DEVELOPMENT LOAN AGREEMENT

by and between

THE HOUSING AUTHORITY OF THE COUNTY OF SAN BERNARDINO

and

VAL 9 HOUSING PARTNERS, L.P.

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DEVELOPMENT LOAN AGREEMENT
(Waterman Gardens – Valencia 9)

This Development Loan Agreement (the "Agreement") is entered into as of___________, 2015 (the "Effective Date"), by and between the HOUSING AUTHORITY OF THE COUNTY OF SAN BERNARDINO, a public body corporate and politic organized under the laws of California (the "Authority") and VAL 9 HOUSING PARTNERS, L.P., a California limited partnership, ("Borrower"), with reference to the following facts, purposes and intentions.

RECITALS

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

B. Borrower intends to acquire a fee simple ownership interest in the real property located at the corner of Valencia and 9th Street in the City of San Bernardino (the "Property") as more particularly described in the attached Exhibit A.

C. Borrower intends to construct a seventy-six (76) unit affordable rental housing complex on the Property.

D. Borrower has requested that the Authority provide a loan in an amount not to exceed One Million Dollars ($1,000,000) (the "Development Loan") to finance the construction of the Improvements on the Property, subject to the conditions provided herein.

E. The Development Loan will be funded with Authority local funds.

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

ARTICLE 1
DEFINITIONS AND EXHIBITS

Section 1.1 Definitions.

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

(a) "Agreement" means this Development Loan Agreement.

(b) "AHP Funds" has the meaning set forth in Section 2.3(b) below.

(c) "Annual Operating Expenses", with respect to a particular calendar year, means the following costs reasonably and actually incurred for operation and maintenance of the Development: (i) property taxes and assessments imposed on the Development; (ii) debt service and associated fees currently due on a non-optional basis (excluding debt service due from residual receipts or surplus cash of the Development) on loans that constitute Approved Financing; (iii) bond monitoring fee, issuer fees, trustee's fees and other fees and cost payable to a trustee and/or issuer in connection with tax-exempt bonds issued as part of Approved Financing; (iv) property management fees and reimbursements (including deferred payments of previously approved property management fees), on–site property management office expenses, and salaries of property management and maintenance personnel payable to a property manager approved by the Authority pursuant to the Regulatory Agreement, not to exceed amounts that are standard in the industry and pursuant to a management contract approved by the Authority pursuant to the Regulatory Agreement; (v) fees payable to a service provider for the provision of on-site social services for tenants; (vi) premiums for property damage and liability insurance; (vii) utility services not paid for directly by tenants, including water, sewer, and trash collection; (viii) maintenance and repair; (ix) any annual license or certificate of occupancy fees required for operation of the Development; (x) security services; (xi) advertising and marketing; (xii) cash deposited into reserves for capital replacements of the Development in an amount required in connection with the permanent debt or equity financing for the Development; (xiii) cash deposited into an operating reserve in an amount required in connection with the permanent debt or equity financing; (xiv) partnership management fees, incentive management fees, and investor services fees payable to any partner of Borrower in the amount set forth in the Partnership Agreement; (xv) fees for accounting, audit, and legal services incurred by Borrower's general partner in the management of the Development, not to exceed amounts that are standard in the industry; (xvi) payment of any previously unpaid portion of developer fee; (xvii) extraordinary operating costs specifically approved by the Authority; and (xviii) payments of deductibles in connection with casualty insurance claims not normally paid from reserves, the amount of uninsured losses actually replaced, repaired or restored, and not normally paid from reserves, and other ordinary and reasonable operating expenses approved by the Authority and not listed above. Annual Operating Expenses do not include the following: depreciation, amortization, depletion or other non-cash expenses, any withdrawal from a reserve account, and any capital cost associated with the Development as determined by the accountant for Borrower.

(d) "Annual Payment" has the meaning set forth in Section 2.6(b) below.

(e) "Approved Financing" means all of the following loans obtained or to be applied for by Borrower, and approved by the Authority for the purpose of financing the Development, in addition to the Development Loan:

(1) HUD/FHA 221(d)4 Loan from PNC Bank, N.A., a national banking association, in the approximate amount of ________________________ Dollars ($________) (the "FHA Loan");

(2) HOME loan from the City in the amount of One Million Five Hundred Thousand Dollars ($1,500,000) (the "City Loan");

(3) HOME loan from the County in the amount of Eight Hundred Ten Thousand Dollars ($810,000) (the "County Loan");

(4) Tax credit equity bridge loan from Wells Fargo N.A., in the approximate amount of ________________ Dollars ($____________) (the "Bridge Loan");

(5) Low Income Housing Tax Credit investor equity funds in the approximate amount of ________________ Dollars ($___________) (the "Tax Credit Equity Funds") provided by the Investor;

(6) The City Additional HOME Funds; and

(7) The AHP Funds.

(f) "Authority" means the Housing Authority of the County of San Bernardino, a public body corporate and politic organized under the laws of California.

(g) "Authority Board" means the Board of Commissioners of the Authority.

(h) "Authority Prorata Percentage" means the result, expressed as a percentage, obtained by dividing the Development Loan disbursed to Borrower, by the sum of the Development Loan, the City Loan, the City Additional HOME Funds, and the County Loan, to the extent of the amount of such funds disbursed to Borrower.

(i) "Authority Regulatory Agreement" means the Regulatory Agreement and Declaration of Restrictive Covenants between the Authority and Borrower to be recorded against the Property.

(j) "Borrower" means Val 9 Housing Partners, L.P., and Borrower's permitted successors and assigns.

(k) "City" means the City of San Bernardino, a municipal corporation.

(l) "City Additional HOME Funds" has the meaning set forth in Section 2.3(a) below.

(m) "County" means the County of San Bernardino, a municipal corporation.

(n) "Deed of Trust" means the deed of trust that will encumber the Property to secure repayment of the Development Loan.

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

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

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

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

(s) "Development Loan" means the Authority loan to Borrower in the total principal amount not to exceed One Million Dollars ($1,000,000) provided pursuant to this Agreement.

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

(u) "Executive Director" means the Executive Director of the Authority or the Executive Director's designee.

(v) "Final Cost Certification" means the Final Cost Certification Sources and Uses of Funds prepared by Borrower for the Development that Borrower submits to the California Tax Credit Allocation Committee.

(w) "Final Development Cost" means the total of the cost of acquisition and construction of the Development as shown on the Final Cost Certification.

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

(y) "Gross Revenue," with respect to a particular calendar year, means all revenue, income, receipts, and other consideration actually received from operation and leasing of the Development. "Gross Revenue" shall include, but not be limited to: (i) all rents, fees and charges paid by tenants; (ii) Section 8 payments or other rental subsidy payments received for the dwelling units (excluding any such payments applicable to a pre-occupancy period and donated to the Authority prior to occupancy of the Development; (iii) deposits forfeited by tenants; (iv) all cancellation fees; (v) price index adjustments and any other rental adjustments to leases or rental agreements resulting in actual income; (vi) net proceeds from vending and laundry room machines; (vii) proceeds of business interruption or similar insurance not paid to Senior Lenders; (viii) subject to the rights of senior lenders of Approved Financing, the proceeds of casualty insurance to the extent not utilized to repair or rebuild the Development (or applied toward the cost of recovering such proceeds); and (ix) condemnation awards for a taking of part or all of the Development for a temporary period. "Gross Revenue" does not include tenants' security deposits, loan proceeds, capital contributions or similar advances.

(z) "Hazardous Materials" has the meaning set forth in Section 4.5 below.

(aa) "Hazardous Materials Claim" has the meaning set forth in Section 4.5 below.

(bb) "Hazardous Materials Law" has the meaning set forth in Section 4.5 below.

(cc) "Improvements" means any improvements constructed by Borrower on the Property during the Term.

(dd) "Investor" mean the limited partner investor of Borrower, providing the Tax Credit Equity Funds to the Development.

(ee) "Lenders' Share" means fifty percent (50%).

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

(gg) "Net Proceeds of Permanent Financing" means the amount by which Permanent Financing exceeds Final Development Costs.

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

(ii) "Parties" means the Authority and Borrower.

(jj) "Partnership Agreement" means the Amended and Restated Agreement of Limited Partnership of Val 9 Housing Partners, L.P., dated ________________, 2015, that governs the operation and organization of Borrower as a California limited partnership.

(kk) "Permanent Conversion" means the date the Bridge Loan is repaid by the second or third installment of Tax Credit Equity Funds pursuant to the Partnership Agreement.

(ll) "Permanent Financing" means the sum of the following amounts: (i) the City Loan; (ii) the County Loan; (iii) the FHA Loan; (iv) the Tax Credit Investor Equity; (v) the Additional City HOME Funds; (vi) the AHP Funds; and (vii) the Development Loan.

(mm) "Property" has the meaning set forth in Recital B.

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

(oo) "Term" means the period of time that commences on the Effective Date and, unless terminated earlier pursuant to the provisions of this Agreement, ends fifty-five (55) years after the Effective Date.

(pp) "Transfer" has the meaning set forth in Section 4.12 below.

Section 1.2 Exhibits.

The following exhibits are attached to this Agreement and incorporated into this Agreement by this reference:

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

ARTICLE 2
LOAN PROVISIONS

Section 2.1 Development Loan.

Subject to satisfaction of the conditions set forth in Sections 2.5 below, the Authority shall lend to Borrower the Development Loan to fund costs of constructing the Improvements as set forth in the Development Budget. Borrower shall not use the Development Loan for any other purpose without the prior written consent of the Authority. Borrower's obligation to repay the Development Loan is evidenced by the Note.

Section 2.2 Interest.

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

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

Section 2.3 Additional Funding Sources.

(a) HOME Funds. Borrower shall use diligent good faith efforts to secure a commitment for _________________ Dollars in HOME Investment Partnerships Act funds from the City (the "City Additional HOME Funds"). To the extent not already performed, the Borrower shall submit timely and complete applications for the City Additional HOME Funds. Upon award of any commitments for the City Additional HOME Funds Borrower shall exercise diligent good faith efforts to obtain executed loan documents evidencing the City Additional HOME Funds.

(b) AHP Funds. Borrower shall use diligent good faith efforts to secure a commitment for _________________ Dollars in Affordable Housing Program funds from the Federal Home Loan Bank (the "AHP Funds"). To the extent not already performed, the Borrower shall submit timely and complete applications for AHP Funds. Upon award of any commitments for the AHP Funds Borrower shall exercise diligent good faith efforts to obtain executed loan documents evidencing the AHP Funds.

Section 2.4 Security.

Borrower shall secure its obligation to repay the Development Loan, as evidenced by the Note, by executing the Deed of Trust, and causing or permitting it to be recorded as a lien against the Property, senior to the deed of trust securing the County Loan, and junior to the deeds of trust securing the FHA Loan and the City Loan. Borrower shall also cause or permit the Authority Regulatory Agreement to be recorded against the Property.

Section 2.5 Disbursement Requirements.

The Authority is not obligated to make a disbursement of Development Loan funds, or to take any other action under the Loan Documents unless the following conditions precedent are satisfied:

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

(b) Borrower holds title to the Property or is acquiring title to the Property simultaneously with the disbursement of the Development Loan proceeds;

(c) Borrower has delivered to the Authority a copy of a corporate resolution authorizing Borrower to obtain the Development Loan and all other Approved Financing, and execute the Loan Documents;

(d) There exists no material adverse change in the financial condition of Borrower from that shown by the financial statements and other data and information furnished by Borrower to the Authority prior to the date of this Agreement;

(e) Borrower has furnished the Authority with evidence of the insurance coverage meeting the requirements of Section 4.11 below;

(f) Borrower has executed and delivered to the Authority the Loan Documents, and the Deed of Trust and Authority Regulatory Agreement have been recorded against the Property in the Office of the Recorder of the County of San Bernardino in a lien position consistent with Section 2.4 above;

(g) A title insurer reasonably acceptable to the Authority is unconditionally and irrevocably committed to issuing an LP-10 2006 ALTA Lender's Policy of insurance insuring the priority of the Deed of Trust and Authority Regulatory Agreement in the amount of the Development Loan recorded against the Property, subject only to such exceptions and exclusions as may be reasonably acceptable to the Authority, and containing such endorsements as the Authority may reasonably require;

(h) The Authority has determined the undisbursed proceeds of the Development Loan, together with other funds or firm commitments for funds that Borrower has obtained in connection with the construction of the Development, are not less than the amount the Authority determines is necessary to pay for the construction of the Development and to satisfy all of the covenants contained in this Agreement and the Authority Regulatory Agreement;

(i) Borrower has obtained all permits and approvals necessary for the construction of the Development;

(j) Borrower has closed all loans and equity that are part of the Approved

Financing described in Section 1.1(e)(1)-(5) and has already received or is eligible to receive the funds;

(k) Borrower has submitted applications for the City Additional HOME Funds and AHP Funds pursuant to Section 2.3; and

(l) The Authority has received a written draw request from Borrower, including certification that the condition set forth in Section 2.5(a) continues to be satisfied, and setting forth the proposed uses of funds consistent with the Development Budget, the amount of funds needed, and, where applicable, a copy of the bill or invoice covering a cost incurred or to be incurred.

Section 2.6 Repayment of the Development Loan.

Borrower shall repay the Development Loan as follows:

(a) Special Repayment.

(1) From City Additional HOME Funds. If Borrower is successful in securing all or a portion of the City Additional HOME Funds, within thirty (30) days of receipt of such funds Borrower shall make a special repayment of the Development Loan to the extent of the amount disbursed, equal to the full amount of the City Additional HOME Funds received. If Borrower receives the City Additional HOME Funds prior to the disbursement in full of the Development Loan, an amount of the City Additional HOME Funds equal to the amount of the undisbursed Development Loan shall replace the amount of the undisbursed portion of the Development Loan in the Development Budget and the Authority shall have no obligation to disburse any more of the Development Loan. Upon receipt of the City Additional HOME Funds Borrower shall immediately provide the Authority an updated Development Budget consistent with Section 3.11 below showing the use of the City Additional HOME Funds.

(2) From the AHP Funds. If Borrower is successful in securing all or a portion of the AHP Funds, within thirty (30) days of receipt of such funds Borrower shall make a special repayment of the Development Loan equal to ____________ percent (_____%) of the AHP Funds.

(3) From Net Proceeds of Permanent Financing. At Permanent Conversion Borrower shall make a special repayment of the Development Loan in the amount of _____________ percent (______%) of the Net Proceeds of Permanent Financing. No later than thirty (30) days following completion of construction of the Development, Borrower shall submit to the Authority for its review a preliminary calculation of the Net Proceeds of Permanent Financing and a draft of the Final Cost Certification. The Authority shall approve or disapprove Borrower's determination of the amount of the Net Proceeds of Permanent Financing in writing within thirty (30) days of receipt. If Borrower's determination is disapproved by the Authority, Borrower shall re-submit documentation to the Authority until the Authority approval is obtained.

(b) Annual Payments. Commencing on May 1 of the year following the completion of the construction of the Improvements, and on May 1 of each year thereafter for the Term of the Development Loan, Borrower shall make repayments of the outstanding principal and accrued interest on the Development Loan in an amount equal to the Authority Prorata Percentage of Lenders' Share of Residual Receipts (each, an "Annual Payment"). The Authority shall apply all Annual Payments as follows: (1) first, to accrued interest, and (2) second, to principal. Borrower shall provide the Authority with any documentation reasonably requested by the Authority to substantiate Borrower's determination of Residual Receipts. Notwithstanding the above, so long as the Secretary of Housing and Urban Development ("HUD") or his/her successor or assigns, are the insurers or holders of the first mortgage on the FHA Loan, FHA Project No. __________, payments on the Development Loan shall be payable only from the Authority Prorata Percentage of Lenders' Share of "surplus cash" (which shall not exceed 75% of surplus cash) as the term "surplus cash" is defined in the Regulatory Agreement dated _____________, 2015 between HUD and Borrower. The restrictions on payment imposed by the previous sentence shall not excuse any default caused by the failure of the Borrower to pay the indebtedness evidenced by this Note.

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

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

Section 2.7 Reports and Accounting of Residual Receipts.

In connection with the Annual Payment, Borrower shall furnish to the Authority:

(a) An itemized statement of Residual Receipts for the relevant period. The first statement of Residual Receipts will cover the period that begins on January 1, 2016 and ends on December 31st of that same year. Subsequent statements of Residual Receipts will cover the twelve-month period that ends on December 31 of each year;

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

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

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

Section 2.8 Non-Recourse.

Except as provided below, Borrower shall not have any direct or indirect personal liability for payment of the principal of, or interest on, the Development Loan. The sole recourse of the Authority with respect to the principal of, or interest on, the Note shall be to the property described in the Deed of Trust; provided, however, that nothing contained in the foregoing limitation of liability shall (a) limit or impair the enforcement against all such security for the Note of all the rights and remedies of the Authority thereunder, or (b) be deemed in any way to impair the right of the Authority to assert the unpaid principal amount of the Note as demand for money within the meaning and intendment of Section 431.70 of the California Code of Civil Procedure or any successor provision thereto. The foregoing limitation of liability is intended to apply only to the obligation for the repayment of the principal of, and payment of interest on the Note and the performance of Borrower's obligations under the Deed of Trust, except as hereafter set forth; nothing contained herein is intended to relieve Borrower of its obligation to indemnify the Authority under Sections 3.6, 4.5, and 6.5 of this Agreement; or liability for (i) loss or damage of any kind resulting from waste, fraud or willful misrepresentation; (ii) the failure to pay taxes, assessments or other charges which may create liens on the Property that are payable or applicable prior to any foreclosure under the Deed of Trust (to the full extent of such taxes, assessments or other charges); (iii) the fair market value of any personal property or fixtures removed or disposed of by Borrower other than in accordance with the Deed of Trust; and (iv) the misappropriation of any proceeds under any insurance policies or awards resulting from condemnation or the exercise of the power of eminent domain or by reason of damage, loss or destruction to any portion of the Property.

ARTICLE 3
CONSTRUCTION OF THE IMPROVEMENTS

Section 3.1 Permits and Approvals.

Borrower shall obtain all permits and approvals necessary for the construction of the Improvements no later than ______________, 2015, or such later date that the Authority approves in writing.

Section 3.2 Construction Bonds.

Not later than thirty (30) days prior to the proposed Commencement of Construction Borrower shall deliver to the Authority copies of labor and material bonds and performance bonds for the construction of the Improvements in an amount equal to one hundred percent (100%) of the scheduled cost of the construction of the Improvements. To the extent permitted by HUD, such bonds must name the Authority as a co-obligee.

Section 3.3 Commencement of Construction.

Borrower shall cause the Commencement of Construction of the Improvements to occur no later than, ___________, 2015, or such later date that the Authority approves in writing. For the purposes of this Agreement, "Commencement of Construction" means the date set for the start of construction of the Improvements in the notice to proceed issued by Borrower to Borrower's general contractor.

Section 3.4 Completion of Construction.

Borrower shall diligently prosecute construction of the Improvements to completion, and shall cause the construction of the Improvements to be completed no later than ______________, 2016, or such later date that the Authority approves in writing.

Section 3.5 Changes; Construction Pursuant to Plans and Laws.

(a) Changes. Borrower shall construct the Improvements in conformance with (i) the plans and specifications approved by the City's Building Inspection Department, and (ii) the Development Budget. Borrower shall notify the Authority in a timely manner of any changes in the work required to be performed under this Agreement. Written authorization from the Authority must be obtained before any of the following changes, additions, or deletions in work for the Development may be performed: (i) any change in the work the cost of which exceeds Twenty-Five Thousand Dollars ($25,000); or (ii) any set of changes in the work the cost of which cumulatively exceeds Fifty Thousand Dollars ($50,000) or ten percent (10%) of the Development Loan amount, whichever is less; or (iii) any material change in building materials or equipment, specifications, or the structural or architectural design or appearance of the Development as provided for in the plans and specifications approved by the City. The Authority's consent to any additions, changes, or deletions to the work does not relieve or release Borrower from any other obligations under this Agreement, or relieve or release Borrower or its surety from any surety bond.

(b) Compliance with Laws. Borrower shall cause all work performed in connection with the Development to be performed in compliance with:

(1) all applicable laws, ordinances, rules and regulations of federal, state, county or municipal governments or agencies now in force or that may be enacted hereafter; and

(2) all directions, rules and regulations of any fire marshal, health officer, building inspector, or other officer of every governmental agency now having or hereafter acquiring jurisdiction. The Borrower may permit the work to proceed only after procurement of each permit, license, or other authorization that may be required by any governmental agency having jurisdiction, and Borrower is responsible to the Authority for the procurement and maintenance thereof.

Section 3.6 Prevailing Wages.

To the extent applicable, Borrower shall pay and shall cause the contractor and subcontractors to pay prevailing wages in the construction of the Improvements as those wages are determined pursuant to California Labor Code Section 1720 et seq., to employ apprentices as required by California Labor Code Sections 1777.5 et seq., and the implementing regulations of the Department of Industrial Relations (the "DIR"). Borrower shall and shall cause the contractor and subcontractors to comply with the other applicable provisions of California Labor Code Sections 1720 et seq., 1777.5 et seq., and implementing regulations of the DIR. Borrower shall and shall cause the contractor and subcontractors to keep and retain such records as are necessary to determine if such prevailing wages have been paid as required pursuant to California Labor Code Section 1720 et seq., and apprentices have been employed are required by California Labor Code Section 1777.5 et seq. Copies of the currently applicable current per diem prevailing wages are available from DIR. During the construction of the Improvements, Borrower shall or shall cause the contractor to post at the Property the applicable prevailing rates of per diem wages. Borrower shall indemnify, hold harmless and defend (with counsel reasonably acceptable to the Authority) the Authority against any claim for damages, compensation, fines, penalties or other amounts arising out of the failure or alleged failure of any person or entity (including Borrower, its contractor and subcontractors) to pay prevailing wages as determined pursuant to California Labor Code Section 1720 et seq., to employ apprentices pursuant to California Labor Code Section 1777.5 et seq., and implementing regulations of the DIR or to comply with the other applicable provisions of California Labor Code Sections 1720 et seq., 1777.5 et seq., and the implementing regulations of the DIR in connection with the construction of the Improvements or any other work undertaken or in connection with the Property. The requirements in this Subsection survive the repayment of the Loan, and the reconveyance of the Deed of Trust.

Section 3.7 Equal Opportunity.

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

Section 3.8 Construction Responsibilities.

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

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

Section 3.9 Mechanics Liens, Stop Notices, and Notices of Completion.

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

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

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

Section 3.10 Inspections.

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

Section 3.11 Development Budget; Revisions to Budget.

As of the date of this Agreement, the Authority has approved the Development Budget set forth in Exhibit B. Borrower shall submit any required amendments to the Development Budget to the Authority for approval within five (5) days of the date Borrower receives information indicating that actual costs of the Development vary or will vary from the costs shown on the Development Budget, and upon receipt of a commitment of City Additional HOME Funds and/or the AHP Funds. Written consent of the Authority will be required to amend the Development Budget.

ARTICLE 4
ONGOING OBLIGATIONS

Section 4.1 Information.

Borrower shall provide any information reasonably requested by the Authority in connection with the Development.

Section 4.2 Annual Operating Budget.

At the beginning of each year of the Term, Borrower shall provide to the Authority an annual budget for the operation of the Development. Unless rejected by the Authority in writing within fifteen (15) days after receipt of the budget, the budget will be deemed accepted. If rejected by the Authority in whole or in part, Borrower shall submit a new or corrected budget within thirty (30) calendar days of notification of the Authority's rejection and the reasons therefor. The provisions of this Section relating to time periods for resubmission of new or corrected budgets will continue to apply until such budget has been approved by the Authority.

Section 4.3 Records.

Borrower shall keep and maintain at the Development, or elsewhere with the Authority's written consent, full, complete and appropriate books, records and accounts relating to the Development, including all such books, records and accounts necessary or prudent to evidence and substantiate in full detail Borrower's compliance with the terms and provisions of this Agreement. Books, records and accounts relating to Borrower's compliance with the terms, provisions, covenants and conditions of this Agreement shall be kept and maintained in accordance with generally accepted accounting principles consistently applied, and shall be consistent with requirements of this Agreement. All such books, records, and accounts shall be open to and available for inspection and copying by the Authority, its auditors or other authorized representatives at reasonable intervals during normal business hours. Borrower shall permit any duly authorized representative of the Authority to inspect and copy such records. Such records shall include all invoices, receipts, and other documents related to expenditures from the Development Loan and must be kept accurate and current. Borrower shall maintain complete, accurate, and current records pertaining to the Development for a period of not less than five (5) years after the creation of such records for all expenditures. If any litigation, claim, negotiation, audit exception, monitoring, inspection or other action relating to the use of the Development Loan is pending at the end of the record retention period stated herein, then Borrower shall retain such records until such action and all related issues are resolved.

Section 4.4 Audits.

Borrower shall make available for examination at reasonable intervals and during normal business hours to Authority all books, accounts, reports, files, and other papers or property with respect to all matters covered by this Agreement, and shall permit Authority to audit, examine, and make excerpts or transcripts from such records. Authority may make audits of any conditions relating to this Agreement.

Section 4.5 Hazardous Materials.

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

(b) Borrower shall immediately advise the Authority in writing if at any time it receives written notice of (i) any and all enforcement, cleanup, removal or other governmental or regulatory actions instituted, completed or threatened against Borrower or the Development pursuant to any applicable federal, state or local laws, ordinances, or regulations relating to any Hazardous Materials, ("Hazardous Materials Law"); (ii) all claims made or threatened by any third party against Borrower or the Development relating to damage, contribution, cost recovery compensation, loss or injury resulting from any Hazardous Materials (the matters set forth in clauses (i) and (ii) above are hereinafter referred to as "Hazardous Materials Claims"); and (iii) Borrower's discovery of any occurrence or condition on any real property adjoining or in the vicinity of the Development that could cause the Development or any part thereof to be classified as "border-zone property" under the provision of California Health and Safety Code, Sections 25220 et seq., or any regulation adopted in accordance therewith, or to be otherwise subject to any restrictions on the ownership, occupancy, transferability or use of the Development under any Hazardous Materials Law.

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

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

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

(f) In the event that any portion of the Development is determined to be "environmentally impaired" (as that term is defined in California Code of Civil Procedure Section 726.5(e)(3)) or to be an "affected parcel" (as that term is defined in California Code of Civil Procedure Section 726.5(e)(1)), then, without otherwise limiting or in any way affecting the Authority's or the trustee's rights and remedies under the Deed of Trust, the Authority may elect to exercise its rights under California Code of Civil Procedure Section 726.5(a) to (1) waive its lien on such environmentally impaired or affected portion of the Development and (2) exercise (a) the rights and remedies of an unsecured creditor, including reduction of its claim against Borrower to judgment, and (b) any other rights and remedies permitted by law. For purposes of determining the Authority right to proceed as an unsecured creditor under California Code of Civil Procedure Section 726.5(a), Borrower shall be deemed to have willfully permitted or acquiesced in a release or threatened release of hazardous materials, within the meaning of California Code of Civil Procedure Section 726.5(d)(1), if the release or threatened release of Hazardous Materials was knowingly or negligently caused or contributed to by any lessee, occupant, or user of any portion of the Development and Borrower knew or should have known of the activity by such lessee, occupant, or user which caused or contributed to the release or threatened release. All costs and expenses, including (but not limited to) attorneys' fees, incurred by the Authority in connection with any action commenced under this paragraph, including any action required by California Code of Civil Procedure Section 726.5(b) to determine the degree to which the Development is environmentally impaired, plus interest thereon at the Default Rate until paid, shall be added to the indebtedness secured by the Deed of Trust and shall be due and payable to the Authority upon its demand made at any time following the conclusion of such action.

Section 4.6 Maintenance and Damage.

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

(b) Subject to the requirements of senior lenders, and if economically feasible in the Authority's reasonable judgment after consultation with Borrower, if any improvement now or in the future on the Development is damaged or destroyed, then Borrower shall, at its cost and expense, diligently undertake to repair or restore such improvement consistent with the plans and specifications approved by the Authority with such changes as have been approved by the Authority. Such work or repair shall be commenced no later than the later of one hundred twenty (120) days, or such longer period approved by the Authority in writing, after the damage or loss occurs or thirty (30) days following receipt of the insurance proceeds, and shall be complete within one (1) year thereafter. Any insurance proceeds collected for such damage or destruction shall be applied to the cost of such repairs or restoration and, if such insurance proceeds shall be insufficient for such purpose, then Borrower shall make up the deficiency. If Borrower does not make repairs, then any insurance proceeds collected for such damage or destruction shall be distributed as if such proceeds were Residual Receipts.

Section 4.7 Fees and Taxes.

Borrower shall be solely responsible for payment of all fees, assessments, taxes, charges, and levies imposed by any public authority or utility company with respect to the Development to the extent owned by Borrower, and shall pay such charges prior to delinquency. However, Borrower shall not be required to pay and discharge any such charge so long as (a) the legality thereof is being contested diligently and in good faith and by appropriate proceedings, and (b) if requested by the Authority, Borrower deposits with the Authority any funds or other forms of assurance that the Authority in good faith from time to time determines appropriate to protect the Authority from the consequences of the contest being unsuccessful. The Authority acknowledges that Borrower has the right to claim a "welfare exemption" to the payment of ad vlorem taxes on the Property under California Revenue and Taxation Code Section 214(g).

Section 4.8 Notice of Litigation.

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

Section 4.9 Operation of Development as Affordable Housing.

Borrower shall continuously operate and maintain the Development as affordable housing rented to tenants in conformity with (i) the Loan Documents, (ii) and any regulatory agreements recorded against the Property.

Section 4.10 Non-Discrimination.

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

Section 4.11 Insurance Requirements.

Borrower shall maintain the following insurance coverage throughout the Term:

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

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

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

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

(e) Borrower shall cause any general contractor, agent or subcontractor working on the Development under direct contract with Borrower or subcontract, to maintain insurance of the types and in at least the minimum amounts described in subsections (a), (b), and

(c) above, except that the limit of liability for comprehensive general liability insurance for subcontractors shall be One Million Dollars ($1,000,000), and shall require that such insurance shall meet all of the general requirements of subsections (g) and (h) below.

(f) The required insurance shall be provided under an occurrence form, and Borrower shall maintain such coverage continuously throughout the Term. Should any of the required insurance be provided under a form of coverage that includes an annual aggregate limit or provides that claims investigation or legal defense costs be included in such annual aggregate limit, such annual aggregate limit shall be three times the occurrence limits specified above.

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

(h) All policies and bonds shall contain (i) the agreement of the insurer to give the Authority at least thirty (30) days' notice prior to cancellation (including, without limitation, for nonpayment of premium) or any material change in said policies; (ii) an agreement that such policies are primary and non-contributing with any insurance that may be carried by the Authority; (iii) a provision that no act or omission of Borrower shall affect or limit the obligation of the insurance carrier to pay the amount of any loss sustained; and (iv) a waiver by the insurer of all rights of subrogation against the Authority and its authorized parties in connection with any loss or damage thereby insured against.

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

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

Section 4.12 Transfer.

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

(b) No Transfer is permitted without the prior written consent of the Authority. The Development Loan will automatically accelerate and be due in full upon any Transfer made without the prior written consent of the Authority.

(c) The Authority hereby approves future Transfers of the limited partner interest of Borrower.

(d) In the event the managing general partner of Borrower is removed by the limited partner of Borrower for cause following default under the Partnership Agreement, the Authority hereby approves the Transfer of the managing general partner interest to a replacement general partner selected by the limited partner.

(e) The Authority approves the grant of the security interests in the Development for Approved Financing.

Section 4.13 Covenants Regarding Approved Financing and Partnership Agreement.

(a) Borrower shall promptly pay the principal and interest when due on any Approved Financing.

(b) Borrower shall promptly notify the Authority in writing of the existence of any default under any documents evidencing Approved Financing whether or not a default has been declared by the lender, and any defaults under the Partnership Agreement, and provide the Authority copies of any notice of default.

(c) Borrower may not materially amend or modify, or supplement, cancel or terminate the Partnership Agreement or any documents related to any loan that is part of the Approved Financing without the prior written consent of the Authority.

(d) Borrower may not incur any indebtedness of any kind other than Approved Financing or encumber the Development with any liens (other than liens for Approved Financing approved by the Authority) without the prior written consent of the Authority.

(e) The Partnership Agreement may not include any provisions that conflict with the provisions of this Agreement, including, without limitation, the Residual Receipts payment provisions of Section 2.6 above.

Section 4.14 Representations and Warranties of Borrower.

Borrower hereby represents and warrants to the Authority as follows and acknowledges, understands, and agrees that the representations and warranties set forth in this Article 5 are deemed to be continuing during all times when any portion of the Loan remains outstanding:

(a) Organization. Borrower is duly organized, validly existing and in good standing under the laws of the State of California and has the power and authority to own its property and carry on its business as now being conducted.

(b) Authority of Borrower. Borrower has full power and authority to execute and deliver this Agreement and to make and accept the borrowings contemplated hereunder, to execute and deliver the Loan Documents and all other documents or instruments executed and delivered, or to be executed and delivered, pursuant to this Agreement, and to perform and observe the terms and provisions of all of the above.

(c) Authority of Persons Executing Documents. This Agreement and the Loan Documents and all other documents or instruments executed and delivered, or to be executed and delivered, pursuant to this Agreement have been executed and delivered by persons who are duly authorized to execute and deliver the same for and on behalf of Borrower, and all actions required under Borrower's organizational documents and applicable governing law for the authorization, execution, delivery and performance of this Agreement and the Loan Documents and all other documents or instruments executed and delivered, or to be executed and delivered, pursuant to this Agreement, have been duly taken.

(d) Valid Binding Agreements. The Loan Documents and all other documents or instruments executed and delivered pursuant to or in connection with this Agreement constitute or, if not yet executed or delivered, will when so executed and delivered constitute, legal, valid and binding obligations of Borrower enforceable against it in accordance with their respective terms.

(e) No Breach of Law or Agreement. Neither the execution nor delivery of the Loan Documents or of any other documents or instruments executed and delivered, or to be executed or delivered, pursuant to this Agreement, nor the performance of any provision, condition, covenant or other term hereof or thereof, will (i) conflict with or result in a breach of any statute, rule or regulation, or any judgment, decree or order of any court, board, commission or agency whatsoever that is binding on Borrower, or conflict with any provision of the organizational documents of Borrower, or conflict with any agreement to which Borrower is a party, or (ii) result in the creation or imposition of any lien upon any assets or property of Borrower, other than liens established pursuant hereto.

(f) Compliance with Laws; Consents and Approvals. The construction of the Improvements will comply with all applicable laws, ordinances, rules and regulations of federal, state and local governments and agencies and with all applicable directions, rules and regulations of the fire marshal, health officer, building inspector and other officers of any such government or agency.

(g) Pending Proceedings. Borrower is not in default under any law or regulation or under any order of any court, board, commission or agency whatsoever, and there are no claims, actions, suits or proceedings pending or, to the knowledge of Borrower, threatened against or affecting Borrower or the Development, at law or in equity, before or by any court, board, commission or agency whatsoever which might, if determined adversely to Borrower, materially affect Borrower's ability to repay the Loan or impair the security to be given to the Authority pursuant hereto.

(h) Title to Land. At the time of recordation of the Deed of Trust, Borrower will have good and marketable fee title to the Property and there will exist thereon or with respect thereto no mortgage, lien, pledge or other encumbrance of any character whatsoever other than liens for current real property taxes and liens in favor of the Authority or approved in writing by the Authority.

(i) Financial Statements. The financial statements of Borrower and other financial data and information furnished by Borrower to the Authority fairly and accurately present the information contained therein. As of the date of this Agreement, there has not been any material adverse change in the financial condition of Borrower from that shown by such financial statements and other data and information.

(j) Sufficient Funds. Borrower holds sufficient funds and/or binding commitments for sufficient funds to complete the acquisition of the Property and the construction of the Development in accordance with the terms of this Agreement.

(k) Taxes. Borrower and its subsidiaries have filed all federal and other material tax returns and reports required to be filed, and have paid all federal and other material taxes, assessments, fees and other governmental charges levied or imposed upon them or their income or the Property otherwise due and payable, except those that are being contested in good faith by appropriate proceedings and for which adequate reserves have been provided in accordance with generally accepted accounting principles. There is no proposed tax assessment against Borrower or any of its subsidiaries that could, if made, be reasonably expected to have a material adverse effect on the property, liabilities (actual or contingent), operations, condition (financial or otherwise) or prospects of Borrower and its subsidiaries, taken as a whole, or which could result in (i) a material impairment of the ability of Borrower to perform under any loan document to which it is a party, or (ii) a material adverse effect upon the legality, validity, binding effect or enforceability against Borrower of any Loan Document.

(l) Hazardous Materials. To the best of Borrower's knowledge, except as disclosed in writing by Borrower to the Authority prior to the date of this Agreement: (i) no Hazardous Material has been disposed of, stored on, discharged from, or released to or from, or otherwise now exists in, on, under, or around, the Property, (ii) neither the Property nor Borrower is in violation of any Hazardous Materials Law; and (iii) neither the Property nor Borrower is subject to any existing, pending or threatened Hazardous Materials Claims.

ARTICLE 5
DEFAULT AND REMEDIES

Section 5.1 Events of Default.

Each of the following shall constitute a "Default" by Borrower under this Agreement:

(a) Failure to Construct. Failure of Borrower to obtain permits, commence, and prosecute to completion, construction of the Improvements within the times set forth in

Article 3 above;

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

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

(d) Default Under Other Loans. A default is declared under any Approved Financing by the lender of such Approved Financing (subject to applicable notice and cure).

(e) Insolvency. A court having jurisdiction shall have made or entered any decree or order (i) adjudging Borrower to be bankrupt or insolvent, (ii) approving as properly filed a petition seeking reorganization of Borrower or seeking any arrangement for Borrower under the bankruptcy law or any other applicable debtor's relief law or statute of the United States or any state or other jurisdiction, (iii) appointing a receiver, trustee, liquidator, or assignee of Borrower in bankruptcy or insolvency or for any of their properties, (iv) directing the winding up or liquidation of Borrower, if any such decree or order described in clauses (i) to (iv), inclusive, shall have continued unstayed or undischarged for a period of ninety (90) days; or (v) Borrower shall have admitted in writing its inability to pay its debts as they fall due or shall have voluntarily submitted to or filed a petition seeking any decree or order of the nature described in clauses (i) to (iv), inclusive. The occurrence of any of the events of Default in this paragraph shall act to accelerate automatically, without the need for any action by the Authority, the indebtedness evidenced by the Note.

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

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

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

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

(j) Unauthorized Transfer. Any Transfer other than as permitted by Section 4.12.

(k) Representation or Warranty Incorrect. Any representation or warranty of Borrower contained in this Agreement, or in any application, financial statement, certificate, or report submitted to the Authority in connection with any of the Loan Documents, proves to have been incorrect in any material and adverse respect when made.

(l) Applicability to General Partner. The occurrence of any of the events set forth in subsection (e), subsection (f), or subsection (g) in relation to Borrower's managing general partner unless the removal and replacement of the Borrower's managing general partner in accordance with Section 4.12(d), within the time frame set forth in Section 5.5 cures such a default.

Section 5.2 Remedies.

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

(a) Acceleration of Note. The Authority shall have the right to cause all indebtedness of Borrower to the Authority under this Agreement and the Note, together with any accrued interest thereon, to become immediately due and payable. Borrower waives all right to presentment, demand, protest or notice of protest or dishonor. Subject to the provisions of Section 2.8, the Authority may proceed to enforce payment of the indebtedness and to exercise any or all rights afforded to the Authority as a creditor and secured party under the law including the Uniform Commercial Code, including foreclosure under the Deed of Trust. Borrower shall be liable to pay the Authority on demand all reasonable expenses, costs and fees (including, without limitation, reasonable attorney's fees and expenses) paid or incurred by the Authority in connection with the collection of the Development Loan and the preservation, maintenance, protection, sale, or other disposition of the security given for the Development Loan.

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

(c) Right to Cure at Borrower's Expense. The Authority shall have the right (but not the obligation) to cure any monetary default by Borrower under a loan other than the

Development Loan. Borrower agrees to reimburse the Authority for any funds advanced by the Authority to cure a monetary default by Borrower upon demand therefore, together with interest thereon at the Default Rate from the date of expenditure until the date of reimbursement.

Section 5.3 Right of Contest.

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

Section 5.4 Remedies Cumulative.

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

Section 5.5 Notice and Cure Rights of Investor.

The Authority agrees to provide the Investor a duplicate copy of all notices of default that the Authority may give to or serve in writing upon Borrower pursuant to the terms of the Loan Documents, at the address set forth in Section 6.10 hereof, provided, the Authority shall have no liability to the Investor for its failure to do so. The Investor shall have the right, but not the obligation, to cure any Default of Borrower set forth in such notice, during any applicable cure period described in the Loan Documents, and the Authority will accept tender of such cure as if delivered by Borrower. If the Investor is unable to cure a Default because Borrower's general partner is in bankruptcy and/or because the cure requires removal of the general partner of Borrower and the Investor is proceeding diligently to remove the general partner of Borrower in order to effect a cure of the Default, the cure period shall be extended for such reasonable time as is necessary for the Investor to effect a cure of the Default, but in no event longer than sixty (60) days after the date of receipt by the Investor of written notice of the Default. The address of the Investor set forth in Section 6.10 may be changed upon written notice delivered to the Authority in the manner specified in Section 6.10 herein below.

ARTICLE 6
GENERAL PROVISIONS

Section 6.1 Relationship of Parties.

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

Section 6.2 No Claims.

Nothing contained in this Agreement shall create or justify any claim against the Authority, by any person Borrower may have employed or with whom Borrower may have contracted relative to the purchase of materials, supplies or equipment, or the furnishing or the performance of any work or services with respect to the development of the Development, and Borrower shall include similar requirements in any contracts entered into for the development of the Development.

Section 6.3 Amendments.

No alteration or variation of the terms of this Agreement shall be valid unless made in writing by the Parties and approved by the Authority Board.

Section 6.4 Entire Understanding of the Parties.

This Agreement constitutes the entire understanding and agreement of the Parties with respect to the Development Loan.

Section 6.5 Indemnification.

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

Section 6.6 Non-Liability of Authority Officials, Employees and Agents.

No member, official, employee or agent of the Authority shall be personally liable to Borrower, or any successor in interest, in the event of any Default or breach by the Authority, or for any amount which may become due to Borrower or its successor or on any obligation under the terms of this Agreement.

Section 6.7 No Third Party Beneficiaries.

There shall be no third party beneficiaries to this Agreement except for the rights granted the Investor in Section 5.5 above.

Section 6.8 Action by the Authority.

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

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

Section 6.9 Waivers.

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

Section 6.10 Notices, Demands and Communications.

Formal notices, demands, and communications between the Authority and Borrower shall be sufficiently given if and shall not be deemed given unless dispatched by registered or certified mail, postage prepaid, return receipt requested, or delivered by express delivery service, return receipt requested, or delivered personally, to the principal office of the Authority and Borrower as follows:

Authority: Housing Authority of the County of San Bernardino
715 East Brier Drive
San Bernardino, CA 92408-2841
Attn: Executive Director

Borrower:	Val 9 Housing Partners, L.P. 9421 Haven Avenue Rancho Cucamonga, CA 91730 Attn: President/CFO
with a copy to:	Law Offices of Edward A. Hopson 665A No. Mountain Avenue Upland, CA 91786 Attn: Edward A. Hopson
with a copy to (Investor):	Wells Fargo Community Lending & Investment Wells Fargo Bank Affordable Housing Community Development Corporation 301 South College Street, 17th Floor MAC D1053-170 Charlotte, NC 28288
With a copy to:	Kutak Rock 1650 Farnam Street Omaha, NE 68102 Attn: Robert Coon

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

Section 6.11 Applicable Law and Venue.

This Agreement shall be governed by California law. Any action brought claiming a breach of this Agreement or interpreting this Agreement shall be brought and venued in San Bernardino County, California.

Section 6.12 Parties Bound.

Except as otherwise limited herein, the provisions of this Agreement shall be binding upon and inure to the benefit of the parties and their heirs, executors, administrators, legal representatives, successors and assigns. This Agreement is intended to run with the land and shall bind Borrower and its successors and assigns in the Property and the Development for the entire Term, and the benefit hereof shall inure to the benefit of the Authority and its successors and assigns.

Section 6.13 Attorneys' Fees.

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

Section 6.14 Severability.

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

Section 6.15 Force Majeure.

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

Section 6.16 Conflict of Interest.

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

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

Section 6.17 Title of Parts and Sections.

Any titles of the sections or subsections of this Agreement are inserted for convenience of reference only and shall be disregarded in interpreting any part of the Agreement's provisions.

Section 6.18 Multiple Originals; Counterpart.

This Agreement may be executed in multiple originals, each of which is deemed to be an original, and may be signed in counterparts.

Section 6.19 HUD Subordination Agreement.

The rights of the Authority under the Loan Documents are subject to the terms of the Subordination Agreement related to the FHA Loan, among the Authority, Borrower, and PNC Bank, National Association dated of even date herewith and recorded against the Property.

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

AUTHORITY:

HOUSING AUTHORITY OF THE COUNTY OF SAN BERNARDINO, a public body, corporate and politic

By:______________________________________
Daniel Nackerman
Executive Director

BORROWER:

Val 9 Housing Partners, L.P., a California limited partnership

By: Val 9 MGP, LLC, a California limited liability company, its sole general partner

By: National Community Renaissance of California, its sole member and manager

By:_____________________
Tracy Thomas,
Chief Financial Officer

EXHIBIT A

LEGAL DESCRIPTION OF THE PROPERTY

APN #0147-191-1210000
R S B S 602.75 FT LOT 7 BLK 42 EX PTN FOR ST

EXHIBIT B

DEVELOPMENT BUDGET