

AFTER RECORDING RETURN TO:
Kantor Taylor McCarthy
1501 Fourth Ave. Suite 1610
Seattle, WA 98101
Attn: Mark Kantor



200712210024

Skagit County Auditor

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LAND TITLE OF SKAGIT COUNTY
124256-P

PRIORITY AGREEMENT
(Milwaukee Park Apartments)

Reference numbers of documents assigned or released: ~~NA~~

200712210018 ; 200712210019 ; 200712210021 ;

Grantors:

1. Milwaukee Park Apartments Limited Partnership
2. Compass Health
3. State of Washington, Department of Community, Trade & Economic Development
4. Wells Fargo Bank, National Association

200712210022 ; and

200712210023

Grantees:

1. Compass Health
2. State of Washington, Department of Community, Trade & Economic Development
3. Wells Fargo Bank, National Association
4. Washington State Housing Finance Commission

Legal Description:

(Summary): Ptn Lots 6, 7 & 8, Blk 9, Riverside Add. to Town of Mt. Vernon:

Full legal description on Exhibit A

Tax Parcel No. 3755-009-006-0204

This Priority Agreement ("Agreement") is made as of the 12 day of December 2007, by and among Milwaukee Park Apartments, a Washington limited partnership (the "Partnership"), Compass Health, a Washington non profit corporation ("Compass Health" or "Sponsor"); the State of Washington, Department of Community, Trade and Economic Development ("State") and Wells Fargo Bank, National Association, a national banking association (the "Bank"). The Bank, State and Sponsor are referred to collectively as "Lenders." This Agreement is made with reference to the following facts:

RECITALS

A. The Partnership is the owner of the real property located in Skagit County, Washington, legally described on **Exhibit A** hereto (the "Property") which real property is to be developed with new rental housing facilities (hereinafter, the "Project").

B. The State and Compass Health have entered into a Housing Trust Fund Contract ("State Contract"), No. 07-94100-003, providing for a total loan of \$999,268 for development of

the Project. The State Contract has been assigned to and assumed by the Partnership pursuant to an Assignment, Assumption and Consent Agreement recorded under Skagit County recording No. 200712210022. The Partnership has also assumed the obligations of a promissory note executed by the Authority in favor of the State pursuant to the State Contract in the amount of \$999,268 ("State Note"). The Partnership has executed a Deed of Trust ("State Deed of Trust") recorded under Skagit County recording No. 200712210021 encumbering the Property to secure the Partnership's obligations under the State Contract and the State Note. The Partnership has executed a Low-Income Housing Covenant Agreement ("State Covenant") recorded under Skagit County recording No. 200712210018 also encumbering the Property. All documents identified in this subsection B, are collectively referred to as the "State Loan Documents."

C. The Bank is making a loan to the Partnership in the amount of \$ 2,013,284.00 (the "Bank Loan"), evidenced by the Partnership's Promissory Note Secured by Deed of Trust (the "Bank Note") dated as of December 12, 2007. The Bank Loan is subject to a Building Loan Agreement ("Bank Loan Agreement") of even date, and secured by a Construction Deed of Trust with Absolute Assignment of Leases and Rents, Security Agreement and Fixture Filing, (the "Bank Deed of Trust") executed by the Partnership and recorded under Skagit County Recording No. 200712210019, encumbering the Project. Proceeds of the Bank Loan will be used to pay a portion of the Partnership's costs of constructing the Project. The Bank Note, Bank Loan Agreement, Bank Deed of Trust, and all other agreements and documents that evidence, secure and otherwise relate to the Bank Loan, including all subsequent modifications, extensions, renewals, and replacements thereof, are referred to collectively herein as the "Bank Loan Documents."

D. Compass Health is making a loan to the Partnership in the amount of up to \$75,000 (the "Sponsor Loan"), evidenced by the Partnership's Promissory Note ("Sponsor Note") dated as of December 12, 2007 in the amount of \$75,000. The Partnership has executed a Deed of Trust ("Sponsor Deed of Trust") recorded under Skagit County recording No. 200712210023 encumbering the Property to secure the Partnership's obligations under the Sponsor Note. The Sponsor Note and Sponsor Deed of Trust are hereafter referred to as the "Sponsor Loan Documents".

E. The Partnership submitted a Low-Income Housing Tax Credit Program Application (the "Application") to the Washington State Housing Finance Commission (the "Commission") for an award of federal low-income housing tax credit ("Credit") pursuant to Section 42 of the Internal Revenue Code for the Project.

F. As a condition to the receipt of an Internal Revenue Service Form 8609 awarding Credit for the Project, the Partnership must execute and deliver to the Commission a Regulatory Agreement (Extended Use Agreement) (the "Tax Credit Regulatory Agreement") in a form acceptable to the Commission which must be recorded in the real property records of the county in which the Project is located.

G. Furthermore, as a condition to the receipt of an Internal Revenue Service Form 8609 for the Project, the Tax Credit Regulatory Agreement must be recorded in first lien position



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and must impose on the Project and the land on which the Project is located certain covenants, restrictions, charges and easements that run with the land and are binding and a burden on the (i) the Project; (ii) any purchaser, grantee, developer, owner or lessee (other than a lease with a resident as contemplated in the Tax Credit Regulatory Agreement) of any portion of the Project; (iii) any other person or entity having any right, title or interest therein; and (iv) the heirs, executors, administrator, devisees, successors and assigns of any of the foregoing persons or entities, for the length of time and to the extent to be provided for in the Tax Credit Regulatory Agreement.

H. In order for the Tax Credit Regulatory Agreement to meet the requirements described in Recital G above, after the execution and recording of the Tax Credit Agreement, the Bank, the State and Sponsor will be required to subordinate their interests in their respective deeds of trust for the Project and all advances or charges made or accruing thereunder, including any extensions or renewals thereof, to the Tax Credit Regulatory Agreement through the execution of a Subordination Agreement in a form acceptable to the Commission.

I. The parties desire to provide herein for the order of recording of the various covenants, deeds of trust, and other instruments to be recorded in connection with the redevelopment project described herein, and to undertake certain covenants with respect to the subordination of the priority of their interests under recorded instruments in their favor to certain other instruments which may be put of record hereafter, as more particularly provided herein.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Investor and Lender Notice. The Commission has determined, based solely upon the information submitted in an application prepared by the Partnership, that the Project, if completed as proposed in the application and consistent with Section 42 of the Internal Revenue Code and the Commission's *Program Guidelines*, will be entitled to receive an allocation of low-income housing tax credit. The Commission is neither underwriting the Project nor certifying that any building will actually meet the requirements necessary to qualify for the low-income housing tax credit. The Commission has not performed any independent investigation of the applicant, the Partnership or any other party connected with the Project, nor as to the qualification of any building in the Project for the low-income housing tax credit and will not perform such investigation or otherwise monitor any building in the Project for its eligibility for the low-income housing tax credit in the future except as required by law. The Commission makes no representation concerning the applicability of the low-income housing tax credit to any building in the Project or the ability of any owner, lender or investor in the Project to utilize such low-income housing tax credit. The Commission has neither performed any review nor makes any representations of the commercial viability of any building in the Project.

The Commission bears no liability to any owner, investor, resident, lender or any other person or entity for any claim arising out of this project, the financing or syndication of this project or the low-income housing tax credit program. The reservation and/or allocation of low-income housing tax credit and the terms and provisions of the Credit Reservation Contract and the Tax Credit Regulatory Agreement are not for the benefit of third parties and may not be



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relied on by third parties. The applicant, developer and owner of this Project are not the agents of the Commission and have no authority to act on behalf of, or bind the Commission or the Commission's members, officers, employees, agents or representatives. Lenders and investors are cautioned that the actual amount of low-income housing tax credit available to the Project and any building is subject to change or reduction by the Commission up to the date of issuance of IRS Form 8609, *Low-Income Housing Credit Certification*.

Lenders and investors should consult with their personal tax and/or investment counsel to determine whether this project qualifies for low-income housing tax credit; whether a lender upon foreclosure, or an investor, may utilize the low-income housing tax credit, if any; and the commercial viability and feasibility of any building in the Project.

All capitalized terms in this Section 1 which are not otherwise defined herein shall have the meanings assigned to them in the *Program Guidelines* in effect as of the date the Owner submitted the Project's Application to the Commission.

2. Document Priority. The Parties hereto agree that regardless of the time each of the following liens on or interest in the Property was or shall be created or recorded, such interests have and shall have the following priorities:

a. First Priority. The Tax Credit Regulatory Agreement shall have first priority and shall be a covenant and restriction running with the Partnership's fee interest in the Property. The liens, rights and interests of the Bank under the Bank Loan Documents, the liens, rights and interests of the State under the State Loan Documents and the lien rights and interest of Compass Health under the Sponsor Loan Documents, all are hereby made subordinate and subject to the rights and interests of the Commission under the Tax Credit Regulatory Agreement. Except as otherwise expressly provided in the Tax Credit Regulatory Agreement, the Tax Credit Regulatory Agreement shall survive, foreclosure of the Bank Deed of Trust, State Deed of Trust and Sponsor Deed of Trust and shall be binding upon any person who shall acquire all or part of the Property by means of such foreclosure or deed in lieu thereof, or who shall succeed to an interest in the Property so acquired, in each case for the period required under the Tax Credit Regulatory Agreement.

b. Second Priority. The State Covenant shall have second priority and shall be a covenant and restriction running with the Partnership's fee interest in the Property. The liens, rights and interests of the Bank under the Bank Loan Documents, the liens, rights and interests of the State under the State Loan Documents (other than the State Covenant) and the liens, rights and interests of the Sponsor under the Sponsor Loan Documents, all are hereby made subordinate and subject to the rights and interests of the State under the State Covenant. Except as otherwise expressly provided in the State Covenant, the State Covenant shall survive foreclosure of the Bank Deed of Trust, State Deed of Trust and the Sponsor Deed of Trust and shall be binding upon any person who shall acquire all or part of the Property by means of such foreclosure or deed in lieu thereof, or who shall succeed to an interest in the Property so acquired, in each case for the period required under the State Covenant.

c. Third Priority. The Bank Deed of Trust shall have third priority. The liens, rights and interests of the State under the State Loan Documents (other than the State



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Covenant) and the liens, rights and interests of the Sponsor under the Sponsor Loan Documents all are subject and subordinate in all respects to the lien, terms and conditions of the Bank Deed of Trust and the other Bank Loan Documents, and to all advances heretofore made or that may hereafter be made pursuant thereto (including but not limited to, sums that may be advanced to protect or further secure the lien of the Deed of Trust, and/or curing defaults by Borrower under the Bank Loan Documents, and/or for any other purpose expressly permitted by the Bank Loan Documents). The priorities and subordinations provided herein are intended to cover all interests and benefits in the Project (including but not limited to, all rents, leases, profits, insurance proceeds, condemnations and other profits and benefits related thereto), and the Partnership, Sponsor and State agree that all rights therein, including the right to collect and apply such amounts, shall be accorded in the order of priority set forth herein. However, the State is not subordinating its rights under the State Covenant.

d. Fourth Priority. The State Deed of Trust shall have fourth priority. The liens, rights and interests of the Sponsor under the Sponsor Loan Documents all are hereby made subordinate and subject to the rights and interests of the State under the State Deed of Trust.

Fifth Priority. The Sponsor Deed of Trust shall have fifth priority.

3. Actions by Bank; Waivers By Subordinator. Bank, without the consent of or notice to the State, may release any or all parties liable for the Bank Loan and/or release any or all security for the Bank Loan, all without affecting the relative priorities and subordination agreements set forth in this Agreement. The State hereby waives any right to require marshalling of assets or to require Bank to proceed against or exhaust any specific security for the Bank Loan, and further waives any defense arising out of the loss or impairment of any right of subrogation to the lien of the Bank Loan Documents.

4. Applicable Law and Venue. This Agreement shall be governed by and construed in accordance with the laws of the State of Washington. Venue of any legal action or proceeding to enforce, interpret or otherwise related hereto shall lie in Skagit County, Washington.

5. Integration. This Agreement is the whole and only agreement between the parties hereto with regard to the priority of the documents identified herein.

6. Counterparts; Recording information. This Agreement may be executed in counterparts, which together shall constitute one agreement. The parties authorize and instruct any closing agent or title Partnership to insert recording dates and numbers in the appropriate blanks herein prior to recording this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement as of the date first written above

SIGNATURES ON FOLLOWING PAGES



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PARTNERSHIP SIGNATURE PAGE

Milwaukee Park Apartments Limited Partnership, a Washington
limited partnership

By: Compass Health Holdings LLC, a Washington
limited liability company, its General Partner

By: Compass Health, a Washington
nonprofit corporation, its Managing Member

By: Tom Sebastian
Tom Sebastian, President and CEO

STATE OF WASHINGTON)

COUNTY OF Snohomish)

I certify that I know or have satisfactory evidence that Tom Sebastian is the person who appeared before me, and said person acknowledged that he signed this instrument, on oath stated that he was authorized to execute the instrument and acknowledge it as the President and CEO of Compass Health, the managing member of Compass Health Holdings LLC, the general partner of Milwaukee Park Apartments Limited Partnership, to be the free and voluntary act of such entity for the uses and purposes mentioned in the instrument.

Dated: December 12, 2007.

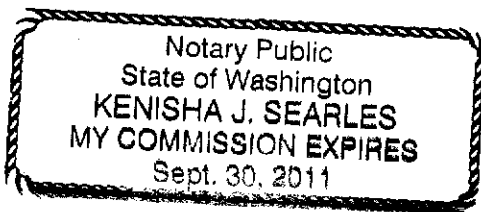
Kenisha Searles

(Print Notary Name) Kenisha Searles

Notary Public in and for the State of Washington

residing at Everett

My appointment expires Sept 30, 2011



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SPONSOR SIGNATURE PAGE

Compass Health, a Washington nonprofit corporation

By:

Tom Sebastian
Tom Sebastian, President and CEO

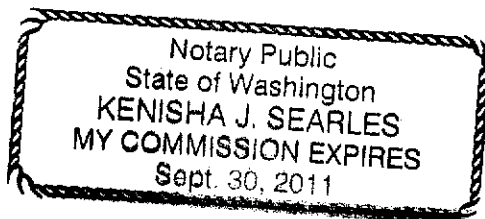
STATE OF WASHINGTON)

COUNTY OF Snohomish)

I certify that I know or have satisfactory evidence that Tom Sebastian is the person who appeared before me, and said person acknowledged that he signed this instrument, on oath stated that he was authorized to execute the instrument and acknowledge it as the President and CEO of Compass Health, a Washington non profit corporation to be the free and voluntary act of such non profit corporation for the uses and purposes mentioned in the instrument.

Dated: December 12, 2007.

Kenisha Searles
(Print Notary Name) Kenisha Searles
Notary Public in and for the State of Washington
residing at Everett
My appointment expires Sept 30, 2011



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STATE OF WASHINGTON)
) ss
COUNTY OF THURSTON)

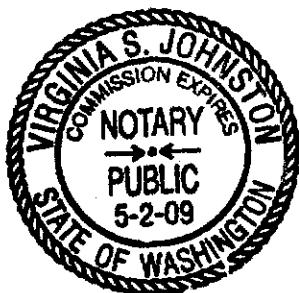
By Lisa Vatske
Lisa Vatske
Managing Director, Housing Trust Fund

STATE OF WASHINGTON)
) ss
COUNTY OF THURSTON)

On this 4th day of December, 2007, before me, the undersigned, a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared Lisa Vatske to me known to be the Managing Director, Housing Trust Fund, Department of Community, Trade and Economic Development, that executed the within and foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of said state agency, for the uses and purposes therein mentioned, and on oath state that she was authorized to execute the said instrument.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal this 4th day of December, 2007.

Virginia S Johnston
(Signature of Notary)
Virginia S Johnston
(Legibly Print or Stamp Name of Notary)



Notary public in and for the State of Washington,
residing at Pierce Co.

My appointment expires 5/2/09



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BANK SIGNATURE PAGE

Wells Fargo Bank National Association
By: Christine R. Rush
Its: VICE PRESIDENT

STATE OF Washington
COUNTY OF King
) ss.)

I certify that I know or have satisfactory evidence that Christine R. Rush is the person who appeared before me and acknowledged that she signed this instrument, on oath stated that she was authorized to execute the instrument and acknowledged it as the Wells Fargo Bank of Wells Fargo Bank National Association to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal this 11 day of December, 2007.

Jeannette L. Profit
(Signature of Notary)
(Legibly Print or Stamp Name of Notary)
Notary public in and for the State of Washington,
residing at Seattle
My appointment expires 3-29-10

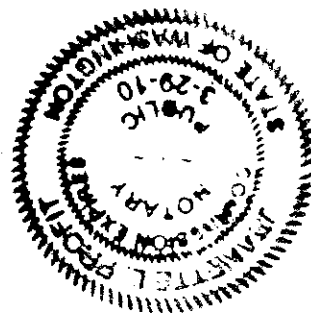


EXHIBIT A LEGAL DESCRIPTION

The West 30 feet of Lot 6, and all of Lots 7 and 8, Block 9, "RIVERSIDE ADDITION TO THE TOWN OF MOUNT VERNON," as per plat recorded in Volume 3 of Plats, page 24, records of Skagit County, Washington, EXCEPT the North 19.50 feet thereof.

Situate in the City of Mount Vernon, County of Skagit, State of Washington.



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