtor does not have a record interest):

17. Check only if applicable and check only one box.

Debtor is a Trust or Trustee acting with respect to property held in trust or Decedent's Estate

18. Check only if applicable and check only one box.

Debtor is a TRANSMITTING UTILITY

Filed in connection with a Manufactured-Home Transaction — effective 30 years

Filed in connection with a Public-Finance Transaction — effective 30 years

E8.215

EXHIBIT "A"

LEGAL DESCRIPTION

All of the following real property in the City of Huntington Beach, Orange County, State of California (the "Property"):

PARCEL 1:

BLOCK 2205 OF EAST SIDE VILLA TRACT, AS PER MAP RECORDED IN BOOK 4, PAGE 65, MISCELLANEOUS MAPS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY

PARCEL 2:

AN EASEMENT FOR INGRESS AND EGRESS OVER THE EASTERLY 15 FEET OF THE SOUTH 72 FEET OF BLOCK 2305 OF THE EAST SIDE VILLA TRACT

PARCEL 3:

AN EASEMENT FOR INGRESS AND EGRESS OVER THE WEST 20 FEET OF BLOCK 2306 OF EAST SIDE VILLA TRACT

APN: 025-121-50

SCHEDULE "A"

Item 4. Collateral Description

All buildings, structures and improvements of every nature whatsoever now or hereafter situated on the Property; and

Together with the rents, issues and profits thereof; and together with all buildings and improvements of every kind and description now or hereafter erected or placed thereon, and all fixtures, including but not limited to all gas and electric fixtures, engines and machinery, radiators, heaters, furnaces, heating equipment, laundry equipment, steam and hot-water boilers, stoves, ranges, elevators and motors, bathtubs, sinks, water closets, basins, pipes, faucets and other plumbing and heating fixtures, mantles, cabinets, refrigerating plant and refrigerators, whether mechanical or otherwise, cooking apparatus and appurtenances, and all shades, awnings, screens, blinds and other furnishings, it being hereby agreed that all such fixtures and furnishings shall to the extent permitted by law be deemed to be permanently affixed to and a part of the realty; and

Together with all building materials and equipment now or hereafter delivered to said premises and intended to be installed therein; and

Together with all plans, drawings, specifications, etc., and articles of personal property now or hereafter attached to or used in and about the building or buildings now erected or hereafter to be erected on the Property which are necessary to the completion and comfortable use and occupancy of such building or buildings for the purposes for which they were or are to be erected, including all other goods and chattels and personal property as are ever used or furnished in operating a building, or the activities conducted therein, similar to the one herein described and referred to, and all renewals or replacements thereof or articles in substitution therefor, whether or not the same are, or shall be attached to said building or buildings in any manner.

FREE RECORDING REQUESTED BY
AND WHEN RECORDED MAIL TO:

THE CITY OF HUNTINGTON BEACH
2000 Main Street
Huntington Beach, CA 92648
Attn: City Clerk

(Space Above This Line for Recorder's Office Use Only)

APN: 025-121-50

**NOTICE OF AFFORDABILITY RESTRICTIONS ON TRANSFER OF
PROPERTY**

NOTICE IS HEREBY GIVEN that pursuant to Health & Safety Code Section 33334.3(f) as amended effective January 1, 2008, the Redevelopment Agency of the City of Huntington Beach is recording this Notice of Affordability Restrictions on Transfer of Property (hereinafter the "Notice") with regard to the property located at 2200 Delaware Street, Huntington Beach, California and more particularly described in Exhibit "A" attached hereto (the "Site").

The Site is subject to the Regulatory Agreement and Declaration of Covenants and Restrictions (the "Regulatory Agreement") recorded concurrently herewith, which restricts the use of the Site as follows:

(1) Twenty-three (23) two-bedroom units shall be rented exclusively to Very Low Income households at an Affordable Rent as provided in California Health and Safety Code Section 50053.

(2) Twenty-four (24) two-bedroom units shall be rented exclusively to Low Income households at an Affordable Rent as provided in California Health and Safety Code Section 50053.

NOTICE OF AFFORDABILITY RESTRICTIONS
PAGE 1

K:\cg\hb\pacific Ct - 2200 Delaware St\affordable Housing Agmt\final\Notice of Affordability Restrictions.doc

EXHIBIT NO. 17

E8.218

The maximum incomes of eligible tenants shall be determined on the basis of the income limits for Very Low Income and Low Income households in Orange County, published approximately annually by the California Department of Housing and Community Development ("HCD"). If HCD discontinues publishing such income limits, the term "Very Low Income" shall mean a household income that does not exceed 50% of the area median income, adjusted for family size and the term "Low Income" shall mean a household income that does not exceed 80% of the area median income, adjusted for family size.

Any rents charged to a tenant shall not exceed rents that are affordable to Very Low Income and Low Income Households, as applicable. The maximum rents, including a reasonable utility allowance for utilities and services (excluding telephone) to be paid by Very Low Income and Low Income Households are as follows:

(i) In the case of any Very Low Income Household, the maximum rent shall be a rent that does not exceed 30 percent of fifty percent (50%) of the area median income adjusted for household size appropriate to the unit, as determined by the California Department of Housing and Community Development.

(ii) In the case of any Low Income Household, the maximum rent shall be a rent that does not exceed 30 percent of sixty percent (60%) of the area median income adjusted for household size appropriate to the unit, as determined by the California Department of Housing and Community Development.

The affordability restrictions imposed on the Site by the Regulatory Agreement are scheduled to expire on the date that is sixty (60) years after the recordation of the Release of Construction Covenants for the rehabilitation of the improvements on the Site.

This Notice is recorded for the purpose of providing notice only and in no way modifies the provisions of the Regulatory Agreement.

NOTICE OF AFFORDABILITY RESTRICTIONS
PAGE 2

K:\cg\hB\pacific Ct - 2200 Delaware St\affordable Housing Agmt\final\Notice of Affordability Restrictions.doc

“AGENCY”
REDEVELOPMENT AGENCY OF THE
CITY OF HUNTINGTON BEACH, a public
body corporate and politic

By: _____
Chairperson

ATTEST:

By: _____
Agency Secretary

APPROVED AS TO FORM:

By: _____
General Counsel

By: _____
KANE, BALLMER & BERKMAN
Agency Special Counsel

State of California)

County of Orange)

On _____ before me, _____, a Notary Public, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____ (Seal)

State of California)

County of Orange)

On _____ before me, _____, a Notary Public, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____ (Seal)

NOTICE OF AFFORDABILITY RESTRICTIONS

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Exhibit "A"

The land referred to herein is situated in the State of California, County of Orange, and described as follows:

PARCEL 1:

BLOCK 2205 OF EAST SIDE VILLA TRACT, AS PER MAP RECORDED IN BOOK 4, PAGE 65, MISCELLANEOUS MAPS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY

PARCEL 2:

AN EASEMENT FOR INGRESS AND EGRESS OVER THE EASTERLY 15 FEET OF THE SOUTH 72 FEET OF BLOCK 2305 OF THE EAST SIDE VILLA TRACT

PARCEL 3:

AN EASEMENT FOR INGRESS AND EGRESS OVER THE WEST 20 FEET OF BLOCK 2306 OF EAST SIDE VILLA TRACT

APN: 025-121-50

NOTICE OF AFFORDABILITY RESTRICTIONS

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FREE RECORDING REQUESTED BY
AND WHEN RECORDED MAIL TO:

THE CITY OF HUNTINGTON BEACH
2000 Main Street
Huntington Beach, CA 92648
Attn: City Clerk

(Space Above This Line for Recorder's Office Use Only)
(Exempt from Recording Fee per Gov. Code § 6103 & 27383)

APN: 025-121-50

**RELEASE OF CONSTRUCTION COVENANTS BY THE REDEVELOPMENT
AGENCY OF THE CITY OF HUNTINGTON BEACH AND THE CITY OF
HUNTINGTON BEACH TO PACIFIC COURT APARTMENTS, L.P.**

WHEREAS, Pacific Court Apartments, L.P., a California limited partnership (the "Developer") is the owner of that certain real property situated in the City of Huntington Beach, California described in Exhibit "A" which is attached hereto and made a part hereof (the "Site"), and has agreed to rehabilitate the improvements thereon (the "Improvements"); and

WHEREAS, the Regulatory Agreement and Declaration of Covenants and Restrictions entered into by and between the Redevelopment Agency of the City of Huntington Beach (the "Agency"), the City of Huntington Beach (the "City") and the Developer and recorded in the Recorder's Office of Orange County on _____, 2008 as Instrument No. _____ (the "Regulatory Agreement") obligates the Developer and its successors or assigns to rehabilitate the Improvements in accordance with the Affordable Housing Agreement ("Housing Agreement") entered into on _____, 2008 by and between the Agency, the City and the Developer.

WHEREAS, pursuant to the Housing Agreement, the Agency and the City have agreed to furnish the Developer with a Release of Construction Covenants ("Release") upon the completion of the rehabilitation of the Improvements, and such certificate is to be in such form as to permit it to be recorded in the Recorder's Office of Orange County; and

WHEREAS, the Housing Agreement states that the Release shall be conclusive determination of satisfactory completion of the rehabilitation of the Improvements as required by the Housing Agreement; and

RELEASE OF CONSTRUCTION COVENANTS
PAGE 1

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EXHIBIT NO. 18

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WHEREAS, the Agency and the City have each determined that the rehabilitation of the Improvements on the Site as required by the Housing Agreement has been satisfactorily completed.

NOW THEREFORE, it is hereby acknowledged and agreed by the parties hereto that:

1. The Agency and the City hereby certify that the rehabilitation of the Improvements on the Site has been fully and satisfactorily performed and completed as required by the Housing Agreement and the Regulatory Agreement.

2. Nothing contained in this instrument shall modify any provisions of the Housing Agreement or the Regulatory Agreement.

[SIGNATURES APPEAR ON FOLLOWING PAGE]

“CITY”

THE CITY OF HUNTINGTON BEACH, a
municipal corporation of the State of
California

By: _____
Mayor

ATTEST:

By: _____
City Clerk

APPROVED AS TO FORM:

By: _____
City Attorney

“AGENCY”

REDEVELOPMENT AGENCY OF THE
CITY OF HUNTINGTON BEACH, a public
body corporate and politic

By: _____
Chairperson

ATTEST:

By: _____
Agency Secretary

APPROVED AS TO FORM:

By: _____
General Counsel

By: _____
KANE, BALLMER & BERKMAN
Agency Special Counsel

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EXHIBIT A

LEGAL DESCRIPTION OF SITE

The land referred to herein is situated in the State of California, County of Orange, and described as follows:

PARCEL 1:

BLOCK 2205 OF EAST SIDE VILLA TRACT, AS PER MAP RECORDED IN BOOK 4, PAGE 65, MISCELLANEOUS MAPS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY

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PARCEL 3:

AN EASEMENT FOR INGRESS AND EGRESS OVER THE WEST 20 FEET OF BLOCK 2306 OF EAST SIDE VILLA TRACT

APN: 025-121-50

RELEASE OF CONSTRUCTION COVENANTS
LEGAL DESCRIPTION OF SITE

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State of California)

County of Orange)

On _____ before me, _____,
a Notary Public, personally appeared _____, who proved to me
on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the
within instrument and acknowledged to me that he/she/they executed the same in his/her/their
authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or
the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the
foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____ (Seal)

State of California)

County of Orange)

On _____ before me, _____,
a Notary Public, personally appeared _____, who proved to me
on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the
within instrument and acknowledged to me that he/she/they executed the same in his/her/their
authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or
the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the
foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____ (Seal)

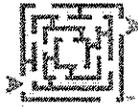
RELEASE OF CONSTRUCTION COVENANTS

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ATTACHMENT #4

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KEYSER MARSTON ASSOCIATES
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

ADVISORS IN:
REAL ESTATE
REDEVELOPMENT
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT

To: Kellee Fritzal, Deputy Director of Economic Development
City of Huntington Beach

From: Kathleen Head

Date: June 16, 2008

Subject: Delaware Apartments: Financial Gap and HOME Layering Analysis

SAN FRANCISCO
A. JERRY KEYSER
TIMOTHY C. KELLY
KATE EARLE FUNK
DEBBIE M. KERN
ROBERT J. WETMORE
REED T. KAWAHARA

LOS ANGELES
CALVIN E. HOLLIS, II
KATHLEEN H. HEAD
JAMES A. RABE
PAUL C. ANDERSON
GREGORY D. SOO-HOO
KEVIN E. ENGSTROM
JULIE L. ROMEY

SAN DIEGO
GERALD M. TRIMBLE
PAUL C. MARRA

At your request, Keyser Marston Associates, Inc (KMA) prepared a financial gap and HOME Program layering analysis for the acquisition and rehabilitation of 48 apartment units (Project) located at 2200-2222 Delaware Street (Site). The purpose of the KMA analysis is to determine the amount of HOME Program funds, in combination with other governmental assistance, necessary to make the proposed Project financially feasible.

EXECUTIVE SUMMARY

California Housing Partnership Corporation (Developer) is proposing to acquire the Site, and then to undertake substantial rehabilitation of the existing units. These units will then be rented to very-low and low income tenants. The Project is proposed to be funded from the following outside sources:

1. Tax-exempt mortgage revenue bonds allocated by the California Debt Limit Allocation Committee (CDLAC); and
2. Low Income Housing Tax Credits (Tax Credits) that will be automatically awarded by the California Tax Credit Allocation Committee (TCAC) in conjunction with the bond issued under the CDLAC bond volume cap.

The City of Huntington Beach (City) and the Huntington Beach Redevelopment Agency (Agency) are proposing to fill the remaining financial gap with HOME funds received by the City from the United States Department of Housing and Urban Development (HUD) and property tax increment housing set-aside (Set-Aside) funds received by the Agency.

To: Kellee Fritzel, City of Huntington Beach
Subject: Delaware Apartments: HOME Layering Analysis

June 16, 2008
Page 2

The KMA analysis estimates the Project's financial gap at \$9.01 million. Comparatively, the Developer is requesting \$9.28 million in assistance, which is \$271,000 more than the gap identified by KMA. This 3% difference can be considered negligible, and thus KMA concludes that the provision of \$9.28 million in City/Agency assistance can be supported by the Project economics.

As currently proposed, the City and Agency will provide the following assistance package to the Project:

1. \$8.78 million in Set-Aside funds; and
2. \$500,000 in HOME Program funds.

KMA also prepared a HOME layering analysis for the Project. Based on this analysis, KMA reached the following conclusions:

1. The proposed financial assistance package meets the HOME Program layering requirements.
2. Based on the provision of \$500,000 in HOME funds, at least four units must be designated as HOME units.
3. The HOME Program regulations impose Davis Bacon wage requirements on projects that include 11 or more designated HOME units. Given that only four units must be designated as HOME units, Davis Bacon wage standards are not applicable to the proposed Project.

PROJECT DESCRIPTION

The Project will include one on-site manager's unit and 47 two-bedroom units that will be subject to long-term income and affordability covenants. The proposed income and affordability standards are:

1. Twenty-three (23) units will be rented to very-low income households; and
2. Twenty-four (24) units will be rented to low income households.

PRO FORMA ANALYSIS

KMA reviewed the pro forma analysis submitted by the Developer, and then independently prepared a financial analysis for the Project. The KMA pro forma analysis is presented at the end of this memorandum and is organized as follows:

Table 1:	Estimated Development Costs
Table 2:	Stabilized Net Operating Income
Table 3:	Financial Gap Calculation
Table 4:	HOME Layering Analysis

Estimated Development Costs (TABLE 1)

Property Assemblage Costs

1. The Developer has entered into a contract to purchase the property for \$12.08 million, or approximately \$252,000 per unit.
2. Temporary and permanent tenant relocation costs are estimated at \$204,000.

The property assemblage costs total \$12.28 million.

Direct Costs

1. The basic rehabilitation costs are estimated at \$1.96 million, or \$40,800 per unit.
2. The Developer is also proposing to provide solar panels, hardscape, tot lot, and a sport court at a cost of approximately \$195,000.
3. The contractor costs are estimated at \$303,000, or 15% of the rehabilitation costs.
4. The direct cost contingency allowance is set at \$212,000, or 11% of the rehabilitation costs.

The direct costs are estimated to total \$2.67 million. This equates to \$55,600 per unit.

Indirect Costs

1. An \$80,000 allowance is provided for architecture, engineering and consulting fees. This represents 3% of the direct costs.

To: Kellee Fritzal, City of Huntington Beach
Subject: Delaware Apartments: HOME Layering Analysis

June 16, 2008

Page 4

2. The Developer estimated the public permits and fees at \$25,000. The City staff should verify the accuracy of this estimate.
3. Taxes, legal and accounting fees are estimated at 1.5% of the acquisition and direct costs. This equates to \$221,000.
4. The Developer estimated the insurance costs at \$150,000, which equates to approximately \$3,130 per unit.
5. The marketing and leasing costs are estimated at \$14,000, or \$300 per unit.
6. The Developer is proposing to receive a Developer Fee that is less than the maximum allowed by the Tax Credit program. As such, KMA applied the Developer's \$1.89 million allowance in our financial analysis.
7. An allowance equal to 5.0% of the indirect and financing costs is provided as a soft cost contingency allowance.

The total indirect costs are estimated at \$2.55 million.

Financing Costs

1. Tax-Exempt Bonds:
 - a. Tax-exempt mortgage revenue bonds are proposed to serve as construction and permanent financing for the Project. To comply with Internal Revenue Service (IRS) requirements, the bond amount must equal at least 50% of the Project costs. To meet the 50% test requirement, at least \$9.20 million of the Project costs must be funded with tax-exempt mortgage revenue bonds.
 - b. The Project's net operating income (NOI) cannot support a \$9.20 million bond. Thus, it is necessary to issue a Series A bond that is secured by the Project's income, and a Series B bond that is secured by the public assistance awarded to the Project at the completion of construction.
 - c. A \$3.61 million Series A bond is supported by the Project's NOI. The Developer is applying a \$128,000 "Construction Operating Vacancy Reserve" to fund the debt service costs incurred on the Series A bond during the rehabilitation process.

To: Kellee Fritzel, City of Huntington Beach
Subject: Delaware Apartments: HOME Layering Analysis

June 16, 2008
Page 5

- d. The Series B bond will be paid off once the Project reaches stabilized occupancy. The \$248,000 in debt service costs incurred during the rehabilitation process are based on the 7.41% mortgage constant associated with the bond.
2. The loan origination fees for the tax-exempt bonds are estimated at 3.5 points. The total loan origination fees are estimated at \$321,000.
3. KMA estimated the capitalized operating reserves at \$170,000, or approximately \$3,500 per unit.
4. The Tax Credit costs are estimated at \$27,000 and are based on the following assumptions:
 - a. A \$2,000 application fee;
 - b. A Tax Credit allocation fee equal to 1% of the first year's gross Tax Credit amount; and
 - c. A \$410 per unit compliance monitoring fee.

The total financing costs are estimated at \$894,000.

Total Development Costs

The KMA total construction costs are estimated at \$6.1 million, or \$127,400 per unit. When the property assemblage costs are included, the total development costs are estimated at \$18.39 million. This equates to \$383,200 per unit.

Stabilized Net Operating Income (TABLE 2)

Revenues

All 48 units in the Project are proposed to be funded with Tax Credits, HOME funds and Set-Aside funds. Each of these programs imposes unique income and affordability requirements. The income and affordability restrictions imposed on the Project are:

To: Kellee Fritzal, City of Huntington Beach
Subject: Delaware Apartments: HOME Layering Analysis

June 16, 2008
Page 6

Income Restriction ¹	# of Units	Designated Assistance Programs ²
Very-Low Income	23	Set-Aside; HOME, & Tax Credit
Low Income	24	
Manager's Unit	1	No Income Restrictions ³

The affordable housing costs applied in this analysis comply with the strictest standards imposed by the applicable assistance programs. In addition, the appropriate utilities allowance must be deducted to arrive at the allowable rent.⁴ The resulting allowable rents, as applied in the KMA analysis, are:

Income Restriction	Set-Aside Rent	HOME Rent	Tax Credit Rent	Applicable Rent
Very-Low Income	\$906	\$1,006	\$1,006	\$906
Low Income	\$1,096	\$1,298	\$1,215	\$1,096

The Project is also anticipated to generate \$17 per unit per month in miscellaneous income. When that is added to the rent income, KMA projects the gross income at \$575,600. When the gross income is reduced by a 5% allowance for vacancy and collection expenses, the effective gross income (EGI) is \$546,800.

Expenses

The annual operating expenses for the Project are estimated as follows:

1. The general operating expenses are estimated at \$4,200 per unit per year.
2. KMA assumes that the Developer will apply for the property tax abatement that is accorded to non-profit organizations that own very-low and low income apartment units. Thus, the property tax costs are limited to any assessment overrides imposed on the property. The assessment overrides are estimated at \$23,000 per year, or \$500 per unit.

¹ The "Median" is defined as the 2008 Orange County median income.

² Set-Aside rents are based on California Health & Safety Code Section 50053 calculations. The rents for the other programs are published by the assistance providers.

³ The Manager's unit will be treated as a Tax Credit unit.

⁴ The tenants will be required to pay for basic electricity and gas cooking. The tenant will not be required to pay for water or water heating.

3. A \$300 per unit per year allowance is provided to fund an annual replacement reserve account.

The total annual operating expenses are estimated at \$239,000. This equates to \$5,000 per unit.

Net Operating Income (NOI)

The NOI is equal to the EGI minus the operating expenses. Based on \$546,800 in EGI and \$239,000 in operating expenses, the stabilized NOI is estimated at \$307,800.

Financial Gap Calculation (TABLE 3)

The financial gap is estimated by deducting the available outside funding sources from the Projects costs. These proposed funding sources are comprised of the following:

1. Based on the following underwriting assumptions, KMA estimates that the Project can support a \$3.61 million tax-exempt mortgage revenue bond:
 - a. A 115% debt service coverage ratio;
 - b. A 6.53% interest rate; and
 - c. A 35-year amortization period.
2. KMA estimates that the net Tax Credit proceeds will total \$4.98 million. This estimate is based on a pay-in equal to \$0.96 per dollar of gross Tax Credit Proceeds.
3. The Developer is proposing to defer \$788,000 of the "Developer Fee" that is included in the Project budget. The deferred fee will be recouped from the Project's cash flow over time.

The identified outside funding sources total \$9.38 million. Based on the current assumptions, KMA calculates the financial gap as follows :

Available Funding Sources	\$9,383,000
(Less) Total Development Costs	(18,392,000)
Financial Gap	(\$9,009,000)

To: Kellee Fritzel, City of Huntington Beach
Subject: Delaware Apartments: HOME Layering Analysis

June 16, 2008
Page 8

It should be noted that the Developer has requested \$9,280,000 in financial assistance. This \$271,000 difference from the KMA estimate represents a 3% differential, which can be considered inconsequential. As such, it is the KMA conclusion that \$9.28 million in local public assistance is supported by the Project economics.

Available Local Public Funding Sources

KMA has been instructed to assume that the \$9.28 million in local public assistance will be derived from the following sources:

1. Set-Aside funds totaling \$8.78 million; and
2. HOME program funds totaling \$500,000.

HOME UNIT LAYERING ANALYSIS (TABLE 4)

Layering Requirements

The HOME Program regulations require projects to provide a layering analysis demonstrating that the HOME assistance is required to provide affordable housing. Based on the preceding analysis, it is the KMA conclusion that the proposed financial assistance package meets the HOME layering requirements.

HOME Unit Designation

The HOME Program limits the amount of funds that can be allocated to a project based on the unit types and the size of the Project. HUD establishes two tests for quantifying the number of designated HOME units that must be included in the Project. These tests can be described as follows:

1. The base test calculates the minimum number of HOME units that must be provided based on the percentage of total costs that are funded with HOME Program assistance. The calculation for the Project is:
 - a. \$500,000 in HOME Program assistance is being provided.
 - b. The Projects costs are estimated at \$18.39 million.
 - c. The HOME Program assistance equals 2.7% of the Project costs.
 - d. The Project includes 48 units.

To: Kellee Fritzal, City of Huntington Beach
Subject: Delaware Apartments: HOME Layering Analysis

June 16, 2008

Page 9

- e. 2.7% of the 48 units within the Project equals one unit. This means that under this test at least one unit must be designated as a HOME unit.
2. HUD establishes subsidy limits based on the number of bedrooms included in the HOME assisted units. The subsidy limit test for the Project can be described as follows:
 - a. The 2007 HOME subsidy limit in Orange County equals \$165,898 for two-bedroom units.
 - b. Given \$500,000 in HOME Program assistance, at least four units would have to be designated as HOME units under the subsidy limit test ($\$500,000 \div \$165,898 = 3.01$).⁵

The first HOME layering test generates the obligation to designate one HOME unit within the Project, but the subsidy limit test results in a requirement to designate four HOME units in the Project. Thus, the subsidy limit test prevails.

It is important to note that there is no reason to designate more HOME units than are required by the two tests. This is pertinent because the HOME regulations require Davis Bacon prevailing wage requirements to be imposed on projects in which 11 or more units are designated as HOME units. In this case, the Project is only required to designate four units as HOME units. As such, Davis Bacon wage requirements do not need to be imposed on the Project.

The HOME Program also requires at least 20% of the units assisted with HOME funds to be affordable to very-low households, and the balance of the HOME designated units to be reserved for low income households. This requirement is met by the proposed Project.

CONCLUSIONS

The results of the KMA financial gap analysis and HOME layering analysis can be summarized as follows:

1. The \$9.28 million assistance request is warranted by the Project economics. Of this total, \$500,000 is proposed to be funded with the HOME Program monies.
2. To comply with the subsidy limits imposed by HUD, four of the units must be earmarked as HOME units.

⁵ The obligation is rounded up to the next whole number.

TABLE 1

ESTIMATED DEVELOPMENT COSTS
23 VERY-LOW INCOME UNITS; 24 LOW INCOME UNITS; & 1 MGRS UNIT
APARTMENT COMPONENT- 100% OF THE UNITS ARE TAX CREDIT ELIGIBLE
2200-2222 DELAWARE STREET
HUNTINGTON BEACH, CALIFORNIA

I. <u>Property Assemblage Cost</u>¹				
Property Acquisition				
Land			\$2,850,000	
Building			9,225,000	
Relocation			204,000	
Total Property Assemblage Cost				\$12,279,000
II. <u>Direct Costs</u>¹				
Rehabilitation Costs	48 Units	\$40,800 /Unit	\$1,959,000	
Solar Panels			145,000	
Hardscape, Tot Lot, & Sport Court			50,000	
Contractor Costs	15% Rehabilitation Costs		303,000	
Direct Cost Contingency Allowance	11% Rehabilitation Costs		212,000	
Total Direct Costs	48 Units	\$55,600 /Unit		\$2,669,000
III. <u>Indirect Costs</u>				
Architecture, Engineering & Consulting	3.0% Direct Cost		\$80,000	
Permits & Fees ²	48 Units	\$520 /Unit	25,000	
Taxes, Legal & Accounting	1.5% DC + Acq		221,000	
Insurance ¹	48 Units	\$3,130 /Unit	150,000	
Marketing/Leasing	48 Units	\$300 /Unit	14,000	
Developer Fee ¹	15% Applicable Tax Credit Basis		1,888,000	
Soft Cost Contingency	5.0% Ind + Fin Cost		172,000	
Total Indirect Costs	48 Units	\$53,100 /Unit		\$2,550,000
IV. <u>Financing Costs</u>				
Interest During Construction				
Series A Bond ³	\$3,612,000 Bond	7.41% Constant	\$0	
Construction Operating Vacancy Reserve ³			128,000	
Series B Bond ⁴	\$5,584,000 Bond	7.41% Constant	248,000	
Loan Origination Fees				
Series A Bond	\$3,612,000 Loan	3.50 Points	126,000	
Series B Bond	\$5,584,000 Loan	3.50 Points	195,000	
Capitalized Reserves ¹			170,000	
Tax Credit Costs ⁵			27,000	
Total Financing Costs	48 Units	\$18,600 /Unit		\$894,000
V. <u>Total Development Costs</u>				
Total Development Costs	48 Units	\$383,200 /Unit		\$18,392,000
Total Construction Costs	48 Units	\$127,400 /Unit		\$6,113,000

¹ Based on Developer estimate.

² Based on Developer estimate. The estimate should be verified by the City staff.

³ Based on Developer estimate, the Construction Operating Vacancy Reserve is assumed to be used to be used to pay the debt service on Series A Bonds during building rehabilitation.

⁴ Equal to 50% of the development costs minus the Series A bond ; a 12 month construction period; & a 60% average outstanding balance.

⁵ Includes \$2,000 application fee; \$410/unit monitoring fee; and 1% of the gross tax credit proceeds for one-year.

TABLE 2

STABILIZED NET OPERATING INCOME
23 VERY-LOW INCOME UNITS; 24 LOW INCOME UNITS; & 1 MGRS UNIT
APARTMENT COMPONENT- 100% OF THE UNITS ARE TAX CREDIT ELIGIBLE
2200-2222 DELAWARE STREET
HUNTINGTON BEACH, CALIFORNIA

I. <u>Income</u>¹			
Manager	1 Unit @	\$0 /Month	\$0
VL Inc Redev, HOME & TC @ 50% of Media	23 Units @	\$906 /Month	250,100
Low Inc Redev, HOME & TC @ 60% of Med	24 Units @	\$1,096 /Month	315,500
Miscellaneous Income ²	48 Units @	\$17 /Month	<u>10,000</u>
Gross Income			\$575,600
(Less) Vacancy and Collection	5.0% Gross Income		<u>(28,800)</u>
Effective Gross Income (EGI)			\$546,800
II. <u>Operating Expenses</u>			
General Operating Expenses	48 Units @	\$4,200 /Unit	\$201,600
Property Taxes ³	48 Units @	\$500 /Unit	23,000
Replacement Reserve ²	48 Units @	\$300 /Unit	<u>14,400</u>
Total Operating Expenses	48 Units @	(\$5,000) /Unit	<u>(\$239,000)</u>
III. <u>Net Operating Income</u>			\$307,800

¹ Based on Orange County 2008 incomes distributed by HUD/HCD. As pertinent, the rents are based on California Health & Safety Code Section 50053; and the rents published by TCAC. The utilities allowance is set at \$40. The manager's unit is treated as a Tax Credit unit.

² Based on Developer's estimate.

³ Assumes the Developer receives the property tax abatement accorded to non-profit owners of affordable rental units and pays only the assessed override rate.

TABLE 3

**FINANCIAL GAP CALCULATION
 23 VERY-LOW INCOME UNITS; 24 LOW INCOME UNITS; & 1 MGRS UNIT
 APARTMENT COMPONENT- 100% OF THE UNITS ARE TAX CREDIT ELIGIBLE
 2200-2222 DELAWARE STREET
 HUNTINGTON BEACH, CALIFORNIA**

I. Available Funding Sources

A. Tax-Exempt Financing

Net Operating Income		\$307,800	
Avail for Debt Service @ 115% Coverage		\$267,700	
Interest Rate/Mortgage Constant	6.53% Interest		7.41% Constant
Total Supportable Debt			\$3,612,000

B. Federal Low Income Housing Tax Credit Proceeds ¹

Gross Tax Credit Value	\$5,196,000	
Syndication Value	\$0.96 /Tax Credit Dollar	
Net Tax Credit Value		\$4,983,000

C. Deferred Developer Fee

\$788,000

Total Available Funding Sources

\$9,383,000

II. Financial Gap

Total Available Funding Sources		\$9,383,000
(Less) Total Development Costs		<u>(18,392,000)</u>

Total Financial Gap	48 Units	\$187,700 /Unit	(\$9,009,000)
----------------------------	-----------------	------------------------	----------------------

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¹ \$14.4 million eligible basis (including a 130% difficult to develop premium); a 3.34% tax credit rate; and an applicable fraction of 100%. 9% of the Tax Credit proceeds are paid in during construction.

TABLE 4

HOME PROGRAM LAYERING CALCULATIONS
23 VERY-LOW INCOME UNITS; 24 LOW INCOME UNITS; & 1 MGRS UNIT
2200-2222 DELAWARE STREET
HUNTINGTON BEACH, CALIFORNIA

I. Minimum Designated HOME Units

A. Per Development Costs ¹

Minimum Designated HOME Units

\$500,000	HOME Funds Requested	\$18,392,000	Total Development Costs
2.7%	HOME Funds/ Total Dev. Costs	1	Units

B. Per Subsidy Amount

Minimum Designated HOME Units

\$500,000	HOME Funds Requested	\$165,898	2-Bdrm Subsidy Limit
3.01	Units	4	Units

II. Minimum Number of HOME Units Required	4 Units
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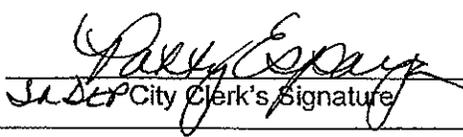
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ATTACHMENT #5

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3/19
S. SMALEWITZ, EDD
J. MORALEZ, EDD

Council/Agency Meeting Held: <u>3/17/2008</u>	 City Clerk's Signature
Deferred/Continued to: _____ <input checked="" type="checkbox"/> Approved <input type="checkbox"/> Conditionally Approved <input type="checkbox"/> Denied 7-0	
Council Meeting Date: March 17, 2008	Department ID Number: ED 08-10

**CITY OF HUNTINGTON BEACH
REQUEST FOR COUNCIL/REDEVELOPMENT AGENCY ACTION**

SUBMITTED TO: HONORABLE MAYOR/CHAIRMAN AND CITY COUNCIL MEMBERS/REDEVELOPMENT AGENCY MEMBERS

SUBMITTED BY: PAUL EMERY, Interim Executive Director/City Administrator 

PREPARED BY: STANLEY SMALEWITZ, Deputy Executive Director/Director of Economic Development 

SUBJECT: Conduct a TEFRA Public Hearing, Adopt Resolution for the Issuance of Bonds, and Pre-Commitment of HOME/RDA funds for the Pacific Court Apartments.

Statement of Issue, Funding Source, Recommended Action, Alternative Action(s), Analysis, Environmental Status, Attachment(s)

Statement of Issue: The City Council is asked to approve the Resolution authorizing issuance of Bonds and the Agency Board is asked to approve a pre-commitment of Federal HOME Investment Partnership Funds and Redevelopment Housing Set Aside funds for the acquisition and rehabilitation of Pacific Court Apartments located at 2200-2222 Delaware Street.

Funding Source: No funds from the City or Redevelopment Agency are currently requested at this time. The Resolution will authorize the California Statewide Communities Development Authority (CSCDA) to issue Multifamily Housing Revenue Bonds in the anticipated amount of \$10,000,000 for the acquisition and rehabilitation of the Pacific Court Apartments (Pacific Court). In addition, Federal HOME Investment Partnership Funds and Redevelopment Housing Set Aside funds in an amount not to exceed \$500,000 and \$8.8 million respectively, will be used for the acquisition and rehabilitation of Pacific Court. At a later date, staff will submit for approval agreements that will delineate the details of the assistance to be provided. All bond payments and security will be supported by the project. The City will have no pecuniary liability for the bonds.

Recommended Action: Motion to: Resolution No. 2008-21

City Council Actions:

1. Open the TEFRA public hearing, take testimony, and close the public hearing on the proposed issuance of Multifamily Housing Revenue Bonds.

REQUEST FOR COUNCIL/REDEVELOPMENT AGENCY ACTION

MEETING DATE: March 17, 2008

DEPARTMENT ID NUMBER: ED 08-10

Recommended Action: (Cont'd)

2. Adopt Resolution Number 2008-21, a Resolution of the City Council of the City of Huntington Beach Approving the Issuance of Bonds by the California Statewide Communities Development Authority Relating to the Financing of the Pacific Court Apartments.
3. Approve a pre-commitment of HOME funds in an amount not to exceed \$500,000, authorize the Interim City Administrator to execute documents confirming this commitment, and direct staff to move forward with the preparation of an OPA that will delineate the specific terms of the financial assistance to be provided for the Pacific Court Apartments.

Redevelopment Agency Action:

1. Approve a pre-commitment of RDA funds in an amount not to exceed \$8.8 million, authorize the Executive Director to execute documents confirming this commitment, and direct staff to move forward with the preparation of an OPA that will delineate the specific terms of the financial assistance to be provided for the Pacific Court Apartments.

Alternative Action(s): Do not approve the proposed resolution for the issuance of bonds and direct staff not to move forward with the aforementioned agreements.

Analysis: The 48-unit Pacific Court Apartments have been the focus of code enforcement and City Attorney actions due to resident complaints and noticeable code violations over the past several years. The owner of the property had attempted to mitigate and address the numerous resident complaints and code enforcement actions on his own, but has been unable to address and correct all the problems. Most recently, the City Attorney's office had taken the pending code enforcement citations to court to require the owner to correct the noted deficiencies. Orange Housing Development Corp. (OHDC) and C&C Development LP, along with several other nonprofit developers, were contacted by the owner's broker to offer them the property. Based on a review of the proposal by staff and Keyser Marston Associates, the proposal was determined to be fiscally sound.

In addition, the proposal met the Agency's Housing Strategy and City's proposed Housing Element. OHDC and C&C Development have worked together since 1990 to provide affordable communities throughout Orange County and the State of California. Together and/or individually, they have developed new and/or acquired and rehabilitated over 3,100 units. In the City of Huntington Beach, OHDC built, owns, and manages the 20-unit Bowen Court senior apartment project located adjacent to City Hall at 1978 Lake Street.

OHDC is a non-profit 501 (c) (3) organization with a commitment to develop secure, clean, and attractive housing for families and seniors of low and moderate incomes. OHDC was founded in 1990 to increase the number of affordable housing units in California and to fill the

REQUEST FOR COUNCIL/REDEVELOPMENT AGENCY ACTION

MEETING DATE: March 17, 2008

DEPARTMENT ID NUMBER: ED 08-10

void that cannot be filled by the private sector. OHDC is a Community Housing Development Organization (CHDO). C & C Development LP is an affordable housing developer with a commitment to develop and preserve quality affordable housing communities. By combining both entities respective experiences, talents, and personnel, we are able to provide to our residents and the City a higher level of expertise and quality of development.

OHDC and C&C Development LP are currently in escrow to acquire the property contingent on obtaining permanent financing for the acquisition and the proposed rehabilitation of the property. The apartments were built circa 1964 and have experienced accelerated deterioration due to the lack of proper maintenance over the years. As part of the overall rehabilitation plan for the Pacific Court Apartments, OHDC and C&C will be doing work to the interiors of the units to repair damaged walls, flooring, heating/cooling systems, plumbing, appliances, and other work as needed. The exterior of the buildings will also have wall repairs, new stucco and/or other finish, roof replacement, new dual pane low E windows, new garage doors, and other work as needed. The pool will be removed and replaced with drought tolerant landscaping. Green building materials, energy star appliances, instant hot water heaters or solar water heaters, solar energy panels, and other energy efficient materials will be used to rehabilitate the apartments.

The City Council's adoption of the Resolution and the Agency's Board approval of the pre-commitment of HOME and RDA funds will allow the developer to proceed with the application for the State tax credits and issuance of bonds.

Strategic Plan Goal: This project will help meet the City of Huntington Beach Strategic Plan Goal L-3, "Preserve the quality of our neighborhoods," by enhancing the quality of existing housing and providing affordable housing

Environmental Status: Categorically excluded under the National Environmental Protection Act (NEPA). Categorically exempt under the California Environmental Quality Act (CEQA), Section 15061(b)(3).

Attachment(s):

City Clerk's Page Number	No.	Description
	1.	Adopt Resolution Number <u>2008-21</u> , a Resolution of the City Council of the City of Huntington Beach Approving the Issuance of Bonds by the California Statewide Communities Development Authority Relating to the Financing the Pacific Court Apartments.

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RESOLUTION NO. 2008-21

**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF HUNTINGTON BEACH
APPROVING THE ISSUANCE OF BONDS BY THE CALIFORNIA STATEWIDE
COMMUNITIES DEVELOPMENT AUTHORITY RELATING TO THE FINANCING OF
THE PACIFIC COURT APARTMENTS**

WHEREAS, the California Statewide Communities Development Authority, a joint exercise of powers agency consisting of California public agencies, which was created to assist in obtaining financing for projects and purposes serving the public interest (the "Authority"), proposes to issue multifamily housing revenue bonds (the "Bonds") in an amount not to exceed \$10,000,000 and to lend the proceeds thereof to Pacific Court Apartments LP, a California limited partnership established by Orange Housing Development Corporation or an affiliate thereof (the "Borrower"), to be used for acquisition, and rehabilitation of a 48-unit multifamily rental housing development commonly known as the Pacific Court Apartments located at 2200 Delaware Street in the City of Huntington Beach, California (the "Project"), to be owned and operated by the Borrower.

WHEREAS, Section 147(f) of the Internal Revenue Code of 1986, requires the City Council (the "City Council"), as the elected representative of the City of Huntington Beach (the "City"), the host jurisdiction of such facilities, to approve the issuance of the Bonds after a public hearing has been held following reasonable notice;

WHEREAS, a public hearing was held by the City Council on the 17th day of March, 2008, following duly published notice thereof, and all persons desiring to be heard have been heard; and

WHEREAS, it is in the public interest and for the public benefit that the City Council, as the elected representatives of the City, the host jurisdiction of such facilities, approve the issuance and delivery by the Authority of the Bonds;

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF HUNTINGTON BEACH DOES HEREBY RESOLVE, DETERMINE AND ORDER AS FOLLOWS:

Section 1. The City Council hereby finds and determines that the foregoing recitals are true and correct.

Section 2. The City Council hereby approves the financing of the Project by the Authority with the proceeds of the Bonds.

Section 3. The issuance and delivery of the Bonds shall be subject to approval by the Authority of all financing documents relating thereto to which the Authority is a party and subject to the sale of the Bonds by the Authority to the purchasers thereof.

Section 4. The Bonds will be paid entirely from repayments by the Borrower. Neither the full faith and credit nor the taxing power, if any, of the City, the Authority and its members, the State of California (the "State") or any other political corporation, subdivision or agency of the State is pledged to the payment of the principal of, premium, if any, or interest with respect to the Bonds, nor shall the City, the Authority and its members, the State, or any other political corporation, subdivision or agency of the State be liable or obligated to pay the principal of, premium, if any, or interest with respect to the Bonds.

Section 5. The adoption of this Resolution is solely for the purpose of meeting the requirements of the provisions of the Internal Revenue Code of 1986, as amended, and shall not be construed in any other manner, with neither the City nor its staff having fully reviewed or considered the financial feasibility of the Project or the expected operation of the Project with regards to any State of California statutory requirements, and such adoption shall not obligate, without further formal action to be taken by this City Council, including, but not limited to, the approval of the financing documents by the City Council by resolution, (i) the City to provide financing to the Borrower for the acquisition, rehabilitation and development of the Project or to issue the Obligations for purposes of such financing; or (ii) the City, or any department of the City, to approve any application or request for, or take any other action in connection with, any environmental, General Plan, zoning or any other permit or other action necessary for the acquisition, rehabilitation, development or operation of the Project.

Section 6. The City Clerk of the City shall forward a certified copy of this Resolution and a copy of the affidavit of publication of the public hearing notice to:

Thomas A. Downey
Jones Hall, A Professional Law Corporation
650 California Street, 18th Floor
San Francisco, California 94108

Section 7. This resolution shall take effect immediately.

* * * * *

PASSED AND ADOPTED by the City Council of the City of Huntington Beach at a regular meeting held thereof on the 17th day of March, 2008



Mayor

REVIEWED AND APPROVED



City Administrator

APPROVED AS TO FORM:



City Attorney
3.4.08

KANE, BALLMER & BERKMAN
Special Counsel



Deborah Rhoads

INITIATED AND APPROVED:



Director of Economic Development

STATE OF CALIFORNIA
COUNTY OF ORANGE) ss:
CITY OF HUNTINGTON BEACH)

I, JOAN L. FLYNN the duly elected, qualified City Clerk of the City of Huntington Beach, and ex-officio Clerk of the City Council of said City, do hereby certify that the whole number of members of the City Council of the City of Huntington Beach is seven; that the foregoing resolution was passed and adopted by the affirmative vote of at least a majority of all the members of said City Council at a **regular** meeting thereof held on **March 17, 2008** by the following vote:

AYES: Hansen, Hardy, Bohr, Cook, Coerper, Green, Carchio
NOES: None
ABSENT: None
ABSTAIN: None



City Clerk and ex-officio Clerk of the
City Council of the City of
Huntington Beach, California

Huntington Beach Independent has been adjudged a newspaper of general circulation in Huntington Beach and Orange County by Decree of the Superior Court of Orange County, State of California, under date of Aug. 24, 1994, case A50479.

PROOF OF PUBLICATION

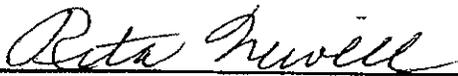
STATE OF CALIFORNIA)
) SS.
COUNTY OF ORANGE)

I am the Citizen of the United States and a resident of the County aforesaid; I am over the age of eighteen years, and not a party to or interested in the below entitled matter. I am a principal clerk of the HUNTINGTON BEACH INDEPENDENT, a newspaper of general circulation, printed and published in the City of Huntington Beach, County of Orange, State of California, and the attached Notice is a true and complete copy as was printed and published on the following date(s):

FEBRUARY 28, 2008

I declare, under penalty of perjury, that the foregoing is true and correct.

Executed on FEBRUARY 28, 2008
at Huntington Beach, California



Signature

NOTICE OF PUBLIC HEARING
NOTICE IS HEREBY GIVEN that the City Council of the City of Huntington Beach (the "City") at its regular meeting on March 17, 2008 will hold a public hearing and consider approval of the issuance by the California Statewide Communities Development Authority (the "Authority") of multifamily housing revenue bonds (the "Bonds") in a principal amount not to exceed Five Million Dollars (\$5,000,000) to assist in the financing of the acquisition and rehabilitation of a 48-unit multifamily rental housing development commonly known as the Pacific Court Apartments located at 2200 Delaware Street in the City of Huntington Beach, California (the "Project"). The owner of the Project is Pacific Court Apartments, LP, a California limited partnership established by Orange Housing Development Corporation, a California nonprofit corporation, or another affiliate of Orange Housing Development Corporation. The Bonds will not constitute an indebtedness or obligation, or a pledge of the faith and credit of the issuer or the City. The Bonds are special limited obligations of the issuer, payable solely from the revenues of the Project. Those wishing to comment on the issuance of the Bonds or the nature and location of the Project may either appear in person at the public hearing or submit written comments, which must be received by the City prior to the hearing. Written comments should be sent to the City of Huntington Beach, 2000 Main Street, Huntington Beach, Ca. 92648, Attention: City Clerk. The hearing will commence at 9:00 p.m. and will be held in the Council Chambers, 2000 Main Street, Huntington Beach, California. If you have any questions regarding this matter, please call Terrence Murphy of the California Statewide Communities Development Authority, at (925) 933-9229.
By: /s/ Joan Flynn
City Clerk

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City of Huntington Beach
2000 Main Street • Huntington Beach, CA 92648

OFFICE OF THE CITY CLERK
JOAN L. FLYNN
CITY CLERK

March 19, 2008

Thomas A. Downey
Jones Hall, A Professional Law Corporation
650 California Street, 18th Floor
San Francisco, CA 94108

Dear Mr. Downey:

Enclosed for your files is a certified copy of Resolution No. 2008-21 adopted by the Huntington Beach City Council on March 17, 2008 and a copy of the affidavit of publication of the public hearing notice regarding the Tax Equity and Fiscal Responsibility Act (TEFRA).

Sincerely,

Joan L. Flynn, CMC
City Clerk

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ATTACHMENT #6



**CITY OF HUNTINGTON BEACH
INTERDEPARTMENTAL COMMUNICATION
FINANCE DEPARTMENT**

TO: PAUL EMERY, INTERIM CITY ADMINISTRATOR
FROM: DAN T. VILLELLA, CPA
SUBJECT: FIS 2007-08-26- Approve an Affordable Housing Agreement for Pacific Courts Apartments 2200 Delaware
DATE: JUNE 19, 2008

As required by Resolution 4832, this Fiscal Impact Statement has been prepared for "Approve an Affordable Housing Agreement for Pacific Courts Apartments 2200 Delaware".

If the City Council approves this action (total appropriation \$9,284,224 of which \$8,784,224 will be a new appropriation from the Low Income Housing Fund and \$500,000 will be from an existing appropriation in the Home Program Fund) the unappropriated, undesignated Fund Balance of the Low Income Housing Fund will be reduced to \$4,936,000.

A handwritten signature in cursive script that reads "Dan T. Vilella".

Dan T. Vilella
Finance Director

DTV/rs