

**Return Address:**

Brian D. Hulse  
Heller Ehrman LLP  
701 Fifth Avenue, Suite 6100  
Seattle, WA 98104-7098  
206-389-6128



200702280201  
Skagit County Auditor

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122021-T  
122022-T

**Document Title(s) (for transactions contained therein):**

1. Subordination Agreement
- 2.
- 3.
- 4.

**Reference Number(s) of Documents assigned or released:**

(on page of documents(s)) 8812140087; 8812237002; 8110300038;

(d/t) 200702280194

(ag) 200702280197

(ag) 200702280198

**Grantor(s)**

1. Island Skagit Partners, LP, a Washington Limited Partnership
- 2.
- 3.
- 4.

Additional Names on page \_\_\_\_\_ of document.

**Grantee(s)**

1. United States of America, acting through the United States Department
2. of Agriculture, acting through the Rural Housing Services, formerly
3. known as Farmers Home Administration
- 4.

Additional Names on page \_\_\_\_\_ of document.

**Legal Description (abbreviated i.e. lot, block, plat or section, township, range)**

- a) ptn SW 1/4 of NW 1/4 of 21-34-4, E., W.M.
- b) Lots 2 and 3, Block 1, Rosedale Garden Tracts

Additional legal is on page \_\_\_\_\_ of document.

**Assessor's Property Tax Parcel/Account Number**

3 340421-0-009-0101; 340421-0-010-0009; 4169-001-003-0004

The Auditor/Recorder will rely on information provided on the form. The staff will not read the document to verify the accuracy or completeness of the indexing information provided herein.

**RECORDING REQUESTED BY AND WHEN  
RECORDED MAIL TO:**

Brian D. Hulse  
Heller Ehrman LLP  
701 Fifth Avenue, Suite 6100  
Seattle, WA 98104-7098  
(206) 389-6128

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LAND TITLE OF SKAGIT COUNTY

122021-T  
122022-T

**SUBORDINATION AGREEMENT**

Loan No. 71-2882174

**Grantor:**

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

**Grantee :**

**UNITED STATES OF AMERICA, acting  
through the United States Department of  
Agriculture, acting through the Rural  
Housing Services, formerly known as  
Farmers Home Administration**

**Legal Description:**

**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.**

21-774-4

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

**Additional Legal(s) on Exhibits A-1 through  
A-4**

**Assessor's Tax Parcel ID Number:**

**Island County: R32903-500-4640, and  
R13233-175-3800**

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

**NOTICE: THIS SUBORDINATION AGREEMENT RESULTS IN YOUR SECURITY  
INTEREST IN THE PROPERTY BECOMING SUBJECT TO AND OF LOWER  
PRIORITY THAN THE LIEN OF SOME OTHER OR LATER SECURITY  
INSTRUMENT.**



200702280201  
Skagit County Auditor

This Subordination Agreement ("Agreement") is entered into as of February 28, 2007, by and among ISLAND SKAGIT PARTNERS, LP, a Washington limited partnership, having its principal office at 1700 Seventh Avenue, Suite 2075, Seattle, Washington 98101-1397 ("Borrower"), which is or will shortly become the owner of the Property (as defined below), WASHINGTON MUTUAL BANK, a federal association, having its principal office at Seattle, Washington, and a relevant satellite office at 17877 Von Karman Avenue, 4<sup>th</sup> Floor, Mail Stop IRB4CLI, Irvine, California 92614 Attention: Community Lending Loan Administration ("Bank"), and THE UNITED STATES OF AMERICA, acting through the United States Department of Agriculture, acting through the Rural Housing Service, having its principal office in Washington, DC ("Rural Development"), with respect to the following facts:

A. Borrower or its predecessor in interest did execute the deeds of trust described as follows (collectively, the "Existing Rural Development Items") for the benefit of Rural Development, each covering the real property described in Exhibit A to the deeds of trust, which property is included amongst the real property described on Exhibits A-1 through A-4 attached hereto (the "Property"). The Existing Rural Development Items are recorded in the Official Records of the counties indicated herein:

<u>Recording Date</u>	<u>Recording No.</u>	<u>Instrument No.</u>
December 14, 1988	8812140087	in the records of Skagit County, Washington
December 23, 1988	8812237002	in the records of Skagit County, Washington
October 30, 1981	8110300038	in the records of Skagit County, Washington
December 13, 1988	88015830	in the records of Island County, Washington
December 22, 1988	88016213	in the records of Island County, Washington
July 26, 1988	88009030	in the records of Island County, Washington
July 26, 1988	88009031	in the records of Island County, Washington

B. Borrower has executed, or is about to execute one or more restrictive use provisions and agreements required by Rural Development as a condition of its subordination (collectively, the "USDA Use Restrictions"), which USDA Use Restrictions are to be recorded concurrently herewith against the Property or portions thereof.

Auditor's File No.'s 200702280191 and 200702280198.



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C. Borrower has executed, or is about to execute four (4) deeds of trust for the benefit of Rural Development, covering the Property and amending and restating the Existing Rural Development Items (one deed of trust covering the real property described in Exhibit A-1; one deed of trust covering the real property described in Exhibit A-2; one deed of trust covering the real property described in Exhibit A-3; and one deed of trust covering the real property described in Exhibit A-4) (collectively, the "USDA Deeds of Trust"), which USDA Deeds of Trust are to be recorded concurrently herewith against the Property or portions thereof.

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

D. Borrower has executed, or is about to execute a Pledge and Security Agreement of Contribution Payments in favor of Rural Development as a condition of its subordination (the "Pledge Agreement").

E. Rural Development is willing to subordinate its mortgage liens in accordance with 7 C.F.R. §3560.409, so that Borrower can obtain a loan from Bank and so that Borrower will continue to subject the real property described on Exhibit A1-A4 to the restrictive use provisions more particularly set forth in the USDA Use Restrictions.

F. Rural Development is willing to subordinate its rights in the collateral pledged pursuant to the Pledge Agreement (the "Collateral") so that Borrower can obtain a loan from Bank.

G. The specific terms of paragraph (12) of the Existing Rural Development Items permit subordination of the lien of the Rural Development Items to the Bank Loan (as defined below) to Borrower in the principal amount of the \$3,850,000, but in no greater principal amount.

H. Borrower and Washington State Housing Finance Commission, as Issuer ("Issuer") of a Multifamily Housing Revenue Bond (Island Skagit Partners Project), Series 2007 (the "Bond") have executed, or are about to execute, four Regulatory Agreements dated as of February 1, 2007 relating to the Bond (collectively, the "Bond Regulatory Agreements"), which Regulatory Agreements are to be recorded concurrently herewith against the Property or portions thereof.

I. Bank has made or is about to make a loan (the "Bank Loan") to Borrower in the principal amount of \$3,850,000 as evidenced by a Construction and Permanent Loan Agreement (the "Bank Loan Agreement") and a Promissory Note (the "Bank Note"), each dated as of February 28, 2007, which are secured by: (a) that certain Collateral Assignment of Rights to Tax Credits and Partnership Interests (the "Collateral Assignment") against the Collateral dated February 28, 2007, for which UCC-1 financing statements shall be properly filed to perfect said interest in and to the Collateral, and (b) that certain Deed of Trust, Security Agreement, Assignment of Leases and Rents and Fixture Filing (the "Bank Deed of Trust") against the Property dated as of February 28, 2007, which Bank Deed of Trust is to be recorded concurrently herewith against the Property.



J. It is a condition precedent to Bank's obligations under the Bank Deed of Trust that the Bond Regulatory Agreements, the Bank Deed of Trust, and the Collateral Assignment shall be and remain at all times a lien or charge upon the Property and Collateral, prior and superior to the lien or charge of the Existing Rural Development Items, the USDA Use Restrictions, the USDA Deeds of Trust and the Pledge Agreement and that Rural Development will subordinate the lien or charge of the Existing Rural Development Items, the USDA Use Restrictions, the USDA Deeds of Trust and the Pledge Agreement to the lien or charge of the Bond Regulatory Agreements, the Bank Deed of Trust and the Collateral Assignment.

Therefore, in consideration of the above and for other valuable consideration, the receipt and sufficiency of which consideration are hereby acknowledged, Bank, Rural Development and Borrower agree as follows:

1. The Bond Regulatory Agreements, the Bank Deed of Trust, the Collateral Assignment and any renewals or extensions thereof (on condition that any renewals or extensions will not increase the principal amount being subordinated by Rural Development), pursuant to paragraph 2, shall be and remain at all times a lien or charge on the Property and the Collateral, prior and superior to the lien or charge of the Existing Rural Development Items, the USDA Use Restrictions and the Pledge Agreement.

2. The amount of this subordination will not exceed the principal amount of \$3,850,000 of the Bank Loan unless agreed to in writing by Rural Development except for amounts permitted by the immediately following sentence. Further, the subordination shall not include future principal advances made to Borrower by Bank after the Bank Loan has once been fully advanced or converted to a permanent loan as provided in Bank's Promissory Note, except those advances necessary for the preservation of the Property (such as payment of taxes and insurance), completion of construction of the improvements contemplated in the Bank Loan Agreement, and other costs incurred by Bank by reason of Borrower's default on the Bank Loan.

3. Bank would not make the Bank Loan without this Agreement.

4. Bank agrees and consents that in addition to Bank, Rural Development may be listed as loss payee as its interest appears on all insurance policies maintained on the Property, provided however, that it shall be the sole responsibility of the Borrower to ensure that the Bank and Rural Development are listed as loss payees.

5. This Agreement shall be the whole and only agreement with regard to the subordination of the lien or charge of the Existing Rural Development Items, the USDA Use Restrictions, USDA Deeds of Trust and the Pledge Agreement to the lien or charge of the Bond Regulatory Agreements, the Bank Deed of Trust and the Collateral Assignment.



6. This Agreement may be recorded at the request of any party hereto or upon the request of Issuer.

7. Bank and Rural Development each shall provide written notice to the other of the occurrence of a default for which it has made a determination to take remedial action against Borrower or the Property, which written notice shall be sent no later than 15 days after Bank or Rural Development has made such a determination and which written notice shall specify the nature of the default and what action the sending party intends to take. Each lender shall promptly send to the other a copy of any notice of demand that it sends to Borrower as a result of such a default. Further, Bank will not initiate foreclosure proceedings under the Bank Deed of Trust or accept a deed in lieu of foreclosure thereunder without first giving Rural Development at least 60 days prior written notice of its intention to do so. Failure to give any notice provided for in this Section 7 shall not affect the subordination provided for in this Agreement.

8. All notices under this Agreement will be in writing and mailed or delivered by recognized overnight delivery service (such as Federal Express) to the following addresses:

If to Lender: Washington Mutual Bank  
17877 Von Karman Avenue, 4<sup>th</sup> Floor  
Mail Stop IRB4CLI  
Irvine, California 92614  
Attention: Community Lending Loan Administration  
Loan No. 71-2882174

If to Borrower: Island Skagit Partners, LP  
1700 Seventh Avenue, Suite 2075  
Seattle, Washington 98101-1397

If to Beneficiary: State Director, Rural Development  
1835 Black Lake Boulevard SW, Suite B  
Olympia, WA 98512

All such notices will: (a) if mailed, be effective three (3) business days following deposit in the United States mail with postage prepaid and return receipt requested; and (b) if delivered as provided above, be effective upon delivery. Any party to this Agreement may change the address for notices to that party by written notice to the other parties to this Agreement.

9. Borrower, Bank and Rural Development acknowledge that Borrower shall be released from the obligation of the USDA Use Restrictions prior to the term contained therein only when the United States of America determines that there is no longer a need for housing on the Property under Section 515 of Title V of the Housing Act of 1949, as amended, or that



financial assistance for such housing will no longer be provided due to no fault, action or lack of action on the part of Borrower. Neither Bank nor any other title holder after judicial or nonjudicial foreclosure, deed in lieu of foreclosure or similar transfer, shall in any way be restricted in its use of the Property under the USDA Use Restrictions.

10. Rural Development and Bank shall each service and collect payments on their respective loans.

11. Payments received from the Property may be assigned to Bank by Borrower, but the amount collected by Bank on the assignment cannot exceed the amount due on the Bank Note and Borrower's assignment of such payments to Bank cannot be assigned to a subsequent assignee unless the Bank Note, the Bank Deed of Trust and the Collateral Assignment are also assigned, all with Rural Development approval, which shall not be unreasonably withheld, but which approval shall not be required in the event of an assignment or transfer to a bank, savings and loan association, trust company, credit union, insurance company, pension fund, business trust (including but not limited to a real estate investment trust) or other entity regularly engaged in originating or holding loans secured by multifamily or commercial real estate, including without limitation Freddie Mac and Fannie Mae ("Institutional Lender"). In the event collections received from the operation of the Property, whether prior to or after the occurrence of a default or the institution of foreclosure proceedings, are insufficient to pay both the amounts then due under the Rural Development loan and the amounts then due under the Bank Loan, the collections shall be applied first to the amount then due on the Bank Loan, with the balance, if any, to the amount then due on Rural Development's loan.

12. Bank will take no action that would preclude Borrower from being able to comply with applicable government statutes, regulations and terms of Rural Development's loan and deed of trust instruments with Borrower; provided, however, that nothing in this sentence shall preclude Bank from enforcing its rights and remedies under the Bank Loan Documents and applicable law. Borrower is not aware of any provision in Bank's Note or Bank's Deed of Trust that precludes Borrower from being able to comply with the applicable government statutes, regulations and terms of Rural Development's loan instruments with Borrower.

13. The Bank Loan may be prepaid in part or in whole subject to prepayment premiums as defined in the Bank Note, provided that the Bank Note, the Bank Deed of Trust and the Collateral Assignment will not be assigned or transferred without Rural Development approval, which shall not be unreasonably withheld, but which approval shall not be required in the event of an assignment or transfer to an Institutional Lender. Prepayment in no event shall effect, modify or terminate the USDA Use Restrictions.

14. This Agreement and the rights and obligations of the parties hereunder:



a. shall be governed by, and construed and interpreted in accordance with laws of the State of Washington;

b. shall be binding upon and inure to the heirs, executors, administrators, successors and assigns of the respective parties; and

c. may only be waived, discharged, modified, amended or terminated by mutual consent of the parties in writing.

15. This Agreement may be executed in several counterparts, all or any of which shall be regarded for all purposes as duplicate originals and shall constitute and be but one and the same instrument.

(Remainder of page intentionally left blank)



Borrower, Bank and Rural Development do hereby execute this Agreement as of the date first set forth above.

**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*  
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*  
David A. Beacham, Vice President

**BANK:**

WASHINGTON MUTUAL BANK, a federal association

By: *Marty Jones*  
Marty Jones, First Vice President

**RURAL DEVELOPMENT:**

UNITED STATES OF AMERICA, acting through the United States Department of Agriculture, acting through the Rural Housing Service

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

(Signature Page for Subordina



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Skagit County Auditor

Borrower, Bank and Rural Development do hereby execute this Agreement as of the date first set forth above.

**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

**BANK:**

WASHINGTON MUTUAL BANK, a federal  
association

By \_\_\_\_\_  
Marty Jones, First Vice President

**RURAL DEVELOPMENT:**

UNITED STATES OF AMERICA, acting  
through the United States Department of  
Agriculture, acting through the Rural Housing  
Service

By: Jon DeVany  
Name: JON DeVANY  
Title: State Director

(Signature Page for Subordination Agreement)



200702280201

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, a limited liability company, 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 23<sup>rd</sup> 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



200702280201

Skagit County Auditor

STATE OF WASHINGTON

ss.

COUNTY OF KING

I certify that I know or have satisfactory evidence that DAVID A. BEACHAM is the person who appeared before me, and said person acknowledged that 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



200702280201

Skagit County Auditor

STATE OF WASHINGTON

ss.

COUNTY OF KING

I certify that I know or have satisfactory evidence that MARTY JONES 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 First Vice President of WASHINGTON MUTUAL BANK, a federal association, the entity that executed the within and foregoing instrument, to be the free and voluntary act of such entity for the uses and purposes mentioned in the instrument.

Dated this 23<sup>rd</sup> 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



200702280201  
Skagit County Auditor

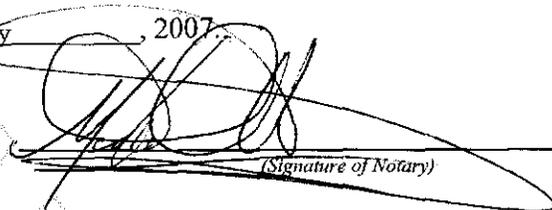
STATE OF Washington

ss.

COUNTY OF Thurston

I certify that I know or have satisfactory evidence that JON DeVANEY 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 State Director of UNITED STATES OF AMERICA, acting through the United States Department of Agriculture, acting through the Rural Housing Service, the entity that executed the within and foregoing instrument, to be the free and voluntary act of such entity for the uses and purposes mentioned in the instrument.

Dated this 22nd day of February, 2007.

  
*(Signature of Notary)*

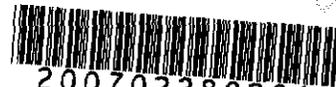
MISHA Q. DIVENS  
NOTARY PUBLIC  
STATE OF WASHINGTON  
COMMISSION EXPIRES  
MAY 18, 2008

MISHA Q. DIVENS

*(Legibly Print or Stamp Name of Notary)*

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

My appointment expires May 18, 2008



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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 La Venture 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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Skagit County Auditor

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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 M



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