

REGULATORY AGREEMENT - NUMBER 89-CHRP-R-038  
California Housing Rehabilitation Program - Rental Component

This Regulatory Agreement (hereinafter the "Agreement"), is made on this 16th day of January, 1991, and entered into by and between the Department of Housing and Community Development, a public agency of the State of California (hereinafter the "Department"), and Old Time Faith, Inc., a nonprofit corporation (hereinafter the "Borrower").

RECITALS

Borrower has applied to the Department for a loan for the rehabilitation, or acquisition and rehabilitation, of a substandard rental housing development located at 2600 South Hoover Street, City of Los Angeles, County of Los Angeles, California (hereinafter the "Development"), the assisted units of which are to be occupied by persons of low- and very low-income. The Department has provided said loan under the California Housing Rehabilitation Program (hereinafter the "Program") pursuant to Chapter 6.5 (commencing with Section 50660 of Part 2 of Division 31 of the Health and Safety Code), as amended by Section 50668.5 of the Health and Safety Code, and Chapter 12.4 (commencing with Section 8878.15) of Division 1 of Title 2 of the Government Code and the regulations adopted thereunder (25 California Code of Regulations Section 7670 et. seq.; hereinafter the "Program Regulations").

Borrower and the Department have entered into a Standard Agreement, numbered 89-CHRP-R-038, and dated 17 May 1990, regarding the Development and the financial assistance to be provided therefore. Borrower agrees to abide by all provisions of the Standard Agreement with respect to the Development. Borrower has also agreed to enter into this Agreement as an inducement to the Department to provide the financial assistance specified in the Standard Agreement, and has agreed to be regulated and restricted as provided therein.

Borrower shall also execute a promissory note evidencing its obligation to repay the Program funds, including interest, advanced by the Department for the rehabilitation, or acquisition and rehabilitation, of the Development. Said promissory note will be secured by a deed of trust naming the Department as beneficiary. Borrower agrees to be bound by all terms and conditions of the promissory note and deed of trust.

NOW, THEREFORE, the parties hereto agree as follows:

1. Recitals. The foregoing recitals are a part of this Agreement.
2. Property. Borrower has agreed to rehabilitate, or acquire and rehabilitate, and the Department has made a commitment of loan funds for the rehabilitation, or

acquisition and rehabilitation, of the Development located on the real property described in Exhibit A, attached hereto and incorporated herein.

3. Definitions. Unless the context requires otherwise, the terms used in this Agreement shall be governed by the definitions set forth in Section 7671 of the Program Regulations. All references to code sections refer to Title 25 of the California Code of Regulations, unless otherwise noted.

For convenience, a partial list of the definitions set forth in Section 7671 of the Program Regulations is as follows:

- a. "Assisted Unit" means a dwelling unit, or a residential hotel unit, or a bedroom in a group home or congregate home, designated for occupancy or occupied by eligible households.
- b. "Debt Service Coverage Ratio" means the ratio of (1) operating income less operating expenses to (2) debt service payments, excluding prepayments.
- c. "Direct or Supportive Tenant Services" means meals, transportation, recreational and social activities, independent living training, vocational training, counseling, and similar services provided or organized by the sponsor or its agent.
- d. "Eligible Households" means very low-income households or other lower income households.
- e. "Fiscal Integrity" means that the total of operating income plus funds released pursuant to the Regulatory Agreement from the operating reserve account is sufficient to (1) pay all current operating expenses, (2) pay all current debt service, (3) fully fund for at least twelve consecutive months all reserves established pursuant to the Regulatory Agreement, (4) maintain a debt service coverage ratio as specified in the Regulatory Agreement, and (5) pay other extraordinary costs permitted by the Regulatory Agreement. The ability to pay any or all of the annual permitted distribution shall not be considered in determining fiscal integrity.
- f. "Initial Operating Year" means the first year of operation, or portion thereof, of the rehabilitated rental housing development beginning at the time of initial occupancy of an assisted unit and ending on the last day of the fiscal year of that Development.
- g. "Lower Income Household" means persons or families as defined in Section 50079.5 of the Health and Safety Code.

- h. "Operating Expenses" means the amount approved by the Department that is necessary to pay for the essential recurring expenses of the Development, such as utilities, maintenance, management, taxes, licenses, and mandatory direct or supportive tenant services but not including debt service, required reserve account deposits, or costs for voluntary direct or supportive tenant services.
  - i. "Operating Income" means all income generated in connection with operation of the rental housing development including rental income from assisted and nonassisted units, rental income from nonresidential space, laundry or equipment rental fees, rental subsidy payments, and interest on any accounts related to the rental housing development. "Operating Income" does not include security and equipment deposits, payments received from voluntary direct or supportive tenant services, or tax benefits received by the sponsor.
  - j. "Rent" means all charges, other than deposits, paid by the tenant for the use and occupancy of an assisted unit and any mandatory charge for direct or supportive tenant services in a rental housing development, whether the units are rented or operated as a limited equity housing cooperative.
  - k. "Very Low-Income Household" means persons or families as defined in Section 50105 of the Health and Safety Code.
4. Compliance with Program Requirements. The Borrower agrees that at all times its acts regarding the Development and the use of funds provided herein shall be in conformity with all provisions of the Program including the statutes, rules and regulations and such policies and procedures of the Department pertaining thereto. The Borrower acknowledges that it is familiar with such applicable provisions and has been professionally advised to the extent necessary for the purpose of enabling the Borrower to fully comply with such provisions.
5. Term of Agreement. The term of this Agreement shall commence upon recordation by the County Recorder of the Memorandum of Regulatory Agreement evidencing this Agreement dated of even date herewith and remain in full force and effect and shall apply to the Development through and including the date which is twenty (20) years following that date regardless of any prepayment of the Program loan or sale, assignment, transfer or conveyance of the Development, unless terminated earlier by the Department pursuant to the terms of this Agreement or extended by the mutual consent of the parties.
6. Initial Assisted Unit Schedule. Upon initial occupancy following the completion of rehabilitation, the Borrower shall rent assisted units only in accordance with the Initial Schedule of Assisted Units set forth in Exhibit B, attached hereto and incorporated herein.

7. Tenant Selection Standards. Borrower shall rent assisted units in the Development only to lower or very low-income households as defined in the Program Regulations and in accordance with the Management Plan approved by and on file with the Department pursuant to Section 14 of this Agreement. Such Management Plan shall: (1) detail actions to be taken by Borrower to affirmatively market vacant units in a manner which ensures equal access to all persons in any category protected by federal, state or local laws governing discrimination, and regardless of any arbitrary factor; (2) specify reasonable criteria for determination of tenant eligibility, including household size in accordance with the minimum occupancy standard specified in the Program Regulations; (3) require that eligible tenants be selected based on order of application, lottery, or other reasonable method approved by the Department; (4) require ineligible applicants to be notified of the reason for their ineligibility; (5) specify procedures through which applicants deemed to be ineligible may appeal this determination; (6) require maintenance of a waiting list of eligible applicants; and (7) specify procedures for obtaining information regarding prospective tenants' incomes as necessary to certify that such income does not exceed the lower or very low-income limit.
8. Nondiscrimination. Borrower shall not discriminate against any prospective tenant on the basis of race, religion, sex, age, disability, marital status, nor any other arbitrary factor in violation of any state, federal or local law governing discrimination in rental housing. Housing which is intended to benefit, and is therefore limited to senior citizens or the handicapped, is permitted only with the prior approval of the selection criteria by the Department.
9. Rental Agreement and Occupancy Procedures.
  - a. Each eligible household selected to occupy a unit in the Development shall enter into a written rental agreement with the Borrower on a form approved by the Department and containing such provisions as are required by the Program Regulations. Such a rental agreement shall provide for good cause eviction and appeal and grievance procedures in accordance with Section 7682(b) of the Program Regulations.
  - b. The Borrower may establish reasonable rules of conduct and occupancy. Such rules shall be consistent with state law and the Program Regulations. Said rules shall be in writing and shall be given to each tenant upon occupancy. Any change shall become effective no less than 30 days after giving written notice thereof to each household.

10. Rents.

- a. During the initial operating year, Borrower shall charge rents for assisted units in accordance with the terms of the rent schedule set forth in Exhibit B, attached hereto and incorporated herein.
- b. After the initial operating year, and except as set forth in Section 13 of this Agreement, Borrower may increase rents for assisted units only annually, and only upon prior written approval of the Department.
- c. Borrower shall request approval for rent increases in writing at least 60 days prior to the end of the fiscal year for the Development and as part of the annual operating budget submitted pursuant to Section 19 hereof. Provided that the Department reasonably determines that Borrower is in full compliance with all provisions of this Agreement, including those requiring proper maintenance and management, that Borrower's request is in full conformance with this section and that the amount of the request is in compliance with subsection e. below, Department shall not deny approval of Borrower's request. In the event that the Department does not act on a request for a rent increase within 60 days from documented receipt of the request, such request shall be deemed approved. The Department may deny a request for a rent increase on the grounds that it contains inadequate information.
- d. Any allowable rent increase not implemented by the sponsor in any given year may not be accumulated for implementation in subsequent years.
- e. After the initial operating year the amount of adjustment for assisted units shall be in accordance with the following:
  - (1) Rents may be increased at a rate not to exceed the most recently published annual average percentage change in the U.S. Department of Labor Bureau of Labor Statistics, Consumer Price Index, Residential rent for all Urban Consumers for the West (CPI) multiplied by the ratio of (1) the previous year's budgeted operating expenses plus required reserves to (2) the previous year's operating income attributed to residential units. In the event this particular CPI index is no longer published, the Department shall select a similar index for this purpose.
  - (2) In addition to the rent increase allowed pursuant to paragraph (1), rents may be increased by that amount necessary to increase the operating income to cover changes in debt service on an adjustable rate mortgage approved by the Department as part of the Development.

- (3) Notwithstanding the provisions of paragraphs (1) and (2), rents shall be decreased if debt service is decreased by an aggregate amount equal to the amount of the monthly payment reduction in debt service.
- (4) The first adjustment after the initial operating year shall be prorated based on the length of the initial operating year, multiplied by the allowable rent increase.
- f. Borrower may apply to the Department for a greater rent increase than allowed by paragraph e. above. The Department shall grant such increase if the Borrower can demonstrate, to the Department's satisfaction, that the increase is necessary to pay for unanticipated increases in costs related to the assisted units and to preserve fiscal integrity. The Borrower may not receive a greater rent increase, however, on the grounds that fiscal integrity is threatened by a shortfall in nonresidential income, unanticipated expenses attributable to nonresidential spaces or other financial problems attributable to nonresidential space or nonassisted units.
- g. Where the assisted units are rent-restricted as a condition of the federal or state Low-Income Tax Credit program or other local, state and federal rent subsidy programs, the initial rent for assisted units and subsequent rent increases shall be the lower of those permitted under the preceding paragraphs, or those permitted under the applicable tax credit or other programs.

11. Security Deposits.

- a. Security deposits shall be required of tenants only in accordance with law and this Agreement.
- b. Any security deposits collected by the Borrower or Borrower's agent shall be kept separate and apart from all other funds of the Development in a trust account with a depository insured by the Federal Deposit Insurance Corporation (F.D.I.C.), or other comparable federal deposit insurance program, and shall be held and disbursed in accordance with California law. The balance of such account shall at all times equal or exceed the aggregate of all outstanding obligations under said account, plus accrued interest thereon.

12. Certification of Tenant Income and Household Size.

- a. The income and household size of all households occupying assisted units shall be certified by the Borrower prior to occupancy and recertified annually

thereafter in a manner approved by the Department and specified in the Development's Management Plan.

- b. If the income of a tenant upon recertification exceeds the upper limit for lower income households, Borrower shall terminate the tenant's tenancy effective six months from the date of income recertification. Exceptions to this requirement are as follows:
  - (1) If the tenant provides to the Borrower additional evidence of income eligibility prior to the expiration of the six-month period following recertification, the tenant's tenancy shall not be terminated.
  - (2) Upon determination by the Department that the rental housing development is located in a high cost rental area with low rental vacancy rates, the Borrower may extend the tenant's tenancy by an additional six-month period.
  - (3) If, prior to the expiration of the six-month period following recertification, the tenant's unit is reclassified as a nonassisted unit in accordance with Section 13 of this Agreement the tenant's tenancy shall not be terminated.
  - (4) If the assisted unit is subject to state or federal rules governing low-income housing tax credits, or other state or federal rent subsidy program, the provisions of those rules regarding continued occupancy by formerly eligible households shall apply.
- c. Where a household occupying a unit designated for occupancy by very low-income households no longer qualifies as very low-income at the time of recertification, but qualifies as other lower income, the provisions of Section 13(c) shall apply.
- d. If a household occupying an assisted unit no longer meets the minimum household size requirements of the Program Regulations at the time of recertification, Borrower shall require the household to move to the next available appropriately-sized unit in the Development. If no appropriately-sized unit exists, Borrower shall, upon written approval of the Department, require the household to move to the next available unit with the most nearly appropriate size.

13. Assisted Unit Substitutions.

- a. For purposes of this section, "comparable" units shall be those listed in the same group in the Comparable Unit Schedule set forth in Exhibit C, attached hereto and incorporated herein.

- b. If, upon recertification, a household occupying an assisted unit reserved for occupancy by lower income households no longer qualifies as lower income, the Borrower may designate this household's unit as nonassisted, provided that all of the following conditions are satisfied:
  - (1) Not later than the date the Borrower designates the unit as nonassisted, the Borrower also makes available a comparable vacant unit previously designated as nonassisted to be designated as an assisted unit, or designates a previously nonassisted unit occupied by a lower income household as an assisted unit; and
  - (2) The rent charged for the newly designated assisted unit will be adjusted so that it does not exceed the rent charged the household in the previously designated assisted unit.
  
- c. Where a household occupying an assisted unit reserved for occupancy by very low-income households no longer qualifies as very low-income at the time of recertification, but qualifies as other lower income, the following shall apply:
  - (1) Borrower shall designate the unit as an assisted unit for lower income households;
  - (2) Borrower may increase the household's rent up to the highest current rent allowed for the most nearly comparable assisted unit in the Development;
  - (3) The Borrower shall designate the next available comparable assisted unit reserved for lower income households as an assisted unit reserved for very low-income households; and
  - (4) The rent charged for the newly designated assisted unit reserved for very low-income households shall not exceed the rent charged the household in the previously designated very low-income unit plus any increases which would have been permitted pursuant to Section 11.

14. Maintenance and Management.

- a. Borrower is specifically responsible for all maintenance, repair, and management functions, including without limitation, selection of tenants, recertification of family income and size, evictions, collection of rents, routine and extraordinary repairs and replacement of capital items. Borrower shall maintain units and common areas in a safe and sanitary manner in accordance with local health, building, and housing codes and the Management Plan described below.

- b. Borrower is responsible for operating the Development in accordance with the Management Plan developed by the Borrower as required by Section 7694 of the Program Regulations, and which is approved by and on file with the Department. All amendments to this plan shall require prior Department approval.
- c. Borrower may, with the prior written approval of the Department, contract with a management agent for the performance of the services or duties required in paragraphs a. and b. However, such an arrangement does not relieve the Borrower of responsibility for proper performance of these duties. Such contract shall contain a provision allowing the Borrower to terminate the contract without penalty upon no more than thirty (30) days' notice. Upon a determination by the Department, and notice to the Borrower thereof, that the contractor performing the functions required in paragraphs a. and b. has failed to operate the Development in accordance with this Agreement, the Borrower shall exercise such right of termination forthwith and shall make immediate arrangements, which shall be subject to Department approval, for continuing performance of the functions required in paragraphs a. and b.
- d. Borrower may operate the Development itself only with prior written approval of the Department. Upon a determination by the Department, and notice to the Borrower thereof, that the Borrower has failed to operate the Development in accordance with this Agreement, the Department may require the Borrower to contract with a management agent to operate the Development, or to make such other arrangements as the Department deems necessary to ensure performance of the functions required in paragraphs a. and b.

15. Hazard and Liability Insurance.

- a. The Borrower shall at all times keep the Development insured against loss by fire and such other hazards, casualties, liabilities and contingencies, and in such amounts and for such periods as set forth in Exhibit D, attached and made a part hereof. All insurance policies and renewals thereof shall be issued by a carrier and in a form acceptable to the Department. Property insurance policies shall name the Department as an additional loss payee and liability insurance policies shall name the Department as additionally insured, as approved by the Department.
- b. Insurance proceeds and condemnation awards for any loss to or taking of the Development, or any portion thereof, shall be applied or utilized by Borrower as provided in the Deed of Trust executed by Borrower and referred to in the Recitals hereof.

16. Annual Report. The Borrower shall file with the Department an Annual Report, pursuant to Section 7695 of the Program Regulations, no later than 60 days after the end of each fiscal year as established for the Development pursuant to Section 19(a) of this Agreement. The report shall contain such information as is required by Section 7695 of the Program Regulations.

Upon Department approval of the Annual Report for each fiscal year, or at such other time as the Department may designate, Borrower shall promptly pay the Department all payments not otherwise governed by the terms of the Promissory Note including, but not limited to, residual receipt and principal payments pursuant to Section 25, herein.

17. Monthly/Quarterly Reports. During the initial operating year the Department may require periodic reports at monthly or quarterly intervals as specified by the Department. Such reports shall contain such information as the Department may require including, but not limited to, the following:

- a. An income and expense statement for the reporting period.
- b. A summary of the occupancy of the rental housing development, indicating the number and type of units reserved for low-income and very low-income households, the number of vacant units, the number of evictions in process, and similar information.
- c. A report on major maintenance needs of the Development.
- d. Information on the status of waiting lists, including the number of households on lists for different unit sizes and by income group.

18. Department Review and Inspections.

- a. Upon reasonable 48 hours notice to the Borrower, the Department or its designee may, at any time during the term of the loan, enter and inspect the physical premises and inspect all accounting records pertaining to the rehabilitation or operation of the Development. Upon request by the Department, the Borrower shall notify occupants of upcoming inspections of their units in accordance with state law.
- b. The Department may perform or cause to be performed audits of any and all phases of the Borrower's activities related to the Development. At the Department's request, the Borrower shall provide, at its own expense, an audit

of the financial condition of the project certified by an independent certified public accountant.

- c. The Department may request any other information that it deems necessary to monitor compliance with requirements set forth in this Agreement and the Standard Agreement. Such information shall be promptly provided by the Borrower.

19. Annual Operating Budget.

- a. The fiscal year for the Development shall commence on 1 July and conclude on 30 June.
- b. Borrower shall operate the Development in accordance with the First Year Operating Budget approved by and on file with the Department for the period covered by this budget. Such budget shall show all anticipated income, debt service and expenses for management, operations, reserves and maintenance for the first year.
- c. No later than 60 days prior to the beginning of each subsequent fiscal year of the Development, the Borrower shall submit to the Department a proposed annual operating budget on a form provided by the Department. The proposed annual operating budget shall set forth the Borrower's estimate of the Development's income, operating expenses and debt service for the upcoming year, reserves, proposed rent adjustments, and a year-to-date operating statement. Annual operating budgets and rent adjustments are subject to approval by the Department.

20. Required Reserves.

- a. Commencing no later than the end of the second month following the completion of rehabilitation, or such other date as the Department shall designate in writing, the Borrower shall establish a segregated interest-bearing replacement reserve account in an F.D.I.C. or other comparable federally-insured financial institution. The Borrower shall make monthly deposits from project income to the replacement reserve account in amounts as specified in the approved Initial Year Operating Budget and subsequent annual budgets. The Department may review the adequacy of these monthly deposits on an annual basis, and require adjustments as it deems necessary. Unless otherwise authorized by the Department, withdrawals from the replacement reserve account shall be made only upon Department's written approval. Withdrawals

shall only be made for capital improvements such as replacing or repairing structural elements, furniture, fixtures or equipment of the Development which are reasonably required to preserve the Property.

- b. Commencing no later than the end of the second month following the completion of rehabilitation, or such other date as the Department shall designate in writing, the Borrower shall establish an operating reserve account or subaccount within the project's general operating account. Borrower may transfer funds from this account only to alleviate cash shortages resulting from unanticipated and unusually high maintenance expenses, seasonal fluctuations in utility costs, abnormally high vacancies, and other expenses that vary seasonally or from month to month. Borrower shall not withdraw or transfer funds from this account for any other purpose without the prior written approval of the Department. The Borrower shall make monthly deposits from project income to the operating reserve account in amounts as specified in the Initial Year Operating Budget and subsequent approved annual operating budgets.
21. Accounting Records. In a manner subject to Department approval, Borrower shall maintain an accrual or modified accrual basis, general ledger accounting system that is posted monthly and that accurately and fully shows all assets, liabilities, income and expenses of the Development. All records and books relating to this system shall be kept for a period of at least seven years and in such a manner as to ensure that the records are reasonably protected from destruction or tampering. All records shall be subject to Department inspection and audit.
22. Use of Income from Operations.
- a. The Borrower, or Borrower's management agent, shall promptly deposit all operating income in a segregated account established exclusively for the Development with an F.D.I.C. or other comparable federally-insured financial institution.
  - b. Withdrawals from the account shall be made only in accordance with the provisions of this Agreement, and the approved budget, and shall be disbursed, applied, or reserved and set aside for payment when due, in the following priority, to the extent available: (1) salaries, wages, and any other compensation due and payable to the employees or agents of the Borrower employed on site in connection with the maintenance, administration or operation of the Development, along with all withholding taxes, insurance premiums, Social Security payments and other payroll taxes or payments required in connection with such employees; (2) all charges incurred in the operation of the Development in connection with utilities, real estate taxes and assessments, and liability, fire and other hazard insurance; (3) payments

of required interest, principal, ground lease rent payments as required by the lease and approved by the Department, impounds, fees and charges, if any, to holders of liens on the Property approved by the Department including the Program loan; (4) all other expenses incurred to cover operating costs, including the fee of the managing agent and any extraordinary expenses, in accordance with the approved annual operating budget of the Development or as otherwise approved in advance by the Department; (5) deposits to required reserve accounts; (6) distributions, in accordance with Section 24 of this Agreement; (7) Program loan principal prepayments and incentive payments to the Borrower, in accordance with the Promissory Note evidencing the Program loan; and (8) residual receipts payments pursuant to Section 25 of this Agreement. The Borrower may depart from the foregoing priorities of payment only upon the express written approval of the Department.

23. Nonassisted Units and Common Areas.

- a. Borrower shall establish and implement a rent structure and operations budget for nonassisted residential units which ensures the fiscal integrity of the Development. Borrower shall estimate all income and expenses attributable to the nonassisted units in the annual operating budget described in Section 19 herein, and shall report all income and expenses attributable to nonassisted units in the Annual Report described in Section 16 herein.
- b. Borrower shall maintain and repair both assisted and nonassisted units equally without regard to their designation as assisted or nonassisted.
- c. Nonassisted units listed in Exhibit C of this Agreement as being comparable shall not be altered or remodeled without the prior written approval of the Department.
- d. Tenant selection practices for nonassisted units shall comply with state and federal nondiscrimination laws.
- e. The exterior walls, windows, lighting, walkways, mailboxes, landscaping, nonresidential space, and other common areas of the Development shall be safe, clean, well maintained, and in good working order.

24. Distributions.

- a. "Distributions" shall refer to cash or other benefits received as income from the Development's operations and available to be distributed to the Borrower or any party having a beneficial interest in the Development, but not including incentive payments made pursuant to the Promissory Note evidencing the

Program loan or payments for property management or other services as set forth in the annual operating budgets.

- b. Borrower shall be limited to an annual distribution on the Borrower's actual investment in the Development, as calculated pursuant to the Program Regulations, in an amount not to exceed eight percent (8%) per annum. Borrower may not accumulate distributions from year to year.
- c. The amount of the Borrower's actual investment on which the allowable distribution will be calculated, as of the date of this Agreement, is set forth in the Initial Year Operating Budget approved by the Department. The actual investment amount may be increased in subsequent annual operating budgets upon a showing of additional actual investment and provided that the Department determines that such additional investment is reasonably necessary in connection with the operation, maintenance and management of the Development.
- d. Borrower may receive distributions for a particular fiscal year only: (1) upon Department approval of the Annual Report submitted for that year; (2) upon determination by the Department that the Borrower is in full compliance with all Program requirements; and (3) upon prior written approval by the Department of the amount of the distributions.
- e. No distribution shall be made to Borrower in the following circumstances:
  - (1) when written notice of default has been issued by any entity with an equitable or beneficial interest in the Development;
  - (2) when the Department determines that the Borrower or the Borrower's management agent has failed to comply with the Department's written notice of any reasonable requirement for proper maintenance of the Development;
  - (3) if all currently required debt service and operating expenses have not been paid; or
  - (4) if the replacement reserve account or other reserve accounts are not fully funded pursuant to this Agreement.
- f. Distributions attributed to nonresidential space, as shown in approved annual operating budgets and Annual Reports, shall be subject to limits pursuant to this section only where Program funds have been used for development costs attributable to nonresidential space.

25. Principal Payments, Incentive Payments and Residual Payments.

- a. Project funds remaining after payment of expenses as described in items 1 through 6 of Section 22(b), are considered to be "residual receipts" and shall be paid to the Department at the time the Annual Report is submitted except as follows:
  - (1) Residual receipts may be applied by the Borrower as principal payments when so approved by the Department, and/or
  - (2) Residual receipts may be used as incentive payments to the Borrower in an amount not to exceed the amount paid as principal repayments to the Program loan as approved by the Department.
- b. Residual receipts attributed to nonresidential space, as shown in approved annual operating budgets and Annual Reports, shall be subject to the limits pursuant to this section only where Program funds have been used for development costs attributable to nonresidential space.

26. Restrictions on Sale, Encumbrance, and Other Acts.

- a. The Borrower shall not make any sale, encumbrance, hypothecation, assignment, refinancing, pledge, conveyance, or transfer in any other form of the Property or of any of its interest therein, except with the prior written approval of the Department.
- b. The Borrower shall not add to, remodel, remove, reconstruct, or demolish any part of the Development without the prior written approval of the Department.
- c. The Borrower shall not permit the use of the Development for any purpose other than that permitted by this Agreement without the prior written approval of the Department.
- d. The Borrower shall not incur any liability or obligation in connection with the Development, other than for current operating, management and maintenance costs and for the indebtedness evidenced by the Note with the Department, nor incur any liability, charge, assessment, or obligation whatsoever that is secured in whole or in part by any interest in or lien or encumbrance on the Property, without the prior written approval of the Department. The Department may permit refinancing or additional financing secured by the Development only to the extent necessary to maintain or improve the

Development's fiscal integrity, improve financial condition, or to maintain affordable rents.

- e. The Borrower shall not enter into any contract relating to rehabilitating or managing the Development, except as authorized by the Department.
- f. Borrower shall not enter into any lease for more than a single rental unit, ground lease of the Development or any interest therein without prior written Department approval. The Department may require that such lease allow for termination within 30 days upon request by the Department.
- g. If the Borrower or its successors in interest is a partnership, it shall not discharge or replace any general partner or amend, modify or add to its partnership agreement without prior written Department approval, except that it may transfer limited partnership interests without such approval.
- h. The Department shall approve a sale, transfer or conveyance provided that all of the following conditions are met:
  - (1) the existing Borrower is in compliance with this Agreement or the sale, transfer or conveyance will result in the cure of any existing violations of the Agreement;
  - (2) the successor-in-interest to the Borrower agrees to assume all obligations of the existing Borrower pursuant to this Agreement and the Program;
  - (3) the successor-in-interest demonstrates to the Department's satisfaction that it can own and operate the Development in full compliance with all Program requirements; and
  - (4) any terms of the sale, transfer or conveyance shall not threaten the Department's security or the successor's ability to comply with all Program requirements.
- i. The Department shall grant its approval for a sale, transfer or conveyance subject to such terms and conditions as may be necessary to preserve or establish the fiscal integrity of the Development and to ensure compliance with Program requirements. Such conditions may include the deposit of sales proceeds, or a portion thereof, to maintain required reserves or to offset negative cash flow, the recapture of syndication proceeds or other funds in accordance with special conditions included in this Agreement or in the Standard Agreement, or such other conditions as may be necessary to ensure compliance with the Program requirements.

27. Use of Syndication Proceeds. Unless otherwise approved by the Department in writing, Borrower shall allocate, distribute and pay all net syndication proceeds as defined and described in the special conditions contained in Exhibit E. Borrower shall notify the Department of the receipt of any net syndication proceeds received during the term of this Agreement and the disposition of said proceeds. The Department may approve, in writing, future syndications of the Development where it determines that such syndication is in the best interest of the Development. All syndication proceeds not identified in Exhibit E shall be distributed only as approved in writing by the Department, and are subject to the limitations on distributions set forth in the governing statutes and regulations.
28. Violation of Regulatory Agreement by Borrower.
- a. In the event of a breach or violation of the provisions of this Agreement, the Department may give written notice to the Borrower thereof by certified mail or any express delivery service with a delivery receipt addressed to the Borrower at the address stated in this Agreement. If the breach or violation is not cured to the satisfaction of the Department within the time period specified in the notice, which shall not be less than 15 days, the Department 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 Development and use the same and the reserve funds for the operation and maintenance of the Development.
  - (2) Take possession of the Development and bring any action necessary to enforce any rights of the Borrower growing out of the operation of the Development, and operate the Development in accordance with the terms of this Agreement until such time as the Department, in its sole discretion, shall determine that the Borrower is again in a position to operate the Development in accordance with the terms of this Agreement.
  - (3) Apply to any court, state or federal, for specific performance of this Agreement or for the appointment of a receiver to take over and operate the Development in accordance with the terms of this Agreement; or for such other relief as may be appropriate. It is agreed by the Borrower that the injury to the Department 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 Department, in light of the purposes of the Program, would be impossible to ascertain.
  - (4) Accelerate all amounts, including outstanding principal and interest, due under the loan and demand immediate repayment thereof. Upon a failure to repay such accelerated amount in full, the Department may

proceed with a foreclosure in accordance with the provisions of the Deed of Trust and state law regarding foreclosures.

However, in the event of a nonmonetary breach which cannot reasonably be cured within the time period set forth in such notice, the loan may not be accelerated hereunder if within said designated time period Borrower has given written notice to Lender of Borrower's intention to cure said breach, has commenced to cure such breach and has diligently prosecuted and effected such cure which shall be completed no later than 60 days from the date notice of such breach is given.

- (5) The Department may seek such other remedies as may be available under law.
  - b. 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 Department may demand the return of such excess rents or other charge to the affected households. If legal action is necessary to enforce the provisions of the Agreement, the Department may seek the amount of such overcharge.
  - c. The tenants of the assisted rental units shall be considered to be third party beneficiaries of this Agreement, and shall have such rights and remedies to enforce the Program requirements of this Agreement as may be available to third party beneficiaries under the law.
  - d. The remedies of the Department hereunder and under any other instrument providing for or evidencing the financial assistance provided for the Development by the Department 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 Department of any one or more of its other remedies.
29. Assignment of Department Rights. The Department retains the right at its sole discretion to assign all or part of its rights under this Agreement for the purpose of ensuring compliance and enforcement of Borrower's duties and obligations hereunder. In addition, the Department may designate an agent to act on its behalf in monitoring compliance and enforcing the provisions hereof.
30. Amendment. This Agreement shall not be altered or amended except in writing, executed between or among all the parties.

31. Partial Invalidity. 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.
32. Binding on Successors. This Agreement shall bind, and the benefits thereof shall inure to, the respective parties hereto, their legal representatives, executors, administrators, successors in the office of interest, and assigns, provided, however, that the Borrower may not assign this Agreement or any of its obligations hereunder, voluntarily or by operation of law, without the prior approval of the Department.
33. Recording Agreement. This Agreement, and all amendments thereto, shall be executed by each of the parties. This Agreement, or memorandum thereof, shall be recorded against the subject Property in the official records of the county in which the Development is situated.
34. Hold Harmless. Borrower and its successor in interest agree to indemnify, defend, and hold harmless the Department and its respective agents, employees and officers from any and all claims, losses, liabilities or causes of action (including reasonable attorney's fees) arising from or in connection with Borrower's management, maintenance or operation of the Development.
35. Waiver. No waiver by the Department of any breach of or default under this Agreement shall be deemed to be a waiver of any other or subsequent breach thereto or default hereunder.
36. 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 or the intent of this Agreement.
37. Governing Law. This Agreement shall be construed in accordance with and governed by the laws of the State of California.
38. Notice. Written notices and other written communications by and between the parties hereto shall be addressed as set forth below unless and until a party hereto has, in writing, communicated a different address to the other party hereto.
39. Attorney's Fees. The prevailing party in any action to enforce this Agreement, including the residents of assisted units, shall be entitled to reasonable attorney's fees as determined by the trier of fact in that forum.
40. Special Conditions. The Borrower agrees to comply with the special conditions, if any, as set forth in Exhibit E, which is made a part hereof.


BORROWER

Old Time Faith, Inc.  
2600 South Hoover Street  
Los Angeles, CA 90007

DEPARTMENT

Department of Housing and  
Community Development  
California Housing Rehabilitation  
Program  
P.O. Box 952054  
Sacramento, CA 94252-2054

By  
Name:  
Title:

  
\_\_\_\_\_  
Robert J. Reid  
President

By

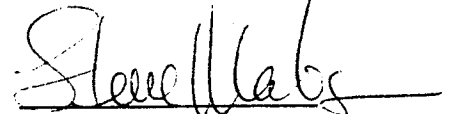
  
\_\_\_\_\_  
Steve Mabs  
Program Manager

EXHIBIT A  
Legal Description

PARCEL 1:

LOT 6 OF "BELGRAVIA", IN THE CITY OF LOS ANGELES, IN THE COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, AS PER MAP RECORDED IN BOOK 23 PAGE 54 OF MISCELLANEOUS RECORDS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.

PARCEL 2:

THAT PORTION OF FRACTIONAL LOT 3, IN BLOCK 22 OF HANCOCK'S SURVEY, IN THE CITY OF LOS ANGELES, IN THE COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, AS PER MAP RECORDED IN BOOK 2 PAGE 108 OF MISCELLANEOUS RECORDS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT ON THE SOUTH SIDE OF ADAMS STREET, WHICH POINT IS ALSO THE EASTERLY CORNER OF SAID PRACTIONAL LOT 3: THENCE WESTERLY ALONG SOUTH LINE OF ADAMS STREET, 100 FEET: THENCE AT RIGHT ANGLES SOUTHERLY TO THE EAST LINE OF HOOVER STREET; THENCE SOUTH ALONG HOOVER STREET TO A POINT WHERE THE SOUTH LINE OF LOT 5 OF THE BELGRAVIA TRACT, EXTENDED WESTERLY, AS SHOWN ON MAP IN BOOK 23 PAGE 54 OF MISCELLANEOUS RECORDS OF SAID COUNTY, WOULD INTERRECT THE EAST LINE OF HOOVER STREET; THENCE EASTERLY ALONG SAID EXTENSION OF THE SOUTH LINE OF LOT 6 OF SAID BELGRAVIA TRACT, 11.44 FEET, MORE OR LESS, TO THE EAST LINE OF LOT 3 AFORESAID; THENCE NORTHERLY ALONG SAID EASTERLY LINE, 250 FEET, MORE OR LESS TO THE POINT OF BEGINNING.

ALL OIL, GAS, MINERALS AND HYDROCARBON SUBSTANCES LYING BELOW A DEPTH OF 500 FEET FROM THE SURFACE OF SAID LAND BUT WITHOUT THE RIGHT OF ENTRY UPON ANY PORTION OF THE SURFACE OF SAID LAND FOR THE PURPOSES OF EXPLORING FOR, BORING, EXTRACTING, DRILLING, MINING, PROSPECTING FOR, REMOVING OR MARKETING SAID SUBSTANCES IN, UNDER SAID LAND, AS GRANTED TO C.D. HOWER IN DEED RECORDED DECEMBER 14, 1967 IN BOOK D 3858 PAGE 737, OFFICIAL RECORDS.

COMMONLY KNOWN AS 2600 SOUTH HOOVER STREET.

# EXHIBIT B

## Initial Schedule of Assisted Units

<u>Unit Number</u>	<u># of Bedrooms</u>	<u>Initial Rent</u>	<u>Lower Income</u>	<u>Very-low Income</u>
4	2	SRO	\$255	X
13	4	SRO	\$255	X
20		SRO	\$255	X
29		SRO	\$255	X
1-3	3	SRO	\$230	X
5-12	8	SRO	\$230	X
14-19	6	SRO	\$230	X
21-28	8	SRO	\$230	X
30-55	26	SRO	\$230	X

55

## EXHIBIT C

### Comparable Unit Schedule

Units listed in a particular group shall be deemed comparable to all other units in that group. Unit numbers refer to the unit numbers shown in plans approved by and on file with the Department.

#### Group A:

Units 4, 13, 20 and 29 in this group are SRO's with private baths.

#### Group B:

Balance of units in this group are SRO's with shared baths.

Exhibit D  
Department of Housing and Community Development  
California Housing Rehabilitation Program - Rental Component  
Insurance Requirements

At close of escrow the Department must receive a one year prepaid Certificate of Insurance policy (or a binder followed by a certificate within 30 days of loan closing) evidencing the following coverage:

1. HAZARD (PROPERTY)

Perils: All risk; or  
Fire & Lightning, Extended Coverage, Vandalism & Malicious Mischief.

Covered Property: Structure; and  
All risk contents coverage.

Amount: Replacement value (or less if approved by Department)

Coinsurance: Not less than 90%.

Deductible: \$2,500 Max. deductible per occurrence; or  
\$1,000 Maximum deductible per occurrence if the completed project value is less than \$300,000.

Endorsement: Lenders Loss Payable Endorsement required insuring the Department.

OTHER PROPERTY INSURANCE

Flood Insurance: Coverage required to 80% of replacement cost if the property is located in a 100-year flood plain.

Steam Boiler & Related Machinery: (When applicable) 80% of replacement cost coverage is required.

2. COMPREHENSIVE GENERAL LIABILITY:

Minimum Amount: \$1,000,000 per occurrence; or  
\$2,000,000 per occurrence for buildings with elevators.

3. OTHER COVERAGE:

Loss of Rents: Coverage shall insure 75% of annual gross rents.

Workers Compensation: Required by State law if employees are involved.

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ALL POLICIES MUST INCLUDE THE FOLLOWING

Named Insured: Borrower.

Additional Insured: The Department of Housing and Community Development and its officers, agents, employees and servants must be named as additional insured.

Cancellation Clause: The Department must be notified 30 days prior to cancellation of the insurance policy.

HCD Notification: The Department must be notified prior to cancellation or lapse of coverage or in the event of any claim.

The Department should be identified on all insurance documents as follows:

The Department of Housing and Community Development  
California Housing Rehabilitation Program - Rental Component  
P.O. Box 952054  
Sacramento, CA 94252-2054

EXHIBIT E

Special Conditions

There are no special conditions.

JBREGAGR.1  
(revised 9/12/90)