

**Loan Term Sheet: Old Town**  
Draft for AHC Consideration | April 15, 2025

	<b>Proposed Term</b>																																														
<b>Lender</b>	City of Elk Grove (“City”)																																														
<b>Borrower</b>	Elk Grove Old Town Mutual Housing Associates, L.P., a California limited partnership (“Owner” or “Developer”)																																														
<b>Loan Amount</b>	The Loan Amount is \$4,200,000. Such amount is subject to the Cost Savings section set forth below.																																														
<b>Funding Source</b>	Affordable Housing Fund																																														
<b>Interest Rate</b>	4% simple interest per annum																																														
<b>Term</b>	City loan to have a term of 35 years from permanent loan closing, unless the tax credit investor requires a longer term, in which case, the City Manager may, in his sole discretion, approve a loan term of up to 55 years. Balance due on sale except as permitted in the loan documents. For amount due on refinancing, see “Refinancing” section.																																														
<b>Purpose</b>	<p>Construction and operation of an 89-unit senior affordable apartment project (commonly known as Old Town Apartments, or “Project”) that is deed-restricted by means of a Regulatory Agreement for 55 years. The Project shall be located at 9220-9244 Elk Grove Boulevard (APNs 134-0072-013, -014, -015, and -016) in the City of Elk Grove (“Land”), which Owner shall purchase from the City concurrent with the closing of the construction financing necessary to construct the Project.</p> <p>The affordability mix is as shown:</p> <table border="1" style="margin-left: 20px;"> <thead> <tr> <th rowspan="2">Affordability Level (% of AMI)</th> <th rowspan="2">Total Units</th> <th colspan="4">Number of Bedrooms</th> </tr> <tr> <th>STUDIO</th> <th>1BD</th> <th>2BD</th> <th>3BD</th> </tr> </thead> <tbody> <tr> <td>30%</td> <td>16</td> <td>1</td> <td>12</td> <td>3</td> <td>-</td> </tr> <tr> <td>40%</td> <td>10</td> <td>-</td> <td>8</td> <td>2</td> <td>-</td> </tr> <tr> <td>50%</td> <td>21</td> <td>-</td> <td>19</td> <td>2</td> <td>-</td> </tr> <tr> <td>60%</td> <td>41</td> <td>-</td> <td>35</td> <td>6</td> <td>-</td> </tr> <tr> <td>70%</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> </tr> <tr> <td>Unrestricted</td> <td>1</td> <td>-</td> <td>-</td> <td>-</td> <td>1</td> </tr> </tbody> </table> <p>*AMI is the area median income, adjusted for household size.</p>	Affordability Level (% of AMI)	Total Units	Number of Bedrooms				STUDIO	1BD	2BD	3BD	30%	16	1	12	3	-	40%	10	-	8	2	-	50%	21	-	19	2	-	60%	41	-	35	6	-	70%	-	-	-	-	-	Unrestricted	1	-	-	-	1
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	<p>The Owner may modify the affordability mix to ensure the project remains competitive for other proposed affordable housing financing, provided that the average affordability remains at or below 50%. Any proposed changes to the number of units per bedroom count must be approved by the City in writing in advance of Owner filing a funding application with such changes.</p> <p>The unrestricted unit must be occupied by either the full-time property manager or the full-time maintenance supervisor.</p> <p>Project amenities must include bike storage rooms, community clubrooms, BBQ/picnic areas, outdoor courtyards, office space for provision of resident services, elevators, laundry facilities, bike racks, benches, and lighted parking.</p>
<b>Unit Occupancy</b>	<p>Owner commits to working with the City to address homelessness, including by implementing a policy moving homeless Elk Grove households to the top of the waitlist for any vacant unit for which they are qualified. At the City’s request, Owner shall implement a randomized process to allocate units to qualified interested persons (“Lottery”) at the time of initial lease-up. To the extent allowable by fair housing laws, homeless Elk Grove households referred by the City will take precedence over persons selected through the Lottery.</p> <p>Owner shall (1) perform annual income certifications or recertifications and adjust unit affordability accordingly; and (2) provide City, within 14 days of City’s request, copies of any annual income certifications or recertifications. For example, this means that a household initially living in a 30% AMI unit and whose household income rises to 50% AMI will continue to qualify as a 30% AMI unit but would have their rent adjusted to the 50% AMI level, and the next available unit would be made available to a household earning 30% AMI. Nothing in this policy shall require Owner to violate any regulation of the California Low Income Housing Tax Credit (LIHTC) Program.</p>
<b>Social Services</b>	<p>On-site social services must include provision of resident support for no less than 12 hours per week. Resident support services, including social programming, must be offered at staffing ratios adequate to support the level of demand from residents and commensurate with the number of units on the property. A resident services coordinator (or equivalent position) must be on-site weekly and available by phone on weekdays. The social services provider shall conduct a resident needs assessment at initial move-in and every 18-24 months thereafter, and submit a social services plan to the City for approval biennially. Social services provider will provide reports to the City at least quarterly containing qualitative and quantitative data on activities offered and resident participation in activities.</p>

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<b>Timing of Funding</b>	<p>The City shall provide an initial disbursement of \$1,200,000 at closing of construction financing as part of the total Loan Amount, provided that the Owner concurrently completes the purchase of Land from the City.</p> <p>Disbursements of the remaining \$3,000,000 balance of the total Loan Amount shall be as follows:</p> <ol style="list-style-type: none"> <li>1. 40% when the Project’s framing inspection for all buildings is certified as complete by the City’s Building Official, and provided that Developer has posted payment and performance bonds for the full amount of the construction contract.</li> <li>2. 20% when the Project has received a temporary Certificate of Occupancy for all buildings and the City has received proof of unconditional lien releases for general contractor or proof to City’s satisfaction that Developer has posted a bond, at Developer’s expense, from which to pay any judgment later entered against Developer or the property as a result of the lien, and proof of clear title to the satisfaction of the City; any bond issued pursuant to this section shall be in an amount sufficient to fully satisfy the lien, plus other recoverable costs and attorney’s fees resulting from a judgment against Developer.</li> <li>3. 20% when the Project has received final Certificate of Occupancy for all buildings and the City has received proof of unconditional lien releases for general contractor or proof to City’s satisfaction that Developer has posted a bond, at Developer’s expense, from which to pay any judgment later entered against Developer or the property as a result of the lien, and proof of clear title to the satisfaction of the City; any bond issued pursuant to this section shall be in an amount sufficient to fully satisfy the lien, plus other recoverable costs and attorney’s fees resulting from a judgment against Developer.</li> <li>4. 10% upon (1) approval by the City of the Project’s Cost Certification prepared and signed by a third-party CPA, (2) a final construction inspection by City confirming that the Project was constructed and completed in the manner and form approved by City, and (3) the City has received proof of unconditional lien releases for all subcontractors or proof to City’s satisfaction that Developer has posted a bond, at Developer’s expense, from which to pay any judgment later entered against Developer or the property as a result of the lien, or expiration of the lien period has occurred with no liens filed that have not been bonded for and proof of clear title to the satisfaction of the City; any bond issued pursuant to this section shall be in an amount sufficient to fully satisfy the lien, plus other recoverable costs and attorneys’ fees resulting from a judgment against Developer.</li> <li>5. 10% when the Project has achieved “Project Stabilization.” This amount shall be held in a non-interest-bearing escrow account at the City as an operating reserve, over which the City has joint signing authority until Project Stabilization.</li> </ol>

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	<p>“Project Stabilization” will be defined as:</p> <ol style="list-style-type: none"> <li>1. Physical occupancy of no less than 95% of all units;</li> <li>2. Ninety (90) consecutive days of sustained economic occupancy (net rent collected divided by gross rent potential) of at least 95%; and</li> <li>3. Ninety (90) consecutive days of sustained operating performance at or above a debt coverage ratio of 1.15 (inclusive of all amortizing debt payments).</li> </ol>
<b>Annual Payments</b>	<p>Following completion of construction, annual payments to the City will be equal to 50% of Residual Cash Flow, of which the City of Elk Grove will receive a percentage equal to its proportional amount of soft debt to the Project (the “City’s Share”).</p> <p>Residual Cash Flow is defined as all rental and other income generated by the Project after:</p> <ol style="list-style-type: none"> <li>1. Payment of the following operating expenses for the Project:             <ol style="list-style-type: none"> <li>a. Property management fee not to exceed lesser of 1) \$789 per unit per annum, with a 3.0% escalator per annum, or 2) 6.3% of the Project’s effective gross income;</li> <li>b. Advertising, legal, accounting, security, and other general office administration expenses;</li> <li>c. Utilities;</li> <li>d. Payroll expenses and payroll taxes;</li> <li>e. Maintenance, repairs, grounds, and turnover costs;</li> <li>f. Property insurance;</li> <li>g. Taxes and assessments; and</li> <li>h. Costs of social service programs offered to residents.</li> </ol> </li> <li>2. Cash deposited into the Project’s Replacement Reserve and/or Operating Reserve in such amounts as are required by the Project lenders (including the City) and/or tax credit investor (including a requirement that if drawn, operating reserves must be replenished prior to any distributions of cash flow);</li> <li>3. Cash deposited into escrow for property taxes and/or insurance as may be required by any of the Project Lenders;</li> <li>4. Payment of senior loan debt service;</li> <li>5. Payment of monitoring fees, if such monitoring is required by another public entity funder;</li> <li>6. Payment of asset management fees to the tax credit investor limited partner in an amount no greater than \$10,000 per annum starting in the first year the Project receives a certificate of occupancy and escalating at no more than 3% per year, which fees may accrue if not paid in a given year;</li> </ol>

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	<p>7. Payment of asset management fees to the Managing General Partner of the Project partnership in an amount no greater than \$15,000 per annum with payments starting in the first year the Project receives a certificate of occupancy and escalating at no more than 3% per year; and</p> <p>8. Payment of the deferred portion of the Adjusted Developer Fee, if any.</p> <p>Note: All payments not specified above, including those to General Partner(s), Limited Partner(s), or parties related thereto, and including but not limited to asset management fees, incentive fees, monitoring fees not required by a public entity funder, and performance fees will be “below the line” and payable only from Residual Cash Flow.</p> <p>Further, any identity of interest costs (e.g. use of a related party management company, vendor, or the like) included within the Project’s annual operating budget must be disclosed and approved by the City as necessary and reasonable. The City approves Mutual Housing Management as property manager for the Project.</p>
<b>Balloon Payment</b>	At the expiration of the loan term, 100% of the principal balance of the loan and all accrued interest will be due.
<b>Refinancing</b>	City approval shall be required for any proposed refinancing, including a refinancing of the senior permanent financing; provided however, no City consent shall be required to the refinance of the senior permanent financing provided that the new loan has a principal balance not greater than the outstanding balance of the senior permanent financing immediately prior to repayment plus any commercially reasonable costs associated with such refinancing and the funding of reserves.
<b>Security</b>	<p>City loan will be secured by a deed of trust, UCC filing, and assignment of rents and leases junior to construction and permanent financing sources set forth.</p> <p>The City loan will be in a junior position, behind senior permanent financing in the amount of approximately \$6,000,000, tax-exempt bond financing, and loans from public entities in principal amounts greater than the City’s loan (or with respect to any financing from the California Department of Housing and Community Development, if applicable, as required by the Uniform Multifamily Regulations). City approval shall be required for any changes to the senior financing, with such approval not to be unreasonably withheld.</p> <p>City will require joint and several corporate guarantees from the underlying corporate owners of the general partner(s), member(s), or other controlling entities of the Owner and from any other guarantors required by the other financing sources investing in the Project.</p>

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	<p>Required guarantees will include:</p> <ol style="list-style-type: none"> <li>1. A guarantee of Project completion; and</li> <li>2. A guarantee for full and prompt payment of any loss, damage, liability, action, cause of action, cost, or expense incurred by City as a result of, and to the extent of, i) fraud or material gross misrepresentation, ii) intentional bad faith waste, iii) losses resulting from Owner/Developer’s failure to properly maintain insurance, iv) gross misappropriation of any of the rents, security deposits, loan proceeds, insurance proceeds, condemnation awards, or any other proceeds derived from the collateral security; and/or v) unauthorized disbursements of Residual Cash Flow.</li> </ol> <p>The guarantee of Project completion will include a provision to the following effect: In the event any provision contained in this Guaranty causes Owner to violate any regulation of the LIHTC or other Affordable Housing Financing programs or causes Owner to be disqualified from receiving any federal or state tax credits through the LIHTC Program, such provision shall be deemed unenforceable and the remaining provisions of this Guaranty shall remain in full force and effect.</p>
<b>Bidding/Procurement</b>	<p>All construction subcontracts must be competitively and publicly bid, with a minimum of three qualified bids for each trade or subtrade, except for when the Project expenditure for a trade or subtrade is less than \$100,000, in which case the construction subcontract must still be reasonably priced and contracted for. Owner to provide all bid records to City upon request. Owner must make a reasonable effort to secure a minimum of three qualified bids, including by publicly publishing notices related to bid opportunities in local or regional newspapers and providing plans and bid documents online. Owner shall provide City with a list of all bids received by Owner, including the name of the bidder and contract information and the bid details.</p> <p>Awards to any firm other than the lowest responsive and responsible bidder, in cases where the selected firm’s bid exceeds the lowest responsive and responsible bid by more than 15%, must be approved in advance by the City. Procurement of non-construction goods and services shall be substantiated by a minimum of three cost estimates for like items for all purchases over \$50,000; if the lowest-cost provider is not selected, written justification must be provided. City shall respond to such requests for approval within ten (10) business days of receipt of said request and shall not withhold approval unreasonably.</p> <p>The parties agree that if Owner breaches this term, it will be impracticable or extremely difficult to determine the damages suffered by the City. It is therefore agreed that (1) upon the second instance of Owner’s failure to comply with this term, Owner shall pay the City the sum of \$2,500 as liquidated damages, and (2) upon the third instance of</p>

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	Owner’s failure to comply with this term, and for each additional instance of non-compliance thereafter, Owner shall pay the City the sum of \$5,000 as liquidated damages. The amount of liquidated damages set forth herein shall be deducted from the available City Loan Amount.
<b>Change Orders</b>	<p>Written authorization from City for all change orders and/or line item budget adjustments of \$125,000 or more for construction costs and \$35,000 or more for soft costs is required. City shall respond to such request for approval within ten (10) business days of receipt of said change order and shall not withhold approval unreasonably. If the City does not respond to any request within such ten (10) business day period, City’s approval shall be deemed to have been granted.</p> <p>The parties agree that if Owner approves change orders or other line item budget adjustments in excess of the above-noted amounts and without the City’s written authorization prior to approval, City at their discretion, may decline to cover the cost of said change order.</p> <p>Owner shall submit to City monthly construction reports, which shall include contracts awarded, change orders approved, and status of completion by line item.</p>
<b>Cost Savings</b>	If, at the completion and stabilization of the project development, there are excess proceeds as a result of a reduction in total development costs or a net increase in other permanent sources compared to the Project’s approved Financing Plan after considering all final sources of funding and adjustments thereto that have been reasonably approved by the City (as will be further defined in the loan agreement between Owner and the City), City shall, at its option, be entitled to reduce its permanent loan to the Project by the City’s Share of such excess proceeds, after the funding of reserves, payment of deferred developer fee, if any, and repayment of developer advances previously approved in writing by City, if any. In the event the City has fully disbursed its loan prior to the Project’s completion, the Owner will make a one-time payment credited against the principal balance of the loan (i.e. effectively treating that portion of the City loan as construction lending only). In determining whether to require a reduction in the permanent loan, the City will consult with the California Tax Credit Allocation Committee to evaluate the implications under the QAP and scoring procedures.

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<b>Bonding</b>	<p>Payment and performance bonding will not be required on the construction if the City does not provide funding during construction and the senior lender’s loan documents do not obligate the City to fund any portion of the Project cost prior to issuance of final Certificates of Occupancy. Unconditional lien releases or proof to City’s satisfaction that Developer has posted a bond, at Developer’s expense, from which to pay any judgment later entered against Developer or the property as a result of the lien and satisfactory evidence of clear title will be accepted in lieu of payment and performance bonding for the purposes of the loan documents; any bond issued pursuant to this section shall be in an amount sufficient to fully satisfy the lien, plus other recoverable costs and attorneys’ fees resulting from a judgment against Developer. Payment and performance bonding may be required for construction of public improvements per City policy and State law.</p>
<b>Developer Fee</b>	<p>The Adjusted Developer Fee shall be limited to 10% of total development cost, excluding the developer fee itself. “Adjusted Developer Fee” shall mean the total developer fee as allowed under CTCAC regulations, less a) the amount contributed as equity to the Project that is in excess of 10% of total development cost, excluding the developer fee itself, or b) the amount of developer fee that is in excess of 10% of total development cost, excluding the developer fee itself, that is deferred and paid from residual cash flow.</p> <p>In the event of increases in the total development cost, the developer fee will not be increased proportionately. The total developer fee and the Effective Developer Fee shall be fixed upon the Project’s successful application for tax credits and will be based on the total developer fee and Project costs specified within such application.</p>
<b>Insurance</b>	<p>Owner and Project must carry insurance that meets the requirements of Attachment B of the Request for Proposals due on June 30, 2023. Proof of workers compensation and automobile insurance will be provided by Mutual Housing Management as the property manager for the Project. Further, the City retains the right to update insurance requirements (e.g. coverage limits) for its Affordable Housing Program from time to time. The Project must agree to comply with any such updates so long as those requirements are commercially reasonable and consistent with standards applied to affordable housing projects financed with LIHTC in the vicinity of the Project.</p> <p>Additionally, insurance proceeds must be used wholly to repair or rebuild property in the event of damage except for those insurance proceeds specifically allocated for covering rent loss or loss of tax credits due to the casualty, as long as defined as a separate benefit in the policy.</p>

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<b>Reporting</b>	<p>During initial lease-up of Project units, Owner will provide the City with monthly financial and occupancy reporting. Following Project Stabilization, Owner may provide monthly or quarterly financial and occupancy reporting. Audited financial statements demonstrating compliance with the formula for the distribution of cash flow as described in the “Annual Payments” section of this term sheet will be due not later than the first month of the second quarter of the year following the reporting year. Failure to comply with the reporting requirements will result in liquidated damages of \$500 per violation per month, provided that Owner has failed to cure the non-compliance within 45 days from written notice from City.</p> <p>Additionally, the City reserves the right to reasonably alter, supplement, or otherwise modify the frequency or content of required reports as needed to maintain adequate oversight of the Project, to address findings related to noncompliance by the Project, or to standardize reporting requirements across its portfolio of assisted projects.</p>
<b>Conditions</b>	<p>The funding of the City loan is conditioned on the following:</p> <ol style="list-style-type: none"> <li>1. The Project has secured the unconditional commitment of all funding sources necessary to develop the Project. Those sources currently contemplated include a construction loan, tax-exempt bonds, 4% tax credit equity financing (or such substantially similar substitute financing as may be available from the California Tax Credit Allocation Committee); however, so long as the Project is in balance (i.e. funding sources equal projected Project costs), these sources may be revised prior to construction closing and any draw down on the City’s loan.</li> <li>2. The Property is free and clear of any mechanics liens or similar liens, or if a mechanics lien or similar lien has been filed against the Property, Owner shall bond around the lien as provided by law so that the title company can issue the City a lien free endorsement.</li> <li>3. The Owner and City have agreed as to the form of loan documents and regulatory agreement(s) and have each executed the documents.</li> <li>4. All insurance requirements are met.</li> <li>5. A market study and an as-built appraisal that meet the Affordable Housing Loan Program Guidelines requirements have been submitted. The City may rely on the appraisal commissioned by the senior lender and/or the tax credit investor</li> <li>6. The Project’s design and construction plans substantially conform with the terms of the Disposition and Development Agreement executed by the City and Developer, or have otherwise been approved by the City.</li> </ol>
<b>Commitment Length</b>	<p>City loan commitment terminates after the earlier of: a) denial of award of 4% tax credit equity financing in three consecutive 4% application rounds at which state credits are available, the first of which is May 20, 2025, or b) December 31, 2026.</p>

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<b>Regulatory Agreement</b>	<p>Owner shall enter into a Regulatory Agreement, in a form provided by the City, which will include affordability and age restriction covenants to be recorded against the property, senior to all liens and junior only to the TCAC LURA, bond regulatory agreement, and City regulatory agreement pertaining to density bonus for the Project requiring that the units remain affordable at levels consistent with the affordability mix in the “Purpose” section. Owner shall provide all proposed regulatory agreements or other forms of deed restriction for the City’s review and approval prior to execution. The Regulatory Agreement must remain against the property, binding against all successors in interest, for the full term, even in the event of foreclosure by the senior lender. Notwithstanding the forgoing, upon the earlier to occur of recordation of the transfer of title pursuant to a foreclosure sale or a deed in lieu of foreclosure of a senior deed of trust or a loss or reduction of any rent subsidy for the Project, City agrees that (i) all restricted units under the regulatory agreement may be leased to households whose income levels are at or below fifty percent (50%) of AMI, and (ii) may be leased for a monthly affordable rent not to exceed the product of 1/12th of 30% times 50% of the AMI adjusted for family size appropriate for the unit. Such changes to restricted units must be made at vacancy and may not be applied to any tenant whose tenancy is in place at the time for the foreclosure sale or deed in lieu of foreclosure or loss or reduction in subsidy.</p>
<b>Reserves</b>	<p>Owner must establish and shall maintain an Operating Reserve Account and a Replacement Reserve Account (collectively, the Reserve Accounts). All Reserve Accounts shall be held in interest-bearing segregated accounts held in banks or credit unions fully licensed to do business in the State of California and insured to the maximum limit of either the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Association (NCUA), or any successor, as applicable. Any interest earned on the Reserve Accounts shall remain within the Reserve Accounts.</p> <p>All Reserve Accounts shall remain in place through the restriction period notwithstanding any change in ownership and in no circumstances may be disbursed for “exit taxes” upon any future transfer of limited partner interests.</p> <p>Any withdrawal or transfer from the Operating Reserve Account or Replacement Reserve Account in excess of \$20,000 shall require the written approval of the City, by and through its designee. The City’s approval or request for additional information to substantiate the need for the withdrawal or transfer shall be provided within ten (10) business days of its receipt of a request for such action. Owner must establish the Reserve Accounts to require the signature of the City’s designee and Owner for all withdrawals and transfers. Further, Owner shall authorize the financial institutions in which Reserve Accounts are held to provide the City, upon request, verified statements reflecting account balances and transactions. All reserve accounts may be jointly controlled by all third party lenders and the tax credit investors.</p>

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	<ol style="list-style-type: none"> <li>1. Operating Reserve Account: Not later than receipt of 8609s, Owner shall fund and maintain an Operating Reserve Account of not less than three months of underwritten operating expenses, replacement reserve deposits, and debt service. After Project Stabilization, the Operating Reserve Account may be used to pay operating costs and expenses to the extent the collected gross receipts are insufficient for such purpose. Further, the Operating Reserve Account may not be used to pay any identity of interest costs or fees, with the exception of reasonable direct property management fees incurred by a property management company that the City has previously approved of in writing. Owner shall obtain City’s approval of identity of interest property management fees, which shall not be unreasonably withheld. If drawn upon, the Operating Reserve Account must be replenished to its required minimum balance prior to distributions of Residual Cash Flow.</li>   <li>2. Replacement Reserve Account: Owner shall fund a Replacement Reserve Account with annual deposits in the first year following construction completion (which may be prorated based on the actual date of completion) equal to \$350 per unit per year. In subsequent years, the deposit to the Replacement Reserve shall be increased by 3% annually. To the extent that other Project lenders require higher annual deposits to the Replacement Reserve Account, the 3% inflator will not be required so long as the total aggregate amount of annual deposits is equal to or greater than \$350 per unit per year plus the 3% annual inflator compounded annually. Disbursements from this Replacement Reserve Account shall be for the purpose of effecting replacement of structural elements and mechanical equipment of the Project or for other similar purposes for the benefit of the Project.</li> </ol> <p>In the event TCAC no longer requires completion of a “transfer questionnaire” or a capital needs assessment at the time of any Transfer Event, then prior a Transfer Event, Borrower shall submit to the City a Qualified Capital Needs Assessment. The entity which shall own the Project subsequent to the Transfer Event (the “Post Transfer Owner”) shall covenant to the City that the Post Transfer Owner (and any assignee thereof) shall:</p> <ol style="list-style-type: none"> <li>1. Set aside at the closing of the Transfer Event adequate funds to perform the Short Term Work;</li> <li>2. Perform the Short Term Work within three years from the date of the Transfer Event;</li> <li>3. Make monthly deposits to reserves as are necessary to fund the Long Term Work, taking into account any balance in replacement reserve accounts upon the conclusion of the Transfer Event beyond those required by Section 1 of this clause; and</li> <li>4. Complete the long term work when required, or prior thereto, pursuant to the Qualified Capital Needs Assessment.</li> </ol>

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	<p>For purposes of this section, the following terms shall have the following meanings:</p> <ol style="list-style-type: none"> <li>1. "Qualified Capital Needs Assessment" shall mean a capital needs assessment for the property dated within one hundred eighty (180) days of the proposed Transfer Event which is prepared by an independent third-party architect, engineer, or other qualified firm approved by the City and clearly sets forth (1) the capital needs of the Project for the next three (3) years (the "Short-Term Work") and the projected costs thereof, and (2) the capital needs of the Project for the subsequent twelve (12) years (the "Long Term Work") and the projected contributions to reserves that will be needed to accomplish that work.</li> <li>2. "Transfer Event" shall mean (1) a transfer of the ownership of the Project, (2) the sale or assignment of a partnership interest in Borrower and/or (3) the refinancing of secured debt on the Project. The following shall not be deemed a Transfer Event: (1) the transfer of the Project or a partnership interest in Borrower in which reserves remain with the Project and the debt encumbering the Project is not increased, refinanced or otherwise modified, (2) the refinancing of Project debt which does not increase the outstanding principal balance of the debt other than in the amount of the closing costs and fees paid to the Project lender and third parties as transaction costs, provided that reserves remain with the Project, (3) the replacement of a general partner by a limited partner upon the occurrence of a default by a general partner in accordance with partnership agreement of the Project owner, or (4) a transfer pursuant to a foreclosure or deed in lieu of foreclosure to a non-related party.</li> </ol>
<b>Operating Budget Oversight</b>	<p>Prior to the beginning of its fiscal year, Owner shall submit a proposed operating budget to the City for review and approval. The City shall respond to such requests for approval within ten (10) business days of receipt of said request and shall not withhold approval unreasonably. The proposed budget must i) identify any identity of interest or related party costs if the management company is an affiliate of the Owner, ii) compare the proposed budget to the prior year's (or trailing 12 month) actual operating costs, and iii) provide explanations of substantive changes in the budget.</p>
<b>Distributions of Residual Cash Flow</b>	<p>Owner shall not make distributions of Residual Cash Flow to any Controlling Entity or related parties, other than for normal operating costs in the annual budget approved by the City, without written approval by the City based on a determination by the City that:</p> <ol style="list-style-type: none"> <li>1. No default in the terms of the City's loan or related documents exists and is continuing;</li> <li>2. All required Reserve Accounts and escrows are fully and properly funded;</li> <li>3. The most recent annual audit of the Project has been received by the City and shows no material weaknesses or unresolved findings; and</li> <li>4. Making a distribution of Residual Cash Flow will not require the property to access Operating Reserve Accounts.</li> </ol>

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	<p>To obtain approval to make a Residual Cash Flow distribution, Owner shall submit to the City a request at least thirty (30) business days prior to any anticipated distribution together with a current financial statement for the Project that will enable the City to assess criteria above. Owner shall provide a prompt response to the City’s requests for additional documentation, if needed.</p> <p>Unauthorized distributions of Residual Cash Flow will result in liquidated damages of \$1,000 per day, provided that Owner fails to return any unauthorized distributions within three (3) business days of written notice from City.</p>
<b>Other</b>	<p>The City’s willingness to make the loan as anticipated herein is contingent upon and made with specific reliance on the evaluation of the specific individuals and entities making up the Owner.</p> <p>Owner agrees that no sale or transfer of general partnership interests, member interests, managing member interest, or other controlling interest in the Owner will be made without the prior written consent of the City, which shall not be unreasonably withheld. City shall review and provide a written determination on the sale or transfer within 60 calendar days of receipt of written notice of the potential sale or transfer. This right of review will include but is not limited to:</p> <ol style="list-style-type: none"> <li>1. The voluntary or involuntary re-assignment of the role of general partner, managing member, or other controlling entity or individual (collectively the “Controlling Entities”) to another entity or individual; and</li> <li>2. Sale or transfer of the interest of any owner of a Controlling Entity.</li> </ol> <p>Notwithstanding anything to the contrary in this Agreement or any other Loan Document, the City consents to the transfer of the limited partnership interests in Owner and the removal of the general partner of Owner by the investor limited partner for cause, and the replacement of the general partner with an affiliate of the investor limited partner in accordance with the terms of the partnership agreement. Owner must provide notice of such transfer to the City at least 30 days prior to the transfer.</p> <p>Additionally, the City’s willingness to make the Loan as anticipated herein is also contingent upon and made with specific reliance on the evaluation of the planned property manager for the Project. Initially, and throughout the term of this Agreement, the City must approve of any property management company, or another similar agent, employed by the Owner. The City’s approval of a specific property management company or agent for the Project may be withdrawn at any time, and upon notice of same the Owner will identify and contract with a property manager otherwise acceptable to the City, relevant agencies and investors.</p>

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	Initially, the City has approved Mutual Housing Management as the property manager for the Project.