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K&L PRESTON GATES ELLIS LLP
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Attention: Faith Li Pettis, Esq.



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Skagit County Auditor

2/28/2007 Page 1 of 19 3:20PM

LAND TITLE OF SKAGIT COUNTY

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REGULATORY AGREEMENT

for Murdock Court Apartments Project

Grantor: ISLAND SKAGIT PARTNERS, LP

Grantee: WASHINGTON STATE HOUSING FINANCE COMMISSION

Legal Description:

Abbreviated form: Lots 2 & 3, Blk 1 Rosedale Garden Trs.

Assessor's Tax Parcel ID No(s): 4169-001-003-0004

Reference number(s) of documents being assigned or released and
related documents: 200702280194

REGULATORY AGREEMENT

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and is not part of the Regulatory Agreement.)

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REGULATORY AGREEMENT
Murdock Court Apartments Project

THIS REGULATORY AGREEMENT (the "Regulatory Agreement") is entered into as of February 1, 2007, between the WASHINGTON STATE HOUSING FINANCE COMMISSION (the "Commission"), a public body corporate and politic and the ISLAND SKAGIT PARTNERS, LP, a Washington limited partnership (the "Owner").

WITNESSETH:

WHEREAS, the Commission is authorized by the Constitution and the laws of the State of Washington, particularly Laws of 1983, Ch. 161, codified at Chapter 43.180 RCW, as amended (the "Act"), to assist in the financing of multifamily housing projects in Washington; and

WHEREAS, Section 142 of the Internal Revenue Code of 1986, as amended (the "Code"), provides that the interest on obligations issued by or on behalf of a state or a political subdivision thereof which are used to provide qualified residential rental projects is exempt from federal income taxation if certain conditions specified in the Code are met; and

WHEREAS, pursuant to the Act and in accordance with Code, the Commission will issue its Multifamily Revenue Bond (Island Skagit Partners Portfolio), Series 2007 (the "Bond") in the aggregate principal amount of \$3,850,000 for the purpose of acquiring a mortgage loan (the "Loan") originated by Washington Mutual Bank (the "Lender"), and evidenced by a promissory note, to provide long-term financing to the Owner for four residential rental projects including the project known as Murdock Court Apartments on land described at Exhibit A hereto and incorporated herein by this reference (such land, with all buildings, fixtures, equipment and improvements now or hereafter constructed or installed thereon, is herein referred to as, the "Project"); and

WHEREAS, the Owner has executed a Mortgage Note in favor of the Lender, secured by a Deed of Trust, Security Agreement, Assignment of Leases and Rents and Fixture Filing, to evidence the portion of the Loan providing financing for the Project; and

WHEREAS, in order to provide financing for the Project, the Commission, the Owner and the Lender have executed a Financing Agreement (the "Financing Agreement") dated as of February 1, 2007, pursuant to which the Lender will make the Loan to the Owner and the Commission will acquire the Loan with the proceeds of the Bond; and

WHEREAS, the Commission and the Owner intend to restrict the use of the Project in accordance with requirements of the Code as provided herein to preserve the exclusion from gross income of interest on the Bond for federal income tax purposes and meet the requirements of the Commission in issuing the Bond; and

NOW, THEREFORE, in consideration of the issuance of the Bond by the Commission and the mutual covenants and undertakings set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Owner does hereby impose upon the Project the following covenants, restrictions, charges and easements, which shall run with the land and shall be binding and a burden upon the Project and all portions thereof, and upon any



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purchaser, grantee, owner or lessee of any portion of the Project and any other person or entity having any right, title or interest therein and upon the respective heirs, executors, administrators, devisees, successors and assigns of any purchaser, grantee, owner or lessee of any portion of the Project and any other person or entity having any right, title or interest therein, for the length of time that this Regulatory Agreement shall be in full force and effect.

Section 1. Definitions. Unless otherwise expressly provided herein or unless the context clearly requires otherwise, capitalized terms not defined herein shall bear the meaning given them in the Financing Agreement.

“Available Unit” means a residential unit that is actually occupied and a residential unit that is unoccupied and has been leased at least once after becoming available for occupancy.

“Bond Closing” means February 28, 2007.

“Bond Counsel” means K&L Preston Gates Ellis LLP or any attorney or firm of attorneys designated by the Commission and having a nationally recognized standing in the field of municipal finance law whose opinions are generally accepted by purchasers of tax-exempt obligations.

“Bondowner” means Washington Mutual Bank, and its successors and assigns as registered owner of the Bond.

“Bond” means the Commission’s Multifamily Revenue Bond (Island Skagit Partners Portfolio), Series 2007.

“Code” means the Internal Revenue Code of 1986, as amended.

“Deed of Trust” means the Deed of Trust, Security Agreement, Assignment of Leases and Rents and Fixture Filing, dated February 28, 2007 and delivered by the Owner as grantor to a trustee for the benefit of the Lender, securing the repayment of the Mortgage Note with respect to the Project and the obligations of the Owner to the Lender, together with all riders, as it may be amended, modified, supplemented or restated from time to time.

Deed of Trust recorded under Auditor's File No. 200702280 194.

“Disabled Person” means a resident who has a physical or mental impairment which substantially limits one or more of the major life activities of such individual.

“Functionally Related and Subordinate” shall mean and include facilities (other than Units) for use by residents; for example, laundry facilities, parking areas, swimming pools and other recreational facilities; provided, that such facilities are of a character and size commensurate with the character and size of the Project.

“Loan” or “Mortgage Loan” means the loan, evidenced by the Mortgage Note, and secured by the Deed of Trust, to provide financing for the Project to be acquired by the Owner.

“Loan Closing,” when used with respect to the Loan, means the acquisition of the Mortgage Note by the Commission.



"Mortgage Note" means the promissory note in the principal amount of \$3,850,000, executed by the Owner to evidence the Owner's financial obligation to repay the Loan.

"Owner" means Island Skagit Partners, LP, a Washington limited partnership, its successors or assigns.

"Project" means the residential rental project known as Murdock Court Apartments, and all buildings, structures, fixtures and other improvements now or hereafter constructed or located upon the real property described in Exhibit A attached hereto.

"Project Qualified Residents" means and includes individuals and households of low income determined in a manner consistent with determinations of lower-income households under Section 8 of the United States Housing Act of 1937, as amended, except that the percentage of area median gross income which qualifies as low income shall not exceed 60% of median gross income for the area, and such calculation shall be adjusted for household size. Occupants of a Unit shall not be considered Project Qualified Residents if all the occupants are students (as defined in Section 151(c)(4) of the Code), no one of whom is entitled to file a joint return under Section 6013 of the Code. The method of determining low or moderate income in effect on the date of issue will be determinative for the Bond, even if such method is subsequently changed.

"Qualified Units" means Units that are occupied by or, after initial occupancy by a Project Qualified Resident, set aside for Project Qualified Residents.

"Regulatory Agreement" or "Agreement" means this Regulatory Agreement, as this Regulatory Agreement may be amended or supplemented from time to time in accordance with its terms.

"Regulatory Period" means the period described in Section 5 hereof.

"Transfer" means any transaction that results in a change in the ownership entity whether the title to the property is transferred by a recordable deed or the interests in the ownership entity are transferred.

"Transferee" means the entity to whom the Project is sold or transferred.

"Treasury Regulations" means the final or temporary regulations of the Department of the Treasury under the Code.

"Units" means the accommodations for residents containing separate and complete facilities for living, sleeping, eating, cooking (equipped with a cooking range, refrigerator and sink) and sanitation comprising the Project that are available for occupancy.

Section 2. Federal Tax Law Requirements. The Commission and the Owner hereby agree that the Project is to be developed, owned, managed and operated as a "qualified residential rental project" as such phrase is used in Section 142(d) of the Code at all times during the Regulatory Period. To that end, the Owner hereby represents, covenants and agrees as follows:



(a) Qualified Residential Rental Project.

(1) that the Project is being acquired, rehabilitated and equipped for the purpose of providing residential rental accommodations containing Units and facilities Functionally Related and Subordinate to such Units, as described in Section 142(d) of the Code;

(2) that all of the Units in the Project shall contain complete and separate facilities for living, sleeping, eating, cooking (equipped with a cooking range, refrigerator and sink) and sanitation for single person or a household;

(3) that none of the Units in the Project shall be leased or rented for a period of less than 30 days; used as a hotel, motel, dormitory, fraternity house, sorority house, rooming house, hospital, sanitarium, nursing or rest home, trailer park or court, or by a cooperative housing corporation (as defined in Section 216(b)(1) of the Code);

(4) that once available for occupancy, each Unit in the Project shall be rented or available for rental on a continuous basis for the term of the Regulatory Agreement to members of the general public in compliance with applicable Treasury Regulations, this Agreement and applicable state and federal laws;

(5) that no Unit in the Project shall be occupied by the Owner; provided, that if the Project contains five or more Units, this provision shall not be construed to prohibit occupancy of not more than one Unit by the Owner;

(6) that the Owner shall not take any steps in connection with a conversion of the Project to condominium ownership during the Regulatory Period; and

(7) that the Project shall consist of proximate buildings or structures located on a single "tract" of land which have similarly constructed Units financed pursuant to a "common plan" together with Functionally Related and Subordinate facilities all of which shall be owned by the Owner for federal tax purposes.

(b) Similar Units. That the Qualified Units have substantially the same equipment and amenities (not including luxury amenities such as fireplaces) as the other Units in the Project.

(c) Size and Location. That the Qualified Units are of substantially the same size as other Units in the Project and are not geographically segregated.

(d) Designated Units. If at any time during the Regulatory Period the Owner is unable to rent or lease the Qualified Units to Project Qualified Residents, to hold such unrented Qualified Units vacant and to offer them for occupancy by Project Qualified Residents as necessary to meet the requirements of Section 4(a) and (b).

(e) Annual Income Determination. To make a determination at least annually as to whether the income of residents of the Qualified Units continues to qualify such residents as Project Qualified Residents. Project Qualified Residents shall continue to be so qualified, notwithstanding any increase in income, until the annual determination of the resident's income



reflects that the resident's income exceeds 140% of the applicable median gross income. Once it is determined that a Project Qualified Resident's income exceeds 140% of the applicable median gross income, then the next Unit of comparable or smaller size must be rented to a Project Qualified Resident, as applicable, before the next annual income certification (and the Unit occupied by the resident whose income has exceeded 140% of the applicable median gross income will continue to be treated as reserved as required by Section 4(a) and (b) hereof until the next Unit is rented to such Project Qualified Resident). Such determination shall be made on the forms identified in Section 6(b), as such forms may be amended by the Commission, and are subject to independent investigation and verification by the Commission.

(f) Tax-Exempt Status of the Bond. To not (i) take any action, (ii) fail to take any action or (iii) make any use of the Project or the proceeds of the Bond, which would cause the interest on the Bond to be or become includable in the gross income of the Bondowner. Without limiting the generality of the foregoing, the Owner further covenants and agrees that it will take such action or actions (including, without limitation, consenting and agreeing to amendments to this Regulatory Agreement or any of the other documents as may be necessary, in the opinion of Bond Counsel) so that the Owner, all subsequent owners of the Project and the Project comply fully and continuously with Section 142 of the Code, as amended and applicable to the Bond from time to time, and all applicable rules, rulings, policies, procedures, regulations or other official statements promulgated or proposed by the Department of the Treasury or the Internal Revenue Service pertaining to obligations issued under Section 142 of the Code, including, without limitation, the Treasury Regulations.

(g) Recording. This Regulatory Agreement shall be duly recorded at or before Bond Closing and all amendments shall be duly recorded in the office of the County Auditor of the county in which the Project is located in first position as an encumbrance upon the Project. The Owner covenants, agrees and acknowledges that the Commission, the Lender and the Bondowner are the beneficiaries of this Agreement, that the Commission has relied on this Regulatory Agreement in determining to issue and sell the Bond, and that the Bondowner has relied on this Regulatory Agreement in determining to purchase or otherwise become the registered owner of the Bond.

Section 3. Additional Requirements of the Commission. To meet the requirements of the Commission in issuing the Bond, the Owner hereby represents, covenants and agrees as follows:

(a) Unit Mix. Qualified Units shall be in a range of sizes comparable to those Units which are available to other residents. To the extent practicable, the bedroom mix (ratios of one and two bedroom Units, as applicable), of such Qualified Units will be in the same proportion as the bedroom mix for the entire Project and the Qualified Units will be distributed throughout the Project.

(b) Deed of Trust. The Deed of Trust shall contain language expressing the intention of the Owner as grantor and the Bank as beneficiary that such Deed of Trust is and shall be at all times subordinate to this Regulatory Agreement regardless of the order of recording of either document.



(c) Reporting. To submit to the Commission, pursuant to Section 6 hereof, the required documentation with respect to each Project Qualified Resident residing in the Project provided, that so long as the Regulatory Agreement (Extended Use Agreement) among the Commission and the Owner (the "Extended Use Agreement") is in full force and effect, the Commission shall waive the reporting requirements contained in Section 6 hereof and the Owner shall report to the Commission pursuant to the terms of the Extended Use Agreement.

(d) Records. To maintain on file, for at least three years after the expiration of the Regulatory Period, copies of the original documentation required in Section 6 hereof with respect to each Project Qualified Resident.

(e) Inspection of Project and Records. Subject to reasonable notice, to permit any duly authorized representative of the Commission or the Internal Revenue Service (the "IRS") to inspect during regular business hours the Project and the books and records of the Owner pertaining to the incomes of the Project Qualified Residents who are residing or have resided in the Project and the Project rent roll.

Section 4. Set Aside Requirements. In order to satisfy the requirements of the Code and the Commission in issuing the Bond, the Owner hereby represents, covenants and agrees as follows:

(a) Federal Tax Law Requirements. Commencing on the date that is twelve months after the Bond Closing and continuing at all times during the Regulatory Period, to maintain at least:

- 40% of the Available Units in the Project, rounded up to the next Unit, for occupancy by Project Qualified Residents.

provided; that if within sixty days of the later of (1) the date of Bond Closing or (2) the acquisition of the Project, more than 90% of the Units in the Project are not available for occupancy, the Owner shall provide immediate written notice to the Commission and shall commence compliance with the requirements in this Section 4(a) on the Occupancy Date.

(b) State Law Requirements. None

(c) Compliance Monitoring Requirements. For purposes of monitoring compliance with this Regulatory Agreement, the Project will be in compliance if the following set-asides are met at the times described above in Section 4(a):

- 10 Units in the Project for occupancy by Project Qualified Residents.

A Qualified Unit may be counted towards the low income set-aside requirements.

Section 5. Regulatory Period. Except as otherwise provided in Section 14 of this Regulatory Agreement, the Regulatory Agreement shall continue in full force and effect until the latest of the date (i) which is 20 years after the Bond Closing, (ii) which is the first date on which the Bond or any bonds under Section 142(d) of the Code issued to refund the Bond are no longer



Outstanding or (iii) on which any assistance provided with respect to the Project under Section 8 of the United States Housing Act of 1937, as amended, terminates.

The Commission and the Owner expressly agree and understand that the provisions hereof are intended to survive the retirement of the Bond and the discharge of the Financing Agreement and the Mortgage Note.

Section 6. Reporting Requirements.

(a) Submission of Reports. The Owner shall submit copies of the documentation required in this Section 6 to the Commission (i) upon initial occupancy of a Qualified Unit for all Project Qualified Residents at the times specified in Section 6(b); (ii) upon each subsequent occupancy of a Qualified Unit, for Project Qualified Residents at the times specified in Section 6(b); and (iii) as often as necessary to comply with the requirements of Section 142 of the Code or as often as required by the Commission.

(b) Forms. The Owner agrees to prepare and submit the forms and notifications described herein (all of which forms are available from the Commission):

(i) to the Commission, on or before the date that is eight months after the Bond Closing (A) a Certificate of Continuing Project Compliance and (B) for each Project Qualified Resident residing in the Project:

- (1) an Eligibility Certification,
- (2) a Rental Eligibility Application with Rider, and
- (3) verification of income.

(ii) to the Commission, on or before the 7th day of each January, commencing on January 7, 2008, with respect to the twelve-month period ending December 31 (or such shorter or longer period for the initial report) (A) a Certificate of Continuing Project Compliance, setting forth the information required to be provided in such certification; and (B) for each Project Qualified Resident that has commenced occupancy of a Unit or has completed annual recertification in such twelve month period:

- (1) an Eligibility Certification,
- (2) a Rental Eligibility Application with Rider, and
- (3) verification of income.

(iii) to the Commission, on or before the 7th day of each January, annual income recertification information and, for each Project Qualified Resident residing in the Project, the following documents:

- (1) an Eligibility Certification,



- (2) a Rental Eligibility Application with Rider, and
- (3) verification of income.

(iv) to the Commission each January 7, the Affirmative Marketing Report.

(v) to the IRS on or prior to March 31 of each year (or as otherwise required by the IRS), Form 8703, with a copy thereof to the Commission no later than April 15 of each year.

Section 7. Project Access.

(a) No Discrimination. The Owner shall not discriminate in the provision of housing on the basis of race, creed, color, sex, national origin, religion, familial status, marital status, age, disability or source of income, including the receipt of public assistance or housing assistance; provided, that the Owner may take such actions as may be necessary to qualify for or to maintain its qualification for the exemption that relates to housing for older persons under the Fair Housing Amendments Act of 1988 and 24 CFR Part 100, Subpart E.

The Owner shall comply with all applicable federal, state and local laws, rules and regulations now provided or which may be hereafter provided, including but not limited to (i) federal housing policy governing nondiscrimination and accessibility, as determined under the Americans with Disabilities Act, the Fair Housing Amendments Act of 1988, Architectural Barriers Act of 1968; Housing and Community Development Act of 1974; Civil Rights Act of 1964; Civil Rights Act of 1968; Age Discrimination Act of 1975; (ii) to the extent applicable, the Housing and Urban Development Act of 1968; the Uniform Relocation and Real Property Acquisition Act of 1970; and the Stewart B. McKinney Homeless Assistance Act; and (iii) the State Environmental Policy Act; State Workers Compensation Industrial Insurance Act; Washington Fair Housing Laws; and the Washington State Landlord/Tenant Act.

Any failure by the Commission to monitor compliance with the requirements of this Section 7 shall not constitute a waiver of the Owner's obligation to comply with such provisions.

(b) Selection of Residents. When selecting residents for occupancy in Qualified Units, the Owner shall not apply selection criteria to a potential resident that is more burdensome than selection criteria applied to any other resident or potential resident; and the Owner shall take into consideration the rental history of such potential resident as evidence of the ability to pay the applicable rent, so long as: (i) the rental history is of a term of at least one year; and (ii) the history shows that the resident has paid at least the same percentage of his/her income for rent during that period as he/she will be required to pay for the rent of the Qualified Unit for which they are applying. The Owner shall at least annually throughout the Regulatory Period notify the local public housing authority and at least two community agencies in the area of the availability of Qualified Units.

(c) Disabled Access. The Owner covenants and agrees that the number of Units in the Project that are or will be constructed to be "handicapped-accessible," as such term is



set forth in state building standards and building codes for serving disabled residents, will be consistent with the applicable building code requirements for the Project.

Section 8. Covenants to Run with the Land. The Owner hereby declares its express intent that, during the term of this Agreement, the covenants, restrictions, charges and easements set forth herein, all of which touch and concern the land, shall be deemed covenants running with the land and shall, except as provided in Section 14 of this Regulatory Agreement, pass to and be binding upon the Owner's successors in title, including any purchaser, grantee or lessee of any portion of the Project and any other person or entity having any right, title or interest therein. Except as provided in Section 14 of this Regulatory Agreement, each and every contract, deed or other instrument hereafter executed encumbering or conveying the Project or any portion thereof or interest therein (other than a rental agreement or lease for a Unit) shall contain an express provision making such conveyance subject to the covenants, restrictions, charges and easements contained herein; provided, however, that any such contract, deed or other instrument shall conclusively be held to have been executed, delivered and accepted subject to such covenants, regardless of whether or not such covenants are set forth or incorporated by reference in such contract, deed or other instrument.

Section 9. Sale, Transfer or Conveyance of the Project. Except for a foreclosure, deed in lieu of foreclosure, exercise of power of sale or other similar event, if the Owner sells, transfers or otherwise disposes of the Project or any portion thereof (other than by leasing or renting for individual resident use as contemplated hereunder) without obtaining the prior written consent of the Commission, an event of default shall occur under the terms of this Regulatory Agreement and the remedies provided for such default in Section 11 herein can be exercised. The Commission's consent shall not be unreasonably withheld but may be conditioned upon:

- (a) reasonable evidence satisfactory to the Commission that the Owner is not then in default hereunder beyond any applicable grace period or cure period;
- (b) reasonable evidence satisfactory to the Commission that the Owner has paid or will pay all fees owing under the *Financing Agreement*;
- (c) agreement of the Owner to provide the Transferee with the files, information and data necessary to comply with the reporting requirements of this Regulatory Agreement;
- (d) an opinion of counsel for the Transferee, delivered to the Commission, to the effect that the Transferee has assumed in writing and in full all duties and obligations of the Owner under this Agreement and the *Financing Agreement* first accruing from and after the date of the transfer and that this Agreement and the *Financing Agreement* constitutes legal, valid and binding obligations of the Transferee, subject to customary exceptions;
- (e) a determination by the Commission, with regard to any project of the Transferee financed by the Commission, that
 - (i) the Transferee is not now in arrears on any payments of fees due and owing to the Commission or in default under a regulatory agreement, beyond any applicable grace period or cure period;



(ii) the Transferee does not have a documented history of repeated instances of *noncompliance with nonmonetary provisions of the Regulatory Agreement* which are not cured after notice thereof and within the applicable cure period or grace period; and

(iii) the Transferee does not have a documented history of repeated instances of failure to pay fees and expenses due and owing to the Commission which are not paid within a reasonable period after notice thereof.

(f) payment to the Commission of the then applicable administrative fee of the Commission to transfer ownership of the Project on its books and records and ensure compliance with this Section 9;

(g) an opinion of Bond Counsel, if required, that such Transfer will not cause the interest on the Bond to lose its exclusion from gross income for purposes of federal income taxation and payment of any reasonable fee incurred in connection with the issuance of such opinion; and

(h) any other conditions which may be reasonably imposed by the Commission, to assure compliance with federal or state law. Any sale, transfer or other disposition of the Project in violation of this Section 9 shall be ineffective to relieve the Owner or the Project of obligations under this Regulatory Agreement.

Notwithstanding the foregoing, the Commission's consent shall not be required (i) for a sale, transfer or change in the investor member of the Owner, including the addition, removal or withdrawal of a investor member; (ii) following foreclosure or a deed in lieu of foreclosure (but not upon the subsequent transfer of the Project following foreclosure or a deed in lieu of foreclosure); (iii) the Transfer of all of Allied Pacific Development, Inc.'s ("Allied") interest in the co-general partner of the Borrower to a Delaware limited liability company that Stephen R. Whyte controls (the "Allied LLC") in connection with Allied's reorganization into the Allied LLC (provided, that in its sole discretion, the Commission may charge a fee for such Transfer); or (vi) for the events specifically excluded from Commission consent described in the Bond Compliance Procedures Manual of the Commission.

Any written consent to a sale or transfer obtained from the Commission shall constitute conclusive evidence that the sale or transfer is not a violation of the transfer provisions.

Section 10. Uniformity; Common Plan. The provisions hereof shall apply uniformly to the entire Project to establish and carry out a common plan for the use, development and improvement of the Project Site.

Section 11. Non-compliance; Defaults; Remedies. The Owner shall exercise reasonable diligence to comply with the requirements of this Agreement and shall correct any such noncompliance within sixty (60) days after such noncompliance is first discovered by the Owner or would have been discovered by the exercise of reasonable diligence, or within 60 days after the Owner receives notice of such noncompliance from the Commission; provided, however, that such period for correction may be extended if the Owner is exercising due diligence to correct the



noncompliance and upon receipt of an opinion of Bond Counsel that such extension would not cause the interest on the Bond to be includable in gross income for the purpose of federal income taxation pursuant to Section 103 of the Code.

If the Owner shall fail to observe or perform any covenant, condition or agreement contained herein on its part to be observed or performed and if such noncompliance is not corrected as provided for in this Section 11, then such noncompliance shall be considered an event of default and the Commission shall be entitled, individually or collectively, by law or in equity to abate, prevent or enjoin any such violation or attempted violation, to recover monetary damages caused by such violation or attempted violation or to compel specific performance by the Owner of its obligations under this Agreement, it being recognized that the beneficiaries of the Owner's obligations hereunder cannot be adequately compensated by monetary damages in the event of the Owner's default. No delay in enforcing the provisions hereof as to any breach or violation shall impair, damage or waive the right of any party entitled to enforce the same or obtain relief against or recover for the continuation or repetition of such breach or violation or any similar breach or violation thereof at any later time or times.

Section 12. Enforcement of Terms. The benefits of this Agreement shall inure to, and may be enforced by the Commission and its successors and assigns during the term of this Regulatory Agreement, whether or not the Loan is paid in full and whether or not the Bond is outstanding. Notwithstanding the foregoing, the requirements set forth in this Regulatory Agreement shall cease to apply to the Project if the events specified in Section 14 hereof occur. The parties hereto agree they will execute and deliver any and all documents and instruments necessary to effectuate the provisions of this Section 12.

Section 13. Term, Amendment; Termination. Except as otherwise provided in Section 14 hereof, this Regulatory Agreement shall become effective upon its execution and delivery, and shall remain in full force and effect for the Regulatory Period provided herein and shall terminate in its entirety at the end of the Regulatory Period, it being expressly agreed and understood that the provisions hereof are intended to survive the retirement of the Bond and discharge of the Financing Agreement and the Mortgage Note.

The provisions hereof shall not be amended, revised or terminated (except as provided in Section 14 of this Regulatory Agreement) prior to the expiration of the stated term hereof except by an instrument in writing duly executed by the Commission and the Owner (or its successors in title) and duly recorded. The Commission's consent to any such amendment, revision or termination, other than termination pursuant to Section 14 of this Regulatory Agreement (in each case, whether or not the Bond shall then be outstanding), shall be given only upon receipt of an opinion of Bond Counsel that such amendment, revision or termination will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bond. An opinion of Bond Counsel approving the modification of any of the terms of this Regulatory Agreement as herein required shall become applicable upon the delivery of such opinion to the Commission, and the recording of the instrument evidencing the modification in the office of public records in the County where the Project is located.

Notwithstanding any other provisions hereof, this Regulatory Agreement shall be amended to conform to any more restrictive requirements of any amendments to the Code, amended Treasury Regulations (proposed or final), which in the opinion of Bond Counsel, are necessary and



desirable to preserve the exclusion from gross income of interest on the Bond for federal income tax purposes, or any legislative enactment or final decision by a court of competent jurisdiction, affecting the exclusion from gross income of the interest on the Bond for federal income tax purposes when, but only to the extent that the same becomes applicable. The Commission and the Owner and any transferee of the Owner agree to any such amendments as may be required to comply with any such amendments or decisions.

Section 14. Involuntary Termination. Notwithstanding anything herein to the contrary, the requirements of this Regulatory Agreement shall terminate and be of no further force and effect in the event of involuntary noncompliance with this Agreement caused by fire, seizure, requisition, foreclosure, exercise of power of sale, transfer of title by deed in lieu of foreclosure, other similar involuntary transfer, change in a federal law or an action of a federal agency after the Bond Closing which prevents the Commission from enforcing such provisions, or condemnation or a similar event, but only if, within a reasonable period, either the Bond is retired or amounts received as a consequence of such event are used to provide a project which meets the requirements hereof; provided, however, that the preceding provisions of this sentence shall cease to apply and the restrictions contained herein shall be reinstated if, at any time subsequent to the termination of such provisions as a result of the foreclosure or the delivery of a deed in lieu of foreclosure or a similar event, the Owner or any related person (within the meaning of Section 1.103-10(e) of the Treasury Regulations) obtains an ownership interest in the Project for federal income tax purposes. The Owner hereby agrees that, following any foreclosure, transfer of title by deed in lieu of foreclosure or similar event, neither the Owner nor any such related person as described above will obtain an ownership interest in the Project for federal tax purposes. Upon the termination or expiration of this Agreement, the parties hereto agree to execute, deliver and record the appropriate instruments of release and discharge of the terms hereof; provided, however, that the execution and delivery of such instruments shall not be necessary or a prerequisite to the termination or expiration of this Agreement in accordance with its terms. Such release is not subject to satisfaction of any outstanding obligation owed to the Commission.

Section 15. Indemnification. The Owner hereby agrees to pay, indemnify and hold the Commission or any other party authorized hereunder to enforce the terms of this Agreement harmless from any and all costs, expenses and fees, including all reasonable attorneys' fees (except those resulting from the gross negligence or willful misconduct of the indemnified party), which may be incurred by the Commission or any such other party in enforcing or attempting to enforce this Regulatory Agreement following any event of default on the part of the Owner hereunder, whether the same shall be enforced by suit or otherwise; together with all costs, fees and expenses which may be incurred in connection with any amendment to this Regulatory Agreement or otherwise by the Commission at the request of the Owner (including the reasonable fees and expenses of Bond Counsel in connection with any opinion required to be rendered hereunder). This agreement to indemnify is a separate agreement, shall survive any foreclosure action, attempted transfer or the like, is a personal obligation of the Owner and action may be brought thereon independently of any other remedy provided for herein.

Section 16. No Conflict With Other Documents. The Owner warrants that the Owner has not executed and will not execute, any other agreement with provisions contradictory to, or in opposition to, the provisions hereof, and that in any event the requirements of this Regulatory Agreement are paramount and controlling as to the rights and obligations herein set forth and supersede any other requirements in conflict herewith.



Section 17. Severability. The invalidity of any clause, part or provision of this Regulatory Agreement shall not affect the validity of the remaining portions thereof.

Section 18. Notices. All notices to be given pursuant to this Regulatory Agreement shall be in writing and shall be deemed given when mailed by certified or registered mail, return receipt requested, to the parties hereto at the addresses set forth below, or to such other place as a party may from time to time designate in writing:

Owner: Island Skagit Partners, LP
c/o Allied Pacific Development, Inc.
1700 Seventh Avenue, Suite 2075
Seattle, WA 98101

With a copy to: Boston Capital
One Boston Place, Suite 2100
Boston, MA 02108
Attention: Asset Management

Commission: Washington State Housing Finance Commission
1000 Second Avenue, Suite 2700
Seattle, Washington 98104-1046
Attention: Director, Compliance
Bond #-399; Island Skagit Partners Portfolio

Lender: Washington Mutual Bank
17877 Von Karman Avenue, 4th Floor
Mail Stop IRB4CLI
Irvine, California 92614
Attention: Community Lending Department
[Loan No. 71-2882166]

Section 19. Governing Law. This Regulatory Agreement shall be governed by the laws of the State of Washington.

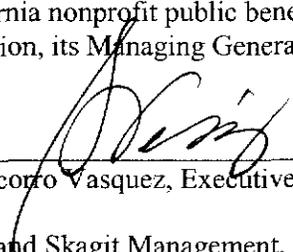
Section 20. Counterparts. This Agreement may be executed in counterparts and each such counterpart shall for all purposes be deemed to be an original and together shall constitute but one and the same instrument.



IN WITNESS WHEREOF, the parties have caused this Regulatory Agreement to be signed by their respective, duly authorized representatives, as of the day and year first written above.

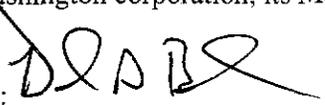
ISLAND SKAGIT PARTNERS, LP, a
Washington limited partnership

By: Hearthstone Housing Foundation,
a California nonprofit public benefit
corporation, its Managing General Partner

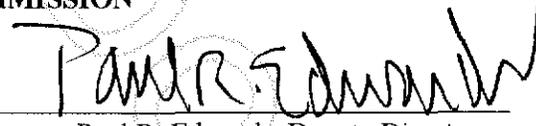
By: 
Socorro Vasquez, Executive Director

By: Island Skagit Management, LLC,
a Washington limited liability company,
its Co-General Partner

By: Allied Pacific Development, Inc., a
Washington corporation, its Manager

By: 
David A. Beacham, Vice President

**WASHINGTON STATE HOUSING FINANCE
COMMISSION**

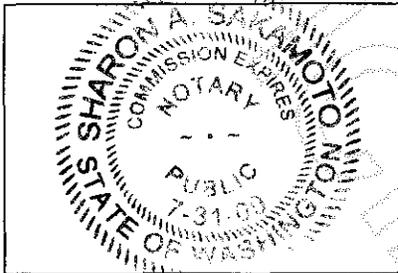
By: 
Paul R. Edwards, Deputy Director



STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

I certify that I know or have satisfactory evidence that DAVID A. BEACHAM 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 Vice President of Allied Pacific Development, Inc., the Manager of Island Skagit Management, LLC, the co-general partner of ISLAND SKAGIT PARTNERS, LP, to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Dated: February 23, 2007.



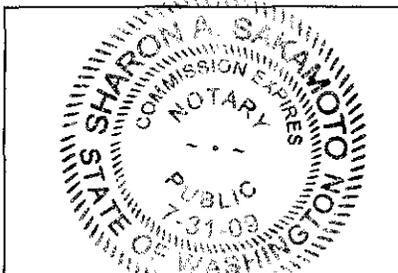
(Use this space for notarial stamp/seal)

Sharon A. Sakamoto
Notary Public
Print Name Sharon A. Sakamoto
My commission expires 7-31-09

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

I certify that I know or have satisfactory evidence that SOCORRO VASQUEZ is the person who appeared before me, and said person acknowledged that she signed this instrument, on oath stated that she was authorized to execute the instrument and acknowledged it as the Executive Director of Hearthstone Housing Foundation, the managing general partner of ISLAND SKAGIT PARTNERS, LP, to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Dated: February 23, 2007.



(Use this space for notarial stamp/seal)

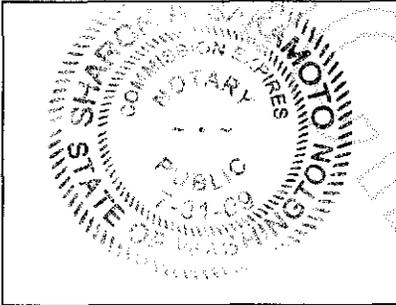
Sharon A. Sakamoto
Notary Public
Print Name Sharon A. Sakamoto
My commission expires 7-31-09



STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

I certify that I know or have satisfactory evidence that PAUL R. EDWARDS 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 Deputy Director of the WASHINGTON STATE HOUSING FINANCE COMMISSION, to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Dated: February 23, 2007.



(Use this space for notarial stamp/seal)

Sharon A. Schmitt

Notary Public
Print Name Sharon A. Schmitt
My commission expires 7-31-09

EXHIBIT A

Legal Description

The land is located in the County of Skagit, State of Washington, and is described as follows:

Lots 2 And 3, Block 1, "ROSEDALE GARDEN TRACTS OF SEDRO-WOOLLEY," as per plat recorded in Volume 3 of Plats, page 52, records of Skagit County, Washington.

A-1



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Skagit County Auditor