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Recording Requested by and
When Recorded Return to:

Wells Fargo Bank, National Association
Real Estate Group (AU#07490)
1300 S. W. 5th, 12th Floor
MAC P6101-121
Portland, OR 97201
Attn: Kathy McIvor

State of Oregon, County of Klamath
Recorded 05/23/2003 11:07 A.m.
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Linda Smith, County Clerk
Fee \$ 41 # of Pgs 5

SUBORDINATION OF LIEN

(General Manager Right of First Refusal)

THIS SUBORDINATION AGREEMENT is made this 12 day of May, 2003 between KLAMATH HOUSING AUTHORITY, a body corporate and politic, (the "General Manager"), and Wells Fargo Bank, National Association ("Lender").

RECITALS:

A. Crestview Commons Limited Partnership, an Oregon limited partnership ("Borrower"), is the owner of a 64-unit multifamily housing development located in the City of Klamath Falls, Klamath County, Oregon, more particularly described on the attached Exhibit A, known as Crestview Commons Apartments (the "Property" or the "Project"). The General Manager has agreed to serve as general manager of the Project pursuant to that certain General Manager Agreement dated as of April 25, 2003 between Borrower and the General Manager (the "General Manager Agreement").

B. Lender has agreed to provide a loan to Borrower in the principal amount of \$4,050,000.00 (the "Lender Loan") to enable Borrower to refinance the construction loan that is currently a first lien on the Property, subject to certain terms and conditions, including receipt by Lender of this Subordination Agreement.

C. Pursuant to the Lender Loan, Lender is or will be the owner and holder of the Beneficiary's interest under a Construction and Permanent Deed of Trust With Absolute Assignment of Leases and Rents, Security Agreement and Fixture Filing encumbering the Property (the "Lender Deed of Trust") by and between Borrower as Grantor, AmeriTitle (the "Title Company") as Trustee, and Lender as Beneficiary. A condition of the Lender Loan is that the Title Company insure the Lender Deed of Trust as a first lien on the Property.

- 1 - SUBORDINATION AGREEMENT - Option and Memorandum of Right of First Refusal

41.00

D. The Lender Deed of Trust secures or will secure the repayment by Borrower of the Lender Loan and the performance of Borrower's obligations under a Promissory Note, and other security documents in favor of Lender (collectively, the "Lender Loan Documents"), and all advances or charges made or accruing under the Lender Deed of Trust and the other Lender Loan Documents, including any extensions or renewals thereof.

E. Pursuant to Section 3 of the General Manager Agreement, Borrower has previously granted the General Manager a right of first refusal to purchase the Property (the "General Manager Right of First Refusal") on certain terms and conditions as set forth in the General Manager Agreement. An Option and Memorandum Right of First Refusal was recorded May 23rd, 2003 in Book 103 Page 35047 Records of Klamath County, Oregon.

F. Lender would not make the Lender Loan to Borrower but for the subordination of the General Manager Right of First Refusal as provided in this Subordination Agreement.

AGREEMENT:

NOW, THEREFORE, the undersigned General Manager and Lender agree as follows:

1. **Subordination.** In consideration of benefits to the General Manager from Lender making the Lender Loan to Borrower to enable Borrower to refinance the construction loan that is currently a first lien on the Property, the receipt and sufficiency of which consideration is hereby acknowledged, and to induce Lender to advance funds under the Lender Deed of Trust and the other Lender Loan Documents and to induce the Title Company to insure the Lender Deed of Trust as a first lien on the Property, the General Manager does hereby acknowledge, agree, and affirm that the General Manager Right of First Refusal is unconditionally subordinate and subject to the lien of the Lender Deed of Trust and the other Lender Loan Documents, and to all advances, charges, and indebtedness of Borrower made or accruing under the Lender Deed of Trust and the other Lender Loan Documents, including any extensions or renewals thereof.

2. **Modification of LENDER Loan Documents.** The General Manager, solely in its capacity as grantee under the General Manager Right of First Refusal, hereby consents to any agreement or arrangement in which Lender waives, postpones, extends, reduces, or modifies any provisions of the Lender Loan Documents, including any provision requiring the payment of money.

3. **Entire Agreement.** This Subordination Agreement contains the whole and only agreement between the parties with regard to the subordination of the General Manager Right of First Refusal to the lien of the Lender Deed of Trust and the other Lender Loan Documents, and shall supersede and cancel any prior agreements as to such, or any, subordination. The General Manager has not relied on any inducements or assurances from Lender, Borrower, or anyone in executing this Subordination Agreement, other than as set forth herein.

4. **Binding on Successors.** The General Manager, together with any successor to its rights, duties, and obligations, and any other party claiming rights under the General Manager Right of First Refusal, shall be bound by this Subordination Agreement.

5. **Severability.** If any provision of this Subordination Agreement or the application thereof to any entity, person, or circumstance shall be invalid or unenforceable to any extent, the remainder of this Subordination Agreement and the application of such provisions to other entities, persons, or circumstances shall not be affected thereby, and shall be enforced to the greatest extent permitted by law.

6. **Multiple Counterparts.** This Subordination Agreement may be executed in one or more counterparts, and all so executed shall constitute one agreement, binding on all the parties hereto, even though all parties are not signatories to the original or the same counterpart. Any counterpart of this Subordination Agreement that has attached to it separate signature pages, which altogether contain the signatures of all parties, shall for all purposes be deemed a fully executed instrument.

7. **Governing Law.** The parties agree that the laws of the State of Oregon shall govern the performance and enforcement of this Subordination Agreement.

8. **Further Assurances.** The parties agree to execute and deliver such further documents, instruments, and other agreements as are necessary or convenient to carry out the terms and purposes of this Subordination Agreement.

9. **Attorney Fees.** In the event action is instituted to enforce, interpret, or rescind any term of this Subordination Agreement, the prevailing party shall recover reasonable costs and attorney fees incurred in such action or on appeal.

10. **Authority.** Each party hereby represents that all legal action necessary for the execution of this Subordination Agreement by such party has been duly taken and that the person(s) signing below on behalf of such party is duly authorized to execute this Subordination Agreement.

[Signatures appear on next page.]

IN WITNESS WHEREOF, the parties have executed and delivered this Subordination Agreement on the date first written above.

KLAMATH HOUSING AUTHORITY, a body corporate
and politic, General Manager

By: Wayne A Connors
Name: WAYNE A. CONNORS
Title: EXECUTIVE DIRECTOR

WELLS FARGO BANK, NATIONAL ASSOCIATION,
Lender

By: Joseph P. Delyea
Joseph P. Delyea
Vice President



STATE OF OREGON)

COUNTY OF Klamath)

ss:

The foregoing instrument was acknowledged before me this 12th day of May, 2003, 20__, by Wayne A. Connors, as Executive Director on behalf of Klamath Housing Authority, an Oregon housing authority.

Janice A. Hafar
Notary Public for Oregon
My commission expires: 4-28-05

STATE OF OREGON)

COUNTY OF Multnomah)

ss:

The foregoing instrument was acknowledged before me this 20 day of May, 2003, by Joseph P. Delyea, as Vice President of Wells Fargo Bank, National Association.



Katherine M. McIvor
Notary Public for Oregon
My commission expires:

EXHIBIT A

35050

Parcel 1:

Parcel 1 of Land Partition 1-03, said Land Partition being Parcel 1 of Land Partition 14-97 and a portion of a tract of land situated in the NE1/4 NE1/4 of Section 10 Township 39 South, Range 9 East, Willamette Meridian, Klamath County, Oregon.

POR1 #162410 v1