

**CITY OF MERCED,
ACTING SOLELY AS THE HOUSING SUCCESSOR AGENCY TO THE
FORMER REDEVELOPMENT AGENCY OF THE CITY OF MERCED,
PROMISSORY NOTE**

(Childs and B Street Transit-Oriented Development (“TOD”) Affordable Housing—
Housing Successor Agency Loan)

\$1,200,000

Merced, California

_____, 20__

FOR VALUE RECEIVED, Merced CA Apartments, L.P., a Delaware limited partnership (“Borrower”), promises to pay to the City of Merced, a California Charter Municipal Corporation, acting solely as the Housing Successor Agency to the Former Redevelopment Agency of the City of Merced (“Agency”), or order, the principal sum of One Million Two Hundred Thousand Dollars (\$1,200,000), or so much thereof as may be advanced by the Agency to or on behalf of the Borrower pursuant to a Deed Restriction Covenant and Loan Agreement dated _____, ____ (the “Housing Successor Loan Agreement”), by and between the Borrower and the Agency, together with interest thereon as specified herein (the “Housing Successor Loan”). The obligation of the Borrower in respect of all such advances is subject to the terms of (a) Enforceable Funding Commitment Agreement (“Commitment Agreement”) between the City and the Richman Group of California Development Company LLC, a Limited Liability Company, dated _____, ____, (b) a Disposition and Development Agreement (“DDA”) between the City and the Borrower dated _____, ____, (c) a Regulatory Agreement and Declaration of Restrictive Covenants between the Borrower and the Agency dated _____, ____ (the “Housing Successor Regulatory Agreement”), (d) this Housing Successor Promissory Note (“Housing Successor Note”), (e) the Deed of Trust and Security Agreement of even date hereof, securing this Housing Successor Note, recorded in the Official Records of the County Recorder of Merced County, California (the “Housing Successor Deed of Trust”), and (f) the Agency Deed Restriction and Loan Agreement, the Agreement Containing Covenants Affecting Real Property, Notice of Affordability Restrictions on Transfer of Property, which together with all other loan related documents and instruments required by the City are collectively referred to as the “Housing Successor Loan Documents.”

1. Borrower’s Obligation. This Housing Successor Note evidences the Borrower’s obligation to pay the Agency the principal amount of One Million Two Hundred Thousand Dollars (\$1,200,000) for the funds advanced to the Borrower by Agency to finance the development of the Property (the “Development”) for the purposes and pursuant to the terms set forth in the DDA and Housing Successor Loan Documents. All capitalized terms not otherwise defined in this Housing Successor Note shall have the meanings set forth in the DDA.

2. Interest. The outstanding principal balance of this Housing Successor Note shall bear simple interest at the rate of zero percent (0%) from the date of initial advance by the City until completion of construction of the Development, as evidenced by the issuance of the certificate of occupancy for the Development (the "Conversion Date"), and thereafter, shall bear simple interest at the rate of three percent (3%) per annum until repaid; provided, however, if a Default occurs, interest on the principal balance shall begin to accrue, as of the date of Default (following expiration of applicable notice and cure periods), and continuing until such time as the Loan funds are repaid in full or the Default is cured, at the default rate of the lesser of seven percent (7%), compounded annually, or the highest rate permitted by law.

3. Term and Repayment Requirements. The term of this Housing Successor Note (the "Term"), shall commence with the date of this Housing Successor Note and shall expire on the date that is fifty-five (55) years following the Conversion Date. This Housing Successor Note shall be due and payable as set forth in the DDA. Payments shall be paid annually in arrears, no later than June 1 of each year with respect to the previous calendar year, with payments made from Net Cash Flow (as defined in the DDA) commencing upon the Conversion Date.

Any unpaid balance due shall be payable at the end of the Housing Successor Note Term. Borrower shall have the right to prepay this Housing Successor Note in whole or in part without penalty or premium, provided that any prepayment of principal must be accompanied by interest, if any, accrued but unpaid to the date of prepayment. Prepayments shall be applied first to accrued but unpaid interest, if any, and then to principal.

Unless otherwise specified hereinabove, each payment shall be credited first on interest (if any) then due and the remainder on principal; and interest shall thereupon cease upon the principal so credited.

4. Net Cash Flow. For the purposes described in Section 3, Net Cash Flow shall be defined as follows pursuant to the definitions provided in the DDA:

Gross Income Less Total Operating Expenses & Reserves and Third Party Loan and Asset Management Fee and Deferred Development Fee.

Gross Income shall mean and include all revenue, income, receipts, and other consideration actually received by Developer from operation of leasing of the Apartment Complex shall include all rental receipts, laundry income, tenant charges and interest, but shall specifically exclude tenants' security deposits, interest on security deposits, loan proceeds, capital contributions or similar advances, amounts released from reserves or interest on reserves, condemnation proceeds, or insurance proceeds (other than the proceeds from any business interruption insurance).

Third Party Loans shall include debt service on senior project debt and partner loans made pursuant to Developer's Amendment and Restated Partnership Agreement.

Total Operating Expenses & Reserves shall include all taxes and assessments, insurance, license, utilities, building maintenance and repairs, landscaping, management fees, on site manager, payroll, cleaning supplies, all benefits and legal and accounting and all deposits to replacement, operating and transition reserves required by the Project lenders and equity investors.

Asset Management Fee is the annual fee(s) to pay the limited partner and/or the general partners for all management and oversight of the project, including any and all regulatory filings and surveys required of the Developer by the City or Agency in accordance to the project's funding sources. Said fee shall remain at \$25,000 increasing at 3% per year.

Deferred Development Fee shall be defined as the portion of the development fee that had not been paid upon the completion of the construction of the Project. The total development fee shall be capped at the maximum amount permitted by the California Tax Credit Allocation Committee.

The uses of each annual Net Cash Flow shall be as follows:

- (i) 50% to the Developer
- (ii) 50% (allocated to the HUD 108 Loan, Agency Loan, AHSC Loan, and HOME Loan on a pro rata basis and used to pay residual receipts loans for the Project).

5. Subordination. This Housing Successor Note shall be subject and subordinate to the terms and conditions of a construction and/or permanent deeds of trust and regulatory agreements securing low-income housing tax credits financing (collectively, the "Senior Loans") subject to the following conditions: (1) the Agency shall receive copies of any notices of default issued by the Senior Lenders to the Developer; and (2) the Agency or City shall have the right to cure any default by the Developer within ninety (90) days after a notice of default.

6. No Assumption. This Housing Successor Note shall not be assumable by the successors and assigns of Borrower without the prior written consent of the Agency, or as set forth in the Housing Successor Loan Agreement and Housing Successor Regulatory Agreement.

7. Security. This Housing Successor Note is secured by the Housing Successor Deed of Trust, wherein the Borrower is the Trustor and the City is the Beneficiary, covering the Property.

8. Terms of Payment.

(a) All payments due under this Housing Successor Note shall be paid in currency of the United States of America, which at the time of payment is lawful for the payment of public and private debts.

(b) All payments on this Housing Successor Note shall be paid to Agency at the office of the City, 678 West 18th Street, Merced, CA 95340, Attn: Housing Division & City Clerk, or to such other place as the Agency may from time to time designate in writing.

(c) All payments on this Housing Successor Note shall be without expense to the Agency or City, and the Borrower agrees to pay all costs and expenses, including re-conveyance fees and reasonable attorney's fees of the Agency or City, incurred in connection with the payment of this Housing Successor Note and the release of any security hereof.

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

(e) This Housing Successor Note shall be nonrecourse to Borrower and its partners.

9. Default.

(a) Any of the following shall constitute an Event of Default under this Housing Successor Note:

(i) Any failure to pay, in full, any regularly scheduled payment required under this Housing Successor Note when due following written notice by Agency of such failure and ten (10) days opportunity to cure;

(ii) Any failure in the performance by the Borrower of any terms, condition, provision or covenant set forth in this Housing Successor Note subject to the notice and cure period set forth in the DDA; and

(iii) The occurrence of any Event of Default under the Housing Successor Loan Agreement, the Housing Successor Deed of Trust, or the Housing Successor Regulatory Agreement, or other instrument securing the obligations of the Borrower under this Housing Successor Note or under any other promissory notes hereafter issued by the Borrower to the City or Agency pursuant to the Housing Successor Loan Agreement or the Housing Successor Deed of Trust, subject to notice and cure period, if any, set forth therein.

Notwithstanding anything to the contrary contained herein, Agency hereby agrees that any cure of any default made or tendered by one or more of Borrower's limited partners shall be deemed to be a cure by Borrower and shall be accepted or rejected on the same basis as if made or tendered by Borrower. Copies of all notices which are sent to Borrower hereunder shall also be sent to the investor c/o JDF, LLC, 777 West Putnam Avenue, Greenwich CT 06830, Attention: Joanne D. Flanagan, Esq.

(b) Upon the occurrence of such an Event of Default, the entire unpaid principal balance, together with all interest thereon, if any, and together with all other sums then payable under this Housing Successor Note and Housing Successor Deed of Trust shall, at the option of the Agency, become due and payable in full, without further demand.

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

10. Waivers.

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

(b) No extension of time for payment of this Housing Successor Note or any installment hereof made by agreement by the Agency with any person now or hereafter liable for

payment of this Housing Successor Note shall operate to release, discharge, modify, change or affect the original liability of the Borrower under this Housing Successor Note, either in whole or in part.

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

11. Miscellaneous Provisions.

(a) All notices to the Agency or the Borrower shall be given in the manner and at the addresses set forth in the Housing Successor Loan Agreement, or to such addresses as the Agency and the Borrower may hereinafter designate.

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

(c) This Housing Successor Note may not be changed orally, but only by an agreement in writing signed by the party against whom enforcement of any waiver, change, modification or discharge is sought.

(d) This Housing Successor Note shall be governed by and construed in accordance with the laws of the State of California.

(e) The times for the performance of any obligations hereunder shall be strictly construed, time being of the essence.

(f) This document, together with the Housing Successor Loan Documents, contains the entire agreement between the parties as to the Housing Successor Loan. It may not be modified except upon written consent of the parties.

(g) Nonrecourse. The Housing Successor Loan and all obligations under this Housing Successor Note are nonrecourse obligations of Borrower.

[Signatures on Next Page]

“DEVELOPER”

Merced CA Apartments, L.P., a
Delaware limited partnership

By: Merced Childs & B Street, LLC, a
Delaware limited liability company

Its Managing General Partner

By: Central Valley Coalition for Affordable
Housing, a California nonprofit
corporation, Managing Member

Christina Alley, Chief Executive
Officer

By: Merced CA GP, LLC, a Delaware
limited liability company

Its Administrative General Partner

By: TRG Merced CA Member LLC, a
Delaware limited liability company

Its Sole Member

By: _____
Samantha Anderes, its Treasurer

By: The Richman Group of California
Development Company LLC, a
California limited liability company,
its Co-General Partner

By: _____
Samantha Anderes, its Treasurer

Taxpayer I.D. No. _____

ADDRESS:

c/o JDF, LLC
777 West Putnam Avenue
Greenwich CT 06830
Attention: Joanne D. Flanagan, Esq.

TELEPHONE: (203) 869-0900

FACSIMILE: (203) 496-8569

E-MAIL: flanaganj@jdfllaw.com