



BOARD OF SUPERVISORS  
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors  
105 E. Anapamu Street, Suite 407  
Santa Barbara, CA 93101  
(805) 568-2240

Department Name: County Executive Office  
Department No.: 990  
For Agenda Of: 9/23/08  
Placement: Administrative  
Estimated Tme:  
Continued Item: No  
If Yes, date from:  
Vote Required: Majority

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**TO:** Board of Directors, Redevelopment Agency  
**FROM:** Department Michael Brown, Executive Director, Redevelopment Agency  
Director  
Contact Info: John Baker, Assistant County Executive Officer  
Jamie Goldstein, Deputy Director, Redevelopment Agency (x 8050)  
**SUBJECT:** Redevelopment Agency Affordable Housing Loan, Parkview Apartments, Project  
Sponsor - Housing Authority of the County of Santa Barbara

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**County Counsel Concurrence**

As to form: Yes

**Auditor-Controller Concurrence**

As to form: Yes

**Other Concurrence:** Risk Management

As to form: Yes

**Recommended Actions:**

That the Board of Directors:

1. Approve and authorize the Chair to execute a permanent financing loan agreement with Parkview Isla Vista, L.P., a limited partnership formed by the Housing Authority of the County of Santa Barbara (Housing Authority), in the amount of \$\$3,263,557, and a regulatory agreement for the renovated 20-unit Parkview Apartments, located at 6682/6688 Picasso in Isla Vista, consistent with the terms and conditions detailed in this Board Letter and attachments. (Attachments A and B)
2. Find that the actions discussed above are exempt from CEQA pursuant to Cal. Code of Regs., Title 14, Section 15301, as the project consists of the financing and regulation of an existing facility, and direct the Clerk of the Board to post the Notice of Exemption (Attachment C).

**Summary: Parkview Permanent Financing**

Parkview Apartments is a 20-unit newly rehabilitated affordable housing development in the Isla Vista Redevelopment Project Area. The project, which consists of two 10-unit buildings, was acquired by the Housing Authority in June of 2007 using a three-year \$3.76 million loan from the Redevelopment Agency Low/Moderate Income Fund. Since that time, the Housing Authority obtained Federal Tax Credits and used those funds to rehabilitate the buildings. The tax credit funds, as well as other funding sources, allow the Agency to reduce its overall project contribution to \$3,263,557. The final project budget is as follows:

Tax credit funding	\$1,082,553
Housing Authority tax exempt bonds	\$1,100,000
Loan from Housing Authority reserves	\$1,200,000
Proposed Agency L/M Fund loan	<u>\$3,263,557</u>
<b>Total</b>	<b>\$6,646,110</b>

The original three year loan will be completely repaid at the time the proposed permanent Agency loan is funded. The \$3,263,557 loan will be provided from the Agency’s Low/Moderate Income Housing Fund. Monies in this fund can only be used for the preservation, development and maintenance of affordable housing. The funds will be provided to the Housing Authority in the form of a residual-receipts loan, at 3% simple interest, with a 55-year term.

**Background:**

Located in the unincorporated community of Isla Vista, the Parkview Apartments Project provides 20 newly-renovated units of affordable housing consisting of one and two-bedroom apartment units. The Project is owned by a partnership managed by the Parkview Isla Vista LP, a California Limited Partnership formed by the Housing Authority as part of the Federal Tax Credit Program. The Federal Tax Credit syndicate serves as the General Partner, while the Housing Authority manages the limited partnership as the project developer, and the operations and management entity.

The total acquisition, and rehabilitation costs of the Parkview Apartments is \$6,646,110. In addition to the Agency funding, the project financing is comprised of Housing Authority funding, tax exempt bonds, and federal tax credits.

**Performance Measure:**

Safe and Healthy Families: Housing for all Segments of the Population.

**Fiscal and Facilities Impacts:**

Budgeted: Yes

**Fiscal Analysis:**

<b><u>Funding Sources</u></b>	<b><u>Current FY Cost:</u></b>	<b><u>Annualized On-going Cost:</u></b>	<b><u>Total One-Time Project Cost</u></b>
Redevelopment Agency Low/Moderate Income Fund			\$3,263,557
Total	\$ -	\$ -	\$ 3,263,557

The adopted Redevelopment Agency FY 2008-2009 Low/Moderate Income Budget includes funding necessary to finance this project.

**Staffing Impacts:**

**Legal Positions:**  
 n/a

**FTEs:**  
 n/a

**Special Instructions:**

Execute three original copies of the Loan Agreement and two original copies of the Regulatory Agreement

Contact Jamie Goldstein at x 8050 to pick up two original copies of the executed Loan Agreement, and one original copy of the Regulatory Agreement.

**Attachments:**

- Attachment A: Loan Agreement in the amount of \$3,263,557 between Santa Barbara County and Parkview Isla Vista, L.P.
- Attachment B: Regulatory Agreement for Parkview Apartments
- Attachment C: Notice of CEQA Exemption

**Authored by:**

Goldstein

ATTACHMENT A

**LOAN AGREEMENT  
(\$3,263,557)**

**Between**

**Redevelopment Agency of  
The County of Santa Barbara**

**and**

**Parkview Isla Vista, L.P., a California Limited  
Partnership**

**LOAN AGREEMENT  
(PARKVIEW ISLA VISTA, L.P.)**

This Loan Agreement is made as of this 28<sup>th</sup> day of October, 2008, by and between Redevelopment Agency of the County of Santa Barbara, a public body corporate and politic ("Lender"), and Parkview Isla Vista, L.P., a California limited partnership ("Borrower").

**RECITALS**

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

B. Pursuant to authority granted under the California Community Redevelopment Law, the Lender is charged with administration and enforcement of the Redevelopment Plan for the Isla Vista Project Area adopted by the Board of Supervisors of the County of Santa Barbara by Ordinance No. 3894 on November 27, 1990 (the "Plan"). The Plan affects and controls the development and use of all real property located within the Isla Vista Redevelopment Project Area (the "Project Area"). The area which is the subject of this Agreement is within the Project Area. This Agreement is subject to the terms and conditions of the Plan.

C. Lender wishes to promote the development of more affordable rental housing in neighborhoods in need of revitalization in Santa Barbara County community and provide a greater choice of housing opportunities for persons and families of low income.

D. Borrower has acquired a property two (2) adjacent residential buildings located at 6682 and 6688 Parkview Avenue in the community of Isla Vista in Santa Barbara County, California, as more particularly described in Exhibit A ("Property"). Each building contains six (6) two-bedroom units and four (4) one-bedroom units for a total of ten (10) residential units in each building.

E. Lender previously entered into a loan agreement with the Housing Authority of the County of Santa Barbara ("Housing Authority") dated as of June 14, 2007 in the amount of Three Million Seven Hundred Sixty Thousand Dollars (\$3,760,000) for the acquisition of the Property (the "Prior Loan").

F. Borrower has assumed the Prior Loan from the Housing Authority pursuant to that certain Assignment and Assumption of Loan, dated as of February 28, 2008, by and among Borrower, Lender and the Housing Authority. --

G. Borrower has paid a portion of the principal of the Prior Loan in the amount of One Million Forty Six Thousand Two Hundred Eighty Eight Dollars (\$1,046,288). Borrower shall pay all of the outstanding interest of the Prior Loan to Lender at the time of funding of this Loan. Borrower shall replace the remainder of the principal of the Prior Loan in the amount of Two Million Seven Hundred Thirteen Thousand Seven Hundred Twelve Dollars (\$2,713,712)

along with additional funds from the Lender in the amount of Five Hundred Forty Nine Thousand Eight Hundred Forty Five Dollars (\$549,845) as permanent financing subject to this Loan Agreement.

H. Housing Authority shall concurrently lend to Borrower an amount equal to One Million Two Hundred Thousand Dollars (\$1,200,000) as permanent financing (“Housing Authority Loan”).

NOW THEREFORE, IN CONSIDERATION of the mutual agreements, obligations, and representations, and in further consideration for the making of the Loan, Borrower and Lender hereby agree as follows:

### ARTICLE 1 DEFINITIONS

The following terms have the meanings and content set forth in this section wherever used in this Loan Agreement, attached Exhibits, or documents incorporated into this Loan Agreement by reference.

1.1 **“ANNUAL FINANCIAL STATEMENT”** means the financial statement of Operating Expenses and Revenues, prepared at Borrower’s expense, by an independent certified accountant reasonably acceptable to Lender, which shall form the basis for determining Residual Receipts.

1.2 **“ASSISTED UNIT”** means all of the units on the Property, except the one unit that is reserved as a manager’s unit.

1.3 **"BORROWER"** is Parkview Isla Vista, L.P., a California limited partnership and its authorized representatives, assigns, transferees, or successors-in-interest thereto.

1.4 **"COUNTY"** means the County of Santa Barbara, political subdivision of the State of California.

1.5 **"DEED OF TRUST"** is that deed of trust, assignment of rents, and security agreement placed on the Property and improvements constructed thereon as security for the Loan by Borrower as trustor with Lender as beneficiary, as well as any amendments to, modifications of, and restatements of said deed of trust, attached hereto as Exhibit B. The terms of the Deed of Trust have been incorporated into this Loan Agreement.

1.6 **"ESCROW HOLDER"** means the person or entity designated by the Borrower and approved by Lender to hold all Loan proceeds and documents until receiving written instructions to record the documents and disburse the funds.

1.7 **"HAZARDOUS MATERIALS"** means any hazardous or toxic substances, materials, wastes, pollutants, or contaminants which are defined, regulated, or listed as "hazardous substances," "hazardous wastes," "hazardous materials," "pollutants," "contaminants," or "toxic substances," under federal or state environmental and health and safety

laws and regulations, including without limitation petroleum and petroleum byproducts, flammable explosives, urea formaldehyde insulation, radioactive materials, asbestos, and lead. Hazardous Materials do not include substances that are used or consumed in the normal course of developing, operating, or occupying a housing project, to the extent and degree that such substances are stored, used, and disposed of in the manner and in amounts that are consistent with normal practice and legal standards at the time of such use.

1.8 **"HUD"** means the United States Department of Housing and Urban Development.

1.9 **"LENDER"** means the Redevelopment Agency of the County of Santa Barbara, a public body corporate and politic and its authorized representatives, officers, officials, directors, employees, and agents.

1.10 **"LOAN"** means the loan in the amount of Three Million Two Hundred Sixty Three Thousand Five Hundred Fifty Seven Dollars (\$3,263,557) from the Lender to the Borrower which includes the portion of the Prior Loan in the amount of Two Million Seven Hundred Thirteen Thousand Seven Hundred Twelve Dollars (\$2,713,712) which is being consolidated into this Loan along with additional funds from the Lender in the amount of Five Hundred Forty Nine Thousand Eight Hundred Forty Five Dollars (\$549,845), all as provided in this Loan Agreement for permanent financing for the Project.

1.11 **"LOAN AGREEMENT"** means this loan agreement entered into between Lender and Borrower regarding the Loan.

1.12 **"LOAN DOCUMENTS"** are collectively the Loan Agreement, the Note, the Deed of Trust, and the Regulatory Agreement, as they may be amended, modified, or restated from time to time, along with all exhibits and attachments to these documents.

1.13 **"MANAGEMENT PLAN"** means Borrower's plan for the operation of the Project and is attached hereto as Exhibit E and incorporated by reference.

1.14 **"MARKETING PLAN"** means the Borrower's plan for affirmatively marketing the Project according to HUD guidance and is attached as Exhibit F and incorporated by reference.

1.15 **"MEDIAN INCOME"** means the median income for the Santa Barbara/Santa Maria/ Lompoc Primary Metropolitan Statistical Area as determined by HUD with adjustments for household size.

1.16 **"NOTE"** means the promissory note executed by the Borrower in favor of Lender in the amount of Three Million Two Hundred Sixty Three Thousand Five Hundred Fifty Seven Dollars (\$3,263,557) to evidence the Loan as well as any amendments to, modifications of, or restatements of said promissory note, in the form attached hereto as Exhibit C.

1.17 **"OPERATING EXPENSES"** shall mean, actual, reasonable and customary costs, fees and expenses directly attributable to the operation, maintenance, and management of the Project, including painting, cleaning, repairs and alterations, landscaping, utilities, rubbish removal, certificates, permits and licenses, sewer charges, real and personal property taxes and assessments, insurance, property management fee, security, advertising, promotion and publicity, office, janitorial, cleaning and building supplies, lease payments if any, cash deposited into reserves for capital replacements with respect to the Project in an amount not to exceed reserve requirements reasonably imposed by any lender, cash deposited into an operating reserve in an amount not to exceed the amount reasonably required by any lender, purchase, repair, servicing and installation of appliances, equipment, fixtures and furnishings, fees and expenses of accountants, attorneys, consultants and other professionals, and any required debt service under the senior loan from the Pacific Capital Bank, N.A. doing business as Santa Barbara Bank & Trust. Operating Expenses may include the payment by Borrower of a partnership management fee of Fifteen Thousand Dollars (\$15,000) (increasing annually by three percent (3%) per annum) and an asset management fee of Five Thousand Dollars (\$5,000) (increasing annually by three percent (3%) per annum commencing upon January 1, 2010) over the term of the Borrower's Agreement of Limited Partnership, as amended. Operating Expenses also include payment of a development fee in accordance with the Borrower's Agreement of Limited Partnership, as amended, in an amount not to exceed Three Hundred Thirty Two Thousand Three Hundred Ninety Eight Dollars (\$332,398). The Operating Expenses shall be reported in the Annual Financial Statement.

1.18 **"PAYMENT DATE"** shall mean May 1, 2010 and each May 1<sup>st</sup> thereafter until the Loan is paid in full or otherwise terminated.

1.19 **"PRIOR LOAN"** shall mean the prior loan in the amount of Three Million Seven Hundred and Sixty Thousand Dollars (\$3,760,000) from the Lender for the acquisition of the Property as described in Recitals E and F.

1.20 **"PRIOR LOAN AGREEMENT"** shall mean that certain loan agreement regarding the Prior Loan executed as of June 14, 2007. Borrower has paid a portion of the principal of the Prior Loan in the amount of One Million Forty Six Thousand Two Hundred Eighty Eight Dollars (\$1,046,288). Borrower shall pay all outstanding interest on the Prior Loan upon the funding of this Loan. The remaining principal of the Prior Loan in the amount of Two Million Seven Hundred Thirteen Thousand Seven Hundred Twelve Dollars (\$2,713,712), shall be consolidated into this Loan. The Prior Loan Agreement shall be replaced and superseded in its entirety by this Loan Agreement.

1.21 **"PROJECT"** means the operation and management of the Property according to the terms of this Loan Agreement. --

1.22 **"PROPERTY"** is located at 6682 and 6688 Parkview Avenue in the community of Isla Vista in Santa Barbara County, California, as more particularly described in Exhibit A, which is incorporated into this Loan Agreement by this reference.

1.23 **"QUALIFYING HOUSEHOLD"** means a household whose annual income does not exceed sixty percent (60%) of the median income for the Santa Barbara/Santa Maria/Lompoc Primary Metropolitan Statistical Area as determined by HUD with adjustments for household size.

1.24 **"QUALIFYING RENT"** means the total annual charges for rent, utilities, and related services to each Qualifying Household which shall not exceed thirty percent (30%) of sixty percent (60%) of median income for the Santa Barbara/Santa Maria/Lompoc Primary Metropolitan Statistical Area as determined by HUD with adjustments for household size.

1.25 **"REGULATORY AGREEMENT"** means the agreement executed by Borrower and Lender, attached as Exhibit D, and recorded against the Property prior to or contemporaneously with the Loan which regulates the units in the Project.

1.26 **"RESIDUAL RECEIPTS"** means for any calendar year Revenues minus Operating Expenses.

1.27 **"REVENUE"** means all income derived from the Project, including but not limited to rent from the units and income from laundry operations.

## ARTICLE 2 TERMS OF THE LOAN

2.1 **LOAN.** On and subject to the terms and conditions of the Loan Documents, Lender agrees to make and Borrower agrees to accept a loan with the following terms:

2.2 **AMOUNT.** The principal amount of the Loan shall be an amount not to exceed Three Million Two Hundred Sixty Three Thousand Five Hundred Fifty Seven Dollars (\$3,263,557) and shall be evidenced by the Note.

2.3 **INTEREST.** Subject to the provisions of Section 2.4, the Note shall bear simple interest at a rate of three percent (3%) per annum from the date on which the principal amount of the Loan is initially advanced to Borrower through year fifty-five (55) of the loan term.

2.4 **DEFAULT INTEREST.** In the Event of a Default (as defined in Section 8.1) by Borrower of any of its obligations under this Loan Agreement and expiration of applicable cure periods (as described in Section 8.2), Borrower shall pay to Lender interest on the outstanding principal of the Loan, at an annual rate equal to the lesser of (i) ten percent (10%) or (ii) the highest interest allowed by law, from the date of the default until the date that the default is cured or the Loan is repaid in full.

2.5 **TERM OF LOAN.** The principal and all current and accrued interest of the Loan shall be due and payable on the earlier of: (a) fifty-five (55) years from the date of the Note, or (b) the date the Property is sold or otherwise transferred or (c) an Event of Default by Borrower which has not been cured as provided for in this Loan Agreement. In the Event of Default by Borrower, which has not been cured as provided for in this Loan Agreement, all current and accrued interest shall be due and payable.

2.7 **USE OF FUNDS.** Loan proceeds may be used only for the purpose of providing permanent financing for the costs related to the operation and management of the Property.

2.8 **SECURITY.** Borrower shall secure its obligation to repay the Loan by executing a Deed of Trust, in substantially the form attached hereto as Exhibit B and recording it as a lien against the Property.

2.9 **REPAYMENT OF THE LOAN.** All accrued interest and principal shall be due and payable fifty-five (55) years from the date of the Note. Payments shall commence on the May 1, 2010 and continue on each May 1<sup>st</sup> thereafter. Borrower shall make annual payments on the Loan from Residual Receipts as that term is defined in the Note. On or before each Payment Date the Borrower shall submit the Annual Financial Statement to Lender for the preceding calendar year. Lender shall review and approve such statement, or request revisions, within sixty (60) days of receipt. In the event Lender fails to approve or disapprove the Annual Financial Statement within the sixty (60) day period, Borrower may request a written determination of approval or disapproval following the expiration of such period. In the event Lender fails to provide a written determination to Borrower within ten (10) days following the receipt of Borrower's request for determination, the Annual Financial Statement shall be deemed approved. In the event that Lender determines that there is an understatement in the amount and payment of Residual Receipts due to Lender, Borrower shall promptly pay to Lender such understatement, but in any event, within twenty (20) days of notice of such understatement. In the event that Lender determines that there is an overpayment in the amount and payment of Residual Receipts due to Lender, Lender shall promptly pay to Borrower the amount of overpayment, but in any event, within twenty (20) days of such determination. If contested, Borrower has the right to pay under protest.

Once the amount of Residual Receipts has been finally determined, (i) fifty percent (50%) of the Residual Receipts shall be paid towards the Loan, (ii) twenty (20%) of the Residual Receipts shall be paid towards the Housing Authority Loan in accordance with the California Department of Housing and Community Development Multifamily Housing Regulations and (iii) thirty percent (30%) of the Residual Receipts shall be paid to Borrower's general partner Surf Affordable Housing Enterprises, Inc. who shall use such proceeds exclusively for the development of affordable housing in the Isla Vista Redevelopment Project Area. Any payments made by Borrower under this Agreement pursuant to this Section shall be applied first to pay current annual interest due, if any, then the cumulative interest owed, if any, then to reduce the principal amount of the Loan. In any event all principal owed and all current and accrued interest of the Loan shall be due and payable as provided in Section 2.5 above.

2.10. **PREPAYMENT OF LOAN.** No prepayment penalty will be charged to Borrower for payment of all or any portion of the Loan amount prior to the end of the term described herein. However, prepayment of the Loan shall not affect Borrower's obligations under the Regulatory Agreement.

2.11 **ANNUAL OPERATING EXPENSES.** Thirty (30) days prior to end of the calendar year, Borrower shall submit to Lender, for Lender's approval, a proposed operating

budget for the Project, for the following calendar year. The proposed operating budget shall include scheduled payments to be made into operating and reserve accounts. If the amount of the proposed budget for the following calendar year does not exceed the budget for the prior calendar year by greater than five percent (5%) (or any one line item has not increased by greater than ten percent (10%)), the proposed budget shall be approved by Lender. Only Operating Expenses incurred by Borrower which do not exceed one hundred twenty percent (120%) of the amount approved by Lender in the approved operating budget may be used in the calculation of Residual Receipts without Lender's prior written consent.

2.12 **SUBORDINATION OF LOAN.** This Loan is in second (2<sup>nd</sup>) position on the Property, subordinate only to the deed of trust securing a loan from Pacific Capital Bank, N.A. doing business as Santa Barbara Bank & Trust in the principal amount not to exceed One Million Two Hundred Thousand Dollars (\$1,200,000).

2.13 **RECORDING.** Upon closing date, Escrow Holder shall record the Deed of Trust and the Regulatory Agreement with the Recorder for the County of Santa Barbara, and shall deliver conformed copies of the recorded documents to the Lender and Borrower.

2.14 **REPLACEMENT RESERVE FUND.** Borrower shall fund a replacement reserve in the amount of not less than \$300 per unit per year.

2.15 **TERMINATION OF PRIOR LOAN AGREEMENT.** Borrower and Lender hereby agree that upon the execution of this Agreement by all parties, the Prior Loan Agreement shall be automatically terminated and superseded by this Agreement.

### **ARTICLE 3 LOAN DISBURSEMENT**

3.1 **CONDITIONS PRECEDENT TO DISBURSEMENT.** Lender shall not be obligated to make any disbursements of the Loan proceeds or take any other action under the Loan Documents unless the following conditions precedent are satisfied prior to the disbursement of the Loan:

A. There exists no Event of Default nor any act, failure, omission or condition that with the giving of notice or passage of time would constitute an Event of Default;

B. Borrower has executed and delivered to Lender all documents, instruments, and policies required under the Loan Documents, including but not limited to an ALTA Lender's policy of title insurance from a title insurance company approved by the Lender in a form reasonably acceptable to Lender; --

C. Borrower has submitted and the Lender has approved an appraisal for the Property;

D. Borrower has provided to Lender a certificate of insurance or copy of the insurance policy, which policy shall be satisfactory to the Lender;

F. Lender has reviewed and approved Management Plan;

G. Borrower has complied with all reporting requirements set forth in this Loan Agreement;

H. If applicable, Lender has reviewed and approved completed Relocation files pertaining to the Property in accordance with the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended by the Uniform Relocation Act Amendments of 1987; and

I. Borrower has complied with all California Relocation Assistance Act of 1970 (CA Gov't Code Sec 7260 et seq.) requirements, as applicable.

J. Borrower has been issued a Certificate of Occupancy for the Project.

3.2 **DISBURSEMENT OF LOAN PROCEEDS.** Disbursement of Loan proceeds shall not exceed Three Million Two Hundred Sixty Three Thousand Five Hundred Fifty Seven Dollars (\$3,263,557). The Loan proceeds shall include the portion of the Prior Loan in the amount of Two Million Seven Hundred Thirteen Thousand Seven Hundred Twelve Dollars (\$2,713,712) which is being consolidated into this Loan, and the additional funds from the Lender in the amount of Five Hundred Forty Nine Thousand Eight Hundred Forty Five Dollars (\$549,845). All proceeds from this Loan shall be disbursed to Borrower upon the date of the Note.

3.3 **RECONVEYANCE OF PRIOR LOAN.** Concurrent with close of escrow, Borrower shall receive a reconveyance of the deed of trust recorded in relation to the Prior Loan Agreement and recorded in the Official Records of Santa Barbara County as Document Number 2007-0043943. The regulatory agreement executed by the Housing Authority for the benefit of Lender and recorded in the Official Records of Santa Barbara County as document Number 2007-0043944 shall be superseded and replaced by the Regulatory Agreement attached hereto as Exhibit D.

#### ARTICLE 4

THIS ARTICLE 4 INTENTIONALLY LEFT BLANK

#### ARTICLE 5 OPERATION

5.1 **OPERATION OF PROJECT.** Borrower shall operate and manage the Project in full conformance with the terms of the Regulatory Agreement.

Borrower shall agree to maintain and operate the Assisted Units so as to provide decent, safe, and sanitary housing and provide the Assisted Units. Optional services provided must be available to all residents under the same terms and conditions.

Borrower agrees that during the term of the Regulatory Agreement, Lender shall have the right to review, approve and request material changes to the Management Plan, operation of the building and property management entity, in order to preserve the affordability, physical appearance and condition of the Project. Any changes not disapproved by Lender within sixty (60) days after receipt of such changes shall be deemed approved.

5.2 **DESIGNATED ASSISTED UNITS.** All of the residential units of the Project shall be Assisted Units.

5.3 **AFFIRMATIVE MARKETING PLAN.** Borrower shall comply with its Marketing Plan, attached hereto and incorporated by reference as Exhibit F hereto for marketing the Assisted Units, including information on affirmative marketing efforts and compliance with fair housing laws and the Lender's affirmative fair housing marketing guidelines.

5.4 **MANAGEMENT PLAN.** Before leasing or operating any portion of the Project, Borrower shall submit its proposed form of Management Plan, attached hereto as Exhibit E and incorporated herein by this reference, and management contract for the on-going management and operation of the Project for Lender's review and approval.

5.5 **LEASING THE PROJECT.** Before leasing any portion of the Project, Borrower shall submit its proposed form of lease for Lender's review and approval. The term of the Lease shall be for no less than one year and shall not contain any provision which is prohibited by 24 C.F.R. Section 92.253(b) and any modifications thereto. No rent increase shall occur at any time during the term of the lease. Any termination of the Lease or refusal to renew must be in conformance with 24 C.F.R. 92.253(c) and any modifications thereof must be preceded by not less than 30 days written notice to the tenant by the Borrower specifying the grounds for the action.

5.6 **TENANT SELECTION.** Before leasing the Project, Borrower shall provide Lender for its review and approval Borrower's written tenant selection plan. The Borrower's tenant selection plan must, at a minimum, meet the requirements for tenant selection set out in 24 C.F.R. 92.253(e) and any modifications thereto.

Borrower shall rent the Assisted Units to any Qualifying Household according to the tenant selection plan. Borrower shall verify the prospective tenant's eligibility and require from each tenant a statement that such household's income from all sources does not exceed allowable limits as described the Project Regulatory Agreement.

5.7 **INCOME CERTIFICATION.** Borrower shall limit for the full term of the Regulatory Agreement the rental of Assisted Units to Qualifying Households according to the schedule contained in the Regulatory Agreement. The income levels and other qualifications of applicants for Assisted Units shall be certified by Borrower within sixty (60) business days of the household's expected occupancy of an Assisted Units and annually thereafter.

On an annual basis, Borrower shall provide Lender with a copy of an occupancy summary report showing the present occupants, rent, and size of the Assisted Units in the Project, and any other information which the Lender requests and which relates to the eligibility of these households. If the household size of a Qualifying Household changes, the Lender may request additional income documentation to determine eligibility. If during income recertification Lender determines that the income of a Qualifying Household exceeds one hundred and twenty percent (120%) of the Media Income, then such non-Qualifying Household shall be required to vacate the Assisted Unit within one hundred and twenty (120) days Lender completed income recertification of such non-Qualifying Household. The Assisted Unit previously occupied by a non-Qualifying Household shall then be made available for a new Qualifying Household.

**5.8 AFFORDABILITY RESTRICTIONS.** All of the units in the Project shall be designated as Assisted Units. The Assisted Units must be occupied, or reserved for occupancy by, Qualifying Households.

**5.9 ASSISTED UNIT RENTS.** Rents for Assisted Units shall be limited to Qualifying Rents as set forth in Regulatory Agreement. At least sixty (60) calendar days prior to increasing rents on any Assisted Unit on the Project, Borrower shall submit to the Lender for review and approval a written request for such increase. Qualifying Households shall be given at least thirty (30) days written notice prior to any rent increase. Provided such increased rent does not exceed the Qualifying Rents for such year, Lender shall approve such request.

**5.10 MAXIMUM RENTAL CHARGES.** For each Assisted Unit, the total charges for rent, utilities, and related services to each Qualifying Household shall not exceed thirty percent (30%) of sixty percent (60%) of Median Income. Initial rents for each Assisted Unit shall be as set forth in the Regulatory Agreement. Annual rent increases shall be calculated by Lender based on the change in permissible rents published annually by HUD. For each Assisted Unit, Borrower shall annually certify each tenant household's gross income and make any rent adjustment pursuant to the terms of the Regulatory Agreement.

**5.11 CONFLICTS BETWEEN COVENANTS OR RESTRICTIONS AFFECTING THE PROPERTY.** Any conflicts between the restrictive provisions contained in this Loan Agreement, Note, Deed of Trust, Regulatory Agreement, and any other agreements in connection with the Loan which affect the Property, are to be resolved by applying the more restrictive covenants or restrictions which affect the Property.

**5.12 NONDISCRIMINATION.** Borrower shall not discriminate or segregate in the development, construction, use, enjoyment, occupancy, conveyance, lease, sublease, or rental of any part of the Property on the basis of race, color, ancestry, national origin, religion, sex, sexual preference or orientation, age, marital status, family status, source of income, physical or mental disability, Acquired Immune Deficiency Syndrome (AIDS) or AIDS-related conditions (ARC) acquired or perceived, or any other arbitrary basis. Borrower shall otherwise comply with all applicable local, state, and federal laws concerning discrimination in housing.

5.13 **RECORDS.** Borrower shall promptly comply with all requirements or conditions of the Loan Documents relating to notices, extensions, and other events required to be reported or requested.

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

5.15 **ENCUMBRANCE OF PROPERTY.** Except as otherwise provided in this Loan Agreement, Borrower shall not engage in any financing or any other transaction creating any security interest or other encumbrance or lien upon the Property, whether by express agreement or operation of law, or allow any encumbrance or lien to be made on or attached to the Property, except with the prior written consent of Lender. Borrower shall notify Lender in writing in advance of any financing secured by any deed of trust, mortgage, or other similar lien instrument that it proposes to enter into with respect to the Project or Property, and of any encumbrance or lien that has been created on or attached to the Property whether by voluntary act of Borrower or otherwise.

5.16 **TRANSFER OF PROPERTY.** Borrower has not made or created, and shall not, make or permit any sale, assignment, conveyance, lease (other than the leasing of units in the Project pursuant to an approved lease), or other transfer of this Loan Agreement, the Project, or the Property, or any part thereof, without the prior written consent of Lender. Notwithstanding the foregoing, if a default by any of Borrower's general partners occurs pursuant to the terms of Borrower's Agreement of Limited Partnership, as amended, with Limited Partner, (as defined therein), the Limited Partner shall be entitled to remove any of the Borrower's general partners and substitute a new general partner upon prior written approval by Lender. Such removal and substitution with Lender's written approval shall not constitute a default under the Loan Documents or cause the acceleration of the Loan or entitle Lender to exercise its other remedies under the Loan Documents. Lender's approval of the installation of the substitute general partner shall not be unreasonably withheld or delayed. In the event Lender has not approved or unreasonably disapproved the Limited Partner's request to remove and substitute a general partner within thirty (30) days of Lender's receipt of Limited Partner's written request, Limited Partner's request shall be deemed approved. Notwithstanding anything to the contrary contained herein, a transfer of limited partner interest as defined in the Borrower's Agreement of Limited Partnership, as amended, shall not be deemed a transfer under this Agreement.

5.17 **FEES, TAXES, AND OTHER LEVIES.** Borrower shall be responsible for payment of all fees, assessments, taxes, charges, and levies imposed by any public authority or utility company with respect to the Property or the Project, and shall pay such charges prior to delinquency. However, Borrower shall not be required to pay and discharge any such charge so long as (a) the legality thereof is being contested diligently and in good faith and by appropriate proceedings, and (b) if requested by Lender, Borrower deposits with Lender any funds or other forms of assurance Lender in good faith from time to time determines appropriate to protect Lender from the consequences of the contest being unsuccessful.

5.18 **DAMAGE TO PROPERTY.** If any building or improvements erected by Borrower on the Property is damaged or destroyed by an insurable cause, Borrower shall, at its cost and expense, diligently undertake to repair or restore said buildings and improvements if Borrower reasonably determines that such restoration or repair is economically feasible. Such work or repair shall be commenced within 120 days after the damage or loss occurs and shall be complete within one year thereafter, subject to any extensions of time granted pursuant to the provisions of Section 4.16. Subject to Borrower's election to rebuild, all insurance proceeds collected for such damage or destruction shall be applied to the cost of such repairs or restoration and, if such insurance proceeds shall be insufficient for such purpose, Borrower shall make up the deficiency.

5.19 **EQUAL EMPLOYMENT OPPORTUNITY.** Borrower and any contractors, subcontractors, and professional service providers for the Project shall comply with all requirements concerning equal employment opportunity. Borrower and any contractors, subcontractors, and professional service providers for the Project shall have comply with all requirements concerning equal opportunities for business and lower-income persons (referred to as a Section 3 clause, of the HUD Act of 1968, 12 U.S.C.).

## **ARTICLE 6 INDEMNITY AND INSURANCE**

6.1 **LIABILITY INSURANCE.** Borrower shall procure or cause to be procured, and maintain or cause to be maintained, throughout the term of the Loan, liability insurance, or alternatively shall establish a program of self-insurance, against risk or loss from public liability and property damage claims for personal injury, death or property damage occasioned by reason of the use and operation of the Property. Such insurance shall afford protection with a combined single limit of not less than \$1,000,000 per occurrence with respect to bodily injury, death or property damage liability or such greater amount as may from time to time be recommended by the Lender's risk management officer or an independent insurance consultant retained by the Lender for that purpose.

6.2 **CASUALTY INSURANCE.** Borrower shall procure or cause to be procured, and maintain or cause to be maintained, throughout the term of the Loan, insurance against loss or damage to any structure constituting any part of the Property by fire and lightning, with extended coverage and vandalism and malicious mischief insurance. Said extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance shall be in an amount equal to the replacement cost (without deduction for depreciation) of all structures constituting any part of the Property, excluding the cost of excavations, of grading and filling and of the land, but in any event, shall be in an amount and in a form sufficient, in the event of total or partial loss, to enable the Borrower to restore the Property to the condition existing before such loss. The Borrower may, in its discretion, insure the Property under blanket insurance policies which insure not only the Property but also other properties as long as such blanket insurance policies comply with the requirements of this Loan Agreement. Such insurance may at any time include a deductible clause providing for a deductible not to exceed \$1,000,000 for all losses in any year.

6.3 **INSURANCE PROCEEDS, FORMS OF POLICIES.** All policies of insurance required by Sections 6.1 and 6.2 shall provide that all proceeds thereunder shall be payable to the Lender pursuant to a lender's loss payable endorsement substantially in a form approved by Lender. Each insurance policy required hereunder shall require that the Lender be given thirty (30) days' notice of any intended cancellation thereof or reduction of the coverage provided thereby. The Borrower shall provide Lender with copies of such policies upon request.

6.4 **INSURANCE ADVANCES.** In the event Borrower fails to maintain the full insurance coverage required by this Agreement, Lender, after at least seven (7) business days prior notice to Borrower, may, but shall be under no obligation to, take out the required policies of insurance and pay the premiums on such policies. Any amount so advanced by Lender, together with interest thereon from the date of such advance at the same rate of indebtedness as specified in the Note (unless payment of such an interest rate would be contrary to applicable law, in which event such sums shall bear interest at the highest rate then allowed by applicable law), shall become an additional obligation of Borrower to Lender and shall be secured by the Deed of Trust.

6.5 **NON-LIABILITY OF OFFICIALS, EMPLOYEES AND AGENTS.** No officials, employees and agents of Lender shall be personally liable to Borrower for any obligation created under the terms of these Loan Documents.

6.6 **INDEMNITY.** Except for the gross negligence and willful misconduct of the Lender, Borrower undertakes and agrees to defend, indemnify, and hold harmless Lender from and against all suits and causes of action, claims, losses, demands and expenses, including, but not limited to, reasonable attorney's fees and costs of litigation, damage or liability of any nature whatsoever, arising in any manner by reason of or incident to the performance of this Agreement on the part of the Borrower. Borrower shall pay within ten (10) business days upon Lender's demand any amounts owing under this indemnity. The duty of Borrower to indemnify includes the duty to defend Lender or, at Lender's choosing, to pay Lender's reasonable costs of its defense in any court action, administrative action, or other proceeding brought by any third party arising from the Project or the Property. Borrower's duty to indemnify Lender shall survive the term of this Loan and the reconveyance of the Deed of Trust. Borrower's obligations under this indemnity shall not be construed to abrogate the nonrecourse nature of the Loan or to make Borrower personally liable for the repayment of the Loan.

## **ARTICLE 7 HAZARDOUS MATERIALS**

7.1 **REPRESENTATIONS AND WARRANTIES.** After reasonable investigation and inquiry, Borrower hereby represents and warrants to the best of its knowledge, as of the date of this Loan Agreement and except as previously disclosed and acknowledged in writing by Lender or as disclosed by the reports based on environmental audit(s) performed on the Property and submitted to Lender, that (a) the Property is not and has not been a site for the use, generation, manufacture, transportation, storage, or disposal of Hazardous Materials in violation of federal or state law; (b) the Property is in compliance with all applicable environmental and health and safety laws, regulations, ordinances, administrative decisions, common law decisions (whether

federal, state, or local) with respect to Hazardous Materials, including those relating to soil and groundwater conditions ("Hazardous Materials Laws"); (c) there are no claims or actions pending or threatened with respect to the Property by any governmental entity or agency or any other person relating to Hazardous Materials; and (d) there has been no release or threatened release of any Hazardous Materials on, under, or near the Property (including in the soil, surface water, or groundwater under the Property) or any other occurrences or conditions on the Property or on any other real property that could cause the Property or any part thereof to be classified as a "hazardous waste property" or as a "border zone property" under California Health and Safety Code Sections 25220, et seq., or regulations adopted therewith.

**7.2 NOTIFICATION TO LENDER.** Borrower shall promptly notify Lender in writing of: (a) the discovery of any concentration or amount of Hazardous Materials of which Borrower becomes aware on or under the Property requiring notice to be given to any governmental entity or agency under Hazardous Materials Laws; (b) any knowledge by Borrower (after verification of the veracity of such knowledge to Borrower's reasonable satisfaction) that the Property does not comply with any Hazardous Materials Laws; (c) the receipt by Borrower of written notice of any Hazardous Materials claims; and (d) the discovery by Borrower of any occurrence or condition on the Property or on any real property located within 2,000 feet of the Property that could cause the Property or any part thereof to be designated as a "hazardous waste property" or as a "border zone property" under California Health and Safety Code Sections 25220, et seq., or regulations adopted therewith.

**7.3 USE AND OPERATION OF PROPERTY.** Neither Borrower, nor any agent, employee, or contractor of Borrower, nor any authorized user of the Property, shall use the Property or allow the Property to be used for the generation, manufacture, storage, disposal, or release of Hazardous Materials. Borrower shall comply and cause the Project to comply with Hazardous Materials Laws.

**7.4 REMEDIAL ACTIONS.** If Borrower has actual knowledge of the presence of any Hazardous Materials on or under the Property, Borrower shall take, at no cost or expense to Lender, all handling, treatment, removal, storage, decontamination, cleanup, transport, disposal or other remedial action, if any, required by any Hazardous Materials Laws or by any orders or requests of any governmental entity or agency or any judgment, consent decree, settlement or compromise with respect to any Hazardous Materials claims. The foregoing, however, shall be subject to Borrower's right of contest below.

**7.5 RIGHT OF CONTEST.** Borrower may contest in good faith any claim, demand, levy or assessment under Hazardous Materials Laws if. (a) the contest is based on a material question of law or fact raised by Borrower in good faith, (b) Borrower promptly commences and thereafter diligently pursues the contest, (c) the contest will not materially impair the taking of any remedial action with respect to such claim, demand, levy or assessment, and (d) if requested by Lender, Borrower deposits with Lender any funds or other forms of assurance Lender in good faith from time to time determines appropriate to protect Lender from the consequences of the contest being unsuccessful and any remedial action then reasonably necessary. No Event of Default shall be deemed to exist with respect to any claim, demand, levy or attachment being contested by Borrower under the conditions of this section.

7.6 **ENVIRONMENTAL INDEMNITY.** Borrower shall defend, indemnify, and hold Lender free and harmless against any claims, demands, administrative actions, litigation, liabilities, losses, damages, response costs, and penalties, including all costs of legal proceedings and reasonable attorney's fees, that Lender may directly or indirectly sustain or suffer as a consequence of any inaccuracy or breach of any representation, warranty, agreement, or covenant contained in this Loan Agreement with respect to Hazardous Materials, or as a consequence of any use, generation, manufacture, storage, release, or disposal (whether or not Borrower knew of same) of any Hazardous Materials occurring prior to or during Borrower's use or occupancy of the Property.

## **ARTICLE 8 DEFAULT AND REMEDIES**

8.1 **EVENTS OF DEFAULT.** The occurrence of any of the following events shall constitute an "Event of Default" under this Loan Agreement:

A. Monetary. (1) Borrower's failure to pay when due any sums payable under the Note or any advances made by Lender under the Deed of Trust or this Loan Agreement; (2) Borrower's use of Loan funds for costs other than approved costs or for uses inconsistent with other terms and restrictions in the Loan Documents; (3) Borrower's failure to obtain and maintain the insurance coverage required under this Loan Agreement; (4) Borrower's failure to make any other payment or assessment due under the Loan Documents; (5) Borrower's failure to pay taxes with respect to the Property or the Project; (6) Borrower's default under other debt secured by the Property after the applicable notice and cure periods have expired;

B. Operation. (1) Discrimination by Borrower on the basis of characteristics prohibited by this Loan Agreement or applicable law or (2) the imposition of any encumbrances or liens on the Property without Lender's prior written approval that are prohibited under this Loan Agreement or that have the effect of reducing the priority of or invalidating the Deed of Trust;

C. General performance of Loan obligations. Any substantial breach by Borrower beyond applicable notice and cure periods of any material obligations on Borrower imposed in the Loan Documents;

D. General performance of other obligations. Any substantial or continuous breach by Borrower beyond applicable notice and cure periods of any material obligations on Borrower imposed by any other agreements, including any grant agreements, with respect to the financing, construction, or operation of the Project or the Property, whether or not Lender is a party to such agreement which may materially impair Lender's security;

E. Representations and warranties. A determination by Lender that its security has or will be materially impaired due to the fact that any of Borrower's representations or warranties made in the Loan Documents, or any certificates, documents, or schedules supplied

to Lender by Borrower were untrue in any material respect when made, or that Borrower concealed or failed to disclose a material fact from Lender;

F. Damage to Property. Material damage or destruction to the Property by fire or other casualty, if Borrower does not take steps to reconstruct the Property as required by the Loan Documents;

G. Bankruptcy, dissolution, and insolvency. Borrower's (1) filing for bankruptcy, dissolution, or reorganization, or failure to obtain a full dismissal of any such involuntary filing brought by another party before the earlier of final relief or ninety (90) days after the filing; (2) making a general assignment for the benefit of creditors; (3) applying for the appointment of a receiver, trustee, custodian, or liquidator, or failure to obtain a full dismissal of any such involuntary application brought by another party before the earlier of final relief or ninety (90) days after the filing; (4) insolvency; (5) failure, inability or admission in writing of its inability to pay its debts as they become due.

**8.2 NOTICE OF DEFAULT AND OPPORTUNITY TO CURE.** For all Events of Default, Lender shall give written notice to Borrower of any Event of Default by specifying: (a) the nature of the event or deficiency giving rise to the Default, (b) the action required to cure the deficiency, if an action to cure is possible, and (c) a date, which shall not be less than thirty (30) calendar days from the date of receipt of the notice or the date the notice was refused, by which such action to cure must be taken or if a cure is not possible within thirty (30) days, to begin such cure and diligently prosecute such cure to completion which shall, in any event, not exceed ninety (90) days from the date of receipt of the notice to cure. The Lender has the sole discretion to determine whatever additional reasonable time is needed to cure. Notwithstanding anything to the contrary contained in the Loan Documents, Lender hereby agrees that any cure of any default made or tendered by Borrower's Limited Partners shall be deemed to be a cure by Borrower and shall be accepted or rejected on the same basis as if made or tendered by Borrower.

**8.3 LENDER'S REMEDIES.** Upon the happening of an Event of Default by Borrower and a failure to cure said Event of Default within the time specified in Section 8.2 above, Lender's obligation to disburse Loan proceeds shall terminate, and Lender may also, in addition to other rights and remedies permitted by the Loan Documents or applicable law, proceed with any or all of the following remedies in any order or combination Lender may choose in its sole discretion:

A. Terminate this Loan Agreement, in which event the entire principal amount outstanding and all accrued interest under the Note, as well as any other monies advanced to Borrower by Lender under the Loan Documents including administrative costs, shall immediately become due and payable at the option of Lender;

B. Bring an action in equitable relief (1) seeking the specific performance by Borrower of the terms and conditions of the Loan Documents, and/or (2) enjoining, abating, or preventing any violation of said terms and conditions, and/or (3) seeking declaratory relief;

C. Accelerate the Loan, and demand immediate full payment of the principal amount outstanding and all accrued interest under the Note, as well as any other monies advanced to Borrower by Lender under the Loan Documents;

D. Disburse from Loan proceeds any amount necessary to cure any monetary default;

E. Enter upon, take possession of, and manage the Property, either in person, by agent, or by a receiver appointed by a court, and collect rents and other amounts specified in the assignment of rents in the Deed of Trust and apply them to operate the Property or to pay off the Loan or any advances made under the Loan Documents, as provided for by the Deed of Trust;

F. Initiate and pursue any private and/or judicial foreclosure action allowed under applicable law and the power of sale provision in the Deed of Trust;

G. With respect to defaults under Hazardous Materials provisions herein, pursue the rights and remedies permitted under California Civil Code Section 2929.5, and California Code of Civil Procedure Sections 564, 726.5, and 736; or

H. Pursue any other remedy allowed at law or in equity. Nothing in this section is intended or shall be construed as precluding Lender from proceeding with a nonjudicial foreclosure under the power of sale contained in the Deed of Trust in the Event of Default by Borrower and failure to cure as provided in Section 8.2.

## ARTICLE 9 GENERAL PROVISIONS

9.1 **BORROWER'S WARRANTIES.** Borrower represents and warrants (1) that it has access to professional advice and support to the extent necessary to enable Borrower to fully comply with the terms of these Loan Documents and the Regulatory Agreement, and to otherwise carry out the Project, (2) that it is duly organized, validly existing and in good standing under the laws of the State of California, (3) that it has the full power and authority to undertake the Project and to execute the Loan Documents, (4) that the persons executing and delivering the Loan Documents are authorized to execute and deliver such documents on behalf of Borrower, (5) that there has been no substantial adverse change in Borrower's financial condition since the date of application for this Loan such as judgment liens, tax liens, mechanic's liens, bankruptcy, etc.; and (6) that all representations in the Borrower's Loan application (including all supplementary submissions) are true, correct and complete in all material respects and are offered to induce Lender to make this Loan.

9.2 **MONITORING AND EVALUATION.** Except as otherwise provided for in this Loan Agreement, Borrower shall maintain and submit records to Lender within ten (10) business days of Lender's request which clearly document Borrower's performance under each requirement of the Loan Documents.

9.3 **CONFLICTS OF INTEREST.** Borrower covenants that:

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

B. The conflict of interest provisions of Section 9.3(A) above apply to any person who is an employee, agent, consultant, officer, or any immediate family member of such person, or any elected or appointed official of the County, or any person related within the third (3rd) degree of such person.

9.4 **POLITICAL ACTIVITY.** None of the funds, materials, property or services contributed by Lender or Borrower under this Loan Agreement shall be used for any partisan political activity or the election or defeat of any candidate for public office.

9.5 **PUBLICITY.** Any publicity produced by Borrower for the Project during the term of this Loan and for one year thereafter shall make reference to the contribution of Lender in making the Project possible. The words "Redevelopment Agency of the County of Santa Barbara" will be prominently displayed in any and all pieces of publicity, including but not limited to flyers, press releases, posters, signs, brochures, public service announcements, interviews, and newspaper articles. Borrower further agrees to cooperate with authorized staff and officials of Lender in any Lender-generated publicity or promotional activities undertaken with respect to the Project.

9.6 **TERM OF THIS AGREEMENT.** This Loan Agreement shall commence on the date set forth above and remain in full force and effect throughout the term of this Loan.

9.7 **GOVERNING LAW.** The Loan Documents shall be interpreted under and be governed by the laws of the State of California, except for those provisions relating to choice of law or those provisions preempted by federal law.

9.8 **STATUTORY REFERENCES.** All references in the Loan Documents or Regulatory Agreement to particular statutes, regulations, ordinances, or resolutions of the United States, the State of California, or the County of Santa Barbara shall be deemed to include the same-statute, regulation, ordinance, or resolution as hereafter amended or renumbered, or if repealed, to such other provisions as may thereafter govern the same subject as the provision to which specific reference was made.

9.9 **TIME.** Time is of the essence in these Loan Documents.

9.10 **CONSENTS AND APPROVALS.** Any consent or approval of Lender or Borrower required under the Loan Documents shall not be unreasonably withheld. Any approval required under the Loan Documents shall be in writing and executed by an authorized representative of the party granting the approval.

9.11 **NOTICES, DEMANDS AND COMMUNICATIONS.** Formal notices, demands and communications between Borrower and Lender shall be sufficiently given and shall not be deemed given unless dispatched by registered or certified mail, postage prepaid, return receipt requested, or delivered personally, to the principal offices of Borrower and Lender as follows:

**LENDER:**                   Redevelopment Agency of the County of Santa Barbara  
105 E Anapamu Street, Room 406  
Santa Barbara, CA 93101-2065  
Attn: County Executive Officer/Redevelopment Agency  
Executive Director

**With a copy to:**           Office of the County Counsel  
105 E Anapamu Street, Room 201  
Santa Barbara, CA 93101-2065

**BORROWER:**             Parkview Isla Vista, L.P.  
c/o Surf Development Company  
815 West Ocean Avenue  
Lompoc, CA 93436  
Attn: Executive Director

**With a copy to:**         Apollo Housing Capital, L.L.C.  
600 Superior Avenue, Suite 2300  
Cleveland, Ohio 44114  
Attention: President and General Counsel

9.12 **BINDING UPON SUCCESSORS.** All provisions of these Loan Documents shall be binding upon and inure to the benefit of the heirs, administrators, executors, successors-in-interest, transferees, and assigns of each of the parties; provided, however, that this section does not waive the prohibition on assignment of this Loan Agreement by Borrower without Lender's consent.

9.13 **RELATIONSHIP OF PARTIES.** The relationship of Borrower and Lender for this Project under this Loan Agreement is and at all times shall remain solely that of a debtor and a creditor, and shall not be construed as a joint venture, equity venture, partnership, or any other relationship. Lender neither undertakes nor assumes any responsibility or duty to Borrower (except as provided for herein) or any third party with respect to the Project, the Property, or the Loan.

9.14 **ASSIGNMENT AND ASSUMPTION.** Borrower shall not assign any of its interests under this Loan Agreement or the Loan Documents to any other party, except as specifically permitted under the terms of the Loan Documents, without the prior written consent of Lender. Any unauthorized assignment shall be void.

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

9.16 **INTEGRATION.** This Loan Agreement and the other Loan Documents, including exhibits, executed by Borrower for the Property, if any, contain the entire agreement of the parties and supersede any and all prior negotiations.

9.17 **OTHER AGREEMENTS.** Borrower represents that it has not entered into any agreements that are inconsistent with the terms of the Loan Documents. Borrower shall not enter into any agreements that are inconsistent with the terms of the Loan Documents without an express waiver by Lender in writing.

9.18 **AMENDMENTS AND MODIFICATIONS.** Any amendments or modifications to the Loan Documents must be in writing, and shall be made only if executed by both Borrower and Lender.

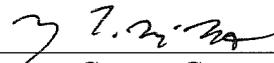
9.19 **SEVERABILITY.** Every provision of this Loan Agreement is intended to be severable. If any provision of this Loan Agreement shall be held invalid, illegal, or unenforceable by a court of competent jurisdiction, the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired.

*Remainder of Page Left Intentionally Blank*

In witness whereof, the parties have executed this Agreement as of the date first written above.

**APPROVED AS TO FORM:**

DENNIS A. MARSHALL  
AGENCY COUNSEL

By:   
Deputy County Counsel

**APPROVED AS TO FORM:**

BOB GEIS  
AGENCY TREASURER

By:   
Senior Financial Analyst

**LENDER**

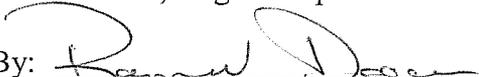
REDEVELOPMENT AGENCY OF THE  
COUNTY OF SANTA BARBARA, a public  
body corporate and politic

By: \_\_\_\_\_  
Its: Salud Carbajal, Chair

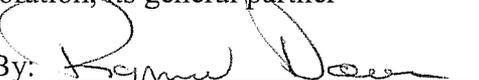
**BORROWER**

PARKVIEW ISLA VISTA, L.P. a California  
limited partnership

By: Surf Affordable Housing Enterprises,  
Inc., a California, its general partner

By:   
Raymond Down, President

By: Surf Development Company, a  
California nonprofit public benefit  
corporation, its general partner

By:   
Raymond Down, President

By: Housing Authority of the County of  
Santa Barbara, a public body, corporate and  
politic, its general partner

By:   
Frederick C. Lamont,  
Executive Director

**EXHIBIT A**  
**LEGAL DESCRIPTION OF THE PROPERTY**

**EXHIBIT A**  
**LEGAL DESCRIPTION OF THE PROPERTY**

All that certain real property situated in the County of Santa Barbara, State of California, described as follows:

**ASSESSOR'S PARCEL NUMBER:           075-020-15**

**Parcel One:**

Lot 3 of Tract 10186, in the County of Santa Barbara, State of California, as shown on map filed in Book 56, Pages 1, 2 and 3 of Maps, and amended by Affidavit of Correction recorded May 25, 1961 as Instrument No. 45564 in Book 1892, Page 77, both of Official Records, in the office of the County Recorder of said County.

**Parcel Two:**

Non-exclusive easement for ingress, egress, public utilities and incidental purposes, as created by a document recorded July 30, 1963 as Instrument No. 32402 in Book 2005, Page 407 of Official Records, over the Southerly 12½ feet of Parcel One, in the deed to Roy Eaton recorded September 22, 1958 as Instrument No. 22904 in Book 1556, Page 234 of Official Records.

Said easement lies contiguous with, adjacent to and Northerly of Lots 1 through 8, inclusive, of said tract 10186

**ASSESSOR'S PARCEL NUMBER:           075-020-14**

**Parcel One:**

Lot 2 of Tract 10186, in the County of Santa Barbara, State of California, as shown on map filed in Book 56, Pages 1, 2 and 3 of Maps, and amended by Affidavit of Correction recorded May 25, 1961 as Instrument No. 18412 in Book 1849, Page 452 and December 20, 1961 as Instrument No. 45564 in Book 1892, Page 77, both of Official Records, in the office of the County Recorder of said County.

**Parcel Two:**

Non-exclusive easement for ingress, egress, public utilities and incidental purposes, as created by a document recorded July 30, 1963 as Instrument No. 32402 in Book 2005, Page 407 of Official Records, over the Southerly 12½ feet of Parcel One, in the deed to Roy Eaton recorded September 22, 1958 as Instrument No. 22904 in Book 1556, Page 234 of Official Records.

Said easement lies contiguous with, adjacent to and Northerly of Lots 1 through 8, inclusive, of said tract 10186

**EXHIBIT B**  
**DEED OF TRUST**

NO FEE DOCUMENT

**Recording requested by and  
when recorded, mail to:**

Redevelopment Agency of the  
County of Santa Barbara  
105 E. Anapamu Street, Room 105  
Santa Barbara, CA 93101  
Attn: Executive Director

NO FEE DOCUMENT PURSUANT TO  
GOVERNMENT CODE SECTION 6103

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**PERMANENT DEED OF TRUST, ASSIGNMENT OF  
RENTS, AND SECURITY AGREEMENT**

THIS DEED OF TRUST, ASSIGNMENT OF RENTS, AND SECURITY AGREEMENT ("Deed of Trust") is made as of this 28 day of October 2008, by Parkview Isla Vista, L.P., a California limited partnership ("Trustor"), to Lawyers Title Company, a California corporation as trustee ("Trustee"), for the benefit of the Redevelopment Agency of the County of Santa Barbara, a public body corporate and politic ("Beneficiary").

**GRANT IN TRUST**

1. **GRANT.** Trustor, in consideration of the indebtedness referred to below, hereby irrevocably grants and conveys to Trustee, IN TRUST, WITH POWER OF SALE, for the benefit and security of Beneficiary, all of Trustor's interest in the real property located at 6682 and 6688 Parkview Avenue in the Community of Isla Vista, which is located in Santa Barbara County, California, as more particularly described in Exhibit A (the "Property") attached hereto and incorporated herein by this reference;

TOGETHER WITH all interest, estates or other claims, both in law and in equity which Trustor now has or may hereafter acquire in the Property; all buildings, structures, fixtures, improvements, signs, and landscaping now or hereafter erected or located on the Property, including all equipment and machinery used for supplying or distributing heating, cooling, electricity, gas, water, air, and light, all kitchen and laundry appliances such as washers, dryers, refrigerators, garbage disposals, ovens, ranges, dishwashers, all plumbing and bathroom fixtures, all security and access control equipment, fire prevention and extinguishment equipment, elevators, floor coverings, window coverings, paneling, cabinets, (provided, however, that Trustor shall have the right to remove, if necessary, such fixtures, furnishings, and equipment for the purpose of replacement with similar items of the same quality performing the same functions, which replacements shall themselves become part of this grant); all building material and equipment either now or hereafter delivered to the Property and intended to be installed therein or any such material and equipment purchased with the Loans' proceeds whether or not

located on the Property; all reserves, accounts, deferred payments, and refunds relating to development on the Property; all rents and income generated by the Property or improvements thereon (subject however to the assignment of rents to Lender contained herein); all leases, subleases and rental agreements covering the Property or any portion thereof now existing or hereafter entered into, and all interests of Trustor in security deposits, advance rentals, accounts, or payments of similar nature with respect to such leases, subleases, or rental agreements; all easements and rights-of-way appurtenant to the Property, including parking and recreational easements, and all interests of Trustor in any land lying within the right-of-way of any street, sidewalks, and areas of land adjacent to or used in connection with the Property; all development rights and credits, air rights, water rights, and oil, gas or mineral rights with respect to the Property; all claims or demands with respect to insurance proceeds, and all awards made for a taking by eminent domain; all interests and rights in any private or government grants, subsidies, loans, or other financing with respect to development on the Property; all interests in personal property used in and about the Property (except furniture and other personal property of occupants of dwelling units on the Property); all intangible property and rights relating to the Property or operations on the Property, including trade names, goodwill, trademarks, and service marks; all government permits, approvals, and map rights related to construction on the Property; all architectural, structural, and mechanical plans, specifications, designs, studies, and data with respect to construction of improvements on the Property; all environmental tests, studies and reports with respect to the Property; all current and future claims and rights of action of Trustor against prior owners and operators of the Property, neighboring property owners and operators, tenants and former tenants, consultants, advisors, and other third parties with respect to environmental or Hazardous Materials contamination and cleanup of the Property under any federal, state, or local ordinances, statutes, regulations, or administrative decisions or common law.

All of the foregoing, together with the Property, is herein referred to as the "Security."

### **OBLIGATIONS SECURED**

2. **OBLIGATIONS.** Trustor makes this grant for the purpose of securing the following obligations:

A. Repayment of the indebtedness of Trustor to Beneficiary in the principal sum of Three Million Two Hundred Sixty Three Thousand Five Hundred Fifty Seven Dollars (\$3,263,557), with interest thereon, evidenced by a promissory note executed by Trustor on file at the offices of Beneficiary and hereby incorporated by reference into this Deed of Trust (the "Note"), or as much as has been disbursed to Trustor therewith; and

B. Payment of any sums advanced by Beneficiary to protect the security and priority of this Deed of Trust; and

C. Performance of every obligation, covenant or agreement of Trustor contained in this Deed of Trust, the Note, the Loan Agreement, and the regulatory agreement executed between Trustor and Beneficiary of even date herewith (the "Regulatory Agreement"), including all modifications, extensions and renewals of these obligations; and

D. Performance of any other obligation or repayment of any other indebtedness of Trustor to Beneficiary, where such evidence of obligation or indebtedness specifically recites that it is secured by this Deed of Trust; and

E. Performance of any obligations of Trustor in any other agreements with respect to financing of the Project or the Security the absence of which would adversely affect Beneficiary, whether or not Beneficiary is a party to such agreements.

### **ABSOLUTE ASSIGNMENT OF RENTS AND RIGHT TO POSSESSION**

3. **ASSIGNMENT.** As additional security, Trustor hereby assigns to Beneficiary: (a) all of the rents, revenues, profits, and income from the Security, any deposits now or hereafter in Trustor's possession which have been collected with respect to the Security, and any reserve or capital funds now or hereafter held by Trustor with respect to construction or operation of the Security (collectively, the "Rents"); and (b) the right to enter, take possession of, and manage the Security; provided however that Trustor shall have, before an Event of Default, as defined herein, the exclusive right to possess the Security and to collect Rents and use them in accordance with the documents described in Section 2.C. above (collectively, the "Loan Documents"). This assignment is intended to be an absolute and present transfer of Trustor's interest in existing and future Rents, effective as of the date of this Deed of Trust.

4. **ENFORCEMENT.** Upon the happening of an Event of Default which remains uncured after expiration of the applicable cure period pursuant to the terms of the Loan Agreement or other Loan Documents, Beneficiary may, in addition to other rights and remedies permitted by the Loan Agreement, this Deed of Trust, or applicable law: (a) enter upon, take possession of, and manage the Security, either in person as a mortgagee-in-possession, by agent, or by a receiver appointed by a court, and do any acts which it deems necessary or desirable to preserve the value, marketability or rentability of the Security, (b) collect all Rents, including those past due and unpaid, and apply the same to pay for the costs and expenses of operation of the Security, including attorneys' fees, and pay off any indebtedness secured by this Deed of Trust, all in such order as Beneficiary may determine and/or (c) Beneficiary may make, cancel, enforce, and modify leases and rental agreements, obtain and evict tenants, set and modify rent terms, sue for rents due, enter into, modify, or terminate any contracts or agreements, or take any legal action, as it deems necessary with respect to the Rents or to development or operation of the Security, subject to the rent restrictions imposed against the Property.

5. **APPOINTMENT OF A RECEIVER.** In any action to enforce this assignment, Beneficiary may apply for the appointment of a receiver to take possession of the Security and take whatever measures are necessary to preserve and manage the Security for the benefit of Beneficiary and the public interest. Trustor hereby consents to the appointment of a receiver. The receiver shall have all of the authority over the Security that Beneficiary would have if Beneficiary took possession of the Security under this assignment as a mortgagee-in-possession, including the right to collect and apply Rents and the right to complete construction of improvements.

6. **NO WAIVER OF POWER OF SALE.** The entering upon and taking possession of the Security and the collection of Rents shall not cure or waive any default or notice of default hereunder or invalidate any act done in response to such default or notice of default and, notwithstanding the continuance in possession of the Security or the collection and application of Rents, Beneficiary shall be entitled to exercise every right provided for in this Deed of Trust or by law upon occurrence of any Event of Default, including the right to exercise the power of sale.

### COMMERCIAL CODE SECURITY AGREEMENT

7. **GRANT.** This Deed of Trust is intended to be a security agreement and financing statement pursuant to the California Commercial Code for any of the items specified above as part of the Security which under applicable law may be subject to a security interest pursuant to the Commercial Code, and Trustor hereby grants Beneficiary a security interest in said items. Beneficiary may file a copy of this Deed of Trust in the real estate records or other appropriate index as a financing statement for any of the items specified as part of the Security. Trustor shall execute and deliver to Beneficiary at Beneficiary's request any financing statements, as well as extensions, renewals, and amendments thereof, and copies of this instrument in such form as Beneficiary may require to perfect a security interest with respect to said items. Trustor shall pay all costs of filing such financing statements and shall pay all reasonable costs of any record searches for financing statements and releases. Without the prior written consent of Beneficiary, Trustor shall not create or permit any other security interest in said items. This Deed of Trust constitutes a fixture filing under Sections 9313 and 9402(6) of the California Commercial Code.

8. **REMEDIES.** Upon Trustor's breach of any obligation or agreement in the Loan Documents, after expiration of any applicable cure period, Beneficiary shall have the remedies of a secured party under the Commercial Code and at Beneficiary's option may also invoke the remedies provided for elsewhere in this Deed of Trust with respect to said items. Beneficiary may proceed against the items of real property and personal property specified above separately or together and in any order whatsoever.

### RIGHTS AND OBLIGATIONS OF TRUSTOR

9. **PERFORMANCE OF SECURED OBLIGATION.** Trustor shall promptly perform each obligation secured by this Deed of Trust in accordance with the Loan Documents.

10. **PAYMENT OF PRINCIPAL AND INTEREST.** Trustor shall promptly pay when due the principal and any interest due on the indebtedness evidenced by the Note.

11. **MAINTENANCE OF THE SECURITY.** Trustor shall, at the Trustor's own expense, maintain and preserve the Security or cause the Security to be maintained and preserved in good condition, in good repair, and in a decent, safe, sanitary, habitable and tenantable condition. Trustor shall not cause or permit any violations of any laws, ordinances, regulations, covenants, conditions, restrictions, or equitable servitudes as they pertain to improvements, alterations, maintenance or demolition on the Security. Trustor shall not commit

or permit waste on or to the Security. Trustor shall not abandon the Security. Beneficiary shall have no responsibility over maintenance of the Security. In the event Trustor fails to maintain the Security in accordance with the standards in this Deed of Trust, the Loan Agreement, or the Regulatory Agreement, Beneficiary and after any applicable cure periods, may, but shall be under no obligation to, make such repairs or replacements as are necessary and provide for payment thereof. Any amount so advanced by Beneficiary, together with interest thereon from the date of such advance at the same rate of interest as specified in the Note (unless payment of such an interest rate would be contrary to applicable law, in which event such sums shall bear interest at the highest rate then allowed by applicable law), shall become an additional obligation of Trustor to Beneficiary and shall be secured by this Deed of Trust.

12. **INSPECTION OF THE SECURITY.** Trustor shall permit Beneficiary to enter and inspect the Security during normal business hours for compliance with these obligations upon at least 24 hours advance notice of such visit by Beneficiary to Trustor or Trustor's management agent.

13. **LIENS, ENCUMBRANCES, AND CHARGES.** Trustor shall discharge any lien or encumbrance not approved by Beneficiary in writing that may attain priority over this Deed of Trust, as provided for in the Loan Agreement.

14. **DEFENSE AND NOTICE OF CLAIMS AND ACTIONS.** Trustor shall appear in and defend, at its own expense, any action or proceeding purporting to affect the Security and/or the rights of Beneficiary. Trustor shall give Beneficiary and Trustee prompt notice in writing of the assertion of any claim, of the filing of any action or proceeding and of any condemnation offer or action with respect to the Security upon Trustor's receipt of notice thereof.

15. **SUITS TO PROTECT THE SECURITY.** Beneficiary shall have power to institute and maintain such suits and proceedings as it may deem expedient (a) to prevent any impairment of the Security or the rights of Beneficiary, (b) to preserve or protect its interest in the Security and in the Rents, and (c) to restrain the enforcement of or compliance with any governmental legislation, regulation, or order, if the enforcement of or compliance with such legislation, regulation, or order would impair the Security or be prejudicial to the interest of Beneficiary.

16. **DAMAGE TO SECURITY.** Trustor shall give Beneficiary and Trustee prompt notice in writing of any damage to the Security. If any building or improvements erected on the Property is damaged or destroyed by an insurable cause, Trustor shall, at its cost and expense, repair or restore said buildings and improvements consistent with the original plans and specifications if Trustor reasonably determines that such restoration or repair is economically feasible. Such work or repair shall be commenced within one hundred twenty (120) days after the damage or loss occurs and shall be complete within one (1) year thereafter. Subject to Trustor's election to rebuild, all insurance proceeds collected for such damage or destruction shall be applied to the cost of such repairs or restoration and, if such insurance proceeds shall be insufficient for such purpose, Trustor shall make up the deficiency.

17. **TITLE.** Trustor warrants that Trustor lawfully has legal title to the Security without any limitation on the right to encumber other than those limitations set forth in the Loan Documents or other financing documents approved by Lender.

18. **GRANTING OF EASEMENTS.** Trustor may not grant easements, licenses, rights-of-way or other rights or privileges in the nature of easements with respect to the Security except those required or desirable for installation and maintenance of public utilities including water, gas, electricity, sewer, cable television, telephone, or those required by law.

19. **TAXES AND LEVIES.** Trustor shall pay prior to delinquency, all taxes, fees, assessments, charges and levies imposed by any public authority or utility company which are or may become a lien affecting the Security. However, Trustor shall not be required to pay and discharge any such tax, assessment, charge or levy so long as (a) the legality thereof shall be promptly and actively contested in good faith and by appropriate proceedings, and (b) Trustor maintains reserves adequate to pay any contested liabilities. In the event that Trustor fails to pay any of the foregoing items, Beneficiary may, but shall be under no obligation to, pay the same, after Beneficiary has notified Trustor of such failure to pay and Trustor fails to fully pay such items within seven (7) business days after receipt of such notice. Any amount so advanced by Beneficiary, together with interest thereon from the date of such advance at the same rate of interest as specified in the Note (unless payment of such an interest rate would be contrary to applicable law, in which event such sums shall bear interest at the highest rate then allowed by applicable law), shall become an additional obligation of Trustor to Beneficiary and shall be secured by this Deed of Trust.

20. **INSURANCE.** Trustor shall provide such insurance as required under the Loan Agreement and the Regulatory Agreement. In the event Trustor fails to maintain the full insurance coverage required by this Deed of Trust, Beneficiary, after at least seven (7) business days prior notice to Trustor, may, but shall be under no obligation to, take out the required policies of insurance and pay the premiums on such policies. Any amount so advanced by Beneficiary, together with interest thereon from the date of such advance at the same rate of indebtedness as specified in the Note (unless payment of such an interest rate would be contrary to applicable law, in which event such sums shall bear interest at the highest rate then allowed by applicable law), shall become an additional obligation of Trustor to Beneficiary and shall be secured by this Deed of Trust.

21. **CONDEMNATION.** Subject to the rights of any senior lienholders, all judgments, awards of damages, settlements and compensation made in connection with or in lieu of taking all or any part of or interest in the Security under assertion of the power of eminent domain ("Funds") are hereby assigned to and shall be paid to Beneficiary. Beneficiary is authorized (but not required) to collect and receive any Funds and is authorized to apply them in whole or in part upon any indebtedness or obligation secured hereby, in such order and manner as Beneficiary shall determine at its sole option. All or any part of the amounts so collected and recovered by Beneficiary may be released to Trustor upon such conditions as Beneficiary may impose for its disposition. Application of all or any part of the Funds collected and received by Beneficiary or the release thereof shall not cure or waive any default under this Deed of Trust.

Notwithstanding anything to the contrary set forth herein, Beneficiary shall, prior to the application of the Funds or any portion thereof to the indebtedness or other obligations, apply such portion of the Funds as is reasonable and necessary to repair and preserve the value, marketability and rentability of the Security. Trustor shall have the right to rebuild the Project, and to use all available condemnation proceeds therefor, provided that (a) such proceeds are sufficient to keep the Loans in balance and rebuild the Project in a manner that provides adequate security to Lender for repayment of the Loans or, if such proceeds are insufficient or such security is inadequate, then Trustor shall have funded any deficiency and/or provided additional security; (b) Lender shall have the right to approve plans and specifications for any major rebuilding and the right to approve disbursements of insurance or condemnation proceeds for rebuilding under a construction escrow or similar arrangement; and (c) no material default then exists under the Loan Documents other than any default which is a direct result of the condemnation.

22. **ACCELERATION ON TRANSFER OF SECURITY.** In the event that Trustor, without the prior written consent of the Beneficiary, sells, agrees to sell, transfers, or conveys its interest in the Security or any part thereof or interest therein, Beneficiary may at its option declare all sums secured by this Deed of Trust to be immediately due and payable. This option shall not apply in case of:

A. The grant of a leasehold interest to qualifying households who will occupy units in the Project as provided for under the Loan Documents and the Regulatory Agreements; or

B. Sale or transfer of fixtures or personal property pursuant to the grant provisions in this Deed of Trust. Consent to one (1) sale or transfer shall not be deemed to be a waiver of the right to require such consent to future or successive transactions.

C. Removal and substitution of Borrower's general partner pursuant to Section 5.16 of the Loan Agreement governing the transfer of the Property.

23. **RECONVEYANCE BY TRUSTEE.** This trust is intended to continue for the entire term of the Loan. Upon written request of Beneficiary stating that all sums secured by this Deed of Trust have been paid and upon surrender of this Deed of Trust to Trustee for cancellation and retention, and upon payment by Trustor of Trustee's reasonable fees, Trustee shall reconvey the Security to Trustor, or to the person or persons legally entitled thereto.

### **DEFAULT AND REMEDIES**

24. **EVENTS OF DEFAULT.** Any of the events listed in the Loan Agreement as an Event of Default shall also constitute an Event of Default under this Deed of Trust.

25. **ACCELERATION OF MATURITY.** Upon the happening of an Event of Default which has not been cured within the times and in the manner provided in the Loan Agreement, Beneficiary may declare all sums advanced to Trustor under the Note and this Deed of Trust immediately due and payable.

26. **BENEFICIARY'S REMEDIES.** Upon the happening of an Event of Default which has not been cured within the times and in the manner provided in the Loan Agreement, Beneficiary may, in addition to other rights and remedies permitted by the Loan Agreement, the Note, or applicable law, proceed with any or all of the following remedies:

A. Enforce the assignment of rents and right to possession as provided for in this Deed of Trust, and/or seek appointment of a receiver to take over possession of the Security and collect Rents;

B. Enter the Security and take any actions necessary in its judgment to complete construction on the Security, either in person or through a receiver appointed by a court;

C. Disburse from the Loans' proceeds any amount necessary to cure any monetary default under this Deed of Trust, the Loan Agreement, or the Note;

D. Commence an action to foreclose this Deed of Trust pursuant to California Code of Civil Procedure Section 725(a) et seq., as amended, and/or seek appointment of a receiver from a court of competent jurisdiction with the authority to protect Beneficiary's interests in the Security, including the authority to complete construction of improvements;

E. Deliver to Trustee a written declaration of Default and demand for sale, and a written Notice of Default and election to cause Trustor's interest in the Security to be sold and exercise its power of sale as provided for below; or

F. Pursue any other rights and remedies allowed at law or in equity.

27. **FORECLOSURE BY POWER OF SALE.** Should Beneficiary elect to foreclose by exercise of the power of sale contained in this Deed of Trust, Beneficiary shall notify Trustee and shall deposit with Trustee this Deed of Trust (the deposit of which shall be deemed to constitute evidence that the unpaid sums disbursed under the Notes are immediately due and payable), and such receipts and evidence of any expenditures made that are additionally secured hereby as Trustee may require.

Upon receipt of such notice from Beneficiary, Trustee shall cause to be recorded, published and delivered to Trustor such notice of default and election to sell as then required by law and by this Deed of Trust. Trustee shall, without demand on Trustor, after lapse of such time as may then be required by law and after recordation of such notice of default and after notice of sale having been given as required by law, sell the Security, at the time and place of sale fixed by it in said notice of sale, whether as a whole or in separate lots or parcels or items as Trustee shall deem expedient and in such order as they may determine unless specified otherwise by Trustor, at public auction to the highest bidder for cash in lawful money of the United States payable at the time of sale. Trustee shall deliver to the purchaser its deed or deeds conveying the property so sold, but without any covenant or warranty, express or implied. The recitals in such deed of any matters of facts shall be conclusive proof of the truthfulness thereof. Any person, including, without limitation, Trustor, Trustee, or Beneficiary, may purchase at the sale.

Trustee may postpone the sale of all or any portion of the property by public announcement at such time and place of sale, and from time to time thereafter, and without further notice make such sale at the time fixed by the last postponement, or may, in its discretion, give a new notice of sale.

28. **APPLICATION OF SALE PROCEEDS.** After deducting all reasonable costs, fees and expenses of Trustee, including costs of evidence of title in connection with such sale, Trustee shall apply the proceeds of sale as follows: first, to the payment of all sums then secured by this Deed of Trust, in such order and amounts as Beneficiary in its sole discretion determines; and second, the remainder, if any, to the person or persons legally entitled thereto.

29. **REMEDIES CUMULATIVE.** No right, power or remedy conferred upon or reserved to Beneficiary by this Deed of Trust is intended to be exclusive of any other rights, powers or remedies, but each such right, power and remedy shall be cumulative and concurrent and shall be in addition to any other right, power and remedy given hereunder or now or hereafter existing at law or in equity.

### GENERAL PROVISIONS

30. **GOVERNING LAW.** This Deed of Trust shall be interpreted under and governed by the laws of the State of California, except for those provisions relating to choice of law and those provisions preempted by federal law.

31. **STATEMENT OF OBLIGATION.** Beneficiary may collect a fee not to exceed the maximum allowable under applicable law for furnishing a statement of obligations as provided in the California Civil Code.

32. **CONSENTS AND APPROVALS.** Any consent or approval of Beneficiary required under this Deed of Trust shall not be unreasonably withheld.

33. **TIME.** Time is of the essence in this Deed of Trust.

34. **NOTICES, DEMANDS AND COMMUNICATIONS.** Formal notices, demands and communications between Trustor and Beneficiary shall be sufficiently given and shall not be deemed given unless dispatched by registered or certified mail, postage prepaid, return receipt requested, or delivered personally, to the principal offices of Trustor and Beneficiary as follows:

**BENEFICIARY:** Redevelopment Agency of the County  
of Santa Barbara  
105 E. Anapamu Street  
Room 105  
Santa Barbara, CA 93101  
Attn: Executive Director

**TRUSTOR:** Parkview Isla Vista, L.P.  
c/o Surf Development Company  
815 West Ocean Avenue  
Lompoc, CA 93436  
Attn: Executive Director

Such written notices, demands and communications may be sent in the same manner to such other addresses as the affected Party may from time to time designate by mail as provided in this Section 34. Delivery shall be deemed to have occurred at the time indicated on the receipt for delivery or refusal of delivery.

35. **BINDING UPON SUCCESSORS.** All provisions of this Deed of Trust shall be binding upon and inure to the benefit of the heirs, administrators, executors, successors-in-interest, transferees, and assigns of Trustor, Trustee, and Beneficiary.

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

37. **AMENDMENTS AND MODIFICATIONS.** Any amendments or modifications to this Deed of Trust must be in writing, and shall be made only if mutually agreed upon by Beneficiary and Trustor.

38. **LOAN AGREEMENT CONTROLS.** If there is any contradiction between this instrument and the Loan Agreement, the terms of the Loan Agreement shall control, except that Trustor shall have no defense or claim that this instrument does not establish a valid lien on the Property or the Security.

39. **DEFINITIONS.** Capitalized terms not otherwise defined in this Deed of Trust shall have the same meaning as defined terms in the Loan Agreement.

40. **PROOFS OF CLAIM.** In the case of any receivership, insolvency, bankruptcy, reorganization, arrangement, adjustment, recomposition or other proceedings affecting Trustor, its creditors or its property, Trustee, to the extent permitted by law, shall be entitled to file such

proofs of claim and other documents as may be necessary or advisable in order to have the claims of Beneficiary allowed in such proceedings and for any additional amount which may become due and payable by Trustor hereunder after such date.

41. **SEVERABILITY.** Every provision of this Deed of Trust is intended to be severable. If any term or provision of this Deed of Trust is declared to be illegal, invalid, or unenforceable by a court of competent jurisdiction, the legality, validity, and enforceability of the remaining provisions shall not be affected. If the lien of this Deed of Trust is invalid or unenforceable as to any part of the debt, or if the lien is invalid or unenforceable as to any part of the Security, the unsecured or partially secured portion of the debt and all payments made on the debt (whether voluntary or under foreclosure or other enforcement action or procedure) shall be considered to have been first paid or applied to the payment of that portion of the debt which is not secured or partially secured by the lien of this Deed of Trust.

42. **SUBSTITUTION OF TRUSTEE.** Beneficiary may from time to time appoint another trustee to act in the place and instead of Trustee or any successor. Upon such appointment and without conveyance, the successor trustee shall be vested with all title, powers, and duties conferred upon Trustee.

43. **ACCEPTANCE BY TRUSTEE.** Trustee accepts this Trust when this Deed of Trust, duly executed and acknowledged, is made public record as provided by law. Except as otherwise provided by law, the Trustee is not obligated to notify any party hereto of pending sale under this Deed of Trust or of any action or proceeding in which Trustor, Beneficiary, or Trustee shall be a party unless brought by Trustee.

44. **NONRECOURSE OBLIGATION.** Except as expressly provided in the second paragraph of this section, the Trustor, and the Trustor's officers, directors, employees and agents shall not have any direct or indirect personal liability for payment of the principal of, or interest on, the Note or the performance of the covenants of the Trustor under the Deed of Trust securing the Note. The sole recourse of the Beneficiary with respect to the principal of, or interest on, the Note shall be to the property securing the indebtedness evidenced by the Note. However, that nothing contained in the foregoing limitation of liability shall (a) limit or impair the enforcement against all such security for the Note of all the rights and remedies of the Beneficiary, or (b) be deemed in any way to impair the right of the Beneficiary to assert the unpaid principal amount of the Note as demand for money within the meaning and intent of Section 431.70 of the California Code of Civil Procedure or any successor provision thereto.

The foregoing limitation of liability is intended to apply only to the obligation for the repayment of the principal of, and payment of interest on the Note, except as hereafter set forth; nothing contained herein is intended to relieve the Trustor of personal liability for (a) fraud or willful misrepresentation; (b) the failure to pay taxes, assessments or other charges (which are not contested by Trustor in good faith) which may create liens on the Property that are payable or applicable prior to any foreclosure under the Deed of Trust (to the full extent of such taxes, assessments or other charges); (c) the fair market value of any personal property or fixtures removed or disposed of by Trustor other than in accordance with the Deed of Trust; (d) the misapplication of any proceeds under any insurance policies or awards resulting from

condemnation or the exercise of the power of eminent domain or by reason of damage, loss or destruction to any portion of the Property; (e) the Trustor's indemnification obligations under Article 6 and Article 7 of the Loan Agreement; and (f) payment to the Beneficiary of any rental income or other income arising with respect to the Property received by the Trustor after the Beneficiary has given notice to the Trustor of the occurrence of an Event of Default, subject to the rights of any lender providing a loan secured by the Property to which the Lender has subordinated the Deed of Trust.

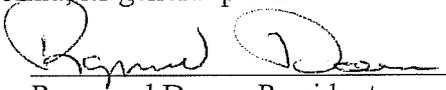
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IN WITNESS WHEREOF, Trustor has executed this Deed of Trust as of the day and year first above written.

**TRUSTOR:**

PARKVIEW ISLA VISTA, L.P. a California limited partnership

By: Surf Affordable Housing Enterprises, Inc., a California, its general partner

By:   
Raymond Down, President

By: Surf Development Company, a California nonprofit public benefit corporation, its general partner

By:   
Raymond Down, President

By: Housing Authority of the County of Santa Barbara, a public body, corporate and politic, its general partner

By:   
Frederick C. Lamont, Executive Director

*Signature must be notarized*

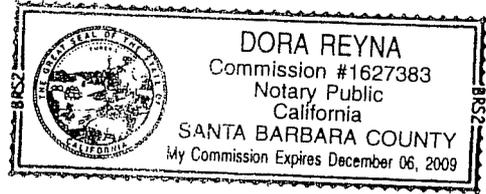
State of CA )  
 )  
County of Santa Barbara )

SS

On 9.2, 2008, before me Dora Reyna,  
Notary Public, personally appeared Raymond Down,  
who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are  
subscribed to the within instrument and acknowledged to me that he/she/they executed the same  
in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument  
the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the  
foregoing paragraph is true and correct.

WITNESS my hand and official seal.



[Signature]

(Seal)

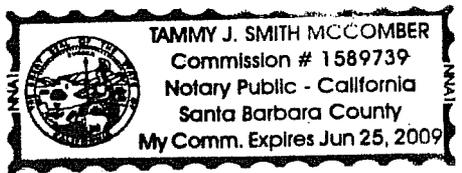
State of CA )  
 )  
County of Santa Barbara )

SS

On Sept. 2, 2008, before me Tammy J. Smith McComber,  
Notary Public, personally appeared Fred Lambert,  
who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are  
subscribed to the within instrument and acknowledged to me that he/she/they executed the same  
in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument  
the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the  
foregoing paragraph is true and correct.

WITNESS my hand and official seal.



[Signature]

(Seal)

EXHIBIT A  
Legal Description of the Property

**EXHIBIT A**  
**LEGAL DESCRIPTION OF THE PROPERTY**

All that certain real property situated in the County of Santa Barbara, State of California, described as follows:

**ASSESSOR'S PARCEL NUMBER:           075-020-15**

**Parcel One:**

Lot 3 of Tract 10186, in the County of Santa Barbara, State of California, as shown on map filed in Book 56, Pages 1, 2 and 3 of Maps, and amended by Affidavit of Correction recorded May 25, 1961 as Instrument No. 45564 in Book 1892, Page 77, both of Official Records, in the office of the County Recorder of said County.

**Parcel Two:**

Non-exclusive easement for ingress, egress, public utilities and incidental purposes, as created by a document recorded July 30, 1963 as Instrument No. 32402 in Book 2005, Page 407 of Official Records, over the Southerly 12½ feet of Parcel One, in the deed to Roy Eaton recorded September 22, 1958 as Instrument No. 22904 in Book 1556, Page 234 of Official Records.

Said easement lies contiguous with, adjacent to and Northerly of Lots 1 through 8, inclusive, of said tract 10186

**ASSESSOR'S PARCEL NUMBER:           075-020-14**

**Parcel One:**

Lot 2 of Tract 10186, in the County of Santa Barbara, State of California, as shown on map filed in Book 56, Pages 1, 2 and 3 of Maps, and amended by Affidavit of Correction recorded May 25, 1961 as Instrument No. 18412 in Book 1849, Page 452 and December 20, 1961 as Instrument No. 45564 in Book 1892, Page 77, both of Official Records, in the office of the County Recorder of said County.

**Parcel Two:**

Non-exclusive easement for ingress, egress, public utilities and incidental purposes, as created by a document recorded July 30, 1963 as Instrument No. 32402 in Book 2005, Page 407 of Official Records, over the Southerly 12½ feet of Parcel One, in the deed to Roy Eaton recorded September 22, 1958 as Instrument No. 22904 in Book 1556, Page 234 of Official Records.

Said easement lies contiguous with, adjacent to and Northerly of Lots 1 through 8, inclusive, of said tract 10186

**EXHIBIT C**  
**PROMISSORY NOTE**

PROMISSORY NOTE

Santa Barbara, California

\$3,263,557

\_October 28<sup>th</sup> \_\_\_\_\_, 2008

FOR VALUE RECEIVED, Parkview Isla Vista, L.P., a California limited partnership (the "Borrower"), whose address is 815 W. Ocean Ave., Lompoc, CA 93436, hereby promises to pay to the order of the Redevelopment Agency of the County of Santa Barbara, a public body corporate and politic (the "Lender"), whose address is 105 E Anapamu Street, Room Santa Barbara, CA 93101, the principal amount of up to Three Million Two Hundred Sixty Three Thousand Five Hundred Fifty Seven Dollars (\$3,263,557), together with interest thereon, as set forth below.

1. **BORROWER'S OBLIGATION.** This promissory note (the "Note") evidences the Borrower's obligation to pay the Lender the principal amount of Three Million Two Hundred Sixty Three Thousand Five Hundred Fifty Seven Dollars (\$3,263,557) for the funds loaned to the Borrower by the Lender (the "Loan") for permanent financing for the certain real property located in at 6682 and 6688 Parkview Avenue in Isla Vista, Santa Barbara County, California (the "Property").

2. **INTEREST.** Subject to Section 3 of this Note, the Note shall bear simple interest at a rate of three percent (3%) per annum on the outstanding principal balance of the Loan until paid.

3. **DEFAULT INTEREST.** In the event of a default by Borrower of any of its obligations under this Note, Borrower shall pay to Lender interest on the outstanding principal of the Loan, at an annual rate equal to the lesser of (i) ten percent (10%) or (ii) the highest interest allowed by law, from the date of the default until the date that the default is cured or the Loan is repaid in full.

4. **AMOUNT AND TIME OF PAYMENT.** The principal and all current and accrued interest of the Loan shall be due and payable on the earlier of: (a) fifty-five (55) years from the date of the Note (b) subject to the provisions of Section 5.16 of the Loan Agreement by and between the Lender and the Borrower of even date herewith (the "Loan Agreement"), the date the Property is sold or (c) an Event of Default by Borrower which has not been cured as provided for in the Loan Agreement.

5. **DEFINITIONS.** The following terms are defined in the Loan Agreement and repeated here for convenience of reference. All terms not defined in this Note shall have the meaning set forth in the Loan Agreement:

a. "Annual Financial Statement" means the financial statement of Operating Expenses and Revenues, prepared at Borrower's expense, by an independent certified accountant reasonably acceptable to Lender, which shall form the basis for determining Residual Receipts.

b. "Operating Expenses" shall mean, actual, reasonable and customary costs, fees and expenses directly attributable to the operation, maintenance, and management of the Project, including painting, cleaning, repairs and alterations, landscaping, utilities, rubbish removal, certificates, permits and licenses, sewer charges, real and personal property taxes and assessments, insurance, property management fee, security, advertising, promotion and publicity, office, janitorial, cleaning and building supplies, lease payments if any, cash deposited into reserves for capital replacements with respect to the Project in an amount not to exceed reserve requirements reasonably imposed by any lender, cash deposited into an operating reserve in an amount not to exceed the amount reasonably required by any lender, purchase, repair, servicing and installation of appliances, equipment, fixtures and furnishings, fees and expenses of accountants, attorneys, consultants and other professionals, and any required debt service under the senior loan from the Pacific Capital Bank, N.A. doing business as Santa Barbara Bank & Trust. Operating Expenses may include the payment by Borrower of a partnership management fee of Fifteen Thousand Dollars (\$15,000) (increasing annually by three percent (3%) per annum) and an asset management fee of Five Thousand Dollars (\$5,000) (increasing annually by three percent (3%) per annum commencing upon January 1, 2010) over the term of the Borrower's Agreement of Limited Partnership, as amended. Operating Expenses also include payment of a development fee in accordance with the Borrower's Agreement of Limited Partnership, as amended, in an amount not to exceed Three Hundred Thirty Two Thousand Three Hundred Ninety Eight Dollars (\$332,398). The Operating Expenses shall be reported in the Annual Financial Statement.

c. "Project" means the operation and management of the Property according to the terms of this Loan Agreement.

d. "Residual Receipts" means for any calendar year Revenues minus Operating Expenses.

e. "Revenue" means all income derived from the Project, including but not limited to rent from the units and income from laundry operations.

6. **PAYMENTS.** Borrower shall make annual payments to Lender from fifty percent (50%) of the Residual Receipts commencing on May 1, 2010 and on each May 1<sup>st</sup> thereafter until the Loan is paid in full or otherwise terminated. Notwithstanding the Residual Receipts payments made pursuant to this Section 6, all outstanding interest and principal due under the Note shall be due and payable at the time set forth in Section 4 above.

7. **PLACE AND MANNER OF PAYMENT.** All amounts due and payable under this Note are payable at the office of the Lender at the address set forth above, or at such other place as the Lender may designate to the Borrower in writing from time to time, in any coin or

currency of the United States which on the respective dates of payment thereof shall be legal tender for the payment of public and private debts.

8. **DEFAULT AND ACCELERATION.** This Note is secured by a Deed of Trust of even date herewith. All covenants, conditions and agreements contained in the Deed of Trust and the Loan Agreement are hereby made a part of this Note. The following shall constitute an "Event of Default" under this Note: a) Borrower's failure to pay when due any sums payable under this Note which has not been cured within three (3) days following written notice from Lender to Borrower of such failure; b) Borrower's failure to observe or to perform any of its other covenants, agreements or obligations under the Deed of Trust or Loan Agreement after the expiration of applicable cure periods, if any; and c) any other Event of Default (or Borrower Event of Default) as defined in the Loan Agreement or Deed of Trust which has not been cured pursuant to the Loan Agreement or Deed of Trust. Borrower agrees that the unpaid balance of the then principal amount of this Note, shall, at the option of the Lender, become immediately due and payable upon any Event of Default. Upon any Event of Default, the Lender may exercise any other right or remedy permitted under the Loan Agreement, this Note and the Deed of Trust.

9. **PREPAYMENT.** The Borrower may pay the principal and any interest due on the Note in advance of the time for payment thereof as provided in this Note, without penalty or premium.

10. **APPLICATION OF PAYMENTS.** Payments by Borrower pursuant to this Note shall be applied first to accrued interest then to current interest, then to other charges, if any, then to reduce the principal.

11. **NO OFFSET.** Borrower hereby waives any rights of offset it now has or may hereafter have against the Lender, its successors and assigns, and agrees to make the payments called for herein in accordance with the terms of this Note.

12. **WAIVERS.** Presentment, notice of dishonor, and protest are waived by all makers, sureties, guarantors, and endorsers of this Note, if any.

13. **CONSENTS AND APPROVALS.** Any consent or approval of the Lender required under this Note shall not be unreasonably withheld or delayed.

14. **NOTICES.** Except as may be otherwise specifically provided herein, any approval, notice, direction, consent request or other action by the Lender shall be in writing and may be communicated to the Borrower at the principal office of the Borrower set forth above, or at such other place or places as the Borrower shall designate in writing, from time to time, for the receipt of communications from Lender.

15. **BINDING UPON SUCCESSORS.** All provisions of this Note shall be binding upon and inure to the benefit of the successors-in-interest, transferees, and assigns of the Borrower and the Lender.

16. **GOVERNING LAW.** This Note shall be interpreted under and governed by the laws of the State of California, except for those provisions relating to choice of law and those provisions preempted by federal law.

17. **SEVERABILITY.** Every provision of this Note is intended to be severable. If any provision of this Note shall be held invalid, illegal, or unenforceable by a court of competent jurisdiction, the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired.

18. **TIME.** Time is of the essence in this Note.

19. **ATTORNEYS' FEES AND COSTS.** In the event any legal action is commenced to interpret or to enforce the terms of this Note, the prevailing party in any such action shall be entitled to recover all reasonable attorneys' fees and costs incurred in such action.

20. **WAIVER.** Any waiver by the Lender of any obligation in this Note must be in writing. No waiver shall be implied from any failure of the Lender to take, or any delay or failure by Lender to take action on any breach or default by the Borrower or to pursue any remedy allowed under this Note or applicable law. Any extension of time granted to the Borrower to perform any obligation under this Note shall not operate as a waiver or release from any of its obligations under this Note.

21. **AMENDMENTS AND MODIFICATIONS.** Any amendments or modifications to this Note must be in writing, and shall be made only if executed by both the Borrower and the Lender.

22. **NONRECOURSE.** Except as expressly provided in the second paragraph of this Section 22 the Borrower, and the Borrower's partners, officers, directors, employees and agents shall not have any direct or indirect personal liability for payment of the principal of, or interest on, this Note. The sole recourse of the Lender with respect to the principal of, or interest on, the Note shall be to the property securing the indebtedness evidenced by the Note. However, nothing contained in the foregoing limitation of liability shall (i) limit or impair the enforcement against all such security for the Note of all the rights and remedies of the Lender, or (ii) be deemed in any way to impair the right of the Lender to assert the unpaid principal amount of the Note as demand for money within the meaning and intendment of Section 431.70 of the California Code of Civil Procedure or any successor provision thereto.

The foregoing limitation of liability is intended to apply only to the obligation for the repayment of the principal of, and payment of interest on the Note, except as hereafter set forth; nothing contained herein is intended to relieve the Borrower of personal liability to the extent of actual damages for (i) Borrower's fraud or willful misrepresentation; (ii) the failure to pay taxes, assessments or other charges (which are not contested by the Borrower in good faith) which may create liens on the Property that are payable or applicable prior to any foreclosure under the Deed of Trust (to the full extent of such taxes, assessments or other charges); (iii) the fair market value of any personal property or fixtures removed or disposed of by the Borrower other than in accordance with the Deed of Trust; (iv) the material misapplication of any proceeds under any

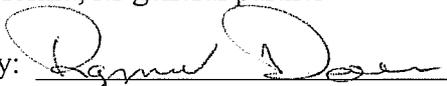
insurance policies or awards resulting from condemnation or the exercise of the power of eminent domain or by reason of damage, loss or destruction to any portion of the Property; (v) the Borrower's indemnification obligations under the Loan Agreement; and (vi) payment to the Lender of any rental income or other income arising with respect to the Property received by the Borrower after the Lender has given notice to the Borrower of the occurrence of an Event of Default and after the expiration of all applicable notice and cure periods, subject to the rights of any lender providing a loan secured by the Property to which the Lender has subordinated the Deed of Trust.

23. **LOAN AGREEMENT CONTROLS.** In the event that any provisions of this Note and the Loan Agreement conflict, the terms of the Loan Agreement shall control.

**BORROWER**

PARKVIEW ISLA VISTA, L.P. a California limited partnership

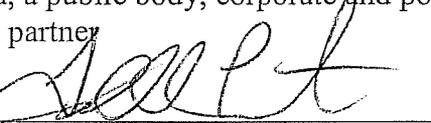
By: Surf Affordable Housing Enterprises, Inc., a California, its general partner

By:   
Raymond Down, President

By: Surf Development Company, a California nonprofit public benefit corporation, its general partner

By:   
Raymond Down, President

By: Housing Authority of the County of Santa Barbara, a public body, corporate and politic, its general partner

By:   
Frederick C. Lamont,  
Executive Director

**EXHIBIT D**  
**REGULATORY AGREEMENT**

RECORDING REQUESTED BY  
AND WHEN RECORDED MAIL TO:

Redevelopment Agency of the  
County of Santa Barbara  
105 E. Anapamu Street, Room 105  
Santa Barbara, CA 93101  
Attn: Executive Director

NO FEE FOR RECORDING PURSUANT TO  
GOVERNMENT CODE SECTION 27383

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**REGULATORY AGREEMENT AND  
DECLARATION OF RESTRICTIVE COVENANTS**

This Regulatory Agreement and Declaration of Restrictive Covenants (the "Agreement") is made and entered into as of October 28<sup>th</sup> 2008, by and between the Redevelopment Agency of the County of Santa Barbara, a public body, corporate and politic ("Agency"), and Parkview Isla Vista, L.P., a California limited partnership.

**RECITALS**

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

B. Pursuant to authority granted under the California Community Redevelopment Law, the Agency is charged with administration and enforcement of the Redevelopment Plan for the Isla Vista Project Area adopted by the Board of Supervisors of the County of Santa Barbara by Ordinance No. 3894 on November 27, 1990 (the "Plan"). The Plan affects and controls the development and use of all real property located within the Isla Vista Redevelopment Project Area (the "Project Area"). The area which is the subject of this Agreement is within the Project Area. This Agreement is subject to the terms and conditions of the Plan.

C. The Agency wishes to promote the development of more affordable rental housing in neighborhoods in need of revitalization in the Santa Barbara County community and provide a greater choice of housing opportunities for persons and families of low income.

D. Borrower proposes to operate and manage two (2) adjacent residential buildings located at 6682 and 6688 Parkview Avenue in Isla Vista, Santa Barbara County, California, as more particularly described in Exhibit A. Each building contains six (6) two-bedroom units and four (4) one-bedroom units for a total of ten (10) residential units in each building.

E. The Agency has agreed to loan funds to Borrower on the condition that the Property be maintained and operated in accordance with Health and Safety Sections 33334.2 et seq., and in accordance with additional restrictions concerning affordability, operation, and maintenance of the Property, as specified in this Agreement and the Loan Agreement.

F. Upon recordation this Agreement shall replace and supercede that certain Regulatory Agreement and Declaration of Restrictive Covenants recorded as Instrument No. 2007-0043944 in the Official Records of Santa Barbara County.

G. In consideration of receipt of the Loan and other assistance granted to the Property by the Agency, Agency and Borrower have further agreed to observe all the terms and conditions set forth below.

NOW THEREFORE, IN CONSIDERATION of the mutual agreements, obligations, and representations, and in further consideration for the making of the Loan, Borrower and Lender hereby agree as follows:

ARTICLE 1.  
DEFINITIONS

1.1 Definitions. When used in this Agreement, the following terms shall have the respective meanings assigned to them in this Article 1.

(a) "Actual Household Size" shall mean the actual number of persons in the applicable household.

(b) "Adjusted Income" shall mean the total anticipated annual income of all persons in a household, as calculated in accordance with 25 California Code of Regulations Section 6914 or pursuant to a successor State housing program that utilizes a reasonably similar method of calculation of adjusted income.

(c) "Agency" shall mean the Redevelopment Agency of the County of Santa Barbara, a public body, corporate and politic.

(d) "Agreement" shall mean this Regulatory Agreement and Declaration of Restrictive Covenants.

(e) "Area Median Income" shall mean the median income for the Santa Barbara/Santa Maria/Lompoc Primary Metropolitan Statistical Area, with adjustments for household size, as determined from time to time by the United States Department of Housing and Urban Development ("HUD") pursuant to the United States Housing Act of 1937, as amended, or such other method of median income calculation applicable to the Lender that HUD may hereafter adopt in connection with said Act.

(f) "Assumed Household Size" shall have the meaning set forth in Section 2.2(b).

(g) "Borrower" shall mean Parkview Isla Vista, L.P., a California limited partnership and its authorized representatives, assigns, transferees, or successors-in-interest thereto.

(h) "Deed of Trust" shall mean the deed of trust executed by the Borrower in favor of the Agency and recorded against the Borrower's interest in the Property which secures repayment of the Loan and performance of this Agreement, the Note and the Loan Agreement.

(i) "Loan" shall mean all funds loaned to Borrower by the Agency pursuant to the Loan Agreement.

(j) "Loan Agreement" means that certain loan agreement by and between the Borrower and Agency pursuant to which the Agency loans in total Three Million Two Hundred Sixty Three Thousand Five Hundred Fifty Seven Dollars (\$3,263,557) to the Borrower.

(k) "Note" shall mean the promissory notes from the Borrower to the Agency evidencing all or any part of the Loan.

(l) "Property" shall mean that certain real property and improvements consisting of two ten-unit buildings at 6682 and 6688 Parkview Avenue in Isla Vista, Santa Barbara County, California, as more particularly described in Exhibit A, which is incorporated into this Agreement by this reference.

(m) "Qualifying Household" means a household whose annual income does not exceed sixty percent (60%) of the median income for the Santa Barbara/Santa Maria/Lompoc Primary Metropolitan Statistical Area as determined by HUD with adjustments for household size.

(n) "Rent" shall mean the total of monthly payments by the tenants of a Unit for the following: use and occupancy of the Unit and land and associated facilities, including parking; any separately charged fees or service charges assessed by Borrower which are required of all tenants, other than security deposits; the cost of an adequate level of service for utilities paid by the tenant, including (to the extent paid for by the tenant) garbage collection, sewer, water, electricity, gas and other heating, cooking and refrigeration fuel, but not cable or telephone service.

(o) "Tenant" shall mean a household occupying a Unit.

(p) "Term" shall mean the period of time beginning on the date of this Agreement and ending fifty-five (55) years following the date this Agreement is recorded.

(q) "Unit" shall mean one of the twenty (20) rental units on the Property.

ARTICLE 2.  
AFFORDABILITY COVENANTS

2.1 Occupancy Requirements.

(a) All Units. All twenty (20) Units shall be rented to and occupied by or, if vacant, available for occupancy by Qualifying Households.

2.2 Allowable Rent.

(a) Qualifying Rent. Subject to the provisions of Section 2.2(b) below, the rent charged to Tenants shall not exceed thirty percent (30%) of sixty percent (60%) of Area Median Income, adjusted for Assumed Household Size and any other HUD adjustment.

(b) Assumed Household Size.

(1) In calculating the allowable Rent for the Units, the Assumed Household Size for a one-bedroom unit shall be two persons and the Assumed Household size for a two-bedroom unit shall be three persons.

(2) While any federal Low-Income Housing tax credit regulatory agreement is in force, the Borrower shall use the assumed household sizes per Unit that are required by the federal Low Income Housing Tax Credit program. Borrower anticipates that the Borrower shall enter into a State of California Low-Income Housing Tax Credit regulatory agreement with a term of fifty-five (55) years. Twelve (12) months prior to the expiration of the Low-Income Housing Tax Credit regulatory agreement, if the term is less than fifty-five (55) years, the Borrower and the Agency shall meet to determine whether the California Community Redevelopment Law requires Borrower to change the Assumed Household Sizes per Unit. If no change is required, Borrower may continue to use the Assumed Household Sizes which were required by the Low Income Housing Tax Credit program.

2.3 Increased Income of Qualifying Household. Non-Qualifying Household. In the event that recertification of a Qualifying Household's income indicates that such household's Adjusted Income exceeds one hundred and twenty percent (120%) of Area Media Income, then such non-Qualifying Household shall be required to move from the Unit within one hundred and twent (120) days Borrower completed recertification of the non-Qualifying Household's Unit. The Unit previously occupied by a non-Qualifying Household shall then be made available for a new Qualifying Household.

2.4 Lease Provisions. Borrower shall include in leases for all Units provisions which authorize Borrower to immediately terminate the tenancy of any household one or more of whose members misrepresented any fact material to the household's qualification as a Qualifying Household. Each lease or rental agreement shall also provide that the household is subject to annual certification in accordance with Section 3.1 below, and that, if the household's income increases above one hundred and twenty percent (120%) of Area Media Income, such household's shall be required to vacate the Unit.

2.5 Condominium Conversion. The Borrower shall not convert Units to condominium or cooperative ownership or sell condominium or cooperative conversion rights to the Property during the Term of this Agreement.

ARTICLE 3.  
INCOME CERTIFICATION AND REPORTING

3.1 Income Certification. The Borrower shall obtain, complete and maintain on file, immediately prior to initial occupancy and annually thereafter, income certifications from each Tenant renting any of the Units in conformance with the federal Low Income Housing Tax Credit program. The Borrower shall verify that the income provided by an applicant or occupying household in an income certification is accurate by taking one or more of the following steps as a part of the verification process: (1) obtain a pay stub for the most recent pay period; (2) obtain an income tax return for the most recent tax year; (3) conduct a credit agency or similar search; (4) obtain an income verification form from the applicant's current employer; (5) obtain an income verification form from the Social Security Administration and/or the California Department of Social Services if the applicant receives assistance from either of such agencies; or (6) if the applicant is unemployed and has no such tax return, obtain another form of independent verification. Copies of Tenant income certifications shall be available to the Agency upon request.

3.2 Annual Report to Agency. Each year Borrower shall submit an annual report to the Agency, in a form approved by the Agency. The annual report shall include for each Unit covered by this Agreement, the Rent and the income and household size of the household occupying the Unit. The report shall also state the date the tenancy commenced for each rental Unit and such other information as the Agency may be required by law to obtain.

3.3 Additional Information. Borrower shall provide any additional information reasonably requested by the Agency with respect to the Borrower's compliance with the terms of this Agreement. The Agency shall have the right to examine and make copies of all books, records or other documents of Borrower which pertain to any Unit to determine compliance with this Agreement.

3.4 Records. The Borrower shall maintain complete, accurate and current records pertaining to the Property, and shall permit any duly authorized representative of the Agency to inspect records, including records pertaining to income and household size of Tenants in the Units. All household lists, applications and waiting lists relating to Units shall at all times be kept separate and identifiable from any other business of the Borrower and shall be maintained as required by the Agency, in a reasonable condition for proper audit and subject to examination during business hours by representatives of the Agency. The Borrower shall retain copies of all materials obtained or produced with respect to occupancy of the Units for a period of at least three (3) years.

ARTICLE 4.  
OPERATION OF THE PROPERTY

4.1 Taxes and Assessments. The Borrower shall pay when due all real property taxes and assessments assessed and levied on the Property, and shall remove any levy or attachment made on the Property. The Borrower may, however, contest the validity or amount of any tax, assessment, or lien on the Property.

4.2 Nondiscrimination. The Borrower covenants by and for itself and its successors and assigns that, there shall be no discrimination against or segregation of any person or group of persons, on account of any basis listed in subdivision (a) or (d) of Section 12955 of the California 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 California Government Code, in the leasing, subleasing, transferring, use, occupancy, tenure, or enjoyment of the Units. Nor shall the Borrower or any person claiming under or through the Borrower establish or permit any such practice or practices of discrimination or segregation with reference to the selection, location, number, use or occupancy of tenants, lessors, subtenants, sublessees, vendees or employees in the Property. The foregoing covenant shall run with the land and shall remain in effect in perpetuity.

ARTICLE 5.  
PROPERTY MANAGEMENT AND MAINTENANCE

5.1 Management Responsibilities. The Borrower is responsible for all management functions with respect to the Property, including without limitation the selection of tenants, certification and recertification of household size and income, evictions, collection of rents and deposits, maintenance, landscaping, routine and extraordinary repairs, replacement of capital items, and security. The Agency shall have no responsibility over management of the Property.

5.2 Property Maintenance. The Borrower shall cause the Property to be maintained and repaired consistent with requirements and in a condition reasonably acceptable to the Agency during the Term, including but not limited to cleaning, painting, plumbing, carpentry, grounds care and such other maintenance and repairs as may be necessary. If there arises a condition in contravention of this Section 5.2, and if the Borrower has not cured such condition within thirty (30) days after receiving an Agency notice of such a condition or such longer period of time as is reasonably necessary in the reasonable discretion of the Agency, then the Agency shall have the right to perform all acts necessary to cure such condition, and to establish or enforce a lien or other encumbrance against the Property, subject to the rights of any senior lenders.

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ARTICLE 6.  
MISCELLANEOUS

6.1 Term. The provisions of this Agreement shall apply to the Property for the entire Term even if the entire Loan is paid in full prior to the end of the Term; provided, however, that

the provisions of Section 4.2 of this Agreement shall run with the Property and shall remain in effect in perpetuity. This Agreement shall bind any successor, heir or assign of Borrower, whether a change in interest occurs voluntarily or involuntarily, by operation of law or otherwise, except as expressly released by the Agency. The Agency makes the Loan on the condition, and in consideration of, this provision, and would not do so otherwise.

6.2 Covenants to Run With the Land. The Agency and Borrower hereby declare their express intent that the covenants and restrictions set forth in this Agreement shall run with the land, and shall bind all successors in title to the Property, provided, however, that on the expiration of the Term of this Agreement said covenants and restrictions shall expire. Each and every contract, deed or other instrument hereafter executed covering or conveying the Property or any portion thereof shall be held conclusively to have been executed, delivered and accepted subject to such covenants and restrictions, regardless of whether such covenants or restrictions are set forth in such contract, deed or other instrument, unless the Agency expressly releases such conveyed portion of the Property from the requirements of this Agreement.

6.3 Reconveyance of Prior Regulatory Agreement. Upon recordation this Agreement shall replace and supercede that certain that certain Regulatory Agreement and Declaration of Restrictive Covenants recorded as Instrument No. 2007-0043944 in the Official Records of Santa Barbara County.

6.4 Enforcement by the Agency. If Borrower fails to perform any obligation under this Agreement, and fails to cure the default within thirty (30) days after the Agency has notified the Borrower in writing of the default or, if the default cannot be cured within thirty (30) days, failed to commence to cure within thirty (30) days and thereafter diligently pursue such cure, the Agency shall have the right to enforce this Agreement by any or all of the following actions, or any other remedy provided by law:

(a) Calling the Loan. The Agency may declare a default under the Note and exercise any rights or remedies permitted under the Note and Deed of Trust.

(b) Action to Compel Performance or for Damages. The Agency may bring an action at law or in equity to compel Borrower's performance of its obligations under this Agreement and/or for damages.

6.5 Recording and Filing. The Agency and Borrower shall cause this Agreement, and all amendments and supplements to it, to be recorded against the Property in the Official Records of the County of Santa Barbara.

6.6 Subordination: Subject to the Agency making the required findings under Health and Safety Code Section 33334.14, the Agency agrees to subordinate this Agreement to the lien of the Borrower's senior lender Pacific Capital Bank, N.A. doing business as Santa Barbara Bank & Trust.

6.7 Governing Law. This Agreement shall be governed by the laws of the State of California.

6.8 Amendments. This Agreement may be amended only by a written instrument executed by all the parties hereto or their successors in title, and duly recorded in the real property records of the County of Santa Barbara, California.

6.9 Notices, Demands and Communications. Formal notices, demands, and communications among the Agency and the Borrower shall be sufficiently given if, and shall not be deemed given unless, secured personally, or dispatched by certified mail, return receipt requested, or by facsimile transmission or reputable overnight delivery service with a receipt showing date of delivery, to the principal offices of the Agency and the Borrower as follows:

AGENCY:                   Redevelopment Agency  
                              105 E Anapamu Street, Room 406  
                              Santa Barbara, CA 93101-2065  
                              Attn: Executive Director

With a copy to:       Office of the County Counsel  
                              105 E. Anapamu Street, Room 406  
                              Santa Barbara, CA 93101-2065

BORROWER:             Parkview Isla Vista, L.P  
                              c/o Surf Development Company  
                              815 W. Ocean Avenue  
                              Lompoc, CA 93436  
                              Attn: Executive Director

Such written notices, demands and communications may be sent in the same manner to such other addresses as the affected Party may from time to time designate by mail as provided in this Section 6.8 Delivery shall be deemed to have occurred at the time indicated on the receipt for delivery or refusal of delivery.

6.9 Capitalized Terms. Any capitalized terms not defined herein shall have the meaning attributed to them in the Loan Agreement.

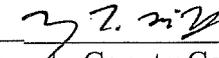
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--

IN WITNESS WHEREOF, the Agency and Borrower have executed this Agreement by duly authorized representatives, all on the date first written above.

**APPROVED AS TO FORM:**

DENNIS A. MARSHALL  
AGENCY COUNSEL

By:   
Deputy County Counsel

**APPROVED AS TO FORM:**

BOB GEIS  
AGENCY TREASURER

By: \_\_\_\_\_  
Senior Financial Analyst

**AGENCY**

Redevelopment Agency of the County of Santa Barbara, a public body corporate and politic

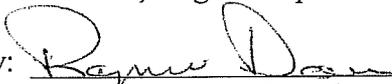
By: \_\_\_\_\_

Salud Carbajal, Chair

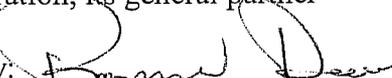
**BORROWER**

PARKVIEW ISLA VISTA, L.P. a California limited partnership

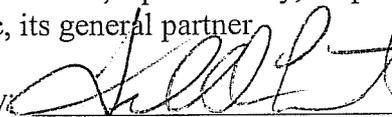
By: Surf Affordable Housing Enterprises, Inc., a California, its general partner

By:   
Raymond Down, President

By: Surf Development Company, a California nonprofit public benefit corporation, its general partner

By:   
Raymond Down, President

By: Housing Authority of the County of Santa Barbara, a public body, corporate and politic, its general partner

By:   
Frederick C. Lamont,  
Executive Director

State of CA )  
County of Santa Barbara )

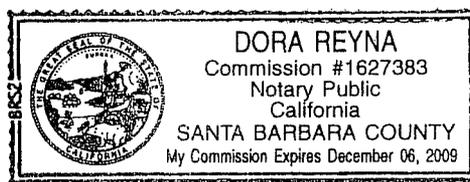
SS

On Sept 2, 2008 before me Dora Reyna,  
Notary Public, personally appeared Raymond Down,  
who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are  
subscribed to the within instrument and acknowledged to me that he/she/they executed the same  
in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument  
the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the  
foregoing paragraph is true and correct.

WITNESS my hand and official seal.

[Signature]



(Seal)

State of CA )  
County of Santa Barbara )

SS

On Sept. 2, 2008, before me Tammy J. Smith McComber,  
Notary Public, personally appeared Fred Lamont,  
who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are  
subscribed to the within instrument and acknowledged to me that he/she/they executed the same  
in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument  
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I certify under PENALTY OF PERJURY under the laws of the State of California that the  
foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Tammy J. Smith McComber (Seal)

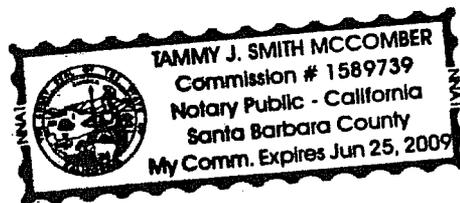


EXHIBIT A  
Property Description

**EXHIBIT A**  
**LEGAL DESCRIPTION OF THE PROPERTY**

All that certain real property situated in the County of Santa Barbara, State of California, described as follows:

**ASSESSOR'S PARCEL NUMBER:           075-020-15**

**Parcel One:**

Lot 3 of Tract 10186, in the County of Santa Barbara, State of California, as shown on map filed in Book 56, Pages 1, 2 and 3 of Maps, and amended by Affidavit of Correction recorded May 25, 1961 as Instrument No. 45564 in Book 1892, Page 77, both of Official Records, in the office of the County Recorder of said County.

**Parcel Two:**

Non-exclusive easement for ingress, egress, public utilities and incidental purposes, as created by a document recorded July 30, 1963 as Instrument No. 32402 in Book 2005, Page 407 of Official Records, over the Southerly 12½ feet of Parcel One, in the deed to Roy Eaton recorded September 22, 1958 as Instrument No. 22904 in Book 1556, Page 234 of Official Records.

Said easement lies contiguous with, adjacent to and Northerly of Lots 1 through 8, inclusive, of said tract 10186

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**Parcel One:**

Lot 2 of Tract 10186, in the County of Santa Barbara, State of California, as shown on map filed in Book 56, Pages 1, 2 and 3 of Maps, and amended by Affidavit of Correction recorded May 25, 1961 as Instrument No. 18412 in Book 1849, Page 452 and December 20, 1961 as Instrument No. 45564 in Book 1892, Page 77, both of Official Records, in the office of the County Recorder of said County.

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Said easement lies contiguous with, adjacent to and Northerly of Lots 1 through 8, inclusive, of said tract 10186

**EXHIBIT E**  
**MANAGEMENT PLAN**

**EXHIBIT F**  
**MARKETING PLAN**

ATTACHMENT B

RECORDING REQUESTED BY  
AND WHEN RECORDED MAIL TO:

Redevelopment Agency of the  
County of Santa Barbara  
105 E. Anapamu Street, Room 105  
Santa Barbara, CA 93101  
Attn: Executive Director

NO FEE FOR RECORDING PURSUANT TO  
GOVERNMENT CODE SECTION 27383

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**REGULATORY AGREEMENT AND  
DECLARATION OF RESTRICTIVE COVENANTS**

This Regulatory Agreement and Declaration of Restrictive Covenants (the "Agreement") is made and entered into as of October 28<sup>th</sup> 2008, by and between the Redevelopment Agency of the County of Santa Barbara, a public body, corporate and politic ("Agency"), and Parkview Isla Vista, L.P., a California limited partnership.

**RECITALS**

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

B. Pursuant to authority granted under the California Community Redevelopment Law, the Agency is charged with administration and enforcement of the Redevelopment Plan for the Isla Vista Project Area adopted by the Board of Supervisors of the County of Santa Barbara by Ordinance No. 3894 on November 27, 1990 (the "Plan"). The Plan affects and controls the development and use of all real property located within the Isla Vista Redevelopment Project Area (the "Project Area"). The area which is the subject of this Agreement is within the Project Area. This Agreement is subject to the terms and conditions of the Plan.

C. The Agency wishes to promote the development of more affordable rental housing in neighborhoods in need of revitalization in the Santa Barbara County community and provide a greater choice of housing opportunities for persons and families of low income.

D. Borrower proposes to operate and manage two (2) adjacent residential buildings located at 6682 and 6688 Parkview Avenue in Isla Vista, Santa Barbara County, California, as more particularly described in Exhibit A. Each building contains six (6) two-bedroom units and four (4) one-bedroom units for a total of ten (10) residential units in each building.

E. The Agency has agreed to loan funds to Borrower on the condition that the Property be maintained and operated in accordance with Health and Safety Sections 33334.2 et seq., and in accordance with additional restrictions concerning affordability, operation, and maintenance of the Property, as specified in this Agreement and the Loan Agreement.

F. Upon recordation this Agreement shall replace and supercede that certain Regulatory Agreement and Declaration of Restrictive Covenants recorded as Instrument No. 2007-0043944 in the Official Records of Santa Barbara County.

G. In consideration of receipt of the Loan and other assistance granted to the Property by the Agency, Agency and Borrower have further agreed to observe all the terms and conditions set forth below.

NOW THEREFORE, IN CONSIDERATION of the mutual agreements, obligations, and representations, and in further consideration for the making of the Loan, Borrower and Lender hereby agree as follows:

ARTICLE 1.  
DEFINITIONS

1.1 Definitions. When used in this Agreement, the following terms shall have the respective meanings assigned to them in this Article 1.

(a) "Actual Household Size" shall mean the actual number of persons in the applicable household.

(b) "Adjusted Income" shall mean the total anticipated annual income of all persons in a household, as calculated in accordance with 25 California Code of Regulations Section 6914 or pursuant to a successor State housing program that utilizes a reasonably similar method of calculation of adjusted income.

(c) "Agency" shall mean the Redevelopment Agency of the County of Santa Barbara, a public body, corporate and politic.

(d) "Agreement" shall mean this Regulatory Agreement and Declaration of Restrictive Covenants.

(e) "Area Median Income" shall mean the median income for the Santa Barbara/Santa Maria/Lompoc Primary Metropolitan Statistical Area, with adjustments for household size, as determined from time to time by the United States Department of Housing and Urban Development ("HUD") pursuant to the United States Housing Act of 1937, as amended, or such other method of median income calculation applicable to the Lender that HUD may hereafter adopt in connection with said Act.

(f) "Assumed Household Size" shall have the meaning set forth in Section 2.2(b).

(g) "Borrower" shall mean Parkview Isla Vista, L.P., a California limited partnership and its authorized representatives, assigns, transferees, or successors-in-interest thereto.

(h) "Deed of Trust" shall mean the deed of trust executed by the Borrower in favor of the Agency and recorded against the Borrower's interest in the Property which secures repayment of the Loan and performance of this Agreement, the Note and the Loan Agreement.

(i) "Loan" shall mean all funds loaned to Borrower by the Agency pursuant to the Loan Agreement.

(j) "Loan Agreement" means that certain loan agreement by and between the Borrower and Agency pursuant to which the Agency loans in total Three Million Two Hundred Sixty Three Thousand Five Hundred Fifty Seven Dollars (\$3,263,557) to the Borrower.

(k) "Note" shall mean the promissory notes from the Borrower to the Agency evidencing all or any part of the Loan.

(l) "Property" shall mean that certain real property and improvements consisting of two ten-unit buildings at 6682 and 6688 Parkview Avenue in Isla Vista, Santa Barbara County, California, as more particularly described in Exhibit A, which is incorporated into this Agreement by this reference.

(m) "Qualifying Household" means a household whose annual income does not exceed sixty percent (60%) of the median income for the Santa Barbara/Santa Maria/Lompoc Primary Metropolitan Statistical Area as determined by HUD with adjustments for household size.

(n) "Rent" shall mean the total of monthly payments by the tenants of a Unit for the following: use and occupancy of the Unit and land and associated facilities, including parking; any separately charged fees or service charges assessed by Borrower which are required of all tenants, other than security deposits; the cost of an adequate level of service for utilities paid by the tenant, including (to the extent paid for by the tenant) garbage collection, sewer, water, electricity, gas and other heating, cooking and refrigeration fuel, but not cable or telephone service.

(o) "Tenant" shall mean a household occupying a Unit.

(p) "Term" shall mean the period of time beginning on the date of this Agreement and ending fifty-five (55) years following the date this Agreement is recorded.

(q) "Unit" shall mean one of the twenty (20) rental units on the Property.

ARTICLE 2.  
AFFORDABILITY COVENANTS

2.1 Occupancy Requirements.

(a) All Units. All twenty (20) Units shall be rented to and occupied by or, if vacant, available for occupancy by Qualifying Households.

2.2 Allowable Rent.

(a) Qualifying Rent. Subject to the provisions of Section 2.2(b) below, the rent charged to Tenants shall not exceed thirty percent (30%) of sixty percent (60%) of Area Median Income, adjusted for Assumed Household Size and any other HUD adjustment.

(b) Assumed Household Size.

(1) In calculating the allowable Rent for the Units, the Assumed Household Size for a one-bedroom unit shall be two persons and the Assumed Household size for a two-bedroom unit shall be three persons.

(2) While any federal Low-Income Housing tax credit regulatory agreement is in force, the Borrower shall use the assumed household sizes per Unit that are required by the federal Low Income Housing Tax Credit program. Borrower anticipates that the Borrower shall enter into a State of California Low-Income Housing Tax Credit regulatory agreement with a term of fifty-five (55) years. Twelve (12) months prior to the expiration of the Low-Income Housing Tax Credit regulatory agreement, if the term is less than fifty-five (55) years, the Borrower and the Agency shall meet to determine whether the California Community Redevelopment Law requires Borrower to change the Assumed Household Sizes per Unit. If no change is required, Borrower may continue to use the Assumed Household Sizes which were required by the Low Income Housing Tax Credit program.

2.3 Increased Income of Qualifying Household. Non-Qualifying Household. In the event that recertification of a Qualifying Household's income indicates that such household's Adjusted Income exceeds one hundred and twenty percent (120%) of Area Media Income, then such non-Qualifying Household shall be required to move from the Unit within one hundred and twent (120) days Borrower completed recertification of the non-Qualifying Household's Unit. The Unit previously occupied by a non-Qualifying Household shall then be made available for a new Qualifying Household.

2.4 Lease Provisions. Borrower shall include in leases for all Units provisions which authorize Borrower to immediately terminate the tenancy of any household one or more of whose members misrepresented any fact material to the household's qualification as a Qualifying Household. Each lease or rental agreement shall also provide that the household is subject to annual certification in accordance with Section 3.1 below, and that, if the household's income increases above one hundred and twenty percent (120%) of Area Media Income, such household's shall be required to vacate the Unit.

2.5 Condominium Conversion. The Borrower shall not convert Units to condominium or cooperative ownership or sell condominium or cooperative conversion rights to the Property during the Term of this Agreement.

### ARTICLE 3. INCOME CERTIFICATION AND REPORTING

3.1 Income Certification. The Borrower shall obtain, complete and maintain on file, immediately prior to initial occupancy and annually thereafter, income certifications from each Tenant renting any of the Units in conformance with the federal Low Income Housing Tax Credit program. The Borrower shall verify that the income provided by an applicant or occupying household in an income certification is accurate by taking one or more of the following steps as a part of the verification process: (1) obtain a pay stub for the most recent pay period; (2) obtain an income tax return for the most recent tax year; (3) conduct a credit agency or similar search; (4) obtain an income verification form from the applicant's current employer; (5) obtain an income verification form from the Social Security Administration and/or the California Department of Social Services if the applicant receives assistance from either of such agencies; or (6) if the applicant is unemployed and has no such tax return, obtain another form of independent verification. Copies of Tenant income certifications shall be available to the Agency upon request.

3.2 Annual Report to Agency. Each year Borrower shall submit an annual report to the Agency, in a form approved by the Agency. The annual report shall include for each Unit covered by this Agreement, the Rent and the income and household size of the household occupying the Unit. The report shall also state the date the tenancy commenced for each rental Unit and such other information as the Agency may be required by law to obtain.

3.3 Additional Information. Borrower shall provide any additional information reasonably requested by the Agency with respect to the Borrower's compliance with the terms of this Agreement. The Agency shall have the right to examine and make copies of all books, records or other documents of Borrower which pertain to any Unit to determine compliance with this Agreement.

3.4 Records. The Borrower shall maintain complete, accurate and current records pertaining to the Property, and shall permit any duly authorized representative of the Agency to inspect records, including records pertaining to income and household size of Tenants in the Units. All household lists, applications and waiting lists relating to Units shall at all times be kept separate and identifiable from any other business of the Borrower and shall be maintained as required by the Agency, in a reasonable condition for proper audit and subject to examination during business hours by representatives of the Agency. The Borrower shall retain copies of all materials obtained or produced with respect to occupancy of the Units for a period of at least three (3) years.

ARTICLE 4.  
OPERATION OF THE PROPERTY

4.1 Taxes and Assessments. The Borrower shall pay when due all real property taxes and assessments assessed and levied on the Property, and shall remove any levy or attachment made on the Property. The Borrower may, however, contest the validity or amount of any tax, assessment, or lien on the Property.

4.2 Nondiscrimination. The Borrower covenants by and for itself and its successors and assigns that, there shall be no discrimination against or segregation of any person or group of persons, on account of any basis listed in subdivision (a) or (d) of Section 12955 of the California 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 California Government Code, in the leasing, subleasing, transferring, use, occupancy, tenure, or enjoyment of the Units. Nor shall the Borrower or any person claiming under or through the Borrower establish or permit any such practice or practices of discrimination or segregation with reference to the selection, location, number, use or occupancy of tenants, lessors, subtenants, sublessees, vendees or employees in the Property. The foregoing covenant shall run with the land and shall remain in effect in perpetuity.

ARTICLE 5.  
PROPERTY MANAGEMENT AND MAINTENANCE

5.1 Management Responsibilities. The Borrower is responsible for all management functions with respect to the Property, including without limitation the selection of tenants, certification and recertification of household size and income, evictions, collection of rents and deposits, maintenance, landscaping, routine and extraordinary repairs, replacement of capital items, and security. The Agency shall have no responsibility over management of the Property.

5.2 Property Maintenance. The Borrower shall cause the Property to be maintained and repaired consistent with requirements and in a condition reasonably acceptable to the Agency during the Term, including but not limited to cleaning, painting, plumbing, carpentry, grounds care and such other maintenance and repairs as may be necessary. If there arises a condition in contravention of this Section 5.2, and if the Borrower has not cured such condition within thirty (30) days after receiving an Agency notice of such a condition or such longer period of time as is reasonably necessary in the reasonable discretion of the Agency, then the Agency shall have the right to perform all acts necessary to cure such condition, and to establish or enforce a lien or other encumbrance against the Property, subject to the rights of any senior lenders.

--

ARTICLE 6.  
MISCELLANEOUS

6.1 Term. The provisions of this Agreement shall apply to the Property for the entire Term even if the entire Loan is paid in full prior to the end of the Term; provided, however, that

the provisions of Section 4.2 of this Agreement shall run with the Property and shall remain in effect in perpetuity. This Agreement shall bind any successor, heir or assign of Borrower, whether a change in interest occurs voluntarily or involuntarily, by operation of law or otherwise, except as expressly released by the Agency. The Agency makes the Loan on the condition, and in consideration of, this provision, and would not do so otherwise.

6.2 Covenants to Run With the Land. The Agency and Borrower hereby declare their express intent that the covenants and restrictions set forth in this Agreement shall run with the land, and shall bind all successors in title to the Property, provided, however, that on the expiration of the Term of this Agreement said covenants and restrictions shall expire. Each and every contract, deed or other instrument hereafter executed covering or conveying the Property or any portion thereof shall be held conclusively to have been executed, delivered and accepted subject to such covenants and restrictions, regardless of whether such covenants or restrictions are set forth in such contract, deed or other instrument, unless the Agency expressly releases such conveyed portion of the Property from the requirements of this Agreement.

6.3 Reconveyance of Prior Regulatory Agreement. Upon recordation this Agreement shall replace and supercede that certain that certain Regulatory Agreement and Declaration of Restrictive Covenants recorded as Instrument No. 2007-0043944 in the Official Records of Santa Barbara County.

6.4 Enforcement by the Agency. If Borrower fails to perform any obligation under this Agreement, and fails to cure the default within thirty (30) days after the Agency has notified the Borrower in writing of the default or, if the default cannot be cured within thirty (30) days, failed to commence to cure within thirty (30) days and thereafter diligently pursue such cure, the Agency shall have the right to enforce this Agreement by any or allof the following actions , or any other remedy provided by law:

(a) Calling the Loan. The Agency may declare a default under the Note and exercise any rights or remedies permitted under the Note and Deed of Trust.

(b) Action to Compell Performance or for Damages. The Agency may bring an action at law or in equity to compel Borrower's performance of its obligations under this Agreement and/or for damages.

6.5 Recording and Filing. The Agency and Borrower shall cause this Agreement, and all amendments and supplements to it, to be recorded against the Property in the Official Records of the County of Santa Barbara.

6.6 Subordination: Subject to the Agency making the required findings under Health and Safety Code Section 33334.14, the Agency agrees to subordinate this Agreement to the lien of the Borrower's senior lender Pacific Capital Bank, N.A. doing business as Santa Barbara Bank & Trust.

6.7 Governing Law. This Agreement shall be governed by the laws of the State of California.

6.8 Amendments. This Agreement may be amended only by a written instrument executed by all the parties hereto or their successors in title, and duly recorded in the real property records of the County of Santa Barbara, California.

6.9 Notices, Demands and Communications. Formal notices, demands, and communications among the Agency and the Borrower shall be sufficiently given if, and shall not be deemed given unless, secured personally, or dispatched by certified mail, return receipt requested, or by facsimile transmission or reputable overnight delivery service with a receipt showing date of delivery, to the principal offices of the Agency and the Borrower as follows:

AGENCY:                   Redevelopment Agency  
                                  105 E Anapamu Street, Room 406  
                                  Santa Barbara, CA 93101-2065  
                                  Attn: Executive Director

With a copy to:       Office of the County Counsel  
                                  105 E. Anapamu Street, Room 406  
                                  Santa Barbara, CA 93101-2065

BORROWER:             Parkview Isla Vista, L.P  
                                  c/o Surf Development Company  
                                  815 W. Ocean Avenue  
                                  Lompoc, CA 93436  
                                  Attn: Executive Director

Such written notices, demands and communications may be sent in the same manner to such other addresses as the affected Party may from time to time designate by mail as provided in this Section 6.8 Delivery shall be deemed to have occurred at the time indicated on the receipt for delivery or refusal of delivery.

6.9 Capitalized Terms. Any capitalized terms not defined herein shall have the meaning attributed to them in the Loan Agreement.

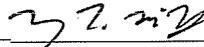
6.10 Severability. If any provision of this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining portions of this Agreement shall not in any way be affected or impaired thereby.

--

IN WITNESS WHEREOF, the Agency and Borrower have executed this Agreement by duly authorized representatives, all on the date first written above.

**APPROVED AS TO FORM:**

DENNIS A. MARSHALL  
AGENCY COUNSEL

By:   
Deputy County Counsel

**APPROVED AS TO FORM:**

BOB GEIS  
AGENCY TREASURER

By:   
Senior Financial Analyst

**AGENCY**

Redevelopment Agency of the County of Santa Barbara, a public body corporate and politic

By: \_\_\_\_\_

Salud Carbajal, Chair

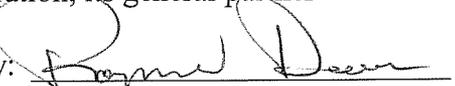
**BORROWER**

PARKVIEW ISLA VISTA, L.P. a California limited partnership

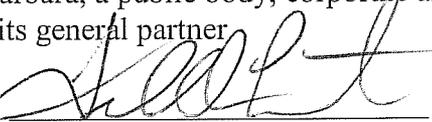
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By: Housing Authority of the County of Santa Barbara, a public body, corporate and politic, its general partner

By:   
Frederick C. Lamont,  
Executive Director

State of CA )  
County of Santa Barbara )

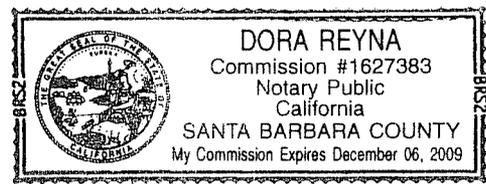
SS

On Sept 2, 2008, before me Dora Reyna,  
Notary Public, personally appeared Raymond Down,  
who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are  
subscribed to the within instrument and acknowledged to me that he/she/they executed the same  
in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument  
the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the  
foregoing paragraph is true and correct.

WITNESS my hand and official seal.

[Signature]



(Seal)

State of CA )  
County of Santa Barbara )

SS

On Sept 2, 2008, before me Tammy J. Smith McComber,  
Notary Public, personally appeared Fred Lamont,  
who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are  
subscribed to the within instrument and acknowledged to me that he/she/they executed the same  
in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument  
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foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Tammy J. Smith McComber (Seal)

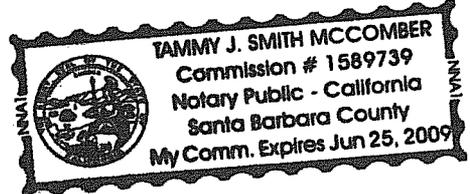


EXHIBIT A  
Property Description

**EXHIBIT A**  
**LEGAL DESCRIPTION OF THE PROPERTY**

All that certain real property situated in the County of Santa Barbara, State of California, described as follows:

**ASSESSOR'S PARCEL NUMBER:           075-020-15**

**Parcel One:**

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Said easement lies contiguous with, adjacent to and Northerly of Lots 1 through 8, inclusive, of said tract 10186

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Said easement lies contiguous with, adjacent to and Northerly of Lots 1 through 8, inclusive, of said tract 10186

ATTACHMENT C

**NOTICE OF EXEMPTION**

TO: Santa Barbara County Clerk of the Board of Supervisors

FROM: Jamie Goldstein, Deputy Director, Redevelopment Agency

The project or activity identified below is determined to be exempt from further environmental review requirements of the California Environmental Quality Act (CEQA) of 1970, as defined in the State and County Guidelines for the implementation of CEQA.

APN(s) : 075-020-014 and 075-020-015 Case No.: \_\_\_\_\_

Location: 6682 and 6688 Picasso Road, Isla Vista near Camino Del Sur  
*(Include street address and cross street (if urbanized area) or attach specific location map)*

Project Title: Parkview Apartments

Project Description: Purchase and rehabilitation of two 10-unit apartment buildings.

Name of Public Agency Approving Project: County of Santa Barbara

Name of Person or Agency Carrying Out Project: County of Santa Barbara Redevelopment Agency

**Exempt Status:** (Check one)

- Ministerial
- Statutory Exemption
- Categorical Exemption
- Emergency Project
- Declared Emergency

Cite specific CEQA and/or CEQA Guideline Section: Cal. Code of Regs. Title 14 Section 15301

Reasons to support exemption findings (attach additional material, if necessary)

Project includes rehabilitation and project financing but no expansion of use beyond that existing at the time of the lead agency's determination.

Lead Agency Contact Person: Jamie Goldstein Phone #: (805) 884-8050

Department/Division Representative: County of Santa Barbara Redevelopment Agency

Date: September 9, 2008

Acceptance Date: September 23, 2008

Note: A copy of this form must be posted at P&D 6 days prior to a decision on the project. Upon project approval, this form must be filed with the County Clerk of the Board and posted by the Clerk of the Board for a period of 30 days to begin a 35 day statute of limitations on legal challenges.

distribution: Hearing Support Staff  
Project file (when P&D permit is required)  
Date Filed by County Clerk