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City of Merced, A California charter
municipal corporation

WHEN RECORDED MAIL TO:

City of Merced
City Clerk
678 West 18th Street
Merced, California 95340

**Exempt Recording Per Gov't Code
Section 6103**

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**REGULATORY AGREEMENT AND
DECLARATION OF RESTRICTIVE COVENANTS**

**In respect to
COMMUNITY HOUSING DEVELOPMENT ORGANIZATION
HOME INVESTMENT PARTNERSHIP PROGRAM**

This Regulatory Agreement and Declaration of Restrictive Covenants (the "Agreement") is made and entered into as of this ____ day of _____, 2018, by and between the City of Merced, a California Charter Municipal Corporation (the "City"), and Merced Gateway Investors II LP, a California Limited Partnership (the "Developer").

RECITALS

A. Pursuant to that certain Deed Restriction Covenant and Loan Agreement of even date herewith between Developer and City (the "Loan Agreement"), and that certain City Loan Commitment Agreement dated as of July 17, 2017 (the "CLCA") between the Developer and the City of Merced (the "City"), the City has agreed to provide a loan in the amount of Five Hundred Fourteen Thousand Four Hundred Ten Dollars (\$514,410) (the "CHDO HOME Loan") to Developer for the construction of a multi-family affordable residential rental project (the "Project") on that certain real property owned by Developer and located on K Street, between 12th and 13th Streets in the City of Merced, California, and more particularly described in Exhibit A attached hereto and made a part hereof (the "Property"). The Project consists of fifty (50) units, of which thirty-nine (39) units shall be restricted for occupancy by households with incomes at or below sixty percent (60%) of the Area Median Income ("AMI"), ten (10) units shall be restricted for occupancy for homeless veteran families, and one (1) manager's unit shall be restricted

for occupancy by households with income at or below one hundred twenty percent (120%) of the AMI, all for a period of fifty-five (55) years from issuance of a final certificate of occupancy for the Project.

B. The CHDO HOME Loan shall be funded from a grant in the amount of Five Hundred Fourteen Thousand and Four Hundred Ten Dollars (\$514,410) from the U.S. Department of Housing and Urban Development ("HUD") made to the City pursuant to the Community Housing Development Organization HOME Investment Partnership Program funds ("CHDO HOME Program") and subject to the Funding Approval and HOME Investment Partnerships Agreement – Appropriation No. 868/00205 between the City and HUD, (M17-MC060227) (14.239 – HOME Entitlement Grant) under Title II of the Cranston-Gonzalez National Affordable Housing Act, as amended; and, with Federal award date September 22, 2017.

C. The CHDO HOME Loan is being made pursuant to the CHDO HOME Program, established and governed by Title II of Public Law No. 101-625, 104 Stat. 4079 (Nov. 28, 1990), (42 USC 12701), known as the Cranston-Gonzalez National Affordable Housing Act of 1992, Public Law No. 102-550, and is subject to the requirements of 24 CFR part 92, the State HOME Investment Partnerships Program Act (25 CCR Sections 8200 et. seq.) and the State Uniform Multifamily Regulations (25 CCR Sections 8300 et. seq.), as applicable.

D. The CHDO HOME Loan is evidenced by a Promissory Note and Deed of Trust and Security Agreement of even date herewith. The City Loan Commitment Agreement, Loan Agreement, Promissory Note, Deed of Trust, and this Agreement are collectively referred to herein as the "Loan Documents." The Deed of Trust shall be recorded in the Official Records of Merced County ("Official Records") concurrently herewith.

E. As a condition of receiving the CHDO HOME Loan, Developer agrees to place specified restrictions upon the use and transfer of the Property, including without limitation the restrictions referenced in Recital A and restrictions found at 24 CFR 92.252. It is the intent of the Parties to evidence the Developer's compliance with the requirements of the CHDO HOME Program and to place such restrictions upon the use and transfer of the Property in order to ensure continued Project affordability, as required by CHDO HOME Program. In addition, to the extent permitted by the CRL, this Agreement is intended to enable the city to count the four (4) restricted units in the Project toward satisfaction of the City's housing production obligation under CRL Section 33413 (b)(2).

F. The Parties intend that the covenants set forth in this Agreement shall run with the land and be binding upon Developer and Developer's successors and assigns as further provided herein.

G. Capitalized terms not defined herein, if any, shall have the meaning ascribed to them in the CLCA.

NOW THEREFORE, in consideration of the CHDO HOME Loan and other valuable consideration, the Parties covenant and agree as follows:

ARTICLE I

DEFINITIONS

1.1 Definitions.

“Actual Household Size” means the actual number of persons in the applicable household.

“Adjusted for Family Size Appropriate for the Unit” shall be determined consistent with Section 50052.5(h) of the California Health and Safety Code and applicable federal rules and regulations. If the applicable federal rules and regulations conflict with such Section 50052.5(h), then the applicable federal rules and regulations shall control.

“Affordable Rent” means thirty percent (30%) of applicable percentage of Area Median Income, Adjusted for Family Size Appropriate for the Unit, for each Restricted Unit.

“Agreement” shall mean this Regulatory Agreement and Declaration of Restrictive Covenants.

“Area Median Income” or “AMI” means the median income for Merced County, adjusted for Actual Household Size, as published from time to time by the U.S. Department of Housing and Urban Development (“HUD”) pursuant to Section 8 of the United States Housing Act of 1937, and as published by the State of California Department of Housing and Community Development. 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 City shall provide the Developer with other income determinations which are reasonably similar with respect to methods of calculations to those previously published by the State.

“Eligible Household” means a household for which household income upon initial occupancy does not exceed the maximum income level for Restricted Unit.

“CHDO HOME Deed of Trust” shall mean the deed of trust to the City on the Property which secures repayment of the CHDO HOME Loan and performance of the Loan Agreement and this Agreement.

“CHDO HOME Loan” shall mean all funds loaned to the Developer by the City pursuant to the Loan Agreement.

“CHDO HOME Note” shall mean the promissory note from the Developer to the City evidencing all or any party of the CHDO HOME Loan.

“Loan Agreement” shall mean the Deed Restriction Covenant and Loan Agreement dated _____, _____, 2018 by and between the City and the Developer and pertaining to the Property and Project.

“Moderate Income Household” shall mean a household whose gross income does not exceed one-hundred twenty percent (120%) of the Area Median Income, adjusted for Actual Household Size.

“Moderate Income Units” shall mean the Units, if any, which, pursuant to Section 2.1 (b) below, are required to be occupied by Moderate Income Households.

“Rent” means all charges, other than deposits, paid by a tenant for the use and occupancy of a Restricted Unit and any mandatory charge for direct or supportive tenant services in a rental housing development, including a utility allowance in an amount determined by the local Housing Authority with jurisdiction over the Project.

“Restricted Unit” means a Very Low-Income Unit, a Low-Income Unit or a Moderate Income Unit.

“Standard Agreement” means that certain Funding Approval and HOME Investment Partnerships Agreement – Appropriation No. 868/00205 between the City and HUD, including all Exhibits, if any, thereto.

“Term of this Agreement” means the period through the fifty-fifth (55th) anniversary of the issuance of the final certificate of occupancy for the Project.

“Homeless Veteran Housing” means four of the ten (10) dwelling units in the project that are reserved for occupancy by individuals and/or families that are transitioning from one living situation to another.

“Very-Low Income Household” means a household whose gross income does not exceed sixty percent (60%) of the Area Median Income, adjusted for Actual Household Size.

“Very Low-Income Unit” means four of the fifty-five (55) dwelling units in the Project that are reserved for occupancy by a Very-Low Income Household.

ARTICLE 2

AFFORDABILITY AND OCCUPANCY COVENANTS

2.1 Occupancy Requirement.

(a) Upon Issuance of a final certificate of occupancy and for the entire Period of Affordability (as defined in Section 2.8 below), the Project shall be rented to, at a Rent

no greater than Affordable Rent, and occupied by (or if vacant, available for occupancy by) the following schedule:

Very Low-Income Units. Thirty-nine (39) of the units shall be rented to and occupied by or, if vacant, available for occupancy by Very Low Income Households.

Moderate Income Units. One (1) unit may be occupied by a resident manager who shall constitute a Moderate Income Household.

(b) The Very Low-Income Units shall be located on the southernmost parcels of the Project and be of comparable quality to the Low-Income and Other Income Units. Tenants in all Units shall have equal access to and enjoyment of all common facilities of the Project.

(c) The Project shall be operated at all times in compliance with the provisions of: (a) the CHDO HOME Program; (b) the Unruh Act; (c) the United States Fair Housing Act, as amended; (d) the California Fair Employment and Housing Act; and (e) any other applicable law or regulation (including the Americans With Disabilities Act, to the extent applicable to the Project). The Developer agrees to indemnify, protect, hold harmless and defend (by counsel reasonably satisfactorily to the City) the City and their respective boardmembers, council members, officers and employees from all suits, actions, claims, causes of action, costs, demands, judgments and liens arising out of the Developer's failure to comply with any of the above laws or regulations. The provisions of this section shall survive expiration of the Term or other termination of this Agreement, and shall remain in full force and effect.

Pursuant to the requirement of the CRL, Developer and City shall execute a Notice of Affordability Restrictions on Transfer of Property substantially in the form attached as the CLCA and shall cause such notice to be recorded in the Official Records substantially concurrently with the recordation of this Agreement.

2.2 Allowable Rent.

(a) Subject to the provisions of Section 2.4(b) below, the Rent charged to tenants of the Very Low-Income Units shall not exceed one-twelfth (1/12) of thirty percent (30%) of sixty percent (60%) of Area Median Income, Adjusted for Family Size Appropriate for the Unit.

(b) Subject to the provisions of Section 2.4(b) below, the Rent charged to tenants of the Moderate Units shall not exceed one-twelfth (1/12) of thirty percent (30%) of one hundred twenty percent (120%) of Area Median Income, Adjusted for Family Size Appropriate for the Unit.

(c) Initial rents for all Units shall be approved by the City prior to occupancy. All rent increases shall also be subject to City approval.

2.3 Tenant Selection Standards.

During the Period of Affordability the Developer shall select tenants in conformance with the requirements of 24 CFR 92 and California Code of Regulations, Title 25, Division 1, Chapter 7, Subchapter 19, Section 8305.

(a) Developer shall rent vacant Restricted Units only to Eligible Households in accordance with a Management Plan approved by City. Such Management Plan may be periodically altered and such alteration must be submitted to and approved by City prior to use. The Management Plan shall include:

(1) Reasonable criteria for selection or rejection of tenant applications which shall not discriminate in violation of any federal, state or local law governing discrimination, or any other arbitrary factor;

(2) Prohibition of local residency preferences, except where accompanied by an equal preference for employment in the local area and applied to areas not smaller than municipal jurisdictions or recognized communities within unincorporated areas;

(3) Tenant selection procedures that include the following components, and that are available to prospective tenants upon request:

(A) Selection of tenants based on order of application, lottery or other reasonable method approved by City;

(B) Prompt written notification to tenant applicants of eligibility for residency and, based on turnover history for Restricted Units, the approximate date when a Restricted Unit may be available;

(C) Prompt written notification of tenant applicants who are found ineligible to occupy a Restricted Unit of their ineligibility and the reason for the ineligibility, and of their right to appeal this determination;

(D) Maintenance of a waiting list of applicant households eligible to occupy Restricted Units designated for various tenant income levels, which shall be made available at no charge to prospective tenants upon request;

(E) Targeting specific special needs populations in accordance with this Agreement and applicable laws; and

(F) Affirmative fair housing marketing procedures as specified in 24 CFR Part 92.351 or the Affirmative Fair Housing Marketing Plan Compliance Regulations of HUD, 24 CFR Part 200.620(a)-(c), or similar affirmative fair marketing housing plan as approved by City.

2.4 Certification of Tenant Income.

(a) The income and household size of all households occupying Restricted Units shall be certified by Developer prior to occupancy and recertified annually thereafter in a manner approved by City and specified in the Project's Management Plan and Section 3.1 hereof pursuant to 24 CFR 92.

(b) If the income of a tenant upon recertification exceeds the upper limit for households at or below the applicable percentage of AMI, the tenant must pay as rent the lesser of the amount payable by the tenant under state or local law or thirty percent (30%) of the households adjusted monthly income for rent and utilities; except that the rent may not exceed the market rent for comparable, unassisted units in the neighborhood; provided however, that pursuant to 24 CFR 92.252(i)(2), Restricted Units subject to a California Tax Credit Allocation Committee ("CTCAC") Regulatory Agreement shall be governed by such agreement with respect to tenants who upon recertification no longer qualify as Very Low-Income or Low-Income Households.

2.5 Marketing Plan.

(a) Not later than thirty (30) days prior to the anticipated date of issuance of a certificate of occupancy for the Project, Developer shall prepare a Marketing Plan for City's review and approval, and shall implement such plan as approved by the City. The Marketing Plan shall specify how Developer intends to market the Project to prospective tenants in the Project's market area in accordance with fair housing laws and this Agreement. The Marketing Plan shall specifically address how Developer intends to market the Project to underserved populations in the Project's market area and the frequency of marketing efforts. City agrees that Developer may utilize the HUD 935.2 Affirmative Fair Housing Marketing Plan for these purposes.

(b) Developer agrees to evaluate the effectiveness of the Marketing Plan in reaching underserved populations on an annual basis and to revise it as necessary to better reach underserved populations that are not being reached. Any revised Marketing Plan shall be submitted to City for approval prior to implementation.

2.6 Unit Standards.

For the full loan term, the number, size, type and amenity level of Restricted Units shall not be fewer than the number nor different from the size, type and amenity level described in Section 2.1 and Recital A, above.

2.7 Rental Agreement and Grievance Procedures.

The rental agreement and grievance procedures shall be in accordance with 24 CFR 92 and California Code of Regulations, Title 25, Division 1, Chapter 7, Subchapter 19, Section 8307.

(a) All rental or occupancy agreements shall be for a term of not less than one (1) year unless by mutual agreement between the tenant and Developer.

(b) All rental or occupancy agreements are subject to City approval; and shall include the following:

(1) Provisions requiring good cause for termination of tenancy;

(2) A provision requiring that the facts constituting the grounds for any eviction be set forth in the notice provided to the tenant pursuant to state law;

(3) A notice of grievance procedures for hearing complaints of tenants and appeal of management action; and

(4) A requirement that the tenant annually recertify household income and size.

(c) Developer shall not terminate the tenancy or refuse to renew the lease of a tenant except for serious or repeated violations of the terms and conditions of the lease; for violation of applicable federal, state or local law; or for other good cause.

(d) To terminate or refuse to renew tenancy, Developer must serve written notice upon the tenant in compliance with State law, specifying the grounds for the action, and served at least thirty (30) days prior to the termination of the tenancy.

(e) One or more of the following, without limitation, may constitute “good cause”:

(1) Failure by the tenant to maintain applicable eligibility requirements under the HOME Program or other eligibility requirements as imposed by City or other state or federal funding sources or tax credits;

(2) Material noncompliance by the tenant with the lease, including one or more substantial violations of the lease or habitual minor violations of the lease which:

A. Adversely affect the health and safety of any person or the right of any tenant to the quiet enjoyment of the leased premises and related Project facilities;

B. Substantially interfere with the management, maintenance, or operation of the Project; or

C. Result from the failure or refusal to pay, in a timely fashion, Rent or other permitted charges when due. Failure or refusal to pay in a timely fashion is a minor violation if payment is made during the three (3) day notice period;

(3) Material Failure by the tenant to carry out obligations under federal, State, or local law;

(4) Subletting by the tenant of all or any portion of any Project Unit;

(5) Any other action or conduct of the tenant constituting significant problems which can be reasonably resolved only by eviction of the tenant, provided Developer has previously notified the tenant that the conduct or action in question would be considered cause for eviction. Examples of action or conduct in this category include the refusal of a tenant, after written notice, to accept reasonable rules or any reasonable changes in the lease or the refusal to recertify income or household size.

(6) Notwithstanding the foregoing, if any part of this Section 2.7(e) is determined to not be “good cause” pursuant to Section 42 of the Internal Revenue Code of 1986, Section 42 of the Internal Revenue Code of 1986 shall control.

(f) The lease may not contain any of the following provisions:

(1) Agreement by the tenant to be sued, to admit guilt, or to a judgment in favor of Developer or Developer’s agent in a lawsuit brought in connection with the lease;

(2) Agreement by the tenant that Developer may take, hold or sell personal property of household members without notice to the tenant and a court decision on the rights of the parties. This prohibition, however, shall not apply to an agreement by the tenant concerning disposition of personal property remaining in the housing unit after the tenant has moved out of the unit. Developer may dispose of this personal property in accordance with State law;

(3) Agreement by the tenant not to hold Developer or Developer’s agent(s) legally responsible for any action or failure to act, whether intentional or negligent;

(4) Agreement of the tenant that Developer or Developer’s agent may institute a lawsuit without notice to the tenant;

(5) Agreement by the tenant that Developer or Developer’s agent may evict the tenant or household members without instituting a civil court proceeding in which the tenant has the opportunity to present a defense, or before a court decision on the rights of the parties;

(6) Agreement by the tenant to waive any right to a trial by jury;

(7) Agreement by the tenant to waive tenants right to appeal, or to otherwise challenge in court, a court decision in connection with the lease; and

(8) Agreement by the tenant to pay attorney’s fees or other legal costs even if the tenant wins in court proceeding by the owner against the tenant. The tenant, however, may be obligated to pay costs if the tenant loses.

(g) Developer shall establish reasonable rules of conduct and occupancy. Such rules shall be consistent with state law and HOME regulations. Said rules shall be in writing and shall be given to each tenant upon occupancy. Any changes shall become effective no fewer than thirty (30) days after giving written notice thereof to each tenant household.

(h) Developer shall adopt an appeal and grievance procedure to resolve grievances filed by tenants and appeals of actions taken by Developer with respect to tenants occupancy in the Project, and prospective tenants applications for occupancy. Developer's appeal and grievance procedures shall be subject to City's approval and, at a minimum, shall include the following:

(1) A requirement for delivery to each tenant and applicant of a written copy of the appeal and grievance procedure;

(2) Procedures for informal dispute resolution;

(3) A right to a hearing before an impartial body, which shall consist of one or more persons with the power to render a final decision on the appeal or grievance; and

(4) Procedures for the conduct of an appeal or grievance hearing and the appointment of an impartial hearing body.

2.8 Period of Affordability.

Developer acknowledges that the CHDO HOME Loan is being made to Developer under the terms and conditions of the CHDO HOME Program as part of a public program to ensure affordable housing for Project tenants. To preserve affordability of the Restricted Units, Developer covenants that the Restricted Units shall remain affordable for a period of fifty-five (55) years (hereinafter referred to as the "Period of Affordability") from the date of "Project Completion" as specified at 24 CFR 92.2. It is intended by the parties to this Agreement, that this covenant shall run with the land in accordance with the provisions of 24 CFR 92.252, with the benefit of this covenant running to the City, in order to preserve the public interest in maintaining the affordability of the Restricted Units. The Period of Affordability will remain without regard to the term of any mortgage or the transfer of the Property ownership, other than by foreclosure or deed in lieu of foreclosure.

ARTICLE 3

INCOME CERTIFICATION AND REPORTING

3.1 Income Certification.

The Developer will obtain, complete and maintain on file, immediately prior to initial occupancy and annually thereafter, income certifications from each tenant renting any of the Units.

The Developer shall make a good faith effort to verify that the income provided by an applicant or occupying household in an income certification is accurate by taking two or more of the following steps as part of the verification process: (a) obtain a pay stub for the most recent pay period; (b) obtain an income tax return for the most recent tax year; (c) conduct a credit agency or similar search; (d) obtain an income verification form from the applicants current employer; (e) obtain an income verification form from the Social Security Administration and/or the California Department of Social Services if the applicant received assistance from either of such agencies; or (f) if the applicant is unemployed and has no such tax return or income verification, obtain another form of independent verification. Copies of tenant income certifications shall be available to the City upon request.

3.2 Recordkeeping and Reports.

Developer or the management agent designated by Developer, as approved by City, will be responsible for recordkeeping and reports, including those required to comply with the State HOME Program requirements and Fair Housing and Equal Opportunity requirements, as may be required by HUD. The management agent will establish and maintain a comprehensive system of records, books, and accounts in a manner conforming to the directives of Developer in order to assist City in meeting Federal and State recordkeeping and reporting requirements, including that of the HOME Program. All records, books and accounts will be subject to examination at reasonable hours by any authorized representative of City. All such records and books shall be kept for a period of at least seven (7) years in a manner designed to protect them from destruction or tampering, and shall be subject to inspection and audit by the City or their respective authorized agents.

3.3 Additional Information.

The Developer shall provide any additional information reasonably requested by the City. The City shall have the right to examine and make copies of all books, records or other documents of the Developer which pertain to the Project.

3.4 On-Site Inspection.

Developer shall allow City access to the Project to conduct inspections on an annual basis, or more frequently, with fourteen (14) days written notice to Developer. Developer shall provide tenants with a minimum of twenty-four (24) hours written notice prior to seeking access to a tenant unit for inspection purposes. In said notice, Developer shall clearly inform tenant of the purposes of the inspection.

ARTICLE 4

MISCELLANEOUS

4.1 Restrictions on Sale, Transfer or Conversion.

(a) Upon any sale or transfer, including transfer by gift, devise, descent, foreclosure, assignment, deed in lieu of foreclosure, condemnation, or voluntary or involuntary bankruptcy, of the Property without the prior written approval of City, all principal, interest and costs then owing upon the CHDO HOME Loan will become immediately due and payable to City.

(b) City may approve a sale, transfer or conveyance of the Property provided that all of the following conditions are met: (i) the existing Developer is in compliance with this Agreement or the sale, transfer or conveyance will result in the cure of any existing violations of this Agreement; (ii) the successor-in-interest to Developer agrees to assume all obligations of the existing Developer pursuant to this Agreement and the CHDO HOME Program; (iii) the successor-in-interest demonstrates to City's satisfaction that it can own and operate the Project in full compliance with all CHDO HOME Program requirements; and (iv) City determines, in the sole exercise of its reasonable discretion, that no terms of the sale transfer or conveyance threaten City's security or the successors ability to comply with all requirements of the CHDO HOME Program and this Agreement.

(c) Developer shall not convert the Project to condominium or cooperative ownership or sell condominium or cooperative rights to the Project or any part thereof during the Period of Affordability.

(d) Nothing contained in this Section 4.1 shall prohibit the transfer of the Property or Developer's interest therein that is permitted under the CLCA.

4.2 Restrictions on Encumbrances.

Developer covenants that Developer has not, and shall not enter into or execute any other agreement with provisions contrary to the provisions of this Agreement, or contrary to the intent of maintaining the affordability of the Property for the full Period of Affordability described in Section 2.8, above; provided, however, that Developer may, without the written consent of City, enter into a Regulatory Agreement with the CTCAC with regard to tax credits. In all cases, the provisions of 24 CFR 92.252(e) shall continue to apply to the Project. Developer further covenants that, except for its senior loans, it has not, and shall not, otherwise encumber the Property, including without limitation by way of mortgage or deed of trust, or by judgment, mechanics, tax or other lien without City's prior written consent.

4.3 Compliance with CHDO HOME Program.

Developer agrees that at all times it acts regarding the CHDO HOME Program assisted units shall be in conformity with all the provisions of the CHDO HOME Program, including the statutes, the CHDO HOME Regulations and such policies and procedures of HUD pertaining thereto. Developer acknowledges that it is familiar with such applicable provisions and has been professionally advised to the extent necessary for the purpose of enabling Developer to fully comply with such provisions.

4.4 Non-Discrimination; Compliance with Fair Housing Laws.

(a) Developer shall comply with State and Federal fair housing laws in the marketing and rental of the units in the Project.

(b) Developer shall not restrict the rental, sale, lease, sublease, transfer, use, occupancy, tenure or enjoyment of the Property, or any portion thereof, on the basis of race, color, religion, creed, sex, sexual orientation, disability, marital status, ancestry, or national origin of any person. Developer covenants for itself and all persons claiming under or through it, and this Agreement is made and accepted upon and subject to the condition that there shall be no discrimination against or segregation of any person or group of persons on account of any basis listed in subdivision (a) or (d) of Section 12955 of the Government Code, as those bases are defined in Sections 12926, 12926.1, subdivision (m) and paragraph (1) of subdivision (p) of Section 12955, and Section 12955.2 of the Government code, in the sale, lease, sublease, transfer, use, occupancy,

tenure or enjoyment of the Property or part thereof, nor shall Developer or any person claiming under or through Developer 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, subtenants, sublessees or vendees in, of, or for the Property or part thereof. Developer shall include such provision in all deeds, leases, contracts and other instruments executed by Developer, and shall enforce the same diligently and in good faith.

All deeds, leases or contracts made or entered into by Developer, its successors or assigns, as to any portion of the Property shall contain the language set forth in attached the CLCA.

(c) The Developer will accept as Tenants, on the same basis as all other prospective Tenants, persons who are recipients of federal vouchers for rent subsidies pursuant to the existing housing program under Section 8 of the United States Housing Act, or its successor. The Developer shall not apply selection criteria to Section 8 voucher holders that is more burdensome than criteria applied to all other prospective Tenants, nor shall the Developer 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.

4.5 Default and Remedies.

(a) The occurrence of any one or more of the following events shall constitute an event of default ("Event of Default") hereunder:

(1) The occurrence of a transfer, sale or conversion in violation of Section 4.1 hereof or an encumbrance in violation of Section 4.2 hereof;

(2) If, pursuant to or within the meaning of the United States Bankruptcy Code or any other federal or state law relating to insolvency or relief of debtors ("Bankruptcy Law"), Developer or any general partner thereof (i) commences a voluntary case or proceeding; (ii) consents to the entry of an order for relief against Developer or any general partner thereof in an involuntary case; (iii) consents to the appointment of a trustee, receiver, assignee, liquidator or similar official for Developer or any general partner thereof; (iv) makes an assignment for the benefit of its creditors; or (v) admits in writing its inability to pay its debts as they become due;

(3) A court of competent jurisdiction shall have made or entered any decree or order (1) adjudging the Developer to be bankrupt or insolvent, (2) approving as properly filed a petition seeking reorganization of the Developer or seeking any arrangement for Developer under bankruptcy law or any other applicable debtors relief law or statute of the United States or any state or other jurisdiction, (3) appointing a receiver, trustee, liquidator, or assignee of the Developer in bankruptcy or insolvency or for any of its properties, or (4) directing the winding up or liquidation of the Developer;

(4) Developer shall have assigned its assets for the benefit of its creditors (other than pursuant to a mortgage loan) or suffered a sequestration or attachment of or execution on any substantial part of its property, unless the property so assigned, sequestered, attached or executed upon shall have been returned or released within sixty (60) days after such event (unless a lesser time period is permitted for cure under any other mortgage on the property or the improvements thereon, in which event such lesser time period shall apply under this subsection as well) or prior to any sooner sale pursuant to such sequestration, attachment, or execution.

(5) Developer shall have voluntarily suspended its business or Developer shall have been dissolved or terminated; or

(6) Any material breach by Developer or any of its successors of any representation, warranty or covenant hereunder, which is not cured within thirty (30) days after notice thereof given by the City or Agency, or, if a cure is not possible within thirty (30) days, where cure is not commenced within thirty (30) days and thereafter diligently prosecuted to completion.

(b) If an Event of Default occurs under this Agreement or the Loan Documents, City, as applicable, may give written notice to the Developer by certified mail or any express delivery service with a delivery receipt requested. If the breach or violation is not cured to the satisfaction of the Party so notifying Developer within the time period specified in the notice, which shall not be fewer than thirty (30) days, the notifying Party may declare a default and may seek legal remedies including the following:

(1) Collect all rents and income in connection with the operation of the Project and use the same and the reserve funds for the operation and maintenance of the Project.

(2) Take possession of the Project and bring any action necessary to enforce any rights of the Developer arising from the operation of the Project, and operate the Project in accordance with the terms of this Agreement until such time as the City, in its sole discretion, shall determine that the Developer is again in a position to operate the Project in accordance with the terms of this Agreement.

(3) Apply to the applicable state or federal court for an order of specific performance of this Agreement, or for the appointment of a receiver to take over and operate the Project in accordance with the terms of this Agreement, or for such other relief as may be appropriate. It is agreed by the Developer that the injury to the City arising from a default under any of the terms of this Agreement would be irreparable, and that the amount of compensation which would provide adequate relief to the City, in light of the purposes of the CHDO HOME Program, would be impossible to ascertain.

(4) Accelerate all amounts, including outstanding principal and interest, due under the CHDO HOME Loan, and demand immediate repayment thereof. Upon a failure to repay such accelerated amount in full, the City may proceed with a foreclosure in accordance with the provisions of the Deed of Trust and State law regarding foreclosures.

(5) The City may seek such other remedies as may be available under law or equity.

(6) In the event that the breach or violation involves the rents to tenants or other charges in excess of those permitted under this Agreement, the City may demand, and seek as an additional remedy, the return of such excess rents or other charges to the affected households.

(c) The remedies of the City hereunder are cumulative, and the exercise of one or more of such remedies shall not be deemed an election of remedies and shall not preclude the exercise by the City of any one or more of its other remedies.

(d) Developer's limited partners shall have the right to cure any default of Developer hereunder upon the same terms and conditions afforded to Developer. Whenever City delivers any notice of default hereunder, City shall concurrently deliver a copy of such notice to Developer's limited partner(s) at the following address (or such alternate address designated by such limited partner(s) from time to time in a written notice to City): (1) Merced Gateway Investors LP, a California Limited Partnership, 3351 "M" Street, Ste #100, Merced, CA 95348, Attention: Christina Alley.

4.6 Maintenance & Management.

(a) Developer is solely and specifically responsible for all maintenance, repair, and management functions for the Project, including without limitation, selection of tenants, certification and recertification of household income and size, evictions, collection rents, maintenance, landscaping, routine and extraordinary repairs, replacement of capital items, and security.

Developer shall maintain units and common areas in a safe and sanitary manner in accordance with local health, building and housing codes, HUD housing quality standards pursuant to 24 CFR 92.251. The City shall not have any responsibility for management or maintenance of the Property or the Project, but shall have the remedies provided for in Section 4.5 hereof, which they may exercise at their option as applicable.

(b) Developer may contract with a management agent for the performance of the services or duties required in Section 4.6(a) above. However, doing so shall not relieve Developer of responsibility for proper performance of said duties. Any such contract shall contain a provision allowing Developer to terminate the contract without penalty with no more than thirty (30) days notice. Upon determination by City and notice to Developer that the contracted management agent has failed to operate the Project in accordance with this Agreement, Developer shall exercise such right of termination forthwith and shall immediately make arrangements, subject to City approval, for continuing performance of the requirements of this Agreement.

(c) If Developer operates the Project directly without contracting with a management agent and City determines that the Project is not being operated in accordance with this Agreement, City may provide notice to Developer thereof, and may require Developer to contract with a management agent to operate the Project, or to make such other arrangement as City deems necessary to ensure performance of the requirements of this Agreement.

4.7 Governing Law.

This Agreement shall be construed in accordance with and be governed by the laws of the State of California.

4.8 Successors and Assigns.

This Agreement and all the covenants, promises, and agreements contained in it shall be binding on and inure to the benefit of the Parties and their respective legal and personal representatives, devisees, heirs, successors, and assigns.

4.9 Severability.

If any provision of this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby unless, in the sole discretion of City, the invalidity, or unenforceability of the provision negates the CHDO HOME Program purpose and/or threatens the security for the City's CHDO HOME Loan.

4.10 Costs of Enforcement.

Developer agrees to pay any and all of City's costs with respect to enforcement of this Agreement, including City's reasonable attorneys fees, costs and expenses.

4.11 Counterparts/Originals.

This Agreement may be executed in counterparts, each of which shall be an original and all of which together shall constitute one (1) entire Agreement.

4.12 Amendment.

This Agreement shall not be altered or amended except in a writing executed by the Parties.

4.13 No Waiver.

No waiver by the City of any breach of or default under this Agreement shall be deemed to be a waiver of any other or subsequent breach or default hereunder.

4.14 Captions.

The captions used in this Agreement are inserted only as a matter of convenience and for reference and in no way define, limit or describe the scope of intent of this Agreement.

4.15 Parties Not Co-Venturers.

Nothing in this Agreement is intended to or shall establish the Parties as partners, coventurers, or principal and agent with one another.

4.16 Hold Harmless.

Except to the extent arising from the City's willful misconduct, Developer agrees to indemnify, defend with legal counsel selected by the City and hold harmless HUD, the City and their respective agents, employees and officers (collectively, "Indemnitees") from and against any and all claims, losses, liabilities, causes of action or costs (including reasonable attorneys fees) arising from or in connection with Developer's development, management, maintenance or operation of the Project.

4.17 Compliance With Standard Agreement Terms and Conditions.

Developer has received a copy of and has reviewed the Standard Agreement including Exhibits A through G thereto, incorporated herein by this reference, and to the extent applicable to Developer, hereby agrees to comply with all of the terms and conditions therein.

4.18 Venue.

This Agreement and all matters relating to it shall be governed by the laws of the State of California and any action brought relating to this Agreement shall be held exclusively in a state court in the County of Merced.

4.19 Interpretation of Affordability.

It is the intention of the parties to this Agreement that affordability be interpreted in view of the express goals of the CHDO HOME Program established and governed by Title II of Public Law No. 101-625, 104 Stat. 4079 (Nov. 28, 1990), (42 USC 12701), known as the Cranston-Gonzalez National Affordable Housing Act of 1990 as amended by the Housing and Community Development Act of 1992, Public Law No. 102-550, and any amendments thereto. It is the purpose of this Agreement to limit and restrict use and resale of the Property in order to maintain the Project's affordability for the entire Period of Affordability.

4.20 Affordability Protocols.

To the extent that State, Federal and local laws and regulations may conflict with respect to household income levels, rent levels, or similar provisions relating to affordability of the Project, the Parties acknowledge and agree that the intent of this Agreement is to provide the maximum affordability restrictions.

4.21 Covenants to Run With the Land.

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

4.22 Attorneys Fees and Costs.

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

4.23 Notices.

Any notice requirement set forth herein shall be deemed to be satisfied upon the earliest of receipt or three business days after mailing of the notice first-class United States certified mail, postage prepaid, addressed to the appropriate party as follows:

Developer:	Merced Gateway Investors II, LP 3351 "M" Street, Suite #100 Merced, CA 95348
City :	City of Merced 678 West 18 th Street Merced, CA 95340 Attn: Housing Division, City Clerk & City Attorney

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

IN WITNESS WHEREOF the City and the Developer have executed this Agreement by duly authorized representatives, all on the date first written above.

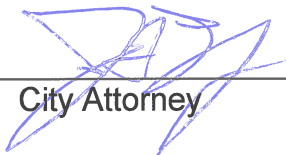
CITY OF MERCED

BY: _____
City Manager

ATTEST:
STEVE CARRIGAN, CITY CLERK

BY: _____
Assistant/Deputy City Clerk

APPROVED AS TO FORM:

BY:  5-16-2018
City Attorney Date

ACCOUNT DATA:

BY: _____
Verified by Finance Officer

MERCED GATEWAY INVESTORS
II, LP,
A California Limited Partnership

By: Merced Gateway Investors II,
LP, a California Limited
Partnership

Its: Agency for Services of Process

By: _____
Christina Alley

ADDRESS: 3351 "M" Street,
Suite 100
Merced, CA 95348

TELEPHONE: _____

FAX: _____

E-MAIL: _____

ACKNOWLEDGEMENT

State of California

County of Merced

On _____, 2018, before me, _____, a
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.

Signature _____
Notary Public

(seal)

Exhibit A

CITY LOAN COMMITMENT AGREEMENT

THIS CITY LOAN COMMITMENT AGREEMENT ("Commitment") is made and entered as of this 17TH day of JULY, 2017, by and between the City of Merced, a California Charter Municipal Corporation ("City") and Merced Gateway Investors II, a California Limited Partnership ("Borrower").

RECITALS

A. The City is a partner with the US Department of Housing and Urban Development in developing quality affordable housing development.

B. The Borrower proposes to develop fifty (50) units of quality affordable housing called the Gateway Terrace II Apartments which will be located at 13th and K Street in the City of Merced (hereinafter referred to as the "Project").

NOW, THEREFORE, the parties hereto, in consideration of the mutual covenants hereinafter recited, hereby agree as follows:

1. The City of Merced approves a contingent funding commitment for the Project for a loan from the following sources and in the following amounts:

- a. Fiscal Year 2016/17 Community Development Block Grant funds (B16-MC-06.0044, CFDA# - 14.218, Entitlement Grant): \$370,590; and
- b. Fiscal Year 2015/16 Community Housing Development Organization/HOME Investment Partnerships Program (B15-MC-06-0044, CFDA# - 14.239 HOME): \$150,000; and
- c. Fiscal Year 2016/17 Community Housing Development Organization/HOME Investment Partnerships Program (B16-MC-06-0044, CFDA# - 14.239 HOME): \$150,000; and
- d. Fiscal Year 2017/18 Community Housing Development Organization/HOME Investment Partnerships Program (B17-MC-06-0044, CFDA# - 14.239 HOME): \$214,410 and
- e. Fiscal Year 2017/18 Home Investment Partnerships Program (B17-MC-06-0044, CFDA# - 14.239 HOME); \$500,000.

2. The total loan amount to the Borrower is One Million Dollars Three Hundred Eight-Five Thousand Dollars (\$1,385,000). Each loan shall bear a three percent (3%) interest rate and shall be repaid by the Borrower as a fifty-five year deferred loan.

3. This Commitment shall require the subsequent preparation of a deed of trust and a regulatory agreement. Notwithstanding any language in this Agreement to the contrary, the Deed of Trust and Regulatory Agreement shall be required to be approved by the City, executed by the Borrower and recorded against the property on which the Project will be constructed prior to the City disbursing to the Borrower any of the funds referenced in the Agreement.

4. The Project shall be developed as described in Attachment 12, attached hereto. Attachment 12 consists of the preliminary Construction and Design Description for the proposed Project which describes Construction Design, Site Amenities, Unit Amenities, Affordability Period etc. for the Project. It is anticipated that there may be minor changes to the Project, but the Project shall be substantially the same as described in Attachment 12.

5. The Project shall comply with all applicable Federal, State and Local statutes, codes, regulation, ordinances and zoning requirements. The Project shall be well maintained with no broken glass, doors, exposed storage, sheets on windows, etc. All areas with landscaping shall be kept clean and be maintained at all times. No loitering shall be permissible except in common areas designated at a gathering area within the Project.

6. The person or persons executing this Agreement on behalf of the parties hereto warrants and represents that he/she/they has/have the authority to execute this Agreement on behalf of their entity and has/have the authority to bind their party to the performance of its obligations hereunder.

7. The funding for the Project is contingent on the City's actual receipt of funding from the US Department of Housing and Urban Development. The Project funding shall be solely provided from the funding sources outlined in Section 1 of this Commitment. In the event that the City's funding allocation from the US Department of Housing and Urban Development is less than the amount outlined and anticipated in Section 1 of this Commitment, the City will not fund the difference for the Project or provide any additional funding from its general fund or any other funding source. This Commitment is not intended to describe all of the requirements, term, conditions and documents necessary for the loan or construction of the project.

8. The loans identified in Section 1 of this Commitment for fiscal year 2015/2016, 2016/2017 and 2017/2018 shall be approved and individually executed by the City and shall be contingent on the funding being included within the City Housing Division's budget for the corresponding fiscal year. The loan amounts shall also be required to be identified in each of the corresponding US Department of Housing and Urban Development's Annual Action Plans prior to the execution of the loan agreements.

9. This Commitment expires on July 17, 2018, or at the start of construction, whichever occurs first.

10. This Agreement supersedes and replaces any and all prior Loan Commitment Agreements regarding the Gateway Terrace II project, including, but not limited to the prior Loan Commitment Agreement between the City of Merced and Central Valley Coalition for Affordable Housing dated August 15, 2016.

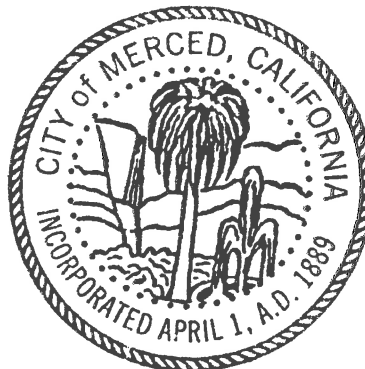
IN WITNESS WHEREOF the parties hereto have executed this Agreement as of the date first above written.

CITY OF MERCED
A California Charter Municipal
Corporation

BY: 
City Manager

ATTEST:
STEVE CARRIGAN, CITY CLERK

BY: 
Assistant/Deputy City Clerk



APPROVED AS TO FORM:

BY:  7/12/17
City Attorney Date

300396 PO#: 127486
ACCOUNT DATA:

BY: Stephanie Dutz
Verified by Finance Officer

Funds Available. per 7/19/17

018-1301-552-29-00
\$ 370,590.00

033-1349-552-29-00
\$ 1,014,410.00

v-17839
per 7/19/17

CENTRAL VALLEY COALITION
FOR AFFORDABLE HOUSING,
A Non-Profit Corporation

BY: Christina Alley
(Signature)

Christina Alley
(Typed Name)

Its: Chief Executive Officer
(Title)

Taxpayer I.D. No. 77-0242399

ADDRESS: 3351 "M" Street, Ste. 200
Merced, CA 95348

TELEPHONE: (209) 388-0782

FAX: (209) 385-3770

E-MAIL: Chris@centralvalleycoalition.com

MERCED GATEWAY INVESTORS II,
A California Limited Partnership

BY: Christina Alley
(Signature)

Christina Alley
(Typed Name)

Its: Chief Executive Officer
(Title)

Taxpayer I.D. No. _____

ADDRESS: 3351 "M" Street, Ste. 200
Merced, CA 95348

TELEPHONE: (209) 388-0782

FAX: (209) 385-3170

E-MAIL: Christa@CentralValleycoalition.com