

RESOLUTION NO. 93-2007

Adopted August 21, 2007

RATIFYING AND CONFIRMING THE AUTHORIZATION, ISSUANCE, SALE AND DELIVERY OF TAX EXEMPT MULTIFAMILY HOUSING MORTGAGE REVENUE BONDS (NINTH AND JESSIE SENIOR HOUSING) 2007 IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$25,000,000; DETERMINING AND PRESCRIBING CERTAIN RELATED MATTERS; APPROVING AND AUTHORIZING RELATED ACTIONS AND THE EXECUTION AND DELIVERY OF RELATED DOCUMENTS TO FINANCE THE CONSTRUCTION OF RESIDENTIAL FACILITIES KNOWN AS NINTH AND JESSIE SENIOR HOUSING; MID-MARKET REDEVELOPMENT SURVEY AREA; AGENCY CITYWIDE AFFORDABLE HOUSING PROGRAM

BASIS FOR RESOLUTION

1. The Redevelopment Agency of the City and County of San Francisco (the "Agency") is a public body organized and existing pursuant to California Health and Safety Code Section 33000, et seq., (the "Law") and is authorized by Chapter 8, beginning at California Health and Safety Code Section 33750, of the Law to finance residential construction and to issue mortgage revenue bonds to pay the cost of financing such residential construction.
2. Mercy Housing California XXXIV, a California limited partnership (the "Developer"), intends to develop the underutilized real property, owned by the Agency and located at 9th and Jessie Streets, Block 3508, Lot 54, San Francisco, California (the "Site") in the Mid-Market Redevelopment Survey Area, with approximately 106 units of affordable housing for very low-income seniors and a manager's unit on the Site (the "Project").
3. On March 16, 2004, pursuant to determinations and findings regarding the financing and development of the Project made or reflected in Resolution No. 37-2004, the Agency Commission approved a grant in an amount not to exceed THREE MILLION FIVE HUNDRED SEVENTY-TWO THOUSAND TWO HUNDRED FOURTEEN and NO/100 DOLLARS (\$3,572,214.00) (the "Grant") to the Developer from funds in the Tax Increment Affordable Housing Fund for acquisition and predevelopment activities related to the Project.
4. On March 15, 2005, by Resolution Nos. 51-2005 and 52-2005, the Agency Commission approved the acquisition of the Site directly from the previous owner, VILO Properties, Inc., a California corporation, and Victor Honig and Lorraine Honig, as Trustees of the Honig 1986 Family Trust, pursuant to the Agency Commission's authorization of the financing and development of the Project. On March 31, 2005, the Agency took ownership of the Site using the portion of the Grant funds that was originally intended for purchase of the Site by the Developer.

5. On October 3, 2006, the Agency Commission, by Resolution No. 134-2006, and pursuant to its approved plan for the phased financing of the Project, authorized the Agency to enter into an initial loan with the Developer for the development and construction of the Project for a total aggregate amount not to exceed EIGHTEEN MILLION ONE HUNDRED SEVENTY NINE THOUSAND THIRTY EIGHT AND NO/100 DOLLARS (\$18,179,038.00).
6. Also, on October 3, 2006, by Resolution No. 136-2006, the Agency expressed its intention to issue multifamily housing revenue bonds on a tax exempt basis in an amount not to exceed \$25,000,000 to finance a portion of the Project, which intention constituted an integral part of the financing of the Project as commenced through the aforesaid Grant and initial loan. On November 9, 2006, the Agency held a public hearing on the proposed issuance of such tax exempt bonds, as required under the Internal Revenue Code of 1986, as amended (the "Code"), following published notice of such hearing on October 26, 2006 and on November 2, 2006, and the Mayor of the City and County of San Francisco, as an applicable elected representative under the Code, approved the issuance of such tax exempt bonds on November 14, 2006.
7. On December 13, 2006, the California Debt Limit Allocation Committee approved an allocation of tax exempt multifamily mortgage revenue bonds in an amount not to exceed \$25,000,000 based on the Developer's binding commitment to the Agency to complete the development of the Project in part with the proceeds of such bonds and in furtherance of the Agency's authorized financing of the Project.
8. Acting pursuant to each of the foregoing actions, authorizations, approvals and commitments, the Agency intends to complete the implementation of its financing program for the Project through the issuance of its Redevelopment Agency of the City and County of San Francisco Tax Exempt Multifamily Housing Mortgage Revenue Bonds in one series in an amount not to exceed \$25,000,000 designated as the Redevelopment Agency of the City and County of San Francisco Multifamily Housing Mortgage Revenue Bonds (Ninth and Jessie Senior Housing) 2007 (the "Bonds"). The proceeds of the Bonds will be advanced by Union Bank of California, N.A. as Agent (the "Agent") for the account of the Agency to the Borrower, for the purpose of funding a loan in the maximum aggregate principal amount of \$27,000,000 to finance the Borrower's construction of the Project (the "Loan") pursuant to the terms and conditions of a Construction Loan Agreement (the "Loan Agreement") between the Borrower and the Bank (as defined below) in accordance with a Master Pledge and Assignment dated as of September 1, 2007 (the "Pledge and Assignment"), among the Agency, as issuer of the Bonds, the Agent, as agent, under and pursuant to that certain Master Agency Agreement dated as of September 1, 2007 (the "Agency Agreement") between the Agency and the Agent, to Union Bank of California, N.A. as initial holder of the Bonds, and any successors and assigns (the "Holder") and pursuant to certain conditions and requirements to be set forth in a Regulatory Agreement and Declaration of Restrictive Covenants, dated as of September 1, 2007, by and between the Agency and the Borrower (the "Regulatory Agreement").

9. At all times during the foregoing events, the Agency has been and continues to be authorized and required pursuant to the Law to lend and distribute monies to nonprofit developers and sponsors for the specific and special purpose of increasing the housing stock in the City for very-low, low- and moderate-income households.
10. Pursuant to the requirements of the Agency and in furtherance of the purposes of the aforesaid grants and loans, the Borrower intends to finance the construction of the Project using, among other sources, the proceeds of the Loan. The Bonds to be issued to fund the Loan will be sold to Union Bank of California, N.A. (the "Bank") pursuant to and in furtherance of the purposes of the prior actions of the Agency with respect to the Project.
11. The Agency is authorized and required pursuant to the Law to adopt administrative, ministerial and other regulations that contain standards, qualifications and criteria for the making and approval of loans. In furtherance of the purposes of the foregoing actions, the Agency intends to implement these procedures and requirements in part through the adoption of more particular standards, qualifications and criteria for the making and approval of the Loan as heretofore authorized that are declarative of its prior policies and authorizations, as set forth in the letter dated as of October 2, 2006, from the Bank to the Borrower with respect to the Bank's commitment to purchase the Bonds (the "Commitment Letter"), the Loan Agreement, the Pledge and Assignment, and the Regulatory Agreement, as the regulation of the Agency that contains standards, qualifications, and criteria for the making and approval of the Loan for purposes of the Law and the prior actions and authorizations of the Agency with respect to the Project and its financing.
12. The Agency hereby ratifies, confirms and affirms that all acts, conditions and things required by the Act and the Law, and by the Constitution and laws of the State of California and by prior Agency actions to exist, to have happened and to have been performed precedent to and in connection with the adoption of the particular standards, qualifications and criteria for the making and approval of the Loan that are set forth in the Loan Agreement, the Pledge and Assignment, the Regulatory Agreement and the Commitment Letter as the regulation of the Agency that contains standards, qualifications and criteria for the making and approval of the Loan for purposes of the Law and the consummation of the financing represented by the Bonds and the Loan do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the Agency continues to be duly authorized and empowered, pursuant to each and every requirement of law, to authorize the adoption of such particular standards, qualifications and criteria, to authorize the consummation of such financing and in furtherance and ratification thereof to authorize the execution and delivery of documents related to such consummation, for the purposes, in the manner and upon the terms contemplated in this Resolution and as contemplated and authorized in the prior resolutions and actions of the Agency adopted or taken in connection with the Project and its ongoing financing.

13. On October 4, 2005, the Agency Commission adopted Resolution No. 153-2005, which found that the schematic design for the development of the 9th and Jessie Senior Housing project located at 9th and Jessie Streets (Assessor's Block 3508, Lot 51) would not have a significant environmental impact, provided that the mitigation measures identified in the Mitigated Negative Declaration for the project, as approved on June 10, 2004 in Motion No. 16813 of the San Francisco Planning Commission, are incorporated into the project.
14. The issuance, sale and delivery of tax exempt multifamily housing mortgage revenue bonds as previously authorized and contemplated by the Agency is an Implementing Action for the construction of the Project pursuant to the approved schematic design. Agency staff, in making the necessary findings for the Implementing Action contemplated herein, considered and reviewed the Mitigated Negative Declaration. Documents related to the Implementing Action and the Mitigated Negative Declaration have been and continue to be available for review by the Agency Commission and the public and are part of the record before the Agency Commission.
15. The Mitigated Negative Declaration and Resolution No. 153-2005 were and remain adequate, accurate and objective and are incorporated herein by reference as applicable to the Implementing Action.

FINDINGS

The Agency Commission hereby finds and determines that the adoption of particular standards, qualifications and criteria for the making and approval of the Loan and the use of low- and moderate-income housing funds and other funds of the Agency to assist in the consummation of financing of the Project as previously authorized and contemplated will be of benefit to the Agency's redevelopment project areas.

The Agency Commission hereby further finds and determines that the issuance, sale and delivery of tax exempt multifamily housing mortgage revenue bonds for the 9th and Jessie Senior Housing project is an Implementing Action for the construction of the project pursuant to the approved schematic design and requires no additional environmental review pursuant to the California Environmental Quality Act ("CEQA") (State CEQA Guidelines Section 15074) for the following reasons:

1. The Implementing Action will not change the scope of the project analyzed in the Mitigated Negative Declaration and no major revisions are required due to the involvement of new significant environmental effects or a substantial increase in the severity of significant effects previously identified in the Mitigated Negative Declaration.
2. No substantial changes have occurred with respect to the circumstances under which the project analyzed in the Mitigated Negative Declaration was undertaken that would require major revisions to the Mitigated Negative Declaration due to the

involvement of new significant environmental effects, or a substantial increase in the severity of effects identified in the Mitigated Negative Declaration.

3. No new information of substantial importance to the project analyzed in the Mitigated Negative Declaration has become available that would indicate that (a) the Implementing Action will have significant effects not discussed in the Mitigated Negative Declaration; (b) significant environmental effects will be substantially more severe; (c) mitigation measures found not feasible that would reduce one or more significant effects have become feasible; or (d) mitigation measures or alternatives that are considerably different from those in the Mitigated Negative Declaration will substantially reduce one or more significant effects on the environment.

RESOLUTION

ACCORDINGLY, IT IS RESOLVED by the Redevelopment Agency of the City and County of San Francisco that (1) it has reviewed and considered the Mitigated Negative Declaration and hereby adopts the CEQA findings set forth in Resolution No. 153-2005 incorporated herein and those set forth above and (2) subject to negotiation of an agreement with the Developer to the satisfaction of the Agency of financing and other Project related terms and conditions:

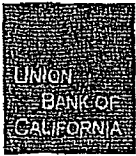
1. Pursuant to the Law, the Agency hereby adopts the particular standards, qualifications, and criteria for the making and approval of the Loan that are set forth in the Commitment Letter (attached hereto as Attachment 1), the Loan Agreement, the Pledge and Assignment, and the Regulatory Agreement, with such changes, additions and deletions as may be approved by any Authorized Officer (described below) in the manner set forth in Section 3 below, as the regulation of the Agency that contains standards, qualifications and criteria for the making and approval of the Loan for purposes of the Law, as previously authorized and contemplated by the Agency in principle and as policy.
2. Pursuant to the Act, the Agency hereby ratifies, affirms and confirms its authorization of the issuance, sale and delivery of the Bonds designated as the "Redevelopment Agency of the City and County of San Francisco Multifamily Mortgage Housing Revenue Bonds (Ninth and Jessie Senior Housing) 2007" (the "Bonds"). The Bonds shall be issued pursuant to the Pledge and Assignment. The terms of the Bonds of each series shall be as set forth in the Pledge and Assignment, as such agreement is executed and delivered by the Agency. The Executive Director, the Deputy Executive Director - Finance and Administration, and the Secretary of the Agency (each an "Authorized Officer"), each acting alone, are hereby authorized and directed to execute the Bonds on behalf of the Agency by manual or facsimile signature, in the form set forth in the Pledge and Assignment, with such changes, deletions and insertions as may be approved by such Authorized Officer upon consultation with legal counsel to the Agency, such approval being conclusively evidenced by the execution and delivery thereof, and the Authorized

Officers, each acting alone, are hereby authorized and directed to attest the Bonds in said form and otherwise in accordance with the Pledge and Assignment. The Bonds, when executed, shall be delivered to or upon the order of the Bank.

3. The Pledge and Assignment, the Agency Agreement, the Regulatory Agreement and the Loan Agreement, in the forms lodged with the Agency General Counsel, are hereby approved. The Authorized Officers, each acting alone, are hereby authorized for and on behalf of the Agency to execute and deliver the Pledge and Assignment, the Agency Agreement and the Regulatory Agreement (collectively, the "Bond Documents") and approve the Loan Agreement in such forms, with such changes, additions or deletions as may be approved by such Authorized Officer upon consultation with legal counsel to the Agency, including such additions or changes as are necessary or advisable in accordance with Section 4 below, such approvals to be conclusively evidenced by the execution and delivery by such Authorized Officer of all of the Bond Documents.
4. All actions heretofore taken by the Agency and the officers and agents of the Agency with respect to the adoption of the standards, qualifications and criteria for the making and approval of the Loan and the sale and issuance of the Bonds are hereby approved, confirmed and ratified. The Executive Director, the Deputy Executive Director - Finance and Administration, the Treasurer, the Secretary and Assistant Secretaries, the Agency General Counsel and Deputy General Counsels and other officers of the Agency are hereby authorized and directed, jointly and severally, to do any and all things, and to execute and deliver any and all documents and certificates (including, without limitation, those in connection with tax compliance matters and continuing disclosure obligations) which they may deem necessary or advisable in order to adopt the standards, qualifications and criteria for the making and approval of the Loan and to consummate the lawful issuance, sale and delivery of the Bonds and the funding of the Loan, and otherwise to implement the purposes of this Resolution both before and after the delivery of the Bonds.

APPROVED AS TO FORM:


James B. Morales
Agency General Counsel



October 2, 2006

Ramie Dare
Mercy Housing
1360 Mission Street, Suite 300
San Francisco, CA 94103

Re: **Project: 9th & Jessie Senior Housing, San Francisco, CA**
General Partner: Mercy Housing West
Direct Purchase of Tax Exempt Bonds

Dear Ms. Dare:

We are pleased to advise **Mercy Housing California XXXIV, A California Limited Partnership** ("Borrower") that Union Bank of California, N.A. ("Bank") hereby agrees to directly purchase tax exempt bonds in a total amount not exceeding \$27,330,000 (the "Bond Amount"), subject to Borrower's compliance with all of the terms and provisions set forth below and the terms and provisions contained in the Standard Terms and Conditions (the "Standard Terms and Conditions") attached hereto as Exhibit "A". This agreement shall expire on September 30, 2007.

1. **PURCHASE AND LOAN LIMITATIONS.** In accordance with the terms and conditions set forth below, Bank agrees to purchase tax exempt bonds in a face amount not to exceed the sum of \$27,330,000 which represents the principal amount of the Bonds. The proceeds of the Bond Purchase will be loaned to Borrower pursuant to a Loan Agreement between Issuer and Borrower and a Construction Loan Agreement between Borrower and Bank, and used to pay the costs of constructing certain improvements (the "Improvements") consisting of a 107-unit senior apartment project located at 66 9th Street in San Francisco, CA. Bond proceeds shall be advanced by the Bank to or for the account of Borrower, pursuant to the Loan Agreement and other documents governing the Bonds, only with the consent of Bank. The Bond Proceeds will further be disbursed pursuant to a Construction Loan Agreement between Borrower and Bank, which will, among other things, set forth the conditions for Bank's consent to such disbursement. The loans shall be evidenced by the Promissory Note, the Construction Loan Agreement, the Deed of Trust, this agreement and all other documents evidencing, securing or pertaining to the Bonds, which documents are sometimes hereinafter collectively referred to as the "Bank Documents"; the Property and the Improvements are sometimes hereinafter collectively referred to as the "Project". Pursuant to the Promissory Note, the Borrower shall agree, among other things, to pay to the order of Union Bank of California, N.A., as Agent under the Agreement, in lawful money of the United States of America in immediately available good funds at the address provided in the Agreement, the Principal Amount, or so much thereof as then due under the Note and/or Agreement, together with interest thereon at the interest rate and at the times set forth in the Agreement. The obligations of Borrower under the Note and Construction Loan Agreement will each be secured by a deed of trust, subject only to a HUD regulatory and use agreement, assignment of rents and security agreement on the Project (the "Deed of Trust") and by other collateral, and guaranteed by certain guaranties, all as hereinafter described.

2. INTEREST RATE; MATURITY DATE; LOAN FEE.

(a) Interest Rate.

- i) Construction Loan: \$27,330,000 – The rate shall be fixed at 65% of 3-yr. Treasury rate plus 200 basis points, computed on a three hundred sixty (360) day year but for the actual number of days outstanding. Until maturity, interest only shall be payable monthly, in arrears, on the Bonds.

(c) Origination Fees. Concurrently with the issuance of the Bonds and the recording of the Deed of Trusts, and as a condition precedent thereto, Bank shall disburse to itself from the Bond proceeds, a non-refundable initial origination fee of Fifty basis points (0.50%) of the face amount of all the Bonds, which shall be deemed to have been earned in full by Bank upon the recording of the Deed of Trust.

(d) Construction Period Maturity Date. The Construction Period will expire thirty (30) months from the issuance of the Bonds (the "Construction Expiration Date"). A six-month extension will be available subject to Bank approval.

3. GUARANTEES; PAYMENT/PERFORMANCE BONDS; SECURITY FOR BOND AMOUNT; MANNER OF ISSUANCE OF BONDS & DISBURSEMENT OF BOND PROCEEDS; FINANCIAL STATEMENTS.

(a) Guarantees. Completion of the Improvements shall be guaranteed through the execution and delivery of completion agreements on forms in current use by Bank, which completion agreements shall be executed by Mercy Housing and such other parties as Bank may require. Bank will require that repayment of the Bonds be guaranteed by Mercy Housing, through guaranties on forms in current use by Bank, executed by such parties as Bank may require until all conditions of conversion have been met, the outstanding bonds have been reduced to the permanent bond amount, and the tax credit equity shall have funded in an amount sufficient to repay the construction loan.

(b) Payment and Performance Bonds. Borrower's General Contractor (as hereinafter defined) shall be required to procure, at no expense to Bank, a performance bond and a labor and material payment bond issued in favor of Bank and Borrower as co-obligees by one or more financially responsible surety companies acceptable to Bank, each such bond to be in a penal sum equal to the total contract price that is then provided for under the General Contract (as hereinafter defined) (it being hereby acknowledged and agreed that the General Contract and the total price payable to the General Contractor hereunder will be amended from time to time as the Plans (as hereinafter defined) for the various discrete components of the Improvements are finalized and approved and that such bonds shall be increased or supplemented concurrently and commensurately with such increases in the total contract price payable under the General Contract) unless Bank shall require each such bond to be in a penal sum equal to its reasonable estimate of the total contract price that will ultimately be payable under the General Contract after the Plans for the Improvements in their entirety have been finalized and approved, plus any other sums payable by Borrower with respect to the Plans or pursuant to any applicable laws, rules, permits, requirements and regulations of any governmental agencies or authorities having or exercising jurisdiction over the Property or the Improvements. (Borrower shall not be obligated to procure any similar bonds for any of the subcontractors retained by the General Contractor).

(c) Security for Bonds. The Bonds shall be secured by a leasehold deed of trust and assignment of rents (the "Deed of Trust") in favor of Bank covering certain real property (the "Property") located at 66 9th Street in the City of San Francisco, State of California, as more particularly described in Exhibit "B" attached hereto, subject only to a security agreement and UCC-1 financing statement for all personal property located on the Property or used in connection with the operation of the Property, an assignment of construction contract (together with the written consent of the general contractor), an assignment of plans and specifications (together with the written consent of the architect), an assignment of the Limited Partner Capital note, if any, an assignment of the Tax Credits referred to below, and assignments of the general partnership interest(s) and limited partnership interest(s) in Borrower, all of which documents shall be on forms in current use by Bank.

(d) Manner of Issuance & Disbursement of Bonds. The Bond proceeds shall be disbursed to Borrower in order to cover the costs and expenses incurred by Borrower in acquiring the property and constructing the Improvements, certain related costs incurred by Borrower in connection with the Property and the Bonds, interest expense incurred by Borrower in connection with the Bonds, and fee expense incurred by Borrower in connection with the Bonds. Prior to the first disbursement, Borrower shall have provided Bank with an itemized cost breakdown (the "Cost Breakdown") describing the costs for constructing the Improvements and expenses incurred and to be incurred by Borrower and the specific application of the Bond proceeds to such costs and expenses, which shall be subject to Bank's approval (in Bank's sole and absolute discretion) and shall be consistent with the preliminary cost breakdown previously delivered to Bank.

(e) Financial Statements. With respect to each guarantor, Borrower, each partner in Borrower, and such other parties as Bank may require, Borrower shall cause to be delivered to Bank financial statements and other financial information as Bank may require including, but not limited to, a current balance sheet, income statement and statement of cash flows. Such financial information, and the financial condition of the parties identified therein, shall be subject to Bank's approval (in Bank's sole and absolute discretion).

4. COMMENCEMENT AND COMPLETION OF CONSTRUCTION.

The Construction Loan Agreement shall require Borrower to cause construction of the Improvements to be

(a) commenced no later than September 30, 2007, and

(b) prosecuted in good faith, with due diligence and without delay so that the Project will be completed and receive final Certificates of Completion on all buildings by September 30, 2009.

5. CONDITIONS PRECEDENT TO BANK'S OBLIGATION TO PURCHASE TAX EXEMPT BONDS.

Bank's obligation to purchase the Bonds is expressly subject to the following conditions, each of which must be strictly complied with and fully satisfied on or before the Closing Date (as such term is defined below), except as otherwise expressly set forth:

(a) Ownership of Real and Personal Property. Borrower shall be the sole owner of the Property, with good and marketable title, free and clear of all liens, restrictions and encumbrances and subject only to the Redevelopment Agency leasehold and matters approved by Bank.

(b) Additional Construction Financing. Borrower has procured additional financing on terms and from lenders acceptable to Bank and in an amount equal to no less than \$20,000,000 in the aggregate to cover those Project costs that are not to be funded out of the Bond proceeds, which additional construction financing may be secured by deeds of trust encumbering the Project that are subject and subordinate to the lien of the Deed of Trust.

(c) Allocation of Tax Credits. Borrower has received from the California Tax Credit Allocation Committee (the "Allocation Committee") an allocation of 4% federal tax credits under Section 42 of the Internal Revenue Code in an annual amount equal to at least \$1,200,000, ("Tax Credits"), as evidenced by a preliminary reservation ("Preliminary Reservation") issued by the Allocation Committee; and Borrower shall have provided Bank with copies of the Preliminary Reservation, Borrower's Tax Credit application, all correspondence and/or notices delivered by the Allocation Committee with respect to the Tax Credits and such information and/or documentation as Bank may require.

(d) Tax Credit Investor. Borrower has entered into an agreement with a tax credit investor acceptable to Bank (the "Tax Credit Investor") pursuant to which such tax credit investor shall (i) be admitted as a partner in Borrower and (ii) be obligated to make capital contributions for the benefit of Borrower in an aggregate amount of not less than \$13,500,000 and on terms and conditions acceptable to Bank (in Bank's sole and absolute discretion); the tax credit investor and agreement shall be subject to Bank's approval in Bank's sole and absolute discretion.

(e) Items to be Delivered to Bank. Borrower shall have delivered to Bank, in form and substance satisfactory to, and for approval by Bank, all of the following:

i) The Indenture, the Loan Agreement, the Regulatory Agreement, the Intercreditor Agreement, the Promissory Note, the Deed of Trust, the Construction Loan Agreement, the Guaranties, and the other Bank Documents referred to above, duly executed by the parties referred to therein and, where appropriate, notarized by a notary public.

ii) Evidence satisfactory to Bank and its legal counsel (A) of satisfactory zoning for the Property, (B) that all necessary permits and licenses to construct the Improvements have been obtained or are available and that all fees related thereto have been paid, (C) of the unconditional availability of all utility and municipal services (including, without limitation, water, sewer, gas, electricity and telephone services) required for the Property, (D) that upon completion of the Improvements in accordance with the plans approved by Bank and the building permits, the Property will comply with all applicable laws, ordinances, restrictions, regulations and requirements, including without limitation those relating to hazardous materials, and (E) that all real estate taxes due with respect to the Property have been paid.

iii) The title policy referred to in the Standard Terms and Conditions, which shall comply in all respects with the requirements set forth in the Standard Terms and Conditions.

iv) The original policy(ies) or certificate(s) evidencing the comprehensive public liability, builder's risk, worker's compensation and flood insurance required by the Standard Terms and Conditions.

v) A survey of the Property, with all easements plotted thereon, prepared for and certified to Bank by a duly licensed engineer or surveyor satisfactory to Bank.

vi) The originals of the performance and payment bonds required in accordance with the provisions of Paragraph 3(b) hereof.

vii) A final site assessment covering the Property, prepared by an environmental consultant acceptable to Bank and confirming there are no hazardous materials present on, in, under or around the Property.

viii) The Cost Breakdown.

ix) With respect to any junior deed of trust approved by Bank and encumbering the Property and securing repayment of acquisition and/or construction costs for the Project not covered by the Bonds and/or any regulatory agreement recorded against the Property, a subordination agreement on the form in current use by Bank, duly executed by the beneficiary under such deed of trust, subordinating the lien and effect of any such deed of trust and/or regulatory agreement to the lien and effect of the Deed of Trust, together with an estoppel certificate on the form in current use by Bank, duly executed by the beneficiary under such deed of trust, containing such agreements and certifications concerning the loan secured by such deed of trust as Bank shall require.

x) An appraisal of the Project acceptable to Bank (in Bank's sole and absolute discretion) by an appraiser commissioned by Bank.

xi) The financial statements required to be delivered in accordance with the provisions of Paragraph 3(e) above.

xii) With respect to each assignment of partnership interest, a consent to assignment on the form in current use by Bank, duly executed by the other partners in Borrower, among other things, consenting to the assignment of such partnership interest.

xiii) An estoppel certificate on Bank's form in current use, duly executed by the tax credit investor, providing such certifications as Bank may require with respect to the Tax

Credit Investor's obligation to make its capital contributions under Borrower's agreement of limited partnership and/or any other documents relating thereto.

xiv) An Environmental Compliance Agreement on the form in current use by Bank, duly executed by Borrower and guarantors.

xv) Such other documents and/or certificates as Bank shall require, in order to create or perfect Bank's security interest in the collateral described herein.

(f) No Eminent Domain Proceeding. No eminent domain proceeding, other governmental action or any judicial action shall be pending or threatened against the Property or any portion thereof which will materially or substantially interfere with the construction of the Improvements or the operation of the Property.

(g) Legal Opinion. If requested by Bank, Bank shall have received a legal opinion from Borrower's attorneys, prepared at Borrower's expense, in form reasonably satisfactory to Bank and its attorneys, opining as to such matters as Bank may reasonably require.

(h) Partnership Agreement and other Authorization and Organization Documents. Bank shall have received and approved a copy of Borrower's limited partnership agreement and such other documents as Bank or its legal counsel shall require evidencing Borrower's (and Borrower's constituent partner's) formation, the authority of those signing the documents and instruments evidencing, pertaining to and/or securing the Bond, and Borrower's qualification to engage in the transaction of business conducted or to be conducted on the Property; One (1) of the general partners in Borrower must enjoy the status of an organization described in Sections 501(c)(3) and 509(a)(1) of the Internal Revenue Code that is exempt from Federal Income Tax under Section 501(a) of the Internal Revenue Code.

(i) No Adverse Events. No event shall have occurred and no condition shall exist which, at the issuance of the Bonds, will (i) materially diminish the value of the Property, (ii) result either immediately or with a lapse of time or the giving of notice, or both, in the occurrence or existence of any event of default under this agreement, the Note, the Construction Loan Agreement or any other instrument or document securing or pertaining to the Bonds or Bond Amount, (iii) materially affect Borrower's financial condition or the financial condition of any of the guarantors or any partners in Borrower or (iv) reduce the amount of Tax Credits to which Borrower is entitled under the Preliminary Reservation and the Carryover Allocation.

(j) Borrower's Equity. Borrower shall have invested in the Project from a source or sources other than the Bond proceeds, at least \$1,000,000, or the amount necessary to balance the budget, as of the Closing Date. Such amount may be from funds included under the additional construction financing referred to above, and from soft debt or grants from governmental agencies.

(k) Approval of Architect and Plans and General Contractor and Construction Contract. Bank has received and approved (in Bank's sole and absolute discretion) the plans and specifications (the "Plans") and the construction contract (which must be a guaranteed price contract in an amount acceptable to Bank) (the "Construction Contract") for the construction of the Improvements and Bank has approved the architect and the general contractor (the "General Contractor") for the Project.

Borrower acknowledges and agrees that Bank's obligation to purchase the Bonds may be conditioned upon the delivery of additional items as Bank may require based upon Bank's review of any of the foregoing.

6. LIMITATIONS ON BOND AMOUNT; ORDER OF DISBURSEMENTS.

Notwithstanding anything stated to the contrary herein, in no event shall the construction period Bond Amount exceed ninety percent (90%) of the sum of the (a) appraised value of the Project (as determined by the appraisal referred to above), plus (b) the value of the Tax Credits (as determined in Bank's sole and absolute discretion), plus (c) the value of any below market financing (as determined in Bank's sole and absolute discretion). Such sum may be based in whole or in part on an appraisal by an outside appraiser or consultant.

7. COSTS AND EXPENSES.

Borrower shall be responsible for all costs and expenses incurred by Bank in connection with the preparation for and the closing of the transactions contemplated hereby, including, without limitation, all drawing fees, all recording fees, all license and permit fees and title insurance premiums, all appraisal fees, tax credit valuations, and the fees and expenses of Bank's counsel.

8. CLOSING DATE.

The closing of the Bonds and the recording of the Deed of Trust shall occur on or before September 30, 2007 ("Deed of Trust Closing Date"), such time being of the essence. After the Closing Date, this agreement (except for the provisions of Section 9 hereof which shall survive the termination of this agreement) shall be deemed of no further force or effect and Bank shall not be obligated to advance any funds hereunder, nor to have any obligations regarding the Bonds or Bond and Loan Documents. For purposes of this Section 8, the "closing of the Bonds" shall mean the recording of the Deed of Trust at Bank's direction in the Official Records of San Francisco County, California; Bank shall have no obligation to give its direction for the recording of the Deed of Trust until and unless all the conditions set forth herein have been satisfied.

9. INDEMNITY.

Borrower shall, at Borrower's expense, protect, defend, indemnify, save and hold Bank harmless against any and all claims, demands, losses, expenses, damages, causes of action (whether legal or equitable in nature) asserted by any person or entity (other than any governmental agency exercising regulatory approval over Bank) arising out of, caused by or relating to the Bonds, including without limitation the construction of the Improvements and the use or application of the proceeds of the Bonds, and Borrower shall pay Bank upon demand all claims, judgments, damages, losses and expenses (including court costs and reasonable attorneys' fees and expenses) incurred by Bank as a result of any legal or other action arising out of the Bonds as aforesaid.

10. NO PARTNERSHIP.

Bank, by entering into this agreement or by any action taken pursuant hereto, shall not be deemed a partner or joint venturer with Borrower and Borrower shall indemnify and hold Bank harmless from any and all damage, including but not limited to attorneys' fees and costs resulting from such a construction of the parties' relationship, by reason of the purchase of the Bonds by Bank.

11. DISBURSEMENTS; DEFICIENCIES.

The Construction Loan Agreement shall provide that the Bond proceeds shall be disbursed to Borrower or, at Bank's option, directly to the general contractor or to such persons as have actually supplied labor, materials or services in connection with or incidental to construction of the Improvements. The Construction Loan Agreement shall contain Bank's standard "budget balancing" provisions and "retention" provisions.

12. AMENDMENTS TO PARTNERSHIP AGREEMENT.

Borrower's partnership agreement, once approved by Bank, shall not be amended or terminated for any reason whatsoever (including without limitation the admission of any new partners or the withdrawal of any existing partners) without Bank's prior written consent.

13. AMENDMENTS TO GENERAL CONTRACT; CHANGE ORDERS.

The General Contract and Plans, once approved by Bank, may not be modified, terminated or supplemented in any way without Bank's prior written consent.

14. DEFAULTS UNDER JUNIOR DEEDS OF TRUST AND/OR REGULATORY AGREEMENTS.

The Construction Loan Agreement shall provide that the occurrence of a default under any junior deed(s) of trust encumbering the Project or under any regulatory agreements or rental restrictions effecting the Project shall constitute a default under the Bank Documents.

15. MISCELLANEOUS PROVISIONS.

(a) In the event of any inconsistency between this agreement and any of the Bank Documents, the terms of the Bank Documents shall control.

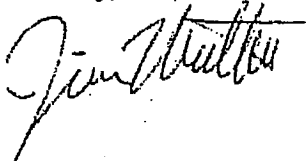
(b) This agreement shall be governed by and construed in accordance with the laws of the State of California and is non-transferable and non-assignable without the prior written consent of Bank, which consent may be withheld by Bank in its sole and absolute discretion.

(c) Wherever in this agreement Bank or its counsel's approval is required, such approvals shall not be unreasonably withheld unless the context of this agreement provides to the contrary (e.g., where Bank is given sole discretion).

(d) This agreement contains the entire understanding between Borrower and Bank with respect to the subject matter hereof, superseding any and all prior oral or written agreements and understandings, and may not be modified, altered or changed except in a writing signed by Borrower and Bank. Notwithstanding the foregoing, this agreement is not intended to set forth all of the terms and conditions upon which the Bonds shall be purchased; all such terms and conditions will be set forth in the Bank Documents.

This agreement is furnished to Borrower in duplicate originals, each executed by Bank. This agreement shall be of no force or effect unless Bank receives one copy of this agreement duly executed by Borrower no later than 5 p.m. on October 15, 2006. There is no fee due in conjunction with this letter.

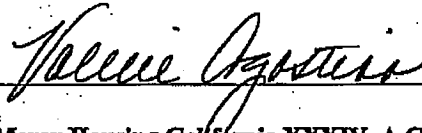
Sincerely,



Jim Mather
Vice President

ACCEPTANCE

The undersigned hereby accepts the foregoing agreement this 9 day of
OCTOBER, 2006 and agrees to the terms and conditions thereof.



Mercy Housing California XXXIV, A California Limited Partnership
By: Mercy Housing West, General Partner

Exhibit A

STANDARD TERMS AND CONDITIONS

Unless expressly defined herein, any capitalized terms used herein shall have the same meanings ascribed to them in the agreement to which these Standard Terms and Conditions are attached.

1. **Title Insurance.** Borrower shall, at Borrower's sole cost and expense, cause the following title insurance to be furnished to Bank with respect to the Deed of Trust:

(a) **Basic Insurance.** Concurrently with the recording of the Deed of Trust, and as a condition thereof, Borrower shall deliver or cause to be delivered to Bank an ALTA Loan Policy of Title Insurance with ALTA Endorsement - Form 1 Coverage (1987, LP-10 Form) (the "Title Policy"). The Title Policy shall be issued by a title insurance company (and such re-insurers as Bank may require) acceptable to Bank (the "Title Insurer") with a liability limit of \$27,330,000 and with coverage and in form satisfactory to Bank, insuring Bank's interests under the Deed of Trust as a valid first lien on the Property, shall contain such reinsurance or co-insurance agreements and such endorsements as Bank may require, and shall contain only such exceptions from its coverage as shall have been approved in writing by Bank. Borrower shall, at Borrower's sole cost and expense, do all things necessary to maintain the Deed of Trust as a valid first lien on the Property. If the Property makes use of any adjoining or adjacent property for ingress and egress, for additional parking or for any other purpose, then the Title Policy shall specifically insure the right to use such adjoining or adjacent property as easements appurtenant to the Property or, if such property is being leased by Borrower, the lien of the Deed of Trust on Borrower's leasehold estate therein, subject only to such encumbrances as shall have been approved in writing by Bank.

(b) **Continuation Endorsements.** After the recording of the Deed of Trust and as a condition precedent to each subsequent disbursement under the Construction Loan Agreement, Borrower shall at Borrower's sole cost and expense deliver or cause to be delivered to Bank from time to time such continuation or date-down endorsements (CLTA Form No. 122 and CLTA Form 101.8, or their equivalents) to be attached to the Title Policy, in form and substance satisfactory to Bank, as Bank deems necessary to insure the priority of the Deed of Trust as a valid first lien on the Property as of the date of and including the amount covered by each such disbursement, and Borrower shall furnish to the Title Insurer such surveys and other information as are required by the Title Insurer to enable the Title Insurer to issue such endorsements.

(c) **Foundation Endorsement.** Upon completion of the construction of any foundation for the improvements, and as a condition precedent to any further disbursements under the Construction Loan Agreement, Borrower shall, at Borrower's sole cost and expense, deliver or cause to be delivered to Bank a foundation endorsement (CLTA Form No. 102.5 or equivalent) with respect to such foundation, in form and substance satisfactory to Bank, to be attached to the Title Policy, which endorsement shall insure that such foundation is within the boundary lines of the Property, does not violate any applicable covenants, conditions, restrictions or agreements affecting the Property which are referred to in the Title Policy, and does not encroach upon any easements, rights or rights of way affecting or covering the Property or any portion thereof.

2. **Liability, Risk and Flood Insurance.** Borrower shall obtain the following insurance coverage for the Property at Borrower's sole cost and expense:

(a) **Public Liability Insurance.** Comprehensive public liability insurance (with a deductible amount acceptable to Bank and with coverage there under to be no less than \$3,000,000 for each occurrence) and, during any period of construction, contractor's liability and worker's compensation insurance with all of the policies evidencing such insurance to be in such form and issued by such companies as shall have been approved in writing by Bank. Each such policy shall contain an affirmative covenant of the insurer there under to give written notice to Bank of any cancellation or amendment of such policy at least thirty (30) days prior thereto.

(b) **Risk Insurance for Improvements.** Builder's risk insurance (all-risk, non-reporting completed value form, with a replacement cost rider), insuring the improvements against such risk, including, without limitation, earthquake, fire and extended coverage, vandalism, collapse and malicious mischief coverage, and containing a Deed of Trust's loss-payable clause or endorsement in favor of Bank; all in such amounts, such form and issued by such companies as shall have been approved in writing by Bank. The policy or policies evidencing such insurance shall contain an affirmative covenant by the insurer there under to give written notice to Bank of any cancellation or amendment of such policy or policies at least thirty (30) days prior thereto.

(c) **Flood Insurance.** If the Property is situated in an area designated as having special flood hazards for purposes of the Flood Disaster Protection Act of 1973, as amended, flood insurance insuring against such risk in an amount at least equal to the lesser of (i) the full insurable value of the completed Project (computed on a replacement cost basis) or (ii) the maximum limit of coverage available for the Property under the National Flood Insurance Act of 1968, as amended.

The originals of all such insurance policies, or certificates thereof acceptable to Bank, shall be delivered to Bank prior to the recording of the Deed of Trust.

3. **Rights of Inspection; Agency.** Bank shall have the right at any time and from time to time to enter upon the Property for purposes of inspection. If, after consultation with Bank's construction inspector, Bank determines that any work or materials are not in conformity with the Plans or with any applicable laws, regulations, permits, requirements or rules of any governmental authorities having or exercising jurisdiction there over, or are not otherwise in conformity with sound building practice, then Bank shall have the right to stop the work and to order replacement or correction of any such work or materials regardless of whether or not such work or materials have theretofore been incorporated into the improvements. Inspection of the Property by Bank or by Bank's construction inspector is for the sole purpose of protecting the security of Bank and is not to be construed as a representation by Bank that there has been compliance with the Plans or that the improvements are or will be free of faulty materials or workmanship. Nothing contained herein shall be construed as requiring Bank to construct or supervise construction of the improvements. The Construction Loan Agreement will provide that Borrower shall appoint and authorize Bank as Borrower's agent and attorney-in-fact to record any notices of completion, cessation of labor and other notices that Bank deems necessary to record in order to protect any interest of Bank under the provisions of the Construction Loan Agreement, the Notes, the Deed of Trust or any other documents or instruments securing or pertaining to the Bond or Construction Loan; such agency and power of attorney shall be a power coupled with an interest and shall be irrevocable.

EXHIBIT B

LEGAL DESCRIPTIONS OF NEW PARCELS **ASSESSOR'S BLOCK 3508**

ALL THAT REAL PROPERTY SITUATED IN THE CITY AND COUNTY OF SAN FRANCISCO, STATE OF CALIFORNIA, DESCRIBED AS FOLLOWS:

LOT 54 (PORTION OF FORMER LOT 51)

BEGINNING AT THE POINT OF INTERSECTION OF THE SOUTHWESTERLY LINE OF 9th STREET WITH THE SOUTHEASTERLY LINE OF JESSIE STREET; THENCE SOUTHEASTERLY, ALONG SAID SOUTHWESTERLY LINE OF 9th STREET, 100.00 FEET; THENCE AT A RIGHT ANGLE SOUTHWESTERLY 80.00 FEET; THENCE AT A RIGHT ANGLE NORTHWESTERLY 30.00 FEET; THENCE AT A RIGHT ANGLE SOUTHWESTERLY 68.00 FEET TO A POINT PERPENDICULARLY DISTANT 262.00 FEET NORTHEASTERLY FROM THE NORTHEASTERLY LINE OF 10TH STREET; THENCE AT A RIGHT ANGLE NORTHWESTERLY 70.00 FEET TO SAID SOUTHEASTERLY LINE OF JESSIE STREET; THENCE AT A RIGHT ANGLE NORTHEASTERLY, ALONG SAID LINE OF JESSIE STREET, 148.00 FEET TO THE POINT OF BEGINNING, CONTAINING 12,760 SQUARE FEET, MORE OR LESS.

BEING PART OF MISSION BLOCK NO. 4.

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