

RESOLUTION NO. 2009-026

Adopted by the Redevelopment Agency
of the City of Sacramento

March 31, 2009

LA VALENTINA: AUTHORIZING AN EXCLUSIVE RIGHT TO NEGOTIATE, A LOAN COMMITMENT FOR A CONSTRUCTION AND PERMANENT FINANCING LOAN AND A PREDEVELOPMENT LOAN AGREEMENT WITH DOMUS DEVELOPMENT, LLC FOR AGENCY-OWNED PROPERTY LOCATED ON 12TH STREET

BACKGROUND

- A. The Redevelopment Agency of the City of Sacramento ("Agency") has adopted the Alkali Flat Redevelopment Plan ("Redevelopment Plan") and a 2005 – 2009 Implementation Plan for the Alkali Flat Project Area ("Project Area").
- B. Agency owns certain real property that includes eight tax parcels in the Project Area generally described as being located on the east side of 12th Street from the C Street Alley to E Street. The property is adjacent to the La Valentina Light Rail Station. APN Numbers: 002-0082-016 and -024; 002-0121-002, -027, -032, -034, -036 and -038 ("Property").
- C. The Agency is seeking redevelopment of the Property for a transit-oriented development that would have a mix of commercial and residential uses, with the residential units appealing to a range of household income levels.
- D. A Selection Committee has evaluated the credentials of four teams that responded to a Request for Qualifications and has recommended a development team led by Domus Development, LLC ("Developer") to engage in pre-development activities intended to result in a specific project proposal for the Property and to negotiate terms of a Disposition and Development Agreement.
- E. The Agency and Developer are seeking authorization to execute an Exclusive Right to Negotiate ("ERN") to obligate the parties to work together with the purpose of developing the Property.
- F. Use of Alkali Flat Project Area Tax Increment Funds and Aggregated Housing Set Aside Tax Increment Funds (TI) for the development of the Property will benefit the Project Area by providing high quality affordable housing to downtown workers and residents and add an attractive building on the 12th Street Corridor which will include commercial opportunities on a previously inactive site.

- G. Predevelopment funds are needed to pay for architectural and entitlement expenses incurred as a result of project redesign.
- H. The proposed action is subject to environmental review under the California Environmental Quality Act (CEQA). An Initial Study/Mitigated Negative Declaration was released for circulation on February 19, 2009. The initial study resulted in preparation of a Mitigated Negative Declaration and Mitigation Monitoring Program which was adopted by the City Council on March 24, 2009, a copy of which appears as Exhibit 7.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE REDEVELOPMENT AGENCY RESOLVES AS FOLLOWS:

- Section 1. The Agency has reviewed and considered the Mitigated Negative Declaration and the mitigation measures adopted by the City Council, and has determined that they are adequate and sufficient. No additional review or mitigation measures are required.
- Section 2. The Executive Director, or her designee, is authorized to amend the Agency budget to transfer up to \$200,000 in Alkali Flat TI to the Project.
- Section 3. The Executive Director, or her designee, is authorized to execute the attached ERN with the Developer.
- Section 4. The Loan Commitment for construction and permanent financing, attached to and incorporated in this resolution by this reference, for financing the Project with Alkali Flat TI in the amount of up to \$2,000,000, (for a total of loan commitment of up to \$3,000,000 including \$1,000,000 in State Housing Trust Funds), is approved, and the Executive Director, or her designee, is authorized to execute and transmit the Loan Commitment to the Developer.
- Section 5. The Predevelopment Loan Agreement, attached to and incorporated in this resolution by this reference, for financing the Project with aggregated housing set aside tax increment funds in the amount of up to \$200,000, is approved, and the Executive Director, or her designee, is authorized to execute and transmit the Predevelopment Loan Agreement and other related documents necessary to implement the Predevelopment Loan Agreement to the Developer.

Table of Contents

- Exhibit A – Exclusive Right to Negotiate
- Exhibit B – Loan Agreement – Predevelopment Loan
- Exhibit C – Loan Commitment Letter

Adopted by the Redevelopment Agency of the City of Sacramento on March 31, 2009
by the following vote:

Ayes: Councilmembers Cohn, Fong, Hammond, McCarty, Pannell, Sheedy,
Tretheway, Waters.

Noes: None.

Abstain: None.

Absent: Mayor Johnson.


Vice Chair Lauren Hammond

Attest:


Shirley Concolino, Secretary

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan
Commitment for La Valentina

Exhibit A

**AGREEMENT FOR EXCLUSIVE RIGHT TO NEGOTIATE
LA VALENTINA PROJECT**

THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO ("Agency") and DOMUS DEVELOPMENT, LLC, ("Developer"), have entered into this Agreement for Exclusive Right to Negotiate ("Agreement") as of _____, ("Effective Date") upon the follow terms:

1. RECITALS. This Agreement is based upon the following recitals, facts and understandings of the Parties:

a. Developer desires to negotiate with Agency to develop certain real property ("Property") located in the City of Sacramento, County of Sacramento, State of California is generally described as Assessor's Parcel Numbers 002-0082-016 (317 12th Street); 002-0082-024 (331 12th Street); 002-0121-002 (1210 D Street); 002-0121-027 (1209 E Street); 002-0121-032 (417 12th Street) 002-0121-034 (429 12th Street); 002-0121-036 (415 12th Street) and 002-0121-038. The Property is within Alkali Flat Neighborhood Redevelopment Project Area ("Project Area") and is owned by the Agency. The development of the Property ("Project") consistent with Alkali Flat Neighborhood Redevelopment Project Plan ("Redevelopment Plan") and its implementing documents has been identified by the Agency as important to the furtherance of the Project Area and the elimination of blighting conditions in the Project Area.

b. The parties desire to investigate the feasibility of the Project and to negotiate a Disposition and Development Agreement ("DDA") for transfer, financing and development of the Property.

c. The development of the Site, the completion of the Project and the fulfillment generally of this Agreement are for the purpose of community improvement and welfare, for the benefit of the Project Area and in accord with the public purposes and provisions of any applicable federal, state and local laws and requirements under which the Project is to be undertaken.

2. Identity of Parties. THE LEGAL IDENTITIES OF THE PARTIES TO THIS AGREEMENT AND THEIR ADDRESSES ARE AS FOLLOWS:

a. Developer is Domus Development, LLC, a limited liability company, organized and doing business in the State of California. The principal office of Developer is located at 9 Cushing, Suite 200, Irvine, CA 92618. The project development office of Developer is located at 594 Howard Street, Suite 204, San Francisco, CA 94105. Developer shall make full disclosure to Agency of the identity of all principals, officers, stockholders, partners, joint venturers, and entities in Developer. Initially, the principals of Developer are Meea Kang, President and member; Jong C. Limb, member; and Monique R. Hastings, member.

b. Agency is the Redevelopment Agency of the City of Sacramento, a public body, corporate and politic, organized under California law and functioning within the jurisdiction of the City of Sacramento. The principal office of Agency for purposes of this agreement is located at 630 I Street, Sacramento, California 95814. If copy to Developer, send to principal office and to project development office.

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan
Commitment for La Valentina

c. Notices to any party shall be personally delivered or sent by first class mail to its principal office address. Notices to Agency shall be clearly marked "Attention: La Valentina Project".

3. EXCLUSIVE NEGOTIATION. During the term of this Agreement, the parties shall negotiate exclusively with each other, and in good faith, regarding the Property and the Project. The parties acknowledge and agree that neither party is obligated by this Agreement or otherwise to undertake the Project or any other Project on the Property and that no party has a cause of action against the other arising under this Agreement for failure to approve or undertake the Project.

4. TERM. This Agreement shall be effective as of the Effective Date, and shall terminate upon the earlier of completion of all obligations or two hundred seventy (270) days after the Effective Date unless extended by written agreement of the parties.

5. LEGISLATIVE ACTION. Agency and Developer acknowledge that the Agency must exercise its independent legislative authority in making any and all findings and determinations required of them by law concerning the Project. This Agreement does not restrict the legislative authority of the Agency in any manner, whatsoever, and does not obligate the Agency to enter into the DDA or to take any course of action with respect to the Project.

a Except as expressly stated in this Agreement, if this Agreement terminates without execution of a DDA, each party shall bear its own costs related to this Agreement.

b. Developer acknowledges that Agency and the City of Sacramento are separate legal entities, and that the Project is also subject to independent review by the City in proper exercise of its jurisdiction, including without limitation, review by the City's Planning Department, Design Review/Preservation Board and Building Department. If the Project is disapproved by final action of the governing bodies of the Agency, as a result of CEQA review or otherwise, this Agreement shall terminate as of the date of such disapproval.

6. CEQA REVIEW. In accordance with the California Environmental Quality Act ("CEQA"), Agency shall prepare the environmental documentation and consider the environmental effects of the Project prior to considering action to approve the proposed DDA.

a. Nothing in this Agreement shall be construed to limit the application of CEQA to the Project or to changes in the Project or to control the actions of Agency in meeting its respective CEQA obligations. In fulfilling its obligations under CEQA, the Agency shall act independently and without regard to its respective obligations under this Agreement. Agency shall not be liable, in any respect, to Developer or any third party beneficiary of this Agreement for their action or inaction in fulfilling their respective CEQA obligations.

b. Agency will not consider the approval of the Project unless and until it has fully reviewed and considered the environmental impacts of the proposed Project in accordance with CEQA. After CEQA review, Agency is not, and shall not be considered to be, obligated by this Agreement, or otherwise, to approve a DDA or any other agreement. After CEQA review, Agency is not obligated, by this Agreement or otherwise, to adopt findings of overriding considerations for the approval of the Project or take any other action in support of the proposed Project. After CEQA review, Agency is not precluded, by this Agreement or otherwise, from

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan Commitment for La Valentina

rejecting the Project or from imposing mitigation measures as a condition of Project approval, which measures mitigate or avoid direct or indirect environmental effects of the Project.

c. Upon Agency request, Developer shall supply data and information both to determine the impact of the development on the environment and to assist in the preparation of the environmental documents for the proposed Project.

7. SCHEDULE OF PERFORMANCES. The parties shall perform the following stated obligations at the times specified in the following schedule (“Schedule of Performances”):

Responsible Party	Action	Project Schedule Target Dates*
Agency and Developer	Execute ERN	Within 10 days or by April 2, 2009
Developer	<ul style="list-style-type: none"> • Submit revised estimated construction cost breakdown • Submit revised schematic site plans, plans and elevations • Submit ownership structure • Submit commitments for debt financing 	Within 40 days or by May 1, 2009
Agency	Review submitted documents	Within 70 days or by June 1, 2009
Developer	<ul style="list-style-type: none"> • Obtain Environmental Remediation Plan from Sacramento County Environmental Department • Present final design concept and financing structure to the RAC (Actual RAC meeting date is June 4, 2009) 	Within 100 days or by July 1, 2009
Agency and Developer	Agree to terms and conditions for the Project DDA and funding approval	Within 100 days or by July 1, 2009
Agency and Developer	Submit DDA to City Council for approval	Within 270 days or by December 31, 2009
Developer	Submit TCAC application	Within 270 days or by December 31, 2009

* Target Date may be modified contingent on modifications made to the TCAC Application schedule. All target dates are computed from the Effective Date.

8. OTHER EXTENSION. Upon written request of Developer, Agency shall reasonably consider an extension of the initial term of this Agreement if Developer has acted diligently and in good faith in performing its obligations under this Agreement and if there is a reasonable likelihood that the parties can negotiate a mutually acceptable DDA.

9. DEPOSIT FEE. The deposit (“Deposit”) in the amount of Thirty-nine Thousand Dollars (\$39,000), made by Developer to Agency in conjunction with its prior Exclusive Right to Negotiate, which included the Property and which was dated July 22, 2008, shall be transferred by Agency to serve as the deposit under this Agreement. In the first two hundred seventy (270) days after the Effective Date, Developer may terminate the negotiations and this Agreement and Agency shall return the full amount of the “Net Deposit” (as defined below) to Developer. After two hundred seventy days (270) days have elapsed Agency shall retain the full amount of the Deposit; provided, however, that if Agency rejects a proposed DDA resulting from the negotiations under this Agreement, Agency shall refund the full amount of the Net Deposit.

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan
Commitment for La Valentina

a. Prior to execution of the DDA for the Project or termination of negotiations between Agency and Developer, Agency may expend the Deposit solely for payment of all third-party fees, costs and expenses for predevelopment activities for the Project incurred by Agency. Agency costs may include, without limitation, costs related to preparation of the environmental documentation for the Project and supporting studies other than fees for Agency outside legal counsel for the negotiation or preparation of documents for the transactions contemplated by this Agreement. Developer upon written approval by staff, for predevelopment soft costs, which include architectural, engineering, and consultants' costs, as well as market studies, appraisals and application fees. Funds remaining after payment of all such costs and disbursements are the "Net Deposit". Fifteen days prior to any such expenditure, Agency shall provide the Developer with a schedule of anticipated expenditures. The parties anticipate that all costs to be paid under these provisions will not exceed the amount of the Deposit. If the actual expenditures exceed the anticipated amount the parties shall meet and confer with respect to the budget for such costs, and Agency is not obligated to continue with the Project until Developer has deposited such additional funds as may reasonably be needed to pay such remaining costs. It is agreed and understood that the required Deposit is a Deposit only, and that to the extent that the costs of the Project exceed the Deposit, Developer is responsible for the payment of any and all such additional costs.

b. If Developer and Agency agree in writing to terminate the negotiations, the Net Deposit will be refunded to the Developer.

c. If the terms of the DDA are not finalized during the negotiation period for any reason not considered in the foregoing, the Deposit is the property of the Agency, without restriction as to its use, unless the Agency agrees in writing to extend the negotiation period.

10. DEFAULTS. Either of the Agency or the Developer shall be in default of this Agreement if it (a) fails to fulfill its obligations when due, which failure is not caused by the other party, (b) does not negotiate the DDA in good faith and upon the terms stated in this Agreement, (c) does not reasonably cooperate with the other in fulfilling the other's obligations under this Agreement, or (d) refuses to execute the DDA when negotiations are completed and deposit any funds then required of it for the DDA (except if the Agency has disapproved the project after public hearing in exercise of its legislative authority or in accordance with CEQA in exercise of its independent review).

The defaulting party shall have thirty (30) days to cure the default after receipt of notice of such default. Should the defaulting party fail to cure the default within the thirty (30) days, the nondefaulting party may terminate this Agreement by written notice to the defaulting party, and may pursue equitable remedies available to it for such default. Should the Agency be in default, the Developer is entitled to the unencumbered remainder of the Deposit, if any. In the event of such a default by Developer, Agency may retain the Deposit and may terminate the Agreement.

a. After termination of this Agreement for default of Developer, Developer shall have no rights under this Agreement to participate in the development of the Project, and the Agency shall have the absolute right to pursue development of the Project, in any manner it deems appropriate.

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan Commitment for La Valentina

b. The remedies contained in this Section 0are the sole exclusive remedies for default of this Agreement, and neither party may claim, as a result of a default of this Agreement, any damages, whether monetary, non-monetary, contingent, consequential or otherwise.

11. DISPOSITION AND DEVELOPMENT AGREEMENT. In addition to other provisions stated in this Agreement, the DDA will address, without limitation, the following provisions (a) use covenants to run with the land; (b) payment and performance bonding and other completion assurances; (c) insurance and indemnities, including hazardous materials indemnities; (d) anti-discrimination provisions; (e) performance assurances such as the deposit; (f) limitation on transfers prior to Project completion; (g) compliance with CEQA mitigation; (h) Agency’s rights to revest the Property upon Developer default; (i) Agency’s Art in Public Places requirements; (j) extension fees for delay in construction, and liquidated damages; (k) Agency’s rights to cure defaults, assume loans and complete construction; (l) delayed transfer of title to land; and (m) loan guarantees and additional securities.

12. PREDEVELOPMENT COSTS. Developer shall bear all predevelopment costs relating to actions of Developer under this Agreement, including but not limited to costs for planning, environmental architectural, engineering and legal services, and other costs associated with preparation of Developer's Proposal and the DDA except for those costs specifically identified in the Predevelopment Loan between Agency and Developer.

13. ASSIGNMENT. This Agreement is not assignable by either party in whole or in part without the prior written consent of the other party.

14. APPLICABLE LAW; VENUE. This Agreement shall be construed in accordance with the law of the State of California, and venue for any action under this Agreement shall be in Sacramento County, California.

15. ATTORNEYS' FEES. In the event of any dispute between the parties, whether or not such dispute results in litigation, the prevailing party shall be reimbursed by the other party for all reasonable costs and expenses, including, without limitation, reasonable attorneys' fees, witness and expert fees and investigation costs. A party receiving an award after arbitration or an order or judgment after hearing or trial shall not be considered a prevailing party if such award, order or judgment is not substantially greater than the other party’s offer of settlement made in advance of the arbitration, hearing or trial.

EXECUTED as of the date first written above, in Sacramento, California.

AGENCY: REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

Approved as to form:

Agency Counsel

By: _____

March 31, 2009

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan
Commitment for La Valentina

LaShelle Dozier
Executive Director

DEVELOPER: DOMUS DEVELOPMENT, LLC

Approved as to form:

By: _____
Meea Kang
President and authorized signatory

By: _____
Counsel for Developer

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan
Commitment for La Valentina

Exhibit B

**PREDEVELOPMENT LOAN AGREEMENT
LA VALENTINA**

IN CONSIDERATION of their mutual promises, the parties agree as follows:

1. **LOAN.** The Lender is making the Loan pursuant to the terms and conditions of this Loan Agreement. Lender and Borrower have entered this Loan Agreement as of the Effective Date.

2. **DEFINITIONS TABLES.** The capitalized terms in this Loan Agreement shall have the meanings assigned in the following Definitions Tables and in Section 3 Definitions. Terms being defined are indicated by quotation marks. If an item in this Article 1 table is marked "None", "Not Applicable", "N/A" or equivalent or is left blank, that defined term is not applicable to this Loan or the referenced item is not required or is not included in this Loan as the context may indicate.

"EFFECTIVE DATE"		Being the date as of which this Loan Agreement shall be effective.
"LENDER"	The following public agency that is making the Loan, and whose legal status and address are:	
Name	Sacramento Housing and Redevelopment Agency	
Legal Status	A public body, corporate and politic	
Principal Address	630 I Street, Sacramento CA 95814	
"BORROWER"	The borrower of the Loan funds whose name, legal status and address are:	
Name	Domus Development, LLC	
Legal Status	a limited liability company	
Principal Address	9 Cushing, Suite 200, Irvine, CA 92618	
"LOAN"	The Loan made by this Loan Agreement.	
"LOAN COMMITMENT"	Lender's loan commitment, made by letter dated as of	
"LOAN PROGRAM"	Lender's Loan Program, commonly known as	Alkali Flat Project Area Tax Increment Funds
"LOAN AMOUNT"	Two Hundred Thousand Dollars and No Cents (\$200,000.00)	
"INTEREST RATE"	The interest rate is four percent (4%) per year, simple interest.	
"PAYMENT START DATE"	Principal and interest shall be deferred as per the Payment Schedule, below.	
"MATURITY DATE"	Principal and interest shall be paid in full at the closing of the Construction Loan or December 31, 2011, whichever shall occur first, except as provided in "Special Terms".	
"PAYMENT SCHEDULE"	Principal and Interest to be deferred until the Maturity Date	

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan Commitment for La Valentina

"BORROWER EQUITY"	Thirty Nine Thousand Dollars and No Cents (\$39,000.00)	Which is the minimum amount of cash or cash equivalent (excluding land equity or other non-cash investment in the Project) that Borrower is investing in the Project.
	N.A.	Which is Borrower's non-cash contribution to the Project (such as deferred Developer fees).
"SPECIAL TERMS"	<p>This Predevelopment Loan is being made in conjunction with an Exclusive Right to Negotiate by and between Domus Development, LLC and the Redevelopment Agency of the City of Sacramento (the "ERN").</p> <p>In the event that the ERN expires or otherwise terminates without a Disposition and Development Agreement ("DDA") between Domus Development, LLC and the Redevelopment Agency approved by the Agency's governing bodies at their sole discretion, the work product, including but not limited to reports, drawings and plans as paid for with the proceeds of this Predevelopment Loan shall be provided to and then owned by the Agency. In this event, upon an assignment of the work product to the Agency, the Borrower's obligations under this Loan Agreement shall be satisfied and the Loan shall be deemed paid in full.</p>	
"PROJECT"	Which is the Project to be developed on the Property with the Loan funds, described as:	Predevelopment activities including, but not limited to, architectural fees and City development and entitlement process fees incurred as a result of project redesign in 2009.

B. "COLLATERAL" The Collateral securing repayment of the Loan, which Collateral consists of the following:

"PROPERTY"	The following described real property, which is the site of the Project:
Address	
Assessor's Parcel Number	
"Legal Description"	The Property is situated in the State of California, County of Sacramento, and is more particularly described in Exhibit 1: Legal Description attached and incorporated by reference.
Borrower's Title Interest	Borrower has fee interest in the Property or, if the Additional Escrow Instructions so indicate, Borrower will acquire fee interest in the Property at Close of Escrow unless either a DDA is not entered into between the Borrower and the Agency or the DDA is entered into and either party terminates the DDA.
"ADDITIONAL COLLATERAL"	The Additional Collateral securing repayment of the Loan is any additional security required by Lender under this Loan Agreement, including without limitation the following items, if any

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan Commitment for La Valentina

"PERSONAL PROPERTY"	Borrower's interest in the following personal property, tangible and intangible, and all other such property listed as security in this Loan Agreement	Materials and supplies for the Project; work product including but not limited to architectural materials, drawings, designs, and elevations that were produced in the predevelopment process.
OTHER ADDITIONAL COLLATERAL	Borrower's interest in the following property:	None

C. "ESCROW INFORMATION":

"Title Company" and "Escrow Agent"	n/a	Which is the title company that will issue the Title Policy and that will act as Escrow Agent for the Escrow
"Escrow"	The escrow with Escrow Agent	
"Closing Date"		Which is the date for close of the Escrow, as it may be extended

D. "LIST OF EXHIBITS" (The following are attached and incorporated in this Loan Agreement):

EXHIBIT	DEFINED TERM
<u>Exhibit 1: Legal Description</u>	"Legal Description"
<u>Exhibit 2: Note Form</u>	"Note"
<u>Exhibit 3: Predevelopment Budget</u>	

E. "APPROVAL DOCUMENTS" Borrower shall submit the following documents for Lender approval:

Architectural Agreement for the Project
Borrower's organizational documents, such as partnership agreements or corporate articles and by-laws
"Budget" for the Project predevelopment expenses

F. "ASSIGNED DOCUMENTS" Borrower shall assign or cause to be assigned the following documents to Lender:

Architectural Contract

G. "CONSTRUCTION INFORMATION":

"Completion Date"	June 1, 2010	Which is the date on or before which the Completion of the Project, i.e., the predevelopment activities described above, must occur.	
"General Contractor"	Brown Construction	Which is the general contractor for construction of the Project	
"Project Architect"	David Baker and Partners; YHLA Architects	Which are the architects for design of the Project	
"Retention"	The following percentage of each disbursement made for construction work, in aggregate not to exceed the following percentage of the Loan Amount, which shall be retained by Lender for disbursement with the final disbursement of the Loan:	Percentage of disbursement:	N.A.
		Percentage of Loan:	no retention for soft costs

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan
Commitment for La Valentina

H. "SPECIAL PROVISIONS" The following special provisions shall be in addition to the provisions of this Loan Agreement:

The Loan proceeds are for predevelopment costs, including, but not limited to, architectural fees and City development and entitlement process fees incurred as a result of project redesign in 2009. These predevelopment costs shall be funded with Alkali Flat Project Area Tax Increment Funds.

Principal and interest shall be paid in full at the closing of the Construction Loan or December 31, 2010, whichever shall occur first.

As a condition precedent to the Agency funding this Predevelopment Loan, Developer shall provide Agency with a letter from Developer's architect in which Developer's architect agrees in writing to assignment of its work pursuant to this Predevelopment Loan Agreement.

3. **DEFINITIONS.** Terms not defined in Article I and II of this Loan Agreement shall have the definitions assigned in the Trust Deed. If a definition in Article I refers to an Exhibit that is an attached document form, the attached document is a true and correct copy of the document referenced. As used in this Loan Agreement, the following terms shall have the following meanings:

3.1. "Accumulated Interest" shall mean the interest accrued while the payments are differed.

3.2. "Budget" is the budget approved by Lender for the development of the Project.

3.3. "Change" means any extra work or installation of materials not included in the Plans and Specifications or any change in or deviation from the Plans and Specifications.

3.4. "Event of Default" is breach of or default in a party's obligations under this Loan Agreement, the Note and any other instrument which is incorporated in this Loan Agreement or which otherwise secures the repayment of the Loan.

3.5. "Financial Statements" means the financial statements of Borrower (and any other persons on whose financial capacity the Lender has relied in making this Loan) as may be required by Lender from time to time, including operating statements, balance sheets, and any other financial reports and information that Lender may require.

3.6. "General Contractor" means the general contractor named by Borrower in his application or supporting documents as the general contractor to do the Project, or any other general contractor so designated by Borrower and approved in writing in advance by Lender.

3.7. "Governmental Authority" means the United States of America, the State of California, the County of Sacramento, the City of Sacramento or any other political subdivision, agency, department, commission, board, bureau, or instrumentality of any of them.

3.8. "Governmental Requirement" means any law, ordinance, order, rule, regulation, plan, ruling, determination or requirement of a Governmental Authority.

3.9. "Loan" is the loan from Lender to Borrower made pursuant to this Loan Agreement.

3.10. "Loan Agreement" means this Predevelopment Loan Agreement including Article I and II, all Exhibits attached to this Loan Agreement (which are incorporated in this Loan

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan Commitment for La Valentina

Agreement by this reference) and the Loan Documents which are not otherwise included in this definition.

3.11. "Loan Documents" means the Note, this Loan Agreement and all other documents (including guaranties) evidencing, securing, or relating to the Loan.

3.12. "Loan Maturity Date" means the date on which the entire unpaid balance of the Loan, including principal and interest, is due and payable.

3.13. "Loan Proceeds" means funds disbursed by Lender on account of the Loan and pursuant to this Loan Agreement.

3.14. "Plans and Specifications" means the final set of architectural, structural, mechanical, electrical, grading, sewer, water, street, and utility plans and specifications for the Project, including all supplements, amendments, and modifications.

3.15. "Potential Default" means an event that would constitute an Event of Default but for any requirement of notice to be given or period of grace or time to elapse.

3.16. "Project" means the predevelopment work of the Property necessary to define the Project and determine its feasibility in accordance with the Exclusive Right to Negotiate entered into between Mercy Housing California and the Redevelopment Agency of the City of Sacramento as well as all work of demolition and investigation to be conducted on the Property.

4. **BORROWER'S REPRESENTATIONS AND WARRANTIES.** As a material inducement to Lender to enter into this Loan Agreement and to make the Loan to Borrower, Borrower unconditionally, and each signatory who signs on its behalf, to the extent of their actual knowledge, represents and warrants to Lender, as of the Effective Date, as follows:

4.1. **LEGAL ORGANIZATION.** Borrower is duly formed and validly exists in the form stated in Article I, is qualified to do business in California, and has full power to consummate the transactions contemplated.

4.2. **BORROWER'S POWERS.** Borrower has full authority to execute this Loan Agreement, the Note, and all of the other Loan Documents, to undertake and consummate the contemplated transactions, and to pay, perform, and observe all of the conditions, covenants, agreements, and obligations.

4.3. **BINDING OBLIGATION.** This Loan Agreement and the Note constitute a legal and binding obligation of, and are valid and enforceable against, each party other than Lender, in accordance with the terms of each.

4.4. **NO OTHER BREACH.** The consummation of the transactions covered by this Loan Agreement and the payment and performance of all of the obligations in the Loan Documents, will not result in any breach of, or constitute a default under, any mortgage, deed of trust, lease, contract, loan or credit agreement, corporate charter, bylaws, partnership agreement, trust

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan Commitment for La Valentina

agreement, or other instrument to which the Borrower is a party or by which it or the Property may be bound or affected.

4.5. NO DEFAULT. There is no Event of Default or Potential Default on the part of Borrower.

4.6. NO UNAPPROVED LOANS. Borrower has not received financing for either the acquisition of the Property, the construction of the Project or the permanent financing of the Project except as has been specifically disclosed to and approved by Lender in writing.

4.7. USE OF PROCEEDS. All Loan Proceeds will be disbursed as provided in this Loan Agreement and used only for payment of the costs of project predevelopment/due diligence and deposits under the purchase contract.

4.8. TAXES PAID. Borrower has filed all required Federal, State, County, and City tax returns and has paid all taxes due and owing. Borrower knows of no basis for additional assessments with respect to any taxes, other than the lien of taxes not yet due.

4.9. ACCURACY. All applications, financial statements, reports, documents, instruments, information, and forms of evidence delivered to Lender concerning the Loan or required by this Loan Agreement or any of the other Loan Documents are accurate, correct, and sufficiently complete to give Lender true and accurate knowledge of their subject matter, and do not contain any untrue statement of a material fact or omit any material fact necessary to make them not misleading.

5. LOAN. Lender agrees to lend to Borrower, and Borrower agrees to borrow from Lender, an amount not to exceed the Loan Amount, to finance the predevelopment/due diligence of the Project and deposits under the purchase contract and for other purposes as specified in the Scope of Development, subject to the terms, conditions, representations, warranties, and covenants in this Loan Agreement.

5.1. PRINCIPAL AMOUNT. The principal amount of the Loan shall be the actual disbursements of the Lender on account of the Project, not to exceed the amounts stated in the Budget (as the Budget may be adjusted by written approval of Lender). In any event, the principal amount of the Loan shall not exceed the Loan Amount.

5.2. USE OF LOAN FUNDS. Loan funds shall be used solely for actual costs of the Project as stated in the Budget. No Loan funds shall be used for any costs except as provided in the Budget. Loan funds shall be used solely for costs incurred by third party contractors. Unless otherwise noted in the Budget, allowed predevelopment costs, if any, are not subject to the withholding as Retention.

5.3. LOAN TERMS. The Loan is made pursuant to the Loan Program and is subject to the laws, rules and regulations of the Loan Program. Lender agrees to disburse the Loan Proceeds in the manner and subject to the limitations stated in this Loan Agreement. Interest, at the Interest Rate, shall accrue on each disbursement of Loan Proceeds commencing on the date on which

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan Commitment for La Valentina

each such disbursement is made. Repayment of the loan shall be made, in payments of principal and interest, in lawful tender of the United States, in accordance with the Payment Schedule.

5.4. NOTE AND SECURITY DOCUMENTS. The Loan is to be evidenced by the Note executed by Borrower in favor of Lender and delivered to Lender. Lender shall have a security interest in the work product paid for with the proceeds of this Loan.

5.5. COMMISSIONS. Lender is not responsible, by this Loan Agreement or otherwise, to pay commissions in relation to this transaction.

6. PERFORMANCE CONDITIONS. The following are conditions precedent to performance under this Loan Agreement:

6.1. CONDITIONS TO LENDER'S PERFORMANCE. Lender's obligation to perform under this Loan Agreement is subject to all of the following conditions: (a) Borrower has performed all of its obligations then to be performed pursuant to this Loan Agreement; (b) Borrower's representations and warranties in this Loan Agreement are true and correct as of the Effective Date, and (c) the Agreement continues to be in full force and effect, no default on the part of Borrower has occurred under the Loan Agreement, and no event has occurred that, with the giving of notice or the passage of time, will constitute a default by Borrower under the Loan Agreement.

6.2. CONDITIONS TO BORROWER'S PERFORMANCE. Borrower's obligation to perform under this Loan Agreement is subject to satisfaction of all of the following conditions: (a) Lender has performed all of its obligations then to be performed pursuant to this Loan Agreement; (b) Lender's representations and warranties in this Loan Agreement are correct as of the Effective Date; and (c) the Loan Agreement continues to be in full force and effect, no default on the part of Lender has occurred under the Loan Agreement, and no event has occurred that, with the giving of notice or the passage of time, will constitute a default by Lender under the Loan Agreement.

6.3. RELOCATION. Lender is required by law to provide relocation services and make relocation payments to eligible tenants that are displaced as a result of the Project. Lender and Borrower agree and acknowledge that there are no tenants and that there is no displacement that will result from the activities contemplated by this Loan Agreement.

7. ADDITIONAL SECURITY INSTRUMENTS. Upon request by Lender, Borrower shall execute and deliver to Lender a security instrument in favor of Lender naming as secured property all contracts related to the Project and all other property of any kind owned by Borrower and used primarily in connection with the Property. Lender may, at any time and from time to time may reasonably require additions of new contracts. Borrower irrevocably assigns to Lender, effective upon Lender's written demand, as security for the due performance of this Loan Agreement all of its right, title, and interest in the Assigned Documents.

7.1. ACKNOWLEDGMENT OF RELIANCE. Borrower acknowledges that Lender is making Loan disbursements in advance of disbursements of other lenders in reliance upon Borrowers compliance with this provision.

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan
Commitment for La Valentina

7.2. CHANGES. In order to assure sufficient funding for the Project, Borrower shall not authorize any Change without the prior written consent of Lender. If in the judgment of Lender, a Change, together with all other Changes contemplated or previously approved by Lender, will cause an increase in the cost of the Project in excess of the contingency reserve identified in the Budget, then Borrower will, as a condition precedent to Lender's consent, provide Lender with proof that the contingency reserve has been increased as necessary to pay for all such Changes. Borrower will submit any such Change to Lender for approval on a form acceptable to Lender

7.3. CONTRACTORS AND CONTRACTS. Upon Lender's request, Borrower will furnish to Lender correct lists of all consultants, contractors, subcontractors and material suppliers employed in connection with the Project, specifying their addresses, their respective portion of the Project and their respective Project cost. Lender may contact directly each consultant, contractor, subcontractor, and material supplier to verify the facts disclosed by the list or for any other purpose related to the Loan. All contracts let by Borrower or its contractors relating to the Project will require them to disclose to Lender information sufficient to make such verification.

7.4. INSPECTION. Lender may, during regular business hours, examine the books, records, accounting data, plans, shop drawings, specifications, and other documents of Borrower pertaining to the Project and to make extracts or copies. Borrower shall make all such documents available to Lender promptly on demand. Borrower agrees to cooperate fully (and to cause the predevelopment consultants to cooperate fully) with the Lender and its Lender's designated agent and to permit all appropriate access to all relevant books and records. Borrower shall bear the cost of reasonable inspections.

7.5. PROTECTION AGAINST LIEN CLAIMS. Borrower shall promptly and fully discharge all claims for labor, materials and services in connection with the Project. Borrower shall promptly file a valid Notice of Completion on completion of the Project. Borrower shall promptly file a Notice of Cessation in the event of a cessation of labor on the Project for a continuous Period of 30 days or more. Borrower shall take all other reasonable steps to protect against the assertion of lien claims against the Property. Within 20 days after the filing of any claim of lien against the Property, Borrower shall record a surety bond in the office of the Recorder of the County where the Property is located in an amount sufficient to release the claim of lien or deliver to Lender any other assurance as may be acceptable to Lender as evidenced by Lender's written acceptance of such assurance.

7.5.1. Borrower is not required to pay, prior to adjudication, any claims for labor, materials, or services that Borrower, in good faith, reasonably disputes, and that Borrower, at its own expense, is currently and diligently contesting in the proper forum, provided that Borrower has filed the surety bond or given Lender such other assurance as Lender accepts in writing.

7.6. NO PRIOR LIENS. Borrower shall not allow the Project construction to begin or materials to be delivered to the Project until after Close of Escrow.

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan Commitment for La Valentina

7.7. **PROJECT SIGN.** If Borrower places a sign on the Property during construction stating the names of the Project participants, it shall also name "Sacramento Housing and Redevelopment Agency" as a participant in the Project. Lender's name on the sign shall be in letters not less than size of letters used to name any of the other participants.

7.8. **PREVAILING WAGES.** In accordance with Labor Code Section 1720(c)(6)(E)), so long as the public subsidy for the Project consists of below market rate loans, and the Project restricts occupancy on at least 40% of the units for at least 20 years to individuals or families earning no more than 80% of the area median income, the Project is not subject to prevailing wages. Borrower represents to the Agency that Borrower has obtained no public subsidy for the Project that does not meet such criteria. If Borrower obtains other non-qualifying public subsidy, Borrower shall pay prevailing wages for the Project. Therefore, Borrower indemnifies, holds harmless and defends the Agency from all additional wages, benefits, fees, penalties, fines, legal fees, court costs, arbitration costs, and other costs arising from the improper application of California prevailing wage laws to the Project by Borrower or Contractor or both of them. If more than eleven (11) units are assisted with HOME funds as the Funding Source (as indicated in the Regulatory Agreement), Borrower shall comply with Davis-Bacon prevailing wage requirements as described in the Federal Requirements.

8. **LOAN DISBURSEMENT PROCEDURES.** These predevelopment loan proceeds shall be disbursed following: (a) Borrower's execution of the Note and Loan Agreement ; and (b) the satisfaction of the conditions to disbursement in this Section. Borrower may, on a monthly basis, make draws for the reimbursement of expenses permitted herein by submitting invoices from the consultants and other contractors performing eligible work.

8.1. **CONDITIONS PRECEDENT TO EACH LOAN DISBURSEMENT.** The obligation of Lender to make any disbursements under this Loan Agreement shall be subject to the following conditions precedent:

8.1.1. No Event of Default or Potential Default of Borrower has occurred and is continuing.

8.1.2. Lender is satisfied with the quality, adequacy, and suitability of third party consultants, including architects, contractors, appraisers and environmental consultants employed or used in the Project, and the workmanship of all of them.

8.1.3. The representations and warranties in the Loan Documents are correct as of the date of the requested disbursement.

8.1.4. Borrower has paid Lender all commitment, loan, and other fees then due, and Borrower has submitted to Lender all documents, records, statements, certificates, reports, and other materials and information then required to be submitted to Lender for approval under this Loan Agreement.

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan Commitment for La Valentina

8.1.5. Borrower has delivered to Lender all funds, documents, instruments, policies, evidence of satisfaction of conditions, and other materials then due or otherwise requested by Lender under the Loan Documents.

8.2. CONDITIONS PRECEDENT TO DISBURSEMENT. Borrower's request for the Loan disbursement is a representation and warranty by Borrower that there has been no material adverse change in Borrower's financial capacity or in any representation made to Lender in Borrower's application for the Loan or Borrower's supporting documentation. Lender shall make the loan disbursement under this Loan Agreement when the following conditions precedent and the conditions precedent stated in Section 8.1 have been met:

Borrower has presented invoices or similar documentation from third party contractors for actual costs of the Project as stated in the Budget.

8.2.1. DEFAULT

8.3. EVENTS OF DEFAULT. At the option of Lender, each of the following events will constitute an Event of Default, subject to applicable cure rights, if any:

8.3.1. Borrower's failure to comply with any Governmental Requirements.

8.3.2. Making of any unauthorized payment from Loan Proceeds or other funds of Lender.

9. REMEDIES

9.1. OPTION TO ACT. On the occurrence of any Event of Default and Borrower's failure to cure within 30 days of written notice, in addition to its other rights in this Loan Agreement or in any of the other Loan Documents, at law, or in equity, Lender may, without prior demand, exercise any one or more of the following rights and remedies:

9.1.1. Terminate its obligation to make disbursements.

9.1.2. Declare the Note and all other sums owing to Lender with respect to the other Loan Documents immediately due.

9.1.3. Make any disbursements after the happening of any one or more of the Events of Default, without waiving its right to demand payment of the Note and all other sums owing to Lender with respect to the other Loan Documents or any other rights or remedies and without liability to make any other or further disbursements, regardless of Lender's previous exercise of any rights and remedies.

9.1.4. Proceed as authorized at law or in equity with respect to the Event of Default, and in connection with that, remain entitled to exercise all other rights and remedies described in this Loan Agreement.

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan
Commitment for La Valentina

9.1.5. Recover its funds expended in exercising or enforcing any of its rights or remedies under any of the Loan Documents, together with interest at the maximum amount allowed by law from the date the funds were spent until repaid .

9.2. **RIGHTS CUMULATIVE, NO WAIVER.** All of Lender's rights and remedies provided in this Loan Agreement or in any of the other Loan Documents are cumulative and may be exercised by Lender at any time. Lender's exercise of any right or remedy will not constitute a cure of any Event of Default unless all sums then due to Lender under the Loan Documents are repaid and Borrower has cured all other Events of Default. No waiver will be implied from Lender's failure to take, or delay in taking, any action concerning any Event of Default or from any previous waiver of any similar or unrelated Event of Default. Any waiver under any of the Loan Documents must be in writing and will be limited to its specific terms.

9.3. **DISCLAIMER.** Whether Lender elects to employ any of the remedies available to it in connection with an Event of Default, Lender will not be liable to construct, complete, or protect the Project; to pay any expense in connection with the exercise of any remedy; or to perform any other obligation of Borrower.

10. INSURANCE

10.1. **LIABILITY INSURANCE POLICY LIMITS.** Borrower shall obtain all insurance under this Section 10 written with a deductible of not more than ONE HUNDRED THOUSAND DOLLARS (\$100,000) or an amount approved by Lender, and for limits of liability which shall not be less than the following:

10.2. **WORKER'S COMPENSATION.** Borrower shall obtain and maintain worker's compensation coverage which shall be written for the statutory limits as required by Article 1 (commencing with Section 3700) of Chapter 4 of Part 1 of Division 4 of the California Labor Code (as it may, from time to time, be amended) and having an employer's liability of not less than \$1,000,000.

10.3. **COMMERCIAL GENERAL LIABILITY.** Borrower shall obtain and maintain Commercial General Liability insurance in Insurance Services Office ("ISO") policy form CG 00 01 Commercial General Liability (Occurrence) or form endorsed by Insurer to evidence that coverage is equivalent or better. Such insurance shall have limits of liability which are not less than \$1,000,000 general aggregate limit.

10.4. **COMPREHENSIVE AUTOMOBILE LIABILITY.** Borrower shall obtain and maintain comprehensive automobile liability coverage for any vehicle used for, or in connection with, the Project (owned, nonowned, hired, leased) having a combined single limit of not less than \$1,000,000.

10.5. **INSURANCE PROVISIONS.** Each policy of insurance required under this Loan Agreement shall be obtained from a provider licensed to do business in California and having a current Best's Insurance Guide rating of B++ VII, which rating has been substantially the same or increasing for the last five (5) years, or such other equivalent rating, as

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan
Commitment for La Valentina

may reasonably be approved by Lender's legal counsel. Each policy shall contain the following provisions as applicable, unless otherwise approved by Lender's legal counsel in writing in advance:

10.5.1. **ADDITIONAL INSURED.** Borrower shall obtain a policy in ISO form CG 20 33 or form endorsed by Insurer to evidence that coverage is equivalent or better, naming Lender as additional insured under the Commercial General Liability Policy.

10.5.2. **CERTIFIED POLICY COPY.** Borrower shall provide Lender with a certificate of insurance evidencing each required policy of insurance as and when received by Borrower. Borrower shall provide Lender with a Certificate of Insurance for each policy on the applicable ACORD form. ACORD 25-S "Certificate of Liability Insurance shall be used for liability insurance deleting the sentence in the bottom right-hand box above the authorized representative signature, deleting the words "endeavor to" and "but failure to do so shall impose not obligation or liability of any kind upon the insurer, its agents or representatives."

10.5.3. **CANCELLATION.** Each policy shall bear an endorsement precluding cancellation or termination of the policy or reduction in coverage unless the Lender has been given written notice of such intended action at least thirty (30) days prior to its effective date.

10.6. **FAILURE TO MAINTAIN.** If Borrower fails to obtain or maintain, or cause to be obtained and maintained, any insurance required by this Loan Agreement, the Lender shall have the right, after providing Borrower with not less than 7 days notice to purchase the insurance on Borrower's behalf, and Borrower shall promptly reimburse the full cost of such insurance to the Lender. If Borrower fails to reimburse the Lender for insurance, the amount of unpaid reimbursement shall bear interest, at the maximum rate permissible under the law, until paid.

10.7. **BLANKET COVERAGE.** Borrower's obligation to carry insurance as required under this Section 14 may be satisfied by coverage under a "blanket" policy or policies of insurance (as the term is customarily used in the insurance industry); provided, however, that the Lender shall nevertheless be named as an additional insured under such blanket policy or policies to the extent required by this Section, the coverage afforded the Lender will not be reduced or diminished thereby, and all of the other requirements of this Section 11 with respect to such insurance shall otherwise be satisfied by such blanket policy.

11. MISCELLANEOUS

11.1. **NONRECOURSE.** Notwithstanding any provision of this Loan Agreement or any document evidencing or securing this Loan, Borrower, and Borrower's partners, principals, agents, officers, and successors in interest shall not be personally liable for the payment of the Loan or any obligation of the Loan.

11.2. **SUBORDINATION.** There is no need to subordinate this Loan as the principal and interest shall be fully repaid at the Maturity Date.

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan
Commitment for La Valentina

11.3. **FEDERAL REQUIREMENTS.** If any Loan Program is federally funded, Borrower shall comply with all laws, rules, regulations and funding requirements that govern the use of such funds. Lender shall fully cooperate with, and assist, Borrower in fulfillment of such obligations.

11.4. **NATURE OF REPRESENTATIONS AND WARRANTIES.** Borrower certifies to Lender that all representations and warranties made in this Loan Agreement and all other Loan Documents are true and correct in all material respects and do not contain any untrue statement of a material fact or omit any material fact necessary to make the representations and warranties not misleading. All representations and warranties will remain true and correct in all material respects and will survive so long as any of Borrower's obligations have not been satisfied or the Loan or any part of it remains outstanding, and for any applicable statute of limitations period. Each request by Borrower for a disbursement will constitute an affirmation that all representations and warranties remain true and correct as of the date of that request. Each representation and warranty made in this Loan Agreement, in any other Loan Documents, and in any other document delivered to Lender by Borrower, will be deemed to have been relied on by Lender, regardless of any investigation, inspection, or inquiry made by Lender or any related disbursement made by Lender. The representations and warranties that are made to the best knowledge of Borrower have been made after diligent inquiry calculated to ascertain the truth and accuracy of the subject matter of each representation and warranty.

11.5. **FINANCIAL STATEMENTS.** Borrower shall provide Financial Statements when requested by Lender, but in any event not more often than quarterly during construction of the Project or annually, thereafter. Borrower shall assure that Financial Statements are prepared in accordance with generally accepted accounting principles. If requested by Lender as reasonably necessary to assure the security of its Loan, Borrower shall provide Financial Statements prepared or reviewed by a licensed Certified Public Accountant or Public Accountant and fully reflecting the assets and liabilities of the party concerning whom they were prepared.

11.6. **NO WAIVER.** No failure or delay on the part of Lender in exercising any right or remedy under the Loan Documents will operate as a waiver nor will Lender be estopped to exercise any right or remedy at any future time because of any such failure or delay. No express waiver will affect any matter other than the matter expressly waived and that waiver will be operative only for the time and to the extent stated. Waivers of any covenant, term, or condition in this Loan Agreement will not be construed to waive any subsequent breach of the same covenant, term, or condition.

11.7. **NO THIRD PARTIES BENEFITED.** This Loan Agreement is made and entered into for the sole protection and benefit of the parties and their permitted successors and assigns, and no other Person will have any right of action or any rights to funds under this Loan Agreement.

11.8. **NOTICES.** Borrower irrevocably appoints Lender as its agent (the agency being coupled with an interest) to file for record any notices of completion,

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan
Commitment for La Valentina

cessation of labor, or any other notice that Lender deems necessary or desirable to protect its interests under this Loan Agreement or under the Loan Documents. All notices to be given under this Loan Agreement shall be in writing and sent to the addresses stated above by one or more of the following methods. Copies of any notices to the Borrower shall also be sent to:

DOMUS DEVELOPMENT, LLC
C/O Newport Partners, LLC
9 Cushing, Suite 200
Irvine, CA 92618
Attn: Meea Kang, President

(a) Certified mail, return receipt requested, in which case notice shall be deemed delivered three (3) business days after deposit, postage prepaid in the United States Mail;

(b) A nationally recognized overnight courier, by priority overnight service, in which case notice shall be deemed delivered one (1) business day after deposit with that courier;

(c) Hand delivery with signed receipt for delivery from a person at the place of business of the receiving party and authorized to accept delivery for the receiving party, in which case notice shall be deemed delivered upon receipt, or

(d) Telecopy, if a copy of the notice is also sent the same day by United States Certified Mail, in which case notice shall be deemed delivered one (1) business day after transmittal by telecopier, provided that a transmission report is automatically generated by the telecopier reflecting the accurate transmission of the notices to receiving party at the "Fax Number" given in the Escrow Attachment or to such other address as Borrower or Lender may respectively designate by written notice to the other.

(e) It shall be the responsibility of the above identified notices to provide written information if there is a change in address.

11.9. **ACTIONS.** Lender will have the right to commence, appear in, or defend any action or proceeding purporting to affect the rights, duties, or liabilities of the parties, or the disbursement of any funds under this Loan Agreement. In connection with that, Lender may incur and pay costs and expenses, including, without limitation, reasonable attorney fees. Borrower agrees to pay to Lender on demand all these expenses, and Lender is authorized to disburse funds from this Loan Agreement for that purpose. This Section does not apply to actions or proceedings between the parties.

11.10. **ASSIGNMENT.** The terms of this Loan Agreement will be binding on and inure to the benefit of successors and assigns of the parties. However, Borrower shall not assign this Loan Agreement or any interest it may have in the monies due or, except as otherwise provided, convey or encumber the Property without the prior written consent of Lender. Notwithstanding any other provision of this Loan Agreement, Borrower may assign this Loan Agreement to a single asset entity in which Borrower has a substantial interest and is the managing member, the general partner or the controlling shareholder and chief operations officer; provided (i) that the

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan
Commitment for La Valentina

entity form and organizational documents have been approved by Agency Counsel, (ii) that the new entity has agreed in writing to be bound by all the provisions of this Loan Agreement and all agreements related to this Loan Agreement, and (iii) that the entity has been approved in writing, in advance, by the Agency's Executive Director. However, if there is an assignment, conveyance, or encumbrance, Lender may nevertheless at its option continue to make disbursements under this Loan Agreement to Borrower or to those who succeed to Borrower's title, and all sums so disbursed will be deemed to be disbursements under this Loan Agreement and not modifications, and will be secured by the Trust Deed. Lender may at any time assign the Loan Documents to any affiliate of Lender or to a national bank or other lender having experience with construction lending, and the assignee will assume the obligations of Lender, and Lender will have no further obligation of any nature. In that case, the provisions of this Loan Agreement will continue to apply to the Loan, and the assignee will be substituted in the place and stead of Lender, with all rights, obligations, and remedies of Lender, including, without limitation, the right to further assign the Loan Documents. In addition, Lender may at any time assign a participation in the Loan to any other party, provided that Lender continues to be primarily obligated under this Loan Agreement.

11.11. PREPAYMENT. Borrower may prepay the Loan only on and subject to the terms and conditions in the Note. Borrower shall have no rights to receive, and under no circumstances will Borrower receive repayment of any fees previously paid to Lender.

11.12. BORROWER'S RESPONSIBILITIES. To prevent and avoid construction defects, Borrower shall inspect, review, supervise, and assure the high quality, adequacy, and suitability of: (i) the Plans and Specifications and all changes and amendments; and (ii) architects, contractors, subcontractors, and material suppliers employed or used in the Project, and the workmanship of and the materials used by all of them; and (iii) the progress and course of construction and its conformance with the Plans and Specifications and any amendments, alterations, and changes that may be approved by Lender. Borrower will, at Borrower's expense, defend, indemnify, save, and hold Lender harmless against all claims, demands, losses, expenses, damages (general, punitive, or otherwise), and causes of action (whether legal or equitable) asserted by any Person arising out of the use of the proceeds of the Loan. Borrower will pay Lender on demand all claims, judgments, damages, losses, or expenses (including attorney fees and expenses) incurred by Lender as a result of any legal action arising out of the use of the proceeds of the Loan. The provisions of this Section will survive the termination of this Loan Agreement and the repayment of the Loan.

11.13. NONLIABILITY FOR NEGLIGENCE, LOSS, OR DAMAGE. Borrower acknowledges, understands, and agrees as follows:

11.13.1. The relationship between Borrower and Lender is, and will at all times remain, solely that of borrower and lender, and Lender neither undertakes nor assumes any responsibility for or duty to Borrower to select, review, inspect, supervise, pass judgment on, or inform Borrower of the quality, adequacy, or suitability of the Project work, except as to matters which are within the intent and purpose for which Lender has made the Loan.

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan
Commitment for La Valentina

11.13.2. Lender owes no duty of care to protect Borrower against negligent, faulty, inadequate, or defective building or construction.

11.13.3. Lender will not be responsible or liable to Borrower for any loss or damage of any kind to person or property whether suffered by Borrower or any other Person or group of Persons or for negligent, faulty, inadequate, or defective building or construction, and Borrower will hold Lender harmless from any liability, loss, or damage for these things.

11.14. **CONTROLLING LAW; VENUE.** The Loan Documents will be governed by and construed in accordance with California law. The venue for any legal action or proceeding will be in the County of Sacramento, California

11.15. **CONSENTS AND APPROVALS.** All consents and approvals by Lender required or permitted by any provision of this Loan Agreement will be in writing. Lender's consent to or approval of any act by Borrower requiring further consent or approval will not be deemed to waive or render unnecessary the consent or approval to or of any subsequent similar act.

11.16. **SURVIVAL OF WARRANTIES AND COVENANTS.** The warranties, representations, conditions, covenants, and agreements in this Loan Agreement and in the other Loan Documents will survive the making of the Loan and the execution and delivery of the Note and will continue in full force until the Indebtedness has been paid in full. Nothing in this Section is intended to limit any other provision of the Loan Documents that by their stated terms survive the repayment of the Indebtedness or the termination of any Loan Document.

11.17. **LOAN EXPENSES.** In making the disbursement, Lender may, at its option, deduct from the proceeds of that disbursement a sum equal to the aggregate of the following, to the extent Lender has knowledge of it and demand has been made on Lender at the time of the deposit: all expenses specifically incurred in connection with the Loan or the preparation, execution, and delivery of the Loan Documents, including, but not limited to, recording costs and expenses, transfer and other taxes (if any), surveys, appraisal fees, title and hazard insurance premiums, recording, notary, and escrow charges, and all other similar, usual, or customary loan closing charges and expenses; and any other budgeted expenses that have been approved by Lender in writing; and Lender will, for the benefit of Borrower, pay those amounts over to the respective parties on whose behalf the demands will have been received by Lender. Borrower will pay directly any expenses in connection with the Loan not so paid by Lender, including, without limitation, any of the expenses specified above, and will hold Lender free from any cost, liability, or obligation of any nature in connection with it, including reasonable attorney fees incurred by Lender. Borrower further agrees to pay on demand all out-of-pocket costs and expenses reasonably incurred by Lender including, without limitation, the fees and disbursements of Lender's outside counsel, in connection with: (i) the administration of the Loan, including, without limitation, all approvals or consents given or contemplated to be given under the Loan Documents, all amendments to the Loan Documents entered into by Lender or requested by any Loan Party, and all title insurance policies and endorsements required by Lender, and (ii) the enforcement of any rights or remedies under the Loan Documents, whether any action or proceeding is commenced, or the protection of the security, or interests of Lender

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan Commitment for La Valentina

under the Loan Documents. All costs and expenses, together with interest at Loan rate, will form a part of the indebtedness and will be secured by the Security Documents.

11.18. **NO REPRESENTATIONS BY LENDER.** By accepting or approving anything required to be observed, performed, or fulfilled, or to be given to Lender pursuant to this Loan Agreement or pursuant to the Loan Documents, including, but not limited to, any officer's certificate, balance sheet, statement of income and expense, or other Financial Statement, survey, appraisal, or insurance policy, Lender will not be deemed to have warranted or represented the sufficiency, legality, effectiveness, or legal effect of it or of any particular term, provision, or condition of it, and any acceptance or approval will not be or constitute any warranty or representation by Lender.

11.19. **NO JOINT VENTURE, PARTNERSHIP, OR OTHER RELATIONSHIP.** Nothing contained in this Agreement or in any other document executed in connection with this Agreement shall be construed as creating a joint venture or partnership between Lender and Borrower. Each Party is acting as an independent entity and not as an agent of the other in any respect. No relationship exists as between Lender and Borrower other than that of a lender and borrower.

11.20. **AMENDMENT.** The Loan Documents and the terms of each of them may not be modified, waived, discharged, or terminated except by a written instrument signed by the party against whom enforcement of the modification, waiver, discharge, or termination is asserted.

11.21. **TERMINATION.** Except as otherwise provided in the Loan Documents, all rights and obligations under this Loan Agreement will terminate except as to any accrued obligations effective on the payment of all Indebtedness owing by Borrower to Lender.

11.22. **COUNTERPARTS.** The Loan Documents may be executed in any number of counterparts and by different parties in separate counterparts, each of which when executed and delivered will be deemed an original and all of which counterparts taken together will constitute one and the same instrument.

11.23. **SEVERABILITY.** If any term, provision, covenant, or condition or any application is held by a court of competent jurisdiction to be invalid, void, or unenforceable, all terms, provisions, covenants, and conditions and all applications not held invalid, void, or unenforceable will continue in full force and will in no way be affected, impaired, or invalidated.

11.24. **CAPTIONS.** All Article and Section headings in the Loan Documents are inserted for convenience of reference only and do not constitute a part of the Loan Documents for any other purpose.

11.25. **INDEMNITY.** Borrower agrees to defend, indemnify, and hold Lender harmless from all losses, damages, liabilities, claims, actions, judgments, costs, and reasonable attorney fees that Lender may reasonably incur as a direct or indirect consequence of the making of the Loan, Borrower's failure to perform any obligations as and when required by this Loan Agreement or any of the other Loan Documents, the failure at any time of any of Borrower's

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan Commitment for La Valentina

representations or warranties to be true and correct, or any act or omission by Borrower, any contractor, subcontractor, engineer, architect, or other Person with respect to the Property, the Project, or any portion of them. Borrower will pay immediately on Lender's demand any amounts owing under this indemnity, together with interest at the maximum rate permitted by law from the date Lender makes a payment or incurs a loss. Borrower's duty to indemnify Lender will survive the release and cancellation of the Note.

11.26. **FURTHER ASSURANCES.** At Lender's request and at Borrower's expense, Borrower will execute, acknowledge, and deliver all other instruments and perform all other acts necessary, desirable, or proper to carry out the purposes of the Loan Documents or to perfect and preserve any liens created by the Loan Documents.

11.27. **DISCLOSURE OF INFORMATION.** If Lender elects to sell the Loan, Lender may forward to the buyer of the Loan all documents and information related to the Loan in Lender's possession, including without limitation all Financial Statements, whether furnished by Borrower or otherwise.

11.28. **LENDER'S AGENTS.** Lender may designate agents or independent contractors to exercise any of Lender's rights under the Loan Documents. Any reference to Lender in any of the Loan Documents will include Lender's employees, agents, and independent contractors.

11.29. **INTEGRATION AND INTERPRETATION.** The Loan Documents contain or expressly incorporate by reference the entire agreement between Lender and Borrower with respect to the covered matters and supersede all prior negotiations. Any reference to the Property or Project in any of the Loan Documents will include all or any portion of them. Any reference to the Loan Documents themselves in any of the Loan Documents will include all amendments, renewals, or extensions approved by Lender.

11.30. **NUMBER, IDENTITY AND GENDER.** When the context and construction so require, all words used in the singular will be deemed to have been used in the plural and vice versa. Person means any natural person, corporation, firm, partnership, association, trust, government, governmental agency, or any other entity, whether acting in an individual, fiduciary, or other capacity. When the context and construction so require, all words which indicate a gender will be deemed to have been used to indicate the gender as indicated by the context.

THE PARTIES HAVE EXECUTED THIS LOAN AGREEMENT in Sacramento, California as of the Effective Date.

BORROWER :
DOMUS DEVELOPMENT, LLC, a California
limited liability company

AGENCY:
REDEVELOPMENT AGENCY OF THE CITY
OF SACRAMENTO AGENCY

By: _____

By:

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan
Commitment for La Valentina

Meea Kang, President

LaShelle Dozier, Executive Director

Date: _____

Date: _____

Approved as to form:

Approved as to form:

Borrower Counsel

Agency Counsel

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan
Commitment for La Valentina

Exhibit 3: Legal Description

Legal Description will be drafted by attached before loan documents are signed.



Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan Commitment for La Valentina

Exhibit 2: Note Form

PROMISSORY NOTE
FOR *PROJECT NAME*****
*****FUNDING AGREEMENT NAME*****

BORROWER HAS MADE THIS PROMISSORY NOTE (“NOTE”) AS OF THE EFFECTIVE DATE. The Lender is making the Loan pursuant to the terms and conditions of the Loan Agreement and this Note. This Note includes all attachments and Exhibits listed below, which are attached to and incorporated in this Note by this reference. The capitalized terms in this Note shall have the meanings assigned in the following table of definitions and as defined in the body of the Note. (Terms being defined are indicated by quotation marks. If an item in the table is marked “None, Not Applicable, N/A or equivalent or is left blank, that defined term is not applicable to this Note or the referenced item is not required or is not included in this Note as the context may indicate.) The Lender is making the Loan to Borrower in consideration of Borrower making this Note and delivering it to Lender.

For purposes of this Note, the following terms shall have the following meanings:

DEFINED TERM:	DEFINITION:	
“Effective Date”	***Effective Date***	
“Lender”	***Agency***	
“Borrower”	***Developer Name***	
“Borrower Legal Status”	***Developer Legal Form***	
“Loan Agreement”	The Loan Agreement between the Borrower and Lender as of the Effective Date for making of the loan (“Loan”) evidenced by this Note.	
“Principal Amount”	***Loan Amount*** (\$***Loan Amount***)	
“Interest Rate”	The interest rate is ***Interest rate***% per year, simple interest.	
“Accrual Date”	Interest shall accrue starting on the following “Accrual Date”:	The Effective Date
“Special Terms”	***Special Loan Terms*** ***IF If Adjustment for Cost Savings***	
PAYMENT SCHEDULE. Repayment of this Note shall be made the following amounts:		
“Maturity Date”	The first day of the ***Month of last payment*** calendar month following the Effective Date.	
“Payment Start Date”	***IF If lump sum repayment = FALSE***IF If lump sum repayment***	
“Payment Amount(s)”	***IF If monthly payment schedule***IF If lump sum repayment***	
	Payment Month	Payment Amount
	IF If monthly payment schedule	\$***Loan Payment Amount***
	Through	
	Through	

FOR VALUE RECEIVED, THE UNDERSIGNED, JOINTLY AND SEVERALLY, PROMISES TO PAY to Lender, or its successors or assigns, the Principal Amount or such lesser amount as may be endorsed

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan Commitment for La Valentina

on this Note on behalf of Lender. The Loan shall bear interest on the outstanding principal balance, computed from the Accrual Date at the Interest Rate.

1. This Note evidences the obligation of Borrower to Lender for repayment of funds loaned to Borrower under a loan agreement between Borrower and Lender dated as of the Loan Date ("Loan Agreement"). The terms and covenants of the Loan Agreement are incorporated in this Note by reference. The Loan Agreement provides for and incorporates the Regulatory Agreement ("Regulatory Agreement"), the making of which is further consideration for this Note.
 2. ***IF If monthly payment schedule: Borrower shall make payments monthly in the amounts shown in the Payment Schedule, on the first day of each month, beginning on the First Payment Date and continuing for the number of payments shown in the Payment Schedule. On the Maturity Date, the unpaid balance of said principal sum, if any, together with all unpaid interest, fees and charges due, if any, shall become due and payable. *** All payments on this Note shall be applied first to fees and charges due under the Loan Agreement, if any, then interest and then to the principal due on this Note. Borrower shall make the payments to the Lender at 630 "I" Street, Sacramento, CA 95814-2490, or to such other person or organization as may be designated by Lender to Borrower and noticed as provided in the Loan Agreement.
 3. If any installment under this Note is not received by Lender within fifteen (15) calendar days after the installment is due, Borrower shall pay to Lender a late charge of five percent (5%) of such installment. Such late charge shall be immediately due and payable without demand by Lender.
 4. ***IF If Trust Deed: This Note is secured by a Deed of Trust with Assignment of Rents against the real property described in the Loan Agreement ("Property"), recorded in the office of the County Recorder of Sacramento County ("Trust Deed"). The Trust Deed securing this Note provides that Lender may at its option, declare all funds secured by the Trust Deed immediately due and payable, if any interest in the real property is sold, transferred or conveyed to any person, whether voluntarily or involuntarily. The Trust Deed further provides that if Borrower does not comply with the requirements of the Regulatory Agreement and fails to come into compliance with the Regulatory Agreement within thirty (30) days after Lender's written notice to Borrower of such failure, Lender may at its option, declare all funds secured by the Trust Deed immediately due and payable.***
 5. Lender and Borrower shall comply with and fulfill the Special Terms.
 6. Upon occurrence of any one or more of the following, Lender may, at its sole discretion, declare all unpaid principal immediately due and payable, together with all unpaid interest at the stated rate from the date of the advancement of the Loan's proceeds, subject to applicable cure periods, if any:
 - a. Borrower defaults in the payment of any principal or interest when due.
 - b. Lender discovers that Borrower, in any application to Lender in connection with the Loan, had failed to disclose or misrepresented any fact that would have prevented Borrower from being eligible for the Loan.
-

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan Commitment for La Valentina

c. Lender discovers that Borrower has made any misrepresentations or has intentionally withheld any fact in the making of this Loan, the knowledge of which could have affected the decision of Lender to make the Loan.

Borrower defaults or breaches any of the terms of Loan Agreement ***IF If Trust Deed*****IF If Reg Agr*** or this Note.

Borrower fails to perform any covenant, term or condition in any instrument creating a lien upon the Property ***IF If Trust Deed***

d. The sale, transfer of title, conveyance or further encumbrance of the Property, whether by sale, exchange, gift, inheritance or other means, without prior written consent of Lender.

e. The occurrence of any of the following:

1) Borrower becoming insolvent or bankrupt or being unable or admitting, in writing, Borrower's inability to pay debts as they mature or making a general assignment of or entering into any restructure payment arrangement with creditors.

2) Proceedings for the appointment of a receiver, trustee or liquidator of the assets of Borrower or a substantial part of such assets, being authorized or instituted by or against the Borrower.

3) Proceedings under any bankruptcy, reorganization, readjustment of debt, insolvency, dissolution, liquidation or other similar law of any jurisdiction being authorized or instituted against Borrower.

7. No waiver of any default or breach by Borrower under this Note shall be implied from any omission by Lender to take action on account of such default, and no express waiver shall affect any default, other than the default specified in the waiver. Such waiver shall be in writing and shall be operative only for the time and to the extent therein stated.

8. Borrower may prepay this Note in full or in part at any time, without any prepayment penalty being charged by Lender.

9. During the existence of default or delinquency under the terms of this Note***IF If Trust Deed***, the Lender is expressly authorized to apply all payments made on this Note to the payment of all or part of the delinquency, as it may elect.

10. This Loan is a nonrecourse loan, and notwithstanding any provision of this Note or any document evidencing or securing this Loan, Borrower, and Borrower's principals, members, partners, agents, officers, and successors in interest shall not be personally liable for the payment of the Loan or any obligation of the Loan.

11. Borrower shall pay to Lender all costs of enforcement of all or any portion of this Note***IF If Trust Deed***, including attorney's fees, witness fees, investigator fees and court costs, incurred by Lender, whether or not litigation is commenced.

March 31, 2009

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan
Commitment for La Valentina

IN WITNESS WHEREOF, Borrower has executed this Note as of the Loan Date.

Borrower:

Developer Name

By:

Developer signatory

Developer signatory title

Authorized Representative

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan
Commitment for La ValentinaExhibit 3: Predevelopment BudgetLa Valentina Station- North and South Blocks
Estimated Predevelopment Costs

Architecture and engineering costs associated with the design of the north site and modification of the design of the south site	\$150,000
City planning fees associated with the design the north site and modification of the design of the south site	\$ 40,000
Third party reports including, by not limited, to a soils study, noise study, Phase 1 and 2 environmental site assessment, market study, and appraisal	\$ 30,000
Total:	\$220,000

March 31, 2009

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan
Commitment for La Valentina

Exhibit C

March 24, 2009

Meea Kang
Domus Development, LLC
594 Howard Street, Suite 204
San Francisco, CA 94105

RE: Conditional Funding Commitment, La Valentina

Dear Ms. Kang,

On behalf of the Sacramento Housing and Redevelopment Agency and the Redevelopment Agency of the City of Sacramento (collectively "Agency"), we are pleased to advise you of its commitment of construction and permanent loan funds ("Loan") from the Alkali Flat Project Area Tax Increment Funds and Aggregated 20% Housing Set Aside Tax Increment Funds (collectively "TI"), and State Housing Trust Fund ("State HTF") for the purpose of financing the development of that certain real property located on the east side of 12th Street between the C Street Alley and E Street in Sacramento, California ("Property"). Agency's decision is based on your application, and all representations and information supplied by you to it. If these representations and information change in a material manner without written approval of Agency, this commitment is void. Agency's obligation to make the Loan is subject to satisfaction of all the following terms and conditions and Borrower's execution of documentation that is in a form and in substance satisfactory to the Agency.

The Loan shall be made on standard Agency loan documents. No loan terms not in this funding commitment and the attached loan document forms shall be included in the final loan documents without additional environmental review and governing board approval. In the event of any discrepancies between terms stated in this commitment and the loan documents, the terms stated in the loan commitment letter shall be deemed to be terms of this commitment.

Unless otherwise agreed in writing by the Agency in exercise of its absolute discretion, the following shall be considered conditions to Agency approval of a financing commitment. The Agency may, in exercise of its absolute discretion, modify its requirements upon written notice to Borrower given at least sixty days prior to close of escrow for the Property.

This commitment is subject to approval by the Sacramento City Council.

This commitment will expire on June 1, 2010.

1. PROJECT DESCRIPTION: The project is the new construction of mixed-use, transit-oriented development. The property is located on two sites along the east side of 12th Street between the C Street Alley and E Street, at assessor's parcel numbers 002-0082-

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan
Commitment for La Valentina

016, 002-0082-024, 002-0121-027, 002-0121-032, 002-0121-034, 002-0121-036, 002-0121-038. The south site, located between D Street and E Street, will contain a community room and at least 5,000 square feet of commercial space on the ground floor and 63 units of affordable rental housing on the second, third, and fourth floors. The north site, located between the C Street Alley and D Street, will contain 18 units of townhome-style rental units. Between the two sites, at least sixty (60) units will be affordable to families earning less than 50 percent of the area median income and all of the remaining units, with the exception of the unrestricted manager's unit, will be affordable to families earning less than 60 percent of the area median income.

2. BORROWER: The name of the Borrower for the Loan is Domus Development, LLC, or a related entity.
3. PURPOSE OF LOAN: The Loan is to be used by Borrower solely to pay the costs of construction and permanent financing, or for such other purposes as Agency expressly agrees to in the loan agreement for the Loan, and such other agreements as may be generally required by the Agency for the use of the funding source for the Loan.
4. PRINCIPAL AMOUNT: The combined principal amount of the Loan will be the lesser of (a) Three Million Dollars (\$3,000,000), or (b) an amount to be determined prior to close of the Loan based on a project budget approved by Agency. However, the combined indebtedness of the Property must not exceed ninety percent of the appraised value.
5. TERM OF LOAN: The Loan shall mature 40 years from the date of the first disbursement.
6. INTEREST RATE: The Loan shall bear simple interest at Four Percent (4%) per annum. Interest shall be calculated on the basis of a 365-day year and actual days elapsed.
7. AMORTIZATION: Loan shall amortize as permitted by monthly payments.
8. MONTHLY PAYMENT: Monthly payments shall be applied first to outstanding interest accrued and unpaid and then to principal. Interest and principal payments shall be deferred from the date of the loan for the first 168 months. Beginning in month 169, monthly installments shall be made according to the following schedule:

Months 169-180	\$ 3,047 monthly
Months 181-192	\$ 2,922 monthly
Months 193-204	\$ 2,777 monthly
Months 205-216	\$ 2,609 monthly
Months 217-228	\$ 2,418 monthly
Months 229-240	\$ 2,202 monthly
Months 241-252	\$ 1,960 monthly
Months 253-264	\$ 1,691 monthly
Months 265-276	\$ 1,393 monthly

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan Commitment for La Valentina

Months 277-288	\$ 1,065 monthly
Months 289-300	\$ 705 monthly
Months 301-312	\$ 312 monthly
Months 313-479	residual receipts payments
Month 480	All outstanding principal and interest due and payable

9. ANNUAL PAYMENT: In addition to monthly payments, the Developer will pay the Agency annual payments equal to 50% of the net income from commercial rents.
10. SOURCE OF LOAN FUNDS: Agency is making the Loan from the following sources of funds, and the Loan is subject to all requirements related to the use of such, whether Agency requirements or otherwise: \$3,000,000 in TI and \$1,000,000 State HTF. This Loan is conditioned upon Borrower's acceptance of Agency's requirements and conditions related to such lending programs and funding sources, including among others, the required forms of agreements for the Loan; the requirements for covenants, conditions and restrictions upon the Property; and insurance and indemnity requirements.

Borrower acknowledges that, as a condition of the Agency's making of the Loan, the Property will be subject to restrictions on future sales and rentals which may result in less income to Borrower than could otherwise be realized, and that such restrictions run with the land, and during their operational term, will bind all successors in interest.

_____ (Borrower Initial)

Borrower acknowledges that every contract for new construction or rehabilitation construction of housing that includes 12 or more units assisted with HOME funds will contain a provision requiring the payment of not less than the wages prevailing in the locality, as predetermined by the Secretary of Labor pursuant to the Davis-Bacon Act (40 U.S.C. 276a-5), to all laborers and mechanics employed in the development of any part of the housing. Such contracts must also be subject to the overtime provisions, as applicable, of the Contract Work Hours and Safety standards Act (40 U.S.C. 327-332). (24 C.F.R. 92.354). Borrower also acknowledges that any project containing a "subsidy" may be subject to state prevailing wages, which are the responsibility of the Borrower and Borrower's contractor.

_____ (Borrower Initial)

10. ACCELERATION: Agency shall have the right to accelerate repayment of the Loan in the event of a default under any Loan Document or upon sale, transfer or alienation of the Property except as specifically provided for in the Loan documents.
11. SECURITY: The Loan shall be evidenced by promissory note(s) secured by a deed of trust with assignment of rents against the fee and/or leasehold interest in the Property and

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan
Commitment for La Valentina

Improvements, which shall be a first lien upon the Property and Improvements subject only to other items as the Agency may approve in writing. The Loan shall also be secured by security agreements. The Agency may subordinate said deeds of trust in order to accommodate completion of construction of the Property.

12. LAND DONATION: Agency shall donate to Borrower the eight parcels of land valued at approximately \$800,000 identified in Section 1 of this commitment letter. This land donation is conditioned upon Borrower's acceptance of Agency's requirements and conditions, including among others, execution of the Disposition and Development Agreement.
13. LEASE AND RENTAL SCHEDULE: All leases of the Property and Improvements shall be subject to Agency's approval prior to execution. Borrower shall not deviate from the rental schedule presented in Borrower's application for the Loan without Agency's prior written approval.
14. PROOF OF EQUITY: Borrower shall provide proof of equity for the Property and Improvements in the amount of no less than \$17,000,000 in Low Income Housing Tax Credit Equity and no less than \$375,000 in deferred developer fee.
15. OTHER FINANCING: Borrower, as a requirement of the Loan, shall procure and deliver to Agency evidence satisfactory to Agency that Borrower has obtained the following described financing which may be secured by a lien upon the Property and Improvements superior or subordinate to Agency's liens, and which shall be otherwise on terms and conditions acceptable to Agency:
 - (a) As a condition precedent to disbursement of the remainder of the Agency loan, construction financing from a private lender(s) in an amount(s) sufficient to complete construction of the Property according to a scope of work as approved by Agency and made for a term not less than that specified in the Schedule of Performances for completion of construction, and in any event not less than the time necessary to fulfill all conditions precedent to funding of the permanent financing.
 - (b) Commitments for permanent financing sufficient to "take out" all liens senior to the Agency's lien.
 - (c) Such commitments for financing shall not require modification of Agency loan documents, or any term of this commitment letter.
 - (d) Such commitments shall not be based upon sources and uses of Project funds that are different from those approved by Agency for the project or be subject to conditions which require amendment of the DDA, OPA or other agreements.
16. EVIDENCE OF FUNDS: Prior to the first disbursement of the Loan, Borrower must demonstrate evidence of adequate and assured funding to complete the development of the Project in accordance with the Agency's requirements. Borrower's evidence of

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan
Commitment for La Valentina

available funds must include only one or more of the following: a) Borrower equity; b) firm and binding commitments for the Project from financial institution(s) or from other lender(s) approved by Agency in its reasonable discretion; and c) Agency's contribution, provided, however, that Agency is not obligated by this letter to make any contribution not stated in the terms of the letter.

17. LOAN IN BALANCE: Borrower will be required to maintain the Loan "in balance". The Loan is "in balance" whenever the amount of the undisbursed Loan funds, the remaining sums to be provided by the Borrower and the loan funds from other project lenders are sufficient, in the sole judgment of the Agency, to pay for the remainder of the work to be done on the project as required by written agreement with the Agency. Should the Agency determine that the Loan is not "in balance", the Agency may declare the Loan to be in default.
18. PLANS AND SPECIFICATIONS: Final plans and specifications for the project must be in accord with the proposal approved as part of the Loan application. Final plans and specifications will be subject to Agency's final approval prior to the disbursement of Agency Loan funds. Borrower must obtain Agency's prior written consent to any change in the approved plans and specifications or any material deviation in construction of the project.
19. ARCHITECTURAL AGREEMENT: The architectural agreement ("Agreement") for the preparation of the plans and specifications and other services shall be subject to Agency's approval. Agency may require an assignment of Borrower's interest in and to the Agreement as security for the Loan.
20. CONSTRUCTION CONTRACT: The construction contract ("Contract"), and any change orders issued thereunder, and the contractor ("Contractor") to be retained by Borrower to construct the Improvements shall be subject to Agency's approval. Agency may require an assignment of Borrower's interest in and to the Contract as security for the Loan.
21. RETENTION AMOUNT: The Agency shall retain ten percent (10%) as retention from each disbursement, not to exceed a total of ten percent (10%) of the total amount of the Loan.
22. COST BREAKDOWN: Borrower shall deliver to Agency for Agency's approval prior to commencement of work a detailed cost breakdown of the cost of constructing, financing and other costs of developing the Improvements, which breakdown conforms to the project plans and specification and the budget approved with this commitment. Borrower shall also deliver a list of all contractors and subcontractors to be employed in connection with the construction of the Improvements. If required by the Agency Borrower shall also submit copies of all bids received for each item of work to be performed as well as copies of executed contracts and subcontracts with acceptable bidders.
23. All contracts, subcontracts, contractors, and subcontractors shall be subject to Agency's approval prior to close of the Loan. Agency also reserves the right to require

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan
Commitment for La Valentina

- performance and material payment bonds on any or all contractors, or in lieu of bond a letter of credit acceptable to Agency.
24. Agency shall make disbursements of the Loan based on a cost breakdown that lists line items in cost categories. Agency shall require that Borrower provide documentation supporting all requests for disbursement of Loan funds, including proof of work done and actual expenditure. Agency shall conduct inspections of the Property to assure that the work was done before making a disbursement.
 25. COST SAVINGS: At completion of construction, borrower shall submit to Agency a cost certification prepared by a qualified, independent auditor acceptable to Agency, which cost certification shall indicate the amounts actually spent for each item in the cost breakdown and shall indicate the projected final sources of funding. If there is an aggregate savings, net of any increases or decreases in sources of funding, in the total of all such cost breakdown items from the cost breakdown items in the original budget approved by the Agency, the Agency shall withhold for itself as loan repayment, one-half of such savings from the amount of retention then held by the Agency, and the Loan balance shall be reduced by the amount so withheld. The Agency, in its sole discretion, shall determine any reduction and/or repayment of the Agency loan based upon this cost certification, the projected final sources of funding, and the original approved budget for the project.
 26. START OF CONSTRUCTION: Borrower shall commence construction at the earliest possible date subject to the conditions of this Agency and other involved lenders, but no later than June 1, 2010.
 27. COMPLETION OF CONSTRUCTION: Borrower shall complete the construction of the Improvements no later than June 1, 2012.
 28. HAZARD INSURANCE: Borrower shall procure and maintain fire and extended coverage insurance or in lieu such insurance, Builder's Risk completed value insurance in a form and substance approved by Agency. Coverage shall be for protection against loss of, or damage to the Improvements or materials for their construction to their full insurable value. Borrower shall also procure and maintain insurance against specific hazards affecting Agency's security for the Loan as may be required by Agency, governmental regulations, or any permanent lender. All such policies shall contain a standard mortgagee loss payable clause in favor of Agency. The insurance required shall be written with a deductible of not more than TEN THOUSAND DOLLARS (\$10,000.00).
 29. PUBLIC LIABILITY AND OTHER INSURANCE: Borrower must procure and maintain public liability and property damage insurance (with Agency named as additional insured) in a form approved by Agency. Coverage must be approved by Agency and must be in at least the following limits of liability: Bodily injury liability of \$1,000,000 each occurrence and \$5,000,000 Aggregate, Products and Completed Operations; Property damage liability of \$1,000,000 each occurrence, \$1,000,000 single

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan
Commitment for La Valentina

- limit and \$5,000,000 aggregate; Contractual liability for Bodily Injury of \$1,000,000 each occurrence, for Property Damage of \$1,000,000 each occurrence and \$5,000,000 aggregate, and Personal Injury with Employment Exclusion Deleted of \$1,000,000 aggregate; and Comprehensive Automobile Liability for any vehicle used for or in connection with the Work of \$1,000,000. The insurance required shall be written with a deductible of not more than TEN THOUSAND DOLLARS (\$10,000). Borrower must also procure and maintain workers' compensation and all other insurance required under applicable law, as required by law and as approved by Agency.
30. TITLE INSURANCE: Borrower must procure and deliver to Agency a 1970 or 1987 ALTA LP-10 Lender's Policy of Title Insurance, together with such endorsements as Agency may require, including but not limited to CLTA endorsement nos. 100, 116, and 102.5/102.7 insuring Agency in an amount equal to the principal amount of the Loan, that Agency's Deeds of Trust constitutes a third lien or charge upon the Property and Improvements subject only to such items as shall have been approved by Agency. There must be no exceptions permitted for mechanics liens. Title insurance for the Loan must be issued by a title insurer approved by Agency.
31. ORGANIZATIONAL AGREEMENTS: Borrower must submit to Agency certified copies of all of Borrower's organizational documents, including all amendments, modifications or terminations: if a corporation, Borrower's Articles of Incorporation and By-Laws; if a partnership, its Partnership Agreement and, as applicable, Certificate of Limited Partnership or Statement of Partnership; if a Limited Liability Company, its Articles of Organization and its Operating Agreement; and in all cases with all exhibits and amendments to such documents, fictitious business name statements, other related filings or recorded documents and such related documents as Agency may request. If it is a corporation, Borrower must submit a corporate borrowing resolution referencing this Loan. If Borrower is other than a corporation, Borrower must submit such proof of authority to enter this Loan as may be required under the organizational documents.
32. PURCHASE OF PROPERTY: Borrower shall provide Agency with copies of all documents relating to Borrower's purchase of the Property.
33. FINANCIAL INFORMATION: During the term of the Loan, Borrower shall deliver to Agency within 120 days of the end of each fiscal year an audited income and expense statement, a balance sheet, and a statement of all changes in financial position signed by authorized officers of Borrower. Prior to close of the Loan and during its term, Borrower must deliver to Agency such additional financial information as may be requested by Agency. Agency reserves the right to review and approve financial statements and other credit information and references prior to closing. During the term of the Loan, Borrower must deliver to Agency a monthly rent-roll including household composition information, and operating statements with respect to the Property and Improvements, as Agency may request.

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan
Commitment for La Valentina

34. MANAGEMENT AGREEMENT: Prior to execution, Borrower must submit to Agency any agreement providing for the management or operation of the Property or Improvements by a third party which agreement is subject to Agency Approval.
35. LOW INCOME HOUSING TAX CREDITS("LIHTC"): Borrower represents that as a condition of closing this Loan it is applying for an allocation of LIHTCs and agrees to perform all actions and to meet all requirements to maintain the LIHTC allocation if granted.
36. SECURITY AND LIGHTING: Project shall include a security camera system approved by the Agency and lighting adequate to properly illuminate the parking area and all common spaces. In addition, project will include drive-by security guards if necessary.
37. SOCIAL SERVICES PLAN: Borrower shall provide Agency with a detailed social services plan including, but not limited to, the following information: 1) identification of all entities responsible for providing social services to Project tenants and each entity's role in the provision of those services; 2) the number of hours per week that services will be provided; 3) a description of the programs to be offered, and; 4) a proforma social services budget.
38. DOCUMENTATION: This letter is not intended to describe all of the requirements, terms, conditions and documents for the Loan, which shall also include customary provisions and documents for an Agency transaction of this type. All documents to be delivered to or approved by Agency must be satisfactory to Agency in all respects. Borrower must promptly deliver to Agency any further documentation that may be required by Agency.
39. CONSISTENCY OF DOCUMENTS: As a material obligation under this commitment letter, Borrower shall assure that the loan documents for the Project are consistent with lender's commitment approved by the Agency and comply, in all respects, with this commitment letter.
40. CHANGES OR AMENDMENTS: No documents or contracts which are to be delivered to Agency or are subject to Agency's review or approval shall be modified or terminated without the prior written approval of Agency.
41. ACCEPTANCE OF THIS COMMITMENT: Borrower's acceptance of this Commitment shall be evidenced by signing and delivering to Agency the enclosed copy of this letter. Until receipt of such acceptance by Agency, Agency shall have no obligation under this letter. Agency may withdraw this commitment at any time prior to Borrower's acceptance.

March 31, 2009

Approval of the Exclusive Right to Negotiate, Predevelopment Loan, and Loan
Commitment for La Valentina

Yours truly,

LaShelle Dozier
Executive Director

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

LaShelle Dozier
Executive Director

REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

The undersigned acknowledges and accepts the foregoing Commitment and its terms and conditions.

Dated:

BORROWER:
Domus Development, LLC

By: _____
Meea Kang