



**REPORT TO
REDEVELOPMENT AGENCY
City of Sacramento
915 I Street, Sacramento, CA 95814-2671
www.CityofSacramento.org**

**Consent
February 22, 2011**

Chair and Members of the Redevelopment Agency

Title: Approval of 7th and H Project Financing Documents

Location/Council District: Northwest corner of 7th and H Streets, District 1, Railyards Redevelopment Project Area

Recommendation: Adopt a **Redevelopment Agency Resolution** a) authorizing the Executive Director, or her designee to enter into and execute a \$8,200,000 Loan Agreement and related documents with Mercy Housing California 47, a California Limited Partnership (Partnership); b) authorizing the Executive Director, or her designee, to enter into and execute a \$6,859,695 Conditional Grant Agreement (Capital) and related documents with 7th & H GP LLC, a California Limited Liability Company; and c) authorizing the Executive Director, or her designee, to enter into and execute a \$3,750,000 Conditional Grant Agreement (Operating) and related documents with 7th & H GP LLC, a California Limited Liability Company.

Contact: Christine Weichert, Assistant Director, Development Finance, 440-1353, Jeree Glasser-Hedrick, Program Manager, Development Finance 440-1302

Presenters: N/A

Department: Sacramento Housing and Redevelopment Agency

Description/Analysis

Issue: The 7th and H Project, located at the northwest corner of 7th and H Streets, is a signature eight-story mixed-use development that will include 150 affordable housing units with a ground floor health clinic and retail space. A vicinity map and rendering are included as Attachments 1 and 2. The development is being built in furtherance of the City's Ten Year Plan to End Chronic Homelessness and Single Room Occupancy (SRO) Strategy with half of the units set aside for formerly homeless and at-risk populations.

The 7th and H Project was presented to the City Council on June 10, 2010. At that time, the City Council and Redevelopment Agency approved a Development and Disposition Agreement (DDA) and Funding Commitment with Mercy Housing

Approval of 7th and H Project Financing Documents

California 47, a California Limited Partnership or related entity (Partnership). Since that approval in June, the 7th and H Project has received all entitlements and necessary financing commitments for the \$47 million project including \$25 million in 9 percent Low Income Housing Tax Credits which were awarded in September 2010.

The Partnership has submitted building plans and anticipates construction to commence by March 2011. This staff report requests approval to execute a \$8,200,000 loan funded by Home Investment Partnership Program (HOME) funds combined with City and State Housing Trust funds, a \$6,859,695 capital grant and \$3,750,000 operating grant funded by Downtown Low Moderate Tax Increment Funds (TI), and a land grant for the acquisition, construction and permanent financing of the 7th and H Project. Additional background and a summary of the sources and uses of funds are included as Attachments 3 and 4.

Redevelopment Agency approval is required to execute the loan and grant agreements associated with the 7th and H Project. The associated Agency financing documents are included in Exhibits A, B and C to the Redevelopment Agency resolution.

Policy Considerations: The Project is to be developed in accordance with the Ten Year Plan to End Chronic Homelessness and the City's Single Room Occupancy (SRO) Strategy with half of the units set aside for formerly homeless and at-risk populations. The recommended action is consistent with the following goals in the Railyards Implementation Plan and Redevelopment Plan: 1) strengthen the economic and employment base of the Project Area and the community by removing impediments to and encouraging new residential and commercial development and other private investment; 2) encourage the cooperation and participation of private development partners, residents, businesses, public agencies and community organizations in the redevelopment and revitalization of the Railyards Area; and 3) increase the community's supply of housing available to extremely low, very low, and low and moderate income persons and families and housing for all income levels in proximity to the Central City employment center.

Environmental Considerations:

California Environmental Quality Act (CEQA): The 7th and H Project was analyzed by the City of Sacramento in accordance with CEQA Guidelines and a Class 32 Categorical Exemption was prepared and executed on April 28, 2010. The proposed actions, associated with the approval of the grant and loan financing documents, do not constitute a new project or substantive changes or modifications to the project as previously analyzed. Because there is neither any new information of substantial importance nor any substantial changes with respect to the circumstances under which the project will be undertaken that would require preparation of supplemental environmental documentation, the recommended actions do not require further environmental review per CEQA Guidelines §§ 15162 or 15163.

Approval of 7th and H Project Financing Documents

Sustainability Considerations: The Project has been reviewed for consistency with the goals, policies and targets of the Sustainability Master Plan and the 2030 General Plan. If approved, the project will advance the following goals, policies and targets: (1) Goal number one – Energy Independence, specifically by reducing the use of fossil fuels, improving energy efficiency, and providing long-term affordable and reliable energy, (2) Goal number three – Air Quality, specifically by reducing the number of commute trips by single occupancy vehicles and reducing vehicle miles traveled, (3) Goal number six – Urban Design, Land Use, Green Building, and Transportation specifically by reducing dependence on the private automobile by providing efficient and accessible public transit and transit-supportive land uses, and reducing long commutes by providing a wide array of transportation and housing choices near jobs for a balanced, healthy City.

Other: An Environmental Assessment was prepared for the 7th and H Project and a Finding of No Significant Impact (FONSI) was made in accordance with National Environmental Policy Act (NEPA) under 24 CFR 58.40. The FONSI was published in the Daily Recorder on October 11, 2010, the comment period closed on October 26, 2010, a Request for Release of Funds and Certification was submitted to the U.S. Department of Housing and Urban Development (HUD) on November 10, 2010, and the Authority to Use Grant Funds was signed by HUD on November 29, 2010. The actions herein fall within the scope of the project that was previously analyzed; therefore, additional environmental review pursuant to NEPA is not required.

Rationale for Recommendation: The actions proposed in this report will enable construction to commence on the 7th and H Project by March 2011.

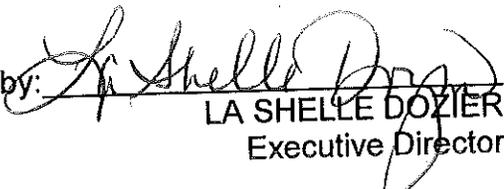
The approved project is designed to achieve goals outlined in the Railyards Redevelopment Plan, and to further the goals of the Ten Year Plan to End Chronic Homelessness and the City's SRO Preservation and Replacement Strategy. The actions recommended in this report enable the Agency to continue to fulfill its mission to provide a range of affordable housing opportunities in the City.

Financial Considerations: The proposed actions in this report do not require any amendment to the Agency budget.

February 22, 2011

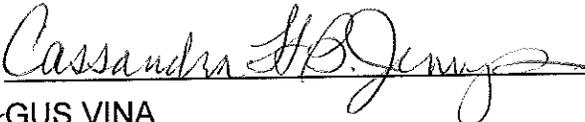
Approval of 7th and H Project Financing Documents

M/WBE Considerations: Minority and Women's Business Enterprise requirements will be applied to all activities to the extent required by federal funding to maintain that federal funding.

Respectfully Submitted by: 
LA SHELLE DOZIER
Executive Director

approved as to form:
Mark Kevin Agency Counsel

Recommendation Approved:


for GUS VINA
Interim City Manager

APPROVED AS TO FORM:

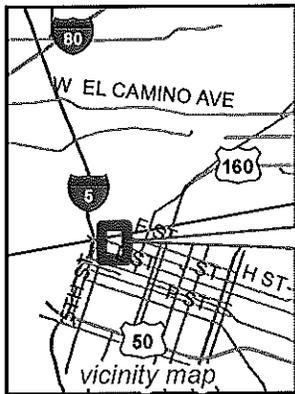
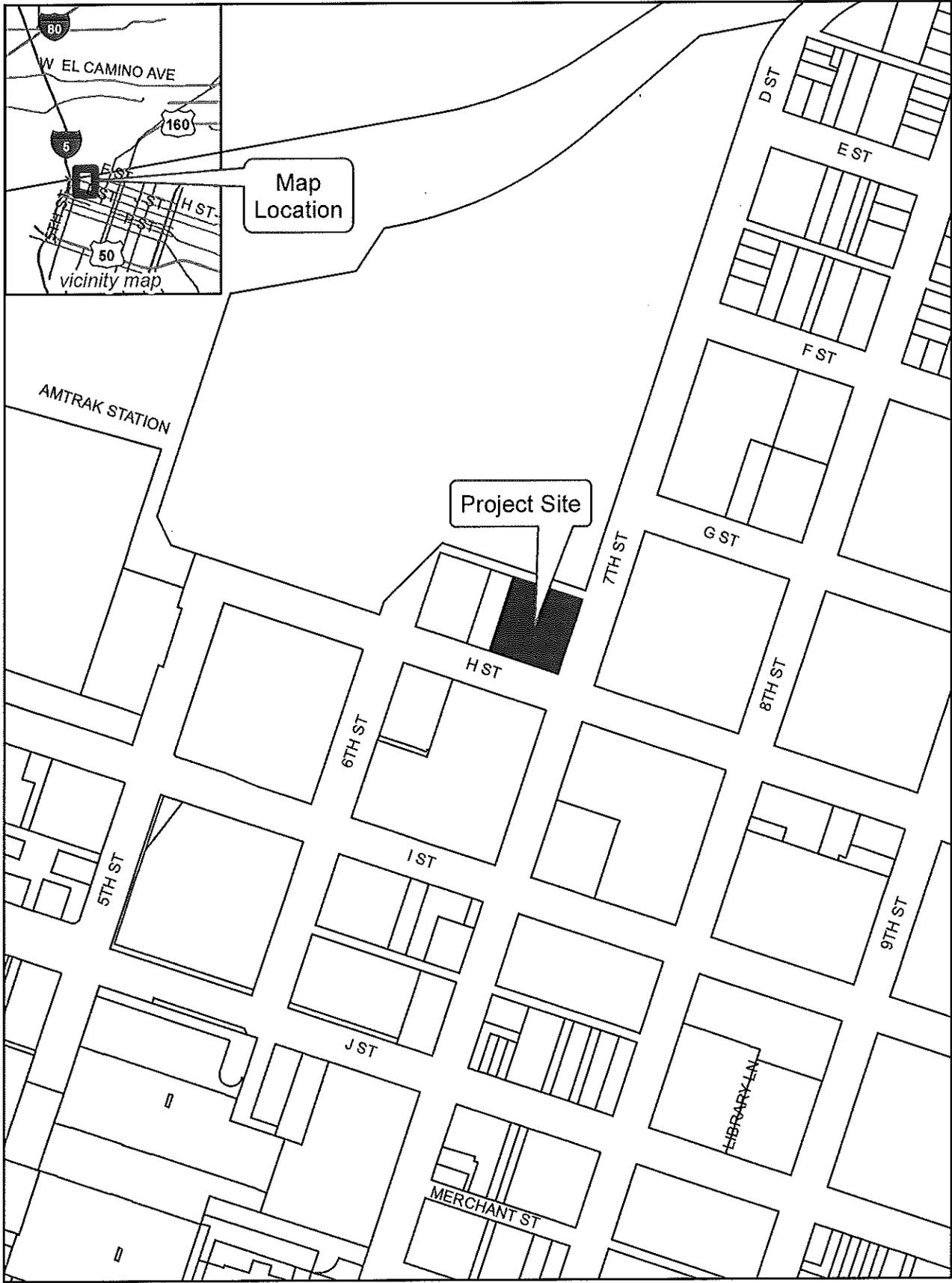
N/A
CITY ATTORNEY

Table of Contents

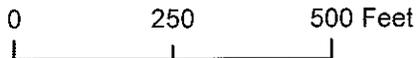
Report	pg. 1
Attachments	
1 Vicinity Map	pg. 5
2 Rendering	pg. 6
3 Background	pg. 7
4 Project Summary	pg. 10
5 Redevelopment Agency Resolution	pg. 11
Exhibit A - Loan Agreement	pg. 14
Exhibit B - Conditional Grant Agreement (Capital)	pg. 76
Exhibit C - Conditional Grant Agreement (Operating)	pg. 111
Exhibit D - Wachovia Rider	pg. 154



7th & H



Project Site



SHRA GIS
January 14, 2011





Project Background

Site Description

The 7th and H Project development site consists of approximately 0.55 acres of land which was acquired by the Redevelopment Agency of the City of Sacramento (Agency) from the City of Sacramento in 2008. The site is located at a busy intersection in the Railyards Redevelopment Area. The site was previously used by the Sacramento Police Department as a criminal investigation laboratory and storage area. The Police Department moved these functions to their new facility on Richards Boulevard and the buildings have since been demolished. The neighborhood is well-served by public transportation with light rail and bus service. The site is within walking distance of the Amtrak station and the proposed intermodal transportation facility to be constructed nearby.

Design Concept

The proposed 7th and H Project (Project) is the construction of a mixed-use development by Mercy Housing California. The Developer is proposing the Project to be a signature eight-story affordable housing community that will consist of 150 units including 28 one-bedroom apartments and 122 studios, each self-contained with a full bathroom and kitchen to facilitate independent living. There will be extensive common space including an entrance lobby staffed 24 hours per day, a computer room, a large community room with adjacent full kitchen, conference and meeting rooms, lounges, patios, laundry facilities, and second floor rooftop decks with plantings. The project will include retail space and a health clinic on the ground floor.

The Project has been designed as a sustainable development, incorporating principles from Leadership in Energy and Environmental Design (LEED). The project is registered with the US Green Building Council and will have many green features.

Project History

Request for Qualifications

In August of 2008, the Redevelopment Agency adopted a resolution to purchase the 7th and H site from the City, authorized funds for demolition of the existing former police station, and issued a Request For Qualifications (RFQ) to select a team to develop the site as a high density, deeply affordable, mixed-use building with strong sustainability features.

Mercy Housing California was selected as the Developer for the project, and the Redevelopment Agency approved an Exclusive Right to Negotiate agreement (ERN) and predevelopment loan on March 10, 2009. A second ERN was approved on March 23, 2010.

Approval of 7th and H Project Financing Documents

Community Process

The Developer has focused on community involvement throughout the planning process and has met with numerous community groups including the Downtown Sacramento Partnership, Interagency Council to End Chronic Homelessness, Alkali and Mansion Flats Historic Neighborhood Association, River District Redevelopment Advisory Committee, Sacramento Police Department, and Sacramento Sheriff's Department.

Financing

Affordability

The Project is to be developed in accordance with the Ten Year Plan to End Chronic Homelessness and the City's Single Room Occupancy (SRO) Strategy, with half of the units set aside for formerly homeless and at-risk populations. In order to accommodate the needs of this target population, the rent and income restrictions for the project are aimed at extremely low and very low income residents. The units are proposed to be allocated so that 75 units will be affordable to individuals at or below 30 percent of the Area Median Income (AMI), 35 units affordable at or below 40 percent of AMI, and the remaining 40 units affordable at or below 50 percent of AMI. As a consequence of this deep income targeting, the project is financially feasible only as a result of the proposed grant of the land for the Project by the Agency, establishment of an operating reserve account to cover projected operating deficits, and a commitment of Project-Based Housing Choice Vouchers for 25% of the units from the Housing Authority.

Funding Sources

The Developer has secured all necessary financing commitments for the \$47 million dollar project including 9% Low Income Housing Tax Credit (LIHTC) equity; Mental Health Services Act (MHSA) funds administered by the California Housing Finance Agency (CalHFA); Affordable Housing Program (AHP) funds through the Federal Home Loan Bank; loans and grants from the Agency; and County fee waivers. The Developer has received approval for project-based Housing Choice Vouchers (HCVs) from the Housing Authority under a recent Request for Proposals. It is anticipated that construction may begin by March 2011 upon approval of final building plans and closing of construction financing.

Development and Management Team

Developer and Owner

Mercy Housing California was formed through the merger of Rural California Housing Corporation and Mercy Charities Housing California in July 2000. Mercy Housing is a non-profit corporation dedicated to providing quality affordable housing with supportive programs to low-income persons in California.

Together, Mercy Housing California and Rural California Housing Corporation have been responsible for the construction of more than 2,900 affordable single-family self-help homeownership units and 124 multifamily rental properties with a total of more than seven thousand units. Their portfolio includes 18 properties in Sacramento County alone.

Approval of 7th and H Project Financing Documents

Mercy Housing California 47, a California Limited Partnership (Partnership) will be own and oversee the management of the Project. The Partnership will consist of RCHC GP LLC (RCHC LLC) as the managing general partner with Rural California Housing Corporation (a wholly owned affiliate of Mercy Housing California) as its member /manager and the 7th & H GP LLC (7th & H LLC) as the co-general partner with Mercy Housing Calwest (a wholly owned affiliate of Mercy Housing California) as its member/manager.

Due to tax credit investor requirements, the Developer has requested the Agency capital and operating grants be entered into by the 7th & H LLC, a related entity of the Partnership, while the loan agreement will be entered into by the Partnership. Both loan and grants will be secured with property owned by the Partnership.

Property Management

The project will be managed by Mercy Housing Management Group (MHMG), an affiliate of Mercy Housing. MHMG manages 216 properties nationally (more than 11,000 affordable housing units), including 100 properties in California. Rural California Housing Corporation (RCHC) will participate as a certified Community Housing Development Organization (CHDO).

Supportive Services

Supportive services will be delivered at the site through established multi-disciplinary service teams. Many homeless and formerly homeless individuals have complex medical disorders requiring careful coordination with various treatment systems. Thorough assessment and evaluation are essential to identifying the specific needs and the support individuals require.

Mercy Housing California will be the lead service provider and coordinator of services at the project. The project will be staffed with three Resident Service Coordinators who will work with all the on-site staff and partners to ensure that all resident needs are met and the project operates smoothly. The Sacramento County Division of Mental Health will be the lead agency in ensuring case management and mental health services for the eligible Mental Health Services Act residents.

An on-site full service health clinic will be operated by The Effort which has extensive experience serving the targeted population. The clinic will offer an integrated continuum of health care services, including mental health care and addictions treatment, for individuals and families.



7th and H Project Project Summary					
Address	Northwest corner of 7th and H Streets				
Number of Units	150				
Year Built	New Construction				
Acreage	0.55 acres				
Affordability	75 units at or below 30% of Area Median Income (AMI) 35 units at or below 40% of AMI 40 units at or below 50% of AMI				
Unit Mix and Rents		<u>30% AMI</u>	<u>40% AMI</u>	<u>50% AMI</u>	<u>Total</u>
	Studio	47	35	40	122
	1 Bedroom	28			28
		75	35	40	150
Square Footage		<u>SF per unit</u>	<u>No. of Units</u>		<u>Total</u>
	Studio	333	122		40,626
	1 Bedroom	534	28		14,952
	Retail	2,839			2,839
	Health Clinic	5,264			5,264
					63,681
	Gross Total Building Area				117,825
Resident Facilities	The project features community and meeting rooms, laundry facilities, property management office, ground floor retail space and a community health clinic.				
Permanent Sources		<u>Total</u>	<u>Per Unit</u>	<u>Per Sq Ft</u>	
	Tax Credit Equity	\$ 21,747,825	\$ 144,986	\$ 184.58	
	Previous Predevelopment Loan	\$ 455,000	\$ 3,033	\$ 3.86	
	Agency Loan--Constr. & Permanent	\$ 8,200,000	\$ 54,667	\$ 69.59	
	Agency Grant--Land Donation	\$ 3,142,509	\$ 20,950	\$ 26.67	
	Agency Grant--Constr. & Permanent	\$ 6,859,695	\$ 45,731	\$ 58.22	
	Agency Grant--Operating Reserve	\$ 3,750,000	\$ 25,000	\$ 31.83	
	Mental Health Services Act (MHSA)	\$ 1,800,000	\$ 12,000	\$ 15.28	
	Affordable Housing Program (AHP)	\$ 1,000,000	\$ 6,667	\$ 8.49	
	Fee Waivers	\$ 311,301	\$ 2,075	\$ 2.64	
	TOTAL SOURCES	\$ 47,266,330	\$ 315,109	\$ 401.16	
Permanent Uses					
	Acquisition Costs	\$ 3,142,509	\$ 20,950	\$ 26.67	
	Construction	\$ 30,042,833	\$ 200,286	\$ 254.98	
	Development Impact Fees/Permits	\$ 1,781,790	\$ 11,879	\$ 15.12	
	Architecture, Engineering, Survey	\$ 2,138,175	\$ 14,255	\$ 18.15	
	Contingency	\$ 1,853,690	\$ 12,358	\$ 15.73	
	Financing Costs	\$ 1,395,614	\$ 9,304	\$ 11.84	
	Reserves	\$ 4,017,631	\$ 26,784	\$ 34.10	
	Legal Fees	\$ 80,000	\$ 533	\$ 0.68	
	Developer Fee	\$ 2,000,000	\$ 13,333	\$ 16.97	
	Third Party Reports, Marketing, Other	\$ 814,087	\$ 5,427	\$ 6.91	
	TOTAL USES	\$ 47,266,330	\$ 315,109	\$ 401.16	
Management / Operations	Proposed Developer: Mercy Housing California 47, a California Limited Partnership				
	Property Management Company: Mercy Housing Management Group				
	Operations Budget:	\$769,737	\$5,132 per unit		
	Resident Services	\$150,000	\$1,000 per unit		
	Replacement Reserves:	\$75,000	\$500 per unit		



RESOLUTION NO. 2011 –

Adopted by the Redevelopment Agency of the City of Sacramento

on date of

7TH AND H PROJECT, APPROVAL OF FINANCING DOCUMENTS WITH MERCY HOUSING CALIFORNIA 47, A CALIFORNIA LIMITED PARTNERSHIP AND 7TH & H GP LLC, A CALIFORNIA LIMITED LIABILITY COMPANY

BACKGROUND

- A. The Agency finds that the 150-unit 7th and H Project (Project), which is located in the Railyards Redevelopment Project Area and within the City's jurisdiction, will eliminate blight and increase the community's supply of housing available to extremely low, very low, low and moderate income persons and families and housing for all income levels which will be of benefit to the Project Area.
- B. On June 10, 2010, the Redevelopment Agency of the City of Sacramento (Agency) and Sacramento City Council made certain findings and approved a Funding Commitment which included a \$3,142,509 grant of land and project interests; a \$8,655,000 construction and permanent loan funded by HOME and City and State Housing Trust Funds, a \$6,859,695 grant for capital and a \$3,750,000 for a capitalized operating reserve funded by Downtown Low Moderate Tax Increment Funds to assist in funding the costs of acquisition, construction and permanent financing of the Project and authorized the Agency to execute and transmit a funding commitment to Mercy Housing California 47, a California Limited Partnership (Partnership) or related entity.
- C. On June 10, 2010, the Sacramento City Council held a public hearing and adopted a resolution authorizing the 33443 Report and the Agency approved a Disposition and Development Agreement (DDA) transferring the 7th and H property to Mercy Housing California 47, a California Limited Partnership (Partnership) or related entity.
- D. The Partnership has requested the Agency grants be entered into by the 7th & H GP LLC, a California Limited Liability Company (which is a related entity of the Partnership) due to tax credit investor requirements.
- E. In addition to Agency funding, the Partnership is entering into a construction deed of trust with a lender other than the Agency, requiring subordination of Agency DDA and funding agreements. An economically feasible alternative method of financing on substantially comparable terms and conditions but without subordination is not reasonably available.

- F. The 7th and H Project was analyzed by the City of Sacramento in accordance with CEQA Guidelines and a Class 32 Categorical Exemption was prepared and executed on April 28, 2010. The proposed actions, associated with sale of the property, approval of the DDA and budget amendments and allocations, do not constitute a new project or substantive changes or modifications to project as previously analyzed. Because there is neither any new information of substantial importance nor any substantial changes with respect to the circumstances under which the project will be undertaken that would require preparation of supplemental environmental documentation, the recommended actions do not require further environmental review per CEQA Guidelines §§ 15162 or 15163.
- G. An Environmental Assessment was prepared for the 7th and H Project and a Finding of No Significant Impact (FONSI) was made in accordance with National Environmental Policy Act (NEPA) under 24 CFR 58.40. The FONSI was published in the Daily Recorder on October 11, 2010, the comment period closed on October 26, 2010, a Request for Release of Funds and Certification was submitted to the U.S. Department of Housing and Urban Development (HUD) on November 10, 2010, and the Authority to Use Grant Funds was signed by HUD on November 29, 2010. The actions herein fall within the scope of the project that was previously analyzed; therefore, additional environmental review pursuant to NEPA is not required.

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

- Section 1. The above recitals are found to be true and correct and the proposed action is exempt from environmental review under CEQA Guidelines Sections 15310 and 15301(a) and (d). The project is Categorical Excluded from environmental review under National Environmental Policy Act regulations at 24 CFR Section 58.35 (a) subsection (3)(i).
- Section 2. The Executive Director is authorized to grant the property which is valued at \$3,142,509 to Mercy Housing California 47, a California Limited Partnership pursuant to the terms and conditions reflected in the DDA.
- Section 3. The Executive Director, or her designee, is authorized to enter into a loan in the amount of \$8,200,000 funded by \$3,200,000 in City Housing Trust Funds, \$3,000,000 in State Housing Trust Funds and \$2,000,000 in HOME Investment Partnership Program (HOME) funds and execute a loan agreement and related documents with Mercy Housing California 47, a California Limited Partnership (Partnership).
- Section 4. The Executive Director, or her designee, is authorized to enter into a capital grant in the amount of \$6,859,695 funded by Downtown Low Moderate Tax Increment Funds and execute a Conditional Grant Agreement, Side Funding Agreement and related documents with the 7th & H GP LLC, a California Limited Liability Company (LLC), (a related

entity of the Partnership), subject to appropriate funding agreements executed among the Agency, LLC and Partnership.

Section 5. The Executive Director, or her designee, is authorized to enter into a operating grant in the amount of \$3,750,000 funded by Downtown Low Moderate Tax Increment Funds and execute a Conditional Grant Agreement, Operating Deficit Funding Agreement and related documents with 7th & H GP LLC, a California Limited Liability Company (LLC), (a related entity of the Partnership), subject to an Operating Deficit Funding Agreement or other appropriate funding agreements executed among the Agency, LLC and Partnership.

Section 6. The Executive Director, or her designee, is authorized to execute the Financing Documents in materially the form of Exhibits A, B and C as attached to this resolution, as prepared by the Agency legal counsel and to enter into other agreements, execute other documents and perform other actions necessary to fulfill the intent the Funding Commitment and DDA and to ensure proper repayment of the Agency funds, including without limitation, the Wachovia Rider to the Loan, Capital Grant, Operating Grant, in materially in the form of Exhibit D, subordination, extensions and restructuring of payments, all as approved by Agency legal counsel.

Table of Contents:

Exhibit A:	Loan Agreement
Exhibit B:	Conditional Grant Agreement (Capital)
Exhibit C:	Conditional Grant Agreement (Operating)
Exhibit D:	Wachovia Rider



EXHIBIT A
LOAN AGREEMENT

**CONSTRUCTION AND PERMANENT LOAN AGREEMENT
7TH & H PROJECT, SACRAMENTO, CA
(LOAN B)**

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 the Definitions 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	Redevelopment Agency of the City of Sacramento	
Legal Status	A public body, corporate and politic	
Principal Address	801 12 th Street, Sacramento CA 95814	
"BORROWER"	The borrower of the Loan funds whose name, legal status and address are:	
Name	Mercy Housing California 47, a California Limited Partnership	
Legal Status	A California Limited Partnership	
Principal Address	3120 Freeboard Drive, Suite 202, West Sacramento, CA 95691	
"LOAN"	The Loan made by this Loan Agreement.	
"LOAN COMMITMENT"	Lender's loan commitment, made by letter dated as of	June 10, 2010
"LOAN PROGRAM"	Lender's Loan Program, commonly known as	City Housing Trust Funds, California State Housing Trust Funds, City HOME Funds
"LOAN AMOUNT"	Eight Million Two Hundred Thousand Dollars (\$8,200,000)	
"INTEREST RATE"	The interest rate is One Per Cent (1%) per year, simple interest.	
"PAYMENT START DATE"	Principal and Interest are deferred until the Maturity Date.	
"Maturity DATE"	The first day of the 684th calendar month following the Effective Date.	
"PAYMENT SCHEDULE"	Payment of principal and accrued interest are due and payable in full on the Maturity Date. At completion of construction, Borrower shall submit to Lender a cost certification prepared by a qualified, independent auditor acceptable to Lender, which cost certification shall indicate the amounts actually spent for each item in the cost breakdown. If there is an aggregate savings in the total of all such cost breakdown items from the cost breakdown items in the original Budget approved by the Lender, the Lender shall withhold for itself as loan repayment, one-half of such savings from the amount of retention then held by the Lender, and the Loan balance shall be reduced by the amount so withheld. The Lender, in its sole discretion, shall determine any reduction and/or repayment of the Loan based upon this cost certification and the original approved Budget for the Project.	
"BORROWER EQUITY"	\$21,747,825 Investor Equity	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.
	\$600,000 deferred until Receipt of Form 8609 and Final Cost Certification	Which is Borrower's non-cash contribution to the Project (such as deferred Developer fees).
"SPECIAL TERMS"	NA	

"PROJECT"	Which is the Project to be developed on the Property with the Loan funds, described as:	Pursuant to the DDA, new construction of a 150-unit mixed-use single room occupancy (SRO) affordable supportive housing project at 7 th and H Streets in Sacramento, California.
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B. "COLLATERAL" The Collateral securing repayment of the Loan, which Collateral consists of the following:

"PROPERTY"	The following described real property, which is security for the Loan and the site of the Project:	
Address	716 7 th Street, 631 H Street and 625 H Street, Sacramento, CA 95814	
Assessor's Parcel Numbers	002-0141-001-0000, 002-0141-002-0000, 002-0141-003-0000; 002-0141-004-0000, 002-0141-007-0000	
"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.	
"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	
"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
OTHER ADDITIONAL COLLATERAL	Borrower's interest in the following property:	None

C. "ESCROW INFORMATION":

"Title Company" and "Escrow Agent"	Fidelity National Title Company	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"	March 18, 2011	Which is the date for close of the Escrow, as it may be changed or 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: Scope of Development</u>	"Scope of Development"
<u>Exhibit 3: Note Form</u>	"Note"
<u>Exhibit 4: Trust Deed Form</u>	"Trust Deed"
<u>Exhibit 5: Regulatory Agreements</u>	"Regulatory Agreements"
<u>Exhibit 6: Escrow Instructions Form</u>	"Escrow Instructions"
<u>Exhibit 7: Funding Requirements</u>	"Funding Requirements"

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

Construction Agreements for the Project
Architectural Agreement for the Project
Borrower's organizational documents, such as partnership agreements or corporate articles and by-laws
"Budget" for the Project
Evidence of financing
Plans and Specifications

F. "ASSIGNED DOCUMENTS" Borrower shall assign the following documents to Lender:

Construction Contract
Architectural Contract

G. "CONSTRUCTION INFORMATION":			
"Completion Date"	December 31, 2012	Which is the date on or before which the Completion of the Project must occur.	
"General Contractor"	J.R. Roberts/Deacon, Inc.	Which is the general contractor for construction of the Project.	
"Project Architect"	Mogavero Notestine Associates	Which is the architect 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 until Certificate of Completion has been issued by Lender as referenced in the DDA, at which time \$620,000 will be disbursed with remaining amount being retained by Lender and disbursed subject to Section 9.3 of the Loan Agreement.	Percentage of disbursement:	Ten Percent (10%)
		Percentage of Loan:	Ten Percent (10%)

H. "SPECIAL PROVISIONS" The following special provisions shall be in addition to the provisions of this Loan Agreement:	
1.	This Loan is made pursuant to the Disposition and Development Agreement between the Parties dated June 10, 2010 ("DDA"). This Loan Agreement is subject to the DDA including without limitation, conditions precedent to funding the Loan or making disbursements of the Loan proceeds.
2.	Loan funds shall be used solely for Project construction. No Loan funds shall be used for predevelopment costs, except as provided in an approved Lender budget. Unless otherwise noted in the budget, predevelopment costs are not subject to withholding as Retention.
3.	Mercy Services Corporation is approved by the Lender as "Property Manager" for the Property and Project.
4.	At the Completion Date as defined in the DDA, Borrower shall submit to Agency a preliminary cost certification prepared by a qualified, independent auditor acceptable to Agency, which cost, shall indicate the amounts actually spent for each item in the cost breakdown. If there is an aggregate savings 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 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, provided that the tie-breaker score on the California Tax Credit Allocation Committee tax credit application is not negatively impacted.

3. **DEFINITIONS.** Terms not defined in this Loan Agreement shall have the definitions assigned in the Trust Deed. As used in this Loan Agreement, the following terms shall have the following meanings:

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

3.2. "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.

3.3. "Close of Escrow" means the fulfillment of the Escrow terms and conclusion of the Escrow, including, without limitation, the execution of unexecuted documents, the recordation of documents specified for recording, the issuance of title insurance policies, the payment of fees and the delivery of funds and documents as directed in the escrow instructions for the Escrow. The Close of Escrow shall occur on the Closing Date.

3.4. "Completion of the Project" means that, in Lender's sole judgment the Project has been constructed, rehabilitated, completed, equipped, and furnished in a good and proper manner in accordance with the Plans and Specifications, the Scope of Development and the Budget as approved by Lender; all notices of completion with respect to the Project have been filed and all statutory lien periods have expired; all costs of constructing the Project have been paid; all necessary certificates of occupancy have been issued; and all of the conditions to final disbursement of the Loan have been satisfied.

3.5. "Escrow" is the escrow with Title Company for the closing of the Loan.

3.6. "Escrow Instructions" means the Escrow Instructions for the Escrow signed by each of the parties to this Loan Agreement.

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

3.8. "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.

3.9. "Fixtures" means all fixtures located on or within the Project or now or later installed in or used in connection with any of the Project, including, as applicable and without limitation, all partitions, screens, awnings, motors, engines, boilers, furnaces, pipes, plumbing, elevators, cleaning and sprinkler systems, fire extinguishing apparatus and equipment, water tanks, heating, ventilating, air conditioning and air cooling equipment, built-in refrigerators, and gas and electric machinery, appurtenances, and equipment, whether or not permanently affixed to the Project.

3.10. "General Contractor" means the general contractor named by Borrower in its 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.

3.11. "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.

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

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

3.14. "Loan Agreement" means this Construction and Permanent Loan Agreement, all Exhibits attached to this Loan Agreement (which are incorporated in this Loan Agreement by this reference) and the Loan Documents which are not otherwise included in this definition.

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

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

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

3.18. "Other Lender Draw" means a draw request or other request for disbursement submitted to another lender for the Project.

3.19. "Personalty" means, whether or not listed as Additional Collateral, all of Borrower's interest in all accounts, contract rights, and general intangibles (specifically including any insurance proceeds and condemnation awards) arising out of the ownership, development, or operation of the Property, and all furniture, furnishings, equipment, machinery, construction materials and supplies, leasehold interests in personal property, and all other personal property (other than Fixtures) of Borrower now or later located about the Property, together with all present and future attachments, accessions, replacements, substitutions, and additions, and the cash and noncash proceeds.

3.20. "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.

3.21. "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.

3.22. "Project" means the development of the Property in accordance with the Plans and Specifications including, without limitation, all existing buildings, improvements, and appurtenances on the Property, all work of demolition and

rehabilitation to be conducted on the Property, and all improvements, additions, and replacements constructed or placed at any time on the Property.

3.23. "Security Documents" means the Trust Deed, together with all other documents entered into between Borrower and Lender or by Borrower in favor of, or for the benefit of, Lender that recite that they are to secure the Loan.

3.24. "Title Policy" means the title insurance policies to be issued in connection with this Loan, as further defined in the Escrow Instructions.

3.25. "Unavoidable Delay" is a delay in the performance by a party of any obligation which delay is unforeseeable and beyond the control of such party and without its fault or negligence. Unavoidable Delay shall include acts of God, acts of the public enemy, acts of the Federal Government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, and unusually severe weather (as for example, floods, tornadoes, or hurricanes) or delays of subcontractors due to such causes. In the event of the occurrence of any such enforced delay, the time or times for performance of such obligations of the parties shall be extended for the period of the enforced delay, as determined by the Lender, provided that the party seeking the benefit of the provisions of this Section shall, within thirty (30) days after it has or should have knowledge of any such enforced delay, have first notified the other party, in writing, of the delay and its cause, and requested an extension for the period of the enforced delay.

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 Close of Escrow, 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, the Trust Deed, 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, the Note, the Trust Deed, and each of the other Loan Documents constitutes 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. **LITIGATION.** There are no actions, suits, or proceedings pending or, to the best knowledge of Borrower, threatened against or affecting Borrower, the Property, or any part of it, or involving the validity or enforceability of the Trust Deed, the priority of the lien, or the validity or enforceability of any of the other Loan Documents, at law or in equity, or before or by any Governmental Authority. Borrower is not in default with respect to any order, writ, injunction, decree, or demand of any court or other Governmental Authority.

4.5. **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 agreement, or other instrument to which the Borrower or any of its general partners is a party or by which it or they or the Property may be bound or affected.

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

4.7. **TITLE TO PROPERTY.** Borrower is the sole legal and beneficial owner of the Property, which is free of all claims, liens, and encumbrances other than those shown in the Title Policy.

4.8. **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.

4.9. **TITLE OF PERSONALTY.** All Personalty is vested solely in Borrower, free of all claims, liens, and encumbrances, except loans approved by Lender, and the security interest of Lender in the Personalty is a valid lien.

4.10. **USE OF PROCEEDS.** All Loan Proceeds will be disbursed as provided in this Loan Agreement and used only for payment of the costs of construction of the Project in accordance with the Plans and Specifications and for other purposes specified in the Loan.

4.11. **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.

4.12. **PLANS AND SPECIFICATIONS.** The Plans and Specifications are satisfactory to Borrower and the General Contractor and have been approved by the Lender and all other construction lenders. There are no structural defects in the Project as shown in the Plans and Specifications that are known to or reasonably should have been known to Borrower or its agents and employees, and to the best of Borrower's knowledge, no violation of any Governmental Requirement exists.

4.13. **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 development of the Project 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. 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 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. **CLOSING IN ADVANCE OF SENIOR LOAN.** Lender will subordinate this Loan to the senior loan, provided that the senior loan does not require modification of this Loan Agreement or Lender's entering into any agreements containing new or modified Loan terms.

5.5. **NOTE AND SECURITY DOCUMENTS.** The Loan is to be evidenced by the Note executed by Borrower in favor of Lender and delivered to Lender upon Close of Escrow. Repayment of the Note is to be secured by the Trust Deed covering the Property and the Project. Borrower shall execute the Trust Deed in favor of the Title Company as Trustor in trust for the benefit of Lender and deliver it to Escrow for recordation. The Loan is also secured by the Additional Collateral, if any, as evidenced by the applicable Security Documents.

5.6. **REGULATORY AGREEMENT.** The Regulatory Agreement imposing covenants, conditions and restrictions running with the land is a material consideration for the making of the Loan. Borrower shall execute the Regulatory Agreement prior to Close of Escrow and deliver it to Escrow for recordation.

5.7. **ESCROW.** The parties shall open the Escrow promptly after the Effective Date. Escrow shall close as provided in the Escrow Instructions on or before the Closing Date.

5.8. **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:

CONDITION OF TITLE. Lender shall cause Escrow Agent to issue to Borrower (with a copy to Lender) the Preliminary Report, together with copies of all documents relating to title exceptions referred to in the Preliminary Report. At Close of Escrow, Lender's Trust Deed shall be a valid lien against the Property securing the Loan and subject to no exceptions to title (of record or off record) other than the exceptions listed in the "Conditions of Title" in the Escrow Instructions.

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) the closing conditions as defined in the Escrow Instructions have been fulfilled as of Close of Escrow; (c) Lender has received environmental clearance for the use of HOME Funds from the Department of Housing and Urban Development; (d) Borrower's representations and warranties in this Loan Agreement are true and correct as of the Close of Escrow; (e) 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; and (f) Lender has approved the Approval Documents.

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) the closing conditions as defined in the Escrow Instructions have been fulfilled as of Close of Escrow; (c) Borrower has met the Conditions to Close of Escrow, (d) Lender's representations and warranties in this Loan Agreement are correct as of the date of this Loan Agreement and as of the Close of Escrow; and (e) 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.

7. 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. Borrower shall comply fully with all relocation laws that are the obligation of Lender or are otherwise applicable to the Project. Lender and Borrower acknowledge that the subject property consists of vacant lots with no improvements, thereon.

7.1. RELOCATION COSTS. Unless otherwise stated in this Agreement, any amounts paid by Lender for relocation costs and services shall be considered advances under the Loan.

7.2. COOPERATION AND ACCESS. Borrower shall cooperate fully with Lender in complying with such relocation laws, including without limitation, providing Lender access to all tenants of the Property, to all books and records related to the tenants of the Property and to all properties offered for temporary or permanent relocation. Prior to taking any action with respect to relocation of tenants, Borrower shall meet with Lender to establish reasonable protections for tenants and related reporting requirements for Borrower.

7.3. BORROWER AS RELOCATION AGENT. With the approval of Lender, Borrower may act as Lender's agent in accomplishing such relocation. Lender and Borrower by memorandum in writing shall establish their respective duties related to such relocation. If Lender and Borrower agree that Borrower will act as Lender's agent for purposes of this Loan, Borrower may enter into agreements for the provision of relocation services, or Borrower may perform such services directly. Borrower shall, by provisions in its agreements or by direction to its staff, assure that the entity performing the relocation services: (a) shall comply with all applicable law; (b) shall fully inform Lender of all relocation activities; (c) shall make all requests for direction or clarification to Lender; and (d) shall respond to and follow the Lender's instruction and direction.

8. CONSTRUCTION. As a condition of the Loan, Borrower will diligently proceed with construction in accordance with the Scope of Development as approved by Lender. Borrower shall complete such work on or before the Completion Date, subject to Unavoidable Delay.

8.1. 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, together with approvals by the Project Architect, if any, and the General Contractor. Borrower shall maintain funds available in the contingency reserve that are in substantially the same percentage of the original contingency reserve as the percentage of the Project then remaining to be completed.

8.2. **CONTRACTORS AND CONTRACTS.** Upon Lender's request, Borrower will furnish to Lender correct lists of all 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 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.

8.3. **INSPECTION.** Lender may, at any time and without notice to Borrower, enter on the Property and inspect the Project; and, 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 General Contractor to cooperate fully) with the Lender and its Lender's designated agent and to permit all appropriate access to the Property and to all relevant books and records. Borrower shall bear the cost of reasonable inspections, except that Lender shall bear its costs of inspection. If however, Lender's inspection discovers issues of a nature that require further third-party review or investigation, Borrower shall bear the costs of such third party review.

8.4. **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 twenty (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.

8.4.1. Lender, at any time, may require Borrower to obtain a lien waiver with respect to each payment to the General Contractor and each payment by the General Contractor or Borrower to each of the various subcontractors and material suppliers. Lender, at any time, may require Borrower to make any payments for the Project by joint check made payable to the General Contractor and subcontractor for whose account the payment is to be made, as joint payees.

8.4.2. In any event, 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.

8.5. **PAYMENT AND PERFORMANCE BONDS.** As a condition precedent to beginning construction of the Project, the Borrower shall provide the Lender a performance bond and a labor and material payment bond obtained by Borrower or its general contractor in favor of the Borrower and Lender as named dual obligees, in form and amount as approved by the Lender and securing, respectively, completion of the work and payment of all labor and material suppliers and subcontractors for the work as stated in the construction contract for the Project. The bonds shall be written with a surety listed as acceptable to the federal government on its most recent list of sureties. Borrower shall assure compliance with all requirements of the surety. Borrower shall permit no changes in the work to be performed by the general contractor and shall make no advance payments to the general contractor without prior written notice to the surety and the Lender, if such change or payment could release the surety of its obligations under the bonds.

8.6. **SECURITY INSTRUMENTS.** Upon request by Lender and subject to the security interests of lender whose loan is secured by the Property and senior to Lender's security interest in the Property, 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 require such instrument at any time, and from time to time may require additions of new contracts and other property. 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.

8.7. **OTHER LENDER DRAW.** Borrower shall provide Lender with true, accurate and correct copies of each Other Lender Draw, if any, including without limitation all supporting information, documents, and other required submittals. Lender shall have the right to reject an Other Lender Draw, for failing to comply with the Loan, for changing the Project in any material way, or for impairing the ability of Lender to enjoy the practical realization of its rights under the Loan and its

related instruments. If Lender rejects an Other Lender Draw, Borrower shall withdraw the Other Lender Draw and shall not accept and shall return any disbursement on account of such Other Lender Draw.

8.7.1. **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.

8.8. **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.

8.9. **PREVAILING WAGES.** Lender advises Borrower that the Project is subject to the payment of prevailing wages under California law. Borrower shall inform the General Contractor and shall require the General Contractor to inform all subcontractors and materialmen furnishing goods or services to the Project of Lender's determination of the applicability of California prevailing wage requirements. Borrower and General Contractor have had the opportunity to meet with their respective legal counsel and to request a determination of the matter before the California Department of Industrial Relations and any other appropriate governmental bodies. Borrower and General Contractor have made their own independent determinations of the applicability of prevailing wage laws and have independently implemented such determinations. Borrower indemnifies, holds harmless and defends the Lender 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 General Contractor or both of them. Borrower shall also comply with Davis-Bacon prevailing wage requirements as described in the Federal Requirements.

9. LOAN DISBURSEMENT PROCEDURES.

9.1. **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:

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

9.1.2. If requested by Lender, Borrower has furnished to Lender, as a Project cost, an endorsement to the Title Policy showing no intervening liens or encumbrances on the Property and insuring the full disbursement, together with a satisfactory report under the California Uniform Commercial Code showing no liens or interests other than those of Lender and other lenders.

9.1.3. Lender is satisfied that all completed work has been done using sound, new materials and fixtures, in a good and proper manner, and all materials, fixtures, and furnishings installed on or acquired for the Property will be owned by Borrower free of any liens, encumbrance, or other interests of any kind other than Lender's lien or security interest, and the liens of other approved lenders.

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

9.1.5. 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.

9.1.6. 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.

9.2. **CONDITIONS PRECEDENT TO FIRST DISBURSEMENT.** Borrower's request for the first 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 first loan disbursement under this Loan Agreement when the following conditions precedent and the conditions precedent stated in Section 9.1 have been met:

9.2.1. There is no legal action threatened or pending against Borrower or affecting the Property or any Additional Collateral.

9.2.2. All conditions to Close of Escrow have been satisfied in accordance with the Loan Agreement.

9.2.3. Borrower has provided proof of all insurance required by the Loan Documents.

9.2.4. The construction lender's construction loan is closed and in full force and effect, has not been modified and no event has occurred that with notice or the passage of time or both could result in the termination of it. Nothing in the construction loan, or submissions and approvals made under it, conflicts with this Loan Agreement. Borrower has done all things necessary to keep unimpaired its rights under the construction lender's construction loan.

9.2.5. The CalHFA and AHP loans for the Project are closed and in full force and effect, have not been modified and no event has occurred that with notice or the passage of time or both could result in the termination of these loans. Nothing in the CalHFA and AHP loans, or submissions and approvals made under it, conflicts with this Loan Agreement. Borrower has done all things necessary to keep unimpaired its rights under the CalHFA and AHP financing for the Project.

9.2.6. The Amended and Restated Limited Partnership Agreement (Partnership Agreement) between the partners and the funding obligations by and between the partners have been executed and are in full force and effect. Nothing in the Partnership Agreement, or submissions and approvals made under it, conflicts with this Loan Agreement. Borrower has done all things necessary to keep unimpaired its rights under the Partnership Agreement.

9.2.7. Borrower has filed all tax returns required to be filed and paid all taxes due, which, if unfiled or unpaid, might adversely affect Lender's security under the Security Documents.

9.3. **CONDITIONS PRECEDENT TO FINAL DISBURSEMENT.** Lender shall make the final loan disbursement under this Loan Agreement when the following conditions precedent and the conditions precedent stated in Section 9.1 have been met:

9.3.1. As applicable, the Project Architect and the Lender's designated agent will have certified to Lender, on AIA Form G704 and in a manner satisfactory to Lender:

- a. That the Project has been duly completed in a good and proper manner using sound, new materials;
- b. That the Project complies with the Plans and Specifications, the requirements of all Governmental Authorities and any other party having enforceable rights regarding the construction of the Project; and
- c. That the Project is structurally sound.

9.3.2. Borrower has provided to Lender a true, accurate and complete copy of the final draw request to all other lenders for the Project.

9.3.3. Borrower has filed all tax returns required to be filed and paid all taxes due, which, if unfiled or unpaid, might adversely affect Lender's security under the Security Documents.

9.3.4. Title policy endorsements in form and amount satisfactory to Lender (including an endorsement insuring lien-free completion of the Project) have been furnished to Lender.

9.3.5. Borrower has furnished evidence, in form and substance satisfactory to Lender, that:

- a. The General Contractor and subcontractors and material suppliers and their subcontractors and material suppliers have been paid in full;
- b. Borrower has obtained final certificates of occupancy for all of the Project;
- c. All other permits and approvals necessary for the construction, equipping, management, operation, use, or ownership of the Project have been obtained, subject only to those conditions approved by Lender, and
- d. The completed Project complies with all applicable zoning regulations, subdivision map acts, building code provisions, and similar governmental laws and regulations, and has all utilities and adequate ingress and egress from public streets, that evidence to be in the form of a certificate executed by Borrower in favor of Lender.

9.3.6. That Borrower has provided to Lender an inventory showing make, model, value, cost, and location of all furniture, fixtures, and equipment and other personal property of a value in excess of \$1,000 and used in the management, maintenance, and operation of the Project, that are included in the collateral for the Loan.

9.3.7. Borrower has filed a notice of completion of the Project necessary to establish the commencement of the shortest statutory period for filing of mechanics' and materialmen's liens.

9.3.8. Lender has received written approval from the surety on any bond required by Lender.

9.3.9. Borrower has submitted to Lender a final cost certification prepared by a CPA.

9.4. **MAKING DISBURSEMENT.** Lender shall pay each disbursement request within twenty (20) business days after the disbursement request is submitted to Lender, subject to fulfillment of the conditions precedent as stated in Section 9.1. Lender shall disburse the actual cost of the work represented in the disbursement request by Borrower, reduced by the cost of work included in the request and not satisfactorily completed and by the amount of the Retention to be withheld.

9.5. **COMPLIANCE.** To the best of Borrower's knowledge, the construction, use, and occupancy of the Property and Project comply in full with, or if built according to the Plans and Specifications, will comply in full with, all Governmental requirements. No right to construct or use the Project is to any extent dependent on any real property other than the Property. All approvals, licenses, permits, certifications, filings, and other actions normally accepted as proof of compliance with all Governmental requirements by prudent lending institutions that make loans secured by real property in the general area of the Property, to the extent available as of the date of this Loan Agreement, have been given or taken, or Borrower is entitled to have them given or taken as the ministerial act of the applicable Governmental Authority.

10. RESIDENTIAL OPERATIONS.

10.1. **PROPERTY MANAGEMENT COMPANY.** For the life of the Loan, Borrower shall obtain and maintain a property management agreement with a top quality and duly accredited real estate property management company for the management of the Property, and shall assure the compliance of the property management with such agreement. Lender shall not disburse any funds under this Loan Agreement unless and until it has reviewed and approved the agreement as adequate and the property management company as top quality and duly accredited. Lender shall have the right to review and approve any proposed changes to scope of said agreement and to changes in the real estate property management company, prior to Borrower's making such changes. Any such changes made without Lender approval shall be a default of the loan. The Lender has approved the Property Manager as a qualified property management company for the Project.

10.2. **REPLACEMENT RESERVES.** Borrower shall maintain commence and maintain the collection of reserves by May 1, 2013 for replacement and repairs required to be made to the Property, fixtures on the Property or personal property used on the Property, or otherwise as approved by Lender, in an amount, at all times, not less than Five Hundred Dollars (\$500) for each residential unit in the Project.

10.3. **VERIFICATION OF NET INCOME.** When requested by Lender, Borrower shall provide certified financial statements and such other evidence as the Lender may deem necessary to verify the Project net income, including without limitation copies of certified rent rolls, bank statements, billing statements and invoices.

11. DEFAULT.

11.1. **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:

11.1.1. The occurrence of an Event of Default under the DDA.

11.1.2. The occurrence of an Event of Default under the grants to 7th & H GP LLC, a California limited liability company (made concurrently with this Loan).

11.1.3. The occurrence of an Event of Default under the Trust Deed.

11.1.4. Subject to Borrower's legal rights to contest a governmental requirement, Borrower's failure to comply with any governmental requirements, unless within ten (10) days after notice of such failure by Lender or the respective governmental entity or after any action has been commenced to enforce such requirement, Borrower has cured such failure.

11.1.5. Borrower's failure to keep in full force any permit, license, consent, or approval with respect to the construction, occupancy, or use of the Project, unless within ten (10) days after notice by the issuing entity or Lender of such failure, Borrower has promptly cured such failure.

11.1.6. Any material deviation from the Plans and Specifications in the construction of the Project, or the appearance or use of defective workmanship or materials in the construction of the Project, if Borrower fails to remedy them or to diligently proceed to remedy them to Lender's satisfaction within ten (10) days after Lender's written demand to do so.

11.1.7. Borrower's failure to complete the construction of the Project by the Completion Date.

11.1.8. The filing of any lien against the Property or Project or the service on Lender of any bonded stop notice related to the Loan, if the claim of lien or bonded stop notice continues for thirty (30) days without discharge, satisfaction, or the making of provision for payment (including bonding) to the satisfaction of Lender.

11.1.9. The attachment, levy, execution, or other judicial seizure of any portion of the Property or Project, or any substantial portion of the other assets of Borrower, that is not released, expunged, bonded, discharged, or dismissed within thirty (30) days after the attachment, levy, execution, or seizure.

11.1.10. Making of any unauthorized payment from Loan Proceeds or other funds of Lender that is not cured within ten (10) days.

12. REMEDIES.

12.1. **OPTION TO ACT.** On the occurrence of any Event of Default, 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:

12.1.1. Terminate its obligation to make disbursements.

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

12.1.3. 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.

12.1.4. 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 or the Trust Deed.

12.1.5. 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 which amounts will be deemed secured by the Trust Deed.

12.2. **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.

12.3. 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.

12.4. GRANT OF POWER. Subject to the prior rights of lenders whose loans are secured by the Property and senior to the rights of Lender, Borrower irrevocably appoints Lender as its attorney-in-fact, with full power and authority, including the power of substitution, exercisable on the occurrence of an Event of Default and during the continuance thereof, to act for Borrower in its name, place, and stead as provided in this Loan Agreement, to take possession of the Property and Project by action under the Trust Deed, remove all employees, contractors, and agents of Borrower, to complete or attempt to complete the work of construction, and to market, sell, or lease the Property and Project; to make any additions, changes, and corrections in the Plans as may be necessary or desirable, in Lender's sole discretion, or as it deems proper to complete the Project; to employ any contractors, subcontractors, suppliers, architects, inspectors, consultants, property managers, and other agents that Lender, in its sole discretion, deems proper for the completion of the Project, for the protection or clearance of title to the Property or Personalty, or for the protection of Lender's interests, to employ security guards to protect the Property and Project from injury or damage; to pay, settle, or compromise all bills and claims then existing or later arising against Borrower that Lender, in its sole discretion, deems proper for the completion of the Project, for the protection or clearance of title to the Property, or for the protection of Lender's interests; to prosecute and defend all actions and proceedings in connection with the Property or Project; and to execute, acknowledge, and deliver all other instruments and documents in the name of Borrower that are necessary or desirable, to exercise Borrower's rights under all contracts concerning the Property or Project, and to do all other acts with respect to the Property or Project that Borrower might do on its own behalf, in each case as Lender in its reasonable discretion deems proper.

13. LIABILITY INSURANCE. With regard to this Loan Agreement, the Borrower shall obtain and maintain for the life of the Regulatory Agreements, and require the General Contractor and subcontractors for the Project to obtain and maintain for the term of the development of the Project, such insurance as will protect them, respectively, from the following claims which may result from the operations of the Borrower, General Contractor, subcontractor or anyone directly or indirectly employed by any of them, or by anyone for whose acts any of them may be liable: (a) claims under workers' compensation benefit acts; (b) claims for damages because of bodily injury, occupational sickness or disease, or death of its employees; (c) claims for damages because of bodily injury, sickness or disease, or death of any person other than its employees; (d) claims for damages insured by usual personal injury liability coverage which are sustained (1) by any person as a result of an offense directly or indirectly related to the employment of such person by the Borrower, or (2) by any other person; claims for damages, other than to the construction itself, because of injury to or destruction of tangible property, including resulting loss of use; (e) claims for damages because of bodily injury or death of any person or property damage arising out of the ownership, maintenance or use of any motor vehicle; and (f) claims for contractual liability arising from the Borrower's obligations under this Loan Agreement.

13.1. LIABILITY INSURANCE POLICY LIMITS. Borrower shall obtain all insurance under this Section 13 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:

13.2. WORKER'S COMPENSATION. Borrower shall obtain and maintain worker's compensation coverage 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.

13.3. 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 better. Such insurance shall have limits of liability, which are not less than \$1,000,000, per occurrence limit; \$5,000,000 general aggregate limit, and \$5,000,000 products and completed operations aggregate limit, all per location of the Project.

13.4. 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.

13.5. PROPERTY INSURANCE. For the duration of the Regulatory Agreement, Borrower shall obtain and maintain property insurance in ISO policy form CP 10 30 - Building and Personal Property Coverage - Causes of Loss - Special Form, to the full insurable value of the Property with no coinsurance penalty (and with endorsements of Builder's Risk until completion of construction of the Project), Boiler and Machine to the extent necessary to obtain full insurance coverage,

and with such other endorsements and in such amounts as the Lender may reasonably require to protect the Project and the Property. In the event of damage to the Project and subject to the requirements of Lender, Borrower shall use the proceeds of such insurance to reconstruct the Project and the public improvements.

13.6. 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 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:

13.6.1. ADDITIONAL INSURED. Borrower shall obtain a policy in ISO form CG 20 33 or better, naming Lender as additional insured under the Commercial General Liability Policy.

13.6.2. SINGLE PROJECT INSURANCE. It is the intent of the parties that the Project have available all the specified insurance coverages. Borrower shall not provide insurance coverages that are considered in aggregate with other Projects which Borrower or its General Contractor might have concurrently under construction. The Lender may at its discretion permit an aggregate policy if and only if Borrower or the respective General Contractor or subcontractor has fully disclosed to Lender other projects which will or may be considered in aggregate with the Project, and thereafter, Borrower shall immediately inform Lender of the change in or addition to any such projects. Nevertheless, Lender may, at any time require that the insurance coverage be provided solely for the Project.

13.6.3. CERTIFIED POLICY COPY. Borrower shall provide Lender with a certified copy of each required policy of insurance. Pending delivery of the certified policy, Borrower shall provide Lender with a Certificate of Insurance of Insurance for each policy on the applicable ACORD form. The ACORD form shall not substitute for the policy. ACORD 25-S "Certificate of Liability Insurance shall be used for liability insurance deleting the sentence in the top right-hand block immediately below the title (commencing "This certificate is issued as a matter of information . . .) and 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."

13.6.4. 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.

13.7. 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, upon seven (7) days written notice and opportunity to cure, 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.

13.8. BLANKET COVERAGE. Borrower's obligation to carry insurance as required under this Section 13 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 13 with respect to such insurance shall otherwise be satisfied by such blanket policy.

14. MISCELLANEOUS.

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

14.2. CURE BY PARTY OTHER THAN BORROWER. Any lender whose loan is secured by the property and any partner of Borrower may cure a default of the Loan, provided that such cure rights shall be the same as Borrower's cure rights. Such other curing party must cure by the date on which Borrower was obligated to cure, except if Lender is obligated by this Loan Agreement to give separate notice to such other curing party, in which instance, the cure period shall begin when Lender makes such notice to such other curing party.

14.3. CONDEMNATION. The proceeds of any award or claim for damages, direct or consequential, in connection with any condemnation or other taking of all or any part of the Property, or for conveyance in lieu of condemnation, are hereby assigned and shall be paid to Lender. In the event of a taking of all of the Property, the proceeds shall be applied to the sums provided by this Loan, subject to any claims of prior lienholder, with the excess, if any, paid to junior lienholders and Borrower, as they may determine. In the event of the partial taking of the Property, unless Borrower and Lender otherwise agree in writing or a senior lender allows Borrower to use such proceeds to repair or rebuild the Property, and subject to any claims of prior lienholders, there shall be applied to the sums secured by this Deed of Trust such proportion of the proceeds as is equal to that proportion which the amount of the sums secured by this Deed of Trust immediately prior to the date of taking bears to the fair market value of the Property immediately prior to the date of taking, with the balance of the proceeds paid to junior lienholders and Borrower, as they may determine.

If the condemnor offers to make an award or settle a claim for damages to the Property and: (1) the Property is abandoned by Borrower; or (2) after notice by Lender to Borrower of the condemnor's offer, Borrower fails to respond to Lender within 30 days after the date such notice is mailed; Lender is authorized to collect and apply the proceeds, at Lender's option, either to restoration or repair of the Property or to the sums secured by this Deed of Trust.

Unless Lender and Borrower otherwise agree in writing, any such application of proceeds to principal shall not extend or postpone the due date of any payment or change the amount of such payment.

14.4. SUBORDINATION. Lender will subordinate this Loan to the senior loan, provided that the senior loan for the Project indicated in the Budget meets all requirements of this Loan Agreement, and that the senior loan does not require modification of this Loan Agreement, Lender's execution of any agreements containing new or modified Loan terms or Lender's execution of any agreement creating a contractual relationship between Lender and the senior lender including obligations or liabilities between Lender and the senior lender.

14.5. 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.

14.6. 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.

14.7. 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 for whom they were prepared.

14.8. 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.

14.9. 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 at any time on deposit in the Construction Account or the Impound Account, if established.

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

14.10.1. **METHOD.** All notices to be given under this Loan Agreement shall be in writing and sent to the addresses stated above and below for the respective recipient by one or more of the following methods.

- 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.

14.10.2. **SHORT TERM NOTICES.** Notices, including requests for approval, requiring action in less than thirty (30) days may only be given by the foregoing overnight courier or hand delivery method, and shall include the following language on its face: "URGENT – TIME SENSITIVE – IMMEDIATE ACTION REQUIRED" and marked for delivery to Portfolio Management. Such notice shall include the time allowed under this Loan Agreement for action.

14.10.3. **ADDITIONAL NOTICES.** Lender shall give copies of notices required to be delivered to Borrower to the following parties at the following addresses; provided, however that Borrower acknowledges that such notice is an accommodation and the failure of the Lender to properly deliver any such notice shall not give rise to any claims or defenses of Borrower or any third party:

If to the Limited Partner:

Wachovia Affordable Housing
Community Development Corporation
MAC D1053-170
301 South College Street
Charlotte, NC 28288
Attention: Director of Tax Credit Asset Management

With Copy to:

John Simon, Esq.
Sidley Austin LLP
One South Dearborn
Chicago, IL 60603

And

Joel Hjelmaas, Esq.
Counsel Wells Fargo Bank, N.A.
MAC x2401-06T
1 Home Campus, 6th floor
Des Moines, IA 50328-0001

14.11. **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 the Construction Account for that purpose. This Section does not apply to actions or proceedings between the parties.

14.12. **SIGNS.** Borrower agrees that on the request of Lender, Borrower will erect and place on or in the immediate vicinity of the Property a sign indicating that Lender has provided construction financing for the Project, which sign shall remain for the duration of construction. 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.

14.13. **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 to a party other than a general partner or managing member of Borrower or a single asset entity wholly owned and controlled by Borrower or a general partner or managing member of Borrower. 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.

14.14. **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.

14.15. **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 by Borrower and Borrower's architects, contractors, subcontractors, and material suppliers employed or used in the Project. The provisions of this Section will survive the termination of this Loan Agreement and the repayment of the Loan.

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

14.16.1. 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.

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

14.16.3. 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.

14.17. **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.

14.18. **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.

14.19. **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.

14.20. **RECORDING AND FILING.** Borrower, at its expense, will cause the Security Documents and all supplements to be recorded and filed and re-recorded and re-filed in any manner and in any places as Lender will reasonably request, and will pay all recording, filing, re-recording, and re-filing taxes, fees, and other charges.

14.21. **LOAN EXPENSES.** In making the first 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 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.

14.22. **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.

14.23. **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.

14.24. **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.

14.25. **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.

14.26. **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.

14.27. **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.

14.28. **INDEMNITY.** Except for claims due to Lender's sole negligence or willful misconduct, 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 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 and the reconveyance or partial reconveyance of the Trust Deed.

14.29. **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.

14.30. **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.

14.31. **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.

14.32. **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.

14.33. **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:
MERCY HOUSING CALIFORNIA 47, A CALIFORNIA LIMITED PARTNERSHIP

By: RCHC GP LLC, a California limited liability company, its managing general partner

By: Rural California Housing Corporation, a California nonprofit public benefit corporation, its member/manager

By: _____

Its: _____

By: 7th & H GP LLC, a California limited liability company, its co-general partner

By: Mercy Housing Calwest, a California nonprofit public benefit corporation, its member/manager

By: _____

Its: _____

LENDER:
REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

By: _____
LaShelle Dozier, Executive Director

Date: _____

Approved as to form:

Lender Counsel

Exhibit 1
Legal Description

Legal Description

THE LAND REFERRED TO HEREIN BELOW IS SITUATED IN THE CITY OF SACRAMENTO , COUNTY OF SACRAMENTO, STATE OF CALIFORNIA, AND IS DESCRIBED AS FOLLOWS:

All that certain land described in that certain Certificate of Compliance for Lot Merger, recorded January 4, 2011 in Book 20110104, Page 482 and being more particularly described as follows:

Lot 5 and 6 in the block bounded by "G" and "H" Streets and 6th and 7th Streets of the City of Sacramento according to the official map or plat of said city.

Excepting therefrom the West 10 feet of said Lot 6.

APN: 002-0141-001-0000, 002-0141-002-0000, 002-0141-003-0000, 002-0141-004-0000, 002-0141-007-0000

Exhibit 2
Scope of Development

7th and H Project Scope of Development

Mercy Housing California 47, a California Limited Partnership proposes an affordable housing community that will include 150 units comprised of 122 studios and 28 one bedroom units, community space, resident services, a health clinic, and ground floor retail and a structured parking garages in an eight-story building located in close proximity to public transit and a number of neighborhood amenities.

Construction of the units and ground floor shall be in conformity with the following outline and applicable requirements of local, state and federal laws, rules and regulations. The units will be restricted to extremely-low and very-low income households for a period of not less than 55 years. The construction of the project will ensure all Sacramento Housing and Redevelopment Agency Rental Property Minimum Construction Standards and Federal Uniform Federal Accessibility Standards (UFAS) are met.

The first two floors of the proposed building fill out almost the full site, but the six stories of residential units above are set back from the street. Primarily, the building above is shaped around two separate second floor roof gardens, which optimizes solar exposure throughout the day, sets the residences away from the adjacent transformer substation, and gives all units an equitable "room with a view".

The resulting "Z" shape form is not only functional and efficient. Brick is the primary cladding material for the building to speak to the history of the Powerhouse and to strike a residential feel. Other materials on the building include metal panels integrated into limited curtain wall areas. Recognizing that the proposed building utilizes the entire site, there will be two large roof terraces that extend the indoor common space into landscape. The outdoor spaces are arranged with shaded seating, a water feature.

On-Site Amenities

- Direct connection between residential lobby and on-site clinic
- On-site management and resident services offices
- Extensive common space which includes: large community room, community kitchen, computer room, conference room, laundry facilities, roof top patios on the second floor, resident lounges and balconies
- Two retail spaces on the ground floor
- Structured secure parking

Unit Amenities

- Self-contained units complete with full bathrooms and kitchens with Energy-Star appliances and wood cabinetry.
- Well-designed interior space
- Independently controlled, yet efficient, heating and cooling
- Excellent ventilation and fresh air circulation

Health Clinic

- The ground floor health clinic designed to primarily serve the residents of 7th & H.

Green / Sustainable Features: The 7th and H project is being designed to a LEED-Silver Standard. The project is registered with the US Green Building Council.

Active Design: “Active” mechanical design elements on the 7th & H project include:

- Minimized electric lighting loads through the use of occupancy sensors, variable light levels, timers and energy star rated fixtures
- Minimized energy plug loads through energy star appliances
- Switched outlets, occupancy sensors and resident education programs
- Renewable energy generation through building-integrated solar photovoltaic (PV) panels mounted on the roof
- Efficient hot water production through a solar thermal system integrated into the PV array on the roof
- Efficient hot water usage through water saving fixtures and appliances
- Efficient, variable-speed fans to enhance indoor air quality
- Water efficient fixtures and appliances
- The design team has been working extensively with SMUD to develop the most efficient electric systems
- Continuous ventilation from the units for optimum indoor air quality

Building Materials: The project is following the LEED checklists for materials and indoor air quality. The project team has developed a green outline specification that includes critical elements like recycled materials, recycled content, materials that have been manufactured close to the region, and are low emitting of volatile organic compounds such as urea-formaldehyde.

Security: The reception desk is positioned with a clear view of H Street. The lobby will be staffed 24 hours a day, 7 days a week. The reception desk will look onto H Street through 50' of floor to ceiling glazing. Careful lighting design will be incorporated with the best security practices. Recorded video surveillance is also planned on the streets, alley and within the buildings.

Trees: There are a number of existing street trees in sidewalk planters. Trees on H Street have been aggressively trimmed to accommodate the relatively new light-rail overhead wires. The proposed landscape plan maintains as many of the existing street trees as possible. The “green screen tower” at the south-west covers the large opening in the pavilion to allow Sacramento’s refreshing breeze to pass through and light filter through the leaves and reduce undesired visual connections.

**Exhibit 3
Note Form**

**PROMISSORY NOTE
FOR 7TH & H PROJECT
CONSTRUCTION AND PERMANENT LOAN AGREEMENT**

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"		
"Lender"	Redevelopment Agency of the City of Sacramento	
"Borrower"	Mercy Housing California 47, a California Limited Partnership	
"Borrower Legal Status"	A California Limited Partnership	
"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"	Eight Million Two Hundred Thousand Dollars and No Cents (\$8,200,000.00)	
"Interest Rate"	The interest rate is 1% per year, simple interest.	
"Accrual Date"	Interest shall accrue starting on the following "Accrual Date": <table border="1" style="display: inline-table; vertical-align: middle;"> <tr> <td>The Effective Date</td> </tr> </table>	The Effective Date
The Effective Date		
"Special Terms"	At the Completion Date as defined in the Disposition and Development Agreement (DDA) dated June 10, 2010, Borrower shall submit to Lender a preliminary cost certification prepared by a qualified, independent auditor acceptable to Lender, which cost certification shall indicate the amounts actually spent for each item in the cost breakdown. If there is an aggregate savings in the total of all such cost breakdown items from the cost breakdown items in the original Budget approved by the Lender, the Lender shall withhold for itself as Loan repayment, one-half of such savings from the amount of retention then held by the Lender, and the Loan balance shall be reduced by the amount so withheld provided that the tie-breaker score on the California Tax Credit Allocation Committee tax credit application is not negatively impacted. The Lender, in its sole discretion, shall determine any reduction and/or repayment of the Loan based upon this cost certification and the original approved Budget for the Project.	
PAYMENT SCHEDULE. Repayment of this Note shall be made the following amounts:		
"Maturity Date"	The first day of the 660th calendar month following the Effective Date.	
"Payment Start Date"	The payment shall be in lump sum on the Maturity Date.	
"Payment Amount(s)"	The unpaid balance of the Loan shall be all due and payable on the Maturity Date, including without limitation all unpaid principal, interest, fees and charges.	
	Payment Month	Payment Amount
	684	Principal and all accrued interest due and payable

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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 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.

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 801 12th Street, Sacramento, CA 95814, or to such other person or organization as may be designated by Lender to Borrower and noticed as provided in the Loan Agreement.

2. 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.

3. 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 then, subject to any rights of Borrower's limited partners explicitly set forth in the Trust Deed, (or such longer period explicitly set forth in the Trust Deed), Lender may at its option, declare all funds secured by the Trust Deed immediately due and payable.

4. Lender and Borrower shall comply with and fulfill the Special Terms.

5. 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 and fails to cure within 10 (ten) days.
- 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.
- 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.
- d. Borrower defaults or breaches any of the terms of Loan Agreement, the Trust Deed, the Regulatory Agreement
- e. or this Note and Borrower fails to cure within 30 days after receipt of notice. Any limited partner of Borrower shall be entitled to cure any defaults on behalf of Borrower within the time periods set forth herein; provided, however, that if, in order to cure any such default, such limited partner must first remove and/or replace a general partner of Borrower, then, provided that such limited partner notifies the Agency of such removal and removes such general partner within that thirty day period to correct or cure the default the limited partner shall then have 90 days to replace the general partner. Then, such limited partner or the replacement General Partner shall have until the date of 30 days to effect such cure.
- f. Borrower fails to perform any covenant, term or condition in any instrument creating a lien upon the Property which is the security under the Trust Deed, or any part thereof, which lien shall have priority over the lien of the Trust Deed securing this Note.
- g. 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.
- h. 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 which are not stayed within 90 days.
 - 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 which are not stayed within 90 days.

6. 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.

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

During the existence of default or delinquency under the terms of this Note or the 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.

8. 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.

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

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

Borrower: MERCY HOUSING CALIFORNIA 47, A CALIFORNIA LIMITED PARTNERSHIP

By: RCHC GP LLC, a California limited liability company, its managing general partner

By: Rural California Housing Corporation, a California nonprofit public benefit corporation, its member/manager

By: _____
Its: _____

By: 7th & H GP LLC, a California limited liability company, its co-general partner

By: Mercy Housing Calwest, a California nonprofit public benefit corporation, its member/manager

By: _____
Its: _____

**Exhibit 4
Trust Deed Form**

NO FEE DOCUMENT:
 Entitled to free recording
 per Government Code 27383.

When recorded, return to:
 SACRAMENTO HOUSING AND
 REDEVELOPMENT AGENCY
 801 12th Street
 Sacramento, CA 95814
 Attention: Katherine Klein McFadden

DEED OF TRUST AND ASSIGNMENT OF RENTS

7th & H Project

(Loan B: Construction and Permanent Loan Agreement; Grant B: Conditional Capital Grant; and,
 Grant C: Conditional Grant for Operating Reserve)
 716 7th Street, 631 H Street and 625 H Street, Sacramento, CA 95814

For purposes of this Deed of Trust the following capitalized terms shall have the meanings ascribed in the space adjacent to them:

TERM		DEFINITION
"Effective Date"		
"Trustor" and "Borrower"		Mercy Housing California 47, A California Limited Partnership
"Borrower Address"		3120 Freeboard Drive, Suite 202, West Sacramento, CA 95691
"Trustee"		Fidelity National Title Company
"Beneficiary" and "Lender"		Redevelopment Agency of the City of Sacramento, a public body, corporate and politic
"Lender Address"		801 12th Street, Sacramento, California 95814
"Property"		Which is real property located in the County of Sacramento and the State of California as more particularly described in the Legal Description.
		Address 716 7 th Street, 631 H Street and 625 H Street, Sacramento, CA 95814
		Assessor's Parcel Number 002-0141-001-0000, 002-0141-002-0000, 002-0141-003-0000; 002-0141-004-0000, 002-0141-007-0000
"Legal Description"		The Legal Description of the Property which is more particularly described in the attached Exhibit 1 Legal Description , which is incorporated in and an integral part of this Deed of Trust
"Loan"		Which is Lender's loan to Borrower evidenced by the Note and which is secured by this Deed of Trust.
"Loan Agreement"		Which is the Construction and Permanent Loan Agreement between Lender and Borrower stating the term and conditions of the Loan.
		Which is dated:
"Grant B"		Which is Lender's Grant to 7 th & H GP LLC in the amount of \$6,859,695, which Grant will then be contributed to Borrower during the course of construction and which is secured by this Deed of Trust.
"Grant B Agreement"		Which is the Conditional Grant Agreement for Capital between Lender and 7 th & H GP LLC stating the terms and conditions of the grant.
"Grant C"		Which is Lender's Grant to 7 th & H GP LLC in the amount of \$3,750,000, which Grant will be contributed to Borrower and which is secured by this Deed of Trust.
"Grant C Agreement"		Which is the Conditional Grant Agreement for Capitalized Operating Reserve between Lender and 7 th & H GP LLC stating the terms and conditions of the grant.

"Additional Notices"	Lender shall give copies of notices required to be delivered to Borrower to the following parties at the following addresses; provided, however that Borrower acknowledges that such notice is an accommodation and the failure of the Lender to properly deliver any such notice shall not give rise to any claims or defenses of Borrower or any third party:	
	<p style="text-align: center;">If to the Investor Limited Partner:</p> <p style="text-align: center;">Wachovia Affordable Housing Community Development Corporation MAC D1053-170 301 South College Street Charlotte, NC 28288 Attention: Director of Tax Credit Asset Management</p> <p style="text-align: center;">with a copy to:</p> <p style="text-align: center;">John Simon, Esq. Sidley Austin LLP One South Dearborn Chicago, IL 60603</p> <p style="text-align: center;">And</p> <p style="text-align: center;">Joel Hjelmaas, Esq. Counsel Wells Fargo Bank, N.A. MAC x2401-06T 1 Home Campus, 6th floor Des Moines, IA 50328-0001</p>	
"Note"	Which is Borrower's note made in accordance with the Loan Agreement securing the following principal sum or such lesser amount as shall equal the aggregate amount disbursed to Borrower by Lender, with interest.	
	Which has a principal sum of	Eight Million Two Hundred Thousand Dollars and No Cents (\$8,200,000.00)

THIS DEED OF TRUST is made as of the Effective Date between the Trustor also referenced as the Borrower, the Trustee, and the Beneficiary also referenced as Lender.

Borrower, in consideration of the indebtedness described below and the trust created by this Deed of Trust, irrevocably grants and conveys the Property to Trustee, in trust with power of sale.

Together with all the improvements now or subsequently erected on the property, and all easements, rights, appurtenances, rents (subject, however, to the rights and authorities given to Lender to collect and apply such rents), royalties, mineral, oil and gas rights and profits, water, water rights, and water stock, and all fixtures, including but not limited to all gas and electric fixtures, engines and machinery, radiators, heaters, furnaces, heating equipment, steam and hot water boilers, stoves, ranges, elevators and motors, bathtubs, sinks, water closets, basins, pipes, faucets and other plumbing and heating equipment, cabinets, mantels, refrigerating plant and refrigerators, whether mechanical or otherwise, cooking apparatus and appurtenances, furniture, shades, awnings, screens, venetian blinds and other furnishings, now or hereafter attached to the property, all of which, including replacements and additions thereto, shall be deemed to be and remain a part of the property covered by this Deed of Trust; and all of the foregoing, together with said property (or the leasehold estate if this Deed of Trust is on a leasehold) are referred to as the "Property";

To secure to Lender: (a) the repayment of the Loan and to the extent applicable, the reimbursement payment of Grant B and Grant C; and (b) the performance of the covenants and agreements of Borrower contained in this Deed of Trust, the Note, or the Loan Agreement, and the covenants and agreements of 7th & H GP LLC contained in Grant B and in Grant C.

Borrower covenants that Borrower is lawfully seized of the estate conveyed by this Deed of Trust and has the right to grant and convey the Property, and that Borrower will warrant and defend generally the title of the Property against all claims and

demands, subject to any declarations, easements or restrictions listed in a schedule of exceptions to coverage in any title insurance policy insuring Lender's interest in the Property.

Borrower and Lender covenant and agree as follows:

1. Payment of Principal and Interest. Borrower shall promptly pay when due the principal and interest, if any, on the indebtedness evidenced by the Note. All payments received by Lender under the Note shall be applied by Lender first to interest payable on the Note and thereafter to the unpaid principal of the Note.
2. Charges; Liens. Borrower shall pay all taxes, assessments and other charges, fines and impositions attributable to the Property and leasehold payments or ground rents, if any by Borrower making payment, when due, directly to the appropriate payee. Borrower shall promptly furnish to Lender all notices of amounts due under this paragraph, and in the event that Borrower makes payment directly, Borrower shall promptly furnish to Lender receipts evidencing such payments. Borrower shall pay when due any encumbrance, charge and lien, with interest in accordance with its terms, on the Property or any portion which is inferior or superior to this Deed of Trust.
3. Hazard Insurance. Borrower shall keep the improvements now existing or later erected on the Property insured against loss of fire or hazards under a policy approved by Lender consistent with the insurance requirements of the Loan Agreement. In addition, Borrower shall insure against loss of all furniture, equipment and other personal property owned by Borrower related to Borrower's operation of the Property. Lender shall have the right to hold the policies and policy renewals, and Borrower shall promptly furnish to Lender all renewal notices and all receipts of paid premiums. In the event of loss, Borrower shall give prompt notice to the insurance carrier and Lender. Lender may make proof of loss if not made promptly by Borrower.

Unless Lender and Borrower otherwise agree in writing, insurance proceeds shall be applied to restoration or repair of the Property damaged, as and to the extent provided in the Loan Agreement.

Unless Lender and Borrower otherwise agree in writing, any such application of insurance proceeds to principal shall not extend or postpone the due date of any Loan payment or change the amount of such payment. If the Property is acquired by Lender pursuant to this Deed of Trust, all right, title and interest of Borrower in and to any insurance policies and proceeds of such policies resulting from damage to the Property prior to the sale of acquisition shall pass to Lender to the extent of the sums secured by this Deed of Trust immediately prior to such sale or acquisition.

4. Liability Insurance. In addition to the casualty insurance required under the Loan Agreement during the course of construction, Borrower shall keep comprehensive general liability insurance for the Property in a form and coverage consistent with the provisions of the Loan Agreement and reasonably approved by Lender.
5. Preservation and Maintenance of Property. Borrower shall keep the Property in good repair and shall not commit waste or permit impairment, demolition, or deterioration of the Property.
6. Protection of Lender's Security. Borrower shall appear and defend any action or proceeding purporting to affect the security under this Deed of Trust or the rights of the Lender. If Borrower fails to perform the covenants and agreements contained in this Deed of Trust, or if any action or proceeding is commenced which materially affects Lender's interest in the Property, including, but not limited to, foreclosure, involuntary sale, eminent domain, insolvency, code enforcement, or arrangements or proceedings involving a bankrupt or decedant, then Lender may, upon notice to Borrower, make such appearances, disburse such sums and take such actions as are necessary to protect Lender's interest, including, but not limited to, disbursement of judgments, costs or reasonable attorney's fees and entry upon the Property to make repairs.

Any amounts disbursed by Lender pursuant to this Section 6, with interest, shall become additional indebtedness of Borrower secured by this Deed of Trust. Unless Borrower and Lender agree to other terms of payment, such amounts shall be payable upon notice from Lender to Borrower requesting payment, and shall bear interest from the date of disbursement at the highest rate permissible under applicable law. In any event, this Section shall be construed as a right and an option of Lender and shall not be construed to require Lender to incur any expense or take any action.

7. Inspection. Lender, by its designated representative, may make reasonable entries upon and inspections of the Property, provided that Lender shall give Borrower and any occupant of the Property reasonable prior notice of any such inspection.

8. Condemnation. The proceeds of any award or claim for damages, direct or consequential, in connection with any condemnation or other taking of all or any part of the Property, or for conveyance in lieu of condemnation, shall be applied as provided in the Loan Agreement.

If the Property is abandoned by Borrower, or if, after notice by Lender to Borrower that the condemnor offers to make an award or settle a claim for damages, Borrower fails to respond to Lender within 30 days after the date such notice is mailed, Lender is authorized to collect and apply the proceeds, at Lender's option, either to restoration or repair of the Property or to the sums secured by this Deed of Trust.

Unless Lender and Borrower otherwise agree in writing, any such application of proceeds to principal shall not extend or postpone the due date of any payment or change the amount of such payment.

9. Borrower Not Released. Extension of the time for payment of the sums secured by this Deed of Trust granted by Lender to Borrower or any successor in interest of Borrower shall not operate to release, in any manner, the liability of the original Borrower and Borrower's successors in interest. Lender shall not be required to commence proceedings against such successor or refuse to extend time payment by reason of any demand made by the original Borrower or Borrower's successors in interest.

10. Forbearance by Lender Not a Waiver. Any forbearance by Lender in exercising any right or remedy under this Deed of Trust, or otherwise afforded by applicable law, shall not be a waiver or preclude the exercise of any such right or remedy. The procurement of insurance or the payment of taxes or other liens or charges by Lender shall not be a waiver of Lender's right to accelerate the maturity of the indebtedness secured by this Deed of Trust.

11. Remedies Cumulative. All remedies provided in this Deed of Trust are distinct and cumulative to any other right or remedy under this Deed of Trust, the Note, the Loan Agreement, the Grant B Agreement, the Grant C Agreement or afforded by law or equity, and may be exercised concurrently, independently or successively.

12. Successors and Assigns Bound; Joint and Several Liability Captions. The covenants and agreements contained in this Deed of Trust shall bind, and the rights under this Deed of Trust shall inure to, the respective successors and assigns of Lender and Borrower, subject to the provisions of Section 15. All covenants and agreements of Borrower shall be joint and several. The captions and headings of the paragraphs of this Deed of Trust are for convenience only and are not to be used to interpret or to define its provisions.

13. Notice. Except for any notice required under applicable law to be given in another manner, any notice to be given under this Deed of Trust shall be given as provided for in the Loan Agreement. Any notice provided for in this Deed of Trust shall be deemed to have been given to Borrower or Lender when given in the manner designated.

14. Governing Law; Severability. This Deed of Trust shall be governed by the law of the State of California. If any term or provision of this Deed of Trust shall, to any extent, be held invalid or unenforceable, the remainder of this Deed of Trust shall remain in full force and effect and the invalid or unenforceable provision shall be valid and enforceable as to any other person or circumstance.

15. Acceleration on Transfer or Refinancing of the Property; Assumption. Except as otherwise provided in the Loan Agreement, if all or any part of the Property or an interest in the Property is sold or transferred or refinanced by Borrower without Lender's prior written consent, Lender may, at Lender's option, declare all the sums secured by this Deed of Trust to be immediately due and payable. Lender shall have waived such option to accelerate if, prior to the refinancing, sale or transfer, Lender and the person to whom the Property is to be sold or transferred reach agreement in writing that the loan may be assumed. If Lender has waived the option to accelerate provided in this Section and if Borrower's successor in interest has executed a written assumption agreement accepted in writing by Lender, Lender shall release Borrower from all obligations under this Deed of Trust and the Note. Lender's prior approval is not required for (1) the sale or transfer of the Limited Partner's interest to one or more of the other partners that currently comprise the Borrower's entity, (2) the admission of the Limited Partner or its affiliate to the Borrower and the transfer of its interest to an affiliate thereof so long as the general partner, or managing member, of the transferor, or an affiliate thereof, is the general partner, or managing member of the transferee, or partner; however, Borrower is obligated to notify Lender within 30 days from the date of such sale or transfer, (3) the removal of the general partner of the Borrower by the Limited Partner for a default under Borrower's partnership agreement, provided that any replacement general partner is approved by Lender, which approval shall not be unreasonably withheld, conditioned or delayed.

If Lender exercises such option to accelerate, Lender shall mail Borrower notice of acceleration. Such notice shall provide a period of not less than 30 days from the date the notice is mailed within which Borrower, or any of its principals or anyone with a substantial legal interest in Borrower, may pay the sums declared due. If Borrower fails to pay such sums prior to the expiration of such period, Lender may, without further notice or demand on Borrower, invoke any remedies permitted by this Deed of Trust.

16. Acceleration on Breach; Remedies. Except as provided in Section 15, upon Borrower's breach of any covenant or agreement of Borrower in this Deed of Trust, the Note, (including the covenants to pay when due any sums secured by this Deed of Trust and restricting transfer of the Property) or Loan Agreement, or 7th & H GP LLC's breach of any covenant or agreement in the Grant B Agreement or the Grant C Agreement, Lender shall mail notice to Borrower specifying: (1) the breach; (2) the action required to cure such breach; (3) a date, no less than 30 days from the date the notice is mailed to Borrower and limited partner, by which breach must be cured; and (4) that failure to cure such breach on or before the date specified in the notice may result in acceleration of the sums secured by this Deed of Trust and sale of the Property. If the breach is not cured on or before the date specified in the notice, Lender at Lender's option may declare all of the sums secured by this Deed of Trust to be immediately due and payable without further demand and may invoke the power of sale and any other remedies permitted by applicable law. Any limited partner of Borrower shall be entitled to cure any defaults on behalf of Borrower within the time periods set forth herein; provided, however, that if, in order to cure any such default, such limited partner must first remove and/or replace a general partner of Borrower, then, provided that such limited partner notifies the Agency of such removal and removes such general partner within that thirty day period to correct or cure the default the limited partner shall then have 90 days to replace the general partner. Then, such limited partner or the replacement General Partner shall have until the date of 30 days to effect such cure.

17. Lender shall be entitled to collect from the Borrower, or sale proceeds, if any, all reasonable costs and expenses incurred in pursuing the remedies provided in this Section, including, but not limited to reasonable attorney's fees.

If Lender invokes the power of sale, Lender shall execute or cause Trustee to execute a written notice of the occurrence of an event of default and of Lender's election to cause the Property to be sold and shall cause such notice to be recorded in each county in which any portion of the Property is located. Lender or Trustee shall mail copies of such notice in the manner prescribed by applicable law to Borrower and to the other persons prescribed by applicable law. Trustee shall give public notice of sale to the persons and in the manner prescribed by applicable law. After the lapse of such time as may be required by applicable law, Trustee, without demand on Borrower, shall sell the Property at public auction to the highest bidder at the time and place and under the terms designated in the notice of sale, in one or more parcels and in such order as Trustee may determine. Trustee may postpone sale of all or any parcel of the Property by public announcement at the time and place of any previously scheduled sale. Lender or Lender's designee may purchase the Property at any sale.

Trustee shall deliver to the purchaser a Trustee's deed conveying the Property so sold without any covenant or warranty, expressed or implied. The recitals in the Trustee's deed shall be prima facie evidence of the truth of the statements it contains. Trustee shall apply the proceeds of the sale in the following order: (a) to all reasonable costs and expenses of the sale, including, but not limited to, reasonable Trustee's and attorney's fees and costs of title evidence; (b) to all sums secured by this Deed of Trust; and (c) the excess, if any, to the person or persons legally entitled thereto as determined by Lender. In the event of a dispute regarding the excess funds, either Lender or Trustee may file an action in interpleader to determine who shall receive the funds and may then deposit the excess funds with the court.

18. Assignment of Rents; Appointment of Receiver; Lender in Possession. As additional security, Borrower assigns to Lender the rents of the Property, provided that Borrower shall, prior to an acceleration for breach as provided above or abandonment of the Property, have the right to collect such rents as they become due.

Upon acceleration for breach or abandonment of the Property, Lender, in person, by agent or by judicially appointed receiver shall be entitled to enter upon, take possession of and manage the Property and to collect the rents of the Property including those past due. All rents collected by Lender, its agent, or the receiver shall be applied first to payment of the costs of management of the Property and collection of rents, including, but not limited to receiver's fees, premiums on receiver's bonds and reasonable attorney's fees, and then to the sums secured by this Deed of Trust. Lender, its agent and the receiver shall be liable to account only for those rents actually received.

19. Prior Lienholder. The provisions of this Deed of Trust shall operate subject to the claims of prior lienholders to the extent of such claims.

20. Nonrecourse. Notwithstanding any provision of this Deed of Trust or any document evidencing or securing this Loan, Borrower, and Borrower's principals, partners, agents, officers, and successors in interest shall not be personally liable for the payment of the Loan or any obligation of the Loan and Lender's sole recourse is to the collateral secured by this Deed of Trust.
21. Reconveyance. Upon payment of all sums secured by this Deed of Trust, Lender shall request Trustee to reconvey the Property and shall surrender this Deed of Trust and all notes evidencing indebtedness secured by this Deed of Trust to Trustee. Trustee shall reconvey the Property without warranty and without charge to the person or persons legally entitled to such reconveyance. Such person or persons shall pay all costs of recordation, if any. The recitals in the reconveyance of any matters or facts shall be conclusive proof of their truthfulness.
22. Substitute Trustee. Lender, at Lender's option, may from time to time remove Trustee and appoint a successor trustee to any Trustee appointed under this Deed of Trust. Without conveyance of the Property, the successor trustee shall succeed to all the title, power and duties conferred upon the Trustee by this Deed of Trust and applicable law.
23. Request for Notice. Borrower and each party listed to receive Additional Notices request that copies of the notice of default and notice of sale be sent to their respective addresses.
24. Statement of Obligation. Lender may collect a reasonable fee for furnishing the statement of obligation as provided by Section 2943 of the Civil Code of California, as it may be amended from time to time.
25. Use of Property. Borrower shall not permit or suffer the use of any of the Property for any purpose other than the use for which the same was intended at the time this Deed of Trust was executed.

IN WITNESS WHEREOF, Borrower has executed this Deed of Trust.

BORROWER (Trustor):

MERCY HOUSING CALIFORNIA 47, A CALIFORNIA LIMITED PARTNERSHIP

By: RCHC GP LLC, a California limited liability company, its managing general partner

By: Rural California Housing Corporation, a California nonprofit public benefit corporation, its member/manager

By: _____

Its: _____

By: 7th & H GP LLC, a California limited liability company, its co-general partner

By: Mercy Housing Calwest, a California nonprofit public benefit corporation, its member/manager

By: _____

Its: _____

[NOTARIZED ACKNOWLEDGEMENTS]

EXHIBIT 5
REGULATORY AGREEMENTS

NO FEE DOCUMENT:

Entitled to free recording
per Government Code 27383.

When recorded, return to:

REDEVELOPMENT AGENCY
OF THE CITY OF SACRAMENTO
Attn: Katherine Klein McFadden
801 12th Street
Sacramento, CA 95814

**REGULATORY AGREEMENT FOR RESIDENTIAL RENTAL PROPERTY
CONTAINING COVENANTS AFFECTING REAL PROPERTY**

PROJECT NAME:	7 th & H Project
PROJECT ADDRESS:	716 7 th Street, 631 H Street and 625 H Street Sacramento, CA
APN:	002-0141-001-0000, 002-0141-002-0000, 002-0141-003-0000; 002-0141-004-0000, 002-0141-007-0000

FOR GOOD AND VALUABLE CONSIDERATION, THE RECEIPT OF WHICH IS ACKNOWLEDGED, AGENCY AND OWNER HAVE ENTERED THIS REGULATORY AGREEMENT AS OF THE EFFECTIVE DATE.

1. **GENERAL.** This Regulatory Agreement, includes the Exhibits listed below which are attached to and incorporated in this Regulatory Agreement by this reference.

2. **DEFINITIONS.** The capitalized terms in this Regulatory Agreement shall have the meanings assigned in the following table and in the body of the Regulatory Agreement as the context indicates. (Terms being defined are indicated by quotation marks.)

TERM	DEFINITION	
“Effective Date”	This Regulatory Agreement shall be effective as of the following date:	February __, 2011
“Agency”	Redevelopment Agency of the City of Sacramento The Agency is a public body, corporate and politic.	
“Owner”	Mercy Housing California 47, a California Limited Partnership	
“Agency Address”	Agency’s business address is 801 12 th Street, Sacramento, California 95814	
“Owner Address”	Owner’s business address is as follows:	3120 Freeboard Drive, Suite 202, West Sacramento, CA 95691
“Jurisdiction”	City of Sacramento	
“Property”	That certain real property which is subject to this Regulatory Agreement as further described in the legal description, attached as Exhibit 1 – Legal Description of the Property and incorporated in this Regulatory Agreement by this reference	
“Funding Agreements”	The Funding Agreements between Agency and Owner as follows:	Titled: Acquisition and Permanent Loan Agreement (Loan A)
		Dated: February __, 2011
		Titled: Construction, and Permanent Loan Agreement (Loan B)
		Dated: February __, 2011
		Titled: Conditional Grant Agreement for Capital (Grant B) with 7 th & H GP LLC
		Dated: February __, 2011

	Titled: Conditional Grant Agreement for Capitalized Operating Reserve with 7 TH & H GP LLC (Grant C)	
	Dated: February, 2011	
“Agency Funding”	The Agency Funding made by Agency under the Funding Agreements for development of the Property	
“Agency Funding Amount”	The amount of the Agency Funding, as follows:	\$22,407,204
“Proportionate Agency Assistance”	The percentage of the Project cost, including without limitation, land, predevelopment and development costs, that is attributable to the Agency Funding. For rehabilitation projects, the percentage that the Agency Funding bears to the total of the fair market value of the Property before rehabilitation and the total costs of rehabilitation.	4947%
“Funding Requirements”	The legal restrictions on the use of the funds that Agency has used to make the Agency Funding, as applicable to and restricting the Property. The Funding Requirements are set out in Exhibit 2 – Funding Requirements .	
“Approved Use”	The only permitted use of the Property, which is as a mixed use supportive housing SRO property with commercial space and residential units available for rent by the general public and containing not less than the following number of units:	150

RESTRICTED PARCELS; APPROVAL OF LEASES. In order to assure that the proper number and types of units have been rented in accordance with this Regulatory Agreement, Owner is prohibited from leasing any Unit within the Project until either the parties have recorded against the Property a list of the Restricted Units or the Agency has approved the individual lease or lease form for the Restricted Units. The following numbers of Units are restricted for each respective funding source. The initial rents for the respective units shall be the following; provided, however, that upon the request of Owner, Owner and Agency may agree to a schedule for the Restricted Units that complies with the following affordability requirements as of the date when the Project is available for occupancy. In any event the rents for the respective units may be adjusted not more often than annually. The rents shall include allowance for utilities and costs reasonably related to the rental of the units, as may be required in determining the rents for the applicable funding sources. Only units indicated under Agency Funding Source are assisted by the Agency. Nevertheless, Owner shall assure the affordability of all of the following units at the named affordability levels.

Agency Funding Source:	Other Funding Source:	Affordability Level:	Number of Units:	Restricted Units:	Initial Gross Rent per Unit per Month:
Downtown Tax Increment Housing Set-Aside Fund, City Housing Trust Fund, State Housing Trust Fund and City HOME Fund				Bedroom size	\$
		Extremely Low Income	15	Studio	\$326
		Very Low Income	107	Studio	\$640
		Very Low Income	28	One Bedroom	\$685

3. MANAGEMENT AGREEMENT. Owner shall obtain and maintain a property management agreement with a duly accredited real estate property management company for the management of the Property. Owner shall not change the management company without the prior written approval of the Agency, which approval shall not be unreasonably withheld, delayed or conditioned. If Agency has approved an initial property manager for the Project, the company shall be listed immediately below. The term of such agreement shall be for one (1) year beginning from completion of construction of the Project and renewable in accordance with the terms and conditions provided therein.

Approved Management Company
Mercy Housing Management Group

4. **SPECIAL PROVISIONS.** Owner shall also comply with the following special provisions.

Provision	Term
<p>1. <u>Resident Services.</u> Owner 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) certification that the services will be provided for a minimum of 40 hours per week; 3) a description of the programs to be offered, and; 4) a proforma social services budget.</p> <p>2. <u>Expiration of affordability period.</u> Owner agrees the rent of "in-place" tenants at the conclusion of the required affordability period will continue to be governed by the applicable affordability restrictions, so long as those tenants continue to live in the development.</p> <p>3. <u>Smoke-free environment.</u> At least 50% of the building but no less than 50% of the units must be smoke free. All indoor common areas must be smoke-free.</p> <p>4. <u>Regulatory Agreement Violations.</u> Owner shall pay the program compliance fees and expenses to Agency set forth in Compliance Violations and Actions (Exhibit 3 - Compliance Violations and Actions) in reimbursement of the amounts and time expended by Agency to insure Owner's compliance with State statutes and federal regulations and Owner's obligations under the Regulatory Agreement as a result of the Owner not meeting its obligations and reporting requirements. No compliance fee will be assessed for one incident of each type of compliance violation per annual inspection provided the violation is corrected within the specified corrective time period. The second and subsequent violations will be assessed compliance fees as detailed in the Compliance Violations and Actions tables.</p> <p>6. <u>"Excess" utility charges.</u> Owner shall not pass utility charges paid by Owner, including water, sewer, and garbage collection charges, through to tenants as an add-on to their contracted rent.</p> <p>7. <u>Renters' insurance.</u> Owner shall not make payment of rental insurance premiums a condition of occupancy. If Owner requires renters' insurance, the policy premium must be deducted from the tenant's rent. The Owner shall not add the insurance premium to the tenant's rent in either the initial or subsequent years.</p>	<p>55 years.</p>

5. REPRESENTATIONS. Agency has provided Agency Funding to Owner to acquire and develop the Property, subject to the terms of the Funding Agreement. This Regulatory Agreement is a substantial part of the consideration to Agency for making the Agency Funding. The funds used by Agency under the Funding Agreement are funds from public funding sources administered by Agency and their use is subject to certain requirements some of which are embodied in this Regulatory Agreement. Further, Agency has made the Agency Funding in accordance with the laws, rules and regulations to which Agency is subject. Therefore, Agency has made the Agency Funding conditioned upon Owner's agreement, for itself and its successors and assigns, to comply with all provisions of this Regulatory Agreement, including without limitation, the Funding Agreement. Owner has had full opportunity to make itself independently familiar with such limitations and restrictions, and Owner accepts them and agrees to comply fully with them.

6. COVENANTS. Owner makes the following covenants. Unless Owner has received the prior written consent or Agency approval otherwise, Owner shall fully comply with each and every covenant. Except as otherwise stated in this Regulatory Agreement, the following covenants shall have a term that is the same as the longest term specified in the Funding Requirements.

a. Owner shall use and permit others to use the Property only for the Approved Use.

b. Owner shall assure full compliance with the Funding Requirements.

c. Owner shall not transfer or encumber any of the Property or permit the conveyance, transfer, or encumbrance of the Property unless such assignee, transferee or encumbrancer has agreed, in writing and in a form suitable for recordation, to be bound by the terms of this Regulatory Agreement.

d. Owner shall not cause and shall not permit expansion, reconstruction, or demolition of any part of improvements on the Property, except as provided by the Funding Agreement.

e. Owner shall maintain the Property and the building improvements, grounds and equipment of the Property in good repair and condition and in compliance with all applicable housing quality standards and local code requirements. Owner shall maintain the Property in good condition and shall keep the Property reasonably free from graffiti and unrepaired vandalism and from accumulation of abandoned property, inoperable vehicles, unenclosed storage, debris, and waste materials. In the event of a casualty loss, Owner shall cause the restoration or replacement of the Property, in a timely manner and provided that such restoration or replacement is then economically feasible.

f. Owner shall not cause and shall not permit discrimination on any basis listed in subdivision (a) or (d) of Section 12955 of the Government Code, as those bases are defined in Sections 12926, 12926.1, subdivision (m) and paragraph (1) of subdivision (p) of Section 12955, and Section 12955.2 of the Government Code in the sale, lease, or rental or in the use or occupancy of the Property. Owner covenants by and for itself, its heirs, executors, administrators, and assigns, and all persons claiming under or through them that there shall be no discrimination against or segregation with reference to the selection, location, number, use or occupancy of tenants, lessees, subtenants, sublessees, or vendees in the Property. This covenant against discrimination shall continue in perpetuity.

g. Owner shall assure compliance with the obligations imposed by the federal Personal Responsibility and Work Opportunity Act (Public Law 104-193, commonly known as the Welfare Reform Act) as amended by California Welfare and Institutions Code Section 17851, which restrict the Agency funding of federal, state or local benefits to persons who are not citizens or qualified aliens as defined in such act.

7. NATURE OF COVENANTS. The provisions contained in this Regulatory Agreement are covenants which subject and burden the Property, as covenants running with the land. It is intended and agreed that the agreements and covenants provided in the Agreement shall be covenants running with the land and equitable servitudes on the land and that they shall, in any event, and without regard to technical classifications or designation, be binding, to the fullest extent permitted by law and equity, for the benefit and in favor of, and enforceable by, the Agency, the Agency's successors and assigns, any other governmental entity acting within its authority and any successor in interest to Agency's interest under this Regulatory Agreement against the Owner, its successors and assigns and every successor in interest to all or any part of the Property.

8. TERM. The term of this Regulatory Agreement shall commence on the Effective Date and continue until the terms of all of the covenants, including without limitation, the terms stated in the Funding Requirements, have expired or otherwise been terminated. Notwithstanding the term in the Funding Requirements, the term of this Regulatory Agreement shall be fifty-five (55) years from the Effective Date.

9. REVIVAL OF COVENANTS AFTER FORECLOSURE. The affordability restrictions shall be revived after foreclosure, or deed in lieu of foreclosure according to the original terms if, during the original term of this Regulatory Agreement, the Owner, who was owner of record before the termination event, or a party related to the Owner obtains an ownership interest in the Property or Restricted Unit, as the case may be. For purposes of these provisions, a related party is anyone with whom the Owner has or had family or business ties; provided that such interest would not be considered a "remote interest" in the usual and customary use of the term.

10. MULTIPLE FUNDING REQUIREMENTS. If more than one form of Funding Requirements is attached, each Restricted Unit shall be subject to the Funding Requirements for every Funding Source applied to the respective Restricted Unit. If the terms of the Funding Requirements shall conflict as to any Restricted Unit, the Funding Requirements shall be construed so as to meet all applicable requirements for the respective Restricted Unit, including without limitation the use of the most restrictive requirements and the use of the "Recapture" formula that results in the greatest repayment to the Agency.

11. RECORDKEEPING AND REPORTING. Upon request of Agency, Owner shall promptly provide any additional information or documentation requested in writing by the Agency to verify Owner's compliance with the provisions of this Regulatory Agreement. At the written request of the Agency, Owner shall, within a reasonable time following receipt of such request, furnish reports and shall give specific answers to questions upon which information is desired from time to time relative to the income, assets, liabilities, contracts, operations, and condition of the property and the status of the Deeds of Trust.

12. AUDIT AND INSPECTION. The Property and all related equipment, buildings, plans, offices, books, contracts, records, documents and other related papers shall at all times be maintained in reasonable condition for audit and shall be subject to

examination by the Agency or its agents. The books and accounts of the operations of the Property and of the Property shall be kept in accordance with generally accepted accounting principles. Owner shall provide Agency access to the Property and its tenants during reasonable hours for the purpose of reviewing Owner's compliance with this Regulatory Agreement.

13. INDEMNITY FOR OWNER'S FAILURE TO MEET LEGAL REQUIREMENTS. Owner shall indemnify and hold Agency, its officers, directors, and employees harmless from any and all liability arising from Owner's failure to comply with the covenants, conditions and restrictions contained in this Regulatory Agreement or to comply with all other laws, rules, regulations and restrictions related to the use of Agency Funding, including, but not limited to, liability arising out of or based upon or in any way relating to:

a. the Financing Agreement, this Regulatory Agreement, and all documents related thereto, or the execution or amendment hereof or thereof or in connection with transactions contemplated hereby or thereby;

b. any act or omission of the Owner or any of its agents, contractors, servants, employees or licensees in connection with the Project, the operation of the Project, or the condition, environmental or otherwise, occupancy, use, possession, conduct or management of work done in or about, the Project or any part thereof;

any violation of any environmental law, rule or regulation with respect to, or the release of any toxic substance from, the Project or any part thereof.

Without limitation, such indemnity shall include repayment to the appropriate parties of rents or sales proceeds in excess of amounts authorized to be charged and repayment to the Agency of the costs of funds, and the value of lost opportunities resulting from the required repayment by Agency to the funding source of funds improperly used. The foregoing indemnity shall not apply to any liability arising out of the negligent act or willful misconduct of Agency and shall not supersede any indemnification provisions contained in other agreements between the parties, Disposition and Development Agreement entered into between the parties on June 10, 2010.

14. NONRECOURSE. Notwithstanding any provision of this Regulatory Agreement, Owner, and Owner's principals, partners, members, agents, officers, and successors in interest shall not be personally liable for any obligation under this Regulatory Agreement.

15. CHANGES WITHOUT CONSENT OF TENANTS, LESSEES, OR OTHERS. Only Agency and its successors and assigns, and Owner (subject to the reasonable approval of Owner's lender in accordance with its rights under its loan terms) shall have the right to consent and agree to changes in, or to eliminate in whole or in part, any of the covenants or restrictions contained in this Agreement without the consent of any easement holder, licensee, other mortgagee, trustee, beneficiary under a deed of trust or any other person or entity having any interest less than a fee in the Property.

16. DEFAULT. Upon a breach of any of the provisions of this Regulatory Agreement by Owner, the Agency shall give written notice of such breach to Owner by registered or certified mail. If such violation is not corrected to the reasonable satisfaction of Agency within thirty (30) days after the date such notice is given to Owner or within such further time as the Agency may reasonably determine is necessary to correct the breach, and without further notice to Owner, the Agency may declare a default under the Agreement, effective on the date of such declaration of default, and upon such default the Agency may: (a) take any action then available under the Funding Agreement for a default under the Funding Agreement and (b) apply to any court for specific performance of this Regulatory Agreement, for an injunction against any violation of the Agreement, for the appointment of a receiver to take over and operate the Property in accordance with the terms of this Regulatory Agreement, for money damages or for such other relief as may be appropriate, since the injury to the Agency arising from a default under any of the terms in this Regulatory Agreement would be irreparable, and the amount of damage would be difficult to ascertain. Any limited partner of Owner shall be entitled to cure any defaults on behalf of Owner within the time periods set forth herein; provided, however, that if, in order to cure any such default, such limited partner must first remove and/or replace a general partner of Owner, then, provided that such limited partner notifies the Agency of such removal and removes such general partner within that thirty day period to correct or cure the default the limited partner shall then have 90 days to replace the general partner. Then, such limited partner or the replacement General Partner shall have 30 days to effect such cure.

17. BINDING SUCCESSORS IN INTEREST. This Regulatory Agreement shall bind and the benefits shall inure to the Owner, its successors in interest and assigns, and to the Agency and its successors for the term of this Regulatory Agreement.

18. CONTRADICTORY AGREEMENTS. Except with the prior written approval of Agency, Owner warrants that it has not, and will not, execute any other agreement with provisions contradictory of or in opposition to, the provisions of this

Regulatory Agreement, and that, in any event, the requirements of this Regulatory Agreement are paramount and controlling as to the rights and obligations set forth and supersede any other requirements in conflict with this Regulatory Agreement.

19. **ATTORNEYS' FEES.** If the services of any attorney are required by any party to secure the performance of this Regulatory Agreement or otherwise upon the breach of default of another party, or if any judicial remedy or mediation is necessary to enforce or interpret any provision of this Regulatory Agreement or the rights and duties of any person in relation to this Regulatory Agreement, the prevailing party shall be entitled to reasonable attorneys' fees, costs and other expenses, in addition to any other relief to which such party may be entitled. Any award of damages following judicial remedy or arbitration as a result of this Regulatory Agreement or any of its provisions shall include an award of prejudgment interest from the date of the breach at the maximum amount of interest allowed by law. The prevailing party shall mean the party receiving an award in arbitration or a judgment in its favor, unless the award or judgement is less favorable than the best settlement offered in writing in a reasonable manner by the other party, in which case the prevailing party is the other party.

20. **SEVERABILITY.** The invalidity of any clause, part or provision of this Regulatory Agreement shall not affect the validity of the remaining portions.

21. **ELECTION OF REMEDIES.** To the extent applicable, in the event of any breach of the covenants, conditions and restrictions contained in this Regulatory Agreement, the Agency shall reasonably endeavor to remedy such breach by conference and conciliation. If, in the opinion of Agency, the Agency and Owner are unable mutually to agree upon a suitable remedy or the circumstances so warrant, such breach may be enjoined or abated by appropriate proceedings brought by the Agency.

Agency may institute or prosecute in its own name, any suit Agency may consider advisable in order to compel performance of any obligation of any owner to develop and maintain the subject property in conformity with this Regulatory Agreement and to remedy any default of this Regulatory Agreement. Agency may also seek a decree requiring removal of any improvements constructed on the Property which improvements are designed for uses not permitted under this Regulatory Agreement and which improvements are unsuitable only for uses not permitted under this Regulatory Agreement.

The remedies of the Agency under this Regulatory Agreement are cumulative, and the exercise of one or more of such remedies, including, without limitation, remedies under the Funding Agreement shall not be deemed an election of remedies and shall not preclude the exercise by the Agency of any one or more of its other remedies.

22. **NO WAIVER.** No waiver by the Agency of any breach of or default under this Regulatory Agreement shall be deemed to be a waiver of any other or subsequent breach or default.

23. **NOTICES.** Written notices and other written communications by and between the parties shall be addressed to the Owner at the Owner Address and to the Agency at the Agency Address or such other address as each respective party has designated by written notice to the other party. Agency shall give copies of notices required to be delivered to Owner to the following parties at the following addresses; provided, however that Owner acknowledges that such notice is an accommodation and the failure of the Agency to properly deliver any such notice shall not give rise to any claims or defenses of Owner or any third party:

Owner:

7th & H GP LLC, a California limited liability company
3129 Freeboard Drive, Suite 202
West Sacramento, CA 95691

With a copy to:

Wachovia Affordable Housing
Community Development Corporation
MAC D1053-170
301 South College Street
Charlotte, NC 28288
Attention: Director of Tax Credit Asset Management

John Simon, Esq.
Sidley Austin LLP
One South Dearborn
Chicago, IL 60603

And

Joel Hjelmaas, Esq.
Counsel
Wells Fargo Bank, N.A.
MAC x2401-06T
1 Home Campus, 6th floor
Des Moines, IA 50328-0001

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

OWNER : MERCY HOUSING CALIFORNIA 47, A CALIFORNIA LIMITED PARTNERSHIP

AGENCY: REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

By: RCHC GP LLC, a California limited liability company, its managing general partner
By: Rural California Housing Corporation, a California nonprofit public benefit corporation, its member/manager

By: _____
LaShelle Dozier, Executive Director

Approved as to form: _____
Agency Counsel

By: _____
Its: _____

By: By: 7th & H GP LLC, a California limited liability company, co-general partner
By: Mercy Housing Calwest, a California nonprofit public benefit corporation, member/manager

By: _____
Its: _____

Approved as to form: _____
Grantee Counsel

[NOTARIZED ACKNOWLEDGEMENTS]

NO FEE DOCUMENT:

Entitled to free recording
per Government Code 27383.

When recorded, return to:

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY
801 12th Street
Sacramento, CA 95814
Attn: Katherine Klein McFadden

**REGULATORY AGREEMENT
FOR NON-RESIDENTIAL PORTION OF 7TH & H PROJECT
INCLUDING COVENANTS, CONDITIONS AND RESTRICTIONS RUNNING WITH THE LAND**

PROJECT NAME:	7th & H Project
PROJECT ADDRESS:	716 7 th Street, 631 H Street and 625 H Street, Sacramento, CA 95814
EFFECTIVE DATE:	
APN:	002-0141-001-0000, 002-0141-002-0000, 002-0141-003-0000; 002-0141-004-0000, 002-0141-007-0000

NOTICE: THIS REGULATORY AGREEMENT IMPOSES COVENANTS, CONDITIONS AND RESTRICTION ON THE PROPERTY WHICH STAY WITH THE PROPERTY FOR MANY YEARS, INCLUDING RESTRICTIONS ON THE USE AND MAINTENANCE OF THE PROPERTY.

ARTICLE I TERMS AND DEFINITIONS.

FOR GOOD AND VALUABLE CONSIDERATION, THE RECEIPT OF WHICH IS ACKNOWLEDGED, AGENCY AND OWNER HAVE ENTERED THIS REGULATORY AGREEMENT AS OF THE EFFECTIVE DATE.

24. GENERAL. This Regulatory Agreement includes the Exhibits listed below, which are attached to and incorporated in this Regulatory Agreement by this reference.

25. DEFINITIONS. The capitalized terms in this Regulatory Agreement shall have the meanings assigned in the following definitions table and in the body of the Regulatory Agreement. (Terms being defined are indicated by quotation marks.)

TERM	DEFINITION	
“Effective Date”	This Regulatory Agreement shall be effective as of the following date:	
“Agency”	Redevelopment Agency of the City of Sacramento	
	The Agency is a public body, corporate and politic.	
“Owner” and “Developer”	Mercy Housing California 47, a California Limited Partnership	
“Agency Address”	Agency’s business address is 801 12th Street, Sacramento, California 95814	
“Owner Address”	Owner’s business address is as follows:	3120 Freeboard Drive, Suite 202, West Sacramento, CA 95691
“Jurisdiction”	City of Sacramento	
“Property”	That certain real property which is subject to this Regulatory Agreement as further described in the legal description, attached as Exhibit 1 – Legal Description of the Property.	
“Funding	Agency is conveying fee title to the Property to Developer, subject to the	Dated:

"Agreement"	terms of the DDA. This Regulatory Agreement is subject to an Owner Participation Agreement, which is considered the Funding Agreement. Also the term Funding Agreement includes, the Construction and Permanent Loan Agreement between Agency and Owner, dated as follows:		The DDA is dated June 10, 2010
"Agency Funding"	The Agency Funding made by Agency to Owner under the Funding Agreement for development of the Property		
"Agency Funding Amount"	The amount of the Agency Funding, as follows:	Amount of Funding	\$22,407,204
		Source of Funding	Downtown Tax Increment Housing Set-Aside Fund HOME City Housing Trust Fund
"Funding Requirements"	The legal restrictions on the use of the funds that Agency has used to make the Agency Funding, as applicable to and restricting the Property. The Funding Requirements are set out in Exhibit 2 – Funding Requirements . In consideration of the Agency Funding, the Agency has purchased the covenants, conditions and restrictions contained in the Regulatory Agreement.		
"Term"	The Term of each of the respective covenants, conditions and restrictions contained in this Regulatory Agreement is the term stated in the Funding Agreement, this Regulatory Agreement and in the absence of such provision, the term of the Redevelopment Plan.		
"Special Provisions"	Initially, the approved operator of the health center space is The Effort, Inc. Any change in the operator during the term of this Agreement requires the prior written consent of the Agency. The request for a change in the operator will be processed and responded to within 30 days of its receipt and consent will not be unreasonably withheld. A change of the use of the health center space during the term of this Agreement is a material change that requires the approval of the Agency's governing board. The Agency acknowledges that this approval will not be unreasonably withheld as time is of the essence and the Project is dependent on income from this commercial space to cover ongoing operating costs. Increased draws on the established capitalized operating reserve may be necessary to cover operating costs should this process take more than 30 days.		
"Approved Use"	Owner shall assure that the property is used only for the following Approved Uses: Approximately 5,218 square of the ground floor is to be used as a health center open to the public but designed to primarily serve the residents of the residential portion of the Project. Additionally, there is approximately 2,812 square feet of commercial space also open to the public and intended to enhance the living environment of the residents of the Project.		
"Disapproved Uses"	Owner shall assure that the property is not used, in whole or in part, for any of the following Disapproved Uses: Liquor store/bar; Adult store/film; Vet office/kennel; Funeral; Video arcade/pool hall; Bowling alley; Music ; Dancing; Manufacturing; Repair facility ; Vehicle related; Service stations; Hazardous materials; Storage or warehousing facilities; Tattoo and or piercing establishment; pawn shop; Check cashing or paycheck advance business; Passive activity (switching station); Nuisances; and Medical Marijuana.		

26. **RECAPTURE.** If Owner fails or refuses to comply with the Regulatory Agreement, and fails to cure such breach within thirty (30) days after notice from Agency to Owner of such breach shall repay to Agency, on demand a proportionate share of the Agency Funding. Said proportionate share shall be in the same ratio that the term of the Regulatory Agreement remaining (from the date of the Agency's notice) bears to the full term of the Regulatory Agreement. Any limited partner of Owner shall be entitled to cure any defaults on behalf of Owner within the time periods set forth herein; provided, however, that if, in order to cure any such default, such limited partner must first remove and/or replace a general partner of Owner, then, provided that such limited partner notifies the Agency of such removal and removes such general partner within that thirty day period to correct or cure the default the limited partner shall then have 90 days to replace the general partner. Then, such limited partner or the replacement General Partner shall have until the date of 30 days to effect such cure.

27. **TERMINATION OF COVENANTS.** If the Agency is paid the Recapture, the covenants, conditions and restrictions contained in this Regulatory Agreement shall terminate, except as to covenants which provide otherwise, including without limitation, the covenant against discrimination, all of which continue in effect.

28. **REPRESENTATIONS.** Agency has provided good and valuable consideration. The funds used by Agency for the Project are funds from public funding sources administered by Agency and their use is subject to certain requirements some of which are embodied in this Regulatory Agreement. This Regulatory Agreement represents a portion of a larger transaction, and is an inextricable part of the larger transaction. Therefore, Agency has undertaken its obligations conditioned upon Owner's agreement, for itself and its successors and assigns, to comply with all provisions of this Regulatory Agreement. Owner has had full opportunity to make itself independently familiar with such limitations and restrictions, and Owner accepts them and agrees to comply fully with them.

29. **COVENANTS.** Owner makes the following covenants. Unless Owner has received the prior written consent of Agency otherwise, Owner shall fully comply with each and every covenant. Except as otherwise stated in this Regulatory Agreement, the following covenants shall have a term that is the same as the longest term specified in the Funding Requirements.

Owner shall use and shall permit others to use the Property only for the Approved Uses, and with the Redevelopment Plan for the Project Area.

a. Owner shall not use and shall not permit others to use the Property for any of the Disapproved Uses.

b. Owner shall assure full compliance with the Special Provisions, if any.

c. Owner shall maintain the Property and the building improvements, grounds and equipment of the Property in good repair and condition and in compliance with all applicable standards and local code requirements. Owner shall maintain the Property in good condition and shall keep the Property reasonably free from graffiti and unrepaired vandalism and from accumulation of abandoned property, inoperable vehicles, unenclosed storage, debris, and waste materials. In the event of a casualty loss, Owner shall cause the restoration or replacement of the Property, in a timely manner and provided that such restoration or replacement is then economically feasible.

d. Owner shall not cause and shall not permit discrimination on any basis listed in subdivision (a) or (d) of Section 12955 of the Government Code, as those bases are defined in Sections 12926, 12926.1, subdivision (m) and paragraph (1) of subdivision (p) of Section 12955, and Section 12955.2 of the Government Code in the sale, lease, or rental or in the use or occupancy of the Property. Owner covenants by and for himself, his heirs, executors, administrators, and assigns, and all persons claiming under or through them that there shall be no discrimination against or segregation with reference to the selection, location, number, use or occupancy of tenants, lessees, subtenants, sublessees, or vendees in the Property. This covenant against discrimination shall continue in perpetuity.

e. Owner shall assure compliance with the federal Personal Responsibility and Work Opportunity Act (Public Law 104-193, commonly known as the Welfare Reform Act) prohibiting the Agency funding of federal, state or local benefits to persons who are not citizens or qualified aliens as defined in the act.

30. **RESTRICTION ON SALES AND LEASES.** Except as contemplated by this Regulatory Agreement, the Owner is prohibited from selling or leasing the Property unless and until the buyer or lessee has executed and the parties have recorded an acknowledgment and acceptance of this Regulatory Agreement. In any event, any and all successors in interest to the Property are subject to this Regulatory Agreement.

31. **NATURE OF COVENANTS.** The provisions contained in this Regulatory Agreement are covenants which subject and burden the Property, as covenants running with the land. It is intended and agreed that the agreements and covenants provided in the Agreement shall be covenants running with the land and equitable servitudes on the land and that they shall, in any event, and without regard to technical classifications or designation, be binding, to the fullest extent permitted by law and equity, for the benefit and in favor of, and enforceable by, the Agency, the Agency's successors and assigns, any other governmental entity acting within its authority and any successor in interest to Agency's interest under this Regulatory Agreement against the Owner, its successors and assigns and every successor in interest to all or any part of the Property.

32. **TERM.** The term of this Regulatory Agreement shall commence on the Effective Date and continue until the terms of all of the covenants, including without limitation, the terms stated in the Funding Requirements, have expired or otherwise been terminated. In the absence of a term in the Funding Requirements, the term shall be fifty five (55) years from the Effective Date.

33. **RECORDKEEPING AND REPORTING.** Upon written request of Agency, Owner shall promptly provide any additional information or documentation to verify Owner's compliance with the provisions of this Regulatory Agreement. At the written request of the Agency, Owner shall, within a reasonable time following receipt of such request, furnish reports and shall give specific answers to questions regarding the income, assets, liabilities, contracts, operations, and condition of the property and their compliance with the Funding Agreement and this Regulatory Agreement.

34. **AUDIT AND INSPECTION.** The Property and all related equipment, buildings, plans, offices, books, contracts, records, documents and other related items shall at all times be maintained in reasonable condition for audit and shall be subject to examination by the Agency or its agents during reasonable hours solely for the purpose of reviewing Owner's compliance with this Regulatory Agreement. The books and accounts of the operations of the Property and of the Property shall be kept in accordance with generally accepted accounting principles.

35. **INDEMNITY FOR OWNER'S FAILURE TO MEET LEGAL REQUIREMENTS.** Owner shall indemnify and hold Agency, its officers, directors, and employees harmless from any and all liability arising from Owner's failure to comply with the covenants, conditions and restrictions contained in this Regulatory Agreement and its failure to comply with all other laws, rules, regulations and restrictions related to the use of any Agency funds. Without limitation, such indemnity shall include repayment to the Agency of the costs of funds and the value of lost opportunities resulting from the required repayment by Agency to the funding source of funds improperly used.

36. **CHANGES WITHOUT CONSENT OF TENANTS, LESSEES, OR OTHERS.** Only Agency and its successors and assigns, and Owner and its successors and assigns (subject to the reasonable approval of Owner's lender) shall have the right to consent and agree to changes in, or to eliminate in whole or in part, any of the covenants or restrictions contained in this Agreement. Such changes or termination shall not require the consent of any easement holder, licensee, other mortgagee, trustee, beneficiary under a deed of trust or any other person or entity having any interest less than a fee in the Property.

DEFAULT. Upon a breach of any of the provisions of this Regulatory Agreement by Owner, the Agency shall give written notice of such breach to Owner and Limited Partner by registered or certified mail. To the extent reasonable under the circumstance, in the event of any breach, the Agency and Owner shall reasonably endeavor to identify a remedy for such breach by conference and conciliation. If such violation is not corrected to the satisfaction of Agency within thirty (30) days after the date such notice is mailed or within such further time as the Agency may reasonably determine is necessary to correct the breach, and without further notice to Owner, the Agency may declare a default under the Agreement, effective on the date of such declaration of default, and upon such default the Agency may: (a) take any action then available under the Funding Agreement for a default under the Funding Agreement and (b) apply to any court for specific performance of this Regulatory Agreement, for an injunction against any violation of the Agreement, for the appointment of a receiver to take over and operate the Property in accordance with the terms of this Regulatory Agreement, for money damages or for such other relief as may be appropriate. The injury to the Agency arising from a default under any of the terms in this Regulatory Agreement would be irreparable, and the amount of damage would be difficult to ascertain. Any limited partner of Owner shall be entitled to cure any defaults on behalf of Owner within the time periods set forth herein; provided, however, that if, in order to cure any such default, such limited partner must first remove and/or replace a general partner of Owner, then, provided that such limited partner notifies the Agency of such removal and removes such general partner within that thirty day period to correct or cure the default the limited partner shall then have 90 days to replace the general partner. Then, such limited partner or the replacement General Partner shall have 30 days to effect such cure.

a. Agency may institute or prosecute in its own name, any suit Agency may consider advisable in order to compel performance of any obligation of any owner to develop and maintain the subject property in conformity with this Regulatory Agreement and to remedy any default of this Regulatory Agreement. Agency may also seek a decree requiring removal of any improvements constructed on the Property which improvements are designed for uses not permitted under this Regulatory Agreement and which improvements are suitable only for uses not permitted under this Regulatory Agreement.

b. The remedies of the Agency under this Regulatory Agreement are cumulative. The exercise of one or more of such remedies, including, without limitation, remedies under the Funding Agreement shall not be deemed an election of remedies and shall not preclude the exercise by the Agency of any one or more of its other remedies.

37. **BINDING SUCCESSORS IN INTEREST.** This Regulatory Agreement shall bind and the benefits shall inure to the Owner, its successors in interest and assigns, and to the Agency and its successors for the term of this Regulatory Agreement.

38. **CONTRADICTIONARY AGREEMENTS.** Owner warrants that he has not, and will not, execute any other agreement with provisions in contradiction or opposition to the provisions of this Regulatory Agreement, and that, in any event, the requirements of this Regulatory Agreement are paramount and controlling as to the rights and obligations stated and supersede any other requirements in conflict with this Regulatory Agreement.

39. **ATTORNEYS' FEES.** If the services of any attorney are required by any party to secure the performance of this Regulatory Agreement or otherwise upon the breach or default of another party, or if any judicial remedy or mediation is necessary to enforce or interpret any provision of this Regulatory Agreement or the rights and duties of any person in relation to this Regulatory Agreement, the prevailing party shall be entitled to reasonable attorneys' fees, costs and other expenses, in addition to any other relief to which such party may be entitled. Any award of damages following judicial remedy or arbitration as a result of this Regulatory Agreement or any of its provisions shall include an award of prejudgment interest from the date of the breach at the maximum amount of interest allowed by law. The prevailing party shall mean the party receiving an award in arbitration or a judgment in its favor, unless the award or judgment is less favorable than the best settlement offered in writing in a reasonable manner by the other party, in which case the prevailing party is the party making such settlement offer.

40. **SEVERABILITY.** If any term or provision of this Regulatory Agreement shall, to any extent, be held invalid or unenforceable, the remainder of this Regulatory Agreement shall not be affected; provided that the intent of the Regulatory Agreement may then be reasonably fulfilled. In any event, the term or provisions shall be deemed to be invalid only as to the entity and circumstance for which it was held to be invalid.

41. **NO WAIVER.** No waiver by the Agency of any breach of or default under this Regulatory Agreement shall be deemed to be a waiver of any other or subsequent breach or default.

42. **NOTICES.** Written notices and other written communications by and between the parties shall be addressed to the Owner at the Owner Address and to the Agency at the Agency Address or such other address as each respective party has designated by written notice to the other party. Agency shall give copies of notices required to be delivered to Owner to the following parties at the following addresses; provided, however that Owner acknowledges that such notice is an accommodation and the failure of the Agency to properly deliver any such notice shall not give rise to any claims or defenses of Owner or any third party:

Owner: Mercy Housing California 47, a California Limited Partnership
3129 Freeboard Drive, Suite 202
West Sacramento, CA 95691

With a copy to:

If to the Investor Limited Partner:

Wachovia Affordable Housing
Community Development Corporation
MAC D1053-170
301 South College Street
Charlotte, NC 28288
Attention: Director of Tax Credit Asset Management

with a copy to:

John Simon, Esq.
Sidley Austin LLP
One South Dearborn
Chicago, IL 60603

And

Joel Hjelmaas, Esq.
Counsel
Wells Fargo Bank, N.A.
MAC x2401-06T
1 Home Campus, 6th floor
Des Moines, IA 50328-0001

THE PARTIES HAVE EXECUTED THIS REGULATORY AGREEMENT in Sacramento, California as of the date first written above.

OWNER : MERCY HOUSING CALIFORNIA 47, A CALIFORNIA LIMITED PARTNERSHIP

AGENCY: REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

By RCHC GP LLC, a California limited liability company, its managing general partner
By: Rural California Housing Corporation, a California nonprofit public benefit corporation, its member/manager

By: _____
LaShelle Dozier, Executive Director

Approved as to form:

By: _____
Its: _____

Agency Counsel

By: 7th & H GP LLC, a California limited liability company, its co-general partner
By: Mercy Housing Calwest, a California nonprofit public benefit corporation, its member/manager

By: _____
Its: _____

Approved as to form:

Owner Counsel

[NOTARIZED ACKNOWLEDGEMENTS]

EXHIBIT 6
ESCROW INSTRUCTIONS FORM

**SAMPLE
JOINT ESCROW INSTRUCTIONS
FOR DISPOSITION AND DEVELOPMENT OF REAL PROPERTY**

“Effective Date”

Agency and Developer execute these Escrow Instructions as of the Effective Date. This document, including attachments and any amendments and additions, shall constitute the joint escrow instructions of Agency and Developer for the Agency loan secured by the Property.

ARTICLE I. GENERAL TERMS.

43. **GENERAL.** These Escrow Instructions, in addition to items listed below includes Article II General Provisions, which is attached to and incorporated in these Escrow Instructions by this reference.

44. **DEFINITIONS.** The capitalized terms in these Escrow Instructions shall have the meanings assigned in Article I General Terms and as defined in Article II Instructions. (Terms being defined are indicated by quotation marks.)

“Title Company”	Address: <input style="width: 80%; height: 15px;" type="text"/>		
“Escrow” with Title Company	Escrow Number: <input style="width: 40%; height: 15px;" type="text"/>	Attention: <input style="width: 40%; height: 15px;" type="text"/>	
“Agency”	Address: 801 – 12 th Street, Sacramento, CA 95814		
	Attention: <input style="width: 80%; height: 15px;" type="text"/>		
“Developer”	Address: <input style="width: 80%; height: 15px;" type="text"/>		
	Attention: <input style="width: 80%; height: 15px;" type="text"/>		
“Closing Date”	<input style="width: 80%; height: 15px;" type="text"/>		
“Property”	Address: <input style="width: 40%; height: 15px;" type="text"/>	APN: <input style="width: 40%; height: 15px;" type="text"/>	
“Transaction Document”	The document that details the obligations of the parties for the contemplated transaction (<i>e.g.</i> , Loan Agreement, Disposition and Development Agreement or Owner Participation Agreement): <input style="width: 80%; height: 15px;" type="text"/>		
Description of the transaction	<input style="width: 80%; height: 15px;" type="text"/>		

“Recorded Documents”- The following documents are to be recorded in the order listed (top being first in priority). Copies of the Recorded documents are attached.	Documents:	Marked for return to:
	1. <input style="width: 90%; height: 15px;" type="text"/>	1. <input style="width: 90%; height: 15px;" type="text"/>
“Agency Items”	<input style="width: 80%; height: 15px;" type="text"/>	
“Developer Items”	<input style="width: 80%; height: 15px;" type="text"/>	

“Special Provisions”:

“Agency Title Policy” in the form of an ALTA Lender's Policy insuring that the following are valid liens against the property:	Documents:	Coverage amount (purchase price):	
		I	
“Developer Title Policy” insuring fee title in Developer.	Type of Policy:		
	<input type="checkbox"/> CLTA <input type="checkbox"/> ALTA standard owner's policy		
The title policies shall be subject only to the following “Conditions of Title”:	Named items of Title Company's Preliminary Report for the Escrow, to remain after Close of Escrow	Dated:	
		Report Number:	
		Items remaining:	

THE PARTIES HAVE EXECUTED THESE ESCROW INSTRUCTIONS in Sacramento, California as of the Effective Date.

DEVELOPER:

AGENCY:

By: _____
 Name:
 Title:

By: _____
 Name:
 Title:

ARTICLE II. INSTRUCTIONS

1. **CLOSING DATE.** Escrow shall close on or before the Closing Date as it may be changed from time to time by written agreement of Developer and Agency.
2. **CONDITIONS TO CLOSE OF ESCROW.** "Close of Escrow" means the fulfillment of the Escrow terms and conclusion of the Escrow, including, without limitation, the execution of unexecuted documents, the recordation of documents specified for recording, the issuance of title insurance policies, the payment of fees and the delivery of funds and documents as directed in the escrow instructions for the Escrow. The Close of Escrow shall occur on the Closing Date. The following are conditions to the Close of Escrow:
 - 2.1.1. The conditions precedent to performance stated in the Transaction Document and Recorded Documents are satisfied as of the Closing Date.
 - 2.1.2. Simultaneously with the Close of Escrow, Title Company shall issue the Agency Title Insurance to Agency (at Developer's cost) in the amount stated. The Agency Title Insurance shall include all usual and customary endorsements and any endorsements and other commitments as Agency may reasonably require. The Agency Title Insurance shall show the Recorded Documents marked for return to Agency as valid liens against the Property in favor of the Agency, subject only to the Conditions of Title, and securing, as applicable, Developer's performance of its obligations and repayment of Agency Funding.
 - 2.1.3. Simultaneously with the Close of Escrow, Title Company shall issue the Developer Title Insurance to Agency (at Agency's cost) in the amount stated. The Developer Title Insurance shall include all usual and customary endorsements and any endorsements and other commitments as Developer may reasonably require. The Developer Title Insurance shall insure Developer's fee simple title to the Property subject only to the Conditions of Title.
 - 2.1.4. Prior to the Closing Date, the parties shall duly execute (in Escrow or prior to deposit in Escrow) each such document and shall execute those to be recorded in a manner suitable for recording.
 - 2.1.5. On or before the Closing Date, Agency shall also deposit with Title Company the Developer Items and any Loan Amount then to be disbursed under this Agreement, but not less than closing costs, fees and charges required for Close of Escrow.
 - 2.1.6. On or before the Close of Escrow, Developer shall also deposit with Title Company the Agency Items and Developer's share of closing costs and fees.
 - 2.1.7. Title Company is satisfied that all required funds have been deposited in Title Company's account for the Escrow, have cleared the originating bank and are available for transfer by Title Company's check or wire transfer to the appropriate party.

2.2. **TRUST DEED FORM.** If a Trust Deed is included in the Recorded Documents and no exhibit setting out the form of the Trust Deed form is attached, the Title Company shall draw the Trust Deed on the Title Company's Long Form Deed of Trust. Title Company shall assure that the Trust Deed includes a standard clause giving Agency the option to accelerate the Loan upon the sale, conveyance, transfer or further encumbrance of the Property, whether voluntary or involuntary. Title Company shall also affix the following provision to the Trust Deed and incorporate it in the Trust Deed by reference:

"The Loan Agreement requires the filing of the "Regulatory Agreement" that is defined in the Loan Agreement. The Regulatory Agreement contains covenants running with the land and is recorded against the Property. If Developer 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 Agency's written notice to Developer of such failure, the principal balance of the Loan shall, at Agency's option, be immediately due and payable, together with all unpaid interest at the stated rate from the date of the advancement of the Loan's proceeds."

2.3. **UPON CLOSE OF ESCROW.** The Close of Escrow shall take place on the Closing Date. On the Closing Date, Title Company shall complete the Close of Escrow as follows and in the following order (unless otherwise stated, all recorded documents are recorded with the Sacramento County Recorder):

2.3.1. Assure fulfillment of the Special Provisions;

2.3.2. Obtain full execution of all unexecuted documents;

2.3.3. Date all undated documents as of the Closing Date;

2.3.4. Record the Recorded Documents in the priority listed;

2.3.5. Determine all closing costs and fees; including without limitation, all charges, fees, taxes and title insurance premiums payable under this Agreement on Close of Escrow and any other fees and charges approved for payment from Escrow by both parties and deduct such fees from the Loan proceeds deposited by Agency in Escrow;

2.3.6. Deliver the Agency Items to Agency and the Developer Items to Developer; and

2.3.7. Prepare and deliver to Developer and Agency, respectively, signed originals of all documents included for delivery to either party and not delivered for recording, one signed original of Title Company's closing statement showing all receipts and disbursements of the Escrow, and one conformed copy of each of the recorded documents.

2.4. INABILITY TO CLOSE. If Title Company is unable to simultaneously perform all of the preceding instructions, Title Company shall notify Developer and Agency, and upon each of their directions return to each party all documents, items and funds deposited in Escrow by such party (less fees and expenses incurred by the respective party) and bill the respective parties for any unpaid fees and expenses incurred in Escrow. If Escrow fails to close on the Closing Date because Developer has not complied with Developer's obligations under this Loan Agreement, then Developer shall pay the costs incurred through Escrow to the date the Escrow is terminated, including the cost of any preliminary title report and any cancellation fees or other costs of this Escrow. If Escrow fails to close on or before the Closing Date because Agency has not complied with Agency's obligations under this Loan Agreement, such costs shall be paid by Agency. If Escrow fails to close on or before the Closing Date for any other reason, such costs shall be divided equally between the parties.

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

////////

ACCEPTANCE OF ESCROW INSTRUCTIONS

Your acceptance of this escrow shall create a contractual obligation by you with Agency and Developer for complete compliance with these instructions. Agency and Developer reserve the right to jointly revoke this escrow at any time upon their payment to you of your fees and reimbursement to you of your expenses in accordance with the terms of these escrow instructions. Your obligations as Escrow Holder under these escrow instructions shall be subject to the following provisions:

You are not responsible as to the sufficiency or correctness as to form, manner of execution, or validity of any instrument deposited in this escrow nor as to the authority or rights of any person executing such instrument. Except as otherwise provided in these escrow instructions, your duties as Escrow Holder are limited to the proper handling of monies and the proper safekeeping of instruments and other items received by you as Escrow Holder, and for the performance of your obligations as specifically provided under these escrow instructions. You are responsible for the sufficiency of any instruments or documents prepared by you for this escrow.

Developer agrees to indemnify and hold you harmless from damages incurred as a result of your good faith and diligent performance of your duties under these escrow instructions.

Upon your acceptance of these escrow instructions return the executed counterparts of these escrow instructions to Agency and Developer, respectively.

Escrow Holder acknowledges receipt of the foregoing escrow instructions and agrees to act as Escrow Holder and to comply with the terms and conditions of said escrow instructions.

Dated: _____

TITLE COMPANY

By: _____

Name: _____

Title: _____

Its authorized agent and signatory

EXHIBIT 7
FUNDING REQUIREMENTS

TI FUNDING REQUIREMENTS FOR RENTAL HOUSING
LOW AND MODERATE INCOME HOUSING FUND

These "TI Funding Requirements" are attached to a Regulatory Agreement, and are incorporated in that Regulatory Agreement. In turn, the Regulatory Agreement is incorporated in the financing document that is described in the Regulatory Agreement. [The capitalized terms used shall have the meanings below. Terms being defined are indicated by quotation marks. Capitalized terms in these TI Funding Requirements that are not defined below are defined in the Regulatory Agreement and in such financing document.]

1. **RECITALS.** Agency is a redevelopment agency organized and operating under the California Redevelopment Law (commencing at Health & Safety Code Section 33000). The Agency Funding is funded by the Agency with proceeds of the Low and Moderate Income Housing Fund (as defined in Health & Safety Code Section 33334.3) and made in accordance with the Aggregation of Agency Funding that occurred pursuant to Resolution 2009-57 adopted by the Redevelopment of the City of Sacramento or Resolution 0896 adopted by the County of Sacramento Redevelopment Area in accordance with Health and Safety Code Sections 33334.2(g) and 33413, the provisions of the redevelopment plans for the Agency's Project Areas ("Redevelopment Plans"), and the California Redevelopment Law. The Agency has approved the Agency Funding on condition that the property securing the Agency Funding ("Property") is rehabilitated or developed as residential rental property ("Project") with certain units regulated in accordance with Health & Safety Code Section 33487 ("TI Restricted Units") by recordation of these TI Funding Restrictions as covenants running with the land, in accordance with Health & Safety Code Section 33334.3(f). TI Restricted Units are made affordable by such regulation to persons and households that qualify as moderate-income, low-income or very low-income as indicated in Article I of the Regulatory Agreement. The development of the Project will benefit the Project Areas because the Project will provide housing for persons who work within the Project Areas.
2. **AFFORDABILITY REQUIREMENTS.** Owner shall assure that the TI Restricted Units shall be rented or sold at or below the following rates to households whose incomes are at or below the respective income limits for the rental rate:
 - a. Moderate-Income TI Restricted Units shall be rented for amounts that do not exceed payments of thirty percent (30%) of one hundred and ten percent (110%) of the Sacramento Metropolitan Statistical Area median income ("Median Income"), as determined annually by the federal Department of Housing and Urban Development, as adjusted for family size appropriate to the size and number of bedrooms in the respective TI Restricted Unit.
 - b. Low-Income TI Restricted Units shall be rented for amounts that do not exceed payments of thirty percent (30%) of sixty percent (60%) of the Median Income as adjusted for family size appropriate to the size and number of bedrooms in the respective TI Restricted Unit.
 - c. Very Low-Income TI Restricted Units shall be rented for amounts that do not exceed payments of thirty percent (30%) of fifty percent (50%) of the Median Income as adjusted for family size appropriate to the size and number of bedrooms in the respective TI Restricted Unit.
 - d. Owner shall be responsible to determine the affordable amounts for the TI Restricted Units. Within ten (10) days of Owner request, Agency shall provide all information necessary for Owner to compute such affordable rents and will assist Owner in determining such amounts.
3. **TERM.** These covenants shall burden and regulate the TI Restricted Units for a term of fifty-five (55) years, unless a longer term is specified in the body of the document to which this attached.

TI FUNDING REQUIREMENTS FOR COMMERCIAL REDEVELOPMENT

These "TI Funding Requirements" are incorporated in the "Regulatory Agreement" to which they are attached. In turn, the Regulatory Agreement is incorporated in the Funding Agreement referenced in the Regulatory Agreement. Pursuant to the Funding Agreement, the Regulatory Agreement (with these TI Funding Requirements) is recorded against the properties assisted with the "Agency Funding" provided under the Funding Agreement. [The capitalized terms used in these TI Funding Requirements shall have the meanings stated below. Terms being defined are indicated by quotation marks. Capitalized terms that are not defined in these TI Funding Requirements are defined in the Regulatory Agreement.]

1. **RECITALS.** Agency is a redevelopment agency organized and operating under the California Community Redevelopment Law (commencing at Health & Safety Code Section 33000).

a. Agency has provided the "Agency Funding" from redevelopment tax increment (as defined in the California Constitution Article XIII, Section 16, and further defined in Health & Safety Code Section 33670) for the "Project Area" named in the Regulatory Agreement and Funding Agreement. The Agency Funding is subject to the provisions of the redevelopment plan for the Project Area and the California Community Redevelopment Law.

b. The Project is being developed on the Property which is in the Redevelopment Plan for the Project Area named in the Agency Funding Agreement. Agency has approved the Agency Funding on condition that the "Property" named in the Agency Funding Agreement is rehabilitated or developed as the Project, defined in the Agency Funding Agreement and operated and maintained in accordance with the Redevelopment Plan, which regulation is accomplished by recordation of this Regulatory Agreement with these TI Funding Requirements as covenants running with the land.

2. **TERM.** These covenants shall burden and regulate the Property for the term of the Redevelopment Plan, but in any event, not less than fifty-five (55) years from the date of recordation, excepting the covenant against discrimination, which shall run in perpetuity.

3. **USE.** The Property shall be used solely for the Approved Uses and shall not be used for the Disapproved Uses.

4. **ANTI-DISCRIMINATION.** The Owner covenants by and for himself or herself, his or her heirs, executors, administrators, and assigns and all persons claiming under or through them that there shall be no discrimination against or segregation of, any person or group of persons on any basis listed in subdivision (a) or (d) of Section 12955 of the Government Code, as those bases are defined in Sections 12926, 12926.1, subdivision (m) and paragraph (1) of subdivision (p) of Section 12955, and Section 12955.2 of the Government Code in the sale, lease, or rental or in the use or occupancy of the Property. Owner covenants by and for himself, his heirs, executors, administrators, and assigns, and all persons claiming under or through them that there shall be no discrimination against or segregation with reference to the selection, location, number, use or occupancy of tenants, lessees, subtenants, sublessees, or vendees in the Property. This covenant against discrimination shall continue in perpetuity.

5. **PLAN COMPLIANCE.** Owner shall comply, in all respects, with the Redevelopment Plan.



EXHIBIT B
CONDITIONAL GRANT AGREEMENT (CAPITAL)

**CONDITIONAL GRANT AGREEMENT
FOR CAPITAL
7TH AND H PROJECT, SACRAMENTO, CALIFORNIA
(GRANT B)**

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

1. **GRANT.** The Grantor is making the Grant pursuant to the terms and conditions of this Grant Agreement. Grantor and Grantee have entered this Grant Agreement as of the Effective Date.

2. **DEFINITIONS TABLES.** The capitalized terms in this Grant 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 the Definitions Table is marked "None", "Not Applicable", "N/A" or equivalent or is left blank, that defined term is not applicable to this Grant or the referenced item is not required or is not included in this Grant as the context may indicate.

"EFFECTIVE DATE"	Being the date as of which this Grant Agreement shall be effective	
"GRANTOR"	The following public agency that is making the Grant, and whose legal status and address are:	
Name	Redevelopment Agency of the City of Sacramento	
Legal Status	A public body, corporate and politic	
Principal Address	801 12 th Street, Sacramento CA 95814	
"GRANTEE"	The Grantee of the Grant funds whose name, legal status and address are:	
Name	7th & H GP LLC, a California limited liability company	
Legal Status	A California limited liability company	
Principal Address	3120 Freeboard Drive, Suite 202, West Sacramento, California 95691	
"GRANT"	The Grant made by this Grant Agreement.	
"GRANT COMMITMENT"	Grantor's Grant commitment, made by letter dated as of	This Grant of is made pursuant to the Disposition and Development Agreement by and between Grantor and Mercy Housing California 47, a California Limited Partnership (the "Partnership") dated June 10, 2010 (the "DDA").
"GRANT PROGRAM"	Grantor's Grant Program, commonly known as	Merged Downtown Project Area Tax Increment Housing Set-Aside Fund
"GRANT AMOUNT"	Six Million, Eight Hundred Fifty Nine Thousand, Six Hundred and Five Dollars (\$6,859,695)	
"GRANTEE EQUITY"	\$21,747,825 Investor Equity	Which is the minimum amount of cash or cash equivalent (excluding land equity or other non-cash investment in the Project) that Grantee is investing in the Project.
"SATISFACTION OF CONDITION"	The Grant shall be satisfied upon the Partnership's purchase of the Property, recordation of a regulatory agreement and Deed of Trust against the Property, and completion of the Project pursuant to the terms and conditions of this grant and in accordance with the DDA to the satisfaction of the Grantor as evidenced by the Grantor's Certificate of Completion..	
"PROJECT"	Pursuant to the DDA, new construction of a 150-unit mixed-use single room occupancy (SRO) affordable supportive housing project at 7 th and H Streets in Sacramento, California.	

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

"PROPERTY"	The following described real property, which is security for the Grant and the site of the Project:	
Address	716 7 th Street, 631 H Street and 625 H Street Sacramento, CA (northwest corner of 7 th H Streets)	
Assessor's Parcel Number	002-0141-001-0000, 002-0141-002-0000, 002-0141-003-0000; 002-0141-004-0000, 002-0141-007-0000	
"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.	
Partnership's Title Interest	The Partnership has rights to obtain fee interest in the Property and will acquire fee interest in the Property as provided in the DDA.	

C. "ESCROW INFORMATION":		
"Title Company" and "Escrow Agent"	Fidelity National Title Company	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"	March 18, 2011	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 Grant Agreement):	
EXHIBIT	DEFINED TERM
Exhibit 1: Legal Description	"Legal Description"
Exhibit 2: Schedule of Performances	"Schedule of Performances"
Exhibit 3: Deed of Trust	"Deed of Trust"
Exhibit 4: Side Funding Agreement	"Capital Grant Funding Agreement"
Exhibit 5: Escrow Instructions Form	"Escrow Instructions"
Exhibit 6: Funding Requirements	"Funding Requirements"

E. "APPROVAL DOCUMENTS" Grantee shall submit the following documents for Grantor approval:
Grantee's organizational documents, such as partnership agreements or corporate articles and by-laws
"Budget" for the Project

G. "CONSTRUCTION INFORMATION":		
"Completion Date"	December 31, 2012	Which is the date on or before which the Completion of the Project must occur.
"General Contractor"	J.R. Roberts/ Deacon, Inc.	Which is the general contractor for construction of the Project.
"Project Architect"	Mogavero Notestine Associates	Which is the architect for design of the Project

H. "SPECIAL PROVISIONS" The following special provisions shall be in addition to the provisions of this Grant Agreement:
1. This Grant is made pursuant to the DDA by and between the Grantor and the Partnership dated June 10, 2010. This Grant Agreement is subject to the DDA including without limitation, conditions precedent to funding the Grant or making disbursements of the Grant proceeds.
2. Grantor is making this Grant in reliance on the Capital Grant Funding Agreement by and between Grantee and the Partnership (attached hereto as Exhibit 4).

3. **DEFINITIONS.** Terms not defined in Article I and II of this Grant Agreement shall have the definitions assigned in the DDA. 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 Grant Agreement, the following terms shall have the following meanings:

3.1. "Budget" is the budget approved by Grantor for the Project.

3.2. "Close of Escrow" means the fulfillment of the Escrow terms and conclusion of the Escrow, including, without limitation, the execution of unexecuted documents, the recordation of documents specified for recording, the issuance of title insurance policies, the payment of fees and the delivery of funds and documents as directed in the escrow instructions for the Escrow. The Close of Escrow shall occur on the Closing Date.

3.3. "Escrow" is the escrow with Title Company for the closing of the Grant.

3.4. "Escrow Instructions" means the Escrow Instructions for the Escrow signed by the Partnership and the Grantor.

3.5. "Event of Default" is breach of or default in a party's obligations under this Grant Agreement, the Regulatory Agreement, or the DDA.

3.6. "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.

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

3.8. "Grant" is the Grant from Grantor to Grantee made pursuant to this Grant Agreement.

3.9. "Grant Agreement" means this Grant Agreement including all Exhibits attached to this Grant Agreement (which are incorporated in this Grant Agreement by this reference) and the Grant Documents which are not otherwise included in this definition.

3.10. "Grant Proceeds" means funds disbursed by Grantor on account of the Grant and pursuant to this Grant Agreement.

3.11. "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.

3.12. "Performance Deed of Trust" is the trust deed evidencing the value of this Property to be Conveyed by this Grant and which Performance Deed evidences performance as required by the Disposition and Development pursuant to which this grant is made.

3.13. "Title Policy" means the title insurance policies to be issued in connection with this Grant, as further defined in the Escrow Instructions.

4. GRANTEE'S REPRESENTATIONS AND WARRANTIES. As a material inducement to Grantor to enter into this Grant Agreement and to make the Grant to Grantee, Grantee unconditionally, and each signatory who signs on its behalf, to the extent of their actual knowledge, represents and warrants to Grantor, as of the Close of Escrow, as follows:

4.1. **LEGAL ORGANIZATION.** Grantee 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. **GRANTEE'S POWERS.** Grantee has full authority to execute this Grant Agreement, 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 Grant Agreement constitutes a legal and binding obligation of, and is valid and enforceable against Grantee, in accordance with their respective terms.

4.4. **LITIGATION.** There are no actions, suits, or proceedings pending or, to the best knowledge of Grantee, threatened against or affecting Grantee or the validity or enforceability of any of the other Grant Documents, at law or in equity, or before or by any Governmental Authority. Grantee is not in default with respect to any order, writ, injunction, decree, or demand of any court or other Governmental Authority.

4.5. **NO OTHER BREACH.** The consummation of the transactions covered by this Grant Agreement and the payment and performance of all of the obligations in the Grant Documents, will not result in any breach of, or constitute a default under, any mortgage, deed of trust, lease, contract, Grant or credit agreement, corporate charter, bylaws, partnership agreement, trust agreement, or other instrument to which the Grantee is a party or by which it may be bound or affected.

4.6. **NO DEFAULT.** There is no Event of Default or Potential Default on the part of Grantee.

4.7. **USE OF PROCEEDS.** All Grant Proceeds will be disbursed as provided in this Grant Agreement and used only for the purposes specified in the Grant.

4.8. TAXES PAID. Grantee has filed all required Federal, State, County, and City tax returns and has paid all taxes due and owing.

4.9. ACCURACY. All applications, financial statements, reports, documents, instruments, information, and forms of evidence delivered to Grantor concerning the Grant or required by this Grant Agreement or any of the other Grant Documents are accurate, correct, and sufficiently complete to give Grantor 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. GRANT. Grantor agrees to deliver to Grantee, and Grantee agrees to accept from Grantor, an amount not to exceed the Grant Amount subject to the terms, conditions, representations, warranties, and covenants in this Grant Agreement.

5.1. PRINCIPAL AMOUNT. The principal amount of the Grant shall be the actual disbursements of the Grantor to or on account of Grantee, not to exceed the Grant Amount.

5.2. USE OF GRANT FUNDS. Grant funds shall be used solely for to fund construction draws of the Partnership and related soft costs in connection with the Partnership's development of the Project. Each payment made by Grantor under this Grant Agreement shall be made directly to the Partnership on behalf of Grantee..

5.3. GRANT TERMS. The Grant is made pursuant to the Grant Program and is subject to the laws, rules and regulations of the Grant Program. Grantor agrees to disburse the Grant Proceeds in the manner and subject to the limitations stated in this Grant Agreement.

5.4. REGULATORY AGREEMENT. The funding for this Grant is from Grantor's Merged Downtown Redevelopment Project Area Low/Mod Fund. Grantor and the Partnership are entering into a Non-Residential Regulatory Agreement and Residential Regulatory Agreement (Regulatory Agreements) to be recorded against the Property. The Regulatory Agreements imposing covenants, conditions and restrictions running with the land is a material consideration for the making of the Grant. The Partnership shall execute the Regulatory Agreements prior to Close of Escrow and deliver it to Escrow for recordation as a condition precedent to the Grant disbursement.

5.4.1. There shall be no discrimination against or segregation of any person on any basis listed in subdivision (a) or (d) of Section 12955 of the Government Code, as those bases are defined in Sections 12926, 12926.1, subdivision (m) and paragraph (1) of subdivision (p) of Section 12955, and Section 12955.2 of the Government Code in the sale, lease, or rental or in the use or occupancy of the Property hereby conveyed or any part thereof. Grantee covenants by and for himself, his heirs, executors, administrators, and assigns, and all persons claiming under or through them that there shall be no discrimination against or segregation with reference to the selection, location, number, use or occupancy of tenants, lessees, subtenants, sublessees, or vendees in the Property. The foregoing covenants shall run with the land.

5.5. ESCROW. The parties shall open the Escrow promptly after the Effective Date. Escrow shall close as provided in the Escrow Instructions on or before the Closing Date.

5.6. COMMISSIONS. Grantor is not responsible, by this Grant Agreement or otherwise, to pay commissions in relation to this transaction.

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

6.1. CONDITION OF TITLE. Grantor shall cause Escrow Agent to issue to Grantee (with a copy to Grantor) the Preliminary Report, together with copies of all documents relating to title exceptions referred to in the Preliminary Report. At Close of Escrow, Grantor's Regulatory Agreement executed by the Partnership shall be a valid lien against the Property securing the Grant and subject to no exceptions to title (of record or off record) other than the exceptions listed in the "Conditions of Title" in the Escrow Instructions.

6.2. CONDITIONS TO GRANTOR'S PERFORMANCE. Grantor's obligation to perform under this Grant Agreement is subject to all of the following conditions: (a) Grantee has performed all of its obligations then to be performed pursuant to this Grant Agreement (b) the closing conditions as defined in the Escrow Instructions have been fulfilled as of Close of Escrow; (c) Grantee's representations and warranties in this Grant Agreement are true and correct as of the Close of Escrow, (d) this Grant Agreement continues to be in full force and effect, no default on the part of Grantee has occurred

under the Grant Agreement, and no event has occurred that, with the giving of notice or the passage of time, will constitute a default by Grantee under the Grant Agreement; and (e) Grantor's governing board has approved this document.

6.3. CONDITIONS TO GRANTEE'S PERFORMANCE. Grantee's obligation to perform under this Grant Agreement is subject to satisfaction of all of the following conditions: (a) Grantor has performed all of its obligations then to be performed pursuant to this Grant Agreement; (b) the closing conditions as defined in the Escrow Instructions have been fulfilled as of Close of Escrow; (c) Grantee has met the Conditions to Close of Escrow, (d) Grantor's representations and warranties in this Grant Agreement are correct as of the date of this Grant Agreement and as of the Close of Escrow; and (e) the Grant Agreement continues to be in full force and effect, no default on the part of Grantor has occurred under the Grant Agreement, and no event has occurred that, with the giving of notice or the passage of time, will constitute a default by Grantor under the Grant Agreement.

7. CONSTRUCTION. As a condition of the Loan, Grantee will cause the Partnership to diligently proceed with construction in accordance with the Scope of Development as approved by Grantor. Grantee shall cause the Partnership to complete such work on or before the Completion Date, subject to Unavoidable Delay, and all in compliance with the Loan Agreement between Grantor and the Partnership.

8. GRANT DISBURSEMENT PROCEDURES.

8.1. CONDITIONS PRECEDENT TO EACH GRANT DISBURSEMENT. The obligation of Grantor to make any disbursements under this Grant Agreement shall be subject to the following conditions precedent:

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

8.1.2. If requested by Grantor, Grantee has furnished or require the Partnership to furnish to Grantor, as a Project cost, an endorsement to the Title Policy showing no intervening liens or encumbrances on the Property and insuring the full disbursement, together with a satisfactory report under the California Uniform Commercial Code showing no liens or interests other than those of Grantor.

8.1.3. Grantor is satisfied that all completed work has been done using sound, new materials and fixtures, in a good and proper manner, and all materials, fixtures, and furnishings installed on or acquired for the Property will be owned by the Partnership free of any liens, encumbrance, or other interests of any kind other than Grantor's lien or security interest, and the liens of other approved lenders.

8.1.4. The representations and warranties in the Grant Documents are correct as of the date of the requested disbursement.

8.1.5. Grantee has submitted to Grantor all documents, records, statements, certificates, reports, and other materials and information then required to be submitted to Grantor for approval under this Grant Agreement.

8.1.6. Grantee has delivered to Grantor all funds, documents, instruments, policies, evidence of satisfaction of conditions, and other materials then due or otherwise requested by Grantor under the Grant Documents.

8.2. CONDITIONS PRECEDENT TO FIRST DISBURSEMENT. Grantee's request for the first disbursement under this Grant Agreement is a representation and warranty by Grantee that there has been no material adverse change in Grantee's financial capacity or in any representation made to Grantor in Grantee's application for the Grant or Grantee's supporting documentation. Grantor shall make the first grant disbursement under this Grant Agreement when the following conditions precedent and the conditions precedent stated in Section 6.3 have been met:

8.2.1. The Grantee and the Partnership have executed an agreement by and between themselves requiring the disbursement of these Grant Funds in accordance with and pursuant to the terms and conditions of this Grant to and for the Project (attached and incorporated herein as Exhibit 4).

8.2.2. There is no legal action threatened or pending against Grantee or affecting the Property or any Additional Collateral.

8.2.3. All conditions to Close of Escrow have been satisfied in accordance with this Grant Agreement.

8.2.4. The Partnership has obtained and Grantor has approved a loan approval from a financial institution or other Grantor approved by Grantor in its sole discretion, to make the permanent financing obtained by the Partnership, or the Partnership has obtained commitments to issue bonds, which repay after completion of the Project all construction and other loans secured by the Project and which are secured by a senior lien against the Property. Such permanent financing approval must provide: (a) that it is subject only to those conditions that are usual and customary in the industry and that can be satisfied by the proposed closing date of the permanent financing; (b) that it is in full force with no default by any party; and (c) that Grantor will have notice of, and a reasonable opportunity to cure, any Grantee defaults.

8.2.5. The Partnership has provided proof of all insurance required by the DDA.

8.2.6. All of the Partnership's commitments for construction financing are full force, has not been modified and no event has occurred that with notice or the passage of time or both could result in the termination of it. Nothing in the Partnership's construction loan commitments, or submissions and approvals made under it, conflicts with this Grant Agreement. The Partnership has done all things necessary to keep unimpaired its rights under the loan commitments for the loans.

8.2.7. Grantee has filed all tax returns required to be filed and paid all taxes due.

8.3. CONDITIONS PRECEDENT TO FINAL DISBURSEMENT. Grantor shall make the final loan disbursement under this Grant Agreement when the following conditions precedent and the conditions precedent stated in Section 6.3 have been met:

8.3.1. As applicable, the Project Architect and the Grantor's designated agent will have certified to Grantor, on AIA Form G704 and in a manner satisfactory to Grantor:

- a. That the Project has been duly completed in a good and proper manner using sound, new materials;
- b. That the Project complies with the Plans and Specifications, the requirements of all Governmental Authorities and any other party having enforceable rights regarding the construction of the Project; and
- c. That the Project is structurally sound.

8.3.2. The Partnership has filed all tax returns required to be filed and paid all taxes due, which, if unfiled or unpaid, might adversely affect Grantor's security under the Security Documents.

8.3.3. Grantee has furnished evidence, in form and substance satisfactory to Grantor, that:

- a. The General Contractor and subcontractors and material suppliers and their subcontractors and material suppliers have been paid in full;
- b. The Partnership has obtained final certificates of occupancy for all of the Project;
- c. All other permits and approvals necessary for the construction, equipping, management, operation, use, or ownership of the Project have been obtained, subject only to those conditions approved by Grantor, and
- d. The completed Project complies with all applicable zoning regulations, subdivision map acts, building code provisions, and similar governmental laws and regulations, and has all utilities and adequate ingress and egress from public streets, that evidence to be in the form of a certificate executed by Grantee in favor of Grantor.

8.3.4. Grantee has provided to Grantor an inventory showing make, model, value, cost, and location of all furniture, fixtures, and equipment and other personal property of a value in excess of \$1,000 and used in the management, maintenance, and operation of the Project, that are included in the collateral for the Grant.

8.3.5. Grantor has received written approval from the surety on any bond required by Grantor.

8.3.6. Grantor has issued a Certificate of Completion as referenced in the DDA,.

8.4. **MAKING DISBURSEMENT.** Grantor shall pay each disbursement request within twenty (20) business days after the disbursement request is submitted to Grantor, subject to fulfillment of the conditions precedent as stated in Section 6.3. Grantor shall disburse to the Partnership, on behalf of Grantee, the actual cost of the work represented in the disbursement request by Grantee, reduced by the cost of work included in the request and not satisfactorily completed and by the amount of the Retention to be withheld.

8.5. **COMPLIANCE.** To the best of Grantee's knowledge, the construction, use, and occupancy of the Property and Project comply in full with, or if built according to the Plans and Specifications, will comply in full with, all Governmental requirements. No right to construct or use the Project is to any extent dependent on any real property other than the Property. All approvals, licenses, permits, certifications, filings, and other actions normally accepted as proof of compliance with all Governmental requirements by prudent lending institutions that make loans secured by real property in the general area of the Property, to the extent available as of the date of this Grant Agreement, have been given or taken, or the Partnership is entitled to have them given or taken as the ministerial act of the applicable Governmental Authority.

9. **PROPERTY MANAGEMENT COMPANY.** For the life of the Grant, Grantee shall cause the Partnership to obtain and maintain a property management agreement with a top quality and duly accredited real estate property management company for the management of the Property, and shall assure the compliance of the property management with such agreement. Grantor shall not disburse any funds under this Grant Agreement unless and until it has reviewed and approved the agreement as adequate and the property management company as top quality and duly accredited. Grantor shall have the right to review and approve any proposed changes to scope of said agreement and to changes in the real estate property management company, prior to the Partnership's making such changes, and Grantee shall cause the Partnership to request such approval. Any such changes made without Grantor approval shall be a default of the Grant. Grantor has approved Mercy Housing Management Group as a qualified property management company for the Project.

10. **EVENTS OF DEFAULT.** At the option of Grantor, each of the following events will constitute an "Event of Default", subject to applicable cure rights, if any as provided in the loan documents between Grantor and the Partnership:

- 10.1.1. Default by the Partnership under the Disposition and Development Agreement.
- 10.1.2. Default by the Partnership under the Regulatory Agreement.
- 10.1.3. Default by the Partnership under the Construction and Permanent Loan Agreement.
- 10.1.4. The Partnership's failure to comply with any Governmental Requirements.
- 10.1.5. The Partnership's failure to keep in full force any permit, license, consent, or approval with respect to the Project.
- 10.1.6. The lien, attachment, levy, execution, or other judicial seizure of any portion of the Property, or any substantial portion of the other assets of Grantee, that is not released, expunged, bonded, discharged, or dismissed within thirty (30) days after the attachment, levy, execution, or seizure.
- 10.1.7. Making of any unauthorized payment from Grant Proceeds or other funds of Grantor.

11. REMEDIES

11.1.1. **OPTION TO ACT.** On the occurrence of any Event of Default, in addition to its other rights in this Grant Agreement or in any of the other Grant Documents, at law, or in equity, Grantor may, without prior demand, exercise any one or more of the following rights and remedies:

- 11.1.2. Declare the repayment of the Grant immediately due.
- 11.1.3. Make disbursement after the happening of any one or more of the Events of Default, without waiving its right to demand repayment of the Grant and all other sums that may then be owing to Grantor or any other rights or remedies, regardless of Grantor's previous exercise of any rights and remedies.

11.1.4. 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 Grant Agreement or the Regulatory Agreement.

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

11.2. RIGHTS CUMULATIVE, NO WAIVER. All of Grantor's rights and remedies provided in this Grant Agreement or in any of the other Grant Documents are cumulative and may be exercised by Grantor at any time. Grantor's exercise of any right or remedy will not constitute a cure of any Event of Default unless all sums then due to Grantor under the Grant Documents are repaid and Grantee has cured all other Events of Default. No waiver will be implied from Grantor'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 Grant Documents must be in writing and will be limited to its specific terms.

11.3. DISCLAIMER. Whether Grantor elects to employ any of the remedies available to it in connection with an Event of Default, Grantor will not be liable to perform any obligation of Grantee.

11.4. INSURANCE. With regard to this Grant Agreement, the Grantee shall cause the Partnership to obtain and maintain, and as applicable cause others to obtain and maintain, until the Satisfaction of Conditions, all insurance required under the DDA.

11.5. NONRECOURSE. Grantee's obligations to repay the Grant upon the occurrence of an Event of Default shall be nonrecourse and Grantor may only look to the Property and any other collateral securing Grantee's obligations under this Grant Agreement.

12. MISCELLANEOUS

12.1. NATURE OF REPRESENTATIONS AND WARRANTIES. Grantee certifies to Grantor that all representations and warranties made in this Grant Agreement and all other Grant 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 Grantee's obligations have not been satisfied or the Grant or any part of it remains outstanding, and for any applicable statute of limitations period. Each request by Grantee 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 Grant Agreement, in any other Grant Documents, and in any other document delivered to Grantor by Grantee, will be deemed to have been relied on by Grantor, regardless of any investigation, inspection, or inquiry made by Grantor or any related disbursement made by Grantor. The representations and warranties that are made to the best knowledge of Grantee have been made after diligent inquiry calculated to ascertain the truth and accuracy of the subject matter of each representation and warranty.

12.2. NO WAIVER. No failure or delay on the part of Grantor in exercising any right or remedy under the Grant Documents will operate as a waiver nor will Grantor 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 Grant Agreement will not be construed to waive any subsequent breach of the same covenant, term, or condition.

12.3. NO THIRD PARTIES BENEFITED. This Grant 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 Grant funds, except as expressly designated in this Grant Agreement.

12.4. NOTICES. Grantee irrevocably appoints Grantor as its agent (the agency being coupled with an interest) to file for record any notices of completion, cessation of labor, or any other notice that Grantor deems necessary or desirable to protect its interests under this Grant Agreement or under the Grant Documents. Grantor shall give copies of notices required to be delivered to Grantee to the following parties at the following addresses; provided, however that Grantee acknowledges that such notice is an accommodation and the failure of the Grantor to properly deliver any such notice shall not give rise to any claims or defenses of Grantee or any third party:

Grantee: 7th & H GP LLC
3129 Freeboard Drive, Suite 202
West Sacramento, CA 95691

With a copy to:

If to the Investor Limited Partner:

Wachovia Affordable Housing
Community Development Corporation
MAC D1053-170
301 South College Street
Charlotte, NC 28288
Attention: Director of Tax Credit Asset Management

with a copy to:

John Simon, Esq.
Sidley Austin LLP
One South Dearborn
Chicago, IL 60603

And

Joel Hjelmaas, Esq.
Counsel
Wells Fargo Bank, N.A.
MAC x2401-06T
1 Home Campus, 6th floor
Des Moines, IA 50328-0001

Grantor: Redevelopment Agency of the City of Sacramento
801 12th Street
Sacramento, CA 95814

12.4.1. **METHOD.** All notices to be given under this Grant Agreement shall be in writing and sent to the addresses stated above for the respective recipient by one or more of the following methods.

- 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

12.4.2. 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 Grantee or Agency may respectively designate by written notice to the other.

12.4.3. Notices, including requests for approval, requiring action in less than thirty (30) days may only be given by the foregoing overnight courier or hand delivery method, and shall include the following language on its face: "URGENT – TIME SENSITIVE – IMMEDIATE ACTION REQUIRED" and marked for delivery to Portfolio Management. Such notice shall include the time allowed under this Grant Agreement for action.

12.5. **ACTIONS.** Grantor 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 Grant Agreement. In connection with that, Grantor may incur and pay costs and expenses, including, without limitation, reasonable attorney fees. Grantee agrees to pay to Grantor on demand all these expenses. This Section does not apply to actions or proceedings between the parties.

12.6. **ASSIGNMENT.** The terms of this Grant Agreement will be binding on and inure to the benefit of successors and assigns of the parties. However, Grantee shall not assign this Grant Agreement or any interest it may have in the monies due without the prior written consent of Grantor to a party other than a general partner or managing member of Grantee or a single asset entity wholly owned and controlled by Grantee or a general partner or managing member of Grantee.

12.7. **NONLIABILITY FOR NEGLIGENCE, LOSS, OR DAMAGE.** The relationship between Grantee and Grantor is, and will at all times remain, solely that of Grantee and Grantor, and Grantor neither undertakes nor assumes any responsibility for or duty to Grantee, except as to matters which are within the intent and purpose of the Grant.

12.8. **CONTROLLING LAW; VENUE.** The Grant 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

12.9. **CONSENTS AND APPROVALS.** All consents and approvals by Grantor required or permitted by any provision of this Grant Agreement will be in writing. Grantor's consent to or approval of any act by Grantee 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.

12.10. **SURVIVAL OF WARRANTIES AND COVENANTS.** The warranties, representations, conditions, covenants, and agreements in this Grant Agreement and in the other Grant Documents will survive the making of the Grant and will continue in full force. Nothing in this Section is intended to limit any other provision of the Grant Documents that by their stated terms survive the termination of any Grant Document.

12.11. **AMENDMENT.** The Grant 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.

12.12. **TERMINATION.** Upon termination of this Grant, all rights and obligations under this Grant Agreement will terminate with no further rights or obligations.

12.13. **COUNTERPARTS.** The Grant 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.

12.14. **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.

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

12.16. **INDEMNITY.** Grantee agrees to defend, indemnify, and hold Grantor harmless from all losses, damages, liabilities, claims, actions, judgments, costs, and reasonable attorney fees that Grantor may reasonably incur as a direct or indirect consequence of the making of the Grant, Grantee's failure to perform any obligations as and when required by this Grant Agreement or any of the other Grant Documents, the failure at any time of any of Grantee's representations or warranties to be true and correct, or any act or omission by Grantee.

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

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

12.19. **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 GRANT AGREEMENT in Sacramento, California as of the Effective Date.

GRANTEE :
7th & H GP LLC, a California limited liability company

By: Mercy Housing Calwest, a California nonprofit public benefit corporation, its member/manager

By: _____

Its: _____

Date: _____

Approved as to form:

Grantee Counsel

GRANTOR:
REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

By: _____
LaShelle Dozier, Executive Director

Date: _____

Approved as to form:

Grantor Counsel

**EXHIBIT 1
LEGAL DESCRIPTION**

THE LAND REFERRED TO HEREIN BELOW IS SITUATED IN THE CITY OF SACRAMENTO , COUNTY OF SACRAMENTO, STATE OF CALIFORNIA, AND IS DESCRIBED AS FOLLOWS:

All that certain land described in that certain Certificate of Compliance for Lot Merger, recorded January 4, 2011 in Book 20110104, Page 482 and being more particularly described as follows:

Lot 5 and 6 in the block bounded by "G" and "H" Streets and 6th and 7th Streets of the City of Sacramento according to the official map or plat of said city.

Excepting therefrom the West 10 feet of said Lot 6.

APN: 002-0141-001-0000, 002-0141-002-0000, 002-0141-003-0000, 002-0141-004-0000, 002-0141-007-0000

EXHIBIT 2

SCHEDULE OF PERFORMANCES

March 2011	Construction begins
December 2012	Construction completed
January 2013	Project units placed in service

**EXHIBIT 3
DEED OF TRUST**

NO FEE DOCUMENT:
 Entitled to free recording
 per Government Code 27383.

When recorded, return to:
 SACRAMENTO HOUSING AND
 REDEVELOPMENT AGENCY
 801 12th Street
 Sacramento, CA 95814
 Attention: Katherine Klein McFadden

DEED OF TRUST AND ASSIGNMENT OF RENTS

7th & H Project

(Loan B: Construction and Permanent Loan Agreement; Grant B: Conditional Capital Grant; and, Grant C: Conditional Grant for Operating Reserve)
 716 7th Street, 631 H Street and 625 H Street, Sacramento, CA 95814

For purposes of this Deed of Trust the following capitalized terms shall have the meanings ascribed in the space adjacent to them:

TERM	DEFINITION	
"Effective Date"		
"Trustor" and "Borrower"	Mercy Housing California 47, A California Limited Partnership	
"Borrower Address"	3120 Freeboard Drive, Suite 202, West Sacramento, CA 95691	
"Trustee"	Fidelity National Title Company	
"Beneficiary" and "Lender"	Redevelopment Agency of the City of Sacramento, a public body, corporate and politic	
"Lender Address"	801 12th Street, Sacramento, California 95814	
"Property"	Which is real property located in the County of Sacramento and the State of California as more particularly described in the Legal Description.	
	Address	716 7 th Street, 631 H Street and 625 H Street, Sacramento, CA 95814
	Assessor's Parcel Number	002-0141-001-0000, 002-0141-002-0000, 002-0141-003-0000; 002-0141-004-0000, 002-0141-007-0000
"Legal Description"	The Legal Description of the Property which is more particularly described in the attached <u>Exhibit 1 Legal Description</u> , which is incorporated in and an integral part of this Deed of Trust	
"Loan"	Which is Lender's loan to Borrower evidenced by the Note and which is secured by this Deed of Trust.	
"Loan Agreement"	Which is the Construction and Permanent Loan Agreement between Lender and Borrower stating the term and conditions of the Loan.	
	Which is dated:	
"Grant B"	Which is Lender's Grant to 7 th & H GP LLC in the amount of \$6,859,695, which Grant will then be contributed to Borrower during the course of construction and which is secured by this Deed of Trust.	
"Grant B Agreement"	Which is the Conditional Grant Agreement for Capital between Lender and 7 th & H GP LLC stating the terms and conditions of the grant.	
"Grant C"	Which is Lender's Grant to 7 th & H GP LLC in the amount of \$3,750,000, which Grant will be contributed to Borrower and which is secured by this Deed of Trust.	
"Grant C Agreement"	Which is the Conditional Grant Agreement for Capitalized Operating Reserve between Lender and 7 th & H GP LLC stating the terms and conditions of the grant.	

"Additional Notices"	Lender shall give copies of notices required to be delivered to Borrower to the following parties at the following addresses; provided, however that Borrower acknowledges that such notice is an accommodation and the failure of the Lender to properly deliver any such notice shall not give rise to any claims or defenses of Borrower or any third party:	
	<p style="text-align: center;">If to the Investor Limited Partner:</p> <p style="text-align: center;">Wachovia Affordable Housing Community Development Corporation MAC D1053-170 301 South College Street Charlotte, NC 28288 Attention: Director of Tax Credit Asset Management</p> <p style="text-align: center;">with a copy to:</p> <p style="text-align: center;">John Simon, Esq. Sidley Austin LLP One South Dearborn Chicago, IL 60603</p> <p style="text-align: center;">And</p> <p style="text-align: center;">Joel Hjelmåas, Esq. Counsel Wells Fargo Bank, N.A. MAC x2401-06T 1 Home Campus, 6th floor Des Moines, IA 50328-0001</p>	
"Note"	Which is Borrower's note made in accordance with the Loan Agreement securing the following principal sum or such lesser amount as shall equal the aggregate amount disbursed to Borrower by Lender, with interest.	
	Which has a principal sum of	Eight Million Two Hundred Thousand Dollars and No Cents (\$8,200,000.00)

THIS DEED OF TRUST is made as of the Effective Date between the Trustor also referenced as the Borrower, the Trustee, and the Beneficiary also referenced as Lender.

Borrower, in consideration of the indebtedness described below and the trust created by this Deed of Trust, irrevocably grants and conveys the Property to Trustee, in trust with power of sale.

Together with all the improvements now or subsequently erected on the property, and all easements, rights, appurtenances, rents (subject, however, to the rights and authorities given to Lender to collect and apply such rents), royalties, mineral, oil and gas rights and profits, water, water rights, and water stock, and all fixtures, including but not limited to all gas and electric fixtures, engines and machinery, radiators, heaters, furnaces, heating equipment, steam and hot water boilers, stoves, ranges, elevators and motors, bathtubs, sinks, water closets, basins, pipes, faucets and other plumbing and heating equipment, cabinets, mantels, refrigerating plant and refrigerators, whether mechanical or otherwise, cooking apparatus and appurtenances, furniture, shades, awnings, screens, venetian blinds and other furnishings, now or hereafter attached to the property, all of which, including replacements and additions thereto, shall be deemed to be and remain a part of the property covered by this Deed of Trust; and all of the foregoing, together with said property (or the leasehold estate if this Deed of Trust is on a leasehold) are referred to as the "Property";

To secure to Lender: (a) the repayment of the Loan and to the extent applicable, the reimbursement payment of Grant B and Grant C; and (b) the performance of the covenants and agreements of Borrower contained in this Deed of Trust, the Note, or the Loan Agreement, and the covenants and agreements of 7th & H GP LLC contained in Grant B and in Grant C.

Borrower covenants that Borrower is lawfully seised of the estate conveyed by this Deed of Trust and has the right to grant and convey the Property, and that Borrower will warrant and defend generally the title of the Property against all claims and

demands, subject to any declarations, easements or restrictions listed in a schedule of exceptions to coverage in any title insurance policy insuring Lender's interest in the Property.

Borrower and Lender covenant and agree as follows:

1. Payment of Principal and Interest. Borrower shall promptly pay when due the principal and interest, if any, on the indebtedness evidenced by the Note. All payments received by Lender under the Note shall be applied by Lender first to interest payable on the Note and thereafter to the unpaid principal of the Note.
2. Charges; Liens. Borrower shall pay all taxes, assessments and other charges, fines and impositions attributable to the Property and leasehold payments or ground rents, if any by Borrower making payment, when due, directly to the appropriate payee. Borrower shall promptly furnish to Lender all notices of amounts due under this paragraph, and in the event that Borrower makes payment directly, Borrower shall promptly furnish to Lender receipts evidencing such payments. Borrower shall pay when due any encumbrance, charge and lien, with interest in accordance with its terms, on the Property or any portion which is inferior or superior to this Deed of Trust.
3. Hazard Insurance. Borrower shall keep the improvements now existing or later erected on the Property insured against loss of fire or hazards under a policy approved by Lender consistent with the insurance requirements of the Loan Agreement. In addition, Borrower shall insure against loss of all furniture, equipment and other personal property owned by Borrower related to Borrower's operation of the Property. Lender shall have the right to hold the policies and policy renewals, and Borrower shall promptly furnish to Lender all renewal notices and all receipts of paid premiums. In the event of loss, Borrower shall give prompt notice to the insurance carrier and Lender. Lender may make proof of loss if not made promptly by Borrower.

Unless Lender and Borrower otherwise agree in writing, insurance proceeds shall be applied to restoration or repair of the Property damaged, as and to the extent provided in the Loan Agreement.

Unless Lender and Borrower otherwise agree in writing, any such application of insurance proceeds to principal shall not extend or postpone the due date of any Loan payment or change the amount of such payment. If the Property is acquired by Lender pursuant to this Deed of Trust, all right, title and interest of Borrower in and to any insurance policies and proceeds of such policies resulting from damage to the Property prior to the sale of acquisition shall pass to Lender to the extent of the sums secured by this Deed of Trust immediately prior to such sale or acquisition.

4. Liability Insurance. In addition to the casualty insurance required under the Loan Agreement during the course of construction, Borrower shall keep comprehensive general liability insurance for the Property in a form and coverage consistent with the provisions of the Loan Agreement and reasonably approved by Lender.
5. Preservation and Maintenance of Property. Borrower shall keep the Property in good repair and shall not commit waste or permit impairment, demolition, or deterioration of the Property.
6. Protection of Lender's Security. Borrower shall appear and defend any action or proceeding purporting to affect the security under this Deed of Trust or the rights of the Lender. If Borrower fails to perform the covenants and agreements contained in this Deed of Trust, or if any action or proceeding is commenced which materially affects Lender's interest in the Property, including, but not limited to, foreclosure, involuntary sale, eminent domain, insolvency, code enforcement, or arrangements or proceedings involving a bankrupt or decedant, then Lender may, upon notice to Borrower, make such appearances, disburse such sums and take such actions as are necessary to protect Lender's interest, including, but not limited to, disbursement of judgments, costs or reasonable attorney's fees and entry upon the Property to make repairs.

Any amounts disbursed by Lender pursuant to this Section 6, with interest, shall become additional indebtedness of Borrower secured by this Deed of Trust. Unless Borrower and Lender agree to other terms of payment, such amounts shall be payable upon notice from Lender to Borrower requesting payment, and shall bear interest from the date of disbursement at the highest rate permissible under applicable law. In any event, this Section shall be construed as a right and an option of Lender and shall not be construed to require Lender to incur any expense or take any action.

7. Inspection. Lender, by its designated representative, may make reasonable entries upon and inspections of the Property, provided that Lender shall give Borrower and any occupant of the Property reasonable prior notice of any such inspection.

8. Condemnation. The proceeds of any award or claim for damages, direct or consequential, in connection with any condemnation or other taking of all or any part of the Property, or for conveyance in lieu of condemnation, shall be applied as provided in the Loan Agreement.

If the Property is abandoned by Borrower, or if, after notice by Lender to Borrower that the condemnor offers to make an award or settle a claim for damages, Borrower fails to respond to Lender within 30 days after the date such notice is mailed, Lender is authorized to collect and apply the proceeds, at Lender's option, either to restoration or repair of the Property or to the sums secured by this Deed of Trust.

Unless Lender and Borrower otherwise agree in writing, any such application of proceeds to principal shall not extend or postpone the due date of any payment or change the amount of such payment.

9. Borrower Not Released. Extension of the time for payment of the sums secured by this Deed of Trust granted by Lender to Borrower or any successor in interest of Borrower shall not operate to release, in any manner, the liability of the original Borrower and Borrower's successors in interest. Lender shall not be required to commence proceedings against such successor or refuse to extend time payment by reason of any demand made by the original Borrower or Borrower's successors in interest.

10. Forbearance by Lender Not a Waiver. Any forbearance by Lender in exercising any right or remedy under this Deed of Trust, or otherwise afforded by applicable law, shall not be a waiver or preclude the exercise of any such right or remedy. The procurement of insurance or the payment of taxes or other liens or charges by Lender shall not be a waiver of Lender's right to accelerate the maturity of the indebtedness secured by this Deed of Trust.

11. Remedies Cumulative. All remedies provided in this Deed of Trust are distinct and cumulative to any other right or remedy under this Deed of Trust, the Note, the Loan Agreement, the Grant B Agreement, the Grant C Agreement or afforded by law or equity, and may be exercised concurrently, independently or successively.

12. Successors and Assigns Bound; Joint and Several Liability Captions. The covenants and agreements contained in this Deed of Trust shall bind, and the rights under this Deed of Trust shall inure to, the respective successors and assigns of Lender and Borrower, subject to the provisions of Section 15. All covenants and agreements of Borrower shall be joint and several. The captions and headings of the paragraphs of this Deed of Trust are for convenience only and are not to be used to interpret or to define its provisions.

13. Notice. Except for any notice required under applicable law to be given in another manner, any notice to be given under this Deed of Trust shall be given as provided for in the Loan Agreement. Any notice provided for in this Deed of Trust shall be deemed to have been given to Borrower or Lender when given in the manner designated.

14. Governing Law; Severability. This Deed of Trust shall be governed by the law of the State of California. If any term or provision of this Deed of Trust shall, to any extent, be held invalid or unenforceable, the remainder of this Deed of Trust shall remain in full force and effect and the invalid or unenforceable provision shall be valid and enforceable as to any other person or circumstance.

15. Acceleration on Transfer or Refinancing of the Property; Assumption. Except as otherwise provided in the Loan Agreement, if all or any part of the Property or an interest in the Property is sold or transferred or refinanced by Borrower without Lender's prior written consent, Lender may, at Lender's option, declare all the sums secured by this Deed of Trust to be immediately due and payable. Lender shall have waived such option to accelerate if, prior to the refinancing, sale or transfer, Lender and the person to whom the Property is to be sold or transferred reach agreement in writing that the loan may be assumed. If Lender has waived the option to accelerate provided in this Section and if Borrower's successor in interest has executed a written assumption agreement accepted in writing by Lender, Lender shall release Borrower from all obligations under this Deed of Trust and the Note. Lender's prior approval is not required for (1) the sale or transfer of the Limited Partner's interest to one or more of the other partners that currently comprise the Borrower's entity, (2) the admission of the Limited Partner or its affiliate to the Borrower and the transfer of its interest to an affiliate thereof so long as the general partner, or managing member, of the transferor, or an affiliate thereof, is the general partner, or managing member of the transferee, or partner; however, Borrower is obligated to notify Lender within 30 days from the date of such sale or transfer, (3) the removal of the general partner of the Borrower by the Limited Partner for a default under Borrower's partnership agreement, provided that any replacement general partner is approved by Lender, which approval shall not be unreasonably withheld, conditioned or delayed.

If Lender exercises such option to accelerate, Lender shall mail Borrower notice of acceleration. Such notice shall provide a period of not less than 30 days from the date the notice is mailed within which Borrower, or any of its principals or anyone with a substantial legal interest in Borrower, may pay the sums declared due. If Borrower fails to pay such sums prior to the expiration of such period, Lender may, without further notice or demand on Borrower, invoke any remedies permitted by this Deed of Trust.

16. Acceleration on Breach; Remedies. Except as provided in Section 15, upon Borrower's breach of any covenant or agreement of Borrower in this Deed of Trust, the Note, (including the covenants to pay when due any sums secured by this Deed of Trust and restricting transfer of the Property) or Loan Agreement, or 7th & H GP LLC's breach of any covenant or agreement in the Grant B Agreement or the Grant C Agreement, Lender shall mail notice to Borrower specifying: (1) the breach; (2) the action required to cure such breach; (3) a date, no less than 30 days from the date the notice is mailed to Borrower and limited partner, by which breach must be cured; and (4) that failure to cure such breach on or before the date specified in the notice may result in acceleration of the sums secured by this Deed of Trust and sale of the Property. If the breach is not cured on or before the date specified in the notice, Lender at Lender's option may declare all of the sums secured by this Deed of Trust to be immediately due and payable without further demand and may invoke the power of sale and any other remedies permitted by applicable law. Any limited partner of Borrower shall be entitled to cure any defaults on behalf of Borrower within the time periods set forth herein; provided, however, that if, in order to cure any such default, such limited partner must first remove and/or replace a general partner of Borrower, then, provided that such limited partner notifies the Agency of such removal and removes such general partner within that thirty day period to correct or cure the default the limited partner shall then have 90 days to replace the general partner. Then, such limited partner or the replacement General Partner shall have until the date of 30 days to effect such cure.

17. Lender shall be entitled to collect from the Borrower, or sale proceeds, if any, all reasonable costs and expenses incurred in pursuing the remedies provided in this Section, including, but not limited to reasonable attorney's fees.

If Lender invokes the power of sale, Lender shall execute or cause Trustee to execute a written notice of the occurrence of an event of default and of Lender's election to cause the Property to be sold and shall cause such notice to be recorded in each county in which any portion of the Property is located. Lender or Trustee shall mail copies of such notice in the manner prescribed by applicable law to Borrower and to the other persons prescribed by applicable law. Trustee shall give public notice of sale to the persons and in the manner prescribed by applicable law. After the lapse of such time as may be required by applicable law, Trustee, without demand on Borrower, shall sell the Property at public auction to the highest bidder at the time and place and under the terms designated in the notice of sale, in one or more parcels and in such order as Trustee may determine. Trustee may postpone sale of all or any parcel of the Property by public announcement at the time and place of any previously scheduled sale. Lender or Lender's designee may purchase the Property at any sale.

Trustee shall deliver to the purchaser a Trustee's deed conveying the Property so sold without any covenant or warranty, expressed or implied. The recitals in the Trustee's deed shall be prima facie evidence of the truth of the statements it contains. Trustee shall apply the proceeds of the sale in the following order: (a) to all reasonable costs and expenses of the sale, including, but not limited to, reasonable Trustee's and attorney's fees and costs of title evidence; (b) to all sums secured by this Deed of Trust; and (c) the excess, if any, to the person or persons legally entitled thereto as determined by Lender. In the event of a dispute regarding the excess funds, either Lender or Trustee may file an action in interpleader to determine who shall receive the funds and may then deposit the excess funds with the court.

18. Assignment of Rents; Appointment of Receiver; Lender in Possession. As additional security, Borrower assigns to Lender the rents of the Property, provided that Borrower shall, prior to an acceleration for breach as provided above or abandonment of the Property, have the right to collect such rents as they become due.

Upon acceleration for breach or abandonment of the Property, Lender, in person, by agent or by judicially appointed receiver shall be entitled to enter upon, take possession of and manage the Property and to collect the rents of the Property including those past due. All rents collected by Lender, its agent, or the receiver shall be applied first to payment of the costs of management of the Property and collection of rents, including, but not limited to receiver's fees, premiums on receiver's bonds and reasonable attorney's fees, and then to the sums secured by this Deed of Trust. Lender, its agent and the receiver shall be liable to account only for those rents actually received.

19. Prior Lienholder. The provisions of this Deed of Trust shall operate subject to the claims of prior lienholders to the extent of such claims.

20. Nonrecourse. Notwithstanding any provision of this Deed of Trust or any document evidencing or securing this Loan, Borrower, and Borrower's principals, partners, agents, officers, and successors in interest shall not be personally liable for the payment of the Loan or any obligation of the Loan and Lender's sole recourse is to the collateral secured by this Deed of Trust.
21. Reconveyance. Upon payment of all sums secured by this Deed of Trust, Lender shall request Trustee to reconvey the Property and shall surrender this Deed of Trust and all notes evidencing indebtedness secured by this Deed of Trust to Trustee. Trustee shall reconvey the Property without warranty and without charge to the person or persons legally entitled to such reconveyance. Such person or persons shall pay all costs of recordation, if any. The recitals in the reconveyance of any matters or facts shall be conclusive proof of their truthfulness.
22. Substitute Trustee. Lender, at Lender's option, may from time to time remove Trustee and appoint a successor trustee to any Trustee appointed under this Deed of Trust. Without conveyance of the Property, the successor trustee shall succeed to all the title, power and duties conferred upon the Trustee by this Deed of Trust and applicable law.
23. Request for Notice. Borrower and each party listed to receive Additional Notices request that copies of the notice of default and notice of sale be sent to their respective addresses.
24. Statement of Obligation. Lender may collect a reasonable fee for furnishing the statement of obligation as provided by Section 2943 of the Civil Code of California, as it may be amended from time to time.
25. Use of Property. Borrower shall not permit or suffer the use of any of the Property for any purpose other than the use for which the same was intended at the time this Deed of Trust was executed.

IN WITNESS WHEREOF, Borrower has executed this Deed of Trust.

BORROWER (Trustor):

MERCY HOUSING CALIFORNIA 47, A CALIFORNIA LIMITED PARTNERSHIP

By: RCHC GP LLC, a California limited liability company, its managing general partner

By: Rural California Housing Corporation, a California nonprofit public benefit corporation, its member/manager

By: _____

Its: _____

By: 7th & H GP LLC, a California limited liability company, its co-general partner

By: Mercy Housing Calwest, a California nonprofit public benefit corporation, its member/manager

By: _____

Its: _____

[NOTARIZED ACKNOWLEDGEMENTS]

EXHIBIT 4
SIDE FUNDING AGREEMENT
CAPITAL GRANT B

SIDE FUNDING AGREEMENT REGARDING APPLICATION OF GRANT PROCEEDS FROM CONDITIONAL GRANT FOR CAPITAL-GRANT B BY AND BETWEEN THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO ("GRANTOR"), 7TH & H GP LLC ("GRANTEE") AND MERCY HOUSING CALIFORNIA 47, A CALIFORNIA LIMITED PARTNERSHIP ("THE PARTNERSHIP")

THIS SIDE FUNDING AGREEMENT REGARDING APPLICATION OF GRANT PROCEEDS FROM CONDITIONAL GRANT FOR CAPITAL-GRANT B ("Agreement") is made effective as of the ____ day of _____, 2011, by and among 7th & H GP LLC, a California limited liability company ("Grantee"), Mercy Housing California 47, a California Limited Partnership ("Partnership") and the Redevelopment Agency of the City of Sacramento ("Grantor").

RECITALS

A. The Partnership was formed for the purpose of owning and developing real property in Sacramento, California and operating 150 residential units thereon for low income households, including one manager's unit (the "Project"). Grantee is a general partner of the Partnership.

B. Pursuant to the Conditional Grant Agreement for Capital - Grant B between the Agency and LLC ("Grant Agreement"), Grantor will grant to the LLC \$6,859,695 in funds ("Grant B Funds") to be used solely to fund construction draws of the Partnership and related soft costs in connection with the Partnership's development of the Project. Each payment made by Grantor under the Grant Agreement shall be made directly to the Partnership on behalf of Grantee.

C. The Grantor has consented to the Grantee's contributing the Grant B Funds to the Partnership to be used to fund certain capital expenditures of the Partnership on the condition that the Grantee and the Partnership enter into this Agreement to specify the conditions under which the Partnership can access and use the Grant B Funds.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

1. Definitions. Capitalized terms not otherwise defined herein shall have the meaning given to them in the Grant Agreement, and if not defined therein, then in the Limited Partnership Agreement of the Partnership of even date herewith (the "Partnership Agreement.")
2. Grantee will cause the Partnership to diligently proceed with construction in accordance with the Scope of Development as approved by Grantor. Grantee shall cause the Partnership to complete such work on or before the Completion Date, subject to Unavoidable Delay, and all in compliance with the Grant Agreement between Grantor and Grantee.
3. Each disbursement of the Grant B Funds made by Grantor under the Grant Agreement shall be made pursuant to this Agreement and in accordance with, but not limited to, Section 8 of the Grant Agreement, itself.
4. Grantee authorizes and directs Grantor to disburse directly to the Partnership the proceeds of Grant B to pay and satisfy all of the obligations of Grantee under the Grant Agreement. Grantor will make Grant B Fund disbursements directly to the Partnership on behalf of Grantee provided that there is no default under the Grant Agreement, the Disposition and Development Agreement by and between Grantor and the Partnership and the Construction and Permanent Loan Agreement-Loan B by and between the Grantor and the Partnership.
5. Grantor and Grantee hereby agree that they shall not amend, modify or terminate Grant B without the prior written consent of the Partnership.
6. Any conflicts between this Agreement and the terms and conditions of the Grant Agreement shall be resolved in favor of the Grant Agreement.

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

GRANTEE :
7th & H GP LLC, a California limited liability
company

GRANTOR:
REDEVELOPMENT AGENCY OF THE CITY OF
SACRAMENTO

By: Mercy Housing Calwest, a California nonprofit
public benefit corporation, its member/manager

By: _____
LaShelle Dozier, Executive Director

By: _____
Its: _____

Date: _____

Date: _____

Approved as to form:

Approved as to form:

Grantor Counsel

Grantee Counsel

PARTNERSHIP:
MERCY HOUSING CALIFORNIA 47, A CALIFORNIA
LIMITED PARTNERSHIP

By: RCHC GP LLC, a California limited liability
company, its managing general partner
By: Rural California Housing Corporation, a
California nonprofit public benefit corporation, its
member/manager

By: _____
Its: _____

By: 7th & H GP LLC, a California limited liability
company, its co-general partner
By: Mercy Housing Calwest, a California nonprofit
public benefit corporation, its member/manager

By: _____
Its: _____

Dated: _____

Approved As to Form:

EXHIBIT 5
ESCROW INSTRUCTIONS FORM

**SAMPLE
JOINT ESCROW INSTRUCTIONS
FOR DISPOSITION AND DEVELOPMENT OF REAL PROPERTY**

"Effective Date"	
-------------------------	--

Agency and Developer execute these Escrow Instructions as of the Effective Date. This document, including attachments and any amendments and additions, shall constitute the joint escrow instructions of Agency and Developer for the Agency loan secured by the Property.

ARTICLE I. GENERAL TERMS.

1. **GENERAL.** These Escrow Instructions, in addition to items listed below includes Article II General Provisions, which is attached to and incorporated in these Escrow Instructions by this reference.

2. **DEFINITIONS.** The capitalized terms in these Escrow Instructions shall have the meanings assigned in Article I General Terms and as defined in Article II Instructions. (Terms being defined are indicated by quotation marks.)

"Title Company"	Address:		
"Escrow" with Title Company	Escrow Number:		Attention:
"Agency"	Address: 801 – 12 th Street, Sacramento, CA 95814		
	Attention:		
"Developer"	Address:		
	Attention:		
"Closing Date"			
"Property"	Address:	APN:	
"Transaction Document"	The document that details the obligations of the parties for the contemplated transaction (<i>e.g.</i> , Loan Agreement, Disposition and Development Agreement or Owner Participation Agreement):		
Description of the transaction			

"Recorded Documents"- The following documents are to be recorded in the order listed (top being first in priority). Copies of the Recorded documents are attached.	Documents:	Marked for return to:
	1.	1.
"Agency Items"		
"Developer Items"		

"Special Provisions":

"Agency Title Policy" in the form of an ALTA Lender's Policy insuring that the following are valid liens against the property:	Documents:	Coverage amount (purchase price):	
		1	
"Developer Title Policy" insuring fee title in Developer.	Type of Policy:		
	<input type="checkbox"/> CLTA <input type="checkbox"/> ALTA standard owner's policy		
The title policies shall be subject only to the following "Conditions of Title":	Named items of Title Company's Preliminary Report for the Escrow, to remain after Close of Escrow	Dated:	
		Report Number:	
		Items remaining:	

THE PARTIES HAVE EXECUTED THESE ESCROW INSTRUCTIONS in Sacramento, California as of the Effective Date.

DEVELOPER:

AGENCY:

By: _____
Name:
Title:

By: _____
Name:
Title:

ARTICLE II. INSTRUCTIONS

1. **CLOSING DATE.** Escrow shall close on or before the Closing Date as it may be changed from time to time by written agreement of Developer and Agency.

2. **CONDITIONS TO CLOSE OF ESCROW.** "Close of Escrow" means the fulfillment of the Escrow terms and conclusion of the Escrow, including, without limitation, the execution of unexecuted documents, the recordation of documents specified for recording, the issuance of title insurance policies, the payment of fees and the delivery of funds and documents as directed in the escrow instructions for the Escrow. The Close of Escrow shall occur on the Closing Date. The following are conditions to the Close of Escrow:

2.1.1. The conditions precedent to performance stated in the Transaction Document and Recorded Documents are satisfied as of the Closing Date.

2.1.2. Simultaneously with the Close of Escrow, Title Company shall issue the Agency Title Insurance to Agency (at Developer's cost) in the amount stated. The Agency Title Insurance shall include all usual and customary endorsements and any endorsements and other commitments as Agency may reasonably require. The Agency Title Insurance shall show the Recorded Documents marked for return to Agency as valid liens against the Property in favor of the Agency, subject only to the Conditions of Title, and securing, as applicable, Developer's performance of its obligations and repayment of Agency Funding.

2.1.3. Simultaneously with the Close of Escrow, Title Company shall issue the Developer Title Insurance to Agency (at Agency's cost) in the amount stated. The Developer Title Insurance shall include all usual and customary endorsements and any endorsements and other commitments as Developer may reasonably require. The Developer Title Insurance shall insure Developer's fee simple title to the Property subject only to the Conditions of Title.

2.1.4. Prior to the Closing Date, the parties shall duly execute (in Escrow or prior to deposit in Escrow) each such document and shall execute those to be recorded in a manner suitable for recording.

2.1.5. On or before the Closing Date, Agency shall also deposit with Title Company the Developer Items and any Loan Amount then to be disbursed under this Agreement, but not less than closing costs, fees and charges required for Close of Escrow.

2.1.6. On or before the Close of Escrow, Developer shall also deposit with Title Company the Agency Items and Developer's share of closing costs and fees.

2.1.7. Title Company is satisfied that all required funds have been deposited in Title Company's account for the Escrow, have cleared the originating bank and are available for transfer by Title Company's check or wire transfer to the appropriate party.

2.2. **TRUST DEED FORM.** If a Trust Deed is included in the Recorded Documents and no exhibit setting out the form of the Trust Deed form is attached, the Title Company shall draw the Trust Deed on the Title Company's Long Form Deed of Trust. Title Company shall assure that the Trust Deed includes a standard clause giving Agency the option to accelerate the Loan upon the sale, conveyance, transfer or further encumbrance of the Property, whether voluntary or involuntary. Title Company shall also affix the following provision to the Trust Deed and incorporate it in the Trust Deed by reference:

"The Loan Agreement requires the filing of the "Regulatory Agreement" that is defined in the Loan Agreement. The Regulatory Agreement contains covenants running with the land and is recorded against the Property. If Developer 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 Agency's written notice to Developer of such failure, the principal balance of the Loan shall, at Agency's option, be immediately due and payable, together with all unpaid interest at the stated rate from the date of the advancement of the Loan's proceeds."

2.3. **UPON CLOSE OF ESCROW.** The Close of Escrow shall take place on the Closing Date. On the Closing Date, Title Company shall complete the Close of Escrow as follows and in the following order (unless otherwise stated, all recorded documents are recorded with the Sacramento County Recorder):

2.3.1. Assure fulfillment of the Special Provisions;

2.3.2. Obtain full execution of all unexecuted documents;

2.3.3. Date all undated documents as of the Closing Date;

2.3.4. Record the Recorded Documents in the priority listed;

2.3.5. Determine all closing costs and fees; including without limitation, all charges, fees, taxes and title insurance premiums payable under this Agreement on Close of Escrow and any other fees and charges approved for payment from Escrow by both parties and deduct such fees from the Loan proceeds deposited by Agency in Escrow;

2.3.6. Deliver the Agency Items to Agency and the Developer Items to Developer; and

2.3.7. Prepare and deliver to Developer and Agency, respectively, signed originals of all documents included for delivery to either party and not delivered for recording, one signed original of Title Company's closing statement showing all receipts and disbursements of the Escrow, and one conformed copy of each of the recorded documents.

2.4. **INABILITY TO CLOSE.** If Title Company is unable to simultaneously perform all of the preceding instructions, Title Company shall notify Developer and Agency, and upon each of their directions return to each party all documents, items and funds deposited in Escrow by such party (less fees and expenses incurred by the respective party) and bill the respective parties for any unpaid fees and expenses incurred in Escrow. If Escrow fails to close on the Closing Date because Developer has not complied with Developer's obligations under this Loan Agreement, then Developer shall pay the costs incurred through Escrow to the date the Escrow is terminated, including the cost of any preliminary title report and any cancellation fees or other costs of this Escrow. If Escrow fails to close on or before the Closing Date because Agency has not complied with Agency's obligations under this Loan Agreement, such costs shall be paid by Agency. If Escrow fails to close on or before the Closing Date for any other reason, such costs shall be divided equally between the parties.

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

/ / / / / / / /

ACCEPTANCE OF ESCROW INSTRUCTIONS

Your acceptance of this escrow shall create a contractual obligation by you with Agency and Developer for complete compliance with these instructions. Agency and Developer reserve the right to jointly revoke this escrow at any time upon their payment to you of your fees and reimbursement to you of your expenses in accordance with the terms of these escrow instructions. Your obligations as Escrow Holder under these escrow instructions shall be subject to the following provisions:

You are not responsible as to the sufficiency or correctness as to form, manner of execution, or validity of any instrument deposited in this escrow nor as to the authority or rights of any person executing such instrument. Except as otherwise provided in these escrow instructions, your duties as Escrow Holder are limited to the proper handling of monies and the proper safekeeping of instruments and other items received by you as Escrow Holder, and for the performance of your obligations as specifically provided under these escrow instructions. You are responsible for the sufficiency of any instruments or documents prepared by you for this escrow.

Developer agrees to indemnify and hold you harmless from damages incurred as a result of your good faith and diligent performance of your duties under these escrow instructions.

Upon your acceptance of these escrow instructions return the executed counterparts of these escrow instructions to Agency and Developer, respectively.

Escrow Holder acknowledges receipt of the foregoing escrow instructions and agrees to act as Escrow Holder and to comply with the terms and conditions of said escrow instructions.

Dated: _____

TITLE COMPANY

By: _____

Name: _____

Title: _____

Its authorized agent and signatory

EXHIBIT 6
FUNDING REQUIREMENTS

TI FUNDING REQUIREMENTS FOR RENTAL HOUSING
LOW AND MODERATE INCOME HOUSING FUND

These "TI Funding Requirements" are attached to a Regulatory Agreement, and are incorporated in that Regulatory Agreement. In turn, the Regulatory Agreement is incorporated in the financing document that is described in the Regulatory Agreement. [The capitalized terms used shall have the meanings below. Terms being defined are indicated by quotation marks. Capitalized terms in these TI Funding Requirements that are not defined below are defined in the Regulatory Agreement and in such financing document.]

1. **RECITALS.** Agency is a redevelopment agency organized and operating under the California Redevelopment Law (commencing at Health & Safety Code Section 33000). The Agency Funding is funded by the Agency with proceeds of the Low and Moderate Income Housing Fund (as defined in Health & Safety Code Section 33334.3) and made in accordance with the Aggregation of Agency Funding that occurred pursuant to Resolution 2009-57 adopted by the Redevelopment of the City of Sacramento or Resolution 0896 adopted by the County of Sacramento Redevelopment Area in accordance with Health and Safety Code Sections 33334.2(g) and 33413, the provisions of the redevelopment plans for the Agency's Project Areas ("Redevelopment Plans"), and the California Redevelopment Law. The Agency has approved the Agency Funding on condition that the property securing the Agency Funding ("Property") is rehabilitated or developed as residential rental property ("Project") with certain units regulated in accordance with Health & Safety Code Section 33487 ("TI Restricted Units") by recordation of these TI Funding Restrictions as covenants running with the land, in accordance with Health & Safety Code Section 33334.3(f). TI Restricted Units are made affordable by such regulation to persons and households that qualify as moderate-income, low-income or very low-income as indicated in Article I of the Regulatory Agreement. The development of the Project will benefit the Project Areas because the Project will provide housing for persons who work within the Project Areas.
2. **AFFORDABILITY REQUIREMENTS.** Owner shall assure that the TI Restricted Units shall be rented or sold at or below the following rates to households whose incomes are at or below the respective income limits for the rental rate:
 - a. Moderate-Income TI Restricted Units shall be rented for amounts that do not exceed payments of thirty percent (30%) of one hundred and ten percent (110%) of the Sacramento Metropolitan Statistical Area median income ("Median Income"), as determined annually by the federal Department of Housing and Urban Development, as adjusted for family size appropriate to the size and number of bedrooms in the respective TI Restricted Unit.
 - b. Low-Income TI Restricted Units shall be rented for amounts that do not exceed payments of thirty percent (30%) of sixty percent (60%) of the Median Income as adjusted for family size appropriate to the size and number of bedrooms in the respective TI Restricted Unit.
 - c. Very Low-Income TI Restricted Units shall be rented for amounts that do not exceed payments of thirty percent (30%) of fifty percent (50%) of the Median Income as adjusted for family size appropriate to the size and number of bedrooms in the respective TI Restricted Unit.
 - d. Owner shall be responsible to determine the affordable amounts for the TI Restricted Units. Within ten (10) days of Owner request, Agency shall provide all information necessary for Owner to compute such affordable rents and will assist Owner in determining such amounts.
3. **TERM.** These covenants shall burden and regulate the TI Restricted Units for a term of fifty-five (55) years, unless a longer term is specified in the body of the document to which this attached.

TAX INCREMENT FUNDING REQUIREMENTS FOR COMMERCIAL DEVELOPMENT

These "TI Funding Requirements" are incorporated in the "Regulatory Agreement" to which they are attached. In turn, the Regulatory Agreement is incorporated in the Funding Agreement referenced in the Regulatory Agreement. Pursuant to the Funding Agreement, the Regulatory Agreement (with these TI Funding Requirements) is recorded against the properties assisted with the "Agency Funding" provided under the Funding Agreement. [The capitalized terms used in these TI Funding Requirements shall have the meanings stated below. Terms being defined are indicated by quotation marks. Capitalized terms that are not defined in these TI Funding Requirements are defined in the Regulatory Agreement.]

1. RECITALS. Agency is a redevelopment agency organized and operating under the California Community Redevelopment Law (commencing at Health & Safety Code Section 33000).

a. Agency has provided the "Agency Funding" from redevelopment tax increment (as defined in the California Constitution Article XIII, Section 16, and further defined in Health & Safety Code Section 33670) for the "Project Area" named in the Regulatory Agreement and Funding Agreement. The Agency Funding is subject to the provisions of the redevelopment plan for the Project Area and the California Community Redevelopment Law.

b. The Project is being developed on the Property which is in the Redevelopment Plan for the Project Area named in the Agency Funding Agreement. Agency has approved the Agency Funding on condition that the "Property" named in the Agency Funding Agreement is rehabilitated or developed as the Project, defined in the Agency Funding Agreement and operated and maintained in accordance with the Redevelopment Plan, which regulation is accomplished by recordation of this Regulatory Agreement with these TI Funding Requirements as covenants running with the land.

2. TERM. These covenants shall burden and regulate the Property for the term of the Redevelopment Plan, but in any event, not less than thirty (30) years from the date of recordation, excepting the covenant against discrimination, which shall run in perpetuity.

3. USE. The Property shall be used solely for the Approved Uses and shall not be used for the Disapproved Uses.

4. ANTI-DISCRIMINATION. The Owner covenants by and for himself or herself, his or her heirs, executors, administrators, and assigns and all persons claiming under or through them that there shall be no discrimination against or segregation of, any person or group of persons on account of race, color, religion, creed, sex, marital status, national origin, ancestry, familial status, or disability in the sale, lease, sublease, transfer, use, occupancy, tenure, or enjoyment of the Property or any portion of it, nor shall the Owner or any person claiming under or through him or her, establish or permit any such practice or practices of discrimination or segregation with reference to the location, number, use or occupancy of tenants, lessees, subtenants, sublessees, or vendees in the Property. This covenant against discrimination shall run in perpetuity.

5. PLAN COMPLIANCE. Owner shall comply, in all respects, with the Redevelopment Plan.



Exhibit C

EXHIBIT C
CONDITIONAL GRANT AGREEMENT (OPERATING)

**CONDITIONAL GRANT AGREEMENT
FOR CAPITALIZED OPERATING RESERVE
SECURED BY DEED OF TRUST
(GRANT C)**

THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO, a public body, corporate and politic, ("Grantor"), whose address is 801 12th Street, Sacramento, California grants to 7th & H GP LLC, a California limited liability company, ("Grantee"), with its principal office at 3120 Freeboard, Suite 202, West Sacramento, CA 95691, the principal amount ("Conditional Grant") of Three Million Seven Hundred Fifty Thousand and Zero Dollars (\$3,750,000), or so much as may be actually advanced under this agreement ("Grant Agreement") and the Disposition and Development Agreement between Grantor and Mercy Housing California 47, a California limited partnership (the "Partnership") (in which grantee is a general partner), dated June 10, 2010 ("DDA").

RECITALS

- A. In order to finance the new construction of 150 affordable units at the 7th & H Project, a supportive housing project ("Project"), the applicant submitted an application to the California Tax Credit Allocation Committee ("TCAC").
- B. TCAC awarded federal low income housing tax credits in the aggregate over 10 years of Twenty Five Million Dollars (\$25,000,000) to the Project. The Partnership has also secured private construction financing for the Project.
- C. In order to obtain funding for the Project, the applicant was required to meet TCAC Regulation Section 10315 (b) and 10325(g)(3)(A) through (L) requirements for Special Needs Homeless Assistance Apportionment and SRO Eligibility Certification, respectively, including several criteria that reduce the operating income for the Project and increase operating expenses.
- D. TCAC regulation Section 10322(h)(21) required the applicant to provide all related commitments related to necessary operating subsidies at the time of the TCAC application in order to qualify to obtain funding.
- E. The Grantor's tax increment low and moderate income housing fund is the sole sources of funding available for commitment to capitalize an operating reserve for the Project.
- F. Grantor is making this Grant in reliance on the Operating Deficit Funding Agreement by and between Grantee and the Partnership (attached hereto as **Exhibit E**).

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

1. **GRANT PURPOSE.** The Grantor is making this Conditional Grant to ensure the operational and financing feasibility of the Project and the commensurate public benefits derived from the use of the proceeds in the following project: the transfer of Three Million Seven Hundred Fifty Thousand and Zero Dollars (\$3,750,000) of Downtown Tax Increment Housing Set-Aside Funds (the "Grant Funds") to capitalize an operating reserve for the newly constructed 7th & H Project ("Project").
2. **REPAYMENT OBLIGATION.** This Conditional Grant is subject to the terms and conditions of the DDA and to the terms and conditions stated below. The Conditional Grant of the Grant Funds shall become unconditional for each

expenditure of such funds after Grantee demonstrates to Grantor's satisfaction that the expenditure complies with the DDA and this Grant Agreement, as provided in Section 8 below. Grantee's obligations regarding repayment of the amount of the Conditional Grant shall decrease as the Conditional Grant becomes unconditional and shall cease when the entire amount of the Conditional Grant becomes unconditional. Grantee shall repay the remaining conditional portion of the grant if Grantee is in default of any of the following covenants and conditions and has not immediately commenced and diligently cured such default in accordance with Section 9 hereof.

3. DEFINITIONS.

- a. Low/Mod Tax Increment Subsidized Units. This Grant is comprised of Merged Downtown Low- and Moderate Income tax increment funds to provide an Operating Deficit Reserve Subsidy associated with 150 permanent supportive housing units for a fifteen (15) year term.
- b. Operating Income. Operating Income means, for any year, all income earned in such year from the operation of the Project in its ordinary course of business, including all rents and any other rent subsidies including tenant- and project-based subsidies, forfeited security deposits, proceeds of rental loss insurance, application fees, late payments and proceeds from laundry facilities and vending machines and other amounts paid to the Partnership by or on behalf of tenants and excluding interest on reserve accounts.
- c. Operating Expenses. Operating Expenses means all cash costs and cash expenses paid by the Partnership of every kind and nature in connection with the management, business affairs, and debt service of the Project, including contributions to reserve accounts and all other expenses set forth in the Budget (including asset management fees, partnership management fees and deferred developer fee within the expenditure limits set forth in Section 7 below). Operating Expenses shall not include capital expenditures paid from the replacement reserve.
- d. Operating Deficit. Operating Deficit means, for any given year, the amount (or the projected amount shown in the budget, as the case may be) in which the Operating Expenses exceed the Operating Income at the end of such year.

4. DISBURSEMENT OF GRANT FUNDS.

- a. Conditions to disbursement. The Grant Funds shall be disbursed upon the following conditions: (1) issuance of a certificate of completion for the Project as described in the DDA; (2) the Grantee and the Partnership have executed an agreement by and between themselves requiring the disbursement of these Grant Funds, in accordance with the terms and conditions of this Grant, to and for the Project (attached and incorporated herein as **Exhibit E**); (3) recordation of a Deed of Trust against the Property in the form attached as **Exhibit A: Deed of Trust Form**; and (4) recordation of a Regulatory Agreement against the Property in the form attached as **Exhibit B: Regulatory Agreement Form**.
- b. Reduction of available funds. If Grantee or the Partnership has obtained other funding for operating reserves prior to the disbursement of Grant Funds that eliminates the Project's projected operating deficit for the fifteen (15) years subsequent to the issuance of a certificate of completion, Grantor is not obligated to disburse the Grant Funds. If required by Grantor and if Grantee or the Partnership has obtained other funding prior to the disbursement of Grant Funds that reduces the Project's projected operating deficit or otherwise reduced its projected operating deficit for the fifteen (15) years subsequent to the issuance of a certificate of completion, Grantor shall disburse only those Grant Funds necessary to eliminate the projected operating deficit and shall amend the attached **Exhibits C and D** accordingly.

5. **CONDITIONS TO USE OF GRANT FUNDS.** Grantee shall comply with the following conditions on the retention and expenditure of Grant Funds:
- a. Deposit of funds. The Grant Funds shall be deposited in an interest bearing Operating Reserve Holding Account established by Grantee and all interest earned on the Grant Funds shall be added to the Grant Funds. The Operating Reserve Holding Account shall require the written approval of Grantor in order to withdraw funds.
 - b. Approval of expenditures. Grantee may use the Grant Funds in the Operating Reserve Holding Account to pay those Operating Expenses approved in writing by the Grantor in advance of expenditures. Expenditures made pursuant to a Budget approved in writing by the Grantor pursuant to Section 6 shall satisfy this requirement.
 - c. Approved categories of expenditures. Grantee shall expend the Grant Funds and accrued interest thereon solely as a capital contribution to the Partnership to pay for Operating Deficits.
 - d. Expenditure limits. Grantee shall not expend Grant Funds in excess of the Expenditure Limits set forth in **Exhibit C: Annual Expenditure Limits**, attached to and incorporated into this Grant Agreement, without the prior approval of the Grantor. The Expenditure Limits shall be calculated on an aggregated basis so that if the Expenditure Limit in one year is not exceeded, the Expenditure Limit for the following year shall be increased by the amount that the Expenditure Limit for the prior year exceeded the amount of Grant Funds actually used for such prior year. Additionally, if the Partnership pays for any approved Operating Expenses from any loan or contribution (in each case, an "ODG Payment") by any member or partner of the Partnership, or any affiliate thereof, because the Expenditure Limit for that year had been exceeded, then Grantee shall be entitled to reimburse the applicable party for such ODG Payment, including interest at a rate not to exceed the interest rate for the Capitalized Operating Reserve Account, with Grant Funds in subsequent years to the extent such use of the Grant Funds would not cause the Expenditure Limit for such years to be exceeded.
6. **SUBMISSIONS BY GRANTEE; REVIEW OF BUDGET.** Grantee shall submit, or shall cause the Partnership to submit to Grantor in each calendar year commencing in the 2013 calendar year and in form and substance acceptable to Grantor, the following:
- a. Required documents. A budget for the upcoming calendar year; an operating statement for the preceding four (4) calendar quarters; rent roll as of the date of submission of the budget indicating for each unit, the tenant, the rent, the rent subsidy, if any, and the lease renewal date; and bank statements showing the balance in the Project's operating account and reserve accounts as of the date of submission.
 - b. Other Documents. Such additional documentation, including timesheets, payrolls, vouchers, invoices, or cancelled checks, as shall be reasonably requested by Grantor within thirty (30) days after such request.
 - c. Financial Reports. Not later than thirty (30) days after receipt by the Partnership, the Partnership's audited annual financial report containing a balance sheet as of the end of the fiscal year prepared in accordance with generally accepted accounting principles.

6.1 Review of Budget. Grantor shall approve or reject a Budget submitted by Grantee under Subsection a. above by notice to Grantee given on or before thirty (30) days after receipt of such budget and all other documentation required to be provided under Subsections a. and b. above. If Grantor rejects the Budget, such notice shall be accompanied by a statement of Grantor's objections to the Budget within ten (10) days thereafter. Grantor may, without limitation, reject any Budget in which the Operating Expenses are, in the reasonable opinion of the Grantor, excessive.

6.2 Actual Deficit. If the Partnership shall require additional operating funds due to unforeseen circumstances or events connected to the Project, Grantee may submit to Grantor from time to time, but not more frequently than two (2) times in any year, a Draw Request for disbursement of additional funds from the Operating Reserve Holding Account to the Project's main operating account. Such Draw Request shall identify such circumstances or events and shall be accompanied by a twelve month Operating Statement through the end of the most recent calendar quarter. Grantor shall evaluate the Draw Request and supporting documentation and, if approved, authorize in writing the amount specified in the Draw Request to be withdrawn from the Operating Reserve Holding Account. Grant funds approved pursuant to this Subsection are subject to the limitations set forth in Exhibit C and Grantee shall contribute such amounts to the Partnership as a capital contribution.

7. CAP ON DEVELOPER FEES. Partnership management fees and investor management fees for the Project shall not exceed the Expenditure Limits set forth in **Exhibit D: Maximum Management Fees**, attached to and incorporated in this Grant Agreement for the term of this Grant Agreement.

8. VERIFICATION OF EXPENDITURES. Not less than annually, Grantee shall provide an opinion prepared by a qualified, independent auditor acceptable to Grantor on the Project operation and the costs thereof may be included in Operating Expenses. The auditor's opinion shall also indicate whether the expenditure of Grant Funds complies with the conditions and covenants of this Agreement. Upon Grantor's written approval of the auditor's opinion, which approval shall not be unreasonably withheld, delayed, or conditioned, the grant shall become unconditional as to those Grant Funds expended in compliance with this Grant Agreement.

9. DEFAULT.

- a. **Breach.** Failure by Grantee to submit any documents due under Section 6 above, expenditure of Conditional Grant Funds in excess of the limits set forth by Exhibit A, expenditure of funds for purposes other than those set forth in Section 5 of this Grant Agreement, or failure by Grantee to perform any other obligations of Grantee under this Agreement shall be deemed a breach by Grantee under this Agreement.
- b. **Default.** Upon occurrence of a breach, Grantor shall give notice of such breach to Grantee and may, at its option require repayment of some or all of the conditional portion of the Grant Funds if such breach is not cured within thirty (30) days after notice thereof. If such breach is not cured within such period, Grantee shall be in default, and Grantor shall be entitled to all available remedies at law or in equity.

10. OTHER FUNDING SOURCES. Grantee shall diligently work with the Grantor to identify and obtain additional funding from sources other than Grantor to provide rental subsidies and operating assistance to the Project during the term of this Agreement. Grantee shall accept or cause the Partnership to accept any additional funding sources that are compatible with the goals and operations of the Project.

11. REDUCTION OR TERMINATION OF CAPITALIZED OPERATING SUBSIDY RESERVE. Grantee acknowledges and agrees that the Grant may be reduced or reallocated if the Project receives additional funding and the Project has not used, or will not be able to fully use Grant funds pursuant to the schedule set forth in **Exhibit C**. In any event,

Tax Increment funds not expended for the Project within fifteen (15) years of the disbursement of Grant funds shall be returned to Grantor.

12. **PREVAILING WAGES AND DAVIS BACON.** Grantor advises Grantee that the Project is subject to the payment of prevailing wages under California law and Davis Bacon prevailing wages under Federal Requirements. Grantee shall cause the Partnership to inform the General Contractor and to require the General Contractor to inform all subcontractors and materialmen furnishing goods or services to the Project of Grantor's determination of the applicability of California prevailing wage requirements and Federal Davis Bacon prevailing wages requirements. Grantee represents that the Partnership and General Contractor have had the opportunity to meet with their respective legal counsel and to request a determination of the matter before the California Department of Industrial Relations and any other appropriate governmental bodies. Grantee represents that the Partnership and General Contractor have made their own independent determinations of the applicability of prevailing wage and Davis Bacon prevailing wage laws and have independently implemented such determinations. Grantee indemnifies, holds harmless and defends the Grantor 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 and Federal Davis Bacon prevailing wage laws to the Project by the Partnership or General Contractor or both of them.

13. **TERMINATION.** This Grant Agreement shall terminate when: (1) Grantor has approved the expenditure of all Grant Funds pursuant to Section 8 of this Grant Agreement; (2) prior to disbursement of the Grant Funds, Grantee or the Partnership has obtained other funding that eliminates the Project's operating deficit for the fifteen (15) years subsequent to the issuance of a certificate of completion for the Project; or (3) upon repayment of the conditional portion or unused portion of the Grant Funds to Grantor.

14. **DEFAULT OF DDA.** The Partnership shall not default in any material provision of the DDA, subject to the rights of the Partnership to cure such default as provided in the DDA.

15. **NO SALE OR EXCESS REFINANCING.** Grantee shall cause the Partnership not to, without Grantor's written consent: (a) sell or transfer all or any portion of the Project; or (b) refinance the Project for an amount greater than One Hundred Percent (100%) of the independently appraised, fair market value of the Project. Grantor shall not withhold consent to sell to an otherwise financially qualified buyer who assumes Grantee's obligations under this Conditional Grant and accepts the terms of this Conditional Grant.

16. **LOW INCOME TENANTS.** Grantee shall cause the Partnership to not permit discrimination against tenants because of their status as low-income tenants or as tenants receiving "Section 8" rental assistance or any other assistance from the U.S. Department of Housing and Urban Development or from any other federal, state or local program of housing or income assistance.

17. **MAINTAIN LOANS.** Grantee shall cause the Partnership to comply with the provisions of all loans secured by the Site and shall promptly and timely cure any default in said loans.

18. **ADEQUATE RESERVES.** Grantee shall maintain, or cause the Partnership to maintain, adequate capital, operational and regular and deferred maintenance reserves for the Project in accordance with ordinary and usual business practices of a prudent property owner. Funds in said reserve accounts shall be used solely for the designated purposes unless such use has first been approved in writing by Grantor. Grantor acknowledges that such reserve account is currently anticipated to be depleted within fifteen (15) years.

19. **PROFESSIONAL MANAGEMENT.** Grantee shall cause the Partnership to obtain and maintain, for not less than the duration of the Agency grant from the date of occupancy of Project required by the DDA, independent professional property management services with a firm approved by Grantor. Mercy Services Corporation is hereby approved by Grantor.

20. **NO NUISANCE.** Grantee shall cause the Partnership to permit no activity on the Project that may be construed to be a nuisance to any tenant of the Project, to any adjacent tenants or property owners or to the general public. In the event that such a nuisance is occurring on the Site, Grantee shall take or cause the Partnership to take immediate action to stop such nuisance and to prevent future occurrences of such nuisance.

21. **OCCUPANCY.** Grantee shall cause the Partnership to not permit the occupancy of any residential unit in the Project to exceed the occupancy limits established by the U.S. Department of Housing and Urban Development for subsidized housing units pursuant to the HOME funding requirements and more specifically 24 C.F.R. 92.252 and 24 C.F.R. 92.254 as well as the California Health and Safety Code, Grantee shall cause the Partnership to rent to persons and families of low or moderate income, as defined in Section 50093, lower income Households, as defined by 50079.5, very low income households, as defined in Section 50105, and extremely low income households, as defined in Section 50106, that is occupied by these persons and families.

22. **PROJECT MAINTENANCE.** Project Maintenance. Grantee shall cause the Partnership to assure that the following maintenance and use provisions for the Project shall be enforced:

- a. **Building Upkeep.** Keep the exterior appearance of all buildings and structures in a clean and attractive condition. Grantee shall perform refinishing of surfaces promptly when observed to be needed due to damage or deterioration.
- b. **Grounds upkeep.** Maintain all grounds and landscaped areas within the Site and those adjacent to the Project, which the Partnership may control or otherwise maintain, in a condition consistent with quality landscape care comparable to similar projects. Assure that shrubs and trees are to be properly and consistently pruned and that all landscaped areas are kept free of weeds, undesirable plants and trash.
- c. **Trash Storage.** Assure that all trash, including lawn, shrub and tree cuttings are placed in a screened enclosure when stored for pickup and that collected trash of any kind is not allowed to stand outside of an enclosure for more than eight (8) hours.
- d. **Storage and Repairs.** Assure that no painting, repairing or storage of personal property is permitted in any open parking area, balcony area, or common area or any other area visible to the public.
- e. **Signs.** Not install or permit the installation or use of any sign on the Project which creates a hazard by protruding, overhanging, blinking, flashing, exhibiting animation or other dangerous conditions. Not install or permit the installation or use of any billboards, pennants, bunting or similar devices for advertising or commercial display which are not in accordance with all applicable ordinances, regulations and codes. All nonconforming signs shall be removed within the time specified by the organization having jurisdiction over the sign or by the Grantor.

23. **INDEMNITY.** Grantee shall indemnify, protect, defend and hold harmless Grantor, its officers, directors, commission members, employees, advisory committee members, and agents from any and all liability from bodily injury, death and property damage caused by or resulting from the acts or omissions of Grantee, its officers, employees, agents or independent contractors and for any and all costs incurred by Grantor in defending against such liability claims, including attorney's fees, except for injury, death or property damage caused by the negligent act or willful misconduct of Grantor. The indemnity provisions of this Section 234 shall survive the termination of this Grant Agreement, whatever the reason for such termination.

24. **ATTORNEY'S FEES AND COSTS.** If a party institutes any action (including without limitation, arbitration, mediation, motions, hearings, suits and appeals) to enforce a provision of this Grant Agreement, the prevailing party

shall be entitled to recover from the non-prevailing party its fees, costs and expenses in connection with such action, including without limitation, the prevailing party's expert witness fees, investigator fees and attorney's fees. Payment of such fees shall include payment for such services whether provided by employees of the prevailing party or independent providers. Prevailing party shall mean the party who obtains a more favorable result than that offered by it in settlement of the issues, or in the absence of such settlement offer, the party obtaining a favorable result.

25. **NOT ASSIGNABLE.** Notwithstanding any other provision of this Grant Agreement, Grantee shall not assign this Grant Agreement or any interest it may have in the monies due

26. **BOOKS AND RECORDS.** Grantee shall maintain such books and records related to the disbursement of the Grant Funds as are considered reasonable and necessary under generally accepted accounting principals and shall permit Grantor to view the books and records at any time during regular business hours.

27. **INTERPRETATION.** This Grant Agreement integrates all of the terms and conditions related or incidental to its subject matter, and supersedes all negotiations or previous agreements between the parties with respect to its subject matter. As the context may indicate, the singular and plural forms each include the other and gender references include all other genders. If any provision of this Grant Agreement is held invalid for any reason, the other provisions shall be given full force and effect to the extent that the purpose and intent of this Conditional Grant can then be met.

28. **WAIVERS AND AMENDMENTS.** All waivers of the provisions of this Grant Agreement must be in writing and duly executed by the waiving party. All amendments to this Grant Agreement must be in writing and duly executed by the Grantor and the Grantee.

29. **CUMULATIVE RIGHTS AND REMEDIES.** No right, power or remedy given to Grantor by the terms of this Grant Agreement is intended to be exclusive of any other right, power or remedy, and each such right, power or remedy will be cumulative and in addition to every other right, power or remedy given to the Grantor by the terms of any instrument, by any statute or otherwise.

30. **NONLIABILITY OF GRANTOR OFFICIALS AND EMPLOYEES.** No member, official or employee of the Grantor shall be personally liable to the Grantee, or any successor in interest, in the event of any default or breach by the Grantor or for any obligations under the terms of this Grant Agreement.

31. **NONLIABILITY OF GRANTEE OFFICIALS AND EMPLOYEES.** Notwithstanding any provision of this Grant or any document evidencing or securing this Grant, Grantee's principals, partners, members, agents, officers, and successors in interest shall not be personally liable for the repayment of the Grant or any obligation of the Grant.

32. Grantor will subordinate the lien securing Grantee's obligation under this Grant Agreement to the construction loan for the Project, provided that the construction loan for the Project indicated in the Budget meets all requirements of this Grant, and that the construction loan does not require modification of this Grant, Grantor's execution of any agreements containing new or modified Grant terms or Grantor's execution of any agreement creating a contractual relationship between Grantor and the senior lender including obligations or liabilities between Grantor and the senior lender, except as otherwise approved by Grantor.

33. **NOTICES AND DEMANDS.** Any notice, approval or other communication required or permitted to be given under this Grant Agreement shall be in writing and shall be personally delivered including but not limited to overnight delivery or deposited in the certified U.S. Mail, return receipt requested, first class and postage prepaid, addressed to each party at the following addresses or such other address as may be designated by a notice pursuant to this Section. Grantor shall give copies of notices required to be delivered to Grantee to the following parties at the

following addresses; provided, however that Grantee acknowledges that such notice is an accommodation and the failure of the Grantor to properly deliver any such notice shall not give rise to any claims or defenses of Grantee or any third party:

Grantee: 7th & H GP LLC
3129 Freeboard Drive, Suite 202
West Sacramento, CA 95691

With a copy to:
If to the Investor Limited Partner:

Wachovia Affordable Housing
Community Development Corporation
MAC D1053-170
301 South College Street
Charlotte, NC 28288
Attention: Director of Tax Credit Asset Management

with a copy to:

John Simon, Esq.
Sidley Austin LLP
One South Dearborn
Chicago, IL 60603

And

Joel Hjelmaas, Esq.
Counsel
Wells Fargo Bank, N.A.
MAC x2401-06T
1 Home Campus, 6th floor
Des Moines, IA 50328-0001

Grantor: Redevelopment Agency of the City of Sacramento
801 12th Street
Sacramento, CA 95814

EXECUTED IN SACRAMENTO, CALIFORNIA, as of the date first written above.

GRANTEE:
**7TH & H GP LLC, A CALIFORNIA LIMITED
LIABILITY COMPANY**

Grantor:
**REDEVELOPMENT AGENCY OF THE CITY OF
SACRAMENTO**

By: Mercy Housing Calwest, a California nonprofit
public benefit corporation, its member/manager

By: _____
LaShelle Dozier
Executive Director

By: _____
Its: _____

Approval as to Form:

Date: _____

Agency Counsel

Exhibit C

Exhibit A
Deed of Trust Form

NO FEE DOCUMENT:
 Entitled to free recording
 per Government Code 27383.

When recorded, return to:
 SACRAMENTO HOUSING AND
 REDEVELOPMENT AGENCY
 801 12th Street
 Sacramento, CA 95814
 Attention: Katherine Klein McFadden

DEED OF TRUST AND ASSIGNMENT OF RENTS

7th & H Project

(Loan B: Construction and Permanent Loan Agreement; Grant B: Conditional Capital Grant;
 and, Grant C: Conditional Grant for Operating Reserve)
 716 7th Street, 631 H Street and 625 H Street, Sacramento, CA 95814

For purposes of this Deed of Trust the following capitalized terms shall have the meanings ascribed in the space adjacent to them:

TERM	DEFINITION	
"Effective Date"		
"Trustor" and "Borrower"	Mercy Housing California 47, A California Limited Partnership	
"Borrower Address"	3120 Freeboard Drive, Suite 202, West Sacramento, CA 95691	
"Trustee"	Fidelity National Title Company	
"Beneficiary" and "Lender"	Redevelopment Agency of the City of Sacramento, a public body, corporate and politic	
"Lender Address"	801 12th Street, Sacramento, California 95814	
"Property"	Which is real property located in the County of Sacramento and the State of California as more particularly described in the Legal Description.	
	Address	716 7 th Street, 631 H Street and 625 H Street, Sacramento, CA 95814
	Assessor's Parcel Number	002-0141-001-0000, 002-0141-002-0000, 002-0141-003-0000; 002-0141-004-0000, 002-0141-007-0000
"Legal Description"	The Legal Description of the Property which is more particularly described in the attached <u>Exhibit 1 Legal Description</u> , which is incorporated in and an integral part of this Deed of Trust	
"Loan"	Which is Lender's loan to Borrower evidenced by the Note and which is secured by this Deed of Trust.	
"Loan Agreement"	Which is the Construction and Permanent Loan Agreement between Lender and Borrower stating the term and conditions of the Loan.	
	Which is dated:	

Exhibit C

"Grant B"	Which is Lender's Grant to 7 th & H GP LLC in the amount of \$6,859,695, which Grant will then be contributed to Borrower during the course of construction and which is secured by this Deed of Trust.	
"Grant B Agreement"	Which is the Conditional Grant Agreement for Capital between Lender and 7 th & H GP LLC stating the terms and conditions of the grant.	
"Grant C"	Which is Lender's Grant to 7 th & H GP LLC in the amount of \$3,750,000, which Grant will be contributed to Borrower and which is secured by this Deed of Trust.	
"Grant C Agreement"	Which is the Conditional Grant Agreement for Capitalized Operating Reserve between Lender and 7 th & H GP LLC stating the terms and conditions of the grant.	
"Additional Notices"	<p>Lender shall give copies of notices required to be delivered to Borrower to the following parties at the following addresses; provided, however that Borrower acknowledges that such notice is an accommodation and the failure of the Lender to properly deliver any such notice shall not give rise to any claims or defenses of Borrower or any third party:</p> <p style="text-align: center;">If to the Investor Limited Partner:</p> <p style="text-align: center;">Wachovia Affordable Housing Community Development Corporation MAC D1053-170 301 South College Street Charlotte, NC 28288 Attention: Director of Tax Credit Asset Management</p> <p style="text-align: center;">with a copy to:</p> <p style="text-align: center;">John Simon, Esq. Sidley Austin LLP One South Dearborn Chicago, IL 60603</p> <p style="text-align: center;">And</p> <p style="text-align: center;">Joel Hjelmaas, Esq. Counsel Wells Fargo Bank, N.A. MAC x2401-06T 1 Home Campus, 6th floor Des Moines, IA 50328-0001</p>	
"Note"	Which is Borrower's note made in accordance with the Loan Agreement securing the following principal sum or such lesser amount as shall equal the aggregate amount disbursed to Borrower by Lender, with interest.	
	Which has a principal sum of	Eight Million Two Hundred Thousand Dollars and No Cents (\$8,200,000.00)

THIS DEED OF TRUST is made as of the Effective Date between the Trustor also referenced as the Borrower, the Trustee, and the Beneficiary also referenced as Lender.

Borrower, in consideration of the indebtedness described below and the trust created by this Deed of Trust, irrevocably grants and conveys the Property to Trustee, in trust with power of sale.

Together with all the improvements now or subsequently erected on the property, and all easements, rights, appurtenances, rents (subject, however, to the rights and authorities given to Lender to collect and apply such rents), royalties, mineral, oil and gas rights and profits, water, water rights, and water stock, and all fixtures, including but not limited to all gas and electric fixtures, engines and machinery, radiators, heaters, furnaces, heating equipment, steam and hot water boilers, stoves, ranges, elevators and motors, bathtubs, sinks, water closets, basins, pipes, faucets and other plumbing and heating equipment, cabinets, mantels, refrigerating plant and refrigerators, whether mechanical or otherwise, cooking apparatus and appurtenances, furniture, shades, awnings, screens, venetian blinds and other furnishings, now or hereafter attached to the property, all of which, including replacements and additions thereto, shall be deemed to be and remain a part of the property covered by this Deed of Trust; and all of the foregoing, together with said property (or the leasehold estate if this Deed of Trust is on a leasehold) are referred to as the "Property";

To secure to Lender: (a) the repayment of the Loan and to the extent applicable, the reimbursement payment of Grant B and Grant C; and (b) the performance of the covenants and agreements of Borrower contained in this Deed of Trust, the Note, or the Loan Agreement, and the covenants and agreements of 7th & H GP LLC contained in Grant B and in Grant C.

Borrower covenants that Borrower is lawfully seized of the estate conveyed by this Deed of Trust and has the right to grant and convey the Property, and that Borrower will warrant and defend generally the title of the Property against all claims and demands, subject to any declarations, easements or restrictions listed in a schedule of exceptions to coverage in any title insurance policy insuring Lender's interest in the Property.

Borrower and Lender covenant and agree as follows:

1. Payment of Principal and Interest. Borrower shall promptly pay when due the principal and interest, if any, on the indebtedness evidenced by the Note. All payments received by Lender under the Note shall be applied by Lender first to interest payable on the Note and thereafter to the unpaid principal of the Note.
2. Charges; Liens. Borrower shall pay all taxes, assessments and other charges, fines and impositions attributable to the Property and leasehold payments or ground rents, if any by Borrower making payment, when due, directly to the appropriate payee. Borrower shall promptly furnish to Lender all notices of amounts due under this paragraph, and in the event that Borrower makes payment directly, Borrower shall promptly furnish to Lender receipts evidencing such payments. Borrower shall pay when due any encumbrance, charge and lien, with interest in accordance with its terms, on the Property or any portion which is inferior or superior to this Deed of Trust.
3. Hazard Insurance. Borrower shall keep the improvements now existing or later erected on the Property insured against loss of fire or hazards under a policy approved by Lender consistent with the insurance requirements of the Loan Agreement. In addition, Borrower shall insure against loss of all furniture, equipment and other personal property owned by Borrower related to Borrower's operation of the Property. Lender shall have the right to hold the policies and policy renewals, and Borrower shall promptly furnish to Lender all renewal notices and all receipts of paid premiums. In the event of loss, Borrower shall give prompt notice to the insurance carrier and Lender. Lender may make proof of loss if not made promptly by Borrower.

Unless Lender and Borrower otherwise agree in writing, insurance proceeds shall be applied to restoration or repair of the Property damaged, as and to the extent provided in the Loan Agreement.

Unless Lender and Borrower otherwise agree in writing, any such application of insurance proceeds to principal shall not extend or postpone the due date of any Loan payment or change the amount of such payment. If the Property is acquired by Lender pursuant to this Deed of Trust, all right, title and interest of Borrower in and to any insurance policies and proceeds of such policies resulting from damage to the Property prior to the sale of

acquisition shall pass to Lender to the extent of the sums secured by this Deed of Trust immediately prior to such sale or acquisition.

4. Liability Insurance. In addition to the casualty insurance required under the Loan Agreement during the course of construction, Borrower shall keep comprehensive general liability insurance for the Property in a form and coverage consistent with the provisions of the Loan Agreement and reasonably approved by Lender.
5. Preservation and Maintenance of Property. Borrower shall keep the Property in good repair and shall not commit waste or permit impairment, demolition, or deterioration of the Property.
6. Protection of Lender's Security. Borrower shall appear and defend any action or proceeding purporting to affect the security under this Deed of Trust or the rights of the Lender. If Borrower fails to perform the covenants and agreements contained in this Deed of Trust, or if any action or proceeding is commenced which materially affects Lender's interest in the Property, including, but not limited to, foreclosure, involuntary sale, eminent domain, insolvency, code enforcement, or arrangements or proceedings involving a bankrupt or decedant, then Lender may, upon notice to Borrower, make such appearances, disburse such sums and take such actions as are necessary to protect Lender's interest, including, but not limited to, disbursement of judgments, costs or reasonable attorney's fees and entry upon the Property to make repairs.

Any amounts disbursed by Lender pursuant to this Section 6, with interest, shall become additional indebtedness of Borrower secured by this Deed of Trust. Unless Borrower and Lender agree to other terms of payment, such amounts shall be payable upon notice from Lender to Borrower requesting payment, and shall bear interest from the date of disbursement at the highest rate permissible under applicable law. In any event, this Section shall be construed as a right and an option of Lender and shall not be construed to require Lender to incur any expense or take any action.

7. Inspection. Lender, by its designated representative, may make reasonable entries upon and inspections of the Property, provided that Lender shall give Borrower and any occupant of the Property reasonable prior notice of any such inspection.
8. Condemnation. The proceeds of any award or claim for damages, direct or consequential, in connection with any condemnation or other taking of all or any part of the Property, or for conveyance in lieu of condemnation, shall be applied as provided in the Loan Agreement.

If the Property is abandoned by Borrower, or if, after notice by Lender to Borrower that the condemnor offers to make an award or settle a claim for damages, Borrower fails to respond to Lender within 30 days after the date such notice is mailed, Lender is authorized to collect and apply the proceeds, at Lender's option, either to restoration or repair of the Property or to the sums secured by this Deed of Trust.

Unless Lender and Borrower otherwise agree in writing, any such application of proceeds to principal shall not extend or postpone the due date of any payment or change the amount of such payment.

9. Borrower Not Released. Extension of the time for payment of the sums secured by this Deed of Trust granted by Lender to Borrower or any successor in interest of Borrower shall not operate to release, in any manner, the liability of the original Borrower and Borrower's successors in interest. Lender shall not be required to commence proceedings against such successor or refuse to extend time payment by reason of any demand made by the original Borrower or Borrower's successors in interest.
10. Forbearance by Lender Not a Waiver. Any forbearance by Lender in exercising any right or remedy under this Deed of Trust, or otherwise afforded by applicable law, shall not be a waiver or preclude the exercise of any such

right or remedy. The procurement of insurance or the payment of taxes or other liens or charges by Lender shall not be a waiver of Lender's right to accelerate the maturity of the indebtedness secured by this Deed of Trust.

11. Remedies Cumulative. All remedies provided in this Deed of Trust are distinct and cumulative to any other right or remedy under this Deed of Trust, the Note, the Loan Agreement, the Grant B Agreement, the Grant C Agreement or afforded by law or equity, and may be exercised concurrently, independently or successively.

12. Successors and Assigns Bound; Joint and Several Liability Captions. The covenants and agreements contained in this Deed of Trust shall bind, and the rights under this Deed of Trust shall inure to, the respective successors and assigns of Lender and Borrower, subject to the provisions of Section 15. All covenants and agreements of Borrower shall be joint and several. The captions and headings of the paragraphs of this Deed of Trust are for convenience only and are not to be used to interpret or to define its provisions.

13. Notice. Except for any notice required under applicable law to be given in another manner, any notice to be given under this Deed of Trust shall be given as provided for in the Loan Agreement. Any notice provided for in this Deed of Trust shall be deemed to have been given to Borrower or Lender when given in the manner designated.

14. Governing Law; Severability. This Deed of Trust shall be governed by the law of the State of California. If any term or provision of this Deed of Trust shall, to any extent, be held invalid or unenforceable, the remainder of this Deed of Trust shall remain in full force and effect and the invalid or unenforceable provision shall be valid and enforceable as to any other person or circumstance.

15. Acceleration on Transfer or Refinancing of the Property; Assumption. Except as otherwise provided in the Loan Agreement, if all or any part of the Property or an interest in the Property is sold or transferred or refinanced by Borrower without Lender's prior written consent, Lender may, at Lender's option, declare all the sums secured by this Deed of Trust to be immediately due and payable. Lender shall have waived such option to accelerate if, prior to the refinancing, sale or transfer, Lender and the person to whom the Property is to be sold or transferred reach agreement in writing that the loan may be assumed. If Lender has waived the option to accelerate provided in this Section and if Borrower's successor in interest has executed a written assumption agreement accepted in writing by Lender, Lender shall release Borrower from all obligations under this Deed of Trust and the Note. Lender's prior approval is not required for (1) the sale or transfer of the Limited Partner's interest to one or more of the other partners that currently comprise the Borrower's entity, (2) the admission of the Limited Partner or its affiliate to the Borrower and the transfer of its interest to an affiliate thereof so long as the general partner, or managing member, of the transferor, or an affiliate thereof, is the general partner, or managing member of the transferee, or partner; however, Borrower is obligated to notify Lender within 30 days from the date of such sale or transfer, (3) the removal of the general partner of the Borrower by the Limited Partner for a default under Borrower's partnership agreement, provided that any replacement general partner is approved by Lender, which approval shall not be unreasonably withheld, conditioned or delayed.

If Lender exercises such option to accelerate, Lender shall mail Borrower notice of acceleration. Such notice shall provide a period of not less than 30 days from the date the notice is mailed within which Borrower, or any of its principals or anyone with a substantial legal interest in Borrower, may pay the sums declared due. If Borrower fails to pay such sums prior to the expiration of such period, Lender may, without further notice or demand on Borrower, invoke any remedies permitted by this Deed of Trust.

16. Acceleration on Breach; Remedies. Except as provided in Section 15, upon Borrower's breach of any covenant or agreement of Borrower in this Deed of Trust, the Note, (including the covenants to pay when due any sums secured by this Deed of Trust and restricting transfer of the Property) or Loan Agreement, or 7th & H GP LLC's breach of any covenant or agreement in the Grant B Agreement or the Grant C Agreement, Lender shall mail notice to Borrower specifying: (1) the breach; (2) the action required to cure such breach; (3) a date, no less than 30 days

from the date the notice is mailed to Borrower and limited partner, by which breach must be cured; and (4) that failure to cure such breach on or before the date specified in the notice may result in acceleration of the sums secured by this Deed of Trust and sale of the Property. If the breach is not cured on or before the date specified in the notice, Lender at Lender's option may declare all of the sums secured by this Deed of Trust to be immediately due and payable without further demand and may invoke the power of sale and any other remedies permitted by applicable law. Any limited partner of Borrower shall be entitled to cure any defaults on behalf of Borrower within the time periods set forth herein; provided, however, that if, in order to cure any such default, such limited partner must first remove and/or replace a general partner of Borrower, then, provided that such limited partner notifies the Agency of such removal and removes such general partner within that thirty day period to correct or cure the default the limited partner shall then have 90 days to replace the general partner. Then, such limited partner or the replacement General Partner shall have until the date of 30 days to effect such cure.

17. Lender shall be entitled to collect from the Borrower, or sale proceeds, if any, all reasonable costs and expenses incurred in pursuing the remedies provided in this Section, including, but not limited to reasonable attorney's fees.

If Lender invokes the power of sale, Lender shall execute or cause Trustee to execute a written notice of the occurrence of an event of default and of Lender's election to cause the Property to be sold and shall cause such notice to be recorded in each county in which any portion of the Property is located. Lender or Trustee shall mail copies of such notice in the manner prescribed by applicable law to Borrower and to the other persons prescribed by applicable law. Trustee shall give public notice of sale to the persons and in the manner prescribed by applicable law. After the lapse of such time as may be required by applicable law, Trustee, without demand on Borrower, shall sell the Property at public auction to the highest bidder at the time and place and under the terms designated in the notice of sale, in one or more parcels and in such order as Trustee may determine. Trustee may postpone sale of all or any parcel of the Property by public announcement at the time and place of any previously scheduled sale. Lender or Lender's designee may purchase the Property at any sale.

Trustee shall deliver to the purchaser a Trustee's deed conveying the Property so sold without any covenant or warranty, expressed or implied. The recitals in the Trustee's deed shall be prima facie evidence of the truth of the statements it contains. Trustee shall apply the proceeds of the sale in the following order: (a) to all reasonable costs and expenses of the sale, including, but not limited to, reasonable Trustee's and attorney's fees and costs of title evidence; (b) to all sums secured by this Deed of Trust; and (c) the excess, if any, to the person or persons legally entitled thereto as determined by Lender. In the event of a dispute regarding the excess funds, either Lender or Trustee may file an action in interpleader to determine who shall receive the funds and may then deposit the excess funds with the court.

18. Assignment of Rents; Appointment of Receiver; Lender in Possession. As additional security, Borrower assigns to Lender the rents of the Property, provided that Borrower shall, prior to an acceleration for breach as provided above or abandonment of the Property, have the right to collect such rents as they become due.

Upon acceleration for breach or abandonment of the Property, Lender, in person, by agent or by judicially appointed receiver shall be entitled to enter upon, take possession of and manage the Property and to collect the rents of the Property including those past due. All rents collected by Lender, its agent, or the receiver shall be applied first to payment of the costs of management of the Property and collection of rents, including, but not limited to receiver's fees, premiums on receiver's bonds and reasonable attorney's fees, and then to the sums secured by this Deed of Trust. Lender, its agent and the receiver shall be liable to account only for those rents actually received.

19. Prior Lienholder. The provisions of this Deed of Trust shall operate subject to the claims of prior lienholders to the extent of such claims.

20. Nonrecourse. Notwithstanding any provision of this Deed of Trust or any document evidencing or securing this Loan, Borrower, and Borrower's principals, partners, agents, officers, and successors in interest shall not be personally liable for the payment of the Loan or any obligation of the Loan and Lender's sole recourse is to the collateral secured by this Deed of Trust.

21. Reconveyance. Upon payment of all sums secured by this Deed of Trust, Lender shall request Trustee to reconvey the Property and shall surrender this Deed of Trust and all notes evidencing indebtedness secured by this Deed of Trust to Trustee. Trustee shall reconvey the Property without warranty and without charge to the person or persons legally entitled to such reconveyance. Such person or persons shall pay all costs of recordation, if any. The recitals in the reconveyance of any matters or facts shall be conclusive proof of their truthfulness.

22. Substitute Trustee. Lender, at Lender's option, may from time to time remove Trustee and appoint a successor trustee to any Trustee appointed under this Deed of Trust. Without conveyance of the Property, the successor trustee shall succeed to all the title, power and duties conferred upon the Trustee by this Deed of Trust and applicable law.

23. Request for Notice. Borrower and each party listed to receive Additional Notices request that copies of the notice of default and notice of sale be sent to their respective addresses.

24. Statement of Obligation. Lender may collect a reasonable fee for furnishing the statement of obligation as provided by Section 2943 of the Civil Code of California, as it may be amended from time to time.

25. Use of Property. Borrower shall not permit or suffer the use of any of the Property for any purpose other than the use for which the same was intended at the time this Deed of Trust was executed.

IN WITNESS WHEREOF, Borrower has executed this Deed of Trust.

BORROWER (Trustor):

MERCY HOUSING CALIFORNIA 47, A CALIFORNIA LIMITED PARTNERSHIP

By: RCHC GP LLC, a California limited liability company, its managing general partner

By: Rural California Housing Corporation, a California nonprofit public benefit corporation, its member/manager

By: _____

Its: _____

By: 7th & H GP LLC, a California limited liability company, its co-general partner

By: Mercy Housing Calwest, a California nonprofit public benefit corporation, its member/manager

By: _____

Its: _____

[NOTARIZED ACKNOWLEDGEMENTS]

Exhibit C

Exhibit B
Regulatory Agreement Form

NO FEE DOCUMENT:

Entitled to free recording
 per Government Code 27383.
 When recorded, return to:
 REDEVELOPMENT AGENCY
 OF THE CITY OF SACRAMENTO
 Attn: Katherine Klein McFadden
 801 12th Street
 Sacramento, CA 95814

**REGULATORY AGREEMENT FOR RESIDENTIAL RENTAL PROPERTY
 CONTAINING COVENANTS AFFECTING REAL PROPERTY**

PROJECT NAME:	7 th & H Project
PROJECT ADDRESS:	716 7 th Street, 631 H Street and 625 H Street Sacramento, CA
APN:	002-0141-001-0000, 002-0141-002-0000, 002-0141-003-0000; 002-0141-004-0000, 002-0141-007-0000

FOR GOOD AND VALUABLE CONSIDERATION, THE RECEIPT OF WHICH IS ACKNOWLEDGED, AGENCY AND OWNER HAVE ENTERED THIS REGULATORY AGREEMENT AS OF THE EFFECTIVE DATE.

1. **GENERAL.** This Regulatory Agreement, includes the Exhibits listed below which are attached to and incorporated in this Regulatory Agreement by this reference.

2. **DEFINITIONS.** The capitalized terms in this Regulatory Agreement shall have the meanings assigned in the following table and in the body of the Regulatory Agreement as the context indicates. (Terms being defined are indicated by quotation marks.)

TERM	DEFINITION			
"Effective Date"	This Regulatory Agreement shall be effective as of the following date: February __, 2011			
"Agency"	Redevelopment Agency of the City of Sacramento The Agency is a public body, corporate and politic.			
"Owner"	Mercy Housing California 47, a California Limited Partnership			
"Agency Address"	Agency's business address is 801 12 th Street, Sacramento, California 95814			
"Owner Address"	Owner's business address is as follows: 3120 Freeboard Drive, Suite 202, West Sacramento, CA 95691			
"Jurisdiction"	City of Sacramento			
"Property"	That certain real property which is subject to this Regulatory Agreement as further described in the legal description, attached as Exhibit 1 – Legal Description of the Property and incorporated in this Regulatory Agreement by this reference			
"Funding Agreements"	The Funding Agreements between Agency and Owner as follows:			
	<table border="1"> <tr> <td>Titled:</td> <td>Acquisition and Permanent Loan Agreement (Loan A)</td> </tr> <tr> <td>Dated:</td> <td>February __, 2011</td> </tr> </table>	Titled:	Acquisition and Permanent Loan Agreement (Loan A)	Dated:
Titled:	Acquisition and Permanent Loan Agreement (Loan A)			
Dated:	February __, 2011			

Exhibit C

		Titled:	Construction, and Permanent Loan Agreement (Loan B)
		Dated:	February , 2011
		Titled:	Conditional Grant Agreement for Capital (Grant B) with 7 th & H GP LLC
		Dated:	February , 2011
		Titled:	Conditional Grant Agreement for Capitalized Operating Reserve with 7 TH & H GP LLC (Grant C)
		Dated:	February , 2011
“Agency Funding”	The Agency Funding made by Agency under the Funding Agreements for development of the Property		
“Agency Funding Amount”	The amount of the Agency Funding, as follows:		\$22,407,204
“Proportionate Agency Assistance”	The percentage of the Project cost, including without limitation, land, predevelopment and development costs, that is attributable to the Agency Funding. For rehabilitation projects, the percentage that the Agency Funding bears to the total of the fair market value of the Property before rehabilitation and the total costs of rehabilitation.		47%
“Funding Requirements”	The legal restrictions on the use of the funds that Agency has used to make the Agency Funding, as applicable to and restricting the Property. The Funding Requirements are set out in Exhibit 2 – Funding Requirements .		
“Approved Use”	The only permitted use of the Property, which is as a mixed use supportive housing SRO property with commercial space and residential units available for rent by the general public and containing not less than the following number of units:		150

RESTRICTED PARCELS; APPROVAL OF LEASES. In order to assure that the proper number and types of units have been rented in accordance with this Regulatory Agreement, Owner is prohibited from leasing any Unit within the Project until either the parties have recorded against the Property a list of the Restricted Units or the Agency has approved the individual lease or lease form for the Restricted Units. The following numbers of Units are restricted for each respective funding source. The initial rents for the respective units shall be the following; provided, however, that upon the request of Owner, Owner and Agency may agree to a schedule for the Restricted Units that complies with the following affordability requirements as of the date when the Project is available for occupancy. In any event the rents for the respective units may be adjusted not more often than annually. The rents shall include allowance for utilities and costs reasonably related to the rental of the units, as may be required in determining the rents for the applicable funding sources. Only units indicated under Agency Funding Source are assisted by the Agency. Nevertheless, Owner shall assure the affordability of all of the following units at the named affordability levels.

Agency Funding Source:	Other Funding Source:	Affordability Level:	Number of Units:	Restricted Units:	Initial Gross Rent per Unit per Month:
Downtown Tax Increment Housing Set-Aside Fund, City Housing Trust Fund, State Housing		Extremely Low Income	15	Bedroom size Studio	\$ \$326
		Very Low Income	107	Studio	\$640

Trust Fund and City HOME Fund		Very Low Income	28	One Bedroom	\$685
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3. **MANAGEMENT AGREEMENT.** Owner shall obtain and maintain a property management agreement with a duly accredited real estate property management company for the management of the Property. Owner shall not change the management company without the prior written approval of the Agency, which approval shall not be unreasonably withheld, delayed or conditioned. If Agency has approved an initial property manager for the Project, the company shall be listed immediately below. The term of such agreement shall be for one (1) year beginning from completion of construction of the Project and renewable in accordance with the terms and conditions provided therein.

Approved Management Company

Mercy Housing Management Group

4. **SPECIAL PROVISIONS.** Owner shall also comply with the following special provisions.

Provision	Term
<p>1. <u>Resident Services.</u> Owner 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) certification that the services will be provided for a minimum of 40 hours per week; 3) a description of the programs to be offered, and; 4) a proforma social services budget.</p> <p>2. <u>Expiration of affordability period.</u> Owner agrees the rent of "in-place" tenants at the conclusion of the required affordability period will continue to be governed by the applicable affordability restrictions, so long as those tenants continue to live in the development.</p> <p>3. <u>Smoke-free environment.</u> At least 50% of the building but no less than 50% of the units must be smoke free. All indoor common areas must be smoke-free.</p> <p>4. <u>Regulatory Agreement Violations.</u> Owner shall pay the program compliance fees and expenses to Agency set forth in Compliance Violations and Actions (Exhibit 3 - Compliance Violations and Actions) in reimbursement of the amounts and time expended by Agency to insure Owner's compliance with State statutes and federal regulations and Owner's obligations under the Regulatory Agreement as a result of the Owner not meeting its obligations and reporting requirements. No compliance fee will be assessed for one incident of each type of compliance violation per annual inspection provided the violation is corrected within the specified corrective time period. The second and subsequent violations will be assessed compliance fees as detailed in the Compliance Violations and Actions tables.</p> <p>6. <u>"Excess" utility charges.</u> Owner shall not pass utility charges paid by Owner, including water, sewer, and garbage collection charges, through to tenants as an add-on to their contracted rent.</p> <p>7. <u>Renters' insurance.</u> Owner shall not make payment of rental insurance premiums a condition of occupancy. If Owner requires renters' insurance, the policy premium must be deducted from the tenant's rent. The Owner shall not add the insurance premium to the tenant's rent in either the initial or subsequent years.</p>	<p>55 years.</p>

5. REPRESENTATIONS. Agency has provided Agency Funding to Owner to acquire and develop the Property, subject to the terms of the Funding Agreement. This Regulatory Agreement is a substantial part of the consideration to Agency for making the Agency Funding. The funds used by Agency under the Funding Agreement are funds from public funding sources administered by Agency and their use is subject to certain requirements some of which are embodied in this Regulatory Agreement. Further, Agency has made the Agency Funding in accordance with the laws, rules and regulations to which Agency is subject. Therefore, Agency has made the Agency Funding conditioned upon Owner's agreement, for itself and its successors and assigns, to comply with all provisions of this Regulatory Agreement, including without limitation, the Funding Agreement. Owner has had full opportunity to make itself independently familiar with such limitations and restrictions, and Owner accepts them and agrees to comply fully with them.

6. COVENANTS. Owner makes the following covenants. Unless Owner has received the prior written consent or Agency approval otherwise, Owner shall fully comply with each and every covenant. Except as otherwise stated in this Regulatory Agreement, the following covenants shall have a term that is the same as the longest term specified in the Funding Requirements.

a. Owner shall use and permit others to use the Property only for the Approved Use.

b. Owner shall assure full compliance with the Funding Requirements.

c. Owner shall not transfer or encumber any of the Property or permit the conveyance, transfer, or encumbrance of the Property unless such assignee, transferee or encumbrancer has agreed, in writing and in a form suitable for recordation, to be bound by the terms of this Regulatory Agreement.

d. Owner shall not cause and shall not permit expansion, reconstruction, or demolition of any part of improvements on the Property, except as provided by the Funding Agreement.

e. Owner shall maintain the Property and the building improvements, grounds and equipment of the Property in good repair and condition and in compliance with all applicable housing quality standards and local code requirements. Owner shall maintain the Property in good condition and shall keep the Property reasonably free from graffiti and unrepaired vandalism and from accumulation of abandoned property, inoperable vehicles, unenclosed storage, debris, and waste materials. In the event of a casualty loss, Owner shall cause the restoration or replacement of the Property, in a timely manner and provided that such restoration or replacement is then economically feasible.

f. Owner shall not cause and shall not permit discrimination on any basis listed in subdivision (a) or (d) of Section 12955 of the Government Code, as those bases are defined in Sections 12926, 12926.1, subdivision (m) and paragraph (1) of subdivision (p) of Section 12955, and Section 12955.2 of the Government Code in the sale, lease, or rental or in the use or occupancy of the Property. Owner covenants by and for itself, its heirs, executors, administrators, and assigns, and all persons claiming under or through them that there shall be no discrimination against or segregation with reference to the selection, location, number, use or occupancy of tenants, lessees, subtenants, sublessees, or vendees in the Property. This covenant against discrimination shall continue in perpetuity.

g. Owner shall assure compliance with the obligations imposed by the federal Personal Responsibility and Work Opportunity Act (Public Law 104-193, commonly known as the Welfare Reform Act) as amended by California Welfare and Institutions Code Section 17851, which restrict the Agency funding of federal, state or local benefits to persons who are not citizens or qualified aliens as defined in such act.

7. NATURE OF COVENANTS. The provisions contained in this Regulatory Agreement are covenants which subject and burden the Property, as covenants running with the land. It is intended and agreed that the agreements and covenants provided in the Agreement shall be covenants running with the land and equitable servitudes on the land and that they shall, in any event, and without regard to technical classifications or designation, be binding, to the

fullest extent permitted by law and equity, for the benefit and in favor of, and enforceable by, the Agency, the Agency's successors and assigns, any other governmental entity acting within its authority and any successor in interest to Agency's interest under this Regulatory Agreement against the Owner, its successors and assigns and every successor in interest to all or any part of the Property.

8. TERM. The term of this Regulatory Agreement shall commence on the Effective Date and continue until the terms of all of the covenants, including without limitation, the terms stated in the Funding Requirements, have expired or otherwise been terminated. Notwithstanding the term in the Funding Requirements, the term of this Regulatory Agreement shall be fifty-five (55) years from the Effective Date.

9. REVIVAL OF COVENANTS AFTER FORECLOSURE. The affordability restrictions shall be revived after foreclosure, or deed in lieu of foreclosure according to the original terms if, during the original term of this Regulatory Agreement, the Owner, who was owner of record before the termination event, or a party related to the Owner obtains an ownership interest in the Property or Restricted Unit, as the case may be. For purposes of these provisions, a related party is anyone with whom the Owner has or had family or business ties; provided that such interest would not be considered a "remote interest" in the usual and customary use of the term.

10. MULTIPLE FUNDING REQUIREMENTS. If more than one form of Funding Requirements is attached, each Restricted Unit shall be subject to the Funding Requirements for every Funding Source applied to the respective Restricted Unit. If the terms of the Funding Requirements shall conflict as to any Restricted Unit, the Funding Requirements shall be construed so as to meet all applicable requirements for the respective Restricted Unit, including without limitation the use of the most restrictive requirements and the use of the "Recapture" formula that results in the greatest repayment to the Agency.

11. RECORDKEEPING AND REPORTING. Upon request of Agency, Owner shall promptly provide any additional information or documentation requested in writing by the Agency to verify Owner's compliance with the provisions of this Regulatory Agreement. At the written request of the Agency, Owner shall, within a reasonable time following receipt of such request, furnish reports and shall give specific answers to questions upon which information is desired from time to time relative to the income, assets, liabilities, contracts, operations, and condition of the property and the status of the Deeds of Trust.

12. AUDIT AND INSPECTION. The Property and all related equipment, buildings, plans, offices, books, contracts, records, documents and other related papers shall at all times be maintained in reasonable condition for audit and shall be subject to examination by the Agency or its agents. The books and accounts of the operations of the Property and of the Property shall be kept in accordance with generally accepted accounting principles. Owner shall provide Agency access to the Property and its tenants during reasonable hours for the purpose of reviewing Owner's compliance with this Regulatory Agreement.

13. INDEMNITY FOR OWNER'S FAILURE TO MEET LEGAL REQUIREMENTS. Owner shall indemnify and hold Agency, its officers, directors, and employees harmless from any and all liability arising from Owner's failure to comply with the covenants, conditions and restrictions contained in this Regulatory Agreement or to comply with all other laws, rules, regulations and restrictions related to the use of Agency Funding, including, but not limited to, liability arising out of or based upon or in any way relating to:

a. the Financing Agreement, this Regulatory Agreement, and all documents related thereto, or the execution or amendment hereof or thereof or in connection with transactions contemplated hereby or thereby;

b. any act or omission of the Owner or any of its agents, contractors, servants, employees or licensees in connection with the Project, the operation of the Project, or the condition, environmental or otherwise, occupancy, use, possession, conduct or management of work done in or about, the Project or any part thereof;

any violation of any environmental law, rule or regulation with respect to, or the release of any toxic substance from, the Project or any part thereof.

Without limitation, such indemnity shall include repayment to the appropriate parties of rents or sales proceeds in excess of amounts authorized to be charged and repayment to the Agency of the costs of funds, and the value of lost opportunities resulting from the required repayment by Agency to the funding source of funds improperly used. The foregoing indemnity shall not apply to any liability arising out of the negligent act or willful misconduct of Agency and shall not supersede any indemnification provisions contained in other agreements between the parties, Disposition and Development Agreement entered into between the parties on June 10, 2010.

14. NONRECOURSE. Notwithstanding any provision of this Regulatory Agreement, Owner, and Owner's principals, partners, members, agents, officers, and successors in interest shall not be personally liable for any obligation under this Regulatory Agreement.

15. CHANGES WITHOUT CONSENT OF TENANTS, LESSEES, OR OTHERS. Only Agency and its successors and assigns, and Owner (subject to the reasonable approval of Owner's lender in accordance with its rights under its loan terms) shall have the right to consent and agree to changes in, or to eliminate in whole or in part, any of the covenants or restrictions contained in this Agreement without the consent of any easement holder, licensee, other mortgagee, trustee, beneficiary under a deed of trust or any other person or entity having any interest less than a fee in the Property.

16. DEFAULT. Upon a breach of any of the provisions of this Regulatory Agreement by Owner, the Agency shall give written notice of such breach to Owner by registered or certified mail. If such violation is not corrected to the reasonable satisfaction of Agency within thirty (30) days after the date such notice is given to Owner or within such further time as the Agency may reasonably determine is necessary to correct the breach, and without further notice to Owner, the Agency may declare a default under the Agreement, effective on the date of such declaration of default, and upon such default the Agency may: (a) take any action then available under the Funding Agreement for a default under the Funding Agreement and (b) apply to any court for specific performance of this Regulatory Agreement, for an injunction against any violation of the Agreement, for the appointment of a receiver to take over and operate the Property in accordance with the terms of this Regulatory Agreement, for money damages or for such other relief as may be appropriate, since the injury to the Agency arising from a default under any of the terms in this Regulatory Agreement would be irreparable, and the amount of damage would be difficult to ascertain. Any limited partner of Owner shall be entitled to cure any defaults on behalf of Owner within the time periods set forth herein; provided, however, that if, in order to cure any such default, such limited partner must first remove and/or replace a general partner of Owner, then, provided that such limited partner notifies the Agency of such removal and removes such general partner within that thirty day period to correct or cure the default the limited partner shall then have 90 days to replace the general partner. Then, such limited partner or the replacement General Partner shall have 30 days to effect such cure.

17. BINDING SUCCESSORS IN INTEREST. This Regulatory Agreement shall bind and the benefits shall inure to the Owner, its successors in interest and assigns, and to the Agency and its successors for the term of this Regulatory Agreement.

18. CONTRADICTORY AGREEMENTS. Except with the prior written approval of Agency, Owner warrants that it has not, and will not, execute any other agreement with provisions contradictory of or in opposition to, the provisions of this Regulatory Agreement, and that, in any event, the requirements of this Regulatory Agreement are paramount and controlling as to the rights and obligations set forth and supersede any other requirements in conflict with this Regulatory Agreement.

19. ATTORNEYS' FEES. If the services of any attorney are required by any party to secure the performance of this Regulatory Agreement or otherwise upon the breach of default of another party, or if any judicial remedy or mediation is necessary to enforce or interpret any provision of this Regulatory Agreement or the rights and duties of

any person in relation to this Regulatory Agreement, the prevailing party shall be entitled to reasonable attorneys' fees, costs and other expenses, in addition to any other relief to which such party may be entitled. Any award of damages following judicial remedy or arbitration as a result of this Regulatory Agreement or any of its provisions shall include an award of prejudgment interest from the date of the breach at the maximum amount of interest allowed by law. The prevailing party shall mean the party receiving an award in arbitration or a judgment in its favor, unless the award or judgment is less favorable than the best settlement offered in writing in a reasonable manner by the other party, in which case the prevailing party is the other party.

20. **SEVERABILITY.** The invalidity of any clause, part or provision of this Regulatory Agreement shall not affect the validity of the remaining portions.

21. **ELECTION OF REMEDIES.** To the extent applicable, in the event of any breach of the covenants, conditions and restrictions contained in this Regulatory Agreement, the Agency shall reasonably endeavor to remedy such breach by conference and conciliation. If, in the opinion of Agency, the Agency and Owner are unable mutually to agree upon a suitable remedy or the circumstances so warrant, such breach may be enjoined or abated by appropriate proceedings brought by the Agency.

Agency may institute or prosecute in its own name, any suit Agency may consider advisable in order to compel performance of any obligation of any owner to develop and maintain the subject property in conformity with this Regulatory Agreement and to remedy any default of this Regulatory Agreement. Agency may also seek a decree requiring removal of any improvements constructed on the Property which improvements are designed for uses not permitted under this Regulatory Agreement and which improvements are unsuitable only for uses not permitted under this Regulatory Agreement.

The remedies of the Agency under this Regulatory Agreement are cumulative, and the exercise of one or more of such remedies, including, without limitation, remedies under the Funding Agreement shall not be deemed an election of remedies and shall not preclude the exercise by the Agency of any one or more of its other remedies.

22. **NO WAIVER.** No waiver by the Agency of any breach of or default under this Regulatory Agreement shall be deemed to be a waiver of any other or subsequent breach or default.

23. **NOTICES.** Written notices and other written communications by and between the parties shall be addressed to the Owner at the Owner Address and to the Agency at the Agency Address or such other address as each respective party has designated by written notice to the other party. Agency shall give copies of notices required to be delivered to Owner to the following parties at the following addresses; provided, however that Owner acknowledges that such notice is an accommodation and the failure of the Agency to properly deliver any such notice shall not give rise to any claims or defenses of Owner or any third party:

Owner:

7th & H GP LLC, a California limited liability company
3129 Freeboard Drive, Suite 202
West Sacramento, CA 95691

With a copy to:

Wachovia Affordable Housing
Community Development Corporation
MAC D1053-170
301 South College Street
Charlotte, NC 28288

Attention: Director of Tax Credit Asset Management

John Simon, Esq.
Sidley Austin LLP
One South Dearborn
Chicago, IL 60603

And

Joel Hjelmaas, Esq.
Counsel
Wells Fargo Bank, N.A.
MAC x2401-06T
1 Home Campus, 6th floor
Des Moines, IA 50328-0001

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

OWNER : MERCY HOUSING CALIFORNIA 47, A CALIFORNIA LIMITED PARTNERSHIP

AGENCY: REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

By: RCHC GP LLC, a California limited liability company, its managing general partner
By: Rural California Housing Corporation, a California nonprofit public benefit corporation, its member/manager

By: _____
LaShelle Dozier, Executive Director

Approved as to form: _____
Agency Counsel

By: _____
Its: _____

By: By: 7th & H GP LLC, a California limited liability company, co-general partner
By: Mercy Housing Calwest, a California nonprofit public benefit corporation, member/manager

By: _____
Its: _____

Approved as to form: _____
Grantee Counsel

[NOTARIZED ACKNOWLEDGEMENTS]

Exhibit C
Annual Expenditure Limits

7th & H STREET PROJECT ANNUAL EXPENDITURE LIMITS

**Agency
Annual Expenditure Limit
Operating Deficit Reserve**

Amount	\$
Year 1	
Year 2	
Year 3	
Year 4	
Year 5	
Year 6	
Year 7	
Year 8	
Year 9	
Year 10	
Year 11	
Year 12	
Year 13	
Year 14	
Year 15	

Exhibit C

Exhibit D
Maximum Management Fees

7th & H Street PROJECT MAXIMUM MANAGEMENT FEES

	Annual Expenditure Limits Asset Management Fee	Annual Expenditure Limits Partnership Management Fee
Year 1		
Year 2		
Year 3		
Year 4		
Year 5		
Year 6		
Year 7		
Year 8		
Year 9		
Year 10		
Year 11		
Year 12		
Year 13		
Year 14		
Year 15		

Exhibit E
Operating Deficit Funding Agreement

OPERATING DEFICIT FUNDING AGREEMENT

THIS OPERATING DEFICIT FUNDING AGREEMENT ("Agreement") is made effective as of the ____ day of _____, 2011, by and among 7th & H GP LLC, a California limited liability company ("LLC"), Mercy Housing California 47, a California Limited Partnership ("Partnership") and the Redevelopment Agency of the City of Sacramento ("Agency").

RECITALS

A. The Partnership was formed for the purpose of owning and developing real property in Sacramento, California and operating 150 residential units thereon for low income households, including one manager's unit (the "Project"). LLC is a general partner of the Partnership.

B. Pursuant to the Conditional Grant Agreement for Capitalized Operating Reserve (Grant C) between the Agency and LLC ("Grant Agreement"), the Agency will grant to the LLC \$3,750,000 in funds that are earmarked to fund operating deficits of the Partnership (the "Operating Deficit Funds").

C. The Agency has consented to the LLC's contributing the Operating Deficit Funds to the Partnership to be held by the Partnership and to be used to fund certain operating deficits of the Partnership on the condition that the LLC, and the Partnership enter into this Agreement to specify the conditions under which the Partnership can access and use the Operating Deficit Funds.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

2. **Definitions.** Capitalized terms not otherwise defined herein shall have the meaning given to them in the Grant Agreement, and if not defined therein, then in the Limited Partnership Agreement of the Partnership of even date herewith (the "Partnership Agreement.")

2. **Use of Operating Deficit Funds.**

(A) In accordance with the provisions of Section 5 of the Grant Agreement and subject to the limitation in Section 4 below, beginning on January 1, 2013, for a term of 15 years, the Partnership is authorized to withdraw (the "Annual Withdrawal Amount") no more than once annually except as otherwise allowed under Section 6.2 of the Grant Agreement, the lesser of (i) an amount equal to the Operating Deficit for such year or (ii) the amount shown on Exhibit A attached hereto and incorporated herein by this reference plus the unused amount from any prior year(s) (collectively, the "Maximum Annual Amount").

(B) The Partnership agrees that use of the Operating Deficit Funds for Operating Deficits is subject to the approval of Agency. The Partnership shall submit to Agency each year with its annual operating budget the amount of Operating Deficit Funds it projects to need for the forthcoming fiscal year. The requirements of annual budget submittal to the Agency and the Agency's review of the budget shall be in accordance with the provisions of the Grant Agreement, including but not limited to Sections 6 and 11 of the Grant Agreement. Expenditures made pursuant to the budget approved in writing by the Agency as required under the Grant Agreement shall satisfy this requirement.

3. **Deposit of Operating Deficit Funds.** The Partnership shall deposit the Operating Deficit Funds in a segregated account in the Partnership's name, designated solely for the purpose of funding the Partnership's

Operating Deficits (the "Operating Reserve II"). The Operating Reserve II shall be in an interest bearing account and all interest earned on the Operating Deficit Funds shall be added to the Operating Deficit Funds. The Operating Reserve II shall be held in an account at a federally insured bank, including but not limited to Wells Fargo Bank, N.A.. The funds held in the Operating Reserve II shall be invested, as directed by the Partnership, only in the following investment instruments:

- a. direct obligations of the U.S. Government and U. S. federal agencies: Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Fannie Mae, Student Loan Marketing Association and Federal Farm Credit Bank;
- b. negotiable certificates of deposit; bankers acceptance, Yankee CDs; Eurodollars CDs or Eurodollar TDs with any U. S. Banks that have a combined capital and surplus of \$5 billion or greater and have a rating of A1/P1 (Aa or better underlying credit quality) and are rated at least a B/C with Thompson Bankwatch.

4. Limitation on Operating Deficit Funding Obligation, Term of Agreement. In accordance with Section 13 of the Grant Agreement, This Agreement shall terminate on December 31, 2028; provided, however, if any funds remain in Operating Reserve II as of that date, this Agreement shall be extended automatically annually until such funds have been disbursed in accordance with this Agreement. The Partnership specifically agrees that when all amounts in Operating Reserve II have been disbursed pursuant to the terms of this Agreement to pay for Operating Deficits, as such Operating Deficits are calculated as described in this Agreement, this Agreement shall terminate and no party shall have any further obligations hereunder.

5. Obligation Unconditional. The obligations of the Partnership under this Agreement shall be unconditional and absolute to the extent of its obligations under this Agreement. Without limiting the generality of the foregoing, the Partnership shall not be released, discharged or otherwise affected by:

(A) any change in the structure or ownership of the Partnership, any change in the partnership agreement of the Partnership or the obligations thereunder, or any insolvency, bankruptcy or similar proceeding affecting the Partnership, the general partners or their assets;

(B) the existence of any claim or set-off which the Partnership has against the Agency or the LLC, whether in connection with this Agreement or any unrelated transactions, provided that nothing in this agreement shall prevent the assertion of any claim by separate suit;

(C) any dispute between LLC or an Affiliate thereof, the Agency and/or the Partnership, any partner of the Partnership, or any of them;

(D) any transfer of the Project by foreclosure or deed in lieu of foreclosure.

6. Expenses of Enforcement. The Partnership agrees to pay or reimburse the Agency for all reasonable costs and expenses of the Agency (including reasonable attorneys' fees) in connection with the enforcement of this Agreement.

7. Representations and Warranties of the Partnership and the LLC. Each of the Partnership and the LLC represents and warrants as to itself that:

(A) it has full power and authority to execute, deliver and perform this Agreement and any instrument or agreement required under this Agreement, and to perform and observe the term and provisions of this Agreement;

(B) all action on its part necessary for the execution, delivery and performance of this Agreement and any instrument or document required under this Agreement has been duly taken;

(C) its agents and officers executing this Agreement and any instrument or agreement required under this Agreement are fully authorized to execute the same;

(D) this Agreement constitutes the valid and binding agreement enforceable against it in accordance with its terms;

(E) its obligations under this Agreement do not conflict with its obligations under any other agreement;

(F) neither the entry into nor the performance of, nor compliance with, this Agreement, or other documents executed concurrently herewith has resulted or will result in any violation of, or be in conflict with, or invalidate, cancel or make inoperative, or interfere with, or result in the creation of any lien, encumbrance or any other charge upon its property pursuant to, or constitute a default under, any charter, by law, partnership agreement, trust agreement, mortgage, deed of trust, indenture, contract, credit agreement, franchise, permit, judgment, decree, order, easement, restriction or other charge, right or interest applicable to it.

8. Representations and Warranties of the Agency. The Agency represents and warrants that the Operating Deficit Funds are not and will not be funded from a grant of federal funds pursuant to Section 42(d)(5)(a) of the Code.

9. Term. Notwithstanding anything to the contrary contained herein, this Agreement shall commence on the date set forth above and shall terminate with respect to obligations which accrue thereafter on the date on which all funds in Operating Reserve II have been disbursed pursuant to this Agreement.

10. Financial Reports. The Partnership shall provide the Agency with an annual audit pursuant to the requirements of Section 8 of the Grant Agreement which shall also show the current balance of Operating Reserve II as of the end of the Partnership's fiscal year and all withdrawals therefrom during that year, and any other reports and information required by Agency.

11. Default.

- c. Breach. Failure by the Partnership to submit any documents required under this Agreement's expenditure of Operating Deficit Funds in excess of the limits set forth in this Agreement, expenditure of funds for purposes other than for Operating Deficits, or failure by the Partnership to perform any other obligations under this Agreement shall be deemed a breach by the Partnership under this Agreement.
- d. Default. Upon occurrence of a breach, the Agency shall give notice of such breach to the Partnership and its limited partner and may, at its option require repayment of some or all of the Operating Deficit Funds conditional portion of the Operating Deficit Funds (as determined pursuant to the Grant Agreement) if such breach is not cured within thirty (30) days after notice thereof, or such longer period as needed if the Partnership has commenced the cure within thirty (30) days and is diligently pursuing the cure to completion. If such breach is not cured within such period, the Partnership shall be in default, and the Agency shall be entitled to all available remedies at law or in equity. A cure tendered by the Partnership's limited partner will be accepted on the same terms and conditions as if tendered by the Partnership.

Exhibit C

12. Applicable Law. This Agreement, and the application or interpretation in this Agreement, shall be governed by the laws of the State of California as applied to contracts between residents of California wholly to be performed within the State. The parties consent to the jurisdiction and venue of any federal or State court in Sacramento, California and also consent to service of process by any means authorized by California or federal law.

13. Modification. This Agreement may not be amended or modified in any respect whatsoever except by an instrument in writing signed by the parties.

14. Severability. If any provision of this Agreement is determined to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, to achieve the intent of the parties. In the event, all of the other provisions shall be deemed valid and enforceable to the greatest possible extent.

15. Headings. The headings used herein are for convenience of reference only and are not part of this Agreement and do not in any way limit or amplify the terms and provisions hereof.

16. Notices. Any notice or other communication required or permitted to be given under this Agreement shall be in writing and shall be personally delivered including but not limited to overnight delivery or deposited in the certified U.S. Mail, return receipt requested, first class and postage prepaid, addressed to each party at the following addresses or such other address as may be designated by a notice pursuant to this Section:

LLC:	7 th & H GP LLC 3120 Freeboard Drive West Sacramento, CA 95691
Partnership:	Mercy Housing California 47 3120 Freeboard Drive West Sacramento, CA 95691
With a copy to Limited Partner:	Wachovia Affordable Housing Community Development Corporation MAC D1053-170 301 South College Street Charlotte, NC 28288 Attention: Director of Tax Credit Michael Loose: Asset Management
	John Simon, Esq. Sidley Austin LLP One South Dearborn Chicago, IL 60603
And	Joel Hjelmaas, Esq. Counsel Wells Fargo Bank, N.A. MAC x2401-06T 1 Home Campus, 6 th floor Des Moines, IA 50328-0001
Agency:	Redevelopment Agency of the City of Sacramento 801 12 th Street Sacramento, CA 95814

Exhibit C

Any notice provided in accordance with this Section shall be deemed to have been given on the delivery date or the date that delivery is refused by the addressee, as shown on the return receipt.

17. Successors and Assigns. This Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and permitted assigns.

18. Third Party Beneficiary. The Partnership and LLC hereby agree and acknowledge that the Limited Partner and the Agency are an intended third-party beneficiaries of this Agreement and shall have the right to enforce and rely on this Agreement.

19. No Modification. This Agreement may not be amended, modified or terminated except (a) by a writing signed by the parties hereto and (b) with the written consent of Wachovia Affordable Housing Community Development Corporation or any other limited partner of the Partnership.

20. Conflict. In the event of a conflict between the terms of this Agreement and the terms of the Grant Agreement, the Grant Agreement shall prevail.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

<p>PARTNERSHIP: MERCY HOUSING CALIFORNIA 47, a California Limited Partnership</p> <p>By: RCHC GP LLC, a California limited liability company, its managing general partner</p> <p>By: Rural California Housing Corporation, a California nonprofit public benefit corporation, member/manager</p> <p>By: _____</p> <p>Its: _____</p> <p>By: 7th & H GP LLC, a California limited liability company, its co-general partner</p> <p>By: Mercy Housing Calwest, a California nonprofit public benefit corporation, its managing member</p> <p>By: _____</p> <p>Its: _____</p>	<p>LLC: 7th & H GP LLC, a California limited liability company</p> <p>By: Mercy Housing Calwest, a California nonprofit public benefit corporation, its managing member</p> <p>By: _____</p> <p>Its: _____</p>
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REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

By: _____
LaShelle Dozier, Executive Director

Approved as to form: _____
Agency Counsel

Exhibit F
Funding Requirements

TI FUNDING REQUIREMENTS FOR RENTAL HOUSING
LOW AND MODERATE INCOME HOUSING FUND

These "TI Funding Requirements" are attached to a Regulatory Agreement, and are incorporated in that Regulatory Agreement. In turn, the Regulatory Agreement is incorporated in the financing document that is described in the Regulatory Agreement. [The capitalized terms used shall have the meanings below. Terms being defined are indicated by quotation marks. Capitalized terms in these TI Funding Requirements that are not defined below are defined in the Regulatory Agreement and in such financing document.]

1. **RECITALS.** Agency is a redevelopment agency organized and operating under the California Redevelopment Law (commencing at Health & Safety Code Section 33000). The Agency Funding is funded by the Agency with proceeds of the Low and Moderate Income Housing Fund (as defined in Health & Safety Code Section 33334.3) and made in accordance with the Aggregation of Agency Funding that occurred pursuant to Resolution 2009-57 adopted by the Redevelopment of the City of Sacramento or Resolution 0896 adopted by the County of Sacramento Redevelopment Area in accordance with Health and Safety Code Sections 33334.2(g) and 33413, the provisions of the redevelopment plans for the Agency's Project Areas ("Redevelopment Plans"), and the California Redevelopment Law. The Agency has approved the Agency Funding on condition that the property securing the Agency Funding ("Property") is rehabilitated or developed as residential rental property ("Project") with certain units regulated in accordance with Health & Safety Code Section 33487 ("TI Restricted Units") by recordation of these TI Funding Restrictions as covenants running with the land, in accordance with Health & Safety Code Section 33334.3(f). TI Restricted Units are made affordable by such regulation to persons and households that qualify as moderate-income, low-income or very low-income as indicated in Article I of the Regulatory Agreement. The development of the Project will benefit the Project Areas because the Project will provide housing for persons who work within the Project Areas.

2. **AFFORDABILITY REQUIREMENTS.** Owner shall assure that the TI Restricted Units shall be rented or sold at or below the following rates to households whose incomes are at or below the respective income limits for the rental rate:
 - a. Moderate-Income TI Restricted Units shall be rented for amounts that do not exceed payments of thirty percent (30%) of one hundred and ten percent (110%) of the Sacramento Metropolitan Statistical Area median income ("Median Income"), as determined annually by the federal Department of Housing and Urban Development, as adjusted for family size appropriate to the size and number of bedrooms in the respective TI Restricted Unit.
 - b. Low-Income TI Restricted Units shall be rented for amounts that do not exceed payments of thirty percent (30%) of sixty percent (60%) of the Median Income as adjusted for family size appropriate to the size and number of bedrooms in the respective TI Restricted Unit.
 - c. Very Low-Income TI Restricted Units shall be rented for amounts that do not exceed payments of thirty percent (30%) of fifty percent (50%) of the Median Income as adjusted for family size appropriate to the size and number of bedrooms in the respective TI Restricted Unit.
 - d. Owner shall be responsible to determine the affordable amounts for the TI Restricted Units. Within ten (10) days of Owner request, Agency shall provide all information necessary for Owner to compute such affordable rents and will assist Owner in determining such amounts.

3. **TERM.** These covenants shall burden and regulate the TI Restricted Units for a term of fifty-five (55) years, unless a longer term is specified in the body of the document to which this attached.

TAX INCREMENT FUNDING REQUIREMENTS FOR COMMERCIAL REDEVELOPMENT

These “TI Funding Requirements” are incorporated in the “Regulatory Agreement” to which they are attached. In turn, the Regulatory Agreement is incorporated in the Funding Agreement referenced in the Regulatory Agreement. Pursuant to the Funding Agreement, the Regulatory Agreement (with these TI Funding Requirements) is recorded against the properties assisted with the “Agency Funding” provided under the Funding Agreement. [The capitalized terms used in these TI Funding Requirements shall have the meanings stated below. Terms being defined are indicated by quotation marks. Capitalized terms that are not defined in these TI Funding Requirements are defined in the Regulatory Agreement.]

1. RECITALS. Agency is a redevelopment agency organized and operating under the California Community Redevelopment Law (commencing at Health & Safety Code Section 33000).

a. Agency has provided the “Agency Funding” from redevelopment tax increment (as defined in the California Constitution Article XIII, Section 16, and further defined in Health & Safety Code Section 33670) for the “Project Area” named in the Regulatory Agreement and Funding Agreement. The Agency Funding is subject to the provisions of the redevelopment plan for the Project Area and the California Community Redevelopment Law.

b. The Project is being developed on the Property which is in the Redevelopment Plan for the Project Area named in the Agency Funding Agreement. Agency has approved the Agency Funding on condition that the “Property” named in the Agency Funding Agreement is rehabilitated or developed as the Project, defined in the Agency Funding Agreement and operated and maintained in accordance with the Redevelopment Plan, which regulation is accomplished by recordation of this Regulatory Agreement with these TI Funding Requirements as covenants running with the land.

2. TERM. These covenants shall burden and regulate the Property for the term of the Redevelopment Plan, but in any event, not less than thirty (30) years from the date of recordation, excepting the covenant against discrimination, which shall run in perpetuity.

3. USE. The Property shall be used solely for the Approved Uses and shall not be used for the Disapproved Uses.

4. ANTI-DISCRIMINATION. The Owner covenants by and for himself or herself, his or her heirs, executors, administrators, and assigns and all persons claiming under or through them that there shall be no discrimination against or segregation of, any person or group of persons on account of race, color, religion, creed, sex, marital status, national origin, ancestry, familial status, or disability in the sale, lease, sublease, transfer, use, occupancy, tenure, or enjoyment of the Property or any portion of it, nor shall the Owner or any person claiming under or through him or her, establish or permit any such practice or practices of discrimination or segregation with reference to the location, number, use or occupancy of tenants, lessees, subtenants, sublessees, or vendees in the Property. This covenant against discrimination shall run in perpetuity.

5. PLAN COMPLIANCE. Owner shall comply, in all respects, with the Redevelopment Plan.



EXHIBIT D
WACHOVIA RIDER

RIDER TO (A) CONSTRUCTION AND PERMANENT LOAN AGREEMENT MADE BETWEEN THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO (THE "AGENCY") AND MERCY HOUSING CALIFORNIA 47, A CALIFORNIA LIMITED PARTNERSHIP (THE "BORROWER"), (B) CONDITIONAL GRANT AGREEMENT FOR CAPITAL BETWEEN AGENCY AND BORROWER, AND (C) CONDITIONAL GRANT AGREEMENT FOR CAPITALIZED OPERATING RESERVE BETWEEN AGENCY AND BORROWER, EACH CONCERNING PROPERTY LOCATED IN SACRAMENTO, CA (THE "PROJECT")

Notwithstanding anything to the contrary set forth in any one or more of the documents referenced above or any document evidencing, securing, or otherwise pertaining to loans or grants from the Agency to the Borrower regarding the Project, (the "Agency Documents") the Agency makes the covenants and representations set forth in this Rider.

The Agency will give will give Wachovia (the "Limited Partner") a copy of any written notice it gives to the Borrower under any Agency Document, at the following address:

Wachovia Affordable Housing
Community Development Corporation
MAC D1053-170
301 South College Street
Charlotte, NC 28288
Attention: Director of Tax Credit Asset Management

Any such default notice that is not so delivered to Limited Partner shall not be effective or binding with regard to Limited Partner or otherwise affect Lender, but failure to deliver such default notice to Limited Partner shall not effect its validity with respect to Borrower. The Agency will give the Limited Partner thirty (30) days after the Limited Partner's receipt of such notice to cure any default under the Agency Documents.

If a default is incapable of being cured within thirty (30) days, the Agency will give the Limited Partner, provided it has commenced to cure such default within thirty (30) days and diligently proceeds to cure such default, such additional time as is reasonably necessary to cure such default, but not in excess of an additional 150 days beyond the initial thirty (30) day period.

If the Limited Partner makes cures a default, the Agency will accept such action as curing the respective default under the Agency Documents.

Limited Partner is intended to be a direct beneficiary of the covenants set forth in this Rider and shall be entitled to bring an action to enforce the same independent of any rights of the Borrower.