

AFTER RECORDING RETURN TO:

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



200702280202
Skagit County Auditor

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LAND TITLE OF SKAGIT COUNTY

122021-T
122022-T

OPTION SUBORDINATION AGREEMENT

Loan No. 71-2882166

Grantor:

ISLAND SKAGIT PARTNERS, LP, a Washington limited partnership

Grantor:

ISLAND SKAGIT MANAGEMENT LLC, a Washington limited liability company

Grantee :

WASHINGTON MUTUAL BANK, a federal association

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.

21-34-4

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.

Additional Legal(s) on Exhibit A

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

Document references:

Unrecorded Option to Purchase and 200702280194.

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

This Subordination Agreement is entered into as of the 28th day of February, 2007 by Island Skagit Management, LLC, a Washington limited liability company ("Optionee"), and

Island Skagit Partners, LP, a Washington limited partnership ("Owner"), for the benefit of Washington Mutual Bank, a federal association ("Senior Lender").

RECITALS

Owner is the owner of the real property described on Exhibit A attached to this Agreement (the "Land").

Senior Lender is the owner and holder of a promissory note (the "Senior Note") dated February 28, 2007 in the original principal amount of \$3,850,000 executed by Owner as maker. The Senior Note is secured by a deed of trust, security agreement, assignment of leases and rents and fixture filing or a mortgage, security agreement, assignment of leases and rents and fixture filing or similar instrument (the "Senior Security Instrument") dated February 28, 2007 executed by Owner as grantor in favor of Senior Lender as beneficiary, and encumbering the Land and the improvements, fixtures, equipment, and other personal property described in the Senior Security Instrument (collectively with the Land, the "Mortgaged Property"). Certain of the security interests granted in the Senior Security Instrument are perfected by the filing of one or more UCC financing statements (the "Senior Financing Statement") showing Owner as debtor and Senior Lender as secured party. The Senior Note, the Senior Security Instrument and the Senior Financing Statement are referred to collectively as the "Senior Loan Documents."

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

It is understood by the parties hereto that Senior Lender would not make the loan secured by the Senior Security Instrument without this Agreement.

Optionee is a party to Amended and Restated Agreement of Limited Partnership, the provisions of which contain an option to purchase the Mortgaged Property (the "Partnership Agreement") dated February 1, 2007.

AGREEMENT

In consideration of benefits to Optionee from Owner and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and to induce Senior Lender to make the loan secured by the Senior Security Instrument, Optionee and Owner hereby irrevocably agree with and for the benefit of Senior Lender as follows:

1. **Subordination.** Optionee unconditionally subordinates all of Optionee's rights to purchase the Property or any interest therein under the Partnership Agreement, and all other Purchase Rights (as defined below), to the lien of the Senior Loan Documents and all advances or charges made or accruing thereunder, including any and all extensions, modifications and renewals thereof, additional advances thereunder (whether or not Senior Lender is obligated or committed to make such advances) and capitalization of interest, costs and fees in connection with any of the foregoing. Optionee understands and acknowledges that any and all purchase options, rights of first refusal and other rights to acquire the Property



or any interest therein now or hereafter held by Optionee, whether or not set forth in the Partnership Agreement (the "Purchase Rights") will be subject and subordinate to the lien of the Senior Loan Documents. Nothing contained in this Agreement in any way affects any restrictions on Owner's right to transfer the Property set forth in the Senior Loan Documents or constitutes Lender's consent to transfer of the Property or any portion thereof to Optionee pursuant to any Purchase Rights. No right of first refusal held by Optionee will be applicable to any transfer pursuant to a foreclosure under the Senior Loan Documents. Optionee represents and warrants to Senior Lender that Optionee has not transferred any of its Purchase Rights to any other person or entity.

2. **Review of Documents; No Duties of Senior Lender.** Optionee acknowledges that, prior to the execution hereof, Optionee has had the opportunity to examine the terms of the Senior Loan Documents, has examined them to its satisfaction and consents to and approves same and recognizes that Senior Lender has no obligation to Optionee to advance any funds under the Senior Loan Documents or to see to the application of Senior Lender's loan funds, and that any application or use of such funds for purposes other than those provided for in the Senior Loan Documents shall not defeat the subordination made herein in whole or in part.

3. **Modification of Senior Loan Documents; Certain Waivers.** Senior Lender and Owner may freely enter into extensions, modifications and renewals of the Senior Loan Documents without notice to or consent of Optionee and no such extension, modification or renewal shall defeat the subordination made herein in whole or in part. Optionee waives any right, privilege or defense Optionee might otherwise have based upon any impairment of Optionee's security or recourse and agrees that Senior Lender may waive recourse on, and release or fail to perfect security for, the obligations evidenced by the Senior Loan Documents without notice to or consent of Optionee, and without defeating the subordination made herein in whole or in part. Optionee has adequate means to obtain information from Owner on a continuing basis concerning the financial condition of Owner and the Mortgaged Property and concerning Owner's ability to perform Owner's obligations to Optionee. Optionee hereby waives and relinquishes any duty on the part of Senior Creditor to disclose any matter, fact or thing relating to the business, operations or condition of Owner or to the Mortgaged Property now or hereafter known by Senior Creditor.

4. **Amendment.** This Agreement may be amended only by a written agreement duly executed by the parties hereto and by Senior Lender. Senior Lender is an express third-party beneficiary of this Agreement and this Agreement may not be modified or terminated without the prior written consent of Senior Lender.

5. **Legal Costs.** In the event of any litigation, arbitration or other legal proceeding in which any party (including but not limited to Senior Lender) seeks to enforce its rights under this Agreement, the prevailing party shall be entitled to recover its legal costs and expenses, including but not limited to attorneys' fees, from the non-prevailing party, whether such costs and expenses are incurred in connection with trial court proceedings, on



appeal, in bankruptcy or other insolvency proceedings, in post-judgment collection proceedings, or otherwise.

6. **Entire Agreement.** This Agreement sets forth the final expression of the entire agreement of the parties hereto with regard to the subordination provided for herein and shall supersede and cancel any prior agreements as to such subordination, including but not limited to those provisions, if any, contained in the Partnership Agreement, which provide for the subordination of the lien or charge thereof to a mortgage or other security instrument thereafter executed.

7. **Binding Effect.** The heirs, administrators, assigns, and successors-in-interest of Optionee shall be bound by this Agreement.

8. **Jury Trial Waiver.** EACH OF OPTIONEE, OWNER AND SENIOR 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 AGREEMENT, THE SECURITY 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.

9. **Governing Law.** This Agreement will be governed by and construed in accordance with the laws of the state where the Land is located.

DATED as of the date first set forth above.

NOTICE: THIS SUBORDINATION AGREEMENT CONTAINS A PROVISION THAT ALLOWS OWNER TO OBTAIN A LOAN A PORTION OF WHICH MAY BE EXPENDED FOR OTHER PURPOSES THAN IMPROVEMENT OF THE LAND. IT IS RECOMMENDED THAT, PRIOR TO THE EXECUTION OF THIS SUBORDINATION AGREEMENT, THE PARTIES CONSULT WITH THEIR ATTORNEYS WITH RESPECT THERETO.

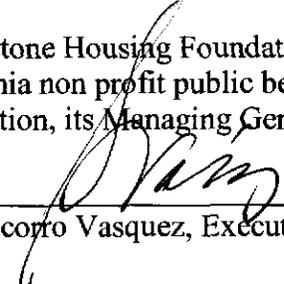
[Signatures next]



OWNER:

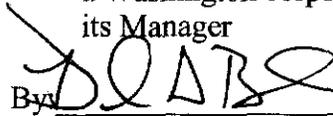
ISLAND SKAGIT PARTNERS, LP, a
Washington limited partnership

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

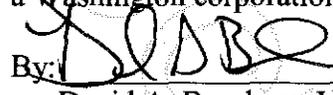
By: Allied Pacific Development, Inc.,
a Washington corporation,
its Manager

By: 
David A. Beacham, Vice President

OPTIONEE:

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 Option Subordina



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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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COUNTY OF KING

ss.

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 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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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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