

SUBORDINATION AGREEMENT

THIS AGREEMENT is made and entered into to be effective as of the 16th day of October, 1996, by and between Oregon Housing & Community Services Department, a governmental agency of the State of Oregon ("Department"), and Applegate Trail Apartments limited Partnership, an Oregon limited partnership ("Owner").

RECITALS:

A. Owner is the owner of that certain real property more accurately described in Exhibit A hereto (the "Property").

B. Department is the beneficiary of that certain Declaration of Land Use Restrictive Covenants made by Owner, dated December 28, 1995 (the "Declaration"), which Declaration is recorded in Volume M95, page 35635 of the microfilm records of Klamath County, Oregon.

C. Owner has arranged to obtain a loan from Midland Loan Services, L.P. ("Lender") in the original principal amount of \$1,100,000 to be secured by the Property (the "Loan").

TERMS:

NOW, THEREFORE, in consideration of Owner's development of the Property as affordable housing, the sufficiency of which consideration is hereby acknowledged, Owner hereby subordinates its interest in the Property, which interest is evidenced by the Declaration, to the interest of Lender obtained pursuant to the terms of the Loan. Pursuant to the terms of the Declaration, the foregoing subordination is binding on all third parties now or hereafter granted any rights under the Declaration.

IN WITNESS WHEREOF, the Department has caused its duly authorized signatory to sign and deliver this Subordination to be effective as of the date first above written.

OREGON HOUSING & COMMUNITY SERVICES DEPARTMENT

By [Signature]

STATE OF OREGON)

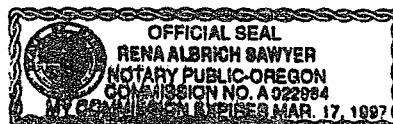
: ss.

County of Marion)

Robert A. Gillespie, known to me as the Housing Resources Section Manager of the department that signed the foregoing instrument, personally appeared before me on the 16th day of October, 1996, and acknowledged to me that such department executed the same.

[Signature]
Notary Public for Oregon

My commission expires: 3/17/97



96 OCT 22 P1:06

LEGAL DESCRIPTION

A tract of land situated in the Southwest quarter of Section 11, Township 39 South, Range 9 East of the Willamette Meridian, Klamath County, Oregon, more particularly described as follows:

Beginning at the initial point on the South right of way line of Bristol Avenue, from which the Northwest corner of Tract No. 1026 bears North 89°32'55" East 520.00 feet and S-N-S 1/256 corner bears South 89°38' West 916.15 feet and North 30.00 feet by Deed; thence North 89°32'55" East along said right of way, 260.00 feet, to the Northwest corner of that tract of land described in Volume M87, Page 14676, Microfilm Records of Klamath County, Oregon; thence, along the boundaries of said tract and that tract described in Volume M96, Page 19616, Microfilm Records of Klamath County, Oregon, South 00°27'05" East 295.00 feet and North 89°32'55" East 150.00 feet; thence South 00°27'05" East 120.00 feet; thence North 89°32'55" East 126.30 feet, to the Westerly boundary of Tract 1026 - THE MEADOWS, a duly recorded subdivision; thence along said boundary South 22°42'12" East 79.24 feet and South 37°56'58" East 89.06 feet; thence along the Northerly right of way line of the U.S.B.R. 1-C-3-B Drain, South 47°42'00" West 152.16 feet; thence along the Northerly right of way of the U.S.B.R. F-7 (A-3-C) Lateral, North 59°30'00" West 811.30 feet to the Westerly line of that property described in Deed Volume 284, Page 485, Deed Records of Klamath County, Oregon; thence following said Westerly line; North 00°27'05" West 61.45 feet, North 67°54'55" East 202.89 feet and North 00°27'05" West 107.00 feet to the point of beginning.

TOGETHER WITH an easement as evidenced by Warranty Deed dated June 14, 1976, recorded June 28, 1976, in volume M76, Page 9724, Microfilm Records of Klamath County, Oregon, and an easement as evidenced by Warranty Deed dated November 6, 1978, recorded November 20, 1978, in Volume M78, Page 26188, Microfilm Records of Klamath County, Oregon.

STATE OF OREGON: COUNTY OF KLAMATH: ss.

Filed for record at request of Amerititle the 22nd day
of October A.D., 19 96 at 1:06 o'clock P.M., and duly recorded in Vol. M96,
of Mortgages on Page 33392
FEE \$15.00
Bernetha G. Letsch County Clerk
By Kathleen Ross