

AFTER RECORDING MAIL TO:

U.S. BANK NATIONAL ASSOCIATION
1420 FIFTH AVENUE, 8TH FLOOR
SEATTLE, WASHINGTON 98101
ATTN: LAURA MCGREAL
CHICAGO TITLE C22594 ✓ VILLA KATHLEEN

Document Title(s) (or transactions contained therein):

1. Subordination, Non-Disturbance, Estoppel and Attornment Agreement

Reference Number(s) of Documents assigned or released: (on page ___ of documents(s))

Recording Number: 9904160066; 200309170207

Grantor(s) (Last name first, then first name and initials):

1. MERCY PROPERTIES WASHINGTON III, LLC, a Washington limited liability company
2. AMERICAN METER & APPLIANCE, INC., a Washington corporation
3. _____

Grantee(s) (Last name first, then first name and initials):

1. U.S. BANK NATIONAL ASSOCIATION, A NATIONAL BANKING ASSOCIATION
2. _____

Legal description (abbreviated: i.e. lot, block, plat or section, township, range)

Lots 13 through 23, Block 2, FRITSCH'S ADDITION TO BURLINGTON

Full legal is on Exhibit A of document.

Assessor's Property Tax Parcel/Account Number

ASSESSORS PARCEL NO: 4084-002-023-0000

**SUBORDINATION, NON-DISTURBANCE,
ESTOPPEL AND ATTORNMENT AGREEMENT
(Villa Kathleen Apartments)**

Date: September 16, 2003

From: AMERICAN METER & APPLIANCE, INC.,
a Washington corporation ("Tenant") and
MERCY PROPERTIES WASHINGTON III LLC,
a Washington limited liability company ("Landlord")

To: U.S. BANK NATIONAL ASSOCIATION, ("Lender")
Commercial Real Estate Loan Administration
1420 Fifth Avenue, 8th Floor
Seattle, Washington 98101

Lease Dated: March 3, 1999

Initial Lease Term: five (5) years

W I T N E S S E T H :

WHEREAS, the Tenant has entered into a lease dated March 3, 1999 ("Lease") with Landlord covering the laundry room (the "Premises") of the multifamily project located on the land described on attached Exhibit A; and

WHEREAS, Washington State Housing Finance Commission (the "Commission") has agreed to issue, sell and deliver its Washington State Housing Finance Commission MultiFamily Nonprofit Revenue Bond (Mercy Housing Portfolio), Series 2003 (the "Bond"), in the aggregate principal amount of \$6,447,000, the proceeds of which will be used to purchase real property located in Snohomish, Skagit, Whatcom and Island Counties, Washington, and to renovate the affordable housing project located on each property; and

WHEREAS, Lender is the purchaser and owner of the Bond; and

WHEREAS, Lender and Landlord are parties to a loan agreement of even date herewith ("Loan Agreement"), which sets forth the terms and conditions under which the Loan proceeds will be advanced to Landlord; and

WHEREAS, the Loan is secured by a deed of trust, assignment of rents and leases and security agreement, hereinafter referred to as "mortgage" (which mortgage also secures any



future advances made by Lender). The Deed of Trust was recorded on 9/17/2003, under Skagit County Recorder's file No. 200309170207; and

WHEREAS, Lender has been requested by Tenant and by Landlord to enter into a non-disturbance agreement with Tenant.

NOW, THEREFORE, in consideration of the promises and mutual covenants herein-after contained, the parties hereto mutually covenant and agree as follows:

1. The Lease and any extensions, renewals, replacements or modifications thereof, and all of the right, title and interest of the Tenant in and to said Premises, including but not limited to any option or right of first refusal to purchase Premises, or any acquisition of title to the Premises by Tenant during the term of the mortgage, are and shall be subject and subordinate to the mortgage and to all of the terms and conditions contained herein, and to any renewals, modifications, replacements, consolidations and extensions of the indebtedness secured thereby.

2. Lender consents to the Lease and, in the event of foreclosure of said mortgage, or in the event Lender comes into possession or acquires title to the premises as a result of the enforcement or foreclosure of the mortgage or mortgage note, or as a result of any other means, Lender agrees to recognize Tenant and further agrees that Tenant shall not be disturbed in its possession of the Premises for any reason other than one which would entitle the Landlord to terminate the Lease under its terms or would cause, without further action by such Landlord, the termination of the Lease or would entitle such Landlord to dispossess the Tenant from the Premises.

3. Tenant agrees with Lender that if the interests of Landlord in the Premises shall be transferred to and owned by Lender by reason of foreclosure or other proceedings brought by it, or by any other manner, Tenant shall be bound to Lender under all of the terms, covenants and conditions of the Lease for the balance of the term thereof remaining and any extensions or renewals thereof which may be affected in accordance with any option therefor in the Lease, with the same force and effect as if Lender were the Landlord under the Lease, and Tenant does hereby attorn to Lender as its Landlord, said attornment to be effective and self-operative without the execution of any further instruments on the part of any of the parties hereto immediately upon Lender succeeding to the interest of the Landlord in the Premises. Tenant agrees, however, upon the election of and written demand by Lender after Lender receives title to the Premises, to promptly execute an instrument in confirmation of the foregoing provisions, satisfactory to Lender, in which Tenant shall acknowledge such attornment and shall set forth the terms and conditions of its tenancy.

4. Tenant agrees with Lender that if Lender shall succeed to the interest of Landlord under the Lease, Lender shall not be (a) liable for any action or omission of any prior landlord under the Lease, or (b) subject to any offsets or defenses which Tenant might have

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against any prior landlord, or (c) bound by any rent or additional rent which Tenant might have paid for more than the current month to any prior landlord, or (d) bound by any security deposit which Tenant may have paid to any prior landlord, unless such deposit is in an escrow fund available to Lender, or (e) bound by any amendment or modification of the Lease made without Lender's consent, or (f) bound by any provision in the Lease which obligates the Landlord to erect or complete any building or to perform any construction work or to make any improvements to the Premises, or (g) liable for or incur any obligation with respect to any breach of warranties or representations of any nature under the Lease or otherwise, including, without limitation, any warranties, or representations respecting use, compliance with zoning, landlord's title, landlord's authority, habitability and/or fitness for any purpose or possession, or (h) liable for consequential damages. Tenant further agrees with Lender that Tenant will not voluntarily subordinate the Lease to any lien or encumbrance without Lender's consent.

5. In the event that the Landlord shall default in the performance or observance of any of the terms, conditions or agreements in the Lease, Tenant shall give written notice thereof to the Lender and the Lender shall have the right (but not the obligation) to cure such default. Tenant shall not take any action with respect to such default under the Lease, including and without limitation, any action in order to terminate, rescind or void the Lease or to withhold any rental thereunder for a period of 10 days after receipt of such written notice thereof by the Lender with respect to any such default capable of being cured by the payment of money and for a period of 30 days after receipt of such written notice thereof by the Lender with respect to any other such default; provided, that in the case of any default which cannot be cured by the payment of money and cannot with diligence be cured within such thirty 30-day period because of the nature of such default or because Lender requires time to obtain possession of the Premises in order to cure the default, if Lender shall proceed promptly to attempt to obtain possession of the Premises, where possession is required, and to cure the same and thereafter shall prosecute the curing of such default with diligence and continuity, then the time within which such default may be cured shall be extended for such period as may be necessary to complete the curing of the same with diligence and continuity.

6. Tenant agrees with Lender that Tenant's estate in the Premises shall not be conveyed or encumbered without the written consent of the Lender so long as the Lease is in effect.

7. Landlord and Tenant hereby covenant and agree with Lender as follows:

(a) The Lease has been properly executed and delivered by Tenant, is valid and binding upon Tenant, has not been modified, and is in full force and effect;

(b) There exist no defaults under the terms of the Lease by Landlord or Tenant;

(c) Tenant has not paid any rental to Landlord more than one month in advance and Landlord holds no security deposit for Tenant except \$ 0;

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(d) Tenant has no defense, claim of lien or offset, under the Lease or against the rental payable thereunder; and

(e) Tenant has no claims to or interest in the Premises, legal or equitable, or any contract or option therefore, other than as a tenant under the lease.

Tenant hereby agrees that it will promptly notify Lender in writing of and when any of the above conditions should become untrue or incorrect in any material respect.

8. This Agreement shall bind and inure to the benefit of all parties hereto, their successors and assigns. As used herein the term "Tenant" shall include the Tenant, its successors and assigns; the words "foreclosure" and "foreclosure sale" as used herein shall be deemed to include the acquisition of Landlords' estate in the Premises by voluntary deed (or assignment) in lieu of foreclosure, and the word "Lender" shall include the Lender herein specifically named and any of its successors and assigns, including anyone who shall succeed to Landlord's interest in the Premises by, through or under foreclosure of the mortgage.

9. This Agreement shall not be modified or amended except in writing signed by the parties hereto.

10. The use of the neuter gender in this Agreement shall be deemed to include any other gender, and words in the singular number shall be held to include the plural, when the sense requires.

11. Notwithstanding any of the other provisions hereof, this Agreement is not intended to create and shall not be deemed to create any personal liability on the part of tenant for repayment of the loan secured by the mortgage.

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**LANDLORD'S SIGNATURE PAGE FOR
SUBORDINATION, NON-DISTURBANCE, ESTOPPEL AND ATTORNMENT AGREEMENT**

IN WITNESS WHEREOF the parties hereto have placed their hands and seals the day and year first above written.

LANDLORD:

MERCY PROPERTIES WASHINGTON III
LLC, a Washington limited liability company

By: Mercy Housing, Inc., Managing Member

By: 

Name: Charles Hoag

Title: Sr. Vice President

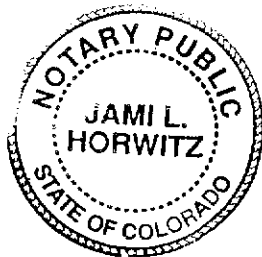
STATE OF COLORADO)

) ss.

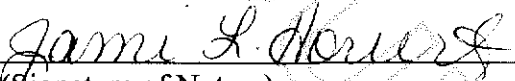
COUNTY OF DENVER)

I certify that I know or have satisfactory evidence that Charles Hoag is the person who appeared before me, and said person acknowledged that he signed this instrument, on oath stated that he was authorized to execute the instrument and acknowledged it as the Sr. Vice President of Mercy Housing, Inc., the managing member of MERCY PROPERTIES WASHINGTON III LLC, a Washington limited liability company, to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Dated: September 5, 2003



My Commission Expires Jan 4, 2007


(Signature of Notary)

Jami L. Horwitz
(Print or stamp name of Notary)

NOTARY PUBLIC in and for the State
of Colorado, residing at Denver.
My appointment expires: 11/9/05.

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**TENANT'S SIGNATURE PAGE FOR
SUBORDINATION, NON-DISTURBANCE, ESTOPPEL AND ATTORNMENT AGREEMENT**

IN WITNESS WHEREOF the parties hereto have placed their hands and seals the day and year first above written.

TENANT:

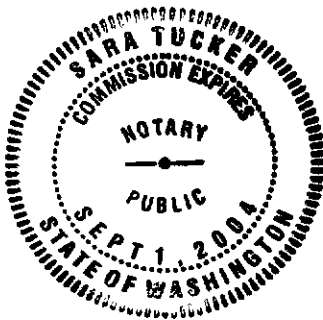
AMERICAN METER & APPLIANCE, Inc.

By James Merlino
Name: James Merlino
Title: President

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

I certify that I know or have satisfactory evidence that James Merlino is the person who appeared before me, and said person acknowledged that he signed this instrument, on oath stated that he was authorized to execute the instrument and acknowledged it as the President of American Meter + Appliance, a _____, the manager of _____, a Washington limited liability company, to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Dated: 8/29/03



Sara Tucker
(Signature of Notary)

Sara Tucker
(Print or stamp name of Notary)

NOTARY PUBLIC in and for the State
of WA, residing at Seattle, WA
My appointment expires: 9/1/04




**LENDER'S SIGNATURE PAGE FOR
SUBORDINATION, NON-DISTURBANCE, ESTOPPEL AND ATTORNMENT AGREEMENT**

IN WITNESS WHEREOF the parties hereto have placed their hands and seals the day and year first above written.

LENDER:

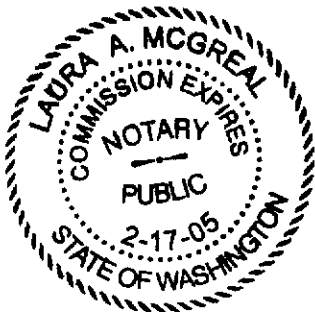
U.S. BANK NATIONAL ASSOCIATION

By 
Darrell McKissic, Vice President

STATE OF WASHINGTON)
COUNTY OF King) ss.

On this 16 day of Sept., 2003, personally appeared before me Darrell McKissic, to me known to be the Vice President of U.S. Bank National Association, that executed the within and foregoing instrument and acknowledged the instrument to be the free and voluntary act and deed of the association, for the uses and purposes therein mentioned, and on oath stated that she/he was/were authorized to execute the instrument.

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



Laura A McGreal
(Signature of Notary)

LAURA A. MCGREAL
(Print or stamp name of Notary)

NOTARY PUBLIC in and for the State
of Washington, residing at Poulsbo WA
My appointment expires: 02-17-05.



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**EXHIBIT A
to Subordination, Non-Disturbance,
Estoppel and Attornment Agreement
LEGAL DESCRIPTION**

The laundry room of the multifamily project located on the land described as follows:

Lots 13 through 23, Block 2, Fritsch's Addition to Burlington, according to the plat thereof recorded in Volume 3 of Plats, Page 78, records of Skagit County, Washington.

Situated in Skagit County, Washington.

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EXHIBIT A TO SUBORDINATION, NON-DISTURBANCE, ESTOPPEL
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