

When Recorded Return To:  
USDA Rural Development  
1835 Black Lake Blvd. SW, Suite B  
Olympia, Washington 98512  
Attention: Bill Kirkwood



Skagit County Auditor \$378.00  
5/23/2014 Page 1 of 19 12:35PM

LAND TITLE OF SKAGIT COUNTY

146824-S

### PRIORITY AND SUBORDINATION AGREEMENT

(Villa Kathleen)

Grantors:

1. Washington State Housing Finance Commission
2. Wells Fargo Bank, National Association
3. The United States of America
4. Washington State Department of Commerce
5. Mercy Housing Northwest

Grantees:

1. Washington State Housing Finance Commission
2. Wells Fargo Bank, National Association
3. The United States of America
4. Washington State Department of Commerce
5. Mercy Housing Northwest
6. Villa Kathleen Redevelopment LLLP

Abbreviated Legal:

Lots 13-23, Blk 2 Fritsch's Add to Burl

Tax Parcel No(s):

(Full Legal Descriptions on Exhibit A)  
4084-002-023-0000 (P72536)

Reference No(s):

WSHFC Extended Use Agreement 201405230052  
Wells Fargo Bank DOT 201405230059  
Wells Fargo Bank UCC 201405230060  
RD VK Deed of Trust: 8703090003  
RD New VK Deed of Trust 200309170209

RD Villa Kathleen UCC 200309170210, 200804010041,  
201309130015

RD Villa Kathleen New Deed of Trust 201405230066

RD Villa Kathleen New Restrictive Covenant 201405230054

State Villa Kathleen Deed of Trust 201405230069

State Villa Kathleen Assignment, Assumption and Consent  
201405230071

State Villa Kathleen Covenant 201405230057

Prior Priority Agreement now terminated: 200309170211

PRIORITY AND SUBORDINATION AGREEMENT  
VILLA KATHLEEN REDEVELOPMENT LLLP – VILLA KATHLEEN



201405230073

Skagit County Auditor

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\$378.00

## PRIORITY AND SUBORDINATION AGREEMENT

THIS PRIORITY AND SUBORDINATION AGREEMENT (the "**Agreement**"), dated as of the 22<sup>nd</sup> day of May, 2014, is executed by and among the WASHINGTON STATE HOUSING FINANCE COMMISSION, a public body corporate and politic ("**Commission**"), WELLS FARGO BANK, NATIONAL ASSOCIATION, a national banking association ("**Bank**"), UNITED STATES OF AMERICA, acting through the Rural Housing Service of the United States Department of Agriculture ("**USDA**"); WASHINGTON STATE DEPARTMENT OF COMMERCE, a Department of the state of Washington ("**State**"); MERCY HOUSING NORTHWEST, a Washington nonprofit corporation ("**Mercy NW**") and VILLA KATHLEEN REDEVELOPMENT LLLP, a Washington limited liability limited partnership ("**Borrower**").

### RECITALS

A. **Borrower's Interest.** Borrower is the owner of three multi-family apartment projects commonly known as Evergreen Manor located at 7649 South Rietze Avenue, Concrete, WA 98237, Villa Kathleen located at 535 Pine Street, Burlington, WA 98233 and Fircrest located at 1815 E. Fir Street, Mount Vernon, WA 98237, all within Skagit County, Washington (collectively, the "**Project Property**"). This Agreement affects only the Villa Kathleen property which is legally described on **Exhibit A** attached hereto and incorporated herein by reference (collectively, the "**Property**").

B. **Commission's Interests.** The Commission made financial assistance for the Property through the use of Low Income Housing Tax Credits ("**LIHTC**"). In connection with the LIHTC, Borrower has executed a Regulatory Agreement (Extended Use Agreement) with the Commission (the "**Extended Use Agreement**"), recorded under Skagit County Auditor's File No. 201405230062.

C. **Bank's Interest.** The Bank has agreed to make a construction loan to the Borrower in the principal amount of up to \$6,754,583 (the "**Construction Loan**") for the purpose of financing certain development costs of the residential low-income housing project consisting of the Project Property. The Construction Loan is evidenced by a Promissory Note Secured by Deed of Trust dated as of May 22, 2014 (the "**Bank Note**"). The Bank Note is secured by a Construction and Permanent Deed of Trust with Absolute Assignment of Leases and Rents, Security Agreement and Fixture Filing recorded under Skagit County Auditor's File No. 201405230059 (the "**Bank Deed of Trust**"), which Deed of Trust shall encumber Borrower's interest in the Project Property. All documents identified in this Paragraph C, including each related Uniform Commercial Code financing statement, and any and all renewals and extensions thereof, if any, and any documents executed by the Borrower in connection with the Construction Loan are collectively referred to as the "**Construction Loan Documents**". All references to the "Bank Deed of Trust" include all advances secured



under the Bank Deed of Trust, whether optional or obligatory, and all modifications, extensions, renewals or replacements of the Bank Deed of Trust.

D. **USDA's Interest.** The USDA administers housing programs pursuant to Section 515 of the Housing Act of 1949, and applicable regulations at initial borrowing and as currently at 7 C.F.R. 3560, or as subsequently amended, enacted or replaced.

USDA is the owner and holder of that certain Promissory Note ("**RD VK Note**") made by Villa Kathleen Limited Partnership, a limited partnership ("**VK**") in the original principal amount of \$760,000, which RD VK Note is secured by that certain Real Estate Deed of Trust for Washington dated March 9, 1987, and recorded March 9, 1987 under Skagit County Auditor's File No. 8703090003 ("**RD VK Deed of Trust**"). The RD VK Note and RD VK Deed of Trust were later assigned by VK and assumed by Mercy Prop III under an unrecorded Multifamily Assumption Agreement and secured with a new Real Estate Deed of Trust for Washington dated September 17, 2003 securing the outstanding loan balance and additional sums, and recorded September 17, 2003 under Skagit County Auditor's File No. 200309170209 (the "**RD New VK Deed of Trust**") and further secured by that UCC-1 Financing Statement filed September 17, 2003 under Auditor's File No. 200309170210, as continued on April 1, 2008 under Auditor's File No. 200804010041 and further continued on September 13, 2013 under Auditor's File No. 201309130015 (the "**RD Villa Kathleen UCC**").

The RD VK Note, the RD VK Deed of Trust, the RD New VK Deed of Trust and the RD Villa Kathleen UCC are collectively referred to as the "**Original RD Villa Kathleen Loan**". The Original RD Villa Kathleen Loan was later assigned by Mercy Prop III and assumed by Borrower under an unrecorded Multifamily Assumption Agreement and additionally secured by a new Deed of Trust dated May 22, 2014 and recorded May 29, 2014 under Skagit County Auditor's File No. 201405230046 ("**RD Villa Kathleen New Deed of Trust**"), and restricted with a new Restrictive Use Covenant dated May 22, 2014, and recorded May 23, 2014 under Skagit County Auditor's File No. 201405230054 ("**RD Villa Kathleen New Restrictive Covenant**"). The Original RD Villa Kathleen Loan, together with the RD Villa Kathleen New Deed of Trust and the RD Villa Kathleen New Restrictive Covenant, together with any and all documents executed in connection therewith are collectively referred to as the "**USDA Villa Kathleen Loan Documents**".

E. **State's Interest.** The State and Mercy NW have entered into a Housing Trust Fund Contract No. 12-94110-035 dated as of October 1, 2013 (the "**State Contract**"). Pursuant to the State Contract, Mercy NW will execute 3 separate Promissory Notes totaling \$850,000, of which only \$242,857.00 will be allocated to the Property (the "**State Villa Kathleen Note**"). The State Contract and State Note have been assigned to and assumed by the Borrower. The State Villa Kathleen Note is secured by a Deed of Trust executed by the Borrower and recorded under Skagit County recording number 201405230069 (the "**State Villa Kathleen Deed of Trust**"). In addition, the Borrower executed a Low-Income



Housing Covenant Agreement recorded under Skagit County recording number **201405230057** (the "**State Villa Kathleen Covenant**"). All documents identified in this Paragraph E, and any documents executed in connection therewith, are collectively referred to as the "**State Villa Kathleen Documents**". References to the "State Villa Kathleen Deed of Trust" include all advances made under the State Villa Kathleen Deed of Trust, whether optional or obligatory, and all modifications, extensions, renewals or replacements of the State Villa Kathleen Deed of Trust.

F. **Mercy NW's Interest.** Pursuant to the terms and conditions of the Borrower Amended and Restated Partnership Agreement, Mercy NW has a purchase option and right of first refusal ("**Option**") to acquire the Property at the expiration of the Low Income Housing Tax Credit Compliance Period.

G. **Purpose.** The parties wish to enter into this Agreement in order to establish their respective rights and priorities regarding the Property, all as more fully set forth herein.

The Bank, USDA and State are collectively referred to as the "**Lenders**".

## AGREEMENT

In consideration of parties' agreements to make the loans referenced herein and subject to the terms and conditions set forth below, the parties hereby agree as follows:

1. **Priorities.** Regardless of the time each party's interest in or lien on the Property was or shall be created or recorded, such interests and liens have and shall have the following priorities:

(a) **First Priority.** The Extended Use Agreement shall have first priority. The liens, rights and interests of the Lenders created under documents with a lesser priority as established in this Agreement are hereby made subordinate and subject to the rights and interests of Commission under the Extended Use Agreement. Subject to the terms of the Extended Use Agreement, the Extended Use Agreement shall survive foreclosure of any lien with a lesser priority as established in this Agreement and shall be binding upon any person that acquires the Property by means of such foreclosure or deed in lieu thereof or that is a successor to one who acquires the Property by such means, for so long as such person shall retain an interest in the Property.

(b) **Second Priority.** The RD Villa Kathleen New Restrictive Covenant shall have second priority. The liens, rights and interests of the Lenders created under documents with a lesser priority as established in this Agreement are hereby made subordinate and subject to the rights and interests of USDA under the RD Villa Kathleen New Restrictive Covenant. Subject to the terms of the RD Villa Kathleen New Restrictive Covenant, the RD Villa Kathleen New Restrictive Covenant shall survive foreclosure of any lien with a lesser

priority as established in this Agreement and shall be binding upon any person that acquires the Property by means of such foreclosure or deed in lieu thereof or that is a successor to one who acquires the Property by such means, for so long as such person shall retain an interest in the Property.

(c) **Third Priority.** The State Villa Kathleen Covenant shall have third priority. The liens, rights and interests of the Lenders created under documents with a lesser priority as established in this Agreement are hereby made subordinate and subject to the rights and interests of State under the State Villa Kathleen Covenant. Subject to the terms of the State Villa Kathleen Covenant, the State Villa Kathleen Covenant shall survive foreclosure of any lien with a lesser priority as established in this Agreement and shall be binding upon any person that acquires the Property by means of such foreclosure or deed in lieu thereof or that is a successor to one who acquires the Property by such means, for so long as such person shall retain an interest in the Property.

(d) **Fourth Priority.** The Bank Deed of Trust shall be fourth in priority. The liens, rights and interests of the Lenders created under documents with a lesser priority as established in this Agreement are hereby made subordinate and subject to the lien, security interest, and all other rights granted to Bank under the Bank Deed of Trust with respect to all sums due or to become due under the Construction Loan, including, without limitation, interest and all present and future advances made by Bank thereunder, regardless of whether such advances are deemed to be mandatory or optional, and all subsequent modifications, extensions, renewals, and replacements of the Construction Loan Documents.

(e) **Fifth Priority.** The RD Villa Kathleen New Deed of Trust shall be fifth in priority. The liens, rights and interests of the Lenders created under documents with a lesser priority as established in this Agreement are hereby made subordinate and subject to the rights and interests of USDA under the RD Villa Kathleen New Deed of Trust.

(f) **Sixth Priority.** The RD VK Deed of Trust and RD New VK Deed of Trust (collectively the "**RD Old VK Deeds of Trust**") shall be sixth in priority. The liens, rights and interests of the Lenders created under documents with a lesser priority as established in this Agreement are hereby made subordinate and subject to the rights and interests of USDA under the RD Old VK Deeds of Trust.

(g) **Seventh Priority.** The State Villa Kathleen Deed of Trust shall be seventh in priority. The liens rights and interests of the Lenders created under documents with a lesser priority as established in this Agreement are hereby made subordinate and subject to the rights and interests of State under the State Villa Kathleen Deed of Trust.

(h) **Eighth Priority.** The RD Villa Kathleen UCC shall be eighth in priority. The liens rights and interests of the Lenders created under documents with a lesser priority as established in this Agreement are hereby made subordinate and subject to the rights and interests of USDA under the RD Villa Kathleen UCC.



For purposes of this Section, the lien or interest with "lesser priority" is the one with the higher numerical designation, so that, for example, "fifth priority" is a "lesser priority" than "fourth priority."

Any right of Mercy NW or any other party to acquire the Property or any part thereof pursuant to any option or right of first refusal, including the Option, in any of the Documents or otherwise, is hereby made subject and subordinate to each of the liens and interests described above in this Section.

The parties agree that the Lenders do not have any obligation to each other to advance funds or to see to the application of their respective loan proceeds and that any application of such proceeds contrary to the terms of any loan documents shall not defeat the subordinations granted herein in whole or in part.

The parties agree that except for such obligations as the Borrower may have to other parties hereto pursuant to agreements with such parties (i) the parties do not have any obligations to each other to advance funds or to see to the application of their respective loan proceeds, (ii) any application of such proceeds contrary to the terms of any loan documents shall not defeat the subordinations granted herein in whole or in part, and (iii) nothing contained in this Agreement shall impair the right of any party to pursue any right or remedy available to it in any of the agreements, covenants, regulatory agreements, deeds of trust or options referenced herein.

Notwithstanding any other provisions of this Agreement, the priorities established hereunder shall not apply to nor affect the security position of any security agreement or pledge of cash accounts or other property to which only one party hereto has been granted a security interest.

**2. Insurance or Condemnation Proceeds.** Notwithstanding any provision of the USDA Villa Kathleen Loan Documents or the State Villa Kathleen Loan Documents to the contrary, in the event of any damage to, destruction of, or taking or condemnation (including deed in lieu thereof) of the Property or any portion thereof, any insurance or condemnation proceeds shall be applied first to repair or restoration of the Property and any amounts secured by any party's Deed of Trust shall not be accelerated as a result of any casualty loss or condemnation, unless:

(a) at the time of the casualty loss or condemnation, there is an Event of Default under the Bank Deed of Trust;

(b) after consultation among the Lenders, the Lenders determine that repair or restoration of the Property is not feasible or that adequate funds are not available therefore, which determination shall occur no later than fourteen (14) days after consultation among the Lenders;



(c) after consultation among the Lenders, Bank (or if the Bank Deed of Trust no longer encumbers the Property, USDA) determines that the conditions for permitting release of proceeds for repair, completion or restoration set forth in the Bank Deed of Trust (or if the Bank Deed of Trust no longer encumbers the Property, as set forth in the RD Villa Kathleen New Deed of Trust) have not been met; or

(d) as of the date of casualty or condemnation less than two (2) years remains before the maturity of the debt secured by any Lender's Deed of Trust;

provided that such repair or restoration proceeds with reasonable dispatch once condemnation or insurance proceeds are available. Any funds to be applied to repair or restoration shall be held and administered by Bank in accordance with the Bank Loan Documents, and Bank shall be entitled to reasonable compensation for its services in connection with the administration of such funds, as set forth in the Bank Deed of Trust, provided that if the Bank Deed of Trust shall no longer be in effect, then USDA has the right, at its option, to hold and administer the proceeds to be applied to repair or restoration, and provided further that if applicable law does not permit a Lender to hold such proceeds then the Bank, or USDA if the Bank Deed of Trust is no longer in effect, shall have the right to designate an insurance trustee to administer the proceeds consistent with the Bank Deed of Trust, or USDA Villa Kathleen Loan Documents as applicable, subject to applicable law.

**3. Cross-Defaults.** Any default under the Construction Loan Documents, the USDA Villa Kathleen Loan Documents or the State Villa Kathleen Loan Documents, after notice of default shall have been given thereunder, a copy of which notice shall also be given to the parties hereto in accordance with Section 9(c) hereof, and that is not cured or waived within the applicable cure period set forth therein, shall constitute an event of default under the other Lenders' loan documents at the option of such Lender ("**Cross-Default**"). Unless and until there shall be a Cross-Default under this Section, each Lender agrees not to accelerate indebtedness of the Borrower or seek remedies under loan documents against the Borrower or the Property (other than the withholding of further disbursement of loan proceeds until such default or breach is cured) based solely upon a breach or default by the Borrower under another Lender's documents described herein, other than a default in the payment of money. The foregoing shall not constitute a waiver, defense, limitation or estoppel to any other breach or default under any Lender's documents.

**4. Subordinate Lenders' Agreement to Standstill.** Until the Construction Loan has been repaid in full, each Lender other than Bank agrees for the benefit of Bank and its successors and assigns, that if a default occurs and is continuing under documents other than the Construction Loan Documents, the other Lenders shall not, without the Bank's prior written consent, accelerate its respective loan, commence foreclosure proceedings with respect to the Property, collect rents, appoint (or seek the appointment of) a receiver or institute any other enforcement action with respect to the Property.





5. **Reliance: Borrower's Consent.** It is understood by the parties hereto that the Bank would not enter into, or would not make disbursement under, their respective loan documents without this Agreement. The Borrower consents to all the terms hereof.

6. **Actions by Bank; Certain Waivers.** Bank, without the consent of or notice to any other party, may release any or all parties liable for any obligation secured by the Construction Loan Documents, or release any or all security for the obligations secured by the Construction Loan Documents, all without affecting the subordinations under this Agreement. USDA, State, Mercy NW and the Borrower waive any right to require marshaling of assets or to require Bank to proceed against or exhaust any specific security for the obligations secured by the Construction Loan Documents, and waive any defense arising out of the loss or impairment of any right of subrogation to the lien of the Construction Loan Documents. However, Bank agrees not to voluntarily subordinate the lien of the Bank Deed of Trust or any portion thereof to any other liens or encumbrances on the Property without the written consent of USDA and State which consent may consist of such Lenders' subordination to the same lien or encumbrance.

7. **Rents.** USDA, State and Borrower understand that the Borrower has assigned all leases, income, rents, and profits of the Property in connection with the Construction Loan Documents. The parties agree that upon an Event of Default under the Construction Loan Documents, Bank shall have the absolute right to collect all rents and profits from the Property as provided in the Bank Documents. After the Construction Loan has been repaid in full, then the right to collect all rents and profits shall be in favor of USDA.

8. **Acknowledgements.**

The USDA, State and Borrower hereby agree and acknowledge, solely for the benefit of Bank, as follows:

(a) For purposes of this Agreement, each has been provided the opportunity to review the Bank Documents before executing this Agreement;

(b) Bank, in making disbursements pursuant to the Construction Loan Documents, is under no obligation or duty to insure, nor has Bank represented that it will insure, the proper application of such proceeds by the person(s) to whom Bank disburses such proceeds, and any application or use of such proceeds for purposes other than as provided in any such agreement shall not defeat or render invalid, in whole or in part, the subordinations provided for in this Agreement;

(c) Bank has not made any warranty or representation of any kind or nature whatsoever to with respect to (i) the application of the proceeds of the Construction Loan upon the security of the Bank's Deed of Trust, (ii) the value of the Property or the improvements to be developed thereon pursuant to the Construction Loan Documents, or the marketability or value thereof upon completion of such improvements, or (iii) the ability of the Borrower to honor its covenants and agreements with Bank or other parties;



(d) Bank's release of any security for the Construction Loan, including, without limitation, the reconveyance of any portion(s) of the Property from the lien of the Bank Deed of Trust shall not constitute a waiver or relinquishment of the USDA's and State's unconditional subordination of the liens or charges of RD Villa Kathleen New Deed of Trust, RD Old VK Deeds of Trust, and the State Villa Kathleen Deed of Trust against the Property to the lien or charge of the Bank Deed of Trust;

(e) Bank would not make the Construction Loan absent the execution of this Agreement by the parties hereto;

(f) Bank has no duty to disclose to any party, any facts Bank may now know or hereafter know about the Borrower or the members or successors of the Borrower, regardless of whether (i) Bank has reason to believe that any such facts may increase materially the risk beyond that which the parties intend to assume, (ii) Bank may have reason to believe that such facts are unknown, or (iii) Bank has a reasonable opportunity to communicate such facts, it being understood and agreed that each party is fully responsible for being and keeping informed of the financial condition of the Borrower and/or any members or successors of the Borrower and of all circumstances bearing on the risk of non-payment of any indebtedness of the Borrower to Bank described in this Agreement; and

(g) Each party hereto has made such independent legal and factual inquiries and examinations as such party deems necessary or desirable and are not relying on any inquiries or examinations made by Bank or on information from Bank concerning the Borrower, Mercy NW, the Property or the project.

## **9. Miscellaneous.**

(a) **Entire Agreement.** This Agreement constitutes the entire agreement among the parties with respect to the priority of each party's liens and interests in the Property described herein and all prior understandings and agreements on that subject are superseded hereby.

(b) **Applicable Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of Washington and/or Federal Law. The venue for any action related to this Agreement shall be in the Superior Court in and for Skagit County, Washington at Seattle, or if applicable, in Federal District Court, Western District of Washington at Seattle.

(c) **Notices.** All notices to be given pursuant to this Agreement shall be in writing and shall be deemed given when hand-delivered within normal business hours, when actually received by facsimile transmission during normal business hours, or two (2) business days after deposit in the U.S. mail, postage prepaid, (one (1) business day if sent by overnight courier) to the parties hereto at the addresses set forth below, or to such other place as a party may from time to time designate by notice to the other parties. No transferee or successor of a party hereto shall be entitled to notices or opportunity to cure defaults hereunder unless notice of the transfer is given in accordance with this subsection.



**Bank:** Wells Fargo Bank, National Association  
Community Lending & Investment  
5400 LBJ Freeway, Suite 1000  
Dallas, TX 75240  
MAC T9236-100  
Attention: Kathy Cotton Farruya

**With a copy to:** Wells Fargo Bank, National Association  
Community Lending Division  
1300 SW Fifth Avenue, 12<sup>th</sup> Floor  
Portland, OR 97201  
Attn: Sean Thornton-Jones

**Mercy NW:** Mercy Housing Northwest  
2505 Third Avenue, Ste. 204  
Seattle, WA 98121  
Attention: President

**With a copy to:** Kantor Taylor Nelson Evatt & Decina PC  
901 Fifth Avenue, Suite 4000  
Seattle, Washington, 98164  
Attention: Mark B. Kantor  
Facsimile: (206) 607-1850

**Borrower:** Villa Kathleen Redevelopment LLLP  
c/o Mercy Housing Northwest  
2505 Third Avenue, Ste. 204  
Seattle, WA 98121  
Attention: President

c/o Alliant Asset Management Company LLC  
21600 Oxnard Street, Suite 1200  
Woodland Hills, CA 91367  
Attention: Tony Palaigos, Esquire  
Telecopy: (818) 668-2828

**With a copy to:** Bocarsly Emden Cowan Esmail & Arndt LLP  
633 West 5th Street, 70th Floor  
Los Angeles, California 90071  
Attention: Lance Bocarsly, Esq.  
Telecopy: (213) 239-0410

**WSHFC:** Washington State Housing Finance Commission  
1000 Second Avenue, Suite 2700  
Seattle, WA 98104-1046  
Attention: Jason Hennigan



**Department of  
Commerce:**

State of Washington Department of Commerce  
Attn: Housing Trust Fund  
1011 Plum St. SE  
P.O. Box 42525  
Olympia, WA 98504-2525

**USDA:**

USDA Rural Development (State Office)  
1825 Black Lake Blvd., Suite B  
Olympia, WA 98512

(d) **Successors; Assignment.** This Agreement is for the benefit of the Lenders and their respective successors and assigns, and not for the benefit of the Borrower. Any provision hereof may be waived or modified by agreement of the Lenders (or by any two or more of them, if the other(s) are unaffected thereby) without the consent of the Borrower and without affecting the priority of the liens and interests of the Lenders. The heirs, administrators, assigns and successors-in-interest of the parties shall be bound by this Agreement. This Agreement may be assigned by a party only as a part of an assignment of such party's loan documents described in this Agreement.

(e) **Amendment.** This Agreement may be amended only by a writing signed by the parties hereto, but this clause shall not impair the validity of any further agreements among fewer than all of the parties hereto as among themselves.

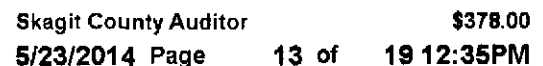
(f) **Counterparts.** This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and whether or not all parties execute each counterpart.

(g) **Completion of Recording Information.** If this Agreement is signed without completion of certain recording information called for above, any title insurance company acting on the instructions of any party is hereby authorized to insert such information prior to recording this Agreement.

(h) **Consent to Other Parties' Loan Documents.** By executing this Agreement, each party hereby acknowledges and consents to the execution of, and, where appropriate, the recording of, the documents described in Paragraphs A through E of the Recitals herein.

*[SIGNATURE PAGE(S) FOLLOWS]*





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

WASHINGTON STATE DEPARTMENT OF COMMERCE

By

Janet Masella  
Janet Masella  
Managing Director, Housing Trust Fund,  
Community Services and Housing Division

STATE OF WASHINGTON )

) ss.

COUNTY OF THURSTON )

I certify that I know or have satisfactory evidence that Janet Masella is the person who appeared before me and said person acknowledged that he/she signed this instrument, on oath stated that he/she was authorized to execute the instrument and acknowledged it as the Managing Director, Housing Trust Fund, Community Services and Housing Division of the Department of Commerce, a Department of the state of Washington, to be the free and voluntary act such party for the uses and purposes mentioned in the instrument.

DATED: May 22, 2014.

SOPHIA CARE SLEDGE  
NOTARY PUBLIC  
STATE OF WASHINGTON  
My Commission Expires Dec. 20, 2015

Sophia Care Sledge  
(Print Name) Sophia Care Sledge  
Residing at Olympia WA 98501  
My appointment expires: 12/20/15



201405230073

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

**WASHINGTON STATE HOUSING FINANCE COMMISSION**, a body corporate and politic of the State of Washington

By:

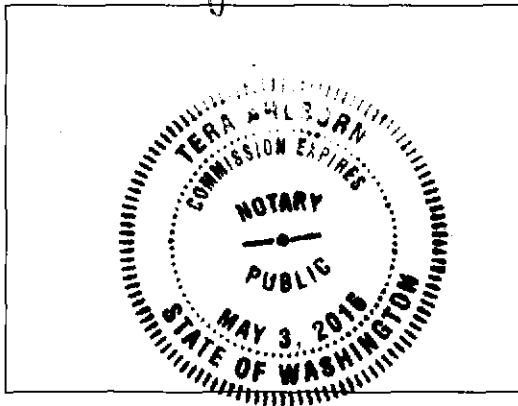
Paul R. Edwards  
Paul R. Edwards, Deputy Director

STATE OF WASHINGTON )

COUNTY OF KING )

I hereby certify that I know or have satisfactory evidence that **Paul R. Edwards** appeared before me, and acknowledged that he signed this instrument, on oath stated that he was authorized to execute this instrument, and acknowledged it as the **Deputy Director** of the **WASHINGTON STATE HOUSING FINANCE COMMISSION**, a body corporate and politic of the State of Washington, to be the free and voluntary act of such entity for the uses and purposes mentioned in this instrument.

DATED: May 21, 2014.



(Print Name) Tera Auburn

Residing at Edgewood, WA

My appointment expires: May 3, 2018

PRIORITY AND SUBORDINATION AGREEMENT  
VILLA KATHLEEN REDEVELOPMENT LLLP – VILLA KATHLEEN



Skagit County Auditor  
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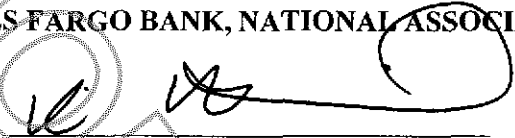
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\$378.00  
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IN WITNESS WHEREOF, the parties hereto have entered into this Agreement as of the day and year first written above.

**WELLS FARGO BANK, NATIONAL ASSOCIATION**

By:

  
Kris Hollingshead, Vice President

**WELLS FARGO BANK, NATIONAL ASSOCIATION ACKNOWLEDGMENT**

STATE OF WASHINGTON


ss.

COUNTY OF KING

I certify that I know or have satisfactory evidence that Kris Hollingshead 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 a Vice President 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.

DATED: May 22, 2014.

**SARAH M. BYRNS**  
STATE OF WASHINGTON  
**NOTARY PUBLIC**  
MY COMMISSION EXPIRES  
04-05-17

  
(Print Name)

Residing at Seattle, WA

My appointment expires: 04/05/17



201405230073



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

MERCY HOUSING NORTHWEST, a Washington nonprofit corporation, its Sole Member and Manager

By:

Bill Rumpf  
Bill Rumpf, President

**MERCY HOUSING NORTHWEST ACKNOWLEDGEMENT**

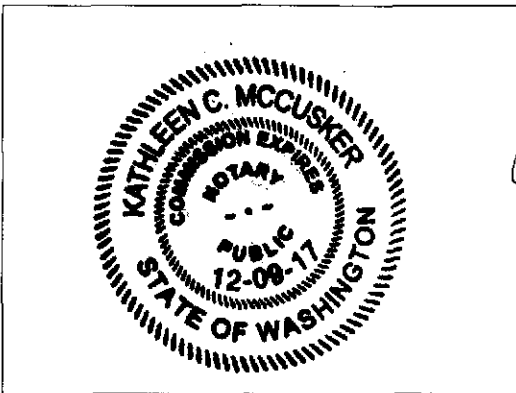
STATE OF WASHINGTON )

) ss

COUNTY OF KING )

I hereby certify that I know or have satisfactory evidence that **Bill Rumpf** appeared before me, and acknowledged that he signed this instrument, on oath stated that he was authorized to execute this instrument, and acknowledged it as the **President** of MERCY HOUSING NORTHWEST, a Washington corporation, to be the free and voluntary act of such entity for the uses and purposes mentioned in this instrument.

DATED: May 22, 2014.



(Print Name) Kathleen McCusker

Residing at King Co

My appointment expires: 12/8/17



201405230073

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

**VILLA KATHLEEN REDEVELOPMENT LLLP**, a  
Washington limited liability limited partnership

By: COBBLE KNOLL I MERCY LLC, a Washington  
limited liability company, its General Partner

By: MERCY HOUSING NORTHWEST,  
a Washington nonprofit corporation,  
its Sole Member and Manager

By:

Bill Rumpf  
Bill Rumpf, President

#### VILLA KATHLEEN REDEVELOPMENT LLLP ACKNOWLEDGEMENT

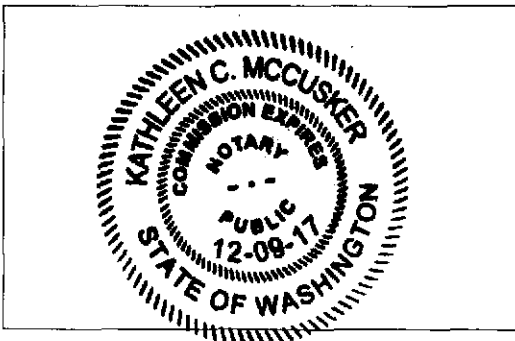
STATE OF WASHINGTON )

) ss

COUNTY OF KING )

I hereby certify that I know or have satisfactory evidence that **Bill Rumpf** appeared before me, and acknowledged that he signed this instrument, on oath stated that he was authorized to execute this instrument, and acknowledged it as the **President** of MERCY HOUSING NORTHWEST, a Washington corporation, Sole Member and Manager of COBBLE KNOLL I MERCY LLC, a Washington limited liability company, General Partner of **VILLA KATHLEEN REDEVELOPMENT LLLP**, a Washington limited liability limited partnership, to be the free and voluntary act of such entity for the uses and purposes mentioned in this instrument.

DATED: May 22, 2014.



(Print Name) Kathleen C. McCusker

Residing at King Co.

My appointment expires: 12/9/17

PRIORITY AND SUBORDINATION AGREEMENT  
VILLA KATHLEEN REDEVELOPMENT LLLP – VILLA KATHLEEN



Skagit County Auditor

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19 12:35PM

\$378.00

**EXHIBIT A**  
**LEGAL DESCRIPTION**

PARCEL "B"

VILLA KATHLEEN

Lots 13 through 23, inclusive, Block 2 , "FRITSCH'S ADDITION TO BURLINGTON," as per plat recorded in Volume 3 of Plats, page 78, records of Skagit County, Washington.

Situate in the City of Burlington, County of Skagit, State of Washington.

PRIORITY AND SUBORDINATION AGREEMENT  
VILLA KATHLEEN REDEVELOPMENT LLLP – VILLA KATHLEEN



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