

Return Address:

Washington Community Reinvestment Association
P.O. Box 2609
Seattle, WA 98101-2609

Loan No. 2-970099



200005250015

Kathy Hill, Skagit County Auditor

5/25/2000 Page 1 of 25 9:19:17AM

FIRST AMERICAN TITLE CO.

MULTIFAMILY DEED OF TRUST,
ASSIGNMENT OF RENTS AND SECURITY AGREEMENT

861129E-1

Reference numbers of related documents:

on page _____ of document

Grantor(s):

1. Salem Village Limited Partnership
- 2.
- 3.

etc. additional names on page _____ of document

Grantee(s):

1. Washington Community Reinvestment Association
2. First American Title Company of Skagit County
- 3.

etc. additional names on page _____ of document

Legal Description:

1. Section 8, Township 34, Range 4; Ptn. SE – SE aka Lot 2 and Ptn. Lot 3, Short Plat #MV-8-94
2. Additional legal description is on page ____ of document

Assessor's Property Tax Parcel Account Number(s): 340408-0-013-0003 (R24136)

WHEN RECORDED MAIL TO

Washington Community Reinvestment Association
P.O. Box 2609
Seattle, WA 98101-2609

Loan No. 2-970099

SPACE ABOVE THIS LINE FOR RECORDER'S USE

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

THIS DEED OF TRUST (herein "Instrument") is made this 25th day of May, 2000 among the Trustor/Grantor, SALEM VILLAGE LIMITED PARTNERSHIP, a Washington limited partnership, whose address is c/o Salem Village, 1005 S. Third, Mt. Vernon, WA 98273 (herein "Borrower") FIRST AMERICAN TITLE COMPANY OF SKAGIT COUNTY whose address is P.O. Box 1667, 1301-B Riverside Dr., Mt. Vernon, WA 98273 (herein "Trustee"), and the Beneficiary, WASHINGTON COMMUNITY REINVESTMENT ASSOCIATION, a nonprofit corporation organized and existing under the laws of Washington, whose address is P.O. Box 2609, Seattle, WA 98111-2609 (herein "Lender").

BORROWER, in consideration of the indebtedness herein recited and the trust herein created, irrevocably grants, conveys and assigns to Trustee, in trust, with power of sale, the following described property located in Skagit County, State of Washington:

Lot 2 of Mount Vernon Short Plat No. MV-8-94, approved July 1, 1997 and recorded July 1, 1997 under Auditor's File No. 9707010107 in Volume 13 of Short Plats, page 18, records of Skagit County, Washington;

TOGETHER WITH that portion of Lot 3 of said Mount Vernon Short Plat No. MV-8-94, described as follows:

Beginning at the Northwest corner of said Lot 2; thence South 0 degrees 11'21" West along the West line of said Lot 2, also being the East line of said Lot 3, a distance of 229.71 feet to the Southwest corner of said Lot 2; thence North 87 degrees 57'29" West, along the North line of a 60 foot wide utility and access easement as shown on said Short Plat, 53.64 feet; thence North 0 degrees 11'21" East 64.17 feet to the beginning of a curve to the right, having a radius of 88.00 feet; thence Northeasterly along the arc of said curve to the right, through a central angle of 21 degrees 40'05", an arc distance of 33.28 feet; thence North 21 degrees 51'26" East, 117.03 feet to the beginning of a curve to the left, having a radius of 50.00 feet; thence Northerly along the arc of said curve to the left, through a central angle of 21 degrees 40'05", and arc distance of 18.91 feet; thence North 0 degrees 11'21" East, 4.11 feet to a point which lies North 87 degrees 57'29" West from said Northwest corner of Lot 2; thence South 87 degrees 57'29" East, 0.64 feet to the point of beginning.

Oral agreements or oral commitments to loan money, extend credit, or to forbear from enforcing repayment of a debt are not enforceable under Washington Law.

This Deed of Trust has been amended and supplemented in certain respects as set forth in the Rider to Multifamily Instrument annexed hereto and incorporated herein by this reference. In the event of any



inconsistencies between the printed portion of this Deed of Trust and the provisions of said Rider to Multifamily Instrument, the provisions of the Rider will control.

Together with all buildings, improvements and tenements now or hereafter erected on the property, and all heretofore or hereafter vacated alleys and streets abutting the property, and all easements, rights, appurtenances, rents (subject, however, to the assignment of rents to Lender herein), royalties, mineral, oil and gas rights and profits, water, water rights, and water stock appurtenant to the property, and all fixtures, machinery, equipment, engines, boilers, incinerators, building materials, exercise equipment, appliances and goods of every nature whatsoever now or hereafter located in, or on, or used, or intended to be used in connection with the property, including, but not limited to, those for the purposes of supplying or distributing heating, cooling, electricity, gas, water, air and light; and all elevators, and related machinery and equipment, fire prevention and extinguishing apparatus, security and access control apparatus, plumbing, bathtubs, water heaters, water closets, sinks, ranges, stoves, refrigerators, dishwashers, disposals, washers, dryers, awnings, storm windows, storm doors, screens, blinds, shades, curtains and curtain rods, mirrors, cabinets, paneling, rugs, attached floor coverings, furniture, pictures, antennas, trees and plants, and all rents, issues and profits from the real property, all leases, rental agreement, deposits and reserve accounts, all personal property owned by Borrower and now or hereafter located on or used or intended for use in connection with said property, except for household furniture or furnishings of Borrower or any tenant of Borrower; all interest in Borrower in (1) other tangible personal property of any nature whatsoever located in or upon the real property and (2) intangible personal property relating to the development, use or operation of the real property including, but not limited to all inventories, accounts, accounts receivable, contract rights, chattel paper, leases (subject, however, to the assignment of rents to Lender herein), instruments, deposits, monies due and to become due (including guarantees and security for the payment of same) and all proceeds, benefits and claims arising as a result of loss in value of the property or damage to any improvements therein or thereupon (including, but not limited to, insurance proceeds, awards for condemnation and causes of action against third persons or entities) all of which, including replacements and additions thereto, shall be deemed to be and remain a part of the real property covered by this Instrument; and all of the foregoing, together with said property (or the leasehold estate in the event this Instrument is on a leasehold) are herein referred to as the "Property".

TO SECURE TO LENDER (a) the repayment of the indebtedness evidenced by Borrower's note dated May 25, 2000 (herein "Note") in the principal sum of SEVEN HUNDRED FORTY-SEVEN THOUSAND AND NO/00 Dollars (US \$747,000.00), with interest thereon, with the balance of the indebtedness, if not sooner paid, due and payable on June 1, 2030, and all renewals, extensions and modifications thereof; (b) *DELETED*; (c) *DELETED*; (d) the payment of all other sums, with interest thereon, advanced in accordance herewith to protect the security of this Instrument; and (e) the performance of the covenants and agreements of Borrower herein contained.

Borrower covenants that Borrower is lawfully seized of the estate hereby conveyed and has the right to grant, convey and assign the Property (and, if this Instrument is on a leasehold, that the ground lease is in full force and effect without modification except as noted above and without default on the part of either lessor or lessee thereunder), that the Property is unencumbered, and that Borrower will warrant and defend generally the title to the Property against all claims and demands, subject to any easements and restrictions listed in a schedule of exceptions to coverage in any title insurance policy insuring Lender's interest in the Property.

Uniform Covenants. Borrower and Lender covenant and agree as follows:

- 1. PAYMENT OF PRINCIPAL AND INTEREST.** Borrower shall promptly pay when due the principal of and interest on the indebtedness evidenced by the Note, any prepayment and late charges provided in the Note and all other sums secured by this Instrument.
- 2. FUNDS FOR TAXES, INSURANCE AND OTHER CHARGES.** Subject to applicable law or to a written waiver by Lender, Borrower shall pay to Lender on the day monthly installments of principal or interest are payable under the Note (or on another day designated in writing by Lender), until the Note is paid in full, a sum (herein "Funds") equal to one-twelfth of (a) the yearly water and sewer rates and taxes and assessments which



may be levied on the Property, (b) the yearly ground rents, if any, (c) the yearly premium installments for fire and other hazard insurance, rent loss insurance and such other insurance covering the Property as Lender may require pursuant to paragraph 5 hereof, (d) the yearly premium installments for mortgage insurance, if any, and (e) if this Instrument is on a leasehold, the yearly fixed rents, if any, under the ground lease, all as reasonably estimated initially and from time to time by Lender on the basis of assessments and bills and reasonable estimates thereof. Any waiver by Lender or a requirement that Borrower pay such Funds may be revoked by Lender, in Lender's sole discretion, at any time upon notice in writing to Borrower. Lender may require Borrower to pay to Lender, in advance, such other Funds for other taxes, charges, premiums, assessments and impositions in connection with Borrower or the Property which Lender shall reasonably deem necessary to protect Lender's interests (herein "Other Impositions"). Unless otherwise provided by applicable law, Lender may require Funds for Other Impositions to be paid by Borrower in a lump sum or in periodic installments, at Lender's option.

The Funds shall be held in an institution(s) the deposits or accounts of which are insured or guaranteed by a Federal or state agency (including Lender if Lender is such an institution). Lender shall apply the Funds to pay said rates, rents, taxes, assessments, insurance premiums and Other Impositions so long as Borrower is not in breach of any covenant or agreement of Borrower in this Instrument. Lender shall make no charge for so holding and applying the Funds, analyzing said account or for verifying and compiling said assessments and bills, unless Lender pays Borrower interest, earnings or profits on the Funds and applicable law permits Lender to make such a charge. Borrower and Lender may agree in writing at the time of execution of this Instrument that interest on the Funds shall be paid to Borrower, and unless such agreement is made or applicable law requires interest, earnings or profits to be paid, Lender shall not be required to pay Borrower any interest, earnings or profits on the Funds. Lender shall give to Borrower, without charge, an annual accounting of the Funds in Lender's normal format showing credits and debits to the Funds and the purpose for which each debit to the Funds was made. The Funds are pledged as additional security for the sums secured by this Instrument.

If the amount or the Funds held by Lender at the time of the annual accounting thereof shall exceed the amount deemed necessary by Lender to provide for the payment of water and sewer rates, taxes, assessments, insurance premiums, rents and Other Impositions, as they fall due, such excess shall be credited to Borrower on the next monthly installment or installments of Funds due. If at any time the amount of the Funds held by Lender shall be less than the amount deemed necessary by Lender to pay water and sewer rates, taxes, assessments, insurance premiums, rents and Other Impositions, as they fall due, Borrower shall pay to Lender any amount necessary to make up the deficiency within thirty days after notice from Lender to Borrower requesting payment thereof.

Upon Borrower's breach of any covenant or agreement of Borrower in this Instrument, Lender may apply, in any amount and in any order as Lender shall determine in Lender's sole discretion, any Funds held by Lender at the time of application (i) to pay rates, rents, taxes, assessments, insurance premiums and Other Impositions which are now or will hereafter become due, or (ii) as a credit against sums secured by this Instrument. Upon payment in full or all sums secured by this Instrument, Lender shall promptly refund to Borrower any Funds held by Lender.

3. APPLICATION OF PAYMENTS. Unless applicable law provides otherwise, all payments received by Lender from Borrower under the Note or this Instrument shall be applied by Lender in the following order of priority: (i) amounts payable to Lender by Borrower under paragraph 2 hereof; (ii) interest payable on the Note; (iii) principal of the Note; (iv) interest payable on advances made pursuant to paragraph 8 hereof; (v) principal of advances made pursuant to paragraph 8 hereof; (vi) interest payable on any Future Advance, provided that if more than one Future Advance is outstanding, Lender may apply payments received among the amounts of interest payable on the Future Advances in such order as Lender, in Lender's sole discretion, may determine; (vii) principal on any Future Advance, provided that if more than one Future Advance is outstanding, Lender may apply payments received among the principal balances of the Future Advances in such order as Lender, in Lender's sole discretion, may determine; and (viii) and other sums secured by this Instrument in such order as Lender, at Lender's option, may determine; provided, however, that Lender may, at Lender's option, apply any



sums payable pursuant to paragraph 8 hereof prior to interest on and principal of the Note, but such application shall not otherwise affect the order of priority or application specified in this paragraph 3.

4. CHARGES; LIENS. Borrower shall pay all water and sewer rates, rents, taxes, assessments, premiums, and Other Impositions attributable to the Property at Lender's option in the manner provided under paragraph 2 hereof or, if not paid in such manner, by Borrower making payment, when due, directly to the payee thereof, or in such other manner as Lender may designate in writing. Borrower shall promptly furnish to Lender all notices of amounts due under this paragraph 4, and in the event Borrower shall make payment directly, Borrower shall promptly furnish to Lender receipts evidencing such payments. Borrower shall promptly discharge any lien which has, or may have, priority over or equality with, the lien of this Instrument, and Borrower shall pay, when due, the claims of all persons supplying labor or materials to or in connection with the Property. Without Lender's prior written permission, Borrower shall not allow any lien inferior to this Instrument to be perfected against the Property.

5. HAZARD INSURANCE. Borrower shall keep the improvements now existing or hereafter erected on the Property insured by carriers at all times satisfactory to Lender against loss by fire, hazards included within the term "extended coverage", rent loss and such other hazards, casualties, liabilities and contingencies as Lender (and, if this Instrument is on a leasehold, the ground lease) shall require and in such amounts and for such periods as Lender shall require. All premiums on insurance policies shall be paid, at Lender's option, in the manner provided under paragraph 2 hereof, or by Borrower making payment, when due, directly to the carrier, or in such other manner as Lender may designate in writing.

All insurance policies and renewals thereof shall be in a form acceptable to Lender and shall include a standard mortgage clause in favor of and in form acceptable to Lender. Lender shall have the right to hold the policies, and Borrower shall promptly furnish to Lender all renewal notices and all receipts of paid premiums. At least thirty days prior to the expiration date of a policy, Borrower shall deliver to Lender a renewal policy in form satisfactory to Lender. If this Instrument is on a leasehold, Borrower shall furnish Lender a duplicate of all policies, renewal notices, renewal policies and receipts of paid premiums if, by virtue of the ground lease, the originals thereof may not be supplied by Borrower to Lender.

In the event of loss, Borrower shall give immediate written notice to the insurance carrier and to Lender. Borrower hereby authorizes and empowers Lender as attorney-in-fact for Borrower to make proof of loss, to adjust and compromise any claim under insurance policies, to appear in and prosecute any action arising from such insurance policies, to collect and receive insurance proceeds, and to deduct therefrom Lender's expenses incurred in the collection of such proceeds; provided however, that nothing contained in this paragraph 5 shall require Lender to incur any expense or take any action hereunder. Borrower further authorizes Lender, at Lender's option, (a) to hold the balance of such proceeds to be used to reimburse Borrower for the cost of reconstruction or repair of the Property or (b) to apply the balance of such proceeds to the payment of the sums secured by this Instrument, whether or not then due, in the order of application set forth in paragraph 3 hereof (subject, however, to the rights of the lessor under the ground lease if this Instrument is on a leasehold).

If the insurance proceeds are held by Lender to reimburse Borrower for the cost of restoration and repair of the Property, the Property shall be restored to the equivalent of its original condition or such other condition as Lender may approve in writing. Lender may, at Lender's option, condition disbursement of said proceeds on Lender's approval of such plans and specifications of an architect satisfactory to Lender, contractor's cost estimates, architect's certificates, waivers of liens, sworn statements of mechanics and materialmen and such other evidence of costs, percentage completion of construction, application of payments, and satisfaction of liens as Lender may reasonably require. If the insurance proceeds are applied to the payment of the sums secured by this Instrument, any such application of proceeds to principal shall not extend or postpone the due dates of the monthly installments referred to in paragraphs 1 and 2 hereof or change the amounts of such installments. If the Property is sold pursuant to paragraph 27 hereof or if Lender acquires title to the Property, Lender shall have all



of the right, title and interest of Borrower in and to any insurance policies and unearned premiums thereon and in and to the proceeds resulting from any damage to the Property prior to such sale or acquisition.

6. PRESERVATION AND MAINTENANCE OF PROPERTY; LEASEHOLDS. Borrower (a) shall not commit waste or permit impairment or deterioration of the Property, (b) shall not abandon the Property, (c) shall restore or repair promptly and in a good and workmanlike manner all or any part of the Property to the equivalent of its original condition, or such other condition as Lender may approve in writing, in the event of any damage, injury or loss thereto, whether or not insurance proceeds are available to cover in whole or in part the costs of such restoration or repair, (d) shall keep the Property, including improvements, fixtures, equipment, machinery and appliances thereon in good repair and shall replace fixtures, equipment, machinery and appliances on the Property when necessary to keep such items in good repair, (e) shall comply with all laws, ordinances, regulations and requirements of any governmental body applicable to the Property, (f) shall provide for professional management of the Property by a residential rental property manager satisfactory to Lender pursuant to a contract approved by Lender in writing, unless such requirement shall be waived by Lender in writing, (g) shall generally operate and maintain the Property in a manner to ensure maximum rentals, and (h) shall give notice in writing to Lender of and, unless otherwise directed in writing by Lender, appear in and defend any action or proceeding purporting to affect the Property, the security of this Instrument or the rights or powers of Lender. Neither Borrower nor any tenant or other person shall remove, demolish or alter any improvement now existing or hereafter erected on the Property or any fixture, equipment, machinery or appliance in or on the Property except when incident to the replacement of fixtures, equipment, machinery and appliances with items of like kind.

If this Instrument is on a leasehold, Borrower (i) shall comply with the provisions of the ground lease, (ii) shall give immediate written notice to Lender of any default by lessor under the ground lease or of any notice received by Borrower from such lessor of any default under the ground lease by Borrower, (iii) shall exercise any option to renew or extend the ground lease and give written confirmation thereof to Lender within thirty days after such option becomes exercisable, (iv) shall give immediate written notice to Lender of the commencement of any remedial proceedings under the ground lease by any party thereto and, if required by Lender, shall permit Lender as Borrower's attorney-in-fact to control and act for Borrower in any such remedial proceedings and (v) shall within thirty days after request by Lender obtain from the lessor under the ground lease and deliver to Lender the lessor's estoppel certificate required thereunder, if any. Borrower hereby expressly transfers and assigns to Lender the benefit of all covenants contained in the ground lease, whether or not such covenants run with the land, but Lender shall have no liability with respect to such covenants nor any other covenants contained in the ground lease.

Borrower shall not surrender the leasehold estate and interests herein conveyed nor terminate or cancel the ground lease creating said estate and interests, and Borrower shall not, without the express written consent of Lender, alter or amend said ground lease. Borrower covenants and agrees that there shall not be a merger of the ground lease, or of the leasehold estate created thereby, with the fee estate covered by the ground lease by reason, of said leasehold estate or said fee estate, or any part of either, coming into common ownership, unless Lender shall consent in writing to such merger; if Borrower shall acquire such fee estate, then this Instrument shall simultaneously and without further action be spread so as to become a lien on such fee estate.

7. USE OF PROPERTY. Unless required by applicable law or unless Lender has otherwise agreed in writing, Borrower shall not allow changes in the use for which all or any part of the Property was intended at the time this Instrument was executed. Borrower shall not initiate or acquiesce in a change in the zoning classification of the Property without Lender's prior written consent.

8. PROTECTION OF LENDER'S SECURITY. If Borrower fails to perform the covenants and agreements contained in this Instrument, or if any action or proceeding is commenced which affects the Property or title thereto or the interest of Lender therein, including, but not limited to, eminent domain, insolvency, code enforcement, or arrangements or proceedings involving a bankrupt or decedent, then Lender at Lender's option may make such appearances, disburse such sums and take such action as Lender deems necessary, in its sole



discretion, to protect Lender's interest, including, but not limited to, (i) disbursement of attorney's fees, (ii) entry upon the Property to make repairs, (iii) procurement of satisfactory insurance as provided in paragraph 5 hereof, and (iv) if this Instrument is on a leasehold, exercise of any option to renew or extend the ground lease on behalf of Borrower and the curing of any default of Borrower in the terms and conditions of the ground lease.

Any amounts disbursed by Lender pursuant to this paragraph 8, with interest thereon, shall become additional indebtedness of Borrower secured by this Instrument. Unless Borrower and Lender agree to other terms of payment, such amounts shall be immediately due and payable and shall bear interest from the date of disbursement at the rate stated in the Note unless collection from Borrower of interest at such rate would be contrary to applicable law, in which event such amounts shall bear interest at the highest rate which may be collected from Borrower under applicable law. Borrower hereby covenants and agrees that Lender shall be subrogated to the lien of any mortgage or other lien discharged, in whole or in part, by the indebtedness secured hereby. Nothing contained in this paragraph 8 shall require Lender to incur any expense or take any action hereunder.

9. **INSPECTION.** Lender may make or cause to be made reasonable entries upon and inspections of the Property.

10. **BOOKS AND RECORDS. DELETED** - See Rider to Multifamily Instrument attached hereto and by this reference incorporated herein.

11. **CONDEMNATION.** Borrower shall promptly notify Lender of any action or proceeding relating to any condemnation or other taking, whether direct or indirect, of the Property, or part thereof, and Borrower shall appear in and prosecute any such action or proceeding unless otherwise directed by Lender in writing. Borrower authorizes Lender, at Lender's option, as attorney-in-fact for Borrower, to commence, appear in and prosecute, in Lender's or Borrower's name, any action or proceeding relating to any condemnation or other taking of the Property, whether direct or indirect, and to settle or compromise any claim in connection with such condemnation or other taking. The proceeds of any award, payment or claim for damages, direct or consequential, in connection with any condemnation or other taking, whether direct or indirect, of the Property, or part thereof, or for conveyances in lieu of condemnation, are hereby assigned to and shall be paid to Lender subject, if this Instrument is on a leasehold, to the rights of lessor under the ground lease.

Borrower authorizes Lender to apply such awards, payments, proceeds or damages, after the deduction of Lender's expenses incurred in the collection of such amounts, at Lender's option, to restoration or repair of the Property or to payment of the sums secured by this Instrument, whether or not then due, in the order of application set forth in paragraph 3 hereof, with the balance, if any, to Borrower. Unless Borrower and Lender otherwise agree in writing, any application of proceeds to principal shall not extend or postpone the due date of the monthly installments referred to in paragraphs 1 and 2 hereof or change the amount of such installments. Borrower agrees to execute such further evidence of assignment of any awards, proceeds, damages or claims arising in connection with such condemnation or taking as Lender may require.

12. **BORROWER AND LIEN NOT RELEASED.** From time to time, Lender may, at Lender's option, without giving notice to or obtaining the consent of Borrower, Borrower's successors or assigns or of any junior lienholder or guarantors, without liability on Lender's part and notwithstanding Borrower's breach of any covenant or agreement of Borrower in this Instrument, extend the time for payment of said indebtedness or any part thereof, reduce the payments thereon, release anyone liable on any of said indebtedness, accept a renewal note or notes therefor, modify the terms and time of payment of said indebtedness, release from the lien of this Instrument any part of the Property, take or release other or additional security, reconvey any part of the Property, consent to any map or plan of the Property, consent to the granting of any easement, join in any extension or subordination agreement, and agree in writing with Borrower to modify the rate of interest or period of amortization of the Note or change the amount of the monthly installments payable thereunder. Any actions taken by Lender pursuant to the terms of this paragraph 12 shall not affect the obligation of Borrower or



Borrower's successors or assigns to pay the sums secured by this Instrument and to observe the covenants of Borrower contained herein, shall not affect the guaranty of any person, corporation, partnership or other entity for payment of the indebtedness secured hereby, and shall not affect the lien or priority of lien hereof on the Property. Borrower shall pay Lender a reasonable service charge, together with such title insurance premiums and attorney's fees as may be incurred at Lender's option, for any such action if taken at Borrower's request.

13. FORBEARANCE BY LENDER NOT A WAIVER. Any forbearance by Lender in exercising any right or remedy hereunder, or otherwise afforded by applicable law, shall not be a waiver of or preclude the exercise of any right or remedy. The acceptance by Lender of payment of any sum secured by this Instrument after the due date of such payment shall not be a waiver of Lender's right to either require prompt payment when due of all other sums so secured or to declare a default for failure to make prompt payment. The procurement of insurance or the payment of taxes or other liens or charges by Lender shall not be a waiver of Lender's right to accelerate the maturity of the indebtedness secured by this Instrument, nor shall Lender's receipt of any awards, proceeds or damages under paragraphs 5 and 11 hereof operate to cure or waive Borrower's default in payment of sums secured by this Instrument.

14. ESTOPPEL CERTIFICATE. Borrower shall within ten days of a written request from Lender furnish Lender with a written statement, duly acknowledged, setting forth the sums secured by this Instrument and any right of set-off, counterclaim or other defense which exists against such sums and the obligations of this Instrument.

15. UNIFORM COMMERCIAL CODE SECURITY AGREEMENT. This Instrument is intended to be a security agreement pursuant to the Uniform Commercial Code for any of the items specified above as part of the Property which, under applicable law, may be subject to a security interest pursuant to the Uniform Commercial Code, and Borrower hereby grants Lender a security interest in said items. Borrower agrees that Lender may file this Instrument, or a reproduction thereof, in the real estate records or other appropriate index, as a financing statement for any of the items specified above as part of the Property. Any reproduction of this Instrument or of any other security agreement or financing statement shall be sufficient as a financing statement. In addition, Borrower agrees to execute and deliver to Lender, upon Lender's request, any financing statements, as well as extensions, renewals and amendments thereof, and reproductions of this Instrument in such form as Lender may require to perfect a security interest with respect to said items. Borrower shall pay all costs of filing such financing statements and any extensions, renewals, amendments and releases thereof, and shall pay all reasonable costs and expenses of any record searches for financing statements Lender may reasonably require. Without the prior written consent of Lender, Borrower shall not create or suffer to be created pursuant to the Uniform Commercial Code any other security interest in said items, including replacements and additions thereto. Upon Borrower's breach of any covenant or agreement of Borrower contained in this Instrument, including the covenants to pay when due all sums secured by this Instrument, Lender shall have the remedies of a secured party under the Uniform Commercial Code and, at Lender's option, may also invoke the remedies provided in paragraph 27 of this Instrument as to such items. In exercising any of said remedies, Lender may proceed against the items of real property and any items of personal property specified above as part of the Property separately or together and in any order whatsoever, without in any way affecting the availability of Lender's remedies under the Uniform Commercial Code or of the remedies provided in paragraph 27 of this Instrument.

16. LEASES OF THE PROPERTY. As used in this paragraph 16, the word "lease" shall mean "sublease" if this Instrument is on a leasehold. Borrower shall comply with and observe Borrower's obligations as landlord under all leases of the Property or any part thereof. Borrower will not lease any portion of the Property for non-residential use except with the prior written approval of Lender. Borrower, at Lender's request, shall furnish Lender with executed copies of all leases now existing or hereafter made of all or any part of the Property, and all leases now or hereafter entered into will be in form and substance subject to the approval of Lender. All leases of the Property shall specifically provide that such leases are subordinate to this Instrument; that the tenant attorns to Lender, such attornment to be effective upon Lender's acquisition of title to the Property; that the tenant agrees to execute such further evidences of attornment as Lender may from time to time request; that the attornment of the



tenant shall not be terminated by foreclosure; and that Lender may, at Lender's option, accept or reject such assignments. Borrower shall not, without Lender's written consent, execute, modify, surrender or terminate, either orally or in writing, any lease now existing or hereafter made of all or any part of the Property providing for a term of three years or more, permit an assignment or sublease of such a lease without Lender's written consent, or request or consent to the subordination of any lease of all or any part of the Property to any lien subordinate to this Instrument. If Borrower becomes aware that any tenant proposes to do, or is doing, any act or thing which may give rise to any right of set-off against rent, Borrower shall (i) take such steps as shall be reasonably calculated to prevent the accrual of any right to a set-off against rent, (ii) notify Lender thereof and of the amount of said set-offs, and (iii) within ten days after such accrual, reimburse the tenant who shall have acquired such right to set-off or take such other steps as shall effectively discharge such set-off and as shall assure that rents thereafter due shall continue to be payable without set-off or deduction.

Upon Lender's request, Borrower shall assign to Lender, by written instrument satisfactory to Lender, all leases now existing or hereafter made of all or any part of the Property and all security deposits made by tenants in connection with such leases of the Property. Upon assignment by Borrower to Lender of any leases of the Property, Lender shall have all of the rights and powers possessed by Borrower prior to such assignment and Lender shall have the right to modify, extend or terminate such existing leases and to execute new leases, in Lender's sole discretion.

17. REMEDIES CUMULATIVE. Each remedy provided in this Instrument is distinct and cumulative to all other rights or remedies under this Instrument or afforded by law or equity, and may be exercised concurrently, independently, or successively, in any order whatsoever.

18. ACCELERATION IN CASE OF BORROWER'S INSOLVENCY. If Borrower shall voluntarily file a petition under the Federal Bankruptcy Act, as such Act may from time to time be amended, or under any similar or successor Federal statute relating to bankruptcy, insolvency, arrangements or reorganizations, or under any state bankruptcy or insolvency act, or file an answer in an involuntary proceeding admitting insolvency or inability to pay debts, or if Borrower shall fail to obtain a vacation or stay of involuntary proceedings brought for the reorganization, dissolution or liquidation of Borrower, or if Borrower shall be adjudged a bankrupt, or if a trustee or receiver shall be appointed for Borrower or Borrower's property, or if the Property shall become subject to the jurisdiction of a Federal bankruptcy court or similar state court, or if Borrower shall make an assignment for the benefit of Borrower's creditors, or if there is an attachment, execution or other judicial seizure of any portion of Borrower's assets and such seizure is not discharged within ten days, then Lender may, at Lender's option, declare all of the sums secured by this Instrument to be immediately due and payable without prior notice to Borrower, and Lender may invoke any remedies permitted by paragraph 27 of this Instrument. Any attorney's fees and other expenses incurred by Lender in connection with Borrower's bankruptcy or any of the other aforesaid events shall be additional indebtedness of Borrower secured by this Instrument pursuant to paragraph 8 hereof.

19. TRANSFERS OF THE PROPERTY OR BENEFICIAL INTERESTS IN BORROWER; ASSUMPTION. DELETED - See Rider to Multifamily Instrument attached hereto and by this reference incorporated herein.

20. NOTICE. DELETED - See Rider to Multifamily Instrument attached hereto and by this reference incorporated herein.

21. SUCCESSORS AND ASSIGNS BOUND; JOINT AND SEVERAL LIABILITY; AGENTS; CAPTIONS. The covenants and agreements herein contained shall bind, and the rights hereunder shall inure to, the respective successors and assigns of Lender and Borrower, subject to the provisions of paragraph 19 hereof. All covenants and agreements of Borrower shall be joint and several. In exercising any rights hereunder or taking any actions provided for herein, Lender may act through its employees, agents or independent contractors as



authorized by Lender. The captions and headings of the paragraphs of this Instrument are for convenience only and are not be used to interpret or define the provisions hereof.

22. UNIFORM MULTIFAMILY INSTRUMENT; GOVERNING LAW; SEVERABILITY. This form of multifamily instrument combines uniform covenants for national use and non-uniform covenants with limited variations by jurisdiction to constitute a uniform security instrument covering real property and related fixtures and personal property. This Instrument shall be governed by the law of the jurisdiction in which the Property is located. In the event that any provision of this Instrument or the Note conflicts with applicable law, such conflict shall not affect other provisions of this Instrument or the Note which can be given effect without the conflicting provisions, and to this end the provisions of this Instrument and the Note are declared to be severable. In the event that any applicable law limiting the amount of interest or other charges permitted to be collected from Borrower is interpreted so that any charge provided for in this Instrument or in the Note, whether considered separately or together with other charges levied in connection with this Instrument and the Note, violates such law, and Borrower is entitled to the benefit of such law, such charge is hereby reduced to the extent necessary to eliminate such violation. The amounts, if any, previously paid to Lender in excess of the amounts payable to Lender pursuant to such charges as reduced shall be applied by Lender to reduce the principal of the indebtedness evidenced by the Note. For the purpose of determining whether any applicable law limiting the amount of interest or other charges permitted to be collected from Borrower has been violated, all indebtedness which is secured by this Instrument or evidenced by the Note and which constitutes interest, as well as all other charges levied in connection with such indebtedness which constitute interest, shall be deemed to be allocated and spread over the stated term of the Note. Unless otherwise required by applicable law, such allocation and spreading shall be effected in such a manner that the rate of interest computed thereby is uniform throughout the stated term of the Note.

23. WAIVER OF STATUTE OF LIMITATIONS. Borrower hereby waives the right to assert any statute of limitations as a bar to the enforcement of the lien of this Instrument or to any action brought to enforce the Note or any other obligation secured by this Instrument.

24. WAIVER OF MARSHALLING. Notwithstanding the existence of any other security interests in the Property held by Lender or by any other party, Lender shall have the right to determine the order in which any or all of the Property shall be subjected to the remedies provided herein. Lender shall have the right to determine the order in which any or all portions of the indebtedness secured hereby are satisfied from the proceeds realized upon the exercise of the remedies provided herein. Borrower, any party who consents to this Instrument and any party who now or hereafter acquires a security interest in the Property and who has actual or constructive notice hereof hereby waives any and all right to require the marshalling of assets in connection with the exercise of any of the remedies permitted by applicable law or provided herein.

25. CONSTRUCTION LOAN PROVISION. DELETED.

26. ASSIGNMENT OF RENTS; APPOINTMENT OF RECEIVER; LENDER IN POSSESSION. As part of the consideration for the indebtedness evidenced by the Note, Borrower hereby absolutely and unconditionally assigns and transfers to Lender all the rents and revenues of the Property, including those now due, past due, or to become due by virtue of any lease or other agreement for the occupancy or use of all or any part of the Property, regardless of to whom the rents and revenues of the Property are payable. Borrower hereby authorizes Lender or Lender's agents to collect the aforesaid rents and revenues and hereby directs each tenant or the Property to pay such rents to Lender or Lender's agents; provided, however, that prior to written notice given by Lender to Borrower of the breach by Borrower of any covenant or agreement of Borrower in this Instrument, Borrower shall collect and receive all rents and revenues of the Property as trustee for the benefit of Lender and Borrower, to apply the rents and revenues so collected to the sums secured by this Instrument in the order provided in paragraph 3 hereof with the balance, so long as no such breach has occurred, to the account of Borrower, it being intended by Borrower and Lender that this assignment of rents constitutes an absolute assignment and not an assignment for additional security only. Upon delivery of written notice by Lender to

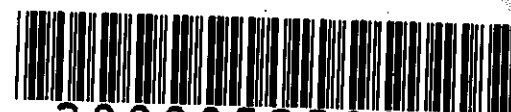
Borrower of the breach by Borrower of any covenant or agreement of Borrower in this Instrument, and without the necessity of Lender entering upon and taking and maintaining full control of the Property in person, by agent or by a court-appointed receiver, Lender shall immediately be entitled to possession of all rents and revenues of the Property as specified in this paragraph 26 as the same become due and payable. including but not limited to rents then due and unpaid, and all such rents shall immediately upon delivery of such notice be held by Borrower as trustee for the benefit of Lender only; provided, however, that the written notice by Lender to Borrower of the breach by Borrower shall contain a statement that Lender exercises its rights to such rents. Borrower agrees that commencing upon delivery of such written notice of Borrower's breach by Lender to Borrower, each tenant of the Property shall make such rents payable to and pay such rents to Lender or Lender's agents on Lender's written demand to each tenant therefor, delivered to each tenant personally, by mail or by delivering such demand to each rental unit, without any liability on the part of said tenant to inquire further as to the existence of a default by Borrower.

Borrower hereby covenants that Borrower has not executed any prior assignment of said rents, that Borrower has not performed, and will not perform, any acts or has not executed, and will not execute, any instrument which would prevent Lender from exercising its rights under this paragraph 26, and that at the time of execution of this Instrument there has been no anticipation or prepayment of any of the rents of the Property for more than two months prior to the due dates of such rents. Borrower covenants that Borrower will not hereafter collect or accept payment of any rents of the Property more than two months prior to the due dates of such rents. Borrower further covenants that Borrower will execute and deliver to Lender such further assignments of rents and revenues of the Property as Lender may from time to time request.

Upon Borrower's breach of any covenant or agreement of Borrower in this Instrument, Lender may in person, by agent or by a court appointed receiver, regardless of the adequacy of Lender's security, enter upon and take and maintain full control of the Property in order to perform all acts necessary and appropriate for the operation and maintenance thereof including, but not limited to, the execution, cancellation or modification of leases, the collection of all rents and revenues of the Property, the making of repairs to the Property and the execution or termination of contracts providing for the management or maintenance of the Property, all on such terms as are deemed best to protect the security of this Instrument. In the event Lender elects to seek the appointment of a receiver for the Property upon Borrower's breach of any covenant or agreement of Borrower in this Instrument, Borrower hereby expressly consents to the appointment of such receiver. Lender or the receiver shall be entitled to receive a reasonable fee for so managing the Property.

All rents and revenues collected subsequent to delivery of written notice by Lender to Borrower of the breach by Borrower of any covenant or agreement of Borrower in this Instrument shall be applied first to the costs, if any, of taking control of and managing the Property and collecting the rents, including, but not limited to, attorney's fees, receiver's fees, premiums on receiver's bonds, costs of repairs to the Property, premiums on insurance policies, taxes, assessments and other charges on the Property, and the costs of discharging any obligation or liability of Borrower as lessor or landlord of the Property and then to the sums secured by this Instrument. Lender or the receiver shall have access to the books and records used in the operation and maintenance of the Property and shall be liable to account only for those rents actually received. Lender shall not be liable to Borrower, anyone claiming under or through Borrower or anyone having an interest in the Property by reason of anything done or left undone by Lender under this paragraph 26.

If the rents of the Property are not sufficient to meet the costs, if any, of taking control of and managing the Property and collecting the rents, any funds expended by Lender for such purposes shall become indebtedness of Borrower to Lender secured by this Instrument pursuant to paragraph 8 hereof. Unless Lender and Borrower agree in writing to other terms of payment, such amounts shall be payable upon notice from Lender to Borrower requesting payment thereof and shall bear interest from the date of disbursement at the rate stated in the Note unless payment of interest at such rate would be contrary to applicable law, in which event such amounts shall bear interest at the highest rate which may be collected from Borrower under applicable law.



Any entering upon and taking and maintaining of control of the Property by Lender or the receiver and any application of rents as provided herein shall not cure or waive any default hereunder or invalidate any other right or remedy of Lender under applicable law or provided herein. This assignment of rents of the Property shall terminate at such time as this Instrument ceases to secure indebtedness held by Lender.

Non-Uniform Covenants. Borrower and Lender further covenant and agree as follows:

27. ACCELERATION; REMEDIES. Upon Borrower's breach of any covenant or agreement of Borrower in this Instrument, including, but not limited to, the covenants to pay when due any sums secured by this Instrument, Lender at Lender's option may declare all of the sums secured by this Instrument to be immediately due and payable without further demand. After giving Borrower notice of default in the manner prescribed by applicable law, Lender may invoke the power of sale and any other remedies permitted by applicable law or provided herein. Borrower acknowledges that the power of sale herein granted may be exercised by Lender without prior judicial hearing. Borrower has the right to bring an action to assert the non-existence of a breach or any other defense of Borrower to acceleration and sale. Lender shall be entitled to collect all costs and expenses incurred in pursuing such remedies, including, but not limited to, attorney's fees and costs of documentary evidence, abstracts and title reports.

If Lender invokes the power of sale, Lender shall give written notice to Trustee of the occurrence of an event of default and of Lender's election to cause the Property to be sold. Trustee and Lender shall give such notices as the laws of Washington may require to Borrower and to such other persons as the laws of Washington prescribe, and after the lapse of such time as may be required by applicable law, Trustee shall sell the Property according to the laws of Washington. Trustee may sell the Property at the time and place and under the terms designated in the notice of sale in one or more parcels and in such order as Trustee may determine. Trustee may postpone sale of all or any parcel of the Property for a period or by public announcement at the time and place fixed in the notice of sale. Lender or Lender's designee may purchase the Property at any sale.

Trustee shall deliver to the purchaser Trustee's deed conveying the Property so sold without any covenant or warranty, expressed or implied. The recitals in the Trustee's deed shall be prima facie evidence of the truth of the statements made therein. Trustee shall apply the proceeds of the sale in the following order: (a) to all costs and expenses of the sale, including, but not limited to, Trustee's and attorney's fees and costs of title evidence; (b) to all sums secured by this Instrument in such order as Lender, in Lender's sole discretion, directs; and (c) the excess, if any, to the clerk of the superior court of the county in which the sale took place.

28. RECONVEYANCE. Upon payment of all sums secured by this Instrument, Lender shall request Trustee to reconvey the Property and shall surrender this Instrument and all notes evidencing indebtedness secured by this Instrument to Trustee. Trustee shall reconvey the Property without warranty to the person or persons legally entitled thereto. Such person or persons shall pay Trustee's reasonable costs incurred in so reconveying the Property.

29. SUBSTITUTE TRUSTEE. In accordance with applicable law, Lender may from time to time appoint a successor trustee to any Trustee appointed hereunder who has ceased to act. Without conveyance of the Property, the successor trustee shall succeed to all the title, power and duties conferred upon the Trustee herein and by applicable law.

30. USE OF PROPERTY; COMMERCIAL LOAN. The Property is not used principally for agricultural purposes. The loan evidenced by the Note is not made primarily for personal, family or household purposes.

31. FUTURE ADVANCES. *DELETED*



IN WITNESS WHEREOF, Borrower has executed this Instrument or has caused the same to be executed by its representatives thereunto duly authorized.

The corporate officer designated below to sign on behalf of the Borrower is not a Key Principal and shall not be personally liable for repayment of the Note. There are no Key Principals in this transaction.

BORROWER:

**SALEM VILLAGE LIMITED PARTNERSHIP,
a Washington limited partnership**

BY: Salem Village,
a Washington nonprofit corporation, its general partner

By: 
Kent Haberly, President

Borrower's Address:

c/o Salem Village
1005 S. Third
Mt. Vernon, WA 98273



NOTARY

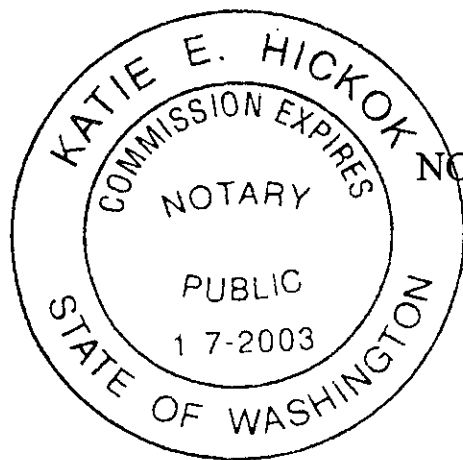
STATE OF WASHINGTON)

COUNTY OF Skagit)

) ss.

On this 18th day of May, 2000, before me, the undersigned, a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared Kent Haberly, to me known to be the person who signed as President of SALEM VILLAGE, a Washington nonprofit corporation the corporation acting as general partner of SALEM VILLAGE LIMITED PARTNERSHIP, the limited partnership that executed the within and foregoing instrument, and acknowledged said instrument to be the free and voluntary act and deed of the corporation as general partner and of the limited partnership for the uses and purposes therein mentioned; and on oath stated that he was duly elected, qualified and acting as said officer of the corporation and that he was authorized to execute the said instrument on behalf of the corporation and that the seal affixed, if any, is the corporate seal of the corporation, and that the corporation was authorized to execute said instrument on behalf of the limited partnership.

IN WITNESS WHEREOF I have hereunto set my hand and official seal the day and year first above written.



Katie E. Hickok
(Signature of Notary)

Katie E. Hickok
(Print or stamp name of Notary)

NOTARY PUBLIC in and for the State of Washington,

residing at Mt. Vernon

My appointment expires: 1-7-2003

REQUEST FOR FULL RECONVEYANCE

TO TRUSTEE:

The undersigned is the holder of the note or notes secured by this Instrument. Said note or notes, together with all other indebtedness secured by this Instrument, have been paid in full. You are hereby directed to cancel said note or notes and this Instrument, which are delivered hereby, and to reconvey, without warranty, all the estate now held by you under this Instrument to the person or persons legally entitled thereto.

Dated: _____

BY: _____



RIDER TO MULTIFAMILY INSTRUMENT

THIS RIDER TO MULTIFAMILY INSTRUMENT (the "Rider") is made this 22nd day of May, 2000 and is incorporated into and shall be deemed to amend and supplement the Multifamily Mortgage, Deed of Trust or Deed to Secure Debt of the same date (the "Instrument"), given by the undersigned SALEM VILLAGE LIMITED PARTNERSHIP, a Washington limited partnership, (the "Borrower"), to secure Borrower's Multifamily Note of the same date (the "Note") with Addendum to Multifamily Note of the same date (the "Addendum") to WASHINGTON COMMUNITY REINVESTMENT ASSOCIATION, a Washington nonprofit corporation, P.O. Box 2609, Seattle, WA 98111-2609 and its successors, assigns and transferees (the "Lender"), in connection with a loan in the original principal amount of \$747,000.00 ("Loan"), covering the property described in the Instrument and defined therein as the "Property," located at:

2619 North LaVenture Road, Mt. Vernon, WA 98273

[Property Address]

The Property is located entirely within Skagit County, State of Washington (the "Property Jurisdiction").

The term "Loan Documents" when used in this Rider shall mean, collectively, the following documents: (i) the Instrument, as modified by this Rider and any other riders to the Instrument given by Borrower to Lender and covering the Property; (ii) the Note, as modified by the Addendum and any other addendum to the Note; and (iii) all other documents or agreements, including any Collateral Agreements (as defined below), arising under, related to, or made in connection with, the loan evidenced by the Note, as such Loan Documents may be amended from time to time. Any conflict between the provisions of the Instrument and the Rider shall be resolved in favor of the Rider. Notwithstanding the foregoing, the Instrument does not secure and shall not be construed as securing any obligation of Borrower under the Certificate and Indemnity Regarding Hazardous Substances of even date herewith made by Borrower or the Certificate of Compliance and Indemnification Agreement of even date herewith made by Borrower.

The covenants and agreements of this Rider, and the covenants and agreements of any other riders to the Instrument given by Borrower to Lender and covering the Property, shall be incorporated into and shall amend and supplement the covenants and agreements of the Instrument as if this Rider and the other riders were a part of the Instrument and all references to the Instrument in the Loan Documents shall mean the Instrument as so amended and supplemented.

ADDITIONAL COVENANTS. In addition to the covenants and agreements made in the Instrument, Borrower and Lender further covenant and agree as follows:

A. Funds for Taxes, Insurance and Other Charges

Uniform Covenant 2 of the Instrument ("Funds for Taxes, Insurance and Other Charges") is amended to change the title to "Funds for Taxes, Insurance and Other Charges; Collateral Agreements." Existing Uniform Covenant 2 is amended to become Uniform Covenant 2A. The following new Uniform Covenant 2B is added at the end of Uniform Covenant 2A:

2B Replacement Reserve Agreement, Completion/Repair Agreement, Achievement Agreement and Other Collateral Agreements

(a) Replacement Reserve Agreement



Borrower shall deposit with Lender the amounts required by the Replacement Reserve and Security Agreement (the "Replacement Reserve Agreement") between Borrower and Lender, dated the date of the Note, at the times required by the Replacement Reserve Agreement, and shall perform all other obligations as and when required pursuant to the Replacement Reserve Agreement.

(b) Completion/Repair Agreement

Borrower shall deposit with Lender the amounts required by the Completion/Repair and Security Agreement (the "Completion/Repair Agreement") between Borrower and Lender (if any), dated the date of the Note, at the time required by the Completion/Repair Agreement, and shall perform all other obligations as and when required pursuant to the Completion/Repair Agreement.

(c) Achievement Agreement

Borrower shall perform all of its obligations as and when required pursuant to the Achievement Agreement between Borrower and Lender (if any), dated the date of the Note.

(d) Collateral Agreements

As used herein, the term "Collateral Agreement" shall mean any of the Replacement Reserve Agreement, the Completion/Repair Agreement, the Achievement Agreement and any similar agreement which has been entered into between Borrower and Lender in connection with the loan evidenced by the Note.

B. Application of Payments

Uniform Covenant 3 of the Instrument ("Application of Payments") is amended to add the following sentence at the end thereof:

Notwithstanding the preceding sentence, (i) Lender shall be permitted to apply any partial payment received from Borrower in any manner determined by Lender and in any order of priority of application as determined by Lender, in Lender's sole discretion, and (ii) upon any breach of any covenant or agreement of Borrower in the Instrument, the Note or any other Loan Document, Lender shall be permitted to apply any funds held pursuant to any Collateral Agreement in any manner which is permitted pursuant to such Collateral Agreement and in any order of priority of application as determined by Lender, in Lender's sole discretion.

C. Hazard Insurance; Restoration of Property

Uniform Covenant 5 of the Instrument ("Hazard Insurance") is amended to add the following sentence at the end thereof:

Lender shall not exercise Lender's option to apply insurance proceeds to the payment of the sums secured by the Instrument if all of the following conditions are met: (i) Borrower is not in breach or default of any provision of the Instrument, the Note or any other Loan Document; (ii) Lender determines that there will be sufficient funds to restore and repair the Property to a condition approved by Lender; (iii) Lender determines that the rental income of the Property, after restoration and repair of the Property to a condition approved by Lender, will be sufficient to meet all operating costs and other expenses, payments for reserves and loan repayment obligations relating to the Property; and (iv) Lender determines that restoration and repair of the Property to a condition approved by Lender will be completed prior to the earlier of either (1) the maturity date of the Note or (2) within one year of the date of the loss or casualty to the Property.

D. Environmental Hazards Provision Deleted



E. Books, Records and Financial Information

Uniform Covenant 10 of the Instrument ("Books and Records") is amended to read as follows:

Borrower shall keep and maintain at all times and upon Lender's request, Borrower shall make available at the Property address, complete and accurate books of accounts and records in sufficient detail to correctly reflect the results of the operation of the Property and copies of all written contracts, leases and other instruments which affect the Property (including but not limited to all bills, invoices and contracts for electrical service, gas service, water and sewer service, waste management service, telephone service and management services). These books, records, contracts, leases and other instruments shall be subject to examination and inspection at any reasonable time by Lender. Borrower shall furnish to Lender the following: (i) within 120 days after the end of each fiscal year of Borrower, a statement of income and expenses of the Property and a statement of changes in financial position, and when requested by Lender, a balance sheet, each in reasonable detail and certified by Borrower and, if Lender shall require, the forgoing statements shall be audited by an independent certified public accountant; (ii) together with the foregoing financial statements and at any other time upon Lender's request, a rent schedule for the Property, in the form required by Lender and certified by Borrower, showing the name of each tenant, and for each tenant, the space occupied, the lease expiration date, the rent payable, the rent paid and any other information requested by Lender; (iii) upon Lender's request, an accounting of all security deposits held in connection with any lease of any part of the Property, including the name and identification number of the accounts in which such security deposits are held, the name and address of the financial institutions in which such security deposits are held and the name of the person to contact at such financial institution, along with any authority or release necessary for Lender to access information regarding such accounts; and (iv) promptly upon Borrower's receipt, copies of any complaint filed against the Borrower or the Property management alleging any violation of fair housing law, handicap access or the Americans with Disabilities Act and any final administrative or judicial dispositions of such complaints. If Borrower shall fail to timely provide the financial statements required by clause (i) above, Lender shall have the right to have the Borrower's books and records audited in order to obtain such financial statements, and any such costs and expenses incurred by Lender which Borrower fails to pay promptly shall become immediately due and payable and shall become additional indebtedness secured by the Instrument pursuant to paragraph 8 of the Instrument.

F. Transfers of the Property or Significant Interests in Borrower; Transfer Fees

Uniform Covenant 19 of the Instrument ("Transfers of the Property or Beneficial Interests in Borrower, Assumption") is amended to read as set forth below:

Transfers of the Property or Significant Interests in Borrower; Transfer Fees

(a) Definitions

For purposes of the Instrument (and the Rider), the following terms have the respective meanings set forth below:

- (1) The term "Key Principal" means the natural person(s) identified as such at the foot of the Rider, and any natural person who becomes a Key Principal after the date of the Note and are identified as such in an amendment or supplement to the Loan Documents.
- (2) The term "Transfer" means a sale, assignment, transfer or other disposition (whether voluntary or by operation of law) of, or the granting or creating of a lien, encumbrance or security interest in, the Property or ownership interests, and the issuance or other creation of ownership interests in an entity and the reconstitution of one type of entity to another type of entity.
- (3) A "Significant Interest" in any entity shall mean the following:



- (i) if the entity is a general partnership or a joint venture, (A) any partnership interest in the general partnership, or (B) any interest of a joint venturer in a joint venture;
- (ii) if the entity is a limited partnership, any general partnership interest in the entity;
- (iii) if the entity is a limited liability company, any membership interest which, together with all other membership interests in the limited liability company Transferred since the date of the Note, exceeds 49% of all of the membership interests in the limited liability company;
- (iv) if the entity is a corporation, any voting stock in the corporation which, together with all other voting stock of the corporation Transferred since the date of the Note, exceeds 49% of all of the voting stock of the corporation; or
- (v) if the entity is a trust, any beneficial interest in such trust which, together with all other beneficial interests in the trust Transferred since the date of the Note, exceeds 49% of all of the beneficial interests in the trust.

(b) Acceleration of the Loan Upon Transfers of the Property or Significant Interests

Lender may, at Lender's option, declare all sums secured by the Instrument immediately due and payable and Lender may invoke any remedies permitted by paragraph 27 of the Instrument if, without the Lender's prior written consent, any of the following shall occur:

- (1) a Transfer of all or any part of the Property or any interest in the Property;
- (2) a Transfer of any Significant Interest in Borrower;
- (3) a Transfer of any Significant Interest in a corporation, partnership, limited liability company, joint venture, or trust which owns a Significant Interest in the Borrower;
- (4) if the Borrower is a trust, or if any trust owns a Significant Interest in the Borrower, the addition, deletion or substitution of a trustee of such trust, which addition, deletion or substitution has not been approved by Lender; or
- (5) a Transfer of all or any part of any Key Principal's ownership interest (other than limited partnership interests) in the Borrower, or in any other entity which owns, directly or indirectly, through one or more intermediate entities, an ownership interest in the Borrower.

(c) Transfers Permitted with Lender's Prior Consent

Lender shall consent to a Transfer which would otherwise violate this paragraph 19 if, prior to the Transfer:

- (1) Borrower causes to be submitted to Lender all information required by Lender to evaluate the transferee and the Property as if a new loan were being made to the transferee and secured by the Property, in the case of a Transfer of all or any part of the Property or an interest therein, or to the Borrower (as reconstituted after the proposed Transfer), in the case of a Transfer of Significant Interests;
- (2) The transferee, in the case of a Transfer of all or any part of the Property or an interest therein, or the Borrower (as reconstituted after the proposed Transfer), in the case of a Transfer of Significant



Interests, meet the eligibility, credit, management and other standards, and the Property meets the physical maintenance and replacement reserve requirements, customarily applied by Lender for approval of new borrowers and properties for loans secured by liens on multifamily properties;

- (3) In the case of a Transfer of all or any part of the Property, the proposed transferee (i) executes an agreement acceptable to Lender pursuant to which the proposed transferee agrees, upon consummation of the Transfer, to assume and to pay and perform all obligations of the Borrower under the Note, the Instrument and the other Loan Documents, (ii) causes one or more individuals acceptable to Lender to execute and deliver to Lender an amendment or supplement to the Loan Documents as "Key Principal," and (iii) executes such documents and otherwise provides such documents and information as required by Lender in connection with the Transfer;
- (4) In the case of a Transfer of a Principal's ownership interest pursuant to paragraph 19(b)(5), (i) the Borrower (as reconstituted after the proposed Transfer) executes an agreement acceptable to Lender that ratifies and confirms the obligations of Borrower under the Note, the Instrument and the other Loan Documents, (ii) one or more individuals acceptable to Lender execute and deliver to Lender an amendment or supplement to the Loan Documents as "Key Principal," and (iii) the Borrower executes such documents and otherwise provides such documents and information as required by Lender in connection with the Transfer; and
- (5) Borrower pays to Lender a \$500 non-refundable application fee and a transfer fee equal to one percent (1%) of the sums secured by the Instrument. In addition, Borrower shall be required to reimburse Lender for all of Lender's out of pocket expenses incurred in connection with the assumption, to the extent such expenses exceed \$500.

(d) No Acceleration of the Loan For Transfers Caused by Certain Events

Notwithstanding the foregoing provisions of this covenant, Lender shall not be entitled to declare sums secured by the Instrument immediately due and payable or to invoke any remedy permitted by paragraph 27 of the Instrument solely upon the occurrence of any of the following:

- (1) A Transfer that occurs by inheritance, devise, or bequest or by operation of law upon the death of a natural person who is an owner of the Property or the owner of a direct or indirect ownership interest in the Borrower.
- (2) The grant of a leasehold interest in individual dwelling units for a term of two years or less and leases for commercial uses as long as commercial leases do not exceed 20 percent of the rentable space of the Property (measured as required by Lender) and provided that all such leasehold interests do not contain an option to purchase the Property.
- (3) A sale or other disposition of obsolete or worn out personal property which is contemporaneously replaced by comparable personal property of equal or greater value which is free and clear of liens, encumbrances and security interests other than those created by the Loan Documents.
- (4) The creation of a mechanic's or materialmen's lien or judgment lien against the Property which is released of record or otherwise remedied to Lender's satisfaction, within 30 days of the date of creation.
- (5) The grant of an easement, if prior to the granting of the easement the Borrower causes to be submitted to Lender all information required by Lender to evaluate the easement, and if Lender determines that the easement will not materially affect the operation of the Property or Lender's interest in the



Property and Borrower pays to Lender, on demand, all costs and expenses incurred by Lender in connection with reviewing Borrower's request.

- (6) A transfer of the Property pursuant to the Option Agreement by and between Borrower and Salem Village, a Washington nonprofit corporation, dated as of July 1, 1998; and
- (7) The limited partner's right to remove the general partner in accordance with the Borrower's partnership agreement, provided that the replacement general partner is either (A) an affiliate of limited partner; or (B) another entity reasonably acceptable to the Lender.

Notwithstanding anything to the contrary herein or in any of the other Loan Documents U.S. AFFORDABLE HOUSING CDC, INC., ("U.S. Affordable Housing CDC"), and its shareholders shall, without the consent of the Lender or the Trustee, have the right to convey, assign, sell, pledge, transfer or otherwise dispose of its limited partnership interest in the Borrower or their ownership interests in U.S. Affordable Housing CDC, as the case may be, pursuant to the terms of the First Amended and Restated Limited Partnership Agreement of the Borrower dated as of November 1, 1998 as amended by First Amendment to The First Amended and Restated Agreement dated April 13, 2000, and any such conveyance, assignment, sale, pledge, transfer or other disposition shall not (i) be an Event of Default hereunder or under any of the other Loan Documents or (ii) entitle the Lender to raise the interest rate hereunder or under the Loan Documents or impose any transfer fee.

G. Notice

Uniform Covenant 20 of the Instrument ("Notice") is amended to read as follows:

Each notice, demand, consent, or other approval (collectively, "notices" and singly, "notice") given under the Note, the Instrument, and any other Loan Document, shall be in writing to the other party, and if to Borrower, at its address set forth below Borrower's signature on the Instrument, and if to Lender at its address set forth at the beginning of the Rider, or at such other address as such party may designate by notice to the other party and shall be deemed given (a) three (3) Business Days after mailing, by certified or registered U.S. mail, return receipt requested, postage prepaid, (b) one (1) Business Day after delivery, fee prepaid, to a national overnight delivery service (such as Federal Express, Purolator Courier, or U.P.S. Next Day Air), or (c) when delivered, if personally delivered with proof of delivery thereof.

Borrower and Lender each agrees that it will not refuse or reject delivery of any notice given hereunder, that it will acknowledge, in writing, the receipt of the same upon request by the other party and that any notice rejected or refused by it shall be deemed for all purposes of this Agreement to have been received by the rejecting party on the date so refused or rejected, as conclusively established by the records of the U.S. Postal Service or the courier service. As used in the Instrument, the term "Business Day" means any day other than a Saturday, a Sunday or any other day on which Lender is not open for business.

Beneficiary agrees to give Grantor's tax-credit investment limited partner, U.S. AFFORDABLE HOUSING CDC, INC., (hereafter "Investor Limited Partner") a copy of any notice of monetary default given to Grantor, and Beneficiary agrees to use its best efforts to give to Investor Limited Partner a copy of any notice given to Grantor of any nonmonetary default, at U.S. AFFORDABLE HOUSING CDC, INC., c/o U.S. Bancorp, Suite 1470 111 S.W. Fifth Avenue, Portland, Oregon 97204, Attention: Julie M. VanNoy. Beneficiary will give copies of these notices concurrently with the giving of any notice to Grantor; provided, however, that Beneficiary's failure to give any such notice for any reason shall not (i) act to impair or waive any remedy or right of Beneficiary under this Deed of Trust or any other Loan Document or (ii) subject Beneficiary to any liability to Investor Limited Partner for any loss, cost, or expense Investor Limited Partner may incur as a result of such default. Investor Limited Partner will have the right to cure defaults of Grantor, and Beneficiary agrees to accept cures tendered by Investor Limited Partner on



behalf of Grantor provided, Investor Limited Partner will have the same cure period as Grantor under the terms of the Loan Documents and the default notice.

Borrower and Lender each agrees that it will not refuse or reject delivery of any notice given hereunder, that it will acknowledge, in writing, the receipt of the same upon request by the other party and that any notice rejected or refused by it shall be deemed for all purposes of this Agreement to have been received by the rejecting party on the date so refused or rejected, as conclusively established by the records of the U.S. Postal Service or the courier service. As used in the Instrument, the term "Business Day" means any day other than a Saturday, a Sunday or any other day on which Lender is not open for business.

Lender shall not be required to deliver notice to Key Principal in connection with any notice given to Borrower. However, if Lender shall deliver notice to Key Principal, such notice shall be given in the manner provided in this Uniform Covenant 20, at Key Principal's address set forth at the foot of the Rider.

H. Governing Law

In addition to the governing law provision of Uniform Covenant 22 of the Instrument ("Uniform Multifamily Instrument; Governing Law; Severability"), the Borrower and Lender covenant and agree as follows:

(a) Choice of Law

The validity of the Instrument and the other Loan Documents, each of their terms and provisions, and the rights and obligations of Borrower under the Instrument and the other Loan Documents, shall be governed by, interpreted, construed, and enforced pursuant to and in accordance with the laws of the Property Jurisdiction.

(b) Consent to Jurisdiction

Borrower consents to the exclusive jurisdiction of any and all state and federal courts with jurisdiction in the Property Jurisdiction over Borrower and the Borrower's assets. Borrower agrees that such assets shall be used first to satisfy all claims of creditors organized or domiciled in the United States of America ("USA") and that no assets of the Borrower in the USA shall be considered part of any foreign bankruptcy estate.

Borrower agrees that any controversy arising under or in relation to the Note, the Instrument or any of the other Loan Documents shall be litigated exclusively in the Property Jurisdiction. The state and federal courts and authorities with jurisdiction in the Property Jurisdiction shall have exclusive jurisdiction over all controversies which may arise under or in relation to the Note, and any security for the debt evidenced by the Note, including without limitation those controversies relating to the execution, interpretation, breach, enforcement, or compliance with the Note, the Instrument, or any other issue arising under, related to, or in connection with any of the Loan Documents. Borrower irrevocably consents to service, jurisdiction, and venue of such courts for any litigation arising from the Note, the Instrument or any of the other Loan Documents, and waives any other venue to which it might be entitled by virtue of domicile, habitual residence or otherwise.

I. Acceleration; Remedies

Covenant 27 of the Instrument ("Acceleration; Remedies") is amended to add the following at the end of the first paragraph:

Upon the breach of any covenant or agreement by Borrower in the Instrument, (including, but not limited to, the covenants to pay when due sums secured by the Instrument) or any other Loan Document, Lender, at Lender's

option may, in addition to any remedies specified in this covenant, invoke any other remedies provided in any Collateral Agreement.

If Borrower is in default under any promissory note (other than the Note) evidencing a loan (the "Subordinate Loan") secured by a security instrument (other than the Instrument) covering all or any portion of the Property (the "Subordinate Instrument") or under any Subordinate Instrument or other loan document executed in connection with the Subordinate Loan, (and whether or not the Borrower has obtained the prior approval of Lender to the placement of such Subordinate Instrument on the Property) which default remains uncured after any applicable cure period, Borrower also then will be in default under the Note and the Instrument. In that event, the entire unpaid principal balance of the Note, accrued interest and any other sums due Lender secured by the Instrument then will become due and payable, at Lender's option. If Lender exercises this option to accelerate, Lender will do so in accordance with the provisions of the Note and the Instrument, and the Lender may invoke any and all remedies permitted by applicable law, the Note, the Instrument, or any of the other Loan Documents.

J. Single Asset Borrower

Until the debt evidenced by the Note is paid in full, Borrower shall not (1) acquire any real or personal property other than the Property and assets (such as accounts) related to the operation and maintenance of the Property, or (2) operate any business other than the management and operation of the Property.

K. Non-Recourse Liability

Subject to the provisions of paragraph L and notwithstanding any other provision in the Note or Instrument, the personal liability of Borrower, any general partner of Borrower (if Borrower is a partnership), and any Key Principal to pay the principal of and interest on the debt evidenced by the Note and any other agreement evidencing Borrower's obligations under the Note and the Instrument shall be limited to (1) the real and personal property described as the "Property" in the Instrument, (2) the personal property described in and pledged under any Collateral Agreement executed in connection with the loan evidenced by the Note, (3) the rents, profits, issues, products and income of the Property received or collected by or on behalf of Borrower (the "Rents and Profits") to the extent such receipts are necessary, first, to pay the reasonable expenses of operating, managing, maintaining and repairing the Property, including but not limited to real estate taxes, utilities, assessments, insurance premiums, repairs, replacements and ground rents, if any (the "Operating Expenses") then due and payable as of the time of receipt of such Rents and Profits, and then, to pay the principal and interest due under the Note, and any other sums due under the Instrument or any other Loan Document (including but not limited to deposits or reserves due under any Collateral Agreement), except to the extent that Borrower did not have the legal right, because of a bankruptcy, receivership or similar judicial proceeding, to direct the disbursement of such sums.

Except as provided in paragraph L, Lender shall not seek (a) any judgment for a deficiency against Borrower, any general partner of Borrower (if Borrower is a partnership) or any Key Principal, or Borrower's or any such general partner's or Key Principal's heirs, legal representatives, successors or assigns, in any action to enforce any right or remedy under the Instrument, or (b) any judgment on the Note except as may be necessary in any action brought under the Instrument to enforce the lien against the Property or to exercise any remedies under any Collateral Agreement.

L. Exceptions to Non-Recourse Liability

If, without obtaining Lender's prior written consent, (i) a Transfer shall occur which, pursuant to Uniform Covenant 19 of the Instrument, gives Lender the right, at its option, to declare all sums secured by the Instrument immediately due and payable, or (ii) Borrower shall encumber the Property with the lien of any Subordinate Instrument in connection with any financing by Borrower, or (iii) Borrower shall violate the single asset covenant in paragraph J of the Rider, any of such events shall constitute a default by Borrower under the Note, the Instrument



and the other Loan Documents and if such event shall continue for 30 days, paragraph K shall not apply from and after the date which is 30 days after such event and the Borrower, any general partner of Borrower (if Borrower is a partnership) and Key Principal (each individually on a joint and several basis if more than one) shall be personally liable on a joint and several basis for full recourse liability under the Note and the other Loan Documents.

Notwithstanding paragraph K, Borrower, any general partner of Borrower (if Borrower is a partnership) and Key Principal (each individually on a joint and several basis if more than one), shall be personally liable on a joint and several basis, in the amount of any loss, damage or cost (including but not limited to attorneys' fees) resulting from (A) fraud or intentional misrepresentation by Borrower or Borrower's agents or employees or any Key Principal or general partner of Borrower in connection with obtaining the loan evidenced by the Note, or in complying with any of Borrower's obligations under the Loan Documents, (B) insurance proceeds, condemnation awards, security deposits from tenants and other sums or payments received by or on behalf of Borrower in its capacity as owner of the Property and not applied in accordance with the provisions of the Instrument (except to the extent that Borrower did not have the legal right, because of a bankruptcy, receivership or similar judicial proceeding, to direct disbursement of such sums or payments), (C) all Rents and Profits (except to the extent that Borrower did not have the legal right, because of a bankruptcy, receivership or similar judicial proceeding, to direct the disbursement of such sums), not applied, first, to the payment of the reasonable Operating Expenses as such Operating Expenses become due and payable, and then, to the payment of principal and interest then due and payable under the Note and all other sums due under the Instrument and all other Loan Documents (including but not limited to deposits or reserves payable under any Collateral Agreement), (D) Borrower's failure to pay transfer fees and charges due under paragraph 19(c) of the Instrument, or (E) Borrower's failure following a default under any of the Loan Documents to deliver to Lender on demand all Rents and Profits, and security deposits (except to the extent that Borrower did not have the legal right because of a bankruptcy, receivership or similar judicial proceeding to direct disbursement of such sums), books and records relating to the Property.

No provision of paragraphs K or L shall (i) affect any guaranty or similar agreement executed in connection with the debt evidenced by the Note, (ii) release or reduce the debt evidenced by the Note, (iii) impair the lien of the Instrument or (iv) impair the right of Lender to enforce the provisions of any Collateral Agreement.

M. Waiver of Jury Trial

Borrower and Key Principal (each for himself if more than one) (i) covenant and agree not to elect a trial by jury with respect to any issue arising under any of the Loan Documents triable by a jury and (ii) waive any right to trial by jury to the extent that any such right shall now or hereafter exist. This waiver of right to trial by jury is separately given, knowingly and voluntarily with the benefit of competent legal counsel by the Borrower and Key Principal, and this waiver is intended to encompass individually each instance and each issue as to which the right to a jury trial would otherwise accrue. Further, Borrower and Key Principal hereby certify that no representative or agent of the Lender (including, but not limited to, the Lender's counsel) has represented, expressly or otherwise, to Borrower or Key Principal that Lender will not seek to enforce the provisions of the paragraph M.

N. Debt Service Coverage

Cash flow for the Project after payment of all operating expenses for the Project shall be at least 1.10:1 percent of debt service of the Loan, tested on an annual basis commencing on December 31 of the year the Loan closes and on December 31 of each year thereafter. Notwithstanding Borrower's failure to comply with the foregoing covenant, Borrower shall not be in default hereunder as long as Borrower is complying with the following conditions and covenants in Lender's sole and absolute discretion:

- (a) Borrower shall provide to Lender within 20 days after the close of each calendar month, financial statements of Borrower and the [Project/Property] for each such month, all in reasonable detail and



certified by Borrower to be true and correct: balance sheet, statement of income, and statement of cash flows;

- (b) Concurrently with (a) above, Borrower shall provide to Lender a certificate of the general partner of Borrower (i) providing calculations of the Project's debt service coverage ratio, (ii) specifying the actions Borrower is taking, and proposes to take, to increase the debt service coverage ratio to 1.1:1.0 or higher, (iii) certifying that Borrower is exercising good faith efforts to attain and maintain a debt service coverage ratio of 1.1:1.0 or higher and (iv) certifying that no other default has occurred;
- (c) Borrower is exercising good and prudent management of the Property;
- (d) Borrower is not in default under any other provision of the Loan Documents; and
- (e) Borrower shall provide Lender with such other information regarding the business, operations, and financial condition of the Borrower and the Property as Lender may from time to time request.

BY SIGNING BELOW, Borrower accepts and agrees to the covenants and agreements contained in this Rider.

The corporate officer designated below to sign on behalf of the Borrower is not a Key Principal and shall not be personally liable for repayment of the Note. There are no Key Principals in this transaction.

BORROWER:

SALEM VILLAGE LIMITED PARTNERSHIP,
a Washington limited partnership

BY: Salem Village,
a Washington nonprofit corporation, its general partner

By:


Kent Haberly, President



NOTARY

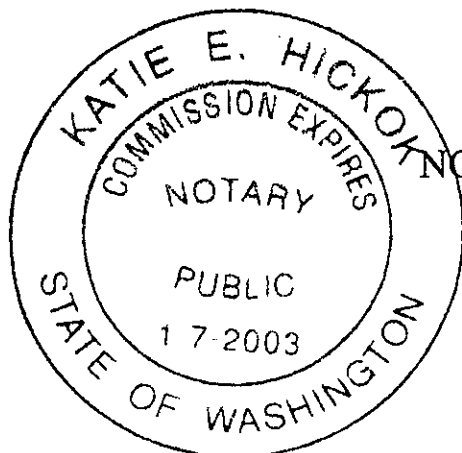
STATE OF WASHINGTON)

) ss.

COUNTY OF Skagit)

On this 18 day of May, 2000, before me, the undersigned, a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared Kent Haberly, to me known to be the person who signed as President of SALEM VILLAGE, a Washington nonprofit corporation the corporation acting as general partner of SALEM VILLAGE LIMITED PARTNERSHIP, the limited partnership that executed the within and foregoing instrument, and acknowledged said instrument to be the free and voluntary act and deed of the corporation as general partner and of the limited partnership for the uses and purposes therein mentioned; and on oath stated that he was duly elected, qualified and acting as said officer of the corporation and that he was authorized to execute the said instrument on behalf of the corporation and that the seal affixed, if any, is the corporate seal of the corporation, and that the corporation was authorized to execute said instrument on behalf of the limited partnership.

IN WITNESS WHEREOF I have hereunto set my hand and official seal the day and year first above written.



Katie E. Hickok
(Signature of Notary)

Katie E. Hickok
(Print or stamp name of Notary)

NOTARY PUBLIC in and for the State of Washington,
residing at Mt. Vernon

My appointment expires: 1-7-2003

