



200309170196

Skagit County Auditor

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Return Address

U.S. Bank National Association
Commercial Real Estate Division
1420 Fifth Avenue, 8th Floor
Seattle, Washington 98101

CHICAGO TITLE CO. C22593**Document Title(s)** (or transactions contained therein):

1. Priority and Subordination Agreement
- 2.
- 3.

Reference Number(s) of Documents assigned or released:(on page 2 of document) 894979; 200309170193; 200309170190; 200309170189**Grantor(s)** (Last name first, then first name and initials):

1. The United States of America, acting through the Rural Housing Service of the United States Department of Agriculture
2. U.S. Bank National Association
3. State of Washington Department of Community Trade and Economic Development, Office of Community Development

☐ Additional names on page ___ of document.**Grantee(s)** (Last name first, then first name and initials):

1. U.S. Bank National Association
2. Washington State Housing Finance Commission
3. State of Washington Department of Community Trade and Economic Development, Office of Community Development

☐ Additional names on page ___ of document.**Legal description** (abbreviated: i.e. lot, block, plat or section, township, range)

Lots 35, 36, 37, 38, 39, 40, 49, 50 and 51 SANDALWOOD.

☒ Full legal description is on Exhibit A of document.**Assessor's Property Tax Parcel/Account Number(s)**

4361-000-051-0003; 4361-000-035-0004; 4361-000-036-0003; 4361-000-037-0002; 4361-000-038-0001; 4361-000-039-0000; 4361-000-040-0007; 4361-000-049-0008; 4361-000-050-0004

PRIORITY AND SUBORDINATION AGREEMENT

THIS PRIORITY AND SUBORDINATION AGREEMENT (the "Agreement"), dated September 17, 2003, is by and between U.S. BANK NATIONAL ASSOCIATION, as lender (the "Lender"); the UNITED STATES OF AMERICA, acting through the RURAL HOUSING SERVICE OF THE UNITED STATES DEPARTMENT OF AGRICULTURE (the "Government"), the STATE OF WASHINGTON, DEPARTMENT OF COMMUNITY TRADE AND ECONOMIC DEVELOPMENT, OFFICE OF COMMUNITY DEVELOPMENT (the "State"); and the WASHINGTON STATE HOUSING FINANCE COMMISSION (the "Commission").

WHEREAS, the Government is the owner and holder of that certain Deed of Trust dated the 18th day of January, 1979 recorded under Skagit County recording number 894979, securing a loan in the original principal amount of \$797,850.00 (the "Existing Government Deed of Trust");

WHEREAS, the Government has agreed to loan the additional principal sum of \$3380,000.00 to Mercy Properties Washington III LLC, a Washington limited liability company ("Borrower") with interest at the per annum rate not to exceed five and 37.5/100ths percent (5.375%), except in the event of a default, for the following purposes only: acquiring the property, renovating the affordable housing project located on the property, funding a replacement reserve, and paying costs and fees associated with loan, such additional loan secured by that certain Deed of Trust dated the 17th day of September 2003 recorded under Skagit County recording number 200309170193 (the "New Government Deed of Trust");

WHEREAS, Lender has agreed to loan the principal sum of \$698,041.00 to Borrower with interest at the per annum rate not to exceed four and 73/100ths percent (4.73%), except in the event of a default in which event the default interest rate shall be the Note rate of interest plus 5 percent, for the following purposes only: acquiring the property, renovating the affordable housing project located on the property, funding a replacement reserve, and paying costs and fees associated with loan (the "Bank Loan"), such loan to be secured by that certain Deed of Trust dated the 1st day of September, 2003, recorded under Skagit County recording number 200309170190 (the "Bank Deed of Trust");

WHEREAS, the State has agreed to loan the principal sum of \$25,000 to Borrower, a portion of which will be used for the purpose of acquiring and rehabilitating the property located at 2107 North LaVenture Road, Mount Vernon, Washington 98273;

WHEREAS, in conjunction with the State Loan, the Borrower has executed that certain Low Income Housing Covenant Agreement dated the 5th day of September 2003 recorded under Skagit County recording number 200309170189 (the "State

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Covenant"). The State's Low Income Housing Agreement is not subordinated to the Bank's Deed of Trust;

WHEREAS, the Commission has agreed to acquire the Bank Loan from the Lender with proceeds of a tax-exempt bond (the "Bond") in consideration for which the Borrower has agreed to enter into a Regulatory Agreement, dated as of September 1, 2003 (the "Regulatory Agreement"), to be recorded on the real property records of the property acquired with the Bank Loan, which Regulatory Agreement is required by federal tax law to be recorded in a first lien position.

NOW THEREFORE, in consideration of parties' agreements to make the loans referenced herein, and in consideration of the Commission's agreement to issue the Bond on behalf of the Borrower, and subject to the terms and conditions set forth below, the Government, the State and Lender hereby agree as follows:

1. Regardless of the time each parties' interest in the Property was or shall be created or recorded, such interests have and shall have the following priorities:

- i) Regulatory Agreement;
- ii) State Covenant;
- iii) Bank Deed of Trust;
- iv) Existing Government Deed of Trust; and
- v) New Government Deed of Trust.

2. The Government and Lender agree to and do subordinate each of their respective security instruments to the liens of the Regulatory Agreement and State Covenant.

3. The Government (1) consents to the Borrower obtaining the Bank Loan from the Lender for the above-described purposes, and (2) agrees to and does subordinate in favor of the Lender and its successors and assigns its liens of security interests created or evidenced by the above-described instruments insofar as such security instrument is secured by the following-described property that will secure the Bank Loan, provided the Lender perfects a lien on that property: The legal description of the property is set forth on Exhibit A attached hereto and incorporated herein by this reference. This subordination is limited to (1) the amount actually loaned by the Lender to the Borrower (principal and accrued interest, including default interest, if applicable, at a rate of five percent (5%) above the note rate) for the foregoing purposes, (2) future advances for taxes, assessments, insurance, cost of maintenance and repairs to the property necessary for the operation of the Property as a Rural Housing Service Multifamily Project and completed in accordance with applicable Government regulations, and payments on liens prior to the Lender's lien, and (3) the amount actually advanced for costs and fees incurred by Lender in connection with realizing on the collateral for the Bank Loan, including, without limitation, legal fees and disbursements, foreclosure costs, title charges, appraisal fees, environmental assessment fees, and expenses incurred in any bankruptcy, reorganization, liquidation, receivership or similar proceedings.

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Any amount in excess of such amount will not be covered by this subordination unless prior written consent was obtained from the Government for incurring the expenditure in question.

4. The Lender must incorporate into the Borrower's Promissory Note a statement that the Loan will be in default should any proceeds of the Loan funds obtained as a result of this subordination be used (1) for a purpose that will contribute the excessive erosion of highly erodible land or to the conversion of wetlands to produce an agricultural commodity, provided by Exhibit M of Subpart G of Part 1940 Title 7, Code of Federal Regulations, or (2) for any purpose not provided for above.

5. The parties further agree as follows:

(a) The Lender will not declare the Bank Loan to be in default and the Bank Loan will not be accelerated unless at least 30 days' prior written notice has been provided to the Government.

(b) The Lender agrees that the Government may, at its option, cure any monetary default by the Borrower by paying the amount of the Borrower's delinquent payments to the Lender within 30 days after written notice has been provided to the Government.

If the Government obtains title to the real property which secured the Bank Loan, whether by foreclosure or deed in lieu of foreclosure, the Government, subject to the Lender's lien, notwithstanding any prohibition if any of the Lender's security instruments to the contrary, may transfer the Property only with the consent of the Lender provided that Lender shall not unreasonably withhold its consent to a transferee meeting the Government's rural housing program requirements and such transferee is a 501(c)(3) entity.


(c) Any notice to be given by either party to the other shall be delivered in person or deposited in the United States mail, duly certified, with postage prepaid, and addressed to the party for whom intended.

(d) Each of the terms, covenants and conditions of this subordination shall extend to and be binding on the assigns of each party to this agreement.



IN WITNESS WHEREOF, the parties hereto have executed this Priority and Subordination Agreement on this 11 day of September, 2003.

UNITED STATES OF AMERICA, acting through
UNITED STATES DEPARTMENT OF
AGRICULTURE, RURAL HOUSING SERVICE

By 
Name: JACKIE J. GLEASON
Title: State Director

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U.S. BANK NATIONAL ASSOCIATION

By Lauren A. McGreal
Name: LAUREN A. MCGREAL
Title: Loan Admin. Officer

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WASHINGTON STATE HOUSING FINANCE
COMMISSION

By Paul R. Edwards
Name: PAUL R. EDWARDS
Title: DEPUTY DIRECTOR

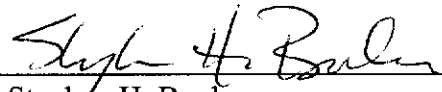
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STATE OF WASHINGTON DEPARTMENT OF
COMMUNITY TRADE AND ECONOMIC
DEVELOPMENT, OFFICE OF COMMUNITY
DEVELOPMENT

By 
Name: Stephen H. Buxbaum
Title: Assistant Director, Housing Services
Division _____

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(NOTE TO LENDER: You are advised to obtain a perfected interest on the above property. When the indebtedness has been satisfied please mark this form "PAID IN FULL" and return it to the Department of Agriculture at the following address: USDA, Rural Development
1835 Black Lake Blvd. SW, Suite B, Olympia, WA 98512.)

SUBORDINATION BY THE GOVERNMENT

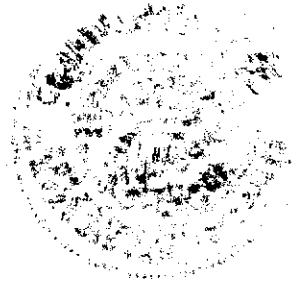


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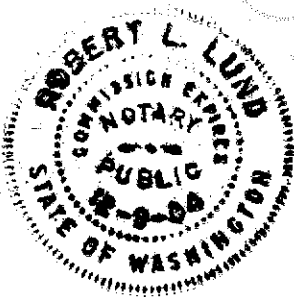
UNOFFICIAL DOCUMENT



STATE OF WASHINGTON)
) ss.
COUNTY OF THURSTON)

On this 11 day of September, 2003, before me, a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared Jackie J. Gleason, to me known to be State Director, Rural Development, United States Department of Agriculture, and the person(s) described in and who executed the foregoing Priority and Subordination Agreement, and acknowledged he executed the same as his ~~the~~ free act and deed.

GIVEN UNDER my hand and official seal hereto affixed the day and year in this certificate first above written.



Robert L. Lund
(Signature of Notary)

Robert L. Lund
(Print or stamp name of Notary)

NOTARY PUBLIC in and for the State
of Washington, residing at Tacoma.
My appointment expires: 12-9-2004

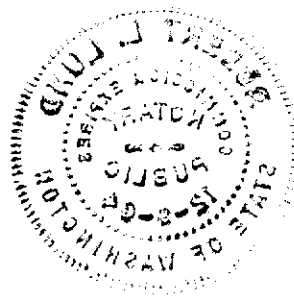
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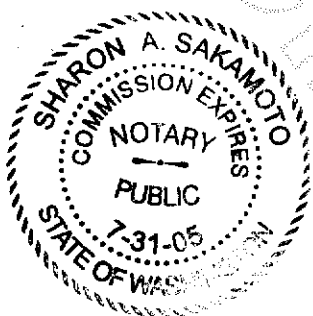
UNOFFICIAL DOCUMENT



STATE OF WASHINGTON)
) ss.
COUNTY OF King)

On this 10th day of September, 2003, before me, a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared Laura A. McCreel, to me known to be a Loan Administration Officer, U.S. Bank National Association, and the person(s) described in and who executed the foregoing Priority and Subordination Agreement, and acknowledged she executed the same as her the free act and deed.

GIVEN UNDER my hand and official seal hereto affixed the day and year in this certificate first above written.



Sharon A. Sakamoto
(Signature of Notary)

Sharon A. Sakamoto
(Print or stamp name of Notary)

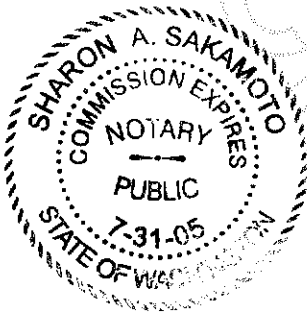
NOTARY PUBLIC in and for the State
of Washington, residing at Seattle.
My appointment expires: 7-31-05.



STATE OF WASHINGTON)
) ss.
COUNTY OF King)

On this 11th day of September, 2003, before me, a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared Paul R. Edwards, to me known to be the Deputy Director of the, Washington State Housing Finance Commission, and the person(s) described in and who executed the foregoing Priority and Subordination Agreement, and acknowledged he executed the same as his the free act and deed.

GIVEN UNDER my hand and official seal hereto affixed the day and year in this certificate first above written.



Sharon A. Sakamoto
(Signature of Notary)

Sharon A. Sakamoto
(Print or stamp name of Notary)

NOTARY PUBLIC in and for the State
of Washington, residing at Seattle.
My appointment expires: 7-31-05.

SUBORDINATION BY THE GOVERNMENT
[Subord Agmt-No RD Covenant-Skagit Village]



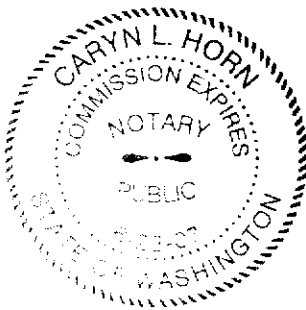
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STATE OF WASHINGTON)
) ss.
COUNTY OF THURSTON)

On this 9th day of SEPTEMBER, 2003, before me, a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared STEPHEN H. BUXBAUM, to me known to be the Assistant Director, Housing Services Division, State of Washington Department of Community Trade and Economic Development, Office of Community Development, and the person(s) described in and who executed the foregoing Priority and Subordination Agreement, and acknowledged he executed the same as his the free act and deed.

GIVEN UNDER my hand and official seal hereto affixed the day and year in this certificate first above written.



Caryn L. Horn
(Signature of Notary)

CARYN L. HORN
(Print or stamp name of Notary)

NOTARY PUBLIC in and for the State
of WASHINGTON, residing at OLYMPIA.
My appointment expires: 6/23/07.

SUBORDINATION BY THE GOVERNMENT
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EXHIBIT A
Legal Description of Property

Lots 35, 36,37, 38, 39, 40, 49, 50 and 51, Plat of Sandalwood, according to the plat thereof, recorded in Volume 11 of Plats, Page 78, records of Skagit County, Washington.

Situated in Skagit County, Washington

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