

PROMISSORY NOTE
(Ground Lease Loan)
(Arrowhead Grove)

\$970,000

San Bernardino, California
August ____, 2019

FOR VALUE RECEIVED, the undersigned WATERMAN GARDENS PARTNERS 2, L.P., a California limited partnership ("Borrower") hereby promises to pay to the order of the HOUSING AUTHORITY OF THE COUNTY OF SAN BERNARDINO, a public body corporate and politic organized under the laws of California ("Holder"), the principal amount of Nine Hundred Seventy Thousand Dollars (\$970,000) plus interest thereon pursuant to Section 2 below.

1. Borrower's Obligation. This promissory note (the "Note") evidences Borrower's obligation to repay Holder the principal amount of Nine Hundred Seventy Thousand Dollars (\$970,000) with interest for the funds loaned to Borrower by Holder (the "Loan") to finance the long term lease of certain real property bounded by Baseline Street to the North and Crestview Avenue to the East in the City of San Bernardino (the "Property"), upon which Borrower intends to construct a one hundred eighty-four (184) unit development and attendant site improvements (the "Improvements"). The Property and the Improvements are collectively referred to as the "Development". Concurrently herewith Borrower as lessee and Holder as Lessor are entering into a Ground Lease Agreement with a term of ninety (90) years (the "Ground Lease"). All capitalized terms used but not defined in this Note have the meanings set forth in the Ground Lease.

2. Interest.

(a) Subject to the provisions of Subsection (b) below, the outstanding principal balance of this Note bears interest from the date of this Note until full repayment of the principal balance of the Loan at ____% which is the Applicable Federal Rate applicable to long-term loans with annual compounding, as calculated in accordance with Internal Revenue Code Section 1274(d) as of the date of this Note.

(b) If a Default occurs (defined in Section 9 below), interest on the principal balance will begin to accrue, as of the date of Default and continuing until such time as the Loan funds are repaid in full or the Default is cured or waived by Holder, at the default rate of the lesser of ten percent (10%), compounded annually, or the highest rate permitted by law.

3. Loan Documents. This Note is secured by a Deed of Trust, Fixture Filing, Assignment of Rents and Security Agreement (the "Deed of Trust"), of even date herewith, wherein Borrower is the Trustor and Holder is the Beneficiary, covering Borrower's leasehold interest in the Property and fee interest in the Improvements, to be recorded in the Official Records of San Bernardino County (the "Official Records"). The terms of the Deed of Trust are hereby incorporated into this Note and made a part hereof. The Loan is also evidenced by a Regulatory Agreement and Declaration of Restrictive Covenants by and between Borrower and

Holder, of even date herewith, and recorded against the Property in the Official Records (the "Regulatory Agreement"). This Note, the Deed of Trust, and the Regulatory Agreement are collectively referred to as the "Loan Documents".

4. Term and Repayment Requirements.

(a) Term. The term of this Note (the "Term"), commences with the date of this Note and expires fifty-five (55) years after the date a final certificate of occupancy, or equivalent document is issued by the City of San Bernardino to certify that the Development may be legally occupied (the "Completion Date"), provided, however, if a record of the Completion Date cannot be located or established, the Loan is due and payable on the fifty-seventh (57th) anniversary of the date of this Note.

(b) Annual Payments. Commencing on April 1 of the year after repayment of the Sponsor Dignity Health Loan, and on April 1 of each year thereafter for the Term, Borrower shall make repayments of the outstanding principal and accrued interest on the Loan in an amount equal to the Authority Prorata Percentage of Lenders' Share of Residual Receipts, (each, an "Annual Payment"). Holder shall apply all Annual Payments as follows: (1) first, to accrued interest, and (2) second, to principal.

(c) Payment in Full. All principal and accrued interest on the Loan is due and payable upon the earlier to occur of: (i) the date of any Default, (ii) the expiration of the Term and, (iii) any sale, transfer, assignment, or conveyance of the Development except as provided in the Ground Lease.

(d) Right to Prepay. Borrower may prepay the Loan at any time without premium or penalty. However, the Regulatory Agreement will remain in effect for the entire term of the Regulatory Agreement, regardless of any prepayment.

(e) Special Definitions. The following definitions shall apply for purposes of this Section 4 and Section 5:

(i) "AHSC Loan" means the loan from the California Department of Housing and Community Development to Borrower of Affordable Housing Sustainable Communities (Affordable Housing Development) funds in the approximate amount of Four Hundred Fifty-Nine Thousand Four Hundred Dollars (\$2,577,286).

(a) "Annual Operating Expenses" with respect to a particular calendar year, means the following costs reasonably and actually incurred for operation and maintenance of the Development: (1) property taxes and assessments imposed on the Development; (2) debt service and associated fees currently due on a non-optional basis (excluding debt service due from residual receipts or surplus cash of the Development) on loans associated with development of the Development and approved by the Authority; (3) bond monitoring fee, issuer fees, trustee's fees and other fees and cost payable to a trustee and/or issuer in connection with tax-exempt bonds issued as part of financing for the Development; (4) property management fees and reimbursements (including deferred payments of previously approved property management fees), on-site property management office expenses, and salaries of property management and

maintenance personnel payable to a property manager approved by the Authority pursuant to the Regulatory Agreement, not to exceed amounts that are standard in the industry and pursuant to a management contract approved by the Authority pursuant to the Regulatory Agreement; (5) on-site service provider fees for tenant social services, provided the Authority has approved, in writing, the plan and budget for such services before such services begin; (6) premiums for property damage and liability insurance; (7) utility services not paid for directly by tenants, including water, sewer, and trash collection; (8) maintenance and repair; (9) any annual license or certificate of occupancy fees required for operation of the Development; (10) security services; (11) advertising and marketing; (12) cash deposited into reserves for capital replacements of the Development in an amount required in connection with the permanent debt or equity financing for the Development; (13) cash deposited into an operating reserve in an amount required in connection with the permanent debt or equity financing; (14) partnership management fees, incentive management fees, and investor services fees payable to any partner of Borrower in the amount set forth in Borrower's partnership agreement; (15) fees for accounting, audit, and legal services incurred by Borrower's general partner in the management of the Development, not to exceed amounts that are standard in the industry; (16) payment of any previously unpaid portion of developer fee; (17) extraordinary operating costs specifically approved by the Authority; (18) cash deposited into any other reserve in an amount required in connection with the permanent debt or equity financing for the Development including a transition reserve and tenant rent burden protection reserve; and (19) payments of deductibles in connection with casualty insurance claims not normally paid from reserves, the amount of uninsured losses actually replaced, repaired or restored, and not normally paid from reserves, and other ordinary and reasonable operating expenses approved by the Authority and not listed above. Annual Operating Expenses do not include the following: depreciation, amortization, depletion or other non-cash expenses, any withdrawal from a reserve account, and any capital cost associated with the Development.

(ii) "Authority" means the Housing Authority of the County of San Bernardino.

(iii) "Authority Development Loan" means the loan from the Authority to Borrower in the approximate amount of Three Million Four Hundred Twelve Thousand Dollars (\$3,412,000).

(iv) "Authority Prorata Percentage" means the result, expressed as a percentage, obtained by dividing the Loan by the sum of the Loan, the Authority Development Loan, the County Loan, the City NSP Loan, the City HOME Loan, and the AHSC Loan, to the extent of the amount of such funds disbursed to Borrower.

(v) "City HOME Loan" means the loan from the City of San Bernardino to Borrower in the amount of Eight Hundred Thirty Thousand Dollars (\$830,000).

(vi) "City NSP Loan" means the loan from the City of San Bernardino to Borrower in the amount of One Million Five Hundred Thousand Dollars (\$1,500,000).

(vii) "County Loan" means the loan from the County of San Bernardino to Borrower in the amount of Two Million Nine Hundred Thousand Dollars (\$2,900,000).

(viii) "Gross Revenue" with respect to a particular calendar year, means all revenue, income, receipts, and other consideration actually received from operation and leasing of the Development. "Gross Revenue" shall include, but not be limited to: (1) all rents, fees and charges paid by tenants; (2) Section 8 payments or other rental subsidy payments received for the dwelling units; (3) deposits forfeited by tenants; (4) all cancellation fees; (5) price index adjustments and any other rental adjustments to leases or rental agreements resulting in actual income; (6) net proceeds from vending and laundry room machines; (7) proceeds of business interruption or similar insurance not paid to lenders with liens senior to the Deed of Trust; (8) subject to the rights of senior lenders of the Development, the proceeds of casualty insurance to the extent not utilized to repair or rebuild the Development (or applied toward the cost of recovering such proceeds); and (9) condemnation awards for a taking of part or all of the Development for a temporary period. "Gross Revenue" does not include tenants' security deposits, loan proceeds, capital contributions or similar advances.

(ix) "Lenders' Share" means fifty percent (50%).

(x) "Residual Receipts" with respect to a particular calendar year, means the amount by which Gross Revenue exceeds Annual Operating Expenses.

(xi) "Sponsor Dignity Health Loan" means the loan from National Community Renaissance, Inc. of California in the approximate amount of One Million Two Hundred Thousand Dollars (\$1,200,000).

5. Reports and Accounting of Residual Receipts. In connection with the Annual Payment, Borrower shall furnish to Holder:

(a) An itemized statement of Residual Receipts for the relevant period. The first statement of Residual Receipts will cover the period that begins the year of repayment in full of the Sponsor Dignity Health Loan and ends on December 31st of that same year. Subsequent statements of Residual Receipts will cover the twelve-month period that ends on December 31 of each year;

(b) A statement from the independent public accountant that audited Borrower's financial records for the relevant period, which statement must confirm that Borrower's calculation of the Lenders' Share of Residual Receipts is accurate based on Gross Revenue and Annual Operating Expenses;

(c) An annual budget for the operation of the Development beginning with 2021; and

(d) Any additional documentation reasonably required by Holder to substantiate Borrower's calculation of Lenders' Share of Residual Receipts.

The receipt by Holder of any statement pursuant to subsection (a) above or any payment by Borrower or acceptance by the Authority of any Loan repayment for any period does not bind Holder as to the correctness of such statement or payment. Holder may audit the Residual Receipts and all books, records, and accounts pertaining thereto pursuant to Section 13.2 of the Ground Lease.

6. No Assumption. This Note is not assumable by the successors and assigns of Borrower without the prior written consent of Holder, except as provided in Article 16 of the Ground Lease, concurrent with a transfer of the Ground Lease.

7. Nonrecourse. The Loan is nonrecourse to Borrower. Neither Borrower, nor any partner of Borrower, has any direct or indirect personal liability for payment of the principal of, and interest on, the Loan. Following recordation of the Deed of Trust, the sole recourse of Holder with respect to the principal of, or interest on, the Note will be to the property described in the Deed of Trust.

8. Terms of Payment.

(a) Borrower shall make all payments due under this Note in currency of the United States of America to Holder at 715 East Brier Drive, San Bernardino, CA 92408-2841, Attn: Executive Director, or to such other place as Holder may from time to time designate.

(b) All payments on this Note are without expense to Holder. Borrower shall pay all costs and expenses, including re-conveyance fees and reasonable attorney's fees of Holder, incurred in connection with the payment of this Note and the release of any security hereof.

(c) Notwithstanding any other provision of this Note, or any instrument securing the obligations of Borrower under this Note, if, for any reason whatsoever, the payment of any sums by Borrower pursuant to the terms of this Note would result in the payment of interest that exceeds the amount that Holder may legally charge under the laws of the State of California, then the amount by which payments exceed the lawful interest rate will automatically be deducted from the principal balance owing on this Note, so that in no event is Borrower obligated under the terms of this Note to pay any interest that would exceed the lawful rate.

9. Event of Default; Acceleration.

(a) Any of the following constitutes an event of default under this Note (each, a "Default"):

(i) Any failure to pay, in full, any payment required under this Note when due;

(ii) Other than the failure addressed above in subsection (i), failure of Borrower to duly perform, comply with, or observe any of the conditions, terms, or covenants of this Note, and such failure having continued uncured for thirty (30) days after receipt of written notice thereof from Holder to Borrower or, if the failure cannot be cured within thirty (30) days, Borrower shall not be in default so long as Borrower is diligently undertaking to cure such failure and such cure is commenced within thirty (30) days of such failure;

(iii) The occurrence of any event of default under Regulatory Agreement or Deed of Trust, or other instrument securing the obligations of Borrower under this Note or under any other promissory notes hereafter issued by Borrower to Holder pursuant to the Deed of Trust, subject to notice and cure periods, if any, set forth therein.

(b) Upon the occurrence of a Default, the entire unpaid principal balance, together with all interest thereon, and together with all other sums then payable under this Note and the Deed of Trust will, at the option of Holder, become immediately due and payable without further demand.

(c) Holder's failure to exercise the remedy set forth in Subsection 9(a) above or any other remedy provided by law upon the occurrence of a Default does not constitute a waiver of the right to exercise any remedy at any subsequent time in respect to the same or any other Default. The acceptance by Holder of any payment that is less than the total of all amounts due and payable at the time of such payment does not constitute a waiver of the right to exercise any of the foregoing remedies or options at that time or at any subsequent time, or nullify any prior exercise of any such remedy or option, without the express consent of Holder, except as and to the extent otherwise provided by law.

(d) The Authority agrees to provide Bank of America, N.A. and Banc of America CDC Special Holding Company, Inc., Borrower's limited partners, (individually and collectively, the "Limited Partner") a duplicate copy of all notices of default that the Authority may give to or serve in writing upon Borrower pursuant to the terms of this Note, at the address set forth in Section 17.12 of the Ground Lease, provided, the Authority shall have no liability to the Limited Partner for its failure to do so. The Limited Partner shall have the right, but not the obligation, to cure any Default of Borrower set forth in such notice, during any applicable cure period described in this Note, and the Authority will accept tender of such cure as if delivered by Borrower. If the Limited Partner is unable to cure a Default because Borrower's general partner is in bankruptcy and/or because the cure requires removal of the general partner of Borrower and the Limited Partner is proceeding diligently to remove the general partner of Borrower in order to effect a cure of the Default, the cure period shall be extended for such reasonable time as is necessary for the Limited Partner to effect a cure of the Default, but in no event longer than sixty (60) days after the date of receipt by the Investor of written notice of the Default; provided, however, such sixty (60) day time period is subject to tolling for any period for which an automatic stay is in effect.

10. Waivers.

(a) Borrower hereby waives diligence, presentment, protest and demand, and notice of protest, notice of demand, notice of dishonor and notice of non-payment of this Note. Borrower expressly agrees that this Note or any payment hereunder may be extended from time to time, and that Holder may accept further security or release any security for this Note, all without in any way affecting the liability of Borrower.

(b) Any extension of time for payment of this Note or any installment hereof made by agreement of Holder with any person now or hereafter liable for payment of this

Note must not operate to release, discharge, modify, change or affect the original liability of Borrower under this Note, either in whole or in part.

(c) The obligations of Borrower under this Note are absolute and Borrower waives any and all rights to offset, deduct or withhold any payments or charges due under this Note for any reason whatsoever.

11. Miscellaneous Provisions.

(a) All notices to Holder or Borrower are to be given in the manner and at the addresses set forth in the Ground Lease, or to such addresses as Holder and Borrower may therein designate.

(b) Borrower promises to pay all costs and expenses, including reasonable attorney's fees, incurred by Holder in the enforcement of the provisions of this Note, regardless of whether suit is filed to seek enforcement.

(c) This Note is governed by the laws of the State of California.

(d) The times for the performance of any obligations hereunder are to be strictly construed, time being of the essence.

(e) The Loan Documents, of which this Note is a part, contain the entire agreement between the parties as to the Loan. This Note may not be modified except upon the written consent of the parties.

(signature on following page)

IN WITNESS WHEREOF, Borrower is executing this Promissory Note as of the day and year first above written.

WATERMAN GARDENS PARTNERS 2, L.P., a
California limited partnership

By: WG PARTNERS 2 MGP, LLC, a California
limited liability company, its general partner

By: National Community Renaissance of
California, a California nonprofit public
benefit corporation, its sole member and
manager

By: _____
Michael Finn
Chief Financial Officer