

HOME LOAN AGREEMENT
(Salinas Road)

This HOME Loan Agreement (the "Agreement") is entered into as of the last date opposite the respective signatures (the "Agreement Date"), by and between the County of Monterey, a political subdivision of the State of California (the "County"), and Salinas Road Associates, a California Limited Partnership ("Borrower"), with reference to the following facts:

A. The County has received Home Investment Partnership Act funds from HUD pursuant to the Cranston-Gonzales National Housing Act of 1990 in the amount of Three Million Five Hundred Thousand Dollars (\$3,500,000) (the "HOME Funds"). Such funds must be used by the County in accordance with 24 CFR 92 et seq. HCD and the County entered into that certain Standard Agreement effective as of June 21, 2004, and numbered 03-HOME-0680 (the "HCD Agreement") to govern the use of the HOME Funds.

B. The General Partner of Borrower, South County Housing Corporation ("SCH"), owns a parcel of real property located in the Castroville-Pajaro Redevelopment Project Area in the County of Monterey, State of California, commonly known as the "Salinas Road Property" and more particularly described in Exhibit A (the "Property"). Pursuant to an Owner Participation Agreement among SCH, Borrower, and the Redevelopment Agency of the County of Monterey (the "Agency"), of even date hereof, SCH will transfer fee simple title to Borrower, and Borrower will substantially rehabilitate the Property by constructing thereon sixty-three (63) units of rental housing, which will be affordable to low and very low households (the "Development"). Twenty-six (26) of the rental units will be assisted with HOME Funds (the "HOME Assisted Rental Units").

C. In furtherance of the HCD Agreement, Borrower wishes to borrow from County and County wishes to extend to Borrower a loan of Three Million Four Hundred Thousand Dollars (\$3,400,000) of HOME Funds (the "Loan"). The Loan will be evidenced by a promissory note executed by Borrower in favor of County and secured by a deed of trust on the Property.

D. The Loan is being made to finance construction costs associated with the Development in order to help achieve financial feasibility for the Development and to increase the supply of affordable rental housing in Monterey County.

NOW, THEREFORE, 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) "Actual Household Size" shall mean the actual number of persons in the applicable household.
- (b) "Adjusted Income" shall mean the total annual income of all persons in a household as calculated in accordance with 24 CFR 92.203.
- (c) "Agency" shall mean the Redevelopment Agency of the County of Monterey.
- (d) "Agency Loan" shall mean the two loans from the Agency to Borrower in the total principal amount of One Million Six Hundred Thousand Dollars (\$1,600,000) for acquisition, predevelopment and development activities associated with the Development.
- (e) "Agreement" shall mean this HOME Loan Agreement.
- (f) "Agreement Date" shall mean the last date opposite the signature of the County on this Agreement.
- (g) "Agreement Term" shall mean the term of this Agreement, commencing on the Agreement Date and continuing for fifty-five (55) years after the issuance of a Certificate of Occupancy for the Property.
- (h) "Annual Income" shall mean the total annual income of all persons in a household as calculated in accordance with 24 CFR 92.203.
- (i) "Approved Development Budget" shall mean the proforma development budget, including sources and uses of funds, as approved by the County, and attached hereto and incorporated herein as Exhibit B.
- (j) "Approved Financing" shall mean all of the financing acquired by the Borrower as set forth in the Approved Development Budget and any additional financing approved by the County in writing for the purpose of financing the Development, in addition to the Loan.
- (k) "Area Median Income" shall mean the median income, adjusted for household size, for the Salinas MSA, periodically published by HUD.
- (l) "Borrower" shall mean Salinas Road Associates; a California Limited Partnership.
- (m) "County" shall mean the County of Monterey, a political subdivision of the State of California.

(n) "County HOME Loan" shall mean a loan of HOME funds in the amount of \$3,400,000 by the County to Borrower, to be used to pay part of the costs for the development of Rental Units on the Property.

(o) "Deed of Trust" shall mean the deed of trust that will encumber the Property to secure repayment of the Loan. The form of the Deed of Trust shall be provided by the County.

(p) "Default" shall have the meaning set forth in Section 5.1 below.

(q) "Development," for purposes of this Agreement, shall mean the Property and the sixty-three (63) Rental Units to be constructed by Borrower as part of the Development and to be regulated by the County pursuant to the Regulatory Agreement.

(r) "Eligible Tenant" shall mean, with respect to a particular Rental Unit, either a Low Income Household or a Very Low Income Household.

(s) "Hazardous Materials" shall have the meaning set forth in Section 4.8 below.

(t) "Hazardous Materials Claim" shall have the meaning set forth in Section 4.8 below.

(u) "Hazardous Materials Law" shall have the meaning set forth in Section 4.8 below.

(v) "HCD Agreement" shall mean the standard agreement executed by and between the County and the State of California Department of Housing and Community Development ("HCD"), dated June 21, 2004 and attached hereto and incorporated herein as Exhibit C.

(w) "HOME" shall mean the HOME Investment Partnership Act Program pursuant to the Cranston-Gonzales National Housing Act of 1990, as amended.

(x) "HOME Loan Funds" shall mean the Three Million Five Hundred Thousand Dollars (\$3,500,000) that HUD has made available to the County under the HOME Investment Partnership Act pursuant to the Cranston-Gonzales National Housing Act of 1990, from which the County is making the County HOME Loan to Borrower pursuant to this Agreement to enable the Borrower to construct the Development.

(y) "HUD" shall mean the United States Department of Housing and Urban Development.

(z) "Loan" shall mean the County HOME Loan to Borrower in the total principal amount of the Three Million Four Hundred Thousand Dollars (\$3,400,000).

(aa) "Loan Documents" shall mean this Agreement, the Note, the Regulatory Agreement, and the Deed of Trust.

(bb) "Low Income Household" shall mean a household with an Annual Income that does not exceed eighty percent (80%) of Area Median Income, adjusted for Actual Household Size.

(cc) "Note" shall mean the promissory note that will evidence Borrower's obligation to repay the County HOME Loan. The form of the Note shall be provided by the County.

(dd) "Parties" shall mean the County and Borrower.

(ee) "Property" shall mean the real property located in the County of Monterey, California, more particularly described in the attached Exhibit A.

(ff) "Regulatory Agreement" shall mean the Regulatory Agreement and Declaration of Restrictive Covenants by and among the County, the Agency and the Borrower associated with the Loan and the Agency Loan, to be recorded against the Development.

(gg) "Rental Unit" shall mean one of the sixty-three (63) apartment units to be constructed on the Property.

(hh) "Transfer" shall have the meaning set forth in Section 4.14. below.

(ii) "Very Low Income Household" shall mean a household with an Annual Income that does not exceed fifty percent (50%) of Area Median Income, adjusted for Actual Household Size.

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: Approved Development Budget
- EXHIBIT C: HCD Agreement
- EXHIBIT D: Short Term Promissory Note

ARTICLE 2 LOAN PROVISIONS

Section 2.1 Loan.

(a) The County shall loan to the Borrower the Loan in the principal amount of Three Million Four Hundred Thousand Dollars (\$3,400,000) for the purposes set forth in Section 2.3 of this Agreement. The obligation to repay the Loan shall be evidenced by the Note in the form provided by the County.

Section 2.2 Interest.

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

(b) Default Interest. In the event of a Default, interest on the Loan shall begin to accrue, as of the date of Default and continuing until such time as the Loan funds are 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.

Section 2.3 Use of Loan Funds.

(a) The Borrower shall use the Loan for the purposes set forth in the Approved Development Budget attached as Exhibit B. The Borrower shall not use the Loan funds for any other purpose without the prior written consent of the County.

(b) The Borrower, as a recipient of the County HOME Loan shall comply with all applicable requirements of the HCD Agreement in the use of the Loan.

Section 2.4 Security.

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

(b) The County agrees to subordinate the Deed of Trust and the Regulatory Agreement to the liens of the deeds of trust securing Approved Financing, pursuant to a subordination agreement in a form approved by the County, which approval shall not be unreasonably withheld.

Section 2.5 Conditions Precedent to Disbursement of Loan.

(a) The Loan shall be disbursed in accordance with the following provisions of this Section 2.5. The County shall not be obligated to make any disbursements of Loan proceeds for construction and related activities, or take any other action under the Loan Documents unless the following conditions precedent are satisfied prior to each such disbursement of the Loan:

(i) There exists no Default by Borrower, nor any act, failure, omission or condition that constitutes an event of Default by Borrower, under this Agreement or the HCD Agreement;

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

(iii) The County Planning and Building Inspection Department has received and approved the final plans and specifications for the Development, as required pursuant to Section 3.2 below;

(iv) The County has received and approved a form of subcontractor construction contract that the Borrower proposes to use for construction of the Development, as required pursuant to Section 3.3 below;

(v) Borrower's General Partner has provided the County an executed copy of the Completion Guaranty as required pursuant to Section 3.4 below;

(vi) Borrower has received binding commitments for all Approved Financing, including the award of tax credits or other financing;

(vii) The County has received and approved a written draw request from the Borrower, Borrower's certification that the condition set forth in Section 2.5(a)(i) continues to be satisfied, and setting forth the proposed uses of funds consistent with the Approved 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. When a disbursement is requested to pay any contractor in connection with improvements on the Property, the written request must be accompanied by (i) certification by the Borrower's architect reasonably acceptable to the County that the work for which disbursement is requested has been completed (although the County reserves the right to inspect the Property and make an independent evaluation); and (ii) lien releases and/or mechanics lien title insurance endorsements reasonably acceptable to the County;

(viii) Borrower has obtained and recorded fee simple title to the Property and has also recorded the Regulatory Agreement and Declaration of Restrictive Covenants and Deed of Trust for the County HOME Loan; and

(ix) The County has received sufficient HOME Funds (via advance or otherwise) to make the disbursement to Borrower.

Section 2.6 Disbursement and Confirmation.

(a) Disbursement by The County. Once all the conditions precedent to disbursement of the Loan described in Section 2.5 have been met, the County shall promptly disburse the requested amount. Notwithstanding any other provision in this Agreement, the County has the right (but not the obligation) to make disbursements in the form of one or more advances of HOME Program Income, which advances shall be repaid without interest at such time as the County and Borrower mutually agree, but not later than five (5) years from the date of the Note. Any such advance shall be evidenced by a short term Promissory Note, substantially in conformance with the example attached as Exhibit D to this Agreement.

(b) Confirmation of Payments. Borrower shall disburse funds received pursuant to Section 2.5 above within ten (10) days of receipt of disbursement from the County. After the initial disbursement from the County to Borrower, written confirmation of Borrower's timely and proper use of all prior disbursements shall be a further condition precedent to those conditions to disbursement identified in Section 2.5.

Section 2.7 Repayment Schedule.

The Loan shall be repaid from Residual Receipts of the Development as defined in the Note evidencing the Loan, and upon the terms and conditions set forth in the Note.

Section 2.8 Non-Recourse.

Except as provided below, neither the Borrower nor any partner of the Borrower shall have any direct or indirect personal liability for payment of the principal of, or interest on, the Loan or the performance of the covenants of the Borrower under the Deed of Trust. The sole recourse of the County with respect to the principal of, or interest on, the Note and defaults by Borrower in the performance of its covenants under the Deed of Trust shall be to the 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 County thereunder, or (b) be deemed in any way to impair the right of the County 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 the Borrower's obligations under the Deed of Trust, except as hereafter set forth; nothing contained herein is intended to relieve the Borrower of its obligation to indemnify the County under Sections 3.7, 4.7, 4.8 and 4.16 of this Agreement, or liability for (i) fraud or willful misrepresentation; (ii) the failure to pay taxes, assessments or other charges which may create liens on the Property that are payable or applicable prior to any foreclosure under the Deed of Trust (to the full extent of such taxes, assessments or other charges); (iii) the fair market value of any personal property or fixtures removed or disposed of by Borrower other than in accordance with the Deed of Trust; and (iv) the misappropriation of any proceeds under any insurance policies or awards resulting from condemnation or the exercise of the power of eminent domain or by reason of damage, loss or destruction to any portion of the Property.

ARTICLE 3 CONSTRUCTION OF THE DEVELOPMENT

Section 3.1 Permits and Approvals.

(a) All permits and approvals necessary for the construction of the Development must be received no later than September 30, 2005, or such later date approved by County if any delay is a result of actions of the County.

(b) If the Borrower fails to secure all necessary permits and approvals within the times set forth in subsection (a) above, the County, at its option, and with thirty (30) days written notice and opportunity to cure, may terminate this Agreement without any obligations to make any advances hereunder, provided, however, that any portion of the Loan disbursed to Borrower for predevelopment activities shall be repaid to the County upon any Transfer of any portion of the Property.

Section 3.2 Plans and Specifications.

Borrower shall submit to the County building department a copy of the Construction Plans for the Development. As used in this Agreement, "Construction Plans" shall mean all construction documentation upon which Borrower and Borrower's contractors shall rely in building all the improvements on the Property (including landscaping, parking, and common areas) and shall include, but not necessarily be limited to, final architectural drawings, landscaping plans and specifications, final elevations, building plans and specifications (also known as "working drawings").

Section 3.3 Construction Contract.

(a) Not later than thirty (30) days prior to the proposed commencement of construction of the Development, the Borrower shall submit to the County for its approval the proposed form of construction contract for the Development. All construction work and professional services shall be performed by persons or entities licensed or otherwise authorized to perform the applicable construction work or service in the State of California. Each contract that the Borrower enters for construction of the Development shall provide that at least ten percent (10%) of the costs incurred shall be payable only upon completion of construction, subject to early release of retention for specified contractors upon approval by the County. The form of construction contract shall include all applicable HOME requirements set forth in Section 4.7 below. The County's approval of the construction contract shall in no way be deemed to constitute approval of or concurrence with any term or condition of the construction contract except as such term or condition may be required by this Agreement.

(b) Upon receipt by the County of the proposed form of construction contract, the County shall promptly review same and approve or disapprove it within ten working (10) days. If the construction contract is not approved by the County, the County shall set forth in writing and notify the Borrower of the County's reasons for withholding such approval. The Borrower shall thereafter submit a revised form of construction contract for County approval, which approval shall be granted or denied in ten (10) working days in accordance with the procedures set forth above. Any construction contract executed by the Borrower for the Development shall be in the form approved by the County.

Section 3.4 Completion Guaranty.

Prior to commencement of construction of the Development, the Borrower's General Partner shall provide a performance and completion guaranty to the County in a form to be approved by the County in its reasonable discretion.

Section 3.5 Commencement of Construction.

Borrower shall cause the commencement of construction of the Development by issuing a Notice to Proceed to the general contractor no later than August 31, 2005.

Section 3.6 Completion of Construction.

Borrower shall diligently prosecute construction of the Development to completion, and shall cause the completion of the construction of the Development no later than September 30, 2006. Completion shall be determined by the issuance of the final Certificate of Occupancy for the Development.

Section 3.7 Construction Pursuant to Plans and Laws: Prevailing Wages.

(a) Borrower shall construct the Development in conformance with the plans and specifications approved by the County building department. Borrower shall notify the County in a timely manner of any changes in the work required to be performed under this Agreement, including any additions, changes, or deletions to the plans and specifications approved by the County. A written change order authorized by the County must be obtained before any of the following changes, additions, or deletions in work for the Development may be performed: (1) any change in the work the cost of which exceeds Twenty Five Thousand Dollars (\$25,000); or (2) any set of changes in the work the cost of which cumulatively exceeds Fifty Thousand Dollars (\$50,000) or ten percent (10%) of the Loan amount, whichever is less, or (3) 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 County. Consent to any additions, changes, or deletions to the work shall not relieve or release Borrower from any other obligations under this Agreement, or relieve or release Borrower or its surety from any surety bond. Unless the County notifies the Borrower in writing within five (5) working days after submission of the change order that the change order has been disapproved, it shall be deemed approved.

(b) Borrower shall cause all work performed in connection with the Development to be performed in compliance with (i) all applicable laws, ordinances, rules and regulations of federal, state, county or municipal governments or agencies now in force or that may be enacted hereafter; (ii) the HUD quality standards set out in 24 CFR 882.109 and the cost-effective and energy conservation and effectiveness standards in 24 CFR 39, and (iii) all directions, rules and regulations of any fire marshal, health officer, building inspector, or other officer of every governmental agency now having or hereafter acquiring jurisdiction. The work shall proceed only after procurement of each permit, license, or other authorization that may be required by any governmental agency having jurisdiction, and Borrower shall be responsible to the County for the procurement and maintenance thereof, as may be required of Borrower and all entities engaged in work on the Development.

(c) Borrower shall comply with all applicable State and Federal laws with regard to the payment of prevailing wages. The Borrower shall indemnify, hold harmless and defend (with counsel reasonably acceptable to the County) the County 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 the Borrower, its contractor and subcontractors) to pay prevailing wages as determined pursuant to Labor Code Sections 1720 et seq. and implementing regulation or comply with the other applicable provisions of Labor Code Sections 1720 et seq. and implementing regulations of the Department of Industrial Relations in connection with the

construction of the Development or any other work undertaken or in connection with the Property.

Section 3.8 Marketing Plan.

No later than thirty (30) days prior to the projected date of the completion of the Development, Borrower shall update its plan for marketing the Rental Units to income-eligible households as required pursuant to the Regulatory Agreement, including information on affirmative marketing efforts and compliance with fair housing laws and shall submit such updated marketing plan to the County for approval.

Section 3.9 Equal Opportunity.

During the construction of the Development 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 3.10 Economically Disadvantaged Contractors.

Borrower will use its best efforts to afford economically disadvantaged business enterprises the maximum practicable opportunity to participate in the construction of the Development. Borrower shall notify applicable business firms located in Monterey County of bid opportunities for the construction of Improvements. Documentation of such notifications shall be maintained by Borrower and available to the County as requested.

Section 3.11 Progress Reports.

Until such time as Borrower has received a certificate of occupancy from the County for the Development, Borrower shall provide the County with quarterly progress reports regarding the status of the construction of the Development, including a certification that the actual construction costs to date conform to the Approved Development Budget, as it may be amended from time to time pursuant to Section 3.15 below.

Section 3.12 Construction Responsibilities.

(a) It shall be the responsibility of Borrower to coordinate and schedule the work to be performed so that commencement and completion of construction will take place in accordance with this Agreement.

(b) Borrower shall be 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 County with reference to the Development is solely for the purpose of determining whether Borrower is properly discharging its obligations to the County, and should not be relied upon by Borrower or

by any third parties as a warranty or representation by the County as to the quality of the design or construction of the Development.

Section 3.13 Mechanics Liens, Stop Notices, and Notices of Completion.

(a) If any claim of lien is filed against the Property or a stop notice affecting the Loan is served on the County 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 County a surety bond in sufficient form and amount, or provide the County with other assurance satisfactory to the County 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 County may (but shall be under no obligation to) discharge such lien, encumbrance, charge, or claim at Borrower's expense. Alternately, the County may require Borrower to immediately deposit with the County the amount necessary to satisfy such lien or claim and any costs, pending resolution thereof. The County may use such deposit to satisfy any claim or lien that is adversely determined against Borrower.

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

Section 3.14 Inspections.

Borrower shall permit and facilitate, and shall require its contractors to permit and facilitate, observation and inspection at the Development by the County and by public authorities during reasonable business hours for the purposes of determining compliance with this Agreement.

Section 3.15 Approved Development Budget; Revisions to Budget.

As of the date of this Agreement, the County has approved the Approved Development Budget set forth in Exhibit B. Borrower shall submit any required amendments to the Approved Development Budget to the County for approval within five (5) days of the date Borrower ascertains that actual costs of the Development vary or will vary from the costs shown on the Approved Development Budget. Written consent of the County shall be required to amend the Approved Development Budget, which consent shall not unreasonably be withheld, provided that neither the County nor the Agency shall be required to provide any additional funding as part of such consent. The County hereby approves modification of the Approved Development Budget to address any construction and financial savings realized on the Development.

Section 3.16 Developer Fee.

The maximum cumulative developer fee that may be paid to any entity or entities providing development services to the Development, whether paid up-front or on a deferred basis, shall not exceed the amount set forth in the Approved Development Budget, as such budget maybe amended over time subject to the approval of the County as set forth in Section 3.15 above.

Section 3.17 Units Available To The Disabled.

(a) The Development shall be developed to comply with all applicable federal, state, and local requirements for access for disabled persons including Section 504 of the Rehabilitation Act of 1973 (29 U.S.C. Section 794) ("Section 504") and the Federal Fair Housing Act (42 U.S.C. Sections 3601-3619) accessibility design and construction requirements.

(b) In compliance with Section 504, a minimum of three (3) Rental Units shall be fully accessible to mobility impaired persons, and an additional one (1) Rental Unit shall be accessible to vision and/or hearing impaired persons.

(c) Prior to commencement of construction of the Development, the Borrower shall provide the County a certificate from the project architect that the plans and specifications for the Development comply with Section 504 and its implementing regulations set forth in 24 CFR 8, and the Federal Fair Housing Act and its implementing regulations set forth in 24 CFR 100.

ARTICLE 4 LOAN REQUIREMENTS

Section 4.1 Compliance with HCD Agreement.

Borrower acknowledges that the County is making the Loan in accordance with the requirements of the HCD Agreement, a copy of which is attached as Exhibit C. Borrower, as a recipient/developer of the HOME Funds, shall comply with all applicable the terms of the HCD Agreement, and any breach under the HCD Agreement subject to the notice and cure periods set forth in Section 5.1(c) below, shall be considered a Default under this Agreement. The HCD Agreement is hereby incorporated into this Agreement by this reference.

Section 4.2 Match Requirement.

The Borrower shall ensure that the Loan is matched with a minimum of Eight Hundred Fifty-three Thousand Two Hundred Fifty Dollars (\$853,250) in other, non-federal sources, pursuant to and eligible under applicable HOME regulations.

Section 4.3 Financial Accountings and Post-Completion Audits.

No later than sixty (60) days following completion of construction of the Development, Borrower shall provide to County a financial accounting of all sources and uses of funds for the Development. No later than one hundred fifty (150) days following completion of construction

of the Development, Borrower shall submit an audited cost certification showing the sources and uses of all funds utilized for the Development.

Section 4.4 Information.

Borrower shall provide any information reasonably requested by the County in connection with the Development, including (but not limited to) any information required by HUD in connection with Borrower's use of the Loan funds:

Section 4.5 Records.

(a) Borrower shall maintain complete, accurate, and current records pertaining to the Development for a period of five (5) years after the creation of such records, and shall permit any duly authorized representative of the County to inspect and copy records. Such records shall include all invoices, receipts, and other documents related to expenditures from the Loan funds. Records must be kept accurate and current. If any litigation, claim, negotiation, audit exception, or other action relating to this Agreement is pending at the end of such time period, then Borrower shall retain said records until such action is resolved. This obligation shall continue until five (5) years after the termination of the Regulatory Agreement and Declaration of Restrictive Covenants on the Property.

(b) The County shall notify Borrower of any records it deems insufficient. Borrower shall have fifteen (15) calendar days after the receipt of such a notice to correct any deficiency in the records specified by the County in such notice, or if a period longer than fifteen (15) days is reasonably necessary to correct the deficiency, then Borrower shall begin to correct the deficiency within fifteen (15) days and correct the deficiency as soon as reasonably possible.

Section 4.6 Access to and Audit of Records.

The County shall have the right to examine, monitor and audit all records, documents, conditions, and activities of the Borrower and its contractors and subcontractors related to performance of Borrower's obligations under this Agreement, upon reasonable notice and during normal business hours. Pursuant to California Government Code Section 8546.7, the parties to this Agreement shall be subject, at the request of the County or as part of any audit of the County, to the examination and audit of the State Auditor pertaining to matters connected with the performance of this Agreement for a period of three (3) years after final disbursement under this Agreement.

Section 4.7 HOME Requirements.

(a) Borrower shall comply with all applicable laws and regulations governing the use of the Loan funds as set forth in 24 CFR 92 et seq., including but not limited to the requirements of the Regulatory Agreement and the HCD Agreement. In the event of any conflict between this Agreement and applicable laws and regulations governing the use of the Loan funds, the applicable laws and regulations shall govern.

(b) The laws and regulations governing the use of the Loan funds include (but are not limited to) the following:

(1) Environmental and Historic Preservation. Section 104(f) of the Housing and Community Residence Act of 1974 and 24 CFR Part 58, which prescribe procedures for compliance with the National Environmental Policy Act of 1969 (42 U.S.C. 4321-4361), and the additional laws and authorities listed at 24 CFR 58.5.

(2) Applicability of OMB Circulars. The applicable policies, guidelines, and requirements of OMB Circulars Nos. A-87, A-102, Revised, A-110 and A-122.

(3) Architectural Barriers. The requirements of the Architectural Barriers Act of 1968 (42 U.S.C. 4151-4157).

(4) Lead-Based Paint. The requirement of the Lead-Based Paint Poisoning Prevention Act, as amended (42 U.S.C. 4821 et seq.) and implementing regulations at 24 CFR Part 35.

(5) Relocation. The requirements of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, and state relocation laws. If and to the extent that development of the Development results in the permanent or temporary displacement of residential tenants, homeowners, or businesses, then Borrower shall comply with all applicable local, state, and federal statutes and regulations with respect to relocation planning, advisory assistance, and payment of monetary benefits. Borrower shall be solely responsible for payment of any relocation benefits to any displaced persons and any other obligations associated with complying with such relocation laws. The Borrower shall indemnify, defend (with counsel reasonably acceptable to the County), and hold harmless the County against all claims which arise out of relocation law obligations to residential tenants, homeowners, or businesses permanently or temporarily displaced by the Development.

(6) Handicap Discrimination. The requirements of Section 504 of the Rehabilitation Act of 1973 (29 U.S.C. 794), and federal regulations issued pursuant thereto, which prohibit discrimination against the handicapped in any federally assisted program, and the applicable requirements of Title II and/or Title III of the Americans with Disabilities Act of 1990 (42 U.S.C. 12131 et seq.).

(7) Training Opportunities. The requirements of Section 3 of the Housing and Urban Development Act of 1968, as amended, 12 U.S.C. Section 1701, requiring that to the greatest extent feasible opportunities for training and employment be given to lower income residents of the project area and agreements for work in connection with the project be awarded to business concerns which are located in, or owned in substantial part by persons residing in, the areas of the project. Borrower agrees to include the following language in all subcontracts executed under this Agreement:

"The work to be performed under this agreement is a project assisted under a program providing direct federal financial assistance from HUD and is subject to the requirements of Section 3 of the Housing and Urban Development Act of 1968, as amended 12 U.S.C. 1701. Section 3 requires that to the greatest extent feasible opportunities for training and employment be given to lower income residents of the project area and agreements for work in connection with the project be awarded to business concerns which are located in, or owned in substantial part by persons residing in, the areas of the project."

(8) Davis-Bacon Act. To the extent applicable, the prevailing wage requirements of the Davis-Bacon Act and implementing regulations.

(9) Drug Free Workplace. The requirements of the Drug Free Workplace Act of 1988 (P.L. 100-690) and implementing regulations at 24 CFR Part 24.

(10) HUD Regulations. Any other HUD regulations present or as may be amended, added, or waived in the future pertaining to the Loan funds, including but not limited to HUD regulations as may be promulgated regarding subrecipients.

Section 4.8 Hazardous Materials.

(a) Borrower shall keep and maintain the Property in compliance with, and shall not cause or permit the Property 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 Property 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 Property or transport to or from the Property 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 customarily used in construction of projects like the Development or kept and used in and about residential property of this type.

(b) Borrower shall immediately advise the County 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 Property 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 Property 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"). Borrower shall also immediately advise the County in writing of Borrower's discovery of any occurrence or condition on any real property adjoining or in the vicinity of the Property that could cause the

Property 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 Property under any Hazardous Materials Law.

(c) The County 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 County and its board members, supervisors, 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 Property including without limitation: (a) all foreseeable consequential damages; (b) the costs of any required or necessary repair, cleanup or detoxification of the Property and the preparation and implementation of any closure, remedial or other required plans; and (c) all reasonable costs and expenses incurred by the County 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 County'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 Property, 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 County's reasonable judgment, impair the value of the County's security hereunder; provided, however, that the County's prior consent shall not be necessary in the event that the presence of Hazardous Materials on, under, or about the Property 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 County's consent before taking such action, provided that in such event Borrower shall notify the County as soon as practicable of any action so taken. The County 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 County that there is no reasonable alternative to such remedial action which would result in less impairment of the County's security hereunder; or (iv) the action has been agreed to by the County.

(e) Borrower hereby acknowledges and agrees that (i) this Section is intended as the County's written request for information (and Borrower's response) concerning the environmental condition of the Property 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 Property 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 Property 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 County's or the trustee's rights and remedies under the Deed of Trust, the County 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 Property and (2) exercise (a) the rights and remedies of an unsecured creditor, including reduction of its claim against the Borrower to judgment, and (b) any other rights and remedies permitted by law. For purposes of determining the County's right to proceed as an unsecured creditor under California Code of Civil Procedure Section 726.5(a), the 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 Property and the 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 County 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 Property is environmentally impaired, plus interest thereon at the lesser of ten percent (10%) or the maximum rate permitted by law, until paid, shall be added to the indebtedness secured by the Deed of Trust and shall be due and payable to the County upon its demand made at any time following the conclusion of such action.

Section 4.9 Maintenance and Damage.

(a) During the course of both construction and operation of the Development, Borrower shall maintain the Development and the Property 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 County notice of such a condition, then in addition to any other rights available to the County, the County 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 Property.

(b) Subject to the requirements of senior lenders, and if economically feasible in the County's reasonable judgment, if any improvement now or in the future on the Property 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 County with such changes as have been approved by the County. 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 County 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 to the County to repay the Loan, subject to the rights of the senior lenders.

Section 4.10 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 Property or 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 County, Borrower deposits with the County any funds or other forms of assurance that the County in good faith from time to time determines appropriate to protect the County from the consequences of the contest being unsuccessful.

Section 4.11 Notice of Litigation.

Borrower shall promptly notify the County in writing of any litigation materially affecting Borrower or the Property and of any claims or disputes that involve a material risk of such litigation.

Section 4.12 Operation of Development as Affordable Housing.

(a) Promptly after completion of construction, the Borrower shall operate the HOME-Assisted Rental Units in the Development consistent with (i) HCD's requirements for use of the HOME Loan Funds, and (ii) the Regulatory Agreement.

(b) Before leasing any HOME-Assisted Rental Unit in the Development, the Borrower shall submit its proposed form of lease agreement for the County's review and approval. The term of the form of lease agreement shall be for no less than one (1) year, except by mutual agreement between Borrower and the tenant, and shall not contain any provision which is prohibited by 24 CFR 92.253(b) and any modifications thereto. Any Borrower termination of a lease agreement or refusal to renew must be in conformance with 24 CFR 92.253(c), and must be preceded by not less than thirty (30) days written notice to the tenant by the Borrower specifying the grounds for the action.

(c) Before leasing any HOME-Assisted Rental Unit in the Development, the Borrower shall provide the County, for its review and approval, with the Borrower's written tenant selection plan. The Borrower's tenant selection plan shall, at a minimum, meet the requirements for tenant selection set out in 24 CFR 92.253(e) and any modifications thereto.

(d) The Borrower shall determine the income eligibility of each tenant household in the HOME-Assisted Rental Units pursuant to the County's approved tenant certification procedures within sixty (60) days before the household's expected initial occupancy of one of the Rental Units. The Borrower shall certify each tenant household's income on an annual basis, and shall commence such re-certification at least one hundred twenty (120) days prior to the expiration of such lease and complete re-certification at least forty-five (45) days prior to the expiration of such lease.

(e) If, upon recertification, a household in a HOME-Assisted Rental Unit, who initially qualified as a Very Low and/or Low Income Household experiences an increase in

household income so that the tenant no longer qualifies for the income level previously certified, such tenant shall be permitted to continue to occupy the HOME-Assisted Rental Unit at a rent not exceeding the applicable rent described below:

(1) For Very Low Income Households of HOME-Assisted Rental Units, if the tenant's recertified income does not exceed the income for a Low Income Household, then upon expiration of the tenant's lease and upon sixty (60) days' written notice, the rent may be increased to the maximum rent for a Low Income Household.

(2) For tenants (whether Very Low Income or Low Income Households) of HOME-Assisted Rental Units, if the tenant's re-certified income exceeds the income for Low Income Households, adjusted for household size, then, upon expiration of the tenant's lease and upon sixty (60) days' written notice, the rent may be increased to the lesser of one-twelfth (1/12) of thirty percent (30%) of actual Annual Income of the tenant, or market rent.

(f) The maximum household income of a household occupying a Rental Unit in the Development, and the total charges for rent, utilities, and related services to each household occupying a Rental Unit, shall be maintained as provided in the Regulatory Agreement.

(g) Borrower shall also comply with HOME Regulations concerning the Affirmative Marketing/Fair Housing for long term monitoring purposes.

Section 4.13 Nondiscrimination.

The 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, religion, creed, age, disability, sex, sexual orientation, marital status, ancestry or national origin in the sale, lease, sublease, transfer, use, occupancy, tenure or enjoyment of the Property, nor shall the Borrower or any person claiming under or through the 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 Property. The foregoing covenant shall run with the land.

Section 4.14 Transfer.

(a) For purposes of this Agreement, "Transfer" shall mean 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" shall exclude the leasing of any Rental Unit in the Development to an occupant in compliance with the Regulatory Agreement.

(b) No Transfer shall be permitted without the prior written consent of the County, which the County may withhold in its sole discretion. The Loan shall automatically accelerate and be due in full upon any unauthorized Transfer.

The County approves the grant of the security interests in the Property required by the Approved Financing, described in Section 1.1(j) above, and the admission of an investor limited partner to Borrower, a transfer by such investor to an entity in which the investor or an affiliate thereof is the general partner or managing member, and the removal of Borrower's General Partner by the investor limited partner for a default under the partnership agreement provided the replacement general partner is a charitable housing corporation with experience comparable to that of South County Housing Corporation and has been approved by the County, which approval shall not be unreasonably withheld.

Section 4.15 Insurance Requirements.

The Borrower shall maintain the following insurance coverage throughout the Agreement Term:

(a) To the extent required by law, Workers' Compensation insurance in accordance with California Labor Code Section 3700, with a minimum of \$1,000,000 per occurrence for Employer's Liability, covering all persons employed by the Borrower in connection with this Agreement and with respect to whom death, bodily injury, or sickness insurance claims could be asserted against the Borrower or the County, provided, however, that Borrower's General Partner shall maintain such insurance; and

(b) Commercial General Liability insurance with limits not less than \$2,000,000 each occurrence combined single limit for Bodily Injury and Property Damage, including coverages for Contractual Liability, Personal Injury, Broadform Property Damage, Products and Completed Operations; and

(c) Automobile Liability insurance with limits not less than \$1,000,000 each occurrence combined single limit for Bodily Injury and Property Damage, including coverages for owned, non-owned and hired vehicles, as applicable; provided, however, that if the Borrower does not own or lease vehicles for purposes of this Agreement, then its General Partner shall maintain such insurance.

(d) Property and Fire Insurance covering the entire Property, in an amount sufficient to replace the Development.

(e) Flood Insurance covering the entire Property, in an amount sufficient to replace the Development, including related infrastructure.

(f) All insurance required by this Agreement shall be with a company acceptable to the County and authorized to transact insurance business in the State of California. The required insurance shall be provided under an occurrence form, and shall be maintained continuously so long as any County Note relating to this Agreement is outstanding. 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) Commercial, General Liability, Flood, Property, Fire and Automobile Liability insurance policies shall be endorsed to name as an Additional Insured the County, and its respective officers, agents and employees and shall further provide that such insurance is primary insurance to any insurance or self-insurance maintained by the County and that the insurance of the Additional Insureds shall not be called upon to contribute to a loss covered by the Borrower's insurance.

(h) Prior to disbursement of any funds pursuant to this Agreement, Borrower shall file certificates of insurance and required additional insurance endorsements with the County showing that Borrower has in effect the insurance required by this Agreement. The Borrower shall file a new or amended certificate of insurance promptly after any change is made in any insurance policy which would alter the information on the certificate then on file. Acceptance or approval of insurance shall in no way modify or change the indemnification clause contained in Section 4.16 of this Agreement, which shall remain in full force and effect.

(i) All policies and bonds shall be endorsed to provide thirty (30) days prior written notice to the County of cancellation, reduction in coverage, or intent not to renew, and such written notice shall be provided to the address established for notices to the County.

(j) Borrower agrees that during the pendency of the Regulatory Agreement and Declaration of Restrictive Covenants, Borrower and any successor shall use any insurance proceeds awarded to repair or replace any damage to the Project.

Section 4.16 Indemnification.

The Borrower and SCH shall each indemnify, defend and hold harmless the County and its respective officers, agents and employees, from and against: (a) any and all claims, liabilities and losses whatsoever (together with any expenses related thereto, including but not limited to, damages, court costs and attorneys fees) occurring to or resulting from any and all persons, firms or corporations furnishing or supplying work, services, materials, or supplies in connection with the performance of this Agreement, and (b) any and all claims, liabilities and losses occurring or resulting to any person, firm, or corporation for damage, injury, or death arising out of or connected with the Borrower's performance of this Agreement, including but not limited to any such claims, liabilities or losses which occur on or adjacent to the Property and (c) such claims, liabilities, or losses which arise out of the construction and operation of the Project. "Borrower's performance" includes Borrower's action or inaction and the action or inaction of Borrower's officers, employees, agents, contractors, and subcontractors. This indemnification and hold harmless obligation shall not extend to any claim arising solely out of the gross negligence or willful misconduct of the County, its agents, officers and employees. The provisions of this Section 4.16 shall survive the expiration of the Term or other termination of this Agreement.

ARTICLE 5 DEFAULT AND REMEDIES

Section 5.1 Events of Default.

Each of the following shall constitute a "Default" by Borrower under this Agreement subject to the remedies set forth in Section 5.2 below:

(a) Failure to Construct. Subject to Section 6.13, failure of Borrower to commence and complete construction of the Development within the times set forth in Article 3 above.

(b) Failure to Make Payment. Failure to repay the principal and any interest on the Loan within ten (10) days of receipt of written notice from the County that such payment is already due and owing pursuant to the Loan Documents.

(c) Breach of Covenants. Failure by 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 County to the Borrower or, if the breach cannot be cured within thirty (30) days, the Borrower shall not be in breach so long as Borrower is diligently undertaking to cure such breach and such breach is cured within ninety (90) days; 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 the Approved Financing by the lender of such Approved Financing, after the expiration of any applicable notice and cure periods.

(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 County, 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 paragraph shall act to accelerate automatically, without the need for any action by the County, the indebtedness evidenced by the Note.

(g) Suspension; Termination. Borrower shall have voluntarily suspended its business or, if Borrower is a partnership, the partnership shall have been dissolved or terminated, other than a technical termination of the partnership for tax purposes.

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

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

(j) Unauthorized Transfer. Any Transfer other than as permitted by Section 4.14.

(k) Representation or Warranty Incorrect. Any Borrower representation or warranty contained in this Agreement, or in any application, financial statement, certificate, or report submitted to the County in connection with any of the Loan Documents, proving to have been incorrect in any material respect when made. After issuance of the certificates of occupancy for the Development, Default may be declared under this subsection only if the failure of representation or warranty also has a material adverse effect on the operation of the Development.

Section 5.2 Remedies.

The occurrence of any Default hereunder following the expiration of all applicable notice and cure periods will, either at the option of the County or automatically where so specified, relieve the County of any obligation to make or continue the Loan and shall give the County 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 County shall have the right to cause all indebtedness of the Borrower to the County under this Agreement and the Note, together with any accrued interest thereon, to become immediately due and payable. The Borrower waives all right to presentment, demand, protest or notice of protest or dishonor. The County may proceed to enforce payment of the indebtedness and to exercise any or all rights afforded to the County as a creditor and secured party under the law including the Uniform Commercial Code, including foreclosure under the County Deed of Trust. The Borrower shall be liable to pay the County on demand all reasonable expenses, costs and fees (including, without limitation, reasonable attorney's fees and expenses) paid or incurred by the County in connection with the collection of the Loan and the preservation, maintenance, protection, sale, or other disposition of the security given for the Loan.

(b) Specific Performance. The County 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 on things which may be unlawful or in violation of the provisions of the Loan Documents.

(c) Right to Cure at Borrower's Expense. The County shall have the right (but not the obligation) to cure any monetary default by Borrower under a loan other than the Loan. The Borrower agrees to reimburse the County for any funds advanced by the County to cure a monetary default by Borrower upon demand therefore, together with interest thereon at the lesser of the maximum rate permitted by law or ten percent (10%) per annum 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 County or the rights of the County hereunder.

Section 5.4 Remedies Cumulative.

No right, power, or remedy given to the County 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 County 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 County to exercise any such rights and remedies shall operate as a waiver thereof, nor shall any single or partial exercise by the County of any such right or remedy preclude any other or further exercise of such right or remedy, or any other right or remedy.

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 County and Borrower or its 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 purchase of the Property, construction and operation 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 shall 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 County by any person that 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 purchase of the Property, the construction or the operation of the Development, and Borrower shall include similar requirements in any contracts entered into for the purchase of the Property, the construction or the operation of the Development.

Section 6.3 Amendments.

No alteration or variation of the terms of this Agreement shall be valid unless made in a writing executed by both Parties.

Section 6.4 Non-Liability of County Officials, Employees and Agents.

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

Section 6.5 No Third Party Beneficiaries.

There shall be no third party beneficiaries to this Agreement.

Section 6.6 Discretion Retained By County.

The County's execution of this Agreement in no way limits the discretion of the County in the permit and approval process in connection with development of the Development.

Section 6.7 Conflict of Interest.

(a) Except for approved eligible administrative or personnel costs, no person described in Section 6.7(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 Section 6.7(a) is followed.

(b) The conflict of interest provisions of Section 6.7(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 County, or any person related within the third (3rd) degree of such person.

Section 6.8 Notices, Demands and Communications.

Formal notices, demands, and communications between the Parties 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 Parties as follows:

County:

Monterey County Housing and Redevelopment Office
Monterey County Government Center
168 W. Alisal Street, 3rd Floor
Salinas, CA 93901
Attention: Jim Cook, Program Manager

Borrower:

Salinas Road Associates
c/o South County Housing Corporation
9015 Murray Ave. Suite 100
Gilroy, CA 95020
Attention: Executive Director

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 as the date of delivery or refusal of delivery (or attempted delivery if undeliverable).

Section 6.9 Applicable Law.

This Agreement shall be governed by California law.

Section 6.10 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 successors, and assigns. This Agreement shall bind Borrower and its successors and assigns in the Property and the Development for the entire Agreement Term, and the benefit hereof shall inure to the benefit of the County and its successors and assigns.

Section 6.11 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 6.12 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 war; insurrection; strikes; lock-outs; riots; floods; earthquakes; fires; quarantine restrictions; freight embargoes; lack of transportation; or court order; or any other similar causes (other than lack of funds of Borrower or Borrower's inability to finance the construction of the Development) beyond the control or without the fault of the Party claiming an extension of time to perform. 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 such extension of time is not rejected in writing by the other Party within ten (10) days of receipt of the notice. In no event shall the County be required to agree to cumulative delays in excess of one hundred eighty (180) days.

Section 6.13 County Approval.

Whenever this Agreement calls for County approval, consent, or waiver, the written approval, consent, or waiver of the County Redevelopment and Housing Division Program Manager shall constitute the approval, consent, or waiver of the County, without further authorization required from the County Board of Supervisors, provided it is determined that the overall feasibility of the Development is not in jeopardy, no additional funds are required from

the County, and no material term of this Agreement is altered. The County hereby authorizes the County Redevelopment and Housing Division Program Manager to deliver such approvals or consents as are required by this Agreement, or to waive requirements under this Agreement, on behalf of the County upon the conditions specified above. 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 County Redevelopment and Housing Division Program Manager is also hereby authorized to approve, on behalf of the County, requests by Borrower for reasonable extensions of time deadlines set forth in this Agreement. The County shall not unreasonably delay in reviewing and approving or disapproving any proposal by Borrower made in connection with this Agreement. Notwithstanding this delegation, approval of the County Board of Supervisors is required to amend this Agreement, and this Section 16.13 shall not preclude the County Redevelopment and Housing Division Program Manager, in the County's sole discretion, from seeking Board of Supervisors' approval of any matter under this Agreement.

Section 6.14 Waivers.

Any waiver by the County of any obligation or condition in this Agreement must be in writing. No waiver will be implied from any delay or failure by the County 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 County 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 County's written consent to future waivers.

Section 6.15 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 6.16 Entire Understanding of the Parties

This Agreement, together with the Note, Deed of Trust and Regulatory Agreement, constitutes the entire understanding and agreement of the Parties with respect to the Loan.

Section 6.17 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 6.18 Negotiated Agreement.

The parties hereto understand and agree that this Agreement has been arrived at through negotiations and that neither party is to be deemed the party which prepared this Agreement within the meaning of California Civil Code Section 1654.

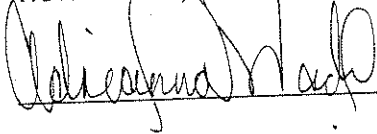
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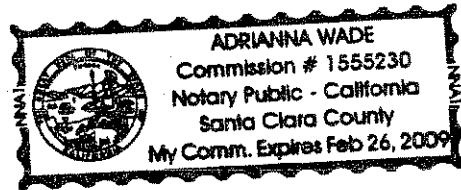
COUNTY OF SANTA CLARA

Subscribed and sworn to (or affirmed) before me on this 6~~TH~~ day of June (month), 2005 (year) **Dennis Lalor**, ~~personally known to me or proved to me on the basis of satisfactory evidence~~ to be the person(s) who appeared before me.

WITNESS my hand and official seal.



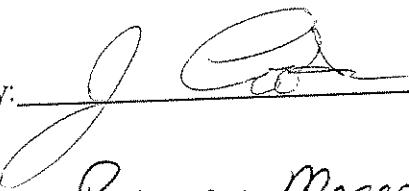
Commission Number : 1555230
Commission Expires: February 26, 2009



In Witness Whereof, this Agreement has been entered into by the undersigned as of the last date below written.

COUNTY:

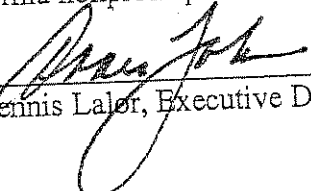
COUNTY OF MONTEREY, a political subdivision of the State of California

By:  Dated: June 7, 2005

Its: Program Manager

BORROWER:

SALINAS ROAD ASSOCIATES, a California Limited Partnership, by
SOUTH COUNTY HOUSING CORPORATION, a
California nonprofit public benefit corporation, its General Partner

By:  Dated: June 3, 2005
Dennis Lalor, Executive Director