

After Recording Mail To:

U.S. Bank National Association
1420 Fifth Avenue, 8th Floor
Seattle, Washington 98101
Attn: Monica Rhule



200511100076
Skagit County Auditor

11/10/2005 Page 1 of 35 11:27AM

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

FIRST AMERICAN TITLE CO.

(Fixture Filing) 85850-1

Coversheet Recording Information:

GRANTOR: HOUSING AUTHORITY OF SKAGIT COUNTY, a
public body corporate and politic of the State of
Washington

GRANTEE: U.S. BANK NATIONAL ASSOCIATION, a national
banking association

TRUSTEE: CHICAGO TITLE INSURANCE COMPANY

LEGAL DESCRIPTION: Section 6, Township 34, Range 4, ptn.
Government Lot 2
The complete legal description is on page 33.

ASSESSOR'S PROPERTY TAX PARCEL ACCOUNT NUMBERS:
340406-0-015-0003 (P23607)

TABLE OF CONTENTS

1. TITLE AND USE 4

 1.1 Warranty of Title 4

 1.2 Nonagricultural Use; Commercial Loan 5

2. GRANTOR'S COVENANTS 5

 2.1 Payment and Performance of Secured Obligations 5

 2.2 Payment of Taxes, Utilities, Liens and Charges 5

 (a) Taxes and Assessments 5

 (b) Utilities 5

 (c) Labor and Materials 5

 (d) Liens and Charges 6

 (e) Taxes, Assessments and Other Charges Imposed on Beneficiary 6

 2.3 Insurance 6

 (a) Coverages Required 6

 (b) Policies 7

 (c) Payment; Renewals 7

 (d) Application of Insurance Proceeds 8

 (e) Application of Insurance Proceeds to Restoration 8

 (f) Transfer of Title 9

 2.4 Preservation and Maintenance of Property; Right of Entry 9

 (a) Preservation and Maintenance 9

 (b) Alterations 10

 (c) Right of Entry 10

 2.5 Parking 10

 2.6 Use of Property 10

 2.7 Condemnation 11

 (a) Proceedings 11

 (b) Application of Condemnation Proceeds 11

 2.8 Protection of Beneficiary's Security 11

 2.9 Reimbursement of Beneficiary's and Trustee's Expenses 11

 2.10 Books and Records on Property 12

3. RESERVES 12

 3.1 Deposits 12

 3.2 Application of Deposits 13

 3.3 Adjustments to Deposits 13

DEED OF TRUST
[12187-5238/SB052920.179]



200511100076
Skagit County Auditor

3.4	Conditional Waiver	13
4.	RESTRICTIONS ON TRANSFER OR ENCUMBRANCE	13
5.	UNIFORM COMMERCIAL CODE SECURITY AGREEMENT	14
5.1	Grant to Beneficiary	14
5.2	Beneficiary's Rights and Remedies	14
6.	ASSIGNMENT OF RENTS AND LEASES	15
6.1	Assignment of Rents and Leases	15
6.2	Collection of Rents	15
6.3	Grantor's Representations and Warranties	16
6.4	Leases of the Property	16
6.5	Beneficiary in Possession; Appointment of Receiver	17
6.6	Application of Rents	17
6.7	Deficiencies	18
6.8	Beneficiary Not Mortgagee in Possession	18
6.9	Enforcement	18
7.	BOND PURCHASE AGREEMENT	18
7.1	Advances	18
7.2	Assignment of Claims	19
7.3	Default Under the Bond Purchase Agreement	19
8.	EVENTS OF DEFAULT	19
8.1	Events of Default	19
8.2	Inapplicability of Cure Periods	19
8.3	Form of Notice	20
9.	REMEDIES	20
9.1	Acceleration Upon Default; Additional Remedies	20
9.2	Prepayment Premium	20
9.3	Exercise of Power of Sale	21
9.4	Application of Sale Proceeds	21
9.5	Waiver of Order of Sale and Marshalling	22
9.6	Nonwaiver of Defaults	22
9.7	Expenses During Redemption Period	22
9.8	Foreclosure Subject to Tenancies	22
9.9	Remedies Cumulative	22
9.10	Beneficiary's and Trustee's Expenses	23
10.	GENERAL	23
10.1	No Offset	23



10.2	Application of Payments	23
10.3	Appraisal Costs.....	23
10.4	Imposition of Tax	23
10.5	Reconveyance.....	24
10.6	Successor Trustee.....	24
10.7	Beneficiary's Powers	24
10.8	Subdivision.....	25
10.9	Subrogation.....	25
10.10	Limitation on Interest and Charges.....	25
10.11	Additional Documents; Power of Attorney.....	25
10.12	Waiver of Statute of Limitations	26
10.13	Forbearance by Beneficiary Not a Waiver	26
10.14	Entire Agreement; Modifications and Waivers.....	26
10.15	Notice	26
10.16	Governing Law; Severability; Captions	26
10.17	Definitions	27
10.18	Successors and Assigns; Agents.....	27
10.19	Number; Gender	27
10.20	Time.....	27
10.21	Request for Notice.....	27
10.22	Assignment of Loan Documents	27
10.23	Estoppel Certificate	28
10.24	Certain Obligations Unsecured.....	28

DEED OF TRUST
 [12187-5238/SB052920.179]



200511100076
 Skagit County Auditor

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

(Fixture Filing)

THIS DEED OF TRUST, ASSIGNMENT OF RENTS AND LEASES, AND SECURITY AGREEMENT ("Deed of Trust") is made this 10th day of November, 2005, by Grantor, HOUSING AUTHORITY OF SKAGIT COUNTY, a public body corporate and politic of the State of Washington, whose mailing address is 2021 East College Way, Suite 101, Mount Vernon, Washington 98273 ("Grantor"). The Trustee is CHICAGO TITLE INSURANCE COMPANY, whose mailing address is 701 Fifth Avenue, #1800, Seattle, Washington 98104. The Beneficiary is U.S. BANK NATIONAL ASSOCIATION, a national banking association ("Beneficiary"), whose mailing address is 1420 Fifth Avenue, 8th Floor, PD-WA-T8RE, Seattle, Washington 98101.

This Deed of Trust also constitutes a Security Agreement under Washington law, including to the extent applicable, Article 9 of the Uniform Commercial Code as adopted in the state of Washington (RCW 62A.9), with Grantor being the Debtor and Beneficiary being the Secured Party. This Deed of Trust also constitutes a Financing Statement filed as a fixture filing pursuant to Washington law, including, to the extent applicable, Article 9 of the Uniform Commercial Code, RCW 62A.9A-502(C).

In consideration of the loan ("Loan") evidenced by the Bond described below, Grantor hereby irrevocably GRANTS, TRANSFERS, CONVEYS and ASSIGNS to Trustee, IN TRUST, WITH POWER OF SALE, all of Grantor's present and future estate, right, title, claim and interest, either in law or in equity, in and to the following property ("Property"):

(a) The real property described on Exhibit A, all rights to the alleys, streets and roads adjoining or abutting the real property, all easements, access, air and development rights, minerals and oil, gas and other hydrocarbon substances, water, water rights and water stock, and all other rights, hereditaments, privileges and appurtenances now or hereafter belonging or in any way appertaining to such real property ("Land").

(b) All buildings, improvements and tenements now or hereafter located on the Land ("Improvements"), including, without limitation, all fixtures, articles and accessions of property attached to, or used or adapted for use in the ownership, development, operation or maintenance of the Land and Improvements (whether such items are leased, owned or subject to any title-retaining or security instrument); all heating, cooling, air-conditioning, ventilating, refrigerating, plumbing, generating, power, lighting, laundry, maintenance, incinerating, lifting, cleaning, fire prevention and extinguishing, security and access control, cooking, gas, electric and communication fixtures, equipment and apparatus; all engines, motors, conduits, pipes, pumps, tanks, ducts, compressors, boilers, water heaters and furnaces; all ranges, stoves,

DEED OF TRUST
[12187-5238/SB052920.179]



200511100076
Skagit County Auditor

disposals, refrigerators and other appliances; all escalators and elevators, baths, sinks, all cabinets, partitions, mantels, built-in mirrors, window shades, blinds, screens, awnings, storm doors, windows and sash; all carpeting, underpadding, floor covering, paneling, and draperies; all furnishings of public spaces, halls and lobbies; and all shrubbery and plants. All such items shall be deemed part of the Land and not severable wholly or in part without material injury to the freehold.

(c) All of the present and future rents, revenues, issues, accounts, general intangibles, profits and income of the Land and Improvements, all rights to receive rental assistance payments and rent subsidies with respect to the occupancy or use of all or any part of the Land and Improvements, and all present and future leases and other agreements for the occupancy or use of all or any part of the Land and Improvements, including, without limitation, all cash or security deposits, advance rentals and deposits or payments of similar nature, and all guarantees of tenants' or occupants' performance under such leases and agreements.

(d) All tangible and intangible personal property now or hereafter used or acquired in connection with or in any way arising out of or related to the ownership, development, operation or maintenance of the Land and Improvements, including, without limitation, all furniture, furnishings, equipment, supplies and other goods, wherever located, whether in the possession of Grantor, warehousemen, bailee or any other person; all site plans, plats, architectural plans, specifications, work drawings, surveys engineering reports, test borings, market surveys, and other similar work products; all permits, licenses, franchises and trade names; all contract rights (including, without limitation, all architectural, construction, engineering, consulting and management contracts, all insurance policies, and all performance, payment, completion and other surety bonds); and all claims, causes of action, warranties, accounts receivable, escrow accounts, insurance policies, deposits (including tax, insurance and other reserves), instruments, documents of title, general intangibles and business records.

(e) All present and future monetary deposits given to any public or private utility with respect to utility services furnished to the Land or the Improvements.

(f) All proceeds (including claims and demands therefor) of the conversion, voluntary or involuntary, of any of the foregoing into cash or liquidated claims, including, without limitation, all insurance proceeds and condemnation awards.

(g) All proceeds of the foregoing.

TO SECURE THE FOLLOWING ("Secured Obligations"):

(1) Payment of the principal of and premium, if any, and interest on the Refunding Revenue Bond, 2005 (Burlington Terrace Apartments Project) of the Grantor in the principal amount of \$3,825,000.00 (the "Bond").



(2) Payment of all other sums which are or may become owing under the Loan Documents (as hereinafter defined).

(3) Performance of all other obligations under the Loan Documents.

(4) Payment and performance of all obligations of Grantor under this Deed of Trust, together with all advances, payments or other expenditures made by Beneficiary or Trustee as or for the payment or performance of any such obligations of Grantor.

(5) Payment and performance of all obligations, if any, and the contracts under which they arise, which any rider attached to and recorded with this Deed of Trust recites are secured hereby.

(6) Payment and performance of all future advances and other obligations that the then record owner of the Property may agree to pay and/or perform (whether as principal, surety or guarantor) for the benefit of Beneficiary, when any such advance or other obligation is evidenced by a writing which recites that it is secured by this Deed of Trust.

(7) All modifications, extensions and renewals of any of the Secured Obligations (including without limitation, (a) modifications, extensions or renewals at a different rate of interest, or (b) deferrals or accelerations of the required principal payment dates or interest payment dates or both, in whole or in part), however evidenced, whether or not any such modification, extension or renewal is evidenced by a new or additional promissory note or notes.

(8) All indebtedness, obligations, covenants and agreements of Grantor under any agreement between Grantor and Beneficiary (or any affiliate of Beneficiary), whether or not in writing, relating to (i) any transaction that is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap or option, bond, note or bill option, interest rate option, cap, collar or floor transaction, swap option, or any other, similar transaction (including any option to enter into any of the foregoing) or any combination of the foregoing, and unless the context otherwise clearly requires, any master agreement relating to or governing any or all of the foregoing, (ii) funds transfers, whether by Fedwire, Automated Clearing House or other means, and (iii) granting provisional credit for deposits or paying checks, drafts or other instruments.

The term "obligations" is used herein in its most comprehensive sense and includes any and all advances, debts, obligations and liabilities heretofore, now or hereafter made, incurred or created, whether voluntary or involuntary and however arising, whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined, joint or several, including without limitation, all principal, interest, charges, including prepayment charges and late charges, and loan fees at any time accruing or assessed on any Secured Obligation.

DEED OF TRUST
[12187-5238/SB052920.179]



200511100076
Skagit County Auditor

As used herein, the term "Loan Documents" means the Bond, this Deed of Trust, the Bond Purchase Agreement ("Bond Purchase Agreement") between Beneficiary and Grantor of even date herewith, and all related documents and instruments (except the "Indemnity Agreement" dated the same as this Deed of Trust and executed by Grantor in favor of Beneficiary), and any and all modifications, extensions, renewals and replacements thereof. The Secured Obligations may be indexed, amended, modified, adjusted, renewed or renegotiated. Grantor's obligations under the Indemnity Agreement are not secured by this Deed of Trust. Except as provided in the preceding sentence, all terms of the Secured Obligations are incorporated herein by this reference. All persons who may have or acquire an interest in the Property are hereby deemed to have notice of the terms of the Secured Obligations and that this Deed of Trust secures future advances, and to have notice, if provided therein, that: (a) the Bond or any other Secured Obligation may permit borrowing, repayment and reborrowing and (b) the rate of interest on one or more of the Secured Obligations may vary from time to time. Funds may be advanced by Beneficiary, repaid by Grantor and subsequently readvanced by Beneficiary. Absent default under the terms of the Secured Obligations, all advances thereunder by Beneficiary are obligatory and are secured by this Deed of Trust. All such obligatory advances shall have the same priority as the funds initially advanced under any such Secured Obligation.

GRANTOR HEREBY REPRESENTS, WARRANTS, COVENANTS AND AGREES AS FOLLOWS:

1. TITLE AND USE

1.1 Warranty of Title

Grantor warrants, represents, covenants and agrees as follows: (a) Grantor holds marketable fee simple title to the Property with the full right and power to grant, convey and assign the Property; (b) the Property is free from liens, encumbrances, exceptions and other charges of any kind whatsoever, except for the Permitted Exceptions; (c) no other lien or encumbrance, whether superior or inferior to this Deed of Trust, shall be created or suffered to be created by Grantor without the prior written consent of Beneficiary; (d) no default on the part of Grantor or any other person exists under any of the Permitted Exceptions and all of the Permitted Exceptions are in full force and effect and in good standing, without modification; (e) complete and current copies of the Permitted Exceptions have been furnished to Beneficiary, and none of them have been or will be modified by Grantor without Beneficiary's prior written consent; (f) Grantor shall fully comply with all the terms of the Permitted Exceptions and shall deliver to Beneficiary a copy of all notices delivered in connection with the Permitted Exceptions; (g) Beneficiary has the right to contact the other parties to the Permitted Exceptions to confirm the status thereof, and Grantor shall, from time to time, at the request of Beneficiary, request of such parties a certificate confirming such information regarding the Permitted Exceptions as Beneficiary may request; and (h) Grantor

DEED OF TRUST
[12187-5238/SB052920.179]



200511100076

Skagit County Auditor

shall forever warrant and defend the Property unto Beneficiary against all claims and demands of any other person whatsoever, subject only to nondelinquent taxes and assessments and the Permitted Exceptions. As used in this Deed of Trust, "Permitted Exceptions" means the exceptions to title to the Property set out in Schedules B and B-2 of the policy of title insurance issued to Beneficiary with respect to this Deed of Trust.

1.2 Nonagricultural Use; Commercial Loan

Grantor represents and warrants to Beneficiary that (a) the Property is not used principally for agricultural purposes and (b) the Loan secured by this Deed of Trust was not made primarily for personal, family or household purposes.

2. GRANTOR'S COVENANTS

2.1 Payment and Performance of Secured Obligations

Grantor shall pay when due all sums which are now or which may become owing under the Bond, and shall pay and perform all other Secured Obligations in accordance with their terms.

2.2 Payment of Taxes, Utilities, Liens and Charges

(a) Taxes and Assessments

Except as the same may otherwise be paid under Section 3, Grantor shall pay when due directly to the payee thereof all taxes and assessments (including, without limitation, nongovernmental levies or assessments such as maintenance charges, owner association dues or charges, or fees, levies or charges resulting from covenants, conditions or restrictions) levied, assessed or charged against or with respect to the Property or this Deed of Trust. Upon request, Grantor shall promptly furnish to Beneficiary all notices of amounts due under this subparagraph and all receipts evidencing such payments.

(b) Utilities

Grantor shall pay when due all utility charges and assessments for services furnished to the Property.

(c) Labor and Materials

Grantor shall pay when due the claims of all persons supplying labor or materials to or in connection with the Property; provided that Grantor shall have the right to contest the amount or validity in whole or in part of any such claim by appropriate proceedings conducted in good faith and with due diligence, in which event Grantor, upon prior written notice to



Beneficiary, may postpone or defer payment of such claim so long as (i) such proceedings shall operate to prevent the collection of the claim; (ii) neither the Property nor any part thereof will, by reason of such postponement or deferment, be in danger of being forfeited or lost; and (iii) Grantor, before the date such claim becomes delinquent, gives such reasonable security as may be requested by Beneficiary to ensure payment thereof and prevent any forfeiture or loss of the Property or any part thereof.

(d) Liens and Charges

Grantor shall promptly discharge any lien, encumbrance or other charge, whether superior or inferior to this Deed of Trust, which may be claimed against the Property; provided that Grantor shall have the right to contest the amount or validity in whole or in part of any lien, encumbrance or other charge against the Property by appropriate proceedings conducted in good faith and with due diligence, in which event Grantor, upon prior written notice to Beneficiary, may postpone or defer payment of such lien, encumbrance or other charge so long as (i) such proceedings shall operate to prevent the collection of the lien, encumbrance or other charge; (ii) neither the Property nor any part thereof will, by reason of such postponement or deferment, be in danger of being forfeited or lost; and (iii) Grantor, before the date such lien, encumbrance or other charge becomes delinquent, gives such reasonable security as may be requested by Beneficiary to ensure payment thereof and prevent any forfeiture or loss of the Property or any part thereof.

(e) Taxes, Assessments and Other Charges Imposed on Beneficiary

If, at any time after the date of this Deed of Trust, any law is enacted or changed (including any interpretation thereof) which subjects Beneficiary to any increase in any tax (except federal income taxes), assessment or other charge, in any form measured by or based on any portion of the indebtedness secured by this Deed of Trust, Grantor shall pay such increased amount to Beneficiary on demand; provided that if any such payment would be unlawful, Beneficiary may declare all accrued interest and the entire principal balance of the Bond immediately due and payable.

2.3 Insurance

(a) Coverages Required

Grantor shall keep the following insurance coverages in effect with respect to the Property:

(1) Insurance against loss by fire and the hazards now or hereafter embraced by the standard "special cause of loss" form of insurance, in an amount equal at all times to the full insurable value of the Improvements. All such insurance coverage shall contain a "replacement cost endorsement" without reduction for depreciation, and shall also



contain loss of rents and/or business interruption insurance coverage, a fluctuating value endorsement with a waiver of the co-insurance clause (or an agreed amount endorsement with an inflation guard endorsement), and shall contain such other endorsements as Beneficiary may reasonably request. All such endorsements shall be in form and substance satisfactory to Beneficiary.

(2) Commercial general liability insurance against claims for bodily injury, death or property damage occurring on, in or about the Property in amounts and on terms acceptable to Beneficiary.

(3) Flood insurance in an amount satisfactory to Beneficiary and on terms satisfactory to Beneficiary if the Land is located in a designated flood hazard area.

(4) Rental and/or business interruption insurance for a period of not less than six months in amounts and otherwise on terms satisfactory to Beneficiary.

(5) Insurance against such similar or other hazards, casualties, liabilities and contingencies, in such forms and amounts, as Beneficiary may from time to time reasonably require.

(b) Policies

Each insurance policy shall be with a company and in a form acceptable to Beneficiary. Each hazard insurance policy shall include a Form 438BFU or equivalent mortgagee endorsement in favor of Beneficiary. Each liability insurance policy shall name Beneficiary as an additional insured. All required policies will provide for at least 30 days' written notice to Beneficiary prior to the effective date of any cancellation or material amendment, which term shall include any reduction in the scope or limits of coverage. Grantor shall furnish to Beneficiary the original of each required insurance policy, or a certified copy thereof together with a certificate of insurance setting forth the coverage, the limits of liability, the carrier, the policy number and the expiration date. As security for the Secured Obligations, Grantor hereby assigns to Beneficiary all required insurance policies, together with all proceeds thereof, rights thereto and all unearned premiums returnable upon cancellation.

(c) Payment; Renewals

Grantor shall promptly furnish to Beneficiary all renewal notices relating to insurance policies. Except as the same may otherwise be paid under Section 3, Grantor shall pay all premiums on insurance policies directly to the carrier. At least 30 days prior to the expiration date of each such policy, Grantor shall furnish to Beneficiary a renewal policy in a form acceptable to Beneficiary, together with evidence that the renewal premium has been paid.



(d) Application of Insurance Proceeds

In the event of any material loss, Grantor shall give prompt written notice thereof to the insurance carrier and Beneficiary. Grantor hereby authorizes Beneficiary as Grantor's attorney-in-fact to make proof of loss, to adjust and compromise any claim, to commence, appear in and prosecute, in Beneficiary's or Grantor's name, any action relating to any claim, and to collect and receive insurance proceeds; provided, however, that Beneficiary shall have no obligation to do so. Beneficiary shall apply any insurance proceeds received by it hereunder first to the payment of the costs and expenses incurred in the collection of the proceeds and then, in its absolute discretion and without regard to the adequacy of its security, to:

(1) The payment of the Secured Obligations, whether then due and payable or not. Any such application of proceeds to principal on the Bond shall be without the imposition of any prepayment fee otherwise payable under the Bond, but shall not extend or postpone the due dates of the installment payments under the Bond, or change the amounts thereof; or

(2) The reimbursement of Grantor, under Beneficiary's prescribed disbursement control procedures, for the cost of restoration or repair of the Property. Beneficiary may, at its option, condition the reimbursement on Beneficiary's approval of the plans and specifications of the reconstruction, 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 Beneficiary may reasonably require.

Nothing herein contained shall be deemed to excuse Grantor from restoring, repairing or maintaining the Property as provided in Section 2.4, regardless of whether or not there are insurance proceeds available or whether any such proceeds are sufficient in amount.

(e) Application of Insurance Proceeds to Restoration

Notwithstanding the provisions of Section 2.3(d), Grantor, rather than Beneficiary, shall have the right to direct the application of insurance proceeds to payment of the Secured Obligations or to repair or restoration of the Property upon satisfaction of the following conditions:

(1) There is then no Event of Default nor any event or condition which would be an Event of Default if not cured within the time allowed under the Loan Documents.

(2) If the proceeds are to be applied to repair or restoration then in addition to the matters required under Section 2.3(d)(2) above, Beneficiary shall have approved each of the following with respect to the repair or restoration: (i) the construction



contract, and if required by Beneficiary, payment and performance bonds with dual obligee rider; (ii) evidence that the insurance proceeds are adequate to restore the Property to its condition immediately prior to the casualty, and if insufficient, the deficiency shall be deposited with Beneficiary for disbursement prior to disbursement of insurance proceeds; (iii) evidence that Grantor has funds sufficient to pay operating expenses, taxes, debt service and other carrying costs of the Property through the period of repair or restoration; (iv) evidence that upon such repair or restoration the Property will be in compliance with all applicable laws, ordinances and regulations; (v) evidence that such repair or restoration of the Property will be completed at least 30 days before the current maturity date under the Bond; and (vi) evidence that upon the completion of any such repair or restoration the Property will produce sufficient income and be of sufficient value to be adequate security for the Secured Obligations.

(3) Each disbursement shall be made in accordance with and subject to the provisions of a construction disbursement agreement to be executed by the Grantor in form and substance acceptable to Beneficiary.

(4) Grantor shall execute and deliver to Beneficiary such additional security documents and instruments as Beneficiary deems necessary to continue and to perfect Beneficiary's security interest in the Property.

(f) Transfer of Title

If the Property is sold pursuant to Section 4 or if Beneficiary otherwise acquires title to the Property, Beneficiary shall have all of the right, title and interest of Grantor 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.

2.4 Preservation and Maintenance of Property; Right of Entry

(a) Preservation and Maintenance

Grantor represents and warrants that the Improvements are and shall remain free from damage caused by fire or other casualty. Grantor shall (i) not commit or suffer any waste or permit any impairment or deterioration of the Property, (ii) not abandon the Property, (iii) 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 Beneficiary 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, (iv) keep the Property, including, fixtures, equipment, machinery and appliances thereon, in good condition and repair and shall replace fixtures, equipment, machinery and appliances of the Property when necessary to keep such items in good condition and repair, and (v) generally operate and maintain the Property in a commercially reasonable manner.



(b) Alterations

None of the Improvements shall be structurally altered, removed or demolished, in whole or in part, without Beneficiary's prior written consent. Beneficiary shall not unreasonably withhold or delay its consent to minor structural alterations if Grantor furnishes plans and assurances that the work will be completed in good workmanlike quality and Beneficiary determines in its reasonable business judgment that the value of the Property will not be materially and adversely affected. Grantor shall not remove any fixture or chattel covered by this Deed of Trust and adapted to the use and enjoyment of the Property at any time without Beneficiary's prior written consent unless actually replaced by an article of equal suitability which is owned by Grantor free and clear of any lien or security interest.

(c) Right of Entry

Beneficiary is hereby authorized to enter the Property, subject to the rights of tenants, including the interior of any structures, at reasonable times and after reasonable notice, for the purpose of inspecting the Property to determine Grantor's compliance with this section.

2.5 Parking

If any part of the automobile parking areas included within the Property is taken by condemnation, and before the parking areas are diminished for any other reason, Grantor shall take all actions as are necessary to provide parking facilities in kind, size and location to comply with all governmental zoning and other regulations and all leases. Before making any contract for substitute parking facilities, Grantor shall furnish to Beneficiary satisfactory assurance of completion thereof free of liens and in conformity with all government zoning and other regulations.

2.6 Use of Property

Grantor represents and warrants to Beneficiary that the Land, the Improvements and their intended use by Grantor comply with all applicable restrictive covenants, zoning and subdivision laws, ordinances, regulations and legal requirements, building codes, flood disaster laws, applicable health and environmental laws and regulations and all other laws, ordinances, regulations, orders and legal requirements issued by any state, federal or municipal authority having or claiming jurisdiction over the Property. Grantor shall comply with all laws, ordinances, regulations and requirements of any governmental body, and all other covenants, conditions and restrictions applicable to the Property and its intended use, and pay all fees and charges in connection therewith. Unless required by applicable law or unless Beneficiary has otherwise agreed in writing, Grantor shall not allow changes in the use for which all or any part of the Property was intended at the time this Deed of Trust was executed. Grantor shall not initiate or acquiesce in a change in the zoning classification of the Property without Beneficiary's prior written consent.



2.7 Condemnation

(a) Proceedings

Grantor shall promptly notify Beneficiary of any action or proceeding relating to any condemnation or other taking (including, without limitation, any change in the grade of the Property), whether direct or indirect, of the Property or part thereof or interest therein, and Grantor shall appear in and prosecute any such action or proceeding unless otherwise directed by Beneficiary in writing. Grantor authorizes Beneficiary, at Beneficiary's option, as attorney-in-fact for Grantor, to commence, appear in and prosecute, in Beneficiary's or Grantor's name, any action or proceeding relating to any such condemnation or other taking, and to settle or compromise any claim in connection with such condemnation or other taking. All awards, payments, damages, direct, consequential and otherwise, claims and proceeds thereof, in connection with any such condemnation or other taking, or for conveyances in lieu of condemnation, are hereby assigned to Beneficiary, and all proceeds of any such awards, payments, damages or claims shall be paid to Beneficiary.

(b) Application of Condemnation Proceeds

Beneficiary shall apply any such proceeds in the manner and upon the terms and conditions set forth in Section 2.3(d) relating to the application of insurance proceeds.

2.8 Protection of Beneficiary's Security

Grantor shall give notice to Beneficiary of and shall appear in and defend any action or proceeding that may affect the Property, the interests of Beneficiary or Trustee therein, or the rights or remedies of Beneficiary or Trustee under the Loan Documents. If any such action or proceeding is commenced and there is an uncured Event of Default, or Grantor fails to perform any of the Secured Obligations, Beneficiary or Trustee may, at their option, make any appearances, disburse any sums, pay or settle any claims that have resulted in or may result in a lien of any portion of the property, make any entries upon the Property and take any actions as may be necessary or desirable to (i) protect or enforce the security of this Deed of Trust, (ii) remedy Grantor's failure to perform the Secured Obligations (without waiving such default by Grantor), or (iii) otherwise protect Beneficiary's or Trustee's interests. Grantor shall pay all losses, damages, fees, costs and expenses incurred by Beneficiary and Trustee in taking such actions; including, without limitation, reasonable legal fees.

2.9 Reimbursement of Beneficiary's and Trustee's Expenses

All amounts disbursed by Beneficiary and Trustee pursuant to Section 2.8 or any other provision of this Deed of Trust or the other Loan Documents, with interest thereon at the default rate provided in the Bond from the date of disbursement until repaid, shall constitute a Secured Obligation. All such amounts shall be immediately due and payable and bear interest



from the date of disbursement at the lesser of the default rate under the Bond, or the maximum rate permitted by law.

2.10 Books and Records on Property

Grantor shall keep and maintain at Grantor's address stated above, or such other place as Beneficiary may approve in writing, books of account and records adequate to reflect correctly the results of operation of the Property and copies of all written contracts, leases and other documents affecting the Property. Such books, records, contracts, leases and other documents shall be subject to examination, inspection and copying at any reasonable time by Beneficiary. Grantor shall furnish to Beneficiary, within 20 days after Beneficiary's request therefor, the following documents, each certified to Beneficiary by Grantor as being true, correct and complete: (a) copies of all leases and other agreements for occupancy or use of all or any portion of the Property, (b) a rent roll for the Property, showing the name of each tenant, and for each tenant, the suite occupied, the number of square feet rented, the lease expiration date, the rent payable, the date through which rent has been paid, the amount of any security deposit, and the number and term of any renewal options, (c) copies of the most recent real and personal property tax statements for the Property, and (d) copies of the most recent statements for the insurance coverage maintained pursuant to this Deed of Trust.

3. RESERVES

3.1 Deposits

If required by Beneficiary, Grantor shall, at the time of making each monthly installment payment under the Bond, deposit with Beneficiary a sum, as estimated by Beneficiary, equal to (i) the taxes and special assessments next due on the Property, and (ii) the premiums that will next become due on insurance policies as may be required under this Deed of Trust, less all sums already deposited therefor, divided by the number of months to elapse before two months prior to the date when such taxes, special assessments and premiums will become delinquent. Beneficiary may require Grantor to deposit with Beneficiary, in advance, such other sums for other taxes, assessments, premiums, charges and impositions in connection with Grantor or the Property as Beneficiary reasonably deems necessary to protect Beneficiary's interests ("Other Impositions"). Such sums for Other Impositions shall be deposited in a lump sum or in periodic installments, at Beneficiary's option. If required by Beneficiary, Grantor shall promptly deliver to Beneficiary all bills and notices with respect to any taxes, assessments, premiums and Other Impositions. Unless Grantor and Beneficiary otherwise agree in writing, Beneficiary shall not be required to pay Grantor any interest, earnings or profits on any sums deposited with Beneficiary. All sums deposited with Beneficiary under this Section 3.1 are hereby pledged as security for the Secured Obligations.



3.2 Application of Deposits

All such deposited sums shall be held by Beneficiary and applied in such order as Beneficiary elects to pay such taxes, assessments, premiums and Other Impositions or, upon any Event of Default, may be applied in whole or in part, to the Secured Obligations. The arrangement provided for in this Section 3 is solely for the added protection of Beneficiary and entails no responsibility on Beneficiary's part beyond the allowing of due credit, without interest, for the sums actually received by it. Upon any assignment of this Deed of Trust by Beneficiary, any funds on hand shall be turned over to the assignee and any responsibility of Beneficiary with respect thereto shall terminate. Each transfer of the Property in accordance with Section 4 shall automatically transfer to the transferee all rights of Grantor with respect to any funds deposited hereunder. Upon payment in full of the Secured Obligations, Beneficiary shall promptly refund to Grantor the remaining balance of any deposits then held by Beneficiary.

3.3 Adjustments to Deposits

If the total deposits held by Beneficiary exceed the amount deemed necessary by Beneficiary to provide for the payment of such taxes, assessments, premiums and Other Impositions, such excess shall, provided there is no Event of Default or any event which would constitute an Event of Default if not cured within the time allowed, be credited by Beneficiary on the next due installment or installments of such deposits. If at any time the total deposits held by Beneficiary are less than the amount deemed necessary by Beneficiary to provide for the payment of such taxes, assessments, premiums and Other Impositions, Grantor shall promptly deposit the deficiency with Beneficiary after receipt of written demand from Beneficiary.

3.4 Conditional Waiver

Notwithstanding the foregoing, Beneficiary shall not require the payment of reserves as provided in this section until a delinquency occurs in the payment of such taxes, assessments, premium and Other Impositions, or until the occurrence of an Event of Default.

4. RESTRICTIONS ON TRANSFER OR ENCUMBRANCE

Subject to the terms of the Bond Purchase Agreement, neither the Property nor any part thereof or interest therein shall be encumbered, sold (by contract or otherwise), conveyed, leased (except for residential leases in accordance with the Bond Purchase Agreement) or otherwise transferred by Grantor; nor shall there be any change in (i) the ownership or control of any of Grantor's stock if Grantor is a corporation, (ii) the ownership or control of any membership interest in Grantor if Grantor is a limited liability company, (iii) the ownership or control of any general partnership interest in Grantor if Grantor is a partnership, (iv) the ownership or control of any beneficial interests in Grantor if Grantor is



not otherwise a natural person or persons, or (v) the ownership or control of any stock, membership, any general partnership interest or any other beneficial interest in any corporation, partnership or other entity that has an ownership interest in Grantor. Any such action without Beneficiary's prior written consent shall be deemed to increase the risk of Beneficiary and shall constitute an Event of Default if not corrected within five days after Beneficiary's delivery of written demand to Grantor. Beneficiary may, in its sole discretion, consent to any such action subject to such terms and conditions as Beneficiary may require, including, without limitation, the payment of a transfer review fee, an assumption fee of 1 percent of the principal balance of the Bond and an increase in the interest rate of the Bond.

5. UNIFORM COMMERCIAL CODE SECURITY AGREEMENT

5.1 Grant to Beneficiary

This Deed of Trust constitutes a security agreement pursuant to Washington law, including, to the extent applicable, the Uniform Commercial Code as adopted in the state of Washington, with respect to:

(a) Any of the Property which, under applicable law, is not real property or effectively made part of the real property by the provisions of this Deed of Trust, and any sums deposited with Beneficiary by Grantor pursuant to the terms of Section 3.1 herein; and

(b) Any and all other property now or hereafter described on any Uniform Commercial Code Financing Statement naming Grantor as Debtor and Beneficiary as Secured Party and affecting property in any way connected with the use and enjoyment of the Property (any and all such other property constituting "Property" for purposes of this Deed of Trust);

and Grantor hereby grants Beneficiary a security interest in all property described in clauses (a) and (b) above as security for the Secured Obligations. Grantor hereby authorizes Beneficiary to file or cause to be filed such financing statements as reasonably deemed necessary to perfect, preserve, continue, extend in time or maintain the security interests herein contained. Such financing statements may contain a description of collateral broader than as set forth in this Deed of Trust. Grantor and Beneficiary agree, however, that neither the foregoing grant of a security interest nor the filing of any such financing statement shall be construed as limiting the parties' stated intention that everything used in connection with the production of income from the Property, or adapted for use therein, or which is described or reflected in this Deed of Trust, is and at all times shall be regarded as part of the Land.

5.2 Beneficiary's Rights and Remedies

With respect to the Property subject to the foregoing security interest, Beneficiary shall have all of the rights and remedies (i) of a secured party under the Uniform Commercial Code, (ii) provided herein, including, without limitation, the right to cause such Property to be



limitation, Rents then due and unpaid, and all such Rents shall immediately upon delivery of such notice be held by Grantor as trustee for the benefit of Beneficiary only. Upon delivery of such written notice by Beneficiary, Grantor hereby agrees to direct each tenant or occupant of the Property to pay all Rents to Beneficiary on Beneficiary's written demand therefor, without any liability on the part of said tenant or occupant to inquire further as to the existence of an Event of Default by Grantor. Grantor hereby authorizes Beneficiary as Grantor's attorney-in-fact to make such direction to tenants and occupants upon Grantor's failure to do so as required herein. Payments made to Beneficiary by tenants or occupants shall, as to such tenants and occupants, be in discharge of the payors' obligations to Grantor. Beneficiary may exercise, in Beneficiary's or Grantor's name, all rights and remedies available to Grantor with respect to collection of Rents. Nothing herein contained shall be construed as obligating Beneficiary to perform any of Grantor's obligations under any of the Leases.

6.3 Grantor's Representations and Warranties

Grantor hereby represents and warrants to Beneficiary that Grantor has not executed and will not execute any other assignment of said Leases or Rents, that Grantor has not performed and will not perform any acts and has not executed and will not execute any instrument which would prevent Beneficiary from exercising its rights under this Section 6, and that at the time of execution of this Deed of Trust there has been no anticipation or prepayment of any of the Rents of the Property for more than two (2) months prior to the due dates thereof. Grantor further represents and warrants to Beneficiary that all existing Leases are in good standing and there is no default thereunder, whether by Grantor or lessee, and that, to Grantor's knowledge, there is no event or condition which, with notice or the passage of time or both, would be a default thereunder. Grantor shall execute and deliver to Beneficiary such further assignments of Rents and Leases of the Property as Beneficiary may from time to time request.

6.4 Leases of the Property

Grantor shall comply with and observe Grantor's obligations as landlord under all Leases and will do all that is necessary to preserve all Leases in force and free from any right of counterclaim, defense or setoff. At Beneficiary's request, Grantor shall furnish Beneficiary with executed copies of all Leases now existing or hereafter made and all Leases hereafter entered into shall use a form previously approved by Beneficiary. All nonresidential Leases and tenants shall be subject to Beneficiary's prior written approval, and shall specifically provide that the tenant attorns to any person succeeding to the interest of Grantor upon any foreclosure of this Deed of Trust or conveyance in lieu thereof. Such attornment shall be in such form as Beneficiary may approve and shall provide that Tenant shall not have the right of set off or defense to payment of rents for any event or act that occurred prior to such successor obtaining title to Grantor's interest except to the extent such event or act is continuing at the time such successor obtains such title. Tenant shall also agree to execute



such further evidences of attornment as Beneficiary may from time to time request. Without Beneficiary's written consent, Grantor shall not (a) collect or accept payment of any Rents more than one month prior to the due dates thereof; (b) modify, surrender or terminate any nonresidential Lease; (c) waive, discharge, release or modify the obligations of any tenant or other occupant of the Property under any nonresidential Lease; or (d) request or consent to the subordination of any Lease to any lien subordinate to this Deed of Trust. Any attempted action in violation of this Section 6.4 shall be null and void. Without in any way limiting the requirement of Beneficiary's consent hereunder, any sums received by Grantor in consideration of any termination (or the release or discharge of any lessee), modification or amendment of any nonresidential Lease shall be applied to reduce the outstanding Secured Obligations and any such sums received by Grantor shall be held in trust by Grantor for such purpose.

6.5 Beneficiary in Possession; Appointment of Receiver

Upon any Event of Default, Beneficiary may, in person, by agent or by a court-appointed receiver, regardless of the adequacy of Beneficiary'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 in the same manner and to the same extent as Grantor could do the same, including, without limitation, the execution, enforcement, cancellation and modification of Leases, the collection of all Rents of the Property, the removal and eviction of tenants and other occupants, the making of alterations and repairs to the Property, and the execution and termination of contracts providing for management or maintenance of the Property, all on such terms as are deemed best by Beneficiary to protect the security of this Deed of Trust. From and after any Event of Default, if any owner of the Property shall occupy the Property or part thereof such owner shall pay to Beneficiary in advance on the first day of each month a reasonable rental for the space so occupied, and upon failure so to do Beneficiary shall be entitled to remove such owner from the Property by any appropriate action or proceedings. Following an Event of Default, Beneficiary shall be entitled (regardless of the adequacy of Beneficiary's security) to the appointment of a receiver, Grantor hereby consenting to the appointment of such receiver.

Said receiver may serve without bond and may be Beneficiary or an employee of Beneficiary. The receiver shall have, in addition to all the rights and powers customarily given to and exercised by such receivers, all the rights and powers granted to Beneficiary in this Section 6. Beneficiary or the receiver shall be entitled to receive a reasonable fee for so managing the Property.

6.6 Application of Rents

All Rents collected subsequent to delivery of written notice by Beneficiary to Grantor of an Event of Default shall be applied first to the costs, if any, of taking control of and



managing the Property and collecting the Rents, including, without limitation, attorneys' fees, receiver's fees, premiums on receiver's bonds, costs of maintenance and 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 Grantor under the Leases, and then to other Secured Obligations. Beneficiary or the receiver shall be liable to account only for those Rents actually received. Beneficiary shall not be liable to Grantor, anyone claiming under or through Grantor or anyone having an interest in the Property by reason of anything done or left undone by Beneficiary under this section.

6.7 Deficiencies

To the extent, if any, that the costs of taking control of and managing the Property, collecting the Rents, and discharging obligations and liabilities of Grantor under the Leases, exceed the Rents of the Property, the excess sums expended for such purposes, plus interest, shall constitute a Secured Obligation. Such excess sums shall be payable upon demand by Beneficiary and shall bear interest from the date of disbursement at the lesser of the default rate under the Bond, or the maximum rate permitted by law.

6.8 Beneficiary Not Mortgagee in Possession

Nothing herein shall constitute Beneficiary a "mortgagee in possession" prior to its actual entry upon and taking possession of the Property. Entry upon and taking possession by a receiver shall not constitute possession by Beneficiary.

6.9 Enforcement

Beneficiary may enforce this assignment without first resorting to or exhausting any security or collateral for the Secured Obligations.

7. BOND PURCHASE AGREEMENT

7.1 Advances

Grantor agrees to comply with the covenants and conditions of the Bond Purchase Agreement. The Bond Purchase Agreement provides for the disbursement of loan funds with respect to the matters described therein. The Bond Purchase Agreement is hereby incorporated herein and made a part of this Deed of Trust. All advances made by Beneficiary pursuant to the Bond Purchase Agreement shall constitute a Secured Obligation, and such advances shall be deemed to be obligatory. All such sums shall bear interest from the date of disbursement at the rate stated in the Bond.



7.2 Assignment of Claims

From time to time as Beneficiary deems necessary to protect Beneficiary's interest, Grantor shall, upon request of Beneficiary, execute and deliver to Beneficiary in such form as Beneficiary shall direct, assignments of any and all rights or claims which relate to the construction of the Improvements, and which Grantor may have against any party supplying or who has supplied labor, materials or services in connection with the construction of the Improvements.

7.3 Default Under the Bond Purchase Agreement

Upon an Event of Default, Beneficiary may, at its option, with or without entry upon the Property, exercise any of the rights or remedies provided in the Bond Purchase Agreement, exercise any of the rights or remedies provided in this Deed of Trust, or do both.

8. EVENTS OF DEFAULT

8.1 Events of Default

Any one or more of the following is an "Event of Default":

- (a) Grantor fails to make any payment under the Bond, this Deed of Trust, or any of the other Loan Documents within five days of the date due.
- (b) There is a default under any of the Permitted Exceptions, if not cured within any cure period given in the Permitted Exceptions.
- (c) There is an Event of Default as defined in any of the other Loan Documents.
- (d) Grantor fails to perform any other covenant, agreement or obligation under this Deed of Trust or any of the other Loan Documents, if not cured within the time allowed. If no cure period is otherwise specified for such default, the cure period shall be within 30 days after Beneficiary's delivery of written demand to Grantor.
- (e) There is an Event of Default under the Indemnity Agreement.

8.2 Inapplicability of Cure Periods

All cure periods provided in this Deed of Trust or the other Loan Documents shall be inapplicable if, in Beneficiary's reasonable judgment, the default is not capable of being cured within the time allowed, or a delay in Beneficiary's enforcement of its rights and remedies is likely to result in a material impairment of its security.



8.3 Form of Notice

At Beneficiary's option, any written notice of default given to Grantor under Section 8.1 may be given in the form of a statutory notice of default under the Washington Deed of Trust Act or any other form as Beneficiary may elect.

9. REMEDIES

9.1 Acceleration Upon Default; Additional Remedies

Upon any Event of Default, Beneficiary may, at its option and without notice to or demand upon Grantor, exercise any one or more of the following actions:

- (a) Declare all the Secured Obligations immediately due and payable.
- (b) Bring a court action to enforce the provisions of this Deed of Trust or any of the other Loan Documents.
- (c) Foreclose this Deed of Trust as a mortgage.
- (d) Cause any or all of the Property to be sold under the power of sale granted by this Deed of Trust in any manner permitted by applicable law.
- (e) Obtain a deficiency judgment if the net sales proceeds of any sale of the Property under the power of sale granted by this Deed of Trust are insufficient to pay in full all of the Secured Obligations.
- (f) Elect to exercise its rights with respect to the Leases and the Rents.
- (g) Exercise any or all of the other rights and remedies under this Deed of Trust and the other Loan Documents.
- (h) Exercise any other right or remedy available under law or in equity.

9.2 Prepayment Premium

If the Bond provides for payment of a prepayment premium, such prepayment premium shall be payable by Grantor with respect to any voluntary or involuntary payment of principal under the Bond before the maturity date stated in the Bond, except as otherwise specifically provided in the Loan Documents. Grantor expressly agrees that any such principal payment made after an Event of Default shall require payment of the prepayment premium notwithstanding any acceleration of the Bond by Beneficiary.



9.3 Exercise of Power of Sale

For any sale under the power of sale granted by this Deed of Trust, Beneficiary or Trustee shall record and give all notices required by law and then, upon the expiration of such time as is required by law, Trustee may sell the Property upon any terms and conditions specified by Beneficiary and permitted by applicable law.

Trustee may postpone any sale by public announcement at the time and place noticed for the sale. If the Property includes several lots or parcels, Beneficiary in its discretion may designate their order of sale or may elect to sell all of them as an entirety. The Property, real, personal and mixed, may be sold in one parcel. To the extent any of the Property sold by the Trustee is personal property, then Trustee shall be acting as the agent of Beneficiary in selling such Property. Any person permitted by law to do so may purchase at any sale.

Upon any sale, Trustee will execute and deliver to the purchaser or purchasers a deed or deeds conveying the Property sold, but without any covenant or warranty, express or implied, and the recitals in the Trustee's deed showing that the sale was conducted in compliance with all the requirements of law shall be prima facie evidence of such compliance and conclusive evidence thereof in favor of bona fide purchasers and encumbrancers for value.

9.4 Application of Sale Proceeds

Except as may otherwise be required by law, the proceeds of any sale under this Deed of Trust shall be applied in the following priority:

- (a) Payment of the costs and expenses of the sale; including, without limitation, Trustee's fees, reasonable legal fees and disbursements, title charges and transfer taxes, and payment of all expenses, liabilities and advances of Trustee, together with interest on all advances made by Trustee from date of disbursement at the lesser of the default rate under the Bond, or the maximum rate permitted by law.
- (b) Payment of all sums expended by Beneficiary under the terms of this Deed of Trust and not yet repaid, together with interest on such sums from date of disbursement at the lesser of the default rate under the Bond, or the maximum rate permitted by law.
- (c) Payment of all other Secured Obligations in any order that Beneficiary chooses.
- (d) The remainder, if any, to the person or persons legally entitled to it.

9.5 Waiver of Order of Sale and Marshalling

Beneficiary shall have the right to determine the order in which any or all portions of the Secured Obligations are satisfied from the proceeds realized upon the exercise of any remedies provided herein. To the fullest extent permitted by law, Grantor, any party who consents to this Deed of Trust 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 marshalling of assets in connection with the exercise of any of the remedies permitted by applicable law or provided herein, or to direct the order in which any of the Property will be sold in the event of any sale under this Deed of Trust.

9.6 Nonwaiver of Defaults

The entering upon and taking possession of the Property, the collection of Rents or the proceeds of fire and other insurance policies or compensation or awards for any taking or damage of the Property, and the application or release thereof as herein provided, shall not cure or waive any default or notice of default hereunder or invalidate any act done pursuant to such notice.

9.7 Expenses During Redemption Period

If this Deed of Trust is foreclosed as a mortgage and the Property sold at a foreclosure sale, the purchaser may during any redemption period allowed, make such repairs or alterations on the Property as may be reasonably necessary for the proper operation, care, preservation, protection and insuring thereof. Any sums so paid together with interest thereon from the time of such expenditure at the lesser of the default rate under the Bond, or the maximum rate permitted by law, shall be added to and become a part of the amount required to be paid for redemption from such sale.

9.8 Foreclosure Subject to Tenancies

Beneficiary shall have the right at its option to foreclose this Deed of Trust subject to the rights of any tenant or tenants of the Property.

9.9 Remedies Cumulative

To the extent permitted by law, every right and remedy provided in this Deed of Trust is distinct and cumulative to all other rights or remedies under this Deed of Trust or afforded by law or equity or any other agreement between Beneficiary and Grantor, and may be exercised concurrently, independently or successively, in any order whatsoever. Beneficiary may exercise any of its rights and remedies at its option without regard to the adequacy of its security.



9.10 Beneficiary's and Trustee's Expenses

Grantor shall pay all of Beneficiary's and Trustee's expenses incurred in any efforts to enforce any terms of this Deed of Trust, whether or not any suit is filed, including, without limitation, legal fees and disbursements, foreclosure costs, title charges, and expenses incurred in any bankruptcy, reorganization, liquidation, receivership or similar proceeding. All such sums, with interest thereon, shall be additional indebtedness of Grantor secured by this Deed of Trust. Such sums shall be immediately due and payable and shall bear interest from the date of disbursement at the lesser of the default rate under the Bond, or the maximum rate permitted by law.

10. GENERAL

10.1 No Offset

Grantor's obligation to timely pay and perform all obligations under the Bond, this Deed of Trust, and the other Loan Documents shall be absolute and unconditional and shall not be affected by any event or circumstance; including, without limitation, any setoff, counterclaim, abatement, suspension, recoupment, deduction, defense or any other right that Grantor or any guarantor may have or claim against Beneficiary or any other person or entity. The foregoing shall not constitute a waiver of any claim or demand which Grantor or any guarantor may have in damages or otherwise against Beneficiary or any other person or entity; provided that Grantor shall maintain a separate action thereon.

10.2 Application of Payments

Except as applicable law or this Deed of Trust may otherwise provide, all payments received by Beneficiary under the Bond or this Deed of Trust may be applied by Beneficiary to any Secured Obligations in such order as Beneficiary, at its option, may determine.

10.3 Appraisal Costs

In the event the Financial Institutions Reform, Recovery, and Enforcement Act, as amended, any regulatory agency or any internal policy of Beneficiary, requires Beneficiary to obtain an appraisal of the Property, Grantor shall reimburse Beneficiary on demand for payment of the costs of such appraisal.

10.4 Imposition of Tax

For purposes of this section, "Tax" shall mean:

(a) a specific tax on deeds of trust or on all or any part of the indebtedness secured by a deed of trust; or (b) a specific tax on the owner of the Property covered by a deed of trust



which the taxpayer is authorized or required to deduct from payments on the deed of trust; or (c) a tax on property covered by a deed of trust chargeable against a beneficiary or trustee under the deed of trust or the holder of the note secured by the deed of trust; or (d) a specific tax (other than an income tax or a gross receipts tax) on all or any portion of the obligations secured hereby or on payments of principal and interest made by a grantor under a deed of trust. If any Tax is enacted subsequent to the date of this Deed of Trust, enactment of the Tax shall constitute an Event of Default, and Beneficiary may exercise any or all of the remedies available to it upon the occurrence of any Event of Default, unless the following conditions are met: (i) Grantor may lawfully pay the Tax without causing any resulting economic disadvantage or increase of tax to Beneficiary or Trustee; and (ii) Grantor pays the Tax (including any tax on the payment made) within 30 days after notice from Beneficiary that the tax law has been enacted.

10.5 Reconveyance

Upon payment of all Secured Obligations, Beneficiary shall request Trustee to reconvey the Property and shall surrender this Deed of Trust and all notes evidencing the Secured Obligations to Trustee. Trustee shall reconvey the Property without warranty to the person or persons legally entitled thereto. The grantee in any reconveyance may be described as the "person or persons legally entitled thereto," and the recitals therein of any matters or facts shall be conclusive proof of the truthfulness thereof. Such person or persons shall pay Trustee's reasonable costs incurred in so reconveying the Property.

10.6 Successor Trustee

In accordance with applicable law, Beneficiary may from time to time appoint a successor trustee to any Trustee appointed hereunder. 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.

10.7 Beneficiary's Powers

Without affecting the liability of any person for payment or performance of the Secured Obligations or any of Beneficiary's rights or remedies, Beneficiary, at its option, may extend the time for payment of the Secured Obligations or any part thereof, reduce payment thereon, release anyone liable thereon, accept a renewal note or notes therefor, modify the terms and time of payment thereof, release the lien of this Deed of Trust on any part of the Property, take or release other or additional security, release or reconvey or cause to be released or reconveyed all or any part of the Property, or consent and/or cause Trustee to consent to the making of any map or plat of the Property, consent or cause Trustee to consent to the granting of any easement or creating any restriction on the Property, or join or cause Trustee to join in any subordination or other agreement affecting this Deed of Trust or the lien or charge hereof.



Grantor shall pay Beneficiary a reasonable service charge, together with such title insurance premiums and attorneys' fees as may be incurred at Beneficiary's option, for any such action if taken at Grantor's request.

10.8 Subdivision

Grantor hereby consents to a subdivision of the Property, if Beneficiary, in its sole discretion, determines that a subdivision of the Property is necessary or desirable to preserve the lien of this Deed of Trust, or to permit Beneficiary to foreclose on only a portion of the Property.

10.9 Subrogation

Beneficiary shall be subrogated for further security to the lien, although released of record, of any and all encumbrances discharged, in whole or in part, by the proceeds of the Bond or any other indebtedness secured hereby.

10.10 Limitation on Interest and Charges

The interest, fees and charges under the Loan Documents shall not exceed the maximum amounts permitted by any applicable law. If any such interest, fee or charge exceeds the maximum, the interest, fee or charge shall be reduced by the excess and any excess amounts already collected from Grantor shall be refunded. Beneficiary may refund such excess either by treating the excess as a prepayment of principal under the Bond or by making a direct payment to Grantor. If Beneficiary elects to treat the excess as a prepayment of principal, Grantor shall not be obligated to pay any prepayment premium required under the Bond. The provisions of this section shall control over any inconsistent provision in the Loan Documents.

10.11 Additional Documents; Power of Attorney

Grantor, from time to time, shall execute, acknowledge and deliver to Beneficiary upon request, and hereby irrevocably appoints Beneficiary its attorney-in-fact, exercisable upon an Event of Default, to execute, acknowledge, deliver and if appropriate file and record, such security agreements, assignments for security purposes, assignments absolute, financing statements, affidavits, certificates and other documents, in form and substance satisfactory to Beneficiary, as Beneficiary may request in order to perfect, preserve, continue, extend in time or maintain the assignments herein contained, the lien and security interest under this Deed of Trust, and the priority thereof. Grantor shall pay to Beneficiary upon request therefor all costs and expenses incurred in connection with the preparation, execution, recording and filing of any such document.



10.12 Waiver of Statute of Limitations

To the full extent Grantor may do so, Grantor hereby waives the right to assert any statute of limitations as a defense to the enforcement of the lien of this Deed of Trust or to any action brought to enforce the Bond or any other obligation secured by this Deed of Trust.

10.13 Forbearance by Beneficiary Not a Waiver

Any forbearance by Beneficiary 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, and no waiver by Beneficiary of any particular default shall constitute a waiver of any other default or of any similar default in the future. Without limiting the generality of the foregoing, the acceptance by Beneficiary of payment of any of the Secured Obligations after the due date thereof shall not be a waiver of Beneficiary'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 Beneficiary shall not be a waiver of Beneficiary's right to accelerate the maturity of the indebtedness secured by this Deed of Trust, nor shall Beneficiary's receipt of any awards, proceeds or damages under Sections 2.3 and 2.7 operate to cure or waive Grantor's default in payment of the Secured Obligations.

10.14 Entire Agreement; Modifications and Waivers

This Deed of Trust together with the other Loan Documents constitute the entire understanding and agreement of Grantor and Beneficiary with respect to the Loan. The Loan Documents supercede all prior negotiations, discussions, and agreements with respect to the Loan, may not be contradicted by evidence of any alleged oral agreement, and may not be waived, changed, discharged or terminated except by an instrument in writing signed by the party against whom enforcement of any waiver, change, discharge or termination is sought.

10.15 Notice

Any notice to Grantor under this Deed of Trust shall be to the address noted above or such other address as may be designated by Grantor in writing and shall be deemed to have been given on the date delivered in the case of personal delivery or, if mailed, three days after the postmark thereof.

10.16 Governing Law; Severability; Captions

Except to the extent that the federal laws of the United States of America provide Beneficiary with greater rights or remedies, this Deed of Trust shall be governed by the laws of the State of Washington. If any provision or clause of this Deed of Trust conflicts with applicable law, such conflicts shall not affect other provisions or clauses hereof which can be

given effect without the conflicting provision, and to this end the provisions hereof are declared to be severable. The captions and headings of the paragraphs and sections of this Deed of Trust are for convenience only and are not to be used to interpret or define the provisions hereof.

10.17 Definitions

As used herein: the term "Grantor" means Grantor herein named, together with any subsequent owner of the Property or any part thereof or interest therein; the term "Trustee" means the Trustee herein named, together with any successor Trustee; and the term "Beneficiary" means Beneficiary herein named, together with any subsequent owner or holder of the Bond or any interest therein, including pledgees, assignees and participants.

10.18 Successors and Assigns; Agents

This Deed of Trust shall bind and inure to the benefit of the parties hereto and their respective heirs, devisees, legatees, administrators, executors, successors and assigns, subject to the provisions of Section 4. In exercising any rights hereunder or taking actions provided for herein, Beneficiary and Trustee may act through their respective employees, agents or independent contractors as authorized by Beneficiary and Trustee.

10.19 Number; Gender

This Deed of Trust shall be construed so that wherever applicable the use of the singular number shall include the plural number, and vice versa, and the use of any gender shall be applicable to all genders.

10.20 Time

Time is of the essence in connection with all obligations of Grantor herein.

10.21 Request for Notice

Grantor hereby requests that a copy of any notice of default and notice of sale hereunder be mailed to it at its address set forth at the beginning of this Deed of Trust.

10.22 Assignment of Loan Documents

Beneficiary may assign the Loan Documents in whole or in part. Beneficiary may make available to any proposed assignee or participant all credit and financial data with respect to Grantor and any guarantor as may be in the possession of Beneficiary. Grantor agrees to provide any additional information that any proposed assignee or participant may reasonably request.



10.23 Estoppel Certificate

Grantor shall, within ten days after receipt of Beneficiary's written request, furnish Beneficiary or any other party designated by Beneficiary with a written statement, duly acknowledged, setting forth the amount of the Secured Obligations and otherwise confirming the status of the Secured Obligations, the Property and the Loan Documents.

10.24 Certain Obligations Unsecured

Notwithstanding anything to the contrary set forth herein or any of the Loan Documents, this Deed of Trust shall not secure the following obligations (the "Unsecured Obligations"): (a) any obligations evidenced by or arising under the Indemnity Agreement, and (b) any other obligations in this Deed of Trust or in any of the other Loan Documents to the extent that such other obligations relate specifically to the presence on the Property of Hazardous Materials and are the same or have the same effect as any of the obligations evidenced by or arising under the Indemnity Agreement. Any breach or default with respect to the Unsecured Obligations shall constitute an Event of Default hereunder, notwithstanding the fact that such Unsecured Obligations are not secured by this Deed of Trust. Nothing in this section shall, in itself, impair or limit Beneficiary's right to obtain a judgment in accordance with applicable law after foreclosure for any deficiency in recovery of all obligations that are secured by this Deed of Trust following foreclosure.

ORAL AGREEMENTS OR ORAL COMMITMENTS TO LEND MONEY, EXTEND CREDIT, OR FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.

[The remainder of this page is intentionally left blank.]



IN WITNESS WHEREOF, Grantor has executed this Deed of Trust as of the date first above written.

GRANTOR:

HOUSING AUTHORITY OF SKAGIT COUNTY, a public body corporate and politic of the State of Washington

By *John M. Smith*
John M. Smith, Executive Director

DEED OF TRUST
[12187-5238/SB052920.179]



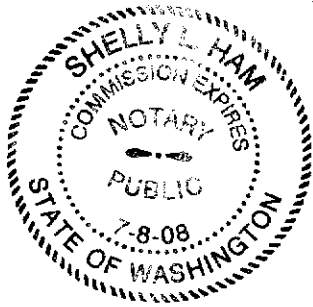
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Skagit County Auditor

11/10/2005 Page 33 of 35 11:27AM

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

On this 9th day of November, 2005, before me, the undersigned, a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared John M. Smith, to me known to be the person who signed as the Executive Director of HOUSING AUTHORITY OF SKAGIT COUNTY, a public body corporate and politic of the State of Washington, that executed the within and foregoing instrument, and acknowledged said instrument to be the free and voluntary act and deed of said entity for the uses and purposes therein mentioned, and on oath stated that he was duly elected, qualified and acting as said officer of said entity and that he was authorized to execute said instrument.

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



Shelly L. Ham
(Signature of Notary)

SHELLY L. HAM
(Print or stamp name of Notary)

NOTARY PUBLIC in and for the State
of Washington, residing at Belleme
My appointment expires: 7/8/08

DEED OF TRUST
[12187-5238/SB052920.179]



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Skagit County Auditor

11/10/2005 Page 34 of 35 11:27AM

**EXHIBIT A
to Deed of Trust**

LEGAL DESCRIPTION

The land situated in the State of Washington, County of Skagit, described as follows:

That portion of Government Lot 2, Section 6, Township 34 North, Range 4 East, W.M., lying Northerly of the Great Northern Railway right-of-way and West of the State Highway Frontage Road known as "K" Line; EXCEPT Peterson County Road and EXCEPT that portion of said premises lying within the West ½ of the West ½ of said Government Lot 2.

EXHIBIT A TO DEED OF TRUST
[12187-5238/SB052920.179]



200511100076
Skagit County Auditor