

**PROMISSORY NOTE
FOR ACQUISITION AND REHABILITATION
SECURED BY DEED OF TRUST**

Borrower: Cottage & Castles, Real Estate, Inc.

Property Address:

Lender: County of Monterey

Principal Amount: \$

Date:

The Borrower, Cottage & Castles Real Estate, Inc. for value received, promises to pay to the COUNTY OF MONTEREY (“Holder”), c/o Economic Development Department, at 168 W. Alisal St., 3d Floor., Salinas, California 93901, or any other place designated in a writing submitted by Holder to Borrower, the principal sum of _____ Dollars and _____ Cents (\$_____) (the “Loan”) plus interest on the unpaid principal balance according to the terms contained in this promissory note (the “Note”).

1. Use of Funds: The Loan is being made in order to assist Borrower in purchasing the property at the address above (the “Property”).

2. Security: This Note is secured by a Deed of Trust on the Property dated the same date as this Note (the “Deed of Trust”).

3. Term: Unless called sooner, pursuant to Paragraph 5(c), this Note shall be for a term of one (1) year, beginning on the date of execution of this Note (the “Term”), at the end of which all unpaid principal remaining will be due and payable.

4. Interest: This Note shall bear no interest on the unpaid principal balance from the date of this Note.

5. Payments:

(a) Deferral Period. Borrower shall not be required to make payments owed under this Note until the Property is sold to a qualified, non-profit housing provider for use as affordable rental housing.

(b) Payment In Full Upon Close of Escrow. Upon the close of escrow, the Holder shall forgive the principal amount of this Promissory Note.

(c) Repayment in Event of Default. Notwithstanding the provisions of subsections (a) and (b), above, the total amount of the principal owed under this Note shall immediately become due and payable (i) in the event of a default by the Borrower under this Note or the Deed of Trust, or (ii) on the date Transfer is made whether voluntarily, involuntarily, or by operation

of law and whether by deed, contract of sale, gift, devise, bequest or otherwise. Failure to declare such amounts due shall not constitute a waiver on the part of the Holder to declare them due in the event of a subsequent Transfer.

As used herein, "Transfer" shall mean any sale, assignment or transfer, voluntary or involuntary, of any interest in the Property, including, but not limited to, a fee simple interest, a joint tenancy interest, tenancy in common interest, a life estate, a leasehold interest, or an interest evidenced by a land contract by which possession of the Property is transferred and the Borrower retains title. Any Transfer without satisfaction of the provisions of this Note is prohibited.

6. Acceleration: The principal and accrued interest stated in this Note shall become all due and payable upon any Transfer or default under this Note or Deed of Trust.

7. Default: The Borrower shall be in default under this Note if he or she (i) fails to pay any money when due under this Note; (ii) breaches any representation or covenant made in this Note; or (iii) breaches any provision of the Deed of Trust.

8. Giving of Notice: Any notice, demand or communication under, or in connection with, this Note may be served by personal service, electronic transmission, facsimile or mailing the same by certified mail in the United States Post Office, postage prepaid, and directed to:

Holder: Economic Development Department of the County of Monterey
Attn: Director, Economic Development
168 W. Alisal Street, 3d Floor
Salinas, California 93901

Borrower: Cottage & Castles Real Estate, Inc.
Attn: April Whitehead or Jurgen Herzog
17551 Vierra Canyon Road
Salinas, CA 93907

Notice shall be deemed satisfied within one (1) business day if provided by personal service, electronic transmission, or facsimile. Notice shall be deemed satisfied within three (3) business days if provided by certified mail. Either Holder or Borrower may change such address by notifying the other Party in writing as to such new address as Holder or Borrower may desire used and which address shall constitute as the address until further written notice.

9. Subordination: The Deed of Trust securing this Note shall not be subordinated to any other mortgage, lien, or financing.

10. Attorney's fees: Borrower(s) agrees to pay costs, expenses, and attorney's fees paid or incurred by the Holder. If the Holder brings any action or proceeding in connection with the enforcement or collection of this Note, the Prevailing Party (as hereinafter defined) in any such proceeding, action or appeal thereon, shall be entitled to reasonable attorney's fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term "Prevailing Party" shall include, without limitation, the party who substantially obtains or defeats the relief sought, as the case may be, whether by compromise, settlement, judgment, or the abandonment by the other party of

its claim or defense. The attorney's fees award shall not be computed in accordance with any court fee schedule but shall be such as to fully reimburse all attorney's fees reasonably incurred.

In addition to the foregoing award of attorney's fees, the Holder shall be entitled to its attorneys fees incurred in any post judgment proceedings to enforce any judgment in connection with this Note. This provision is separate and several and shall survive the merger of this provision into any judgment.

11. No Waiver by Holder: Failure by Holder to pursue its legal and equitable remedies upon Borrower's default shall not constitute a waiver of Holder's right to declare a default and exercise all of its rights under this Note or the Deed of Trust. Failure to declare amounts due shall not constitute a waiver on the part of Holder of the right to declare them due in the event of any subsequent Transfer nor shall acceptance by Holder of any payment provided for herein constitute a waiver of Holder's right to require prompt payment of any remaining principal owed. A waiver of any term of the Note must be made in writing and shall be limited to the express written terms of such waiver.

12. No Offset: Borrower hereby waives any rights of offset it now has or may hereafter have against Holder, its successors and assigns, and agrees to make the payments called for herein in accordance with the terms of this Note.

13. Waiver: Borrower and any endorsers or guarantors of this Note, for themselves, their heirs, legal representatives, successors and assigns, respectively, severally waive diligence, presentment, protest, and demand; notice of protest, notice of dishonor, and notice of non-payment of this Note; expressly waive any rights to be released by reason of any extension of time or change in terms of payment or change, alteration or release of any security given for the payments hereof; expressly waive the right to plead any and all statutes of limitations as a defense to any demand on this Note or agreement to pay the same; and jointly and severally agree to pay all costs of collection when incurred, including reasonable attorneys' fees.

14. Severability: If any provision of this Note shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby.

15. Entire Agreement: This Note along with the Deed of Trust and Loan Agreement sets forth the entire understanding and agreement of the Holder and the Borrower. Any amendment, alteration, or interpretation of this Note must be in writing and signed by both the Holder and the Borrower.

BORROWERS:

Cottage & Castles Real Estate, Inc., a California corporation

By: _____