

RECORDING REQUESTED BY
AND WHEN RECORDED MAIL TO:

Housing Authority of the County of San Bernardino
715 East Brier Drive
San Bernardino, CA 92408-2841
Attn: Executive Director

No fee for recording pursuant to
Government Code Section 27383 and 27388.1

REGULATORY AGREEMENT AND
DECLARATION OF RESTRICTIVE COVENANTS
(Arrowhead Grove)

This Regulatory Agreement and Declaration of Restrictive Covenants (the "Regulatory Agreement") is dated August ____, 2019 and is between HOUSING AUTHORITY OF THE COUNTY OF SAN BERNARDINO, a public body, corporate and politic (the "Authority") and WATERMAN GARDENS PARTNERS 2, L.P., a California limited partnership ("Borrower").

RECITALS

A. Defined terms used but not defined in these recitals are as defined in Article 1 of this Regulatory Agreement.

B. Borrower intends to acquire a leasehold interest in certain real property bounded by Baseline Street to the North and Crestview Avenue to the East, located in San Bernardino, California (the "Property") as more particularly described in the attached Exhibit A.

C. Concurrently herewith Borrower is entering into a ground lease agreement with the Authority (the "Ground Lease"), pursuant to which Borrower will acquire a leasehold interest in the Property from the Authority for a period of ninety (90) years (the "Leasehold Interest"). Borrower intends to demolish the existing improvements on the Property and construct a one hundred eighty-four (184) unit development on the Property, including two (2) manager units, and attendant site improvements (the "Improvements"). Borrower's Leasehold Interest and Borrower's fee interest in the Improvements, are collectively, the "Development".

D. One hundred forty-seven (147) of the Units will be available to households under sixty percent (60%) of TCAC Median Income. Thirty-five (35) of the Units will be available to households of any income level.

E. The Authority is providing two loans to Borrower: (i) a construction loan in the amount of Three Million Four Hundred Twelve Thousand Dollars (\$3,412,000) (the "Development Loan") pursuant to a Development Loan Agreement entered into by and between

the Authority and Borrower dated August _____, 2019, (the "Loan Agreement"); and (ii) a ground lease loan in the amount of Nine Hundred Seventy Thousand Dollars (\$970,000) (the "Ground Lease Loan"). The Development Loan and the Ground Lease Loan are collectively referred to as the "Loan".

F. The Development Loan is partially funded with Moving to Work funds (the "MTW Funds") received by the Authority from the United States Department of Housing and Urban Development ("HUD") pursuant to a Moving to Work Agreement entered into by and between the Authority and HUD as of March 14, 2008, as amended (the "MTW Agreement").

G. The Authority was selected to participate in the Rental Assistance Demonstration program (the "RAD Program") authorized under the Consolidated and Further Continuing Appropriations Act of 2012, as further described in Notice PIH-2012-32 (HA), REV-1 issued July 2, 2013, and as further revised in Notice PIH-2012-32 (HA), REV-2, issued on June 15, 2015 and as further revised in Notice PIH-2012-32 (HA), H-2017-03, REV-3 issued on January 12, 2017, and administered by the United States Department of Housing and Urban Development ("HUD").

H. Pursuant to the RAD Program, Borrower and the Authority will execute a housing assistance payment contract pursuant to which the Authority will provide one hundred sixteen (116) Project-Based Section 8 vouchers to the Development (the "HAP Contract").

I. In order to ensure that the Development will be used and operated in accordance with certain conditions and restrictions regarding occupancy and affordability, the Authority and Borrower wish to enter into this Agreement.

The parties therefore agree as follows:

AGREEMENT

ARTICLE 1 DEFINITIONS

1.1 Definitions.

The following terms have the following meanings:

(a) "30% AMI Household" means a household with not to exceed a 30% Income Level, adjusted for household size, as published by TCAC, or if TCAC does not publish such levels, a household with an annual income that does not exceed thirty percent (30%) of twice the HUD-published Very Low (50%) Income Limit for San Bernardino County, California.

(b) "50% AMI Household" means a household with not to exceed a 50% Income Level, adjusted for household size, as published by TCAC, or if TCAC does not publish such levels, a household with an Adjusted Income (TCAC) that does not exceed fifty percent (50%) of twice the HUD-published Very Low (50%) Income Limit for San Bernardino County, California.

(c) "60% AMI Household" means a household with not to exceed a 60% Income Level, adjusted for household size, as published by TCAC, or if TCAC does not publish such levels, a household with an Adjusted Income (TCAC) that does not exceed sixty percent (60%) of twice the HUD-published Very Low (50%) Income Limit for San Bernardino County, California.

(d) "80% AMI Household" means a household with not to exceed the HUD published Low Income limit, or if HUD does not publish such levels, a household with a Gross Income (HUD) that does not exceed eighty percent (80%) of HUD Median Income.

(e) "30% Units" means the Units which, pursuant to Section 2.1(a) below, are required to be occupied by 30% AMI Households.

(f) "50% Units" means the Units which, pursuant to Section 2.1(b) below, are required to be occupied by 50% AMI Households.

(g) "60% Units" means the Units which, pursuant to Section 2.1(c) below, are required to be occupied by 60% AMI Households.

(h) "Accessibility Requirements" has the meaning set forth in Section 2.1(f) below.

(i) "Actual Household Size" means the actual number of persons in the applicable household.

(j) "Adjusted Income (TCAC)" means with respect to a Tenant of an Authority-Assisted Unit, the income from all persons in the household including nonrelated individuals, calculated using the methods to calculate adjusted income adopted by TCAC.

(k) "Authority-Assisted Units" means the one hundred and sixteen (116) Units constructed on the Development that are restricted to occupancy by 30% AMI Households, 50% AMI Households, and 60% AMI Households, in compliance with Section 2.1 below.

(l) "City" means the City of San Bernardino, California, a municipal corporation.

(m) "Completion Date" means the date a final certificate of occupancy, or equivalent document is issued by the City to certify that the Improvements may be legally occupied.

(n) "Contract Rent" means the total rent payable to Borrower for an Authority-Assisted Unit which includes the Rent paid by Tenants and the rental subsidy paid pursuant to the HAP Contract.

(o) "Deed of Trust" means collectively, the deed of trust to the Authority on Borrower's Leasehold Interest which secures repayment of the Development Loan and the

performance of the Loan Agreement and this Agreement, and the deed of trust to the Authority on Borrower's Leasehold Interest which secures repayment of the Ground Lease Loan.

- (p) "Development" has the meaning set forth in Paragraph C of the Recitals.
- (q) "Development Loan" has the meaning set forth in Paragraph E of the Recitals.
- (r) "Development Regulatory Documents" has the meaning set forth in Section 4.2 below.
- (s) "Existing Households" means any tenants that occupied the Property prior to the date of this Agreement and that have the right to return to a Unit in the Development pursuant to the RAD Program.
- (t) "Grace Period" has the meaning set forth in Section 2.5 below.
- (u) "Gross Income (HUD)" means with respect to a Tenant of an Authority-Assisted Unit, the income from all persons in the household including nonrelated individuals, calculated using the methods to calculate adjusted gross income adopted by HUD.
- (v) "Ground Lease" has the meaning set forth in Paragraph C of the Recitals.
- (w) "Ground Lease Loan" has the meaning set forth in Paragraph E of the Recitals.
- (x) "HAP Contract" has the meaning set forth in Paragraph H of the Recitals.
- (y) "Hardship Exemption" has the meaning set forth in Section 2.3(d) below.
- (z) "Hardship Exemption Period" has the meaning set forth in Section 2.3(d) below.
- (aa) "Hardship Rent Payment" has the meaning set forth in Section 2.3(d) below.
- (bb) "HUD" has the meaning set forth in Paragraph F of the Recitals.
- (cc) "HUD Median Income" means the median gross yearly income, adjusted for Actual Household Size as specified herein, in the County of San Bernardino, California, as published from time to time by HUD. In the event that such income determinations are no longer published, or are not updated for a period of at least eighteen (18) months, the Authority shall provide Borrower with other income determinations that are reasonably similar with respect to methods of calculation to those previously published by HUD.
- (dd) "Improvements" has the meaning set forth in Paragraph C of the Recitals.

(ee) "Leasehold Interest" has the meaning set forth in Paragraph C of the Recitals.

(ff) "Loan" has the meaning set forth in Paragraph E of the Recitals.

(gg) "Loan Agreement" has the meaning set forth in Paragraph E of the Recitals.

(hh) "Loan Documents" means the documents evidencing the Loan including this Regulatory Agreement, the Note, the Loan Agreement, and the Deed of Trust.

(ii) "Maintenance Standards" has the meaning set forth in Section 5.7(a) below.

(jj) "Management Plan" has the meaning set forth in Section 5.5(a) below.

(kk)

(ll) "MTW Agreement" has the meaning set forth in Recital F.

(mm) "MTW Funds" has the meaning set forth in Recital F.

(nn) "MTW Requirements" means the applicable laws, regulations and administrative requirements governing the use of the MTW Funds as set forth in the MTW Agreement and Section 4.3 below.

(oo) "Non-Qualifying Household" has the meaning set forth in Section 2.5 below.

(pp) "Note" means collectively, the promissory notes from Borrower to the Authority evidencing all or any part of the Development Loan and Ground Lease Loan, as such may be amended from time to time.

(qq) "Operating Budget" has the meaning set forth in Section 2.7(a)(2) below.

(rr) "Property" has the meaning set forth in Paragraph B of the Recitals.

(ss) "RAD Program" has the meaning set forth in Paragraph G of the Recitals.

(tt) "Regulatory Agreement" has the meaning set forth in the first paragraph of this Regulatory Agreement.

(uu) "Rent" means the total monthly payments by the Tenant of a Unit for the following: use and occupancy of the Unit and land and associated facilities; any separately charged fees or service charges assessed by Borrower which are customarily charged in rental housing and required of all Tenants, other than security deposits; an allowance for the cost of an adequate level of service for utilities paid by the Tenant, including garbage collection, sewer,

water, electricity, gas and other heating, cooking and refrigeration fuel, but not telephone service or cable TV; and any other interest, taxes, fees or charges for use of the land or associated facilities and assessed by a public or private entity other than Borrower, and paid by the Tenant.

(vv) "Rental Subsidy" has the meaning set forth in Section 2.7(a) below.

(ww) "Successor Unit" has the meaning set forth in Section 2.5 below.

(xx) "TCAC" means the California Tax Credit Allocation Committee.

(yy) "TCAC 30% Rent" means the maximum rent published by TCAC for a "30% AMI Household" in San Bernardino County for the applicable bedroom size.

(zz) "TCAC 50% Rent" means the maximum rent published by TCAC for a "50% AMI Household" in San Bernardino County for the applicable bedroom size.

(aaa) "TCAC 60% Rent" means the maximum rent published by TCAC for a "60% AMI Household" in San Bernardino County for the applicable bedroom size.

(bbb) "TCAC Median Income" means 100% of the gross annual income level, adjusted for Actual Household Size as specified herein, in the County of San Bernardino, California, as published from time to time by TCAC. In the event that such income determinations are no longer published, or are not updated for a period of at least eighteen (18) months, the Authority shall provide Borrower with other income determinations that are reasonably similar with respect to methods of calculation to those previously published by TCAC.

(ccc) "Tenant" means the tenant household that occupies a Unit in the Development.

(ddd) "Tenant Rent Burden Protection Reserve" has the meaning set forth in Section 2.3(e) below.

(eee) "Term" means the term of this Regulatory Agreement which commences as of the date of this Regulatory Agreement, and unless sooner terminated pursuant to the terms of this Regulatory Agreement, expires on the fifty-fifth (55th) anniversary of the Completion Date; provided, however, if a record of the Completion Date cannot be located or established, the Term will expire on the fifty-seventh (57th) anniversary of this Regulatory Agreement.

(fff) "Unit(s)" means one (1) or more of the units in the Development.

ARTICLE 2
AFFORDABILITY AND OCCUPANCY COVENANTS

2.1 Occupancy Requirements.

(a) 30% Units. During the Term Borrower shall cause thirty-two (32) of the Authority-Assisted Units to be rented to and occupied by or, if vacant, available for occupancy by, 30% AMI Households.

(b) 50% Units. During the Term Borrower shall cause thirty-one (31) of the Authority-Assisted Units to be rented to and occupied by or, if vacant, available for occupancy by, 50% AMI Households.

(c) 60% Units. During the Term Borrower shall cause fifty-three (53) of the Authority-Assisted Units to be rented to and occupied by or, if vacant, available for occupancy by, 60% AMI Households.

(d) Intermingling of Units. Borrower shall cause the Authority-Assisted Units to be intermingled throughout the Development and of comparable quality to all other Units. All Tenants must have equal access to and enjoyment of all common facilities in the Development.

(e) Authority Waitlist. The Authority will maintain a waitlist for occupancy of the Authority-Assisted Units. Vacancies in the Authority-Assisted Units will be filled from the Authority's waitlist in order to satisfy the occupancy requirements set forth in this Section 2.1.

(f) Disabled Persons Occupancy. Borrower shall cause the Development to be constructed and operated at all times in compliance with all applicable federal, state, and local disabled persons accessibility requirements including, but not limited to the applicable provisions of: (i) the Unruh Act, (ii) the California Fair Employment and Housing Act, (iii) Section 504 of the Rehabilitation Act of 1973, (iv) the United States Fair Housing Act, as amended, (v) the Americans With Disabilities Act of 1990, and (vi) Chapters 11A and 11B of Title 24 of the California Code of Regulations, which relate to disabled persons access (collectively, the "Accessibility Requirements"). In compliance with the Accessibility Requirements: (i) a minimum of ten (10) Units must be constructed to be fully accessible to households with a mobility impaired member and, (ii) an additional four (4) Units must be fully accessible to hearing and/or visually impaired persons. In compliance with the Accessibility Requirements Borrower shall provide the Authority with a certification from the Development architect that to the best of the architect's knowledge, the Development complies with all federal and state accessibility requirements applicable to the Development. Borrower shall indemnify, protect, hold harmless and defend (with counsel reasonably satisfactory to the Authority) the Authority, and its board members, officers and employees, from all suits, actions, claims, causes of action, costs, demands, judgments and liens arising out of Borrower's failure to comply with the Accessibility Requirements. The provisions of this subsection will survive expiration of the Term or other termination of this Regulatory Agreement, and remain in full force and effect.

(g) Existing Households Occupancy. Borrower shall not subject any Existing Households to rescreening, income eligibility, or income targeting provisions. Nothing in this subsection shall be deemed to prohibit Borrower from obtaining income certifications from the Existing Households, in accordance with the requirements of TCAC; provided, however, in no event shall such income certification be used to deny or otherwise impair the Existing Household's right to return to, and occupy, a Unit in the Development in accordance with the RAD Program.

2.2 Allowable Rent.

(a) Rent Paid by Tenants of 30% Units. Subject to Sections 2.3, 2.4, and 2.7 below, Rent paid by Tenants of the 30% Units (not including Existing Households) shall not exceed the TCAC 30% Rent for the applicable bedroom size.

(b) Rent Paid by Tenants of 50% Units. Subject to Sections 2.3, 2.4, and 2.7 below, Rent paid by Tenants of the 50% Units (not including Existing Households) shall not exceed the TCAC 50% Rent for the applicable bedroom size.

(c) Rent Paid by Tenants of 60% Units. Subject to Sections 2.3, 2.4, and 2.7 below, Rent paid by Tenants of the 60% Units (not including Existing Households) shall not exceed the TCAC 60% Rent for the applicable bedroom size.

(d) Rent Paid by Existing Households. Subject to Section 2.7 below, Rent paid by an Existing Household in any Authority-Assisted Units shall not exceed the percentage of the Existing Household's Gross Income (HUD) as set forth in the Authority's Streamlined Lease Assistance MTW activity, as such is further specified in the HAP Contract. The Authority shall notify Borrower of any change in the rent to be charged Existing Households, at any such time as the Authority determines such change in rent is warranted.

(e) No Additional Fees. Borrower may not charge any fee, other than Rent, to any Tenant of the Authority-Assisted Units for any housing or other services provided by Borrower and included in the definition of "Rent." Nothing herein shall prevent Borrower from establishing charges for tenant defaults or for voluntary services if such charges are not prohibited by 24 CFR 982.510 and/or TCAC.

(f) Contract Rent for the Authority-Assisted Units. The Contract Rent that Borrower may receive for the Authority-Assisted Units is set forth in the HAP Contract.

2.3 Rent Increases.

(a) Rent Amount. The initial Rent for all Authority-Assisted Units must be approved by the Authority prior to occupancy, which rent shall be the most recently published TCAC 30% Rent, TCAC 50% Rent, or TCAC 60% Rent, as applicable to the income tier to which such Authority-Assisted Unit is assigned, and shall be inclusive of the utility allowance published, or otherwise approved for the Development, by TCAC.

(b) Rent Increases. Borrower may increase Rents of Authority-Assisted Units (but not including Existing Tenants) to the most recently published TCAC 30% Rent, TCAC 50% Rent, or TCAC 60% Rent, as applicable to the income tier in which any household was initially qualified, or the income tier to which a household has been "remapped" consistent with Section 2.4 below. Borrower shall give the Authority and Tenants written notice at least thirty (30) days prior to any Rent increase. The approval of the Authority (which approval will not be unreasonably withheld, conditioned or delayed) is required before Borrower implements any such Rent increase which will cause a Tenant to qualify for a Hardship Exemption, unless such Rent increase is required to be implemented by any other public agency with a regulatory agreement recorded against the Development.

(c) Change to Utility Allowance. If a California Utility Allowance Calculator utility allowance is approved through TCAC, or any other agency requiring approval before use, the same may be implemented by Borrower pursuant to TCAC regulations. A change in the utility allowance shall not be defined as, nor considered as, a change in Rent, and may be implemented at any time, once annually, either in conjunction with changes in Rent, or otherwise when published.

(d) Hardship Exemption. If at any time a Tenant occupying an Authority-Assisted Unit is paying more than forty percent (40%) of the household's Gross Income (HUD) in Rent, such Tenant may be eligible for a reduction in the amount of Rent the Tenant is required to pay (the "Hardship Exemption"). If a Hardship Exemption requested by a Tenant is approved by the Authority, then upon notice from the Authority to the Tenant and Borrower, the Rent paid by the Tenant will be reduced so that it is no more than forty percent (40%) of the household's Gross Income (HUD) for a period of six (6) months or such other period as may be provided for by the Authority's hardship exemption rules (the "Hardship Exemption Period"). The qualifications and process for a Tenant to apply for a Hardship Exemption are set forth in the HAP Contract and notice thereof shall be included in the Tenant's lease. At the end of the Hardship Exemption Period, the amount of Rent paid by the Tenant will return to the TCAC 30% Rent, TCAC 50% Rent, or TCAC 60% Rent as applicable. During the Hardship Exemption Period, Borrower may request approval of the Authority to withdraw funds from the Tenant Rent Burden Protection Reserve for use to pay the difference between forty percent (40%) of the Tenant's Gross Income (HUD) and the TCAC 30% Rent, TCAC 50% Rent, or TCAC 60% Rent as applicable (the "Hardship Rent Payment").

(e) Tenant Rent Burden Protection Reserve. Borrower shall fund an account that is available to pay the Hardship Rent Payments (the "Tenant Rent Burden Protection Reserve"). Borrower shall capitalize the Tenant Rent Burden Protection Reserve at completion of construction of the Development in the amount of Twenty-One Thousand Dollars (\$21,000) which represents an estimate of three (3) years of Hardship Rent Payments. Borrower shall replenish the Tenant Rent Burden Protection Reserve as necessary, such that the amount of funds in the Tenant Rent Burden Protection Reserve never falls below Seven Thousand Dollars (\$7,000). Borrower shall hold the Tenant Rent Burden Protection Reserve in a segregated account provided that withdrawals from the Tenant Rent Burden Protection Reserve are subject to the consent of the Authority, which consent shall not be unreasonably withheld, conditioned, or delayed. Borrower shall request funds from the Tenant Rent Burden Protection Reserve as set

forth in subsection (c) above to make a Hardship Rent Payment. Borrower shall provide the Authority information annually, on the amount of funds withdrawn from the Tenant Rent Burden Protection Reserve and the remaining balance in the Tenant Rent Burden Protection Reserve.

2.4 Increased Income of Tenants. The requirements of this Section 2.4 do not apply to Existing Tenants. Subject to Section 2.3 above, if, upon the annual certification of the income of a Tenant of an Authority-Assisted Unit, Borrower determines that the income of the Tenant has increased to at or above the qualifying limit for a 30% AMI Household, 50% AMI Household, 60% AMI Household, as applicable, for the income that the Tenant initially qualified under, but below the qualifying income for an 80% AMI Household, the Tenant may continue to occupy the Unit and Borrower may (but shall not be required to) increase the Tenant's Rent to the 50% TCAC Rent or 60% TCAC Rent as applicable for the income level that the Tenant now qualifies under, but in no event to a level that would cause the Tenant to qualify for a Hardship Exemption.

2.5 Non-Qualifying Household. If, upon any recertification of the income of a Tenant of an Authority-Assisted Unit, Borrower or the Authority determines that the Tenant has a Gross Income (HUD) exceeding the maximum qualifying income for an 80% AMI Household, such Tenant shall be deemed a "Non-Qualifying Household" and that Tenant may remain in the Authority-Assisted Unit for a period of six (6) months (the "Grace Period") and shall be notified in writing that if their income still exceeds that of an 80% AMI Household at the end of the Grace Period, they may be required to vacate the Unit. During the Grace Period, if there is a vacant Unit that is not an Authority-Assisted Unit, (a "Successor Unit"), Borrower may (but is not required to) rent the Successor Unit to a 30% AMI Household, 50% AMI Household, or 60% AMI Household, as applicable, to meet the requirements of Section 2.1 above, and such Successor Unit shall then be deemed an Authority-Assisted Unit and shall qualify for subsidy under the HAP Contract. If after the Grace Period no Successor Unit has been leased as provided above, and the Tenant's income still exceeds that of an 80% AMI Household, Borrower shall terminate the Tenant's lease. At the end of the Grace Period any Non-Qualifying Household residing in an Authority-Assisted Unit will no longer be eligible to receive a rental subsidy under the HAP Contract and the rental subsidy will be suspended for that Unit until such time as it is leased to a qualifying Tenant or a Successor Unit is so leased.

2.6 Income and Rent Calculations. In the event that TCAC or HUD no longer publishes the income and rent information that this Agreement contemplates that TCAC or HUD will publish, the Authority shall provide Borrower with other income and rent determinations which are reasonably similar with respect to methods of calculation to those previously published by TCAC or HUD, as applicable.

2.7 Loss of Subsidy.

(a) It is anticipated that all of the Authority-Assisted Units in the Development will receive Project-Based Section 8 rental subsidies either through the HAP Contract or otherwise (the "Rental Subsidy") throughout the Term. If any change in federal law, regulation or policy occurs, or any action (or inaction) by Congress or any federal or state agency occurs, which results in a material reduction or change in the calculation, termination or nonrenewal of the Rental Subsidy through no fault of Borrower, such that the Rental Subsidy

shown on the budget for the Development approved by the Authority and/or the HAP Contract is no longer available, Borrower shall, in anticipation of such loss in Rental Subsidy, use good faith efforts for a period of sixty (60) days, to obtain alternative sources of rental subsidies and shall provide the Authority weekly progress reports on Borrower's efforts to obtain alternative sources of rental subsidies. In no event shall the Authority have any obligation to backfill any loss of Rental Subsidy. If at the end of such sixty (60) day period Borrower is unable to secure an alternate source of rental subsidy, notwithstanding Section 2.3(b), Borrower may increase the Rent on one or more of the Authority-Assisted Units, to the TCAC 60% Rent, subject to the following requirements:

(1) Any such Rent increase must be pursuant to a transition plan approved by the Authority (which approval will not be unreasonably withheld, conditioned, or delayed) showing how the Rent increase will be phased-in, and specifying which Authority-Assisted Units will be subject to the increase, and, if applicable, be consistent with remedial measures set forth in California Code of Regulations Title 4, Division 17, Chapter 1, Section 10337(a)(3) or successor regulation applicable to California's Federal and State Low Income Housing Tax Credit Program;

(2) At the time Borrower requests an increase in the Rent, Borrower shall provide the Authority with an operating budget for the Development for the Authority's approval pursuant to Section 4.2 of the Loan Agreement, showing the impact of the loss or reduction of the Rental Subsidy (the "Operating Budget");

(3) Any subsequent Rent increases remain subject to Section 2.3(b) above; and

(4) The number of Authority-Assisted Units subject to the Rent increase and the level of rent increase shall be sufficient, but not be substantially greater than, the amount required to ensure that the Development generates sufficient income to cover its operating costs and debt service as shown on the Operating Budget, and as is necessary to maintain the financial stability of the Development.

(b) Borrower shall continue to use good faith efforts to obtain alternative sources of rental subsidies and shall provide the Authority with annual progress reports on efforts to obtain alternative sources of rental subsidies that would allow the rents on the Authority-Assisted Units to be reduced back to the applicable Rents set forth in Section 2.2. Upon receipt of any alternative rental subsidies, Borrower shall reduce the rents on the Authority-Assisted Units back to the applicable Rents set forth in Section 2.2, to the extent that the alternative rental subsidies provide sufficient income to cover the operating costs and debt service of the Development as shown on the Operating Budget, and in all events the financial stability of the Development is maintained.

2.8 Rent Increases on Foreclosure. Notwithstanding anything to the contrary herein, in the event that a Senior Lender (as defined in the Loan Agreement) forecloses on the Development (or receives a deed in lieu of foreclosure), the Rents on one or more of the

Authority-Assisted Units may be increased to the TCAC 60% Rent to maintain the financial feasibility of the Development, subject to the following requirements:

(a) Any such Rent increase must be pursuant to a transition plan approved by the Authority (which approval will not be unreasonably withheld, conditioned, or delayed) showing: (i) how the Rent increase will be phased-in; (ii) which Authority-Assisted Units will be subject to the increase; and (iii) the operating income and expenses for the Development comparing the current rent structure to the proposed rent structure;

(b) The number of Authority-Assisted Units subject to the Rent increase and the level of rent increase may not be greater than the amount required to ensure that the Development generates sufficient income to cover its operating costs and debt service, and as is necessary to maintain the financial stability of the Development; and

(c) The Rent increase may occur only at the time of renewal of the term of the lease of an existing Tenant or the time of leasing an Authority-Assisted Unit to a new Tenant. Any subsequent Rent increases remain subject to Section 2.3(b) above.

ARTICLE 3 INCOME CERTIFICATION; REPORTING; RECORDS

3.1 Income Certification. Borrower shall obtain, complete, and maintain on file, within one hundred twenty (120) days before expected occupancy and annually thereafter, income certifications from each Tenant renting any of the Authority-Assisted Units. Borrower shall make a good faith effort to verify the accuracy of the income provided by the applicant or occupying household, as the case may be, in an income certification. Copies of Tenant income certifications are to be available to the Authority upon request.

3.2 Reporting Requirements.

(a) Borrower shall submit to the Authority within one hundred eighty (180) days after the Completion Date, and not later than forty-five (45) days after the close of each calendar year, or such other date as may be requested by the Authority, a report that includes the following data for each Unit and specifically identifies which Units are Authority-Assisted Units: (i) Tenant income, (ii) the number of occupants, (iii) the Rent, (iv) the number of bedrooms, and (v) the initial address of each Tenant. To demonstrate continued compliance with Section 2.1 Borrower shall cause each annual report after the initial report to include a record of any subsequent Tenant substitutions and any vacancies in Authority-Assisted Units that have been filled. Such annual report shall also include the number of Hardship Exemptions and the use of funds from the Tenant Rent Protection Burden Reserve.

(b) Borrower shall submit to the Authority within forty-five (45) days after receipt of a written request, or such other time agreed to by the Authority, any other information or completed forms requested by the Authority in order to comply with reporting requirements of HUD, the State of California, and the Authority.

3.3 Tenant Records. Borrower shall maintain complete, accurate and current records pertaining to income and household size of Tenants and rent charged to Tenants. All Tenant lists, applications and waiting lists relating to the Development are to be at all times: (i) separate and identifiable from any other business of Borrower, (ii) maintained as required by the Authority, in a reasonable condition for proper audit, and (iii) subject to examination during business hours by representatives of the Authority. Borrower shall retain copies of all materials obtained or produced with respect to occupancy of the Units for a period of at least five (5) years. The Authority may examine and make copies of all books, records or other documents of Borrower that pertain to the Development.

3.4 Development Records.

(a) Borrower shall keep and maintain at the principal place of business of the Borrower set forth in Section 6.11 below, or elsewhere with the Authority's written consent, full, complete and appropriate books, records and accounts relating to the Development. Borrower shall cause all books, records and accounts relating to its compliance with the terms, provisions, covenants and conditions of the Loan Documents to be kept and maintained in accordance with generally accepted accounting principles consistently applied, and to be consistent with requirements of this Regulatory Agreement. Borrower shall cause all books, records, and accounts to be open to and available for inspection and copying by HUD, the Authority, its auditors or other authorized representatives at reasonable intervals during normal business hours. Borrower shall cause copies of all tax returns and other reports that Borrower may be required to furnish to any government agency to be open for inspection by the Authority at all reasonable times at the place that the books, records and accounts of Borrower are kept. Borrower shall preserve such records for a period of not less than five (5) years after their creation in compliance with all HUD records and accounting requirements. If any litigation, claim, negotiation, audit exception, monitoring, inspection or other action relating to the use of the Loan is pending at the end of the record retention period stated herein, then Borrower shall retain the records until such action and all related issues are resolved. Borrower shall cause the records to include all invoices, receipts, and other documents related to expenditures from the Loan funds. Such records are to include but are not limited to:

(i) Records providing a full description of the activities undertaken with the use of the Loan funds;

(ii) Records demonstrating compliance with the maintenance requirements set forth in Section 5.7;

(iii) Records documenting compliance with the fair housing, equal opportunity, and affirmative fair marketing requirements;

(iv) Financial records; and

(v) Records demonstrating compliance with the affordability, and income requirements.

(b) The Authority shall notify Borrower of any records it deems insufficient. Borrower has fifteen (15) calendar days after the receipt of such a notice to correct any deficiency in the records specified by the Authority in such notice, or if a period longer than fifteen (15) days is reasonably necessary to correct the deficiency, then Borrower must begin to correct the deficiency within fifteen (15) days and correct the deficiency as soon as reasonably possible.

3.5 Annual Compliance Monitoring Fee. Borrower shall pay the Authority an annual compliance monitoring fee in the amount of \$_____.

ARTICLE 4 OPERATION OF THE DEVELOPMENT

4.1 Residential Use. Borrower shall operate the Units in the Development for residential use only. None of the Units in the Development may be operated as transient housing.

4.2 Compliance with Loan Documents and Program Requirements. Borrower's actions with respect to the Development shall at all times be in full conformity with: (i) all requirements of the Loan Documents; (ii) the HAP Contract; and (iii) any other regulatory requirements imposed on the Development including but not limited to regulatory agreements associated with the Low Income Housing Tax Credits provided by the California Tax Credit Allocation Committee, and the RAD Program (the "Development Regulatory Documents"). Borrower shall promptly notify the Authority in writing of the existence of any default under any Development Regulatory Documents, and provide the Authority copies of any such notice of default.

4.3 MTW Requirements.

(a) During the Term Borrower shall comply with the following requirements (the "MTW Requirements"). In the event of any conflict between this Agreement and the MTW Requirements, the MTW Requirements will govern.

(b) The MTW Requirements include (but are not limited to) the following:

(1) Civil Rights, Housing and Community Development, and Age Discrimination Acts. The Fair Housing Act (42 U.S.C. 3601 et seq.) and implementing regulations at 24 CFR Part 100; Title VI of the Civil Rights Act of 1964 as amended; Title VIII of the Civil Rights Act of 1968 as amended; Section 104(b) and Section 109 of Title I of the Housing and Community Development Act of 1974 as amended; the Age Discrimination Act of 1975 (42 USC 6101, et seq.); Executive Order 11063 as amended by Executive Order 12259 and implementing regulations at 24 CFR Part 107; Executive Order 11246 as amended by Executive Orders 11375, 12086, 11478, 12107; Executive Order 11625 as amended by Executive Order 12007; Executive Order 12432; Executive Order 12138 as amended by Executive Order 12608.

(2) Discrimination against the Disabled. The requirements of Section

504 of the Rehabilitation Act of 1973 (29 U.S.C. 794), and federal regulations issued pursuant thereto, which prohibit discrimination against the disabled in any federally assisted program, the requirements of the Architectural Barriers Act of 1968 (42 U.S.C. 4151-4157) and the applicable requirements of Title II and/or Title III of the Americans with Disabilities Act of 1990 (42 U.S.C. 12131 et seq.), and federal regulations issued pursuant thereto.

(3) Relocation. The requirements of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (42 U.S.C. 4601, et seq.), and implementing regulations at 49 CFR Part 24; and California Government Code Section 7260 et seq. and implementing regulations at 25 California Code of Regulations Sections 6000 et seq.

(4) Labor Standards. The prevailing wage requirements of the Davis-Bacon Act and implementing rules and regulations (40 U.S.C. 3141-3148); the Copeland "Anti-Kickback" Act (40 U.S.C. 276(c)) which requires that workers be paid at least once a week without any deductions or rebates except permissible deductions; the Contract Work Hours and Safety Standards Act – CWHSSA (40 U.S.C. 3701-3708) which requires that workers receive "overtime" compensation at a rate of 1-1/2 times their regular hourly wage after they have worked forty (40) hours in one (1) week; and Title 29, Code of Federal Regulations, Subtitle A, Parts 1, 3 and 5 are the regulations and procedures issued by the Secretary of Labor for the administration and enforcement of the Davis-Bacon Act, as amended.

(5) Training Opportunities. The requirements of Section 3 of the Housing and Urban Development Act of 1968, as amended, 12 U.S.C. 1701u ("Section 3"), requiring that to the greatest extent feasible opportunities for training and employment be given to lower income residents of the project area and agreements for work in connection with the project be awarded to business concerns which are located in, or owned in substantial part by persons residing in, the areas of the project. Owner agrees to include the following language in all subcontracts executed under this Agreement and subject to Section 3 requirements:

(A) The work to be performed under this contract is subject to the requirements of Section 3 of the Housing and Urban Development Act of 1968, as amended, 12 U.S.C. 1701u. The purpose of Section 3 is to ensure that employment and other economic opportunities generated by HUD assistance or HUD-assisted projects covered by Section 3, shall, to the greatest extent feasible, be directed to low- and very low-income persons, particularly persons who are recipients of HUD assistance for housing.

(B) The parties to this contract agree to comply with HUD's regulations in 24 CFR Part 135, which implement Section 3. As evidenced by their execution of this contract, the Parties to this contract certify that they are under no contractual or other impediment that would prevent them from complying with the Part 135 regulations.

(C) The contractor agrees to send to each labor organization or representative of workers with which the contractor has a collective bargaining agreement or other understanding, if any, a notice advising the labor organization or workers' representative of the contractor's commitments under this Section 3 clause; and will post copies of the notice in conspicuous places at the work site where both employees and applicants for training and employment positions can see the notice. The notice shall describe the Section 3 preference;

shall set forth minimum number and job titles subject to hire; availability of apprenticeship and training positions; the qualifications for each; the name and location of the person(s) taking applications for each of the positions; and the anticipated date the work shall begin.

(D) The contractor agrees to include this Section 3 clause in every subcontract subject to compliance with regulations in 24 CFR Part 135, and agrees to take appropriate action, as provided in an applicable provision of the subcontract or in this Section 3 clause, upon a finding that the subcontractor is in violation of the regulations in 24 CFR Part 135. The contractor will not subcontract with any subcontractor where the contractor has notice or knowledge that the subcontractor has been found in violation of the regulations in 24 CFR Part 135.

(E) The contractor will certify that any vacant employment positions, including training positions, that are filled (1) after the contractor is selected but before the contract is executed, and (2) with persons other than those to whom the regulations of 24 CFR Part 135 require employment opportunities to be directed, were not filled to circumvent the contractor's obligations under 24 CFR Part 135.

(F) Noncompliance with HUD's regulations in 24 CFR Part 135 may result in sanctions, termination of this contract for default, and debarment or suspension from future HUD assisted contracts.

(G) With respect to work performed in connection with Section 3 covered Indian housing assistance, section 7(b) of the Indian Self-Determination and Education Assistance Act (25 U.S.C. 450e) also applies to the work to be performed under this contract. Section 7(b) requires that to the greatest extent feasible (i) preference and opportunities for training and employment shall be given to Indians, and (ii) preference in the award of contracts and subcontracts shall be given to Indian organizations and Indian-owned Economic Enterprises. Parties to this contract that are subject to the provisions of Section 3 and section 7(b) agree to comply with Section 3 to the maximum extent feasible, but not in derogation of compliance with section 7(b).

(6) Debarred, Suspended or Ineligible Contractors. The prohibition on the use of debarred, suspended, or ineligible contractors set forth in 24 CFR Part 24.

(7) Lead-Based Paint. The requirement of the Lead-Based Paint Poisoning Prevention Act, as amended (42 U.S.C. 4821 et seq.), the Residential Lead-Based Paint Hazard Reduction Act (42 U.S.C. 4851 et seq.), and implementing regulations at 24 CFR Part 35.

(8) Drug Free Workplace. The requirements of the Drug Free Workplace Act of 1988 (P.L. 100-690) and implementing regulations at 24 CFR Part 24.

(9) Anti-Lobbying; Disclosure Requirements. The disclosure requirements and prohibitions of 31 U.S.C. 1352 and implementing regulations at 24 CFR Part 87.

ARTICLE 5 PROPERTY MANAGEMENT AND MAINTENANCE

5.1 Management Responsibilities. Borrower is responsible for all management functions with respect to the Development, including without limitation the selection of Tenants, certification and recertification of household size and income, evictions, collection of rents and deposits, maintenance, landscaping, routine and extraordinary repairs, replacement of capital items, and security. The Authority has no responsibility for management of the Development. Borrower shall retain a professional property management company approved by the Authority in its reasonable discretion to perform Borrower's management duties hereunder. An on-site property manager is also required.

5.2 Management Agent. Borrower shall cause the Development to be managed by an experienced management agent reasonably acceptable to the Authority, with a demonstrated ability to operate residential facilities like the Development in a manner that will provide decent, safe, and sanitary housing (the "Management Agent"). The Authority has approved National Community Renaissance of California as the initial Management Agent. Borrower shall submit for the Authority's approval the identity of any proposed subsequent management agent. Borrower shall also submit such additional information about the background, experience and financial condition of any proposed management agent as is reasonably necessary for the Authority to determine whether the proposed management agent meets the standard for a qualified management agent set forth above. If the proposed management agent meets the standard for a qualified management agent set forth above, the Authority shall approve the proposed management agent by notifying Borrower in writing. Unless the proposed management agent is disapproved by the Authority within thirty (30) days, which disapproval is to state with reasonable specificity the basis for disapproval, it shall be deemed approved.

5.3 Periodic Performance Review. The Authority reserves the right to conduct an annual (or more frequently, if deemed necessary by the Authority) review of the management practices and financial status of the Development. The purpose of each periodic review will be to enable the Authority to determine if the Development is being operated and managed in accordance with the requirements and standards of this Regulatory Agreement. Borrower shall cooperate with the Authority in such reviews.

5.4 Replacement of Management Agent. If, as a result of a periodic review, the Authority determines in its reasonable judgment that the Development is not being operated and managed in accordance with any of the material requirements and standards of this Regulatory Agreement, the Authority shall deliver notice to Borrower of its intention to cause replacement of the Management Agent, including the reasons therefor. Within fifteen (15) days after receipt by Borrower of such written notice, the Authority staff and Borrower shall meet in good faith to consider methods for improving the financial and operating status of the Development, including, without limitation, replacement of the Management Agent.

If, after such meeting, Authority staff recommends in writing the replacement of the Management Agent, then with the concurrence of Borrower's investment limited partner and first priority permanent lender, Borrower shall promptly dismiss the then-current Management Agent,

and shall appoint as the Management Agent a person or entity meeting the standards for a management agent set forth in Section 5.2 above and approved by the Authority pursuant to Section 5.2 above.

Any contract for the operation or management of the Development entered into by Borrower shall provide that the Management Agent may be dismissed and the contract terminated as set forth above. Failure to remove the Management Agent in accordance with the provisions of this Section constitutes a default under this Regulatory Agreement, and the Authority may enforce this provision through legal proceedings as specified in Section 6.5 below.

Borrower shall submit its written management policies with respect to the Development to the Authority for its review, and shall amend such policies in any way necessary to ensure that such policies comply with the provisions of this Regulatory Agreement

5.5 Management Plan.

(a) No later than six (6) months prior to the projected date of the completion of the Development, Borrower shall submit to the Authority for approval its plan for managing the Development (the "Management Plan"). Specifically, the Management Plan must include information on Borrower's plan for tracking: (i) Tenant income increases; (ii) the amount of Rent paid by Tenants; (iii) the number of Hardship Exemptions; and (iv) the use of the Tenant Rent Protection Burden Reserve.

(b) Upon receipt of the Management Plan, the County shall promptly review the Management Plan and shall approve or disapprove it within fifteen (15) days after submission, provided that such approval shall not be unreasonably denied. If the Management Plan is not approved, the Authority shall set forth in writing and notify Borrower of the Authority's reasons for withholding such approval. Borrower shall submit a revised Management Plan within fifteen (15) days thereafter, and the Authority shall approve or disapprove it within fifteen (15) days after submission, provided that such approval shall not be unreasonably denied. If the Authority does not approve the revised Management Plan, Borrower shall be in default hereunder.

(c) Borrower shall comply with the approved Management Plan during the Term and may not make material modifications to the Management Plan without the prior written approval of the Authority, which approval shall not be unreasonably withheld.

5.6 Lease Provisions.

(a) No later than four (4) months prior to the date construction of the Development is projected to be complete, Borrower shall submit to the Authority Borrower's proposed form of lease agreement for the Authority's review and approval. When leasing the Authority-Assisted Units within the Development, Borrower shall use the form of lease approved by the Authority. The form of lease must comply with all requirements of this Agreement, the other Loan Documents and must, among other matters:

(1) Subject to any superior rights of Existing Households, provide for termination of the lease and consent by the Tenant to immediate eviction for failure: (i) to provide any information required under this Agreement or reasonably requested by Borrower to establish or recertify the Tenant's qualification, or the qualification of the Tenant's household, for occupancy in the Development in accordance with the standards set forth in this Agreement, and (ii) to qualify as a 30% AMI Household, 50% AMI Household, or 60% AMI Household as applicable, as a result of any material misrepresentation made by such Tenant with respect to the income computation.

(2) Be for an initial term of not less than one (1) year, unless by mutual agreement between the Tenant and Borrower, and provide for no increase in Rent during such initial year. After the initial year of tenancy, the lease may be month-to-month by mutual agreement of Borrower and the Tenant. Notwithstanding the above, any Rent increases shall be subject to the requirements of Section 2.3.

(3) Include a provision which shall require a Tenant who is residing in a Unit made accessible pursuant to Section 2.1(f) above and who is not in need of an accessible Unit to move to a non-accessible Unit when a non-accessible Unit becomes available and another Tenant or prospective Tenant is in need of an accessible Unit.

(4) Include provisions on the Hardship Exemption.

5.7 Property Maintenance.

(a) Borrower shall maintain, for the entire Term of this Regulatory Agreement, all interior and exterior Improvements, including landscaping in decent, safe and sanitary condition, and in good condition and repair. Borrower shall cause the Development to be: (i) maintained in accordance with the HAP Contract, the MTW Requirements, and all applicable laws, rules, ordinances, orders and regulations of all federal, state, county, municipal, and other governmental agencies and bodies having or claiming jurisdiction and all their respective departments, bureaus, and officials; and (ii) free of all health and safety defects (collectively, the "Maintenance Standards"). Borrower shall correct any life-threatening maintenance deficiencies immediately upon notification.

(b) At the beginning of each year of the Term, Borrower shall certify to the Authority that the Development is in compliance with these Maintenance Standards.

5.8 Property Inspections.

(a) On-Site Physical Inspections. The Authority will perform on-site inspections of the Development during the Term to ensure compliance with the Maintenance Standards. The Authority will perform an on-site inspection within twelve months after completion of construction of the Development and at least once every three (3) years during the Term. If the Development is found to have health and safety violations, the Authority may perform more frequent inspections. Borrower shall cooperate in such inspections.

(b) Violation of Maintenance Standards. If after an inspection, the Authority determines that Borrower is in violation of the Maintenance Standards, the Authority will provide Borrower a written report of the violations. Borrower shall correct the violations set forth in the report provided to Borrower by Authority. The Authority will perform a follow-up inspection to verify that the violations have been corrected. If such violations continue for a period of ten (10) days after delivery of the report to Borrower by the Authority with respect to graffiti, debris, waste material, and general maintenance, or thirty (30) days after delivery of the report to Borrower by the Authority with respect to landscaping and building improvements, then the Authority, in addition to whatever other remedy it may have at law or in equity, has the right to enter upon the Development and perform or cause to be performed all such acts and work necessary to cure the violation. Pursuant to such right of entry, the Authority is permitted (but is not required) to enter upon the Development and to perform all acts and work necessary to protect, maintain, and preserve the improvements and landscaped areas on the Development, and to attach a lien on the Development, or to assess the Development, in the amount of the expenditures arising from such acts and work of protection, maintenance, and preservation by the Authority and/or costs of such cure, which amount Borrower shall promptly pay to the Authority upon demand.

ARTICLE 6 MISCELLANEOUS

6.1 Nondiscrimination.

(a) All of the Units must be available for occupancy on a continuous basis to members of the general public who are income eligible. Borrower may not give preference to any particular class or group of persons in renting or selling the Units, except to the extent that the Units are required to be leased to income eligible households pursuant to this Regulatory Agreement and Development Regulatory Documents. Borrower herein covenants by and for Borrower, assigns, and all persons claiming under or through Borrower, that there exist no discrimination against or segregation of, any person or group of persons on account of race, color, creed, religion, sex, sexual orientation, marital status, national origin, source of income (e.g., SSI), ancestry, age, familial status (except for lawful senior housing in accordance with state and federal law) or disability, in the leasing, subleasing, transferring, use, occupancy, tenure, or enjoyment of any unit nor will Borrower or any person claiming under or through Borrower, establish or permit any such practice or practices of discrimination or segregation with reference to the selection, location, number, use, or occupancy, of tenants, lessees, sublessees, subtenants, or vendees of any unit or in connection with the employment of persons for the construction, operation and management of any unit.

(b) Borrower shall accept as Tenants, on the same basis as all other prospective Tenants, persons who are recipients of federal certificates for rent subsidies pursuant to the existing housing program under Section 8 of the United States Housing Act, or its successor. Borrower may not apply selection criteria to Section 8 certificate or voucher holders that is more burdensome than criteria applied to all other prospective Tenants, nor will Borrower apply or permit the application of management policies or lease provisions with respect to the

Development which have the effect of precluding occupancy of units by such prospective Tenants.

6.2 Application of Provisions. The provisions of this Regulatory Agreement apply to the Development for the entire Term even if the Loan is paid in full prior to the end of the Term. This Regulatory Agreement binds any successor, heir or assign of Borrower, whether a change in interest occurs voluntarily or involuntarily, by operation of law or otherwise, except as expressly released by the Authority. The Authority is making the Loan on the condition, and in consideration of, this provision, and would not do so otherwise.

6.3 Notice of Expiration of Term.

(a) At least six (6) months prior to the expiration of the Term, Borrower shall provide by first-class mail, postage prepaid, a notice to all Tenants containing (i) the anticipated date of the expiration of the Term, (ii) any anticipated increase in Rent upon the expiration of the Term, (iii) a statement that a copy of such notice will be sent to the Authority, and (iv) a statement that a public hearing may be held by the Authority on the issue and that the Tenant will receive notice of the hearing at least fifteen (15) days in advance of any such hearing. Borrower shall also file a copy of the above-described notice with the Authority Executive Director.

(b) In addition to the notice required above, Borrower shall comply with the requirements set forth in California Government Code Sections 65863.10 and 65863.11. Such notice requirements include: (i) a twelve (12) month notice to existing tenants, prospective tenants and Affected Public Agencies (as defined in California Government Code Section 65863.10(a)) prior to the expiration of the Term, (ii) a six (6) month notice requirement to existing tenants, prospective tenants and Affected Public Agencies prior to the expiration of the Term; (iii) a notice of an offer to purchase the Development to "qualified entities" (as defined in California Government Code Section 65863.11(d)), if the Development is to be sold within five (5) years of the end of the Term; (iv) a notice of right of first refusal within the one hundred eighty (180) day period that qualified entities may purchase the Development.

6.4 Covenants to Run With the Land. The Authority and Borrower hereby declare their express intent that the covenants and restrictions set forth in this Regulatory Agreement run with the land, and bind all successors in title to the Development, provided, however, that on the expiration of the Term said covenants and restrictions expire. Each and every contract, deed or other instrument hereafter executed covering or conveying the Development or any portion thereof, is to be held conclusively to have been executed, delivered and accepted subject to the covenants and restrictions, regardless of whether such covenants or restrictions are set forth in such contract, deed or other instrument, unless the Authority expressly releases such conveyed portion of the Development from the requirements of this Regulatory Agreement.

6.5 Enforcement by the Authority. If Borrower fails to perform any obligation under this Regulatory Agreement, and fails to cure the default within thirty (30) days after the Authority has notified Borrower in writing of the default, the Authority may enforce this Regulatory Agreement by any or all of the following actions, or any other remedy provided by law:

(a) Calling the Loan. The Authority may declare a default under the Loan Documents, accelerate the indebtedness evidenced by the Note, and proceed with foreclosure under the Deed of Trust.

(b) Action to Compel Performance or for Damages. The Authority may bring an action at law or in equity to compel Borrower's performance of its obligations under this Regulatory Agreement, and may seek damages.

(c) Remedies Provided Under Loan Documents. The Authority may exercise any other remedy provided under the Loan Documents.

The Authority shall provide notice of a default and opportunity to cure to Borrower's limited partner in the manner set forth in Section 5.5 of the Loan Agreement.

6.6 Attorneys' Fees and Costs. In any action brought to enforce this Regulatory Agreement, the prevailing party must be entitled to all costs and expenses of suit, including reasonable attorneys' fees. This section must be interpreted in accordance with California Civil Code Section 1717 and judicial decisions interpreting that statute.

6.7 Recording and Filing. The Authority and Borrower shall cause this Regulatory Agreement, and all amendments and supplements to it, to be recorded against the Development in the Official Records of the County of San Bernardino.

6.8 Governing Law. This Regulatory Agreement is governed by the laws of the State of California.

6.9 Waiver of Requirements. Any of the requirements of this Regulatory Agreement may be expressly waived by the Authority in writing, but no waiver by the Authority of any requirement of this Regulatory Agreement extends to or affects any other provision of this Regulatory Agreement, and may not be deemed to do so.

6.10 Amendments. This Regulatory Agreement may be amended only by a written instrument executed by all the parties hereto or their successors in title that is duly recorded in the official records of the County of San Bernardino.

6.11 Notices. Any notice requirement set forth herein will be deemed to be satisfied three (3) days after mailing of the notice first-class United States certified mail, postage prepaid, addressed to the appropriate party as follows:

Authority: Housing Authority of the County of San
 Bernardino
 715 East Brier Drive
 San Bernardino, CA 92408-2841
 Attn: Executive Director

Borrower: Waterman Gardens Partners 2, L.P.

9421 Haven Avenue
Rancho Cucamonga, CA 91730
Attn: Chief Financial Officer

With a copy to: National Community Renaissance of California
9421 Haven Avenue
Rancho Cucamonga, CA 91730
Attn: General Counsel

Investor Limited
Partner: Bank of America, N.A.
MA1-225-02-02
225 Franklin Street
Boston, MA 02110
Attention: Asset Management
Facsimile: 617-346-2257

And:

Banc of America CDC Special Holding Company,
Inc.
MA1-225-02-02
225 Franklin Street
Boston, MA 02110
Attention: Asset Management
Facsimile: 617-346-2257

And:

Buchalter, a Professional Corporation
1000 Wilshire Boulevard, Suite 1500
Los Angeles, CA 90017
Attn: Michael A. Williamson, Esq.
Facsimile: (213) 630-5799
Matter No: B0965-0428

Such addresses may be changed by notice to the other party given in the same manner as provided above.

6.12 Severability. If any provision of this Regulatory Agreement is determined by a court of competent jurisdiction to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining portions of this Regulatory Agreement will not in any way be affected or impaired thereby.

6.13 Multiple Originals; Counterparts. This Regulatory Agreement may be executed in multiple originals, each of which is deemed to be an original, and may be signed in counterparts.

[remainder of page intentionally left blank]
[signatures on following page]

WHEREAS, this Regulatory Agreement has been entered into by the undersigned as of the date first written above.

AUTHORITY:

HOUSING AUTHORITY OF THE COUNTY OF
SAN BERNARDINO, a public body, corporate
and politic

By: _____
Maria Razo, Executive Director

BORROWER:

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

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

STATE OF CALIFORNIA)
)
COUNTY OF _____)

On _____, before me, _____, Notary Public,
personally appeared _____, who proved to me on the
basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within
instrument and acknowledged to me that he/she/they executed the same in his/her/their
authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or
the entity upon behalf of which the person(s) acted, executed the instrument.

I certify UNDER PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Name: _____
Notary Public

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

STATE OF CALIFORNIA)
)
COUNTY OF _____)

On _____, before me, _____, Notary Public,
personally appeared _____, who proved to me on the
basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within
instrument and acknowledged to me that he/she/they executed the same in his/her/their
authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or
the entity upon behalf of which the person(s) acted, executed the instrument.

I certify UNDER PENALTY OF PERJURY under the laws of the State of California that the
foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Name: _____
Notary Public

EXHIBIT A

Legal Description

The land is situated in the State of California, County of San Bernardino, and is described as follows: