

RECORDING REQUESTED BY AND WHEN RECORDED MAIL TO:

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Skagit County Auditor

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LAND TITLE OF SKAGIT COUNTY

122021T

122022T

THIS SPACE FOR RECORDER'S USE ONLY

BE ADVISED THAT THE PROMISSORY NOTE SECURED BY THIS SECURITY INSTRUMENT MAY PROVIDE FOR ONE OR MORE OF THE FOLLOWING: (1) A VARIABLE RATE OF INTEREST; (2) A BALLOON PAYMENT AT MATURITY.

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

Loan No. 71-2882166

Grantor:

SKAGIT COUNTY WASHINGTON
REAL ESTATE EXCISE TAX

**ISLAND SKAGIT PARTNERS, LP, a
Washington limited partnership**

Grantee :

FEB 28 2007

**WASHINGTON MUTUAL BANK, a
federal association**

Legal Description:

Amount Paid \$
By Skagit Co. Treasurer Deputy
[Signature]

Island County: a) Lot 4 Langley
Boundary Line Adjustment, portion of
Gov. Lot 1, Sec. 3, Township 29 N., Range
3 E., W.M., and b) Lot 3 SP No. 87-4,
portion of Sec. 33, Township 32 N., Range
1 E., W.M.

Trustee: Transnational Title

21-34-4

Skagit County: a) Ptn SW ¼, of NW ¼ of
~~21-32-4~~ E., W.M., and b) Lots 2 & 3, Blk 1
Rosedale Garden Trs.

Assessor's Tax Parcel ID Number:

Additional Legal(s) on Exhibit A
Island County: R32903-500-4640, and
R13233-175-3800

Skagit County: 340421-0-009-0101,
340421-0-010-0009, and 4169-001-003-0004

THIS DEED OF TRUST, SECURITY AGREEMENT, ASSIGNMENT OF LEASES AND RENTS AND FIXTURE FILING (this "Deed of Trust"), is made as of February 28, 2007, among ISLAND SKAGIT PARTNERS, LP, a Washington limited partnership, the address of which is 1700 Seventh Avenue, Suite 2075, Seattle, Washington 98101-1397, as grantor ("Borrower"); TRANSNATION TITLE INSURANCE COMPANY, the address of which is 601 Union Street, Suite 1100, Seattle, Washington 98101, and its successors in trust and assigns, as trustee ("Trustee"); and WASHINGTON MUTUAL BANK, a federal association, at its offices at 17877 Von Karman Avenue, 4th Floor, Mail Stop IRB4CLI, Irvine, CA 92614 Attention: Community Lending Loan Administration, Loan No. 71-2882166, as beneficiary ("Lender").

1. **GRANTING CLAUSE.** Borrower, in consideration of the acceptance by Trustee of the trust hereunder, and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and in order to secure the obligations described in Section 3 below, grants, bargains, sells, assigns and conveys to Trustee and its successors in trust and assigns, forever, in trust, with power of sale, all of Borrower's estate, right, title, interest, claim and demand in and to the property in the Counties of Skagit and Island, State of Washington, with the street addresses listed in Exhibits A-1 through A-4 as "Property Address" (which addresses are provided for reference only and shall in no way limit the description of the real and personal property otherwise described in this Section 1), described as follows, whether now existing or hereafter acquired (all of the property described in all parts of this Section 1 and all additional property, if any, described in Section 2 is called the "Property"):

1.1 **Land and Appurtenances.** The land described on Exhibit A hereto, and all tenements, hereditaments, rights-of-way, easements, appendages and appurtenances thereto belonging or in any way appertaining, including without limitation all of the right, title and interest of Borrower in and to any avenues, streets, ways, alleys, vaults, strips or gores of land adjoining that property, all rights to water, water stock, drains, drainage and air rights relating to that property, and all claims or demands of Borrower either in law or in equity in possession or expectancy of, in and to that property; and

1.2 **Improvements and Fixtures.** All buildings, structures and other improvements now or hereafter erected on the property described in 1.1 above, and all facilities, fixtures, machinery, apparatus, installations, goods, equipment, inventory, furniture, building materials and supplies and other properties of whatsoever nature, now or hereafter located in or used or procured for use in connection with that property, it being the intention of the parties that all property of the character described above that is now owned or hereafter acquired by Borrower and that is affixed or attached to, stored upon or used in connection with the property described in 1.1 above shall be, remain or become a portion of that property and shall be covered by and subject to the lien of this Deed of Trust, together with all contracts, agreements, permits, plans, specifications, drawings, surveys, engineering reports and other work products relating to the construction or rehabilitation of the existing or any



future improvements on the Property, any and all rights of Borrower in, to or under any architect's contracts or construction contracts relating to the construction or rehabilitation of the existing or any future improvements on the Property, and any performance and/or payment bonds issued in connection therewith, together with all trademarks, trade names, copyrights, computer software and other intellectual property used by Borrower in connection with the Property; and

1.3 **Enforcement and Collection.** Any and all rights of Borrower without limitation to make claim for, collect, receive and receipt for any and all rents, income, revenues, issues, earnest money, deposits, refunds (including but not limited to refunds from taxing authorities, utilities and insurers), royalties, and profits, including mineral, oil and gas rights and profits, insurance proceeds of any kind (whether or not Lender requires such insurance and whether or not Lender is named as an additional insured or loss payee of such insurance), condemnation awards and other moneys, payable or receivable from or on account of any of the Property, including interest thereon, or to enforce all other provisions of any other agreement (including those described in Section 1.2 above) affecting or relating to any of the Property, to bring any suit in equity, action at law or other proceeding for the collection of such moneys or for the specific or other enforcement of any such agreement, award or judgment, in the name of Borrower or otherwise, and to do any and all things that Borrower is or may be or become entitled to do with respect thereto, provided, however, that no obligation of Borrower under the provisions of any such agreements, awards or judgments shall be impaired or diminished by virtue hereof, nor shall any such obligation be imposed upon Trustee or Lender; and

1.4 **Accounts and Income.** Any and all rights of Borrower in any and all accounts, rights to payment, contract rights, chattel paper, documents, instruments, licenses, contracts, agreements and general intangibles relating to any of the Property, including, without limitation, income and profits derived from the operation of any business on the Property or attributable to services that occur or are provided on the Property or generated from the use and operation of the Property; and

1.5 **Leases.** All of Borrower's rights as landlord in and to all existing and future leases and tenancies, whether written or oral and whether for a definite term or month to month or otherwise, now or hereafter demising all or any portion of the property described in 1.1 and 1.2 above, including all renewals and extensions thereof and all rents, deposits and other amounts received or receivable thereunder (in accepting this Deed of Trust neither Lender nor Trustee assumes any liability for the performance of any such lease); and

1.6 **Books and Records.** All books and records of Borrower relating to the foregoing in any form.



2. **SECURITY AGREEMENT AND ASSIGNMENT OF LEASES AND RENTS.**

2.1 **Security Agreement.** To the extent any of the property described in Section 1 is personal property, Borrower, as debtor, grants to Lender, as secured party, a security interest therein together with a security interest in all other personal property of whatsoever nature that is located on or used or to be used in connection with any of the property described in Section 1, and any products or proceeds of any thereof, pursuant to the Uniform Commercial Code of the state of Washington (the "UCC"), on the terms and conditions contained herein. Lender hereby assigns such security interest to Trustee, in trust, for the benefit of Lender to be dealt with as a portion of the "Property" except as otherwise specified herein. Borrower hereby authorizes Lender to file any financing statement, fixture filing or similar filing to perfect the security interests granted in this Deed of Trust without Borrower's signature.

2.2 **Assignment of Leases and Rents.**

(a) **Absolute Assignment.** Borrower hereby absolutely and unconditionally grants, transfers, conveys, sells, sets over and assigns to Lender all of Borrower's right, title and interest now existing and hereafter arising in and to the leases, subleases, concessions, licenses, franchises, occupancy agreements, tenancies, subtenancies and other agreements, either oral or written, now existing and hereafter arising which affect the Property, Borrower's interest therein or any improvements located thereon, together with any and all security deposits, guaranties of the lessees' or tenants' obligations (including any and all security therefor) and other security under any such leases, subleases, concessions, licenses, franchises, occupancy agreements, tenancies, subtenancies and other agreements (all of the foregoing, and any and all extensions, modifications and renewals thereof, shall be referred to, collectively, as the "Leases"), and hereby gives to and confers upon Lender the right to collect all the income, rents, issues, profits, royalties and proceeds from the Leases and any business conducted on the Property and any and all prepaid rent and security deposits thereunder (collectively, the "Rents"). This Deed of Trust is intended by Lender and Borrower to create and shall be construed to create an absolute assignment to Lender of all of Borrower's right, title and interest in and to the Leases and the Rents and shall not be deemed merely to create a security interest therein for the payment of any indebtedness or the performance of any obligations under the Loan Documents (as defined below). Borrower irrevocably appoints Lender its true and lawful attorney at the option of Lender at any time to demand, receive and enforce payment, to give receipts, releases and satisfactions and to sue, either in the name of Borrower or in the name of Lender, for all such Rents and apply the same to the obligations secured by this Deed of Trust.

(b) **Revocable License to Collect.** Notwithstanding the foregoing assignment of Rents, so long as no Event of Default (as defined below) remains uncured, Borrower shall have a revocable license, to collect all Rents, and to retain the same.



Upon any Event of Default, Borrower's license to collect and retain Rents shall terminate automatically and without the necessity for any notice.

(c) **Collection and Application of Rents by Lender.**

While any Event of Default remains uncured: (i) Lender may at any time, without notice, in person, by agent or by court-appointed receiver, and without regard to the adequacy of any security for the obligations secured by this Deed of Trust, enter upon any portion of the Property and/or, with or without taking possession thereof, in its own name sue for or otherwise collect Rents (including past due amounts); and (ii) without demand by Lender therefor, Borrower shall promptly deliver to Lender all prepaid rents, deposits relating to Leases or Rents, and all other Rents then held by or thereafter collected by Borrower, whether prior to or during the continuance of any Event of Default. Any Rents collected by or delivered to Lender may be applied by Lender against the obligations secured by this Deed of Trust, less all expenses, including attorneys' fees and disbursements, in such order as Lender shall determine in its sole and absolute discretion. No application of Rents against any obligation secured by this Deed of Trust or other action taken by Lender under this Section 2.2 shall be deemed or construed to cure or waive any Event of Default, or to invalidate any other action taken in response to such Event of Default, or to make Lender a mortgagee-in-possession of the Property.

(d) **Direction to Tenants.** Borrower hereby irrevocably authorizes and directs the tenants under all Leases to pay all amounts owing to Borrower thereunder to Lender following receipt of any written notice from Lender that states that an Event of Default remains uncured and that all such amounts are to be paid to Lender. Borrower further authorizes and directs all such tenants to pay all such amounts to Lender without any right or obligation to inquire as to the validity of Lender's notice and regardless of the fact that Borrower has notified any such tenants that Lender's notice is invalid or has directed any such tenants not to pay such amounts to Lender.

3. **OBLIGATIONS SECURED.** This Deed of Trust is given for the purpose of securing:

3.1 **Performance and Payment.**

3.1.1 The payment of \$3,850,000 with interest thereon and all other amounts payable according to the terms of a promissory note (the "Note") of even date herewith in that amount, made by Borrower as maker in favor of Lender as payee, and any and all extensions, renewals, modifications and replacements thereof, whether the same be in greater or lesser amounts, and any and all extensions, renewals, modifications and replacements thereof, whether the same be in greater or lesser amounts.

3.1.2 The payment and performance of all other obligations contained in this Deed of Trust and in the other Loan Documents (as defined in Section 3.3 below),



including but not limited to that certain construction and permanent loan agreement of even date herewith between Borrower and Lender (the "Loan Agreement"), which Loan Agreement provides for the rehabilitation of certain Improvements (as defined in the Loan Agreement) on the Property.

3.2 **Future Advances.** The repayment of any and all sums advanced or expenditures made by Lender subsequent to the execution of this Deed of Trust for the construction or rehabilitation of the Improvements or the maintenance or preservation of the Property, or advanced or expended by Lender for any other purpose pursuant to any provision of the Loan Agreement, this Deed of Trust or the other Loan Documents, together with interest thereon at the highest rate borne by the Note. Borrower intends that all such advances, whenever made and whether or not Lender is obligated to make the same, shall be secured by this Deed of Trust and shall be a lien on the Property having priority as of the date this Deed of Trust is recorded.

3.3 **Other Amounts.** All other obligations and amounts now or hereafter owing by Borrower to Lender under this Deed of Trust, the Loan Agreement, the Note or any other document, instrument or agreement evidencing, securing or otherwise relating to the loan evidenced by the Note and any and all extensions, renewals, modifications or replacements of any thereof (collectively, the "Loan Documents"); provided, however, that this Deed of Trust does not and shall not in any event be deemed to, secure the obligations owing to Lender under: (a) any certificate and indemnity agreement regarding hazardous substances (the "Indemnity Agreement") executed in connection with such loan (or any obligations that are the substantial equivalent thereof); or (b) any guaranty of such loan.

4. **WARRANTIES AND COVENANTS OF BORROWER.** Borrower warrants, covenants, and agrees:

4.1 **Warranties.**

(a) Borrower has full power and authority to grant the Property to Trustee and warrants the Property to be free and clear of all liens, charges, and other monetary encumbrances except those appearing in the title insurance policy accepted by Lender in connection with this Deed of Trust, including the lien of the four Regulatory Agreements each dated as of February 1, 2007 between the Washington State Housing Finance Commission (the "Commission") and the Borrower, and the four Regulatory Agreements (Extended Use Agreements) each between the Commission and the Borrower with respect to the allocation of federal low-income housing tax credits to the Property.

(b) None of the Property is used principally or at all for agricultural purposes.



(c) The Property is free from damage and no matter has come to Borrower's attention (including, but not limited to, knowledge of any construction defects or nonconforming work) that would materially impair the value of the Property as security.

(d) The loan evidenced by the Note and secured by this Deed of Trust is primarily for commercial, industrial or business purposes and is not primarily for personal, family or household purposes.

4.2 **Preservation of Lien.** Borrower will preserve and protect the priority of this Deed of Trust as a first lien on the Property. If Borrower fails to do so, Lender may take any and all actions necessary or appropriate to do so and all sums expended by Lender in so doing shall be treated as part of the obligations secured by this Deed of Trust, shall be paid by Borrower upon demand by Lender and shall bear interest at the highest rate borne by any of the obligations secured by this Deed of Trust.

4.3 **Repair and Maintenance of Property.** Borrower will keep the Property in good condition and repair, which duty shall include but is not limited to cleaning, painting, landscaping, repairing, and refurbishing of the Property; will complete and not remove or demolish, alter, or make additions to any building or other improvement that is part of the Property, or construct any new structure on the Property, without the express written consent of Lender; will underpin and support when necessary any such building or other improvement and protect and preserve the same; will complete or restore promptly and in good and workmanlike manner any such building or other improvement that may be damaged or destroyed and pay when due all claims for labor performed and materials furnished therefor; will not commit, suffer, or permit any act upon the Property in violation of law; and will do all other acts that from the character or use of the Property may be reasonably necessary for the continued operation of the Property in a safe and legal manner, the specific enumerations herein not excluding the general.

4.4 **Insurance.** Borrower shall provide and maintain insurance as required by the Loan Agreement and this Deed of Trust. Certain insurance requirements set forth in the Loan Agreement and set forth in further detail in the acknowledgment of insurance requirements entered into by Borrower in connection with the Loan (the "Acknowledgment") apply only during the Period of Construction (as defined in the Loan Agreement) and certain of those requirements supersede the requirements of this Section 4.4 during the Period of Construction, as provided in the Loan Agreement and the Acknowledgment. During the Period of Construction, the insurance provisions of the Loan Agreement and the Acknowledgment will control over the provisions of this Section 4.4 to the extent of any express inconsistency. Thereafter, the provisions of this Section 4.4 will control.

4.4.1 **All Risk/Hazard.** Borrower will provide and maintain, as further security for the faithful performance of the obligations secured by this Deed of Trust,



insurance covering fire and other perils substantially equivalent to those insured under the Causes of Loss—Special Form published by the Insurance Service Office (“ISO”), and against such other perils as may be specified by Lender (including insurance against earthquake/earth movement, if required by Lender on a case-by-case basis) in an amount not less than one hundred percent (100%) of the replacement cost of the Property. Such insurance must include an ordinance or law coverage endorsement. If Lender permits coverage of less than one hundred percent (100%) replacement cost in its sole discretion, then such policy must contain an agreed amount endorsement covering at least eighty percent (80%) of such replacement cost. Such insurance policy or policies shall include rental income interruption coverage as more specifically described in Section 4.4.3 below. If any of the improvements on the Property are at any time located in a federally-designated special flood hazard area in which flood insurance is available, Borrower must provide Lender with flood insurance in an amount, and with deductibles, as specified by Lender. All policies of insurance on the Property, whether or not required by the terms of this Deed of Trust (including but not limited to earthquake/earth movement insurance), shall name Lender as mortgagee and loss payee pursuant to a mortgage endorsement on a form acceptable to Lender, which form must provide that Lender will not have its interest voided by the act or omission of Borrower and that Lender may file a claim directly with the insurer (an “Acceptable Mortgage Endorsement”). Lender shall have the right to control or direct the proceeds of all such policies of insurance, whether or not required by the terms of this Deed of Trust, as provided in Section 4.4.6 below, and all proceeds thereof are hereby assigned to Lender as security for the obligations secured by this Deed of Trust. Each policy of insurance must have a deductible of an amount satisfactory to Lender in its sole discretion. Borrower shall be responsible for all uninsured losses and deductibles.

4.4.2 **Liability.** Borrower will maintain commercial general liability insurance on an occurrence form substantially equivalent to ISO form CG 0001 covering the legal liability of Borrower against claims occurring on, in, or about the Property with coverage of not less than One Million Dollars (\$1,000,000) per occurrence, naming Lender an additional insured and having a deductible of an amount satisfactory to Lender in its sole discretion.

4.4.3 **Rental Income Interruption.** Borrower will maintain rental income interruption insurance in an amount equal to at least twelve (12) months’ gross rental income from the Property as determined by Lender from time to time, and naming Lender as loss payee on an Acceptable Mortgage Endorsement. The amount collected under any and all rental income interruption insurance on the Property, whether or not required by this Deed of Trust, shall be applied as provided in Section 4.4.6.

4.4.4 **Changes in Insurance Requirements.** Lender may change its insurance requirements from time to time throughout the term of the obligations secured by this Deed of Trust by giving notice of such changes to Borrower. Without limiting the generality of the foregoing, Borrower shall from time to time obtain such additional coverages



or make such increases in the amounts of existing coverage as may be required by written notice from Lender.

4.4.5 General Provisions. All policies of insurance required to be maintained by Borrower pursuant to this Section 4.4 shall: (i) be primary and noncontributory with any other insurance Borrower may carry; and (ii) be in form and substance and with companies acceptable to Lender which are authorized to conduct business in the state in which the Property is located and which have a current rating from the Best Key Rating Guide that is acceptable to Lender. Lender reserves the right, in its reasonable discretion, to increase the amount of the required coverages, require insurance against additional risks, or withdraw approval of any insurance company at any time. Borrower shall deliver to Lender evidence (in such form as Lender may require) of all insurance coverage on the Property and a certified copy of all policies of such insurance. Borrower shall obtain renewals or replacements of any policies that expire and deliver evidence of such renewals to Lender no later than the expiration date of the policy being renewed or replaced. All policies and renewals thereof shall contain provision for ten (10) days' notice to Lender prior to cancellation for nonpayment of premiums and thirty (30) days' notice to Lender prior to cancellation for any other reason. If Borrower fails to maintain insurance in accordance with this Deed of Trust and the other Loan Documents, Lender may, but need not, obtain insurance on Borrower's behalf; this insurance is called "force placed insurance." For instance, without limitation, Lender may obtain force placed insurance if: (a) Borrower fails to deliver to Lender, prior to the expiration of any such required insurance coverage, evidence satisfactory to Lender that Borrower has renewed or replaced such coverage; (b) the amount of insurance is reduced below Lender's requirements; (c) the deductible is increased above Lender's requirements; or (d) the insurer providing the insurance does not meet Lender's insurance company rating requirements.

4.4.6 Damage and Destruction.

(a) **Borrower's Obligations.** In the event of any damage to or loss or destruction of the Property (a "Casualty"): (i) if it could reasonably be expected to cost more than \$25,000 to repair the Casualty, Borrower shall give prompt written notice of the Casualty to Lender and to Borrower's insurer, and shall make a claim under each insurance policy providing coverage therefor; (ii) Borrower shall take such actions as are necessary or appropriate to preserve and protect the Property; (iii) if the aggregate proceeds of any and all insurance policies insuring the Property, whether or not required by this Deed of Trust, that are payable as a result of the Casualty (collectively, the "Insurance Proceeds") could reasonably be expected to exceed \$25,000, or if a Default exists, Borrower shall take such actions as are necessary or appropriate to ensure that all Insurance Proceeds are paid to Lender forthwith to be held by Lender until applied to the obligations secured hereby or disbursed in accordance with this Section 4.4.6; and (iv) unless otherwise instructed by Lender, regardless of whether the Insurance Proceeds, if any, are sufficient for the purpose, Borrower shall promptly commence and diligently pursue to completion in a good,



workmanlike and lien-free manner the restoration, replacement and rebuilding of the Property as nearly as possible to its value, condition and character immediately prior to the Casualty (collectively, the "Restoration"). If the Restoration will cost more than \$25,000 to repair, Borrower shall submit the proposed plans and specifications for the Restoration, and all construction contracts, architect's contracts, other contracts in connection with the Restoration, and such other documents as Lender may reasonably request to Lender for its review and approval. Borrower shall not begin the Restoration unless and until Lender gives its written approval of such plans, specifications, contracts and other documents, with such revisions as Lender may reasonably require. Notwithstanding the foregoing, Lender shall not be responsible for the sufficiency, completeness, quality or legality of any such plans, specifications, contracts or other documents. Borrower shall pay, within ten days after demand by Lender, all costs reasonably incurred by Lender in connection with the adjustment, collection and disbursement of Insurance Proceeds pursuant to this Deed of Trust or otherwise in connection with the Casualty or the Restoration.

(b) **Lender's Rights.** Lender shall have the right and power to receive and control all Insurance Proceeds required to be paid to it pursuant to subsection (a)(iii) above. Borrower hereby authorizes and empowers Lender, in its own name or as attorney-in-fact for Borrower (which power is coupled with an interest and is irrevocable so long as this Security Interest remains of record), to make proof of loss, to settle, adjust and compromise any claim under insurance policies on the Property, to appear in and prosecute any action arising from such insurance policies, to collect and receive Insurance Proceeds, and to deduct therefrom Lender's expenses incurred in the adjustment, collection and disbursement of such Insurance Proceeds or otherwise in connection with the Casualty or the Restoration. Each insurance company concerned is hereby irrevocably authorized and directed to make payment of all Insurance Proceeds directly to Lender. Notwithstanding anything to the contrary, neither Trustee nor Lender shall be responsible for any such insurance, the collection of any Insurance Proceeds, or the insolvency of any insurer.

(c) **Application of Proceeds.** If, at any time while Lender holds any Insurance Proceeds, an Event of Default exists or Lender determines in its reasonable discretion that the security for the obligations secured hereby is impaired, Lender shall have the option, in its sole discretion, to apply the Insurance Proceeds to the obligations secured hereby in such order as Lender may determine (or to hold such proceeds for future application to those obligations). Without limiting the generality of the foregoing, Lender's security will be deemed to be impaired if: (i) an Event of Default exists; (ii) Borrower fails to satisfy any condition precedent to disbursement of Insurance Proceeds to pay the cost of the Restoration within a reasonable time; or (iii) Lender determines in its reasonable discretion that it could reasonably be expected that (A) Borrower will not have sufficient funds to complete the Restoration and timely pay all expenses of the Property and all payments due under the Note and the other Loan Documents through the completion of the Restoration and any leaseup period thereafter, (B) the rental income from the Property will be insufficient to timely pay all expenses of the Property and payments due under the Note and the other Loan



Documents on an ongoing basis after completion of the Restoration, or (C) the Restoration cannot be completed at least two years prior to the maturity date of the Note and within one year after the date of the Casualty.

(d) **Disbursement of Proceeds.** If Lender is not entitled to apply the Insurance Proceeds to the obligations secured hereby, Lender (or at Lender's election, a disbursing or escrow agent selected by Lender and whose fees shall be paid by Borrower) shall disburse the Insurance Proceeds for the Restoration from time to time as the Restoration progresses, but only after satisfaction, at Borrower's expense, of such conditions precedent to such disbursements as Lender may reasonably require including but not limited to the following: (i) Borrower shall have delivered to Lender evidence reasonably satisfactory to Lender of the estimated cost of the Restoration; (ii) Lender shall have approved the plans, specifications and contracts for the Restoration as required by Section 4.4.6(a); (iii) Borrower shall have delivered to Lender funds in addition to the Insurance Proceeds in an amount sufficient in Lender's reasonable judgment to complete and fully pay for the Restoration; (iv) Borrower shall have delivered to Lender such building permits, other permits, architect's certificates, waivers of lien, contractor's sworn statements, title insurance endorsements, plats of survey and other evidence of cost, payment and performance as Lender may reasonably require and approve; and (v) if required by Lender, Borrower shall have entered into an agreement providing in greater detail for the Restoration, the disbursement of Insurance Proceeds and related matters. No payment made prior to the final completion of the Restoration shall exceed ninety percent of the value of the work performed and materials incorporated into the Property from time to time, as such value is determined by Lender in its reasonable judgment. Disbursements may, at Lender's election, be made on a percentage of completion basis or on such other basis as is acceptable to Lender. Disbursements shall be subject to Borrower's delivery of such lien waivers as Lender may require, and otherwise on terms and subject to conditions acceptable to Lender. From time to time after commencement of the Restoration, if so requested by Lender, Borrower shall deposit with Lender funds in excess of the Insurance Proceeds which, together with the Insurance Proceeds and all funds previously deposited with Lender in connection with the Restoration, must at all times be at least sufficient in the reasonable judgment of Lender to pay the entire unpaid cost of the Restoration. Funds so deposited by Borrower may at Lender's option be disbursed prior to the disbursement of Insurance Proceeds. Lender may retain a construction consultant to inspect the Restoration and related matters on Lender's behalf and to advise Lender with respect thereto and Borrower shall pay the cost thereof; provided that neither Borrower nor any other person or entity other than Lender shall have any right to rely on any inspection or advice of such consultant. Such consultant shall not be the agent of Lender and shall not have the power to bind Lender in any way. Any surplus Insurance Proceeds or other funds held by Lender pursuant to this Section 4.4.6 that may remain after payment of all costs of the Restoration shall be paid to Borrower (or to such other person or entity as Lender reasonably determines is entitled thereto) so long as no Default then exists. No interest shall be allowed to Borrower on account of any Insurance Proceeds or other funds held by Lender pursuant to this Section 4.4.6, but at Borrower's request, Lender will deposit such amounts into a blocked



interest-bearing account with Lender over which Lender has sole possession, authority and control, in which Lender has a perfected first-priority security interest to secure the obligations secured by this Deed of Trust, and otherwise on terms and conditions satisfactory to Lender in its sole discretion. Notwithstanding the above, if an Event of Default exists prior to full disbursement of the Insurance Proceeds and any other funds held by Lender pursuant to this Section 4.4.6, any undisbursed portion thereof may, at Lender's option, be applied against the obligations secured by this Deed of Trust, whether or not then due, in such order and manner as Lender shall select.

(e) **Effect on the Indebtedness.** Any reduction in the obligations secured hereby resulting from the application of Insurance Proceeds or other funds pursuant to this subsection 4.4.6 shall be deemed to take effect only on the date of such application; provided that, if any Insurance Proceeds are received after the Property is sold in connection with a judicial or nonjudicial foreclosure of this Deed of Trust, or is transferred by deed in lieu of such foreclosure, notwithstanding any limitation on Borrower's liability contained herein or in the Note, the purchaser at such sale (or the grantee under such deed) shall have the right to receive and retain all such Insurance Proceeds and all unearned premiums for all insurance on the Property. No application of Insurance Proceeds or other funds to the obligations secured hereby shall result in any adjustment in the amount or due dates of installments due under the Note. No application of Insurance Proceeds to the obligations secured hereby shall, by itself, cure or waive any Default or any notice of default under this Deed of Trust or invalidate any act done pursuant to such notice or result in the waiver of any collateral securing the Note.

4.5 **Right of Inspection.** Borrower shall permit Lender or its agents or independent contractors (including, but not limited to, appraisers, environmental consultants and construction consultants), at all reasonable times, to enter upon and inspect the Property.

4.6 **Compliance with Laws, Etc.; Preservation of Licenses.** Borrower shall comply in all material respects with (a) all laws, statutes, ordinances, rules, regulations, licenses, permits, approvals, orders, judgments and other requirements of governmental authorities relating to the Property or Borrower's use thereof, and (b) all easements, licenses and agreements relating to the Property or Borrower's use thereof. Borrower shall observe and comply with all requirements necessary to the continued existence and validity of all rights, licenses, permits, privileges, franchises and concessions relating to any existing or presently contemplated use of the Property, including but not limited to any zoning variances, special exceptions and nonconforming use permits.

4.7 **Further Assurances.** Borrower will, at its expense, from time to time execute and deliver any and all such instruments of further assurance and other instruments and do any and all such acts, or cause the same to be done, as Trustee or Lender deems necessary or advisable to grant the Property to Trustee or to carry out more effectively the purposes of this Deed of Trust.



4.8 **Legal Actions.** Borrower will appear in and defend any action or proceeding before any court or administrative body purporting to affect the security hereof or the rights or powers of Lender or Trustee; and will pay all costs and expenses, including cost of evidence of title, title insurance premiums and any fees of attorneys, appraisers, environmental inspectors and others, incurred by Lender or Trustee, in a reasonable sum, in any such action or proceeding in which Lender or Trustee may appear, in any suit brought by Lender or Trustee to foreclose this Deed of Trust and in any nonjudicial foreclosure under this Deed of Trust.

4.9 **Taxes, Assessments and Other Liens.** Borrower will pay prior to delinquency all taxes, assessments, encumbrances, charges, and liens with interest, on the Property or any part thereof, including but not limited to any tax on or measured by rents of the Property, the Note, this Deed of Trust, or any obligation or part thereof secured hereby.

4.10 **Expenses.** Borrower will pay all costs, fees and expenses reasonably incurred by Lender or Trustee in connection with this Deed of Trust.

4.11 **Repayment of Expenditures.** Borrower will pay within five (5) days after written demand all amounts secured by this Deed of Trust, other than principal of and interest on the Note, with interest from date of expenditure at the rate of interest borne by the Note and the repayment thereof shall be secured by this Deed of Trust.

4.12 **Financial and Operating Information.** Within 90 days after the end of each fiscal year of Borrower, Borrower shall furnish to Lender the following in such form as Lender may require: (a) financial statements (including income statements and balance sheets) of (i) Borrower, (ii) each other person and entity, if any, liable for repayment of the loan evidenced by the Note, whether as a party to the Note, pursuant to a guaranty, as a general partner in a party to the Note, or otherwise, and (iii) Allied Pacific Development, Inc., a Washington corporation; (b) an itemized statement of income and expenses for Borrower's operation of the Property for that fiscal year; and (c) a rent schedule for the Property showing the name of each tenant, and for each tenant, the space occupied, the lease expiration date, the rent payable for the current month, the date through which rent has been paid, all security deposits held (and the institution in which they are held) and any related information requested by Lender. Notwithstanding the foregoing, if Borrower or any other person or entity required to submit financial statements pursuant to the foregoing sentence obtains audited financial statements, such audited financial statements shall be delivered to Lender promptly after they are available, but in no event later than 150 days after the end of the fiscal year of the subject of such audited financial statements; provided, however, that other documents and information to be provided to Lender pursuant to this Section must be delivered to Lender within 90 days after the end of Borrower's fiscal year.



In addition, within twenty (20) days after written request by Lender, Borrower shall furnish to Lender such financial statements and other financial, operating and ownership information about the Property, Borrower, owners of equity interests in Borrower, and guarantors of the obligations secured hereby, as Lender may require.

If Borrower fails to provide Lender with any of the financial and operating information required to be provided under this Section within the time periods required under this Section and such failure continues after Lender has provided Borrower with thirty (30) days' notice and opportunity to cure such failure, Borrower shall pay to Lender, as liquidated damages for the extra expense in servicing the loan secured hereby, Five Hundred Dollars (\$500) on the first day of the month following the expiration of such thirty (30)-day period and One Hundred Dollars (\$100) on the first day of each month thereafter until such failure is cured. All such amounts shall be secured by this Deed of Trust. Payment of such amounts shall not cure any Default or Event of Default resulting from such failure.

4.13 Sale, Transfer, or Encumbrance of Property.

(a) Except as otherwise provided below, Borrower shall not, without the prior written consent of Lender (which may be granted or withheld in Lender's sole discretion), sell, transfer, or otherwise convey the Property or any interest therein, further encumber the Property or any interest therein, cause or permit any change in the entity, ownership, or control of Borrower or agree to do any of the foregoing without first repaying in full the Note and all other sums secured by this Deed of Trust.

(b) Consent to any one such occurrence shall not be deemed a waiver of the right to require consent to any other such occurrence.

(c) In each instance in which a sale, transfer or other conveyance of the Property, or any change in the entity, ownership, or control of Borrower, occurs without Lender's prior written consent thereto having been given, and regardless of whether Lender elects to accelerate the maturity date of the Note (any of the foregoing events is referred to as an "Unconsented Transfer"), Borrower and its successors shall be jointly and severally liable to Lender for the payment of a fee (the "Unconsented Transfer Fee") of two percent (2.0%) of the unpaid principal balance of the Note as of the date of such Unconsented Transfer. The Unconsented Transfer Fee shall be due and payable 10 days after written demand therefor by Lender, and shall be secured by this Deed of Trust; provided, however, that payment thereof shall not cure any Event of Default resulting from the Unconsented Transfer.

(d) Lender's waiver of the Unconsented Transfer Fee, the Consented Transfer Fee (as defined below) or any other amount payable hereunder, in whole or in part for any sale, transfer or other conveyance shall not preclude the imposition thereof in connection with any other sale, transfer or other conveyance.



(e) Notwithstanding the foregoing, Lender's consent will not be required, and neither the Unconsented Transfer Fee nor the Consented Transfer Fee will be imposed for any of the following:

(i) Normal leasing of portions of the Property to residential tenants in the ordinary course of business under leases having terms not exceeding one year.

(ii) The transfer by Tax Credit Investor (as defined in the Loan Agreement) of its equity interests in Borrower: (A) to one or more Affiliates (as defined in the Loan Agreement) of Tax Credit Investor, subject to any and all requirements for such a transfer set forth in Borrower's Governing Agreement (as defined in the Loan Agreement) and so long as Tax Credit Investor is not relieved of its obligation to make capital contributions to Borrower; or (B) to Sponsor (as defined in the Loan Agreement), but only after Tax Credit Investor has made all capital contributions required under the terms of Borrower's Governing Agreement.

(iii) The removal by Tax Credit Investor or its Affiliate of a general partner of Borrower for cause in accordance with the terms of Borrower's Governing Agreement, and the replacement of such removed general partner with either an Affiliate (or with an individual or entity, not an Affiliate, who or which is reasonably acceptable to Lender).

(iv) The transfer of ownership interests in Allied Pacific Development, Inc., a Washington corporation, which is the sole member of Island Skagit Management, LLC, a Washington limited liability company (the "General Partner") to a Delaware limited liability company (the "Succeeding Member"), provided that, at all times: (i) Stephen R. Whyte shall maintain a controlling interest in the Succeeding Member and (ii) the Succeeding Member shall be the sole member of the General Partner. "Controlling interest" as used in the preceding sentence means the power to direct the management and policies of an entity, whether through direct or indirect ownership, by contract, or otherwise.

(f) Lender's consent to any transfer or other matter prohibited by this Section 4.13 in the absence of such consent (each a "Transfer") may be conditioned upon:

(i) receipt by Lender of evidence reasonably satisfactory to Lender that no Default exists;

(ii) if interest on the Note is structured to be tax-exempt, receipt by Lender of an opinion of bond counsel reasonably satisfactory to Lender, which opinion is in form and substance reasonably satisfactory to Lender and addressed to



Lender, to the effect that the proposed Transfer will not adversely affect the exclusion from gross income of interest on any tax-exempt bond held by Lender and issued in connection with the loan secured by this Deed of Trust;

(iii) if the proposed Transfer is of the Property or of an interest in the Property or involves the admission of a new general partner (if Borrower is a limited partnership) or manager or managing member (if Borrower is a limited liability company) in Borrower, (A) receipt by Lender of an opinion of counsel for the proposed transferee or the proposed new general partner, manager or managing member (as applicable, the "Transferee"), in form and substance reasonably satisfactory to Lender and addressed to Lender, that the Transferee has assumed in writing and in full all duties and obligations of the transferor under the Loan Documents (the "Assumed Obligations"), that the Assumed Obligations constitute the legal, valid and binding obligations of the Transferee, and with respect to such other matters as Lender may reasonably request; and (B) a determination by Lender in its reasonable discretion that (1) the Transferee has the capacity to assume responsibility for the management of Borrower and the Property and the payment of the Assumed Obligations, (2) the Transferee is not in arrears on any payments of amounts due and owing to Lender or in default under any loan documents in favor of Lender, (3) the Transferee does not have a documented history of noncompliance with the provisions of any loan documents in favor of Lender, and (4) the Transferee does not have a documented history of failure to pay fees due and owing to Lender or public agencies in a timely manner;

(iv) execution and delivery by the Transferee of an assumption agreement and other documents reasonably required by Lender to evidence Transferee's assumption of the Assumed Obligations;

(v) payment by Borrower or the Transferee of all costs incurred by Lender in connection with the proposed transfer and of a fee (the "Consented Transfer Fee") of one percent (1.0%) of the unpaid principal balance of the Note at the time of the Transfer;

(vi) receipt by Lender of evidence reasonably satisfactory to Lender that no partner or member of Borrower will be released from its obligations to make capital contributions to Borrower pursuant to Borrower's Governing Agreement as a result of the Transfer; and

(vii) satisfaction of any other conditions that may reasonably be imposed by Lender.

(g) Any other provision of the Loan Documents notwithstanding, the withdrawal of a general partner, manager or managing member of Borrower or removal of any thereof for cause pursuant to the terms of Borrower's Governing Agreement shall not, in and of itself, constitute a Default under any of the Loan Documents



(and shall not be grounds for acceleration of the maturity of the obligations secured hereby nor require payment of the Consented Transfer Fee or the Unconsented Transfer Fee), provided that: (i) Lender is given not less than 30 days' advance written notice of such withdrawal or removal; (ii) a substitute for the withdrawn or removed party that is acceptable to Lender in Lender's reasonable discretion, is admitted to Borrower within 90 days after the effective date of such withdrawal or removal; and (iii) at or prior to the admission of the substitute party, Borrower or such substitute party satisfy the conditions set forth in subsections (ii), (iii), (vi) and (vii) of Section 4.13(f) above.

4.14 **Borrower Existence.** If Borrower is a corporation, partnership, limited liability company or other entity, Lender is making this loan in reliance on Borrower's continued existence, ownership and control in its present form. Borrower will not alter its name, jurisdiction of organization, structure, ownership or control without the prior written consent of Lender and will do all things necessary to preserve and maintain said existence and to ensure its continuous right to carry on its business. Subject to the provisions of Section 4.13(e)(iii), if Borrower is a partnership, Borrower will not permit the addition, removal or withdrawal of any general partner without the prior written consent of Lender. The withdrawal or expulsion of any general partner from Borrower partnership shall not in any way affect the liability of the withdrawing or expelled general partner hereunder or on the Note to the extent incurred prior to such withdrawal or expulsion.

4.15 **Information for Participants, Etc.** Borrower agrees to furnish such information and confirmation as may be required from time to time by Lender on request of potential loan participants and assignees and agrees to make adjustments in this Deed of Trust, the Note, and the other documents evidencing or securing the loan secured hereby to accommodate such participant's or assignee's requirements, provided that such requirements do not vary the economic terms of the loan secured hereby. Borrower hereby authorizes Lender to disclose to potential participants and assignees any information in Lender's possession with respect to Borrower and the loan secured hereby.

4.16 **Tax and Insurance Impounds.**

(a) **Impounds.** In addition to the payments required by the Note, Borrower agrees to pay Lender, at Lender's request, such sums as Lender may from time to time estimate will be required to pay, at least one month before delinquency, the next due taxes, assessments, insurance premiums, and similar charges affecting the Property, less all sums already paid therefor divided by the number of months to elapse before one month prior to the date when such taxes, assessments and premiums will become delinquent, such sums to be held by Lender without interest or other income to Borrower to pay such taxes, assessments and premiums. Should this estimate as to taxes, assessments and premiums prove insufficient, Borrower upon demand agrees to pay Lender such additional sums as may be required to pay them before delinquent.



(b) **Application.** If the total of the payments described in subsection (a) of this Section (collectively, the "Impounds") in any one year shall exceed the amounts actually paid by Lender for taxes, assessments and premiums, such excess may be credited by Lender on subsequent payments under this section. At any time after the occurrence and during the continuance of an Event of Default and at or prior to the trustee's sale or sheriff's sale, Lender may apply any balance of funds it may hold pursuant to this Section to any amount secured by this Deed of Trust and in such order as Lender may elect. If Lender does not so apply such funds at or prior to the trustee's sale or sheriff's sale, the purchaser at such sale shall be entitled to all such funds. If Lender acquires the Property in lieu of realizing on this Deed of Trust, the balance of funds it holds shall become the property of Lender. Any transfer in fee of all or a part of the Property shall automatically transfer to the grantee all or a proportionate part of Borrower's rights and interest in the fund accumulated hereunder.

(c) **Tax Reporting Service.** Lender may, but need not, contract with a tax reporting service covering the Property. Borrower agrees that Lender may rely on the information furnished by such tax service and agrees to pay the cost of that service within 30 days after receipt of a billing for it.

4.17 **Leases, Security Deposits, Etc.** Borrower shall not receive or collect any rents from any present or future tenant of the Property or any part thereof in advance in excess of one (1) month's rent or collect a security deposit in excess of two (2) months' rent. Borrower shall promptly deposit and maintain all security deposits and other deposits received by Borrower from tenants in a segregated trust account in a federally insured institution. Borrower shall perform its obligations under the Leases in all material respects.

4.18 **Condominium and Cooperative Provisions.** If the Property is not subject to a recorded condominium or cooperative regime on the date of this Deed of Trust, Borrower will not subject the Property or any portion thereof to such a regime without the written consent of Lender, which consent may be granted or denied in Lender's sole discretion and, if granted, may be subject to such requirements as Lender may impose including but not limited to Borrower providing Lender with such title insurance endorsements and other documents as Lender may require. If the Property is subject to a condominium regime on the date of this Deed of Trust: (a) Borrower represents and warrants that none of the condominium units and no portion of the common elements in the Property have been sold, conveyed or encumbered or are subject to any agreement to convey or encumber; (b) Borrower shall not in any way sell, convey or encumber or enter into a contract or agreement to sell, convey or encumber any condominium unit or any of the common elements of the Property unless expressly agreed to in writing by Lender; (c) Borrower shall operate the Property solely as a rental property; and (d) the Property granted, conveyed and assigned to Lender hereunder includes all rights, easements, rights of way, reservations and powers of Borrower, as owner, declarant or otherwise, under any applicable condominium act



or statute and under any and all condominium declarations, survey maps and plans, association articles and bylaws and documents similar to any of the foregoing.

4.19 **Use of Property; Zoning Changes.** Unless required by applicable law, Borrower shall not: (a) except for any change in use approved by Lender in writing, allow changes in the use for which all or any part of the Property is being used at the time this Deed of Trust is executed; (b) convert any individual dwelling unit or common area in the Property to primarily commercial use; or (c) initiate or acquiesce in a change in the zoning classification of the Property.

4.20 **Construction Mortgage.** This Deed of Trust shall constitute a "construction mortgage" as that term is used in Section 9334 and Section 10309 of the UCC.

4.21 **Affordable Housing Programs.** Borrower shall maintain occupancy of the Property as affordable housing in accordance with all regulatory agreements, covenants and other requirements of all affordable housing programs that apply to the Property (collectively, the "Affordable Housing Programs") including, but not limited to, requirements that rental units of the Property be occupied by tenants whose incomes do not exceed a specified percentage of the area median income (as published by the federal Department of Housing and Urban Development) and that rent does not exceed a specified amount. Borrower shall provide to Lender on request any and all reports made to any local, state or federal agency regarding compliance with the Affordable Housing Programs. In addition, Borrower shall annually certify to Lender, on forms approved by Lender, that the occupancy of the Property complies with the requirements of this subsection.

4.22 **Tax Credits and Abatement.** Borrower acknowledges that Lender has made no representations or warranties concerning the applicability of tax credits to the Property or the ability of Borrower or any investor in Borrower to utilize tax credits, or any other benefits that may accrue in connection with the use, development or financing of the Property, including but not limited to the low-income housing credits provided under Internal Revenue Code Section 42 (Low-Income Housing Credits) or any historic tax credits that may result from the designation of the Property as an historic landmark (collectively, "Tax Credits"), or any real estate tax abatement relating to the Property ("Abatement"). Neither Borrower nor any investor in Borrower has relied, is relying or will rely on any investigation or review Lender may have made or may make of any proposed Tax Credits or Abatement.

4.23 **Management of the Property.** Lender is making the loan secured by this Deed of Trust in part in reliance on the experience and reputation of the manager of the Property identified in the Loan Agreement as an experienced manager of low-income housing apartment complexes. Borrower will provide Lender 30 days' prior written notice if Borrower intends to retain another property management company to manage the Property and will not retain such replacement property management company without obtaining the prior written consent of Lender, which will not unreasonably be withheld. Lender reserves



the right (a) to review and approve the proposed property management agreement between Borrower and the new property manager and any material changes thereto, including, but not limited to, changes in the responsibilities of the property manager, and (b) to require that the replacement property management company enter into such agreements with Lender as Lender may require. Borrower will submit such requests to Lender in writing.

5. **DEFAULT.**

5.1 **Definition.** Any of the following shall constitute an "Event of Default" as that term is used in this Deed of Trust (and the term "Default" shall mean any of the following, whether or not any requirement for notice or lapse of time has been satisfied); provided, that any of Borrower's partners (if Borrower is a limited partnership) or members (if Borrower is a limited liability company) may, but are not obligated to, cure a Default and such cure shall be accepted by Lender as if made by Borrower:

(a) Any regular monthly payment under the Note is not paid so that it is received by Lender within fifteen (15) days after the date when due, or any other amount secured by this Deed of Trust (including but not limited to any payment of principal or interest due on the Maturity Date, as defined in the Note) is not paid so that it is received by Lender when due;

(b) Any representation or warranty made by Borrower to or for the benefit of Lender herein or elsewhere in connection with the loan secured hereby, including but not limited to any representation in connection with the security therefor, shall prove to have been incorrect or misleading in any material respect;

(c) Borrower or any other party thereto (other than Lender) shall fail to perform its obligations under any other covenant or agreement contained in this Deed of Trust, the Note, any other Loan Document or the Indemnity Agreement, which failure continues for a period of thirty (30) days after written notice of such failure by Lender to Borrower; provided that, if such failure is not reasonably susceptible to cure within thirty (30) days and Borrower promptly begins and diligently pursues the cure to completion, Borrower shall have such longer period to cure as may be reasonably necessary, as long as such longer period does not unreasonably impair Lender's security and no uncured Event of Default exists; but no such notice or cure period shall apply in the case of: (i) any such failure that could, in Lender's judgment, absent immediate exercise by Lender of a right or remedy under this Deed of Trust, the other Loan Documents or the Indemnity Agreement, result in harm to Lender, impairment of the Note or this Deed of Trust or any other security given under any other Loan Document; (ii) any such failure that is not reasonably susceptible of being cured during such 30-day or longer period; (iii) breach of any provision that contains a shorter express cure period; or (iv) any breach of Section 4.13 or Section 4.14 of this Deed of Trust;



(d) Borrower or any other person or entity liable for the repayment of the indebtedness secured hereby shall become unable or admit in writing its inability to pay its debts as they become due, or file, or have filed against it, a voluntary or involuntary petition in bankruptcy, or make a general assignment for the benefit of creditors, or become the subject of any other receivership or insolvency proceeding, provided that if such petition or proceeding is not filed or acquiesced in by Borrower or the subject thereof, it shall constitute an Event of Default only if it is not dismissed within sixty (60) days after it is filed or if prior to that time the court enters an order substantially granting the relief sought therein;

(e) Borrower or any other signatory thereto shall default in the performance of any covenant or agreement contained in any mortgage, deed of trust or similar Deed of Trust encumbering the Property or any promissory note or other agreement evidencing or securing the indebtedness secured thereby, or any regulatory agreement, covenant or other agreement entered into in connection with the Affordable Housing Programs, which default continues beyond any applicable cure period; or

(f) There shall occur any default under the Indemnity Agreement.

5.2 **Lender's and Trustee's Right to Perform.** After the occurrence and during the continuance of any Event of Default, Lender or Trustee, but without the obligation so to do and without notice to or demand upon Borrower and without releasing Borrower from any obligations hereunder, may: make any payments or do any acts required of Borrower hereunder in such manner and to such extent as either may deem necessary to protect the security hereof, Lender or Trustee being authorized to enter upon the Property for such purposes; commence, appear in and defend any action or proceeding purporting to affect the security hereof or the rights or powers of Lender or Trustee; pay, purchase, contest or compromise any encumbrance, charge or lien in accordance with the following paragraph; and in exercising any such powers, pay necessary expenses, employ counsel and pay a reasonable fee therefor. All sums so expended shall be payable on demand by Borrower, be secured hereby and bear interest at the Default Rate of interest specified in the Note from the date advanced or expended until repaid.

Lender or Trustee, in making any payment herein, is hereby authorized, in the place and stead of Borrower, in the case of a payment of taxes, assessments, water rates, sewer rentals and other governmental or municipal charges, fines, impositions or liens asserted against the Property, to make such payment in reliance on any bill, statement or estimate procured from the appropriate public office without inquiry into the accuracy of the bill, statement or estimate or into the validity of any tax, assessment, sale, forfeiture, tax lien or title or claim thereof; in the case of any apparent or threatened adverse claim of title, lien, statement of lien, encumbrance, deed of trust, mortgage, claim or charge Lender or Trustee, as the case may be, shall be the sole judge of the legality or validity of same; and in the case of a payment for any other purpose



herein and hereby authorized, but not enumerated in this paragraph, such payment may be made whenever, in the sole judgment and discretion of Trustee or Lender, as the case may be, such advance or advances shall seem necessary or desirable to protect the full security intended to be created by this Deed of Trust, provided further, that in connection with any such advance, Lender at its option may and is hereby authorized to obtain a continuation report of title prepared by a title insurance company, the cost and expenses of which shall be repayable by Borrower without demand and shall be secured hereby.

5.3 **Remedies on Default.** Upon the occurrence of any Event of Default all sums secured hereby shall become immediately due and payable, without notice or demand, at the option of Lender and Lender may:

(a) Have a receiver appointed as a matter of right on an *ex parte* basis without notice to Borrower to the extent permitted by applicable law and without regard to the sufficiency of the Property or any other security for the indebtedness secured hereby and, without the necessity of posting any bond or other security. Such receiver shall take possession and control of the Property and shall collect and receive the Rents. If Lender elects to seek the appointment of a receiver for the Property, Borrower, by its execution of this Deed of Trust, expressly consents to the appointment of such receiver, including the appointment of a receiver *ex parte* if permitted by applicable law. The receiver shall be entitled to receive a reasonable fee for managing the Property, which fee may be deducted from the Rents or may be paid by Lender and added to the indebtedness secured by this Deed of Trust. Immediately upon appointment of a receiver, Borrower shall surrender possession of the Property to the receiver and shall deliver to the receiver all documents, records (including records on electronic or magnetic media), accounts, surveys, plans, and specifications relating to the Property and all security deposits. If the Rents are not sufficient to pay the costs of taking control of and managing the Property and collecting the Rents, any funds expended by Lender, or advanced by Lender to the receiver, for such purposes shall become an additional part of the indebtedness secured by this Deed of Trust. The receiver may exclude Borrower and its representatives from the Property. Borrower acknowledges and agrees that the exercise by Lender of any of the rights conferred under this Section 5.3 shall not be construed to make Lender a mortgagee-in-possession of the Property so long as Lender has not itself entered into actual possession of the Property.

(b) Foreclose this Deed of Trust as a mortgage or otherwise realize upon the Property.

(c) Cause Trustee to exercise its power of sale.

(d) Sue on the Note as permitted under applicable law.

(e) To the extent that the Loan Documents provide for recourse against the Borrower personally and to the extent permitted by law, including,



without limitation, RCW 61.24.100, seek and obtain a deficiency judgment following the completion of a judicial foreclosure or a trustee's sale of all or a portion of the security for the obligations secured by this Deed of Trust.

5.4 **No Waiver.** By accepting payment of any sum secured hereby after its due date, Lender does not waive its right either to require prompt payment when due of all other sums so secured or to declare an Event of Default for failure to do so.

5.5 **Waiver of Marshaling, Etc.** In connection with any trustee's sale or other foreclosure sale under this Deed of Trust, Borrower hereby waives, for itself and all others claiming by, through or under Borrower, any right Borrower or such others would otherwise have to require marshaling or to require that the Property be sold in parcels or in any particular order.

5.6 **Remedies Cumulative; Subrogation.** The rights and remedies accorded by this Deed of Trust shall be in addition to, and not in substitution of, any rights or remedies available under now existing or hereafter arising applicable law. All rights and remedies provided for in this Deed of Trust or afforded by law or equity are distinct and cumulative and may be exercised concurrently, independently or successively. The failure on the part of Lender to promptly enforce any right hereunder shall not operate as a waiver of such right and the waiver of any Default or Event of Default shall not constitute a waiver of any subsequent or other Default or Event of Default. Lender shall be subrogated to the claims and liens of those whose claims or liens are discharged or paid with the loan proceeds hereof.

6. **CONDEMNATION, ETC.** Any and all awards of damages, whether paid as a result of judgment or prior settlement, in connection with any condemnation or other taking of any portion of the Property for public or private use, or for injury to any portion of the Property ("Awards"), are hereby assigned and shall be paid to Lender which may apply or disburse such Awards in the same manner, on the same terms, subject to the same conditions, to the same extent, and with the same effect as provided in Section 4.4.6 above for disposition of Insurance Proceeds. Without limiting the generality of the foregoing, if the taking results in a loss of the Property to an extent that, in the reasonable opinion of Lender, renders or is likely to render the Property not economically viable or if, in Lender's reasonable judgment, Lender's security is otherwise impaired, Lender may apply the Awards to reduce the unpaid obligations secured hereby in such order as Lender may determine, and without any adjustment in the amount or due dates of installments due under the Note. If so applied, any Awards in excess of the unpaid balance of the Note and other sums due to Lender shall be paid to Borrower or Borrower's assignee. Lender shall in no case be obligated to see to the proper application of any amount paid over to Borrower. Such application or release shall not cure or waive any Default or notice of default hereunder or invalidate any act done pursuant to such notice. Should the Property or any part or appurtenance thereof or right or interest therein be taken or threatened to be taken by reason of any public or private improvement, condemnation proceeding (including change of grade), or in any other manner, Lender may,



at its option, commence, appear in and prosecute, in its own name, any action or proceeding, or make any reasonable compromise or settlement in connection with such taking or damage, and obtain all Awards or other relief therefor, and Borrower agrees to pay Lender's costs and reasonable attorneys' fees incurred in connection therewith. Lender shall have no obligation to take any action in connection with any actual or threatened condemnation or other proceeding.

7. **TRUSTEE.**

7.1 **General Powers and Duties of Trustee.** At any time or from time to time, without liability therefor and without notice and without affecting the liability of any person for the payment of the indebtedness secured hereby, upon written request of Lender, payment of its own fees and presentation of this Deed of Trust and the Note for endorsement (in case of full reconveyance, for cancellation or retention), Trustee may: (a) consent to the making of any map or plat of the Property; (b) join in granting any easement or creating any restriction thereon; (c) join in any subordination or other agreement affecting this Deed of Trust or the lien or charge thereof; or (d) reconvey, without warranty, all or any part of the Property.

7.2 **Reconveyance.** Upon written request of Lender stating that all sums secured hereby have been paid, and upon surrender of the Deed of Trust and the Note to Trustee for cancellation and retention upon payment of its fees, Trustee shall reconvey, without warranty, the Property then held hereunder. The recitals in any reconveyance executed under this Deed of Trust of any matters of fact shall be conclusive proof of the truthfulness thereof. The grantee in such reconveyance may be described as "the person or persons legally entitled thereto."

7.3 **Powers and Duties on Default.** Upon written request therefor by Lender specifying the nature of the Event of Default, or the nature of the several Events of Default, and the amount or amounts due and owing, Trustee shall execute a written notice of default and of its election to cause the Property to be sold to satisfy the obligation secured hereby, and shall cause such notice to be recorded and otherwise given according to law. Thereafter, Trustee shall execute a written notice of sale, and shall cause such notice to be recorded and otherwise given as required by law. Notice of sale having been given as then required by law and not less than the time then required by law having elapsed after recordation of such notice of breach, Trustee, without demand on Borrower, shall sell the Property at the time and place of sale specified in the notice, as provided by statute, either as a whole or in separate parcels and in such order as it may determine, at public auction to the highest and best bidder for cash in lawful money of the United States, payable at time of sale. Borrower agrees that such a sale (or a sheriff's sale pursuant to judicial foreclosure) of all the Property as real estate constitutes a commercially reasonable disposition thereof, but that with respect to all or any part of the Property which may be personal property Trustee shall have and exercise, at Lender's sole election, all the rights and remedies of a secured party under the UCC. Whenever



notice of such a sale is permitted or required hereunder or under the UCC, ten (10) days shall be deemed reasonable. Trustee may postpone sale of all or any portion of the Property, and from time to time thereafter may postpone such sale, as provided by statute. Trustee shall deliver to the purchaser its deed conveying the Property so sold, but without any covenant or warranty, express or implied. The recital in such deed of any matters or facts shall be conclusive proof of the truthfulness thereof. Any person other than Trustee, including Borrower or Lender, may purchase at such sale. After deducting all costs, fees and expenses of Trustee and of this trust, including the cost of evidence of title search and title insurance and reasonable counsel fees in connection with sale, Trustee shall apply the proceeds of sale to payment of all sums secured hereby in such order as Lender may determine and the remainder, if any, to the clerk of the superior court of the county in which the sale took place, as provided in R.C.W. 61.24.080 or shall or otherwise pay or apply such remainder as permitted by applicable law.

7.4 **Reassignment of Security Interest.** At the request of Lender, Trustee shall reassign to Lender the security interest created hereby and after such reassignment Lender shall have the right, upon the occurrence or continuance of any Event of Default, to realize upon the personal property subject to this Deed of Trust, independent of any action of Trustee, pursuant to the UCC.

7.5 **Acceptance of Trust.** Trustee accepts this trust when this Deed of Trust, duly executed and acknowledged, is made a public record as provided by law. Trustee is not obligated to notify any party hereto except Lender of pending sale under any other deed of trust or of any action or proceeding in which Borrower, Lender or Trustee shall be a party unless brought by Trustee.

7.6 **Reliance.** Trustee, upon presentation to it of an affidavit signed by Lender setting forth facts showing an Event of Default, is authorized to accept as true and conclusive all facts and statements therein, and to act thereon hereunder.

7.7 **Replacement of Trustee.** Lender may, from time to time, as provided by statute, appoint another trustee in place and stead of Trustee herein named, and thereupon Trustee herein named shall be discharged and the trustee so appointed shall be substituted as Trustee hereunder, with the same effect as if originally named Trustee herein.

8. NOTICES.

8.1 **Trustee.** Any notice or demand upon Trustee may be given or made at the address set forth above for Trustee.

8.2 **Borrower and Lender.** Any notice to or demand upon Borrower (including any notice of default or notice of sale) or notice to or demand upon Lender shall be deemed to have been sufficiently made for all purposes when deposited in the United States



mails, postage prepaid, registered or certified, return receipt requested, addressed to Borrower at its address set forth above or to Lender at the following address:

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

or to such other address as the recipient may have directed by notice in accordance herewith.

In addition, so long as Tax Credit Investor or any Affiliate of Tax Credit Investor, remains a partner or member in Borrower, Lender shall endeavor to provide a copy of any notice of Default hereunder that is sent to Borrower to:

Boston Capital Partners, Inc.
One Boston Place
Boston, MA 02108
Attention: Asset Management

or to such other address as Tax Credit Investor may by notice specify to Lender; provided, however, that no failure to give such notice shall in any way (a) impair the effectiveness of any notice given to Borrower or any other party, (b) impair Lender's rights and remedies under the Loan Documents (other than to delay the exercise of such rights until such notice is given and any applicable grace or cure period has elapsed), or (c) give rise to a right to recover damages from Lender.

8.3 **Waiver of Notice.** The giving of notice may be waived in writing by the person or persons entitled to receive such notice, either before or after the time established for the giving of such notice.

9. **MODIFICATIONS, ETC.** Each person or entity now or hereafter owning any interest in the Property agrees, by executing this Deed of Trust or taking the Property subject to it, that Lender may in its sole discretion and without notice to or consent of any such person or entity: (i) extend the time for payment of the obligations secured hereby; (ii) discharge or release any one or more parties from their liability for such obligations in whole or in part; (iii) delay any action to collect on such obligations or to realize on any collateral therefor; (iv) release or fail to perfect any security for such obligations; (v) consent to one or more transfers of the Property, in whole or in part, on any terms; (vi) waive or release any of holder's rights under any of the Loan Documents; (vii) agree to an increase in the amount of such obligations or to any other modification of such obligations or of the Loan



Documents; or (viii) proceed against such person or entity before, at the same time as, or after it proceeds against any other person or entity liable for such obligations.

10. **SUCCESSORS AND ASSIGNS.** All provisions herein contained shall be binding upon and inure to the benefit of the respective successors and assigns of the parties.

11. **GOVERNING LAW; SEVERABILITY.** This Deed of Trust shall be governed by the law of the state of Washington. In the event that any provision or clause of this Deed of Trust or the Note conflicts with applicable law, the conflict shall not affect other provisions of this Deed of Trust or the Note that can be given effect without the conflicting provision and to this end the provisions of this Deed of Trust and the Note are declared to be severable.

12. **BORROWER'S RIGHT TO POSSESSION.** Borrower may be and remain in possession of the Property for so long as no Event of Default exists and Borrower may, while it is entitled to possession of the Property, use the same.

13. **MAXIMUM INTEREST.** No provision of this Deed of Trust or of the Note shall require the payment or permit the collection of interest in excess of the maximum permitted by law. If any excess of interest in such respect is herein or in the Note provided for, neither Borrower nor its successors or assigns shall be obligated to pay that portion of such interest that is in excess of the maximum permitted by law, and the right to demand the payment of any such excess shall be and is hereby waived and this Section 13 shall control any provision of this Deed of Trust or the Note that is inconsistent herewith.

14. **ATTORNEYS' FEES AND LEGAL EXPENSES.** In the event of any Default under this Deed of Trust, or in the event that any dispute arises relating to the interpretation, enforcement or performance of any obligation secured by this Deed of Trust, Lender shall be entitled to collect from Borrower on demand all fees and expenses incurred in connection therewith, including but not limited to fees of attorneys, accountants, appraisers, environmental inspectors, consultants, expert witnesses, arbitrators, mediators and court reporters. Without limiting the generality of the foregoing, Borrower shall pay all such costs and expenses incurred in connection with: (a) arbitration or other alternative dispute resolution proceedings, trial court actions and appeals; (b) bankruptcy or other insolvency proceedings of Borrower, any guarantor or other party liable for any of the obligations secured by this Deed of Trust or any party having any interest in any security for any of those obligations; (c) judicial or nonjudicial foreclosure on, or appointment of a receiver for, any of the Property; (d) post-judgment collection proceedings; (e) all claims, counterclaims, cross-claims and defenses asserted in any of the foregoing whether or not they arise out of or are related to this Deed of Trust; (f) all preparation for any of the foregoing; and (g) all settlement negotiations with respect to any of the foregoing.



15. **PREPAYMENT PROVISIONS.** If at any time after an Event of Default and acceleration of the indebtedness secured hereby there shall be a tender of payment of the amount necessary to satisfy such indebtedness by or on behalf of Borrower, its successors or assigns, the same shall be deemed to be a voluntary prepayment such that the sum required to satisfy such indebtedness in full shall include, to the extent permitted by law, the additional payment required under the prepayment privilege as stated in the Note.

16. **TIME IS OF THE ESSENCE.** Time is of the essence under this Deed of Trust and in the performance of every term, covenant and obligation contained herein.

17. **FIXTURE FILING.** This Deed of Trust constitutes a financing statement, filed as a fixture filing in the real estate records of the county of the state in which the real property described in Exhibit A is located, with respect to any and all fixtures included within the list of improvements and fixtures described in Section 1.2 of this Deed of Trust and to any goods or other personal property that are now or hereafter will become a part of the Property as fixtures.

18. **MISCELLANEOUS.**

18.1 Whenever the context so requires the singular number includes the plural herein, and the impersonal includes the personal.

18.2 The headings to the various sections have been inserted for convenient reference only and shall not modify, define, limit or expand the express provisions of this Deed of Trust.

18.3 This Deed of Trust, the Note and the other Loan Documents constitute the final expression of the entire agreement of the parties with respect to the transactions set forth therein. No party is relying upon any oral agreement or other understanding not expressly set forth in the Loan Documents. The Loan Documents may not be amended or modified except by means of a written document executed by the party sought to be charged with such amendment or modification.

18.4 No creditor of any party to this Deed of Trust and no other person or entity shall be a third party beneficiary of this Deed of Trust or any other Loan Document. Without limiting the generality of the preceding sentence, (a) any arrangement (a "Servicing Arrangement") between Lender and any servicer of the loan secured hereby for loss sharing or interim advancement of funds shall constitute a contractual obligation of such servicer that is independent of the obligation of Borrower for the payment of the indebtedness secured hereby, (b) Borrower shall not be a third party beneficiary of any Servicing Arrangement, and (c) no payment by a servicer under any Servicing Arrangement will reduce the amount of the indebtedness secured hereby.



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3:21PM

19. **WAIVER OF JURY TRIAL. TO THE MAXIMUM EXTENT PERMITTED BY LAW, EACH OF BORROWER AND LENDER (FOR ITSELF AND ITS SUCCESSORS, ASSIGNS AND PARTICIPANTS) WAIVES ITS RIGHT TO A TRIAL BY JURY OF ANY CLAIM OR CAUSE OF ACTION BASED UPON, ARISING OUT OF OR RELATED TO THIS DEED OF TRUST, THE OTHER LOAN DOCUMENTS OR THE TRANSACTIONS PROVIDED FOR HEREIN OR THEREIN, IN ANY LEGAL ACTION OR PROCEEDING OF ANY TYPE BROUGHT BY ANY PARTY TO ANY OF THE FOREGOING AGAINST ANY OTHER SUCH PARTY, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE. ANY SUCH CLAIM OR CAUSE OF ACTION SHALL BE TRIED BY A COURT SITTING WITHOUT A JURY.**

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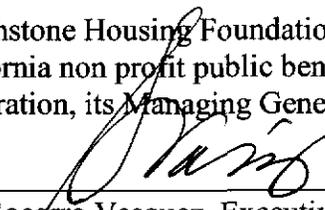
DATED as of the day and year first above written.

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

BORROWER:

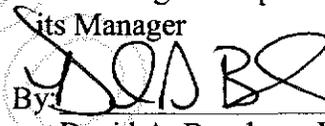
ISLAND SKAGIT PARTNERS, LP, a
Washington limited partnership

By: Hearthstone Housing Foundation, a
California non profit 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

(Signature Page for Deed of Tr



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Skagit County Auditor

STATE OF WASHINGTON
COUNTY OF KING

ss.

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 said person signed this instrument, on oath stated that said person was authorized to execute the instrument and acknowledged it as the Vice President of ALLIED PACIFIC DEVELOPMENT INC., a Washington corporation, which is the manager of ISLAND SKAGIT MANAGEMENT, LLC, a Washington limited liability company, which is the co-general partner of ISLAND SKAGIT PARTNERS, LP, the limited partnership that executed the within and foregoing instrument, to be the free and voluntary act of such entities for the uses and purposes mentioned in the instrument.

Dated this 23rd day of February, 2007.

Frances Oldham Murphy
(Signature of Notary)

FRANCES OLDHAM MURPHY

(Legibly Print or Stamp Name of Notary)

Notary public in and for the State of Washington,
residing at Seattle WA

My appointment expires 6/9/2007



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Skagit County Auditor

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 said person signed this instrument, on oath stated that said person was authorized to execute the instrument and acknowledged it as the executive director of HEARTHSTONE HOUSING FOUNDATION, a California non profit public benefit corporation, which is the managing general partner of ISLAND SKAGIT PARTNERS, LP, the limited partnership that executed the within and foregoing instrument, to be the free and voluntary act of such entities for the uses and purposes mentioned in the instrument.

Dated this 3rd day of February, 2007.

Frances Oldham Murphy
(Signature of Notary)

FRANCES OLDHAM MURPHY

(Legibly Print or Stamp Name of Notary)

Notary public in and for the State of Washington,
residing at Seattle WA

My appointment expires 6/9/2007



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Skagit County Auditor

EXHIBIT A-1

LEGAL DESCRIPTION

La Venture Village
422 N. La Venture Rd., Mt. Vernon, Washington 98273

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

PARCEL "A":

That portion of the West $\frac{1}{2}$ of the Southwest $\frac{1}{4}$ of the Northwest $\frac{1}{4}$ of Section 21, Township 34 North, Range 4 East, W.M., described as follows:

Beginning at the Northeast corner of said subdivision; thence South along the East line thereof a distance of 396 feet; thence West 330 feet; thence North a distance of 396 feet, more or less, to the North line of said subdivision; thence East along said North line 330 feet, more or less, to the point of beginning,

EXCEPT the South 101 feet of the West 35 feet thereof.

PARCEL "B":

That portion of the West $\frac{1}{2}$ of the Southwest $\frac{1}{4}$ of the Northwest $\frac{1}{4}$ of Section 21, Township 34 North, Range 4 East, W.M., described as follows:

Beginning at a point on the West line of said subdivision 160 feet South of the North line thereof; thence East to a point 330 feet West of the East line of said West $\frac{1}{2}$ of the Southwest $\frac{1}{4}$ of the Northwest $\frac{1}{4}$ of Section 21; thence North 30 feet; thence West to the West line of said subdivision; thence South 30 feet to the point of beginning.

EXCEPT that portion lying within the boundaries of LaVenture Road as conveyed under Auditor's File Nos. 88414 and 8707160028, records of Skagit County, Washington.

PARCEL "C":

The South 60 feet of the North 295 feet of the West $\frac{1}{2}$ of the Southwest $\frac{1}{4}$ of the Northwest $\frac{1}{4}$ of Section 21, Township 34 North, Range 4 East, W.M.,

EXCEPT the East 330 feet thereof,

AND EXCEPT the West 270 feet thereof.

EXHIBIT A-1



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EXHIBIT A-2

LEGAL DESCRIPTION

Madrona Valley
204 N. Main Street, Coupeville, Washington 98239

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

Lot 3 of CITY OF COUPEVILLE SHORT PLAT NO. 87-4 as approved October 2, 1987 and recorded February 4, 1988, in Volume 2 of Short plats, pages 148 and 149, under Auditor's File No. 88001344, records of Island County, Washington, being a portion of John Alexander Donation Land Claim in Section 33, Township 32 North, Range 1 East, W.M.;

EXHIBIT A-2



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EXHIBIT A-3

LEGAL DESCRIPTION

Murdock Court
123 No. Murdock Street, Sedro Woolley, Washington 98284

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.

EXHIBIT A-3



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EXHIBIT A-4

LEGAL DESCRIPTION

Saratoga Terrace
350 Manchester Way, Langley, Washington 98260

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

Lot 4 of CITY OF LANGLEY BOUNDARY LINE ADJUSTMENT, as approved May 25, 1988, and recorded July 1, 1988, in Volume 2, of Short Plats, page 166, under Auditor's File No. 88007767, records of Island County, Washington; being a portion of Government Lot 1, in Section 3, Township 29 North, Range 3 East of the Willamette Meridian.

EXHIBIT A-4



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