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Wells Fargo Bank, National Association  
Community Lending and Investment  
1300 SW 5th Avenue, P6101-121  
Portland, OR 97201  
Attn: David Zorin

1st 1486070

**SUBORDINATION OF LIEN**  
(Purchase Option)

THIS SUBORDINATION AGREEMENT is made as of November 16, 2009 between IRIS GLEN TOWNHOMES, LLC, an Oregon limited liability company ("Borrower"), KLAMATH HOUSING AUTHORITY, an Oregon non-profit public benefit corporation ("Grantee"), and WELLS FARGO BANK, NATIONAL ASSOCIATION, and its successors and assigns ("Lender").

**RECITALS:**

A. Borrower proposes to construct improvements on the real property described on the attached Exhibit A ("Property") consisting of 6 low income residential buildings with 36 multi-family housing units and 1 managers unit, together with all appurtenances, fixtures, and tenant improvements now or hereafter located on the Property (as renovated the "Improvements"). The Property and the Improvements are hereafter referred to as the "Project".

B. Lender has agreed to provide a loan to Borrower in the principal amount of \$4,950,000.00 (the "Lender Loan") to enable Borrower to finance the renovation of the Improvements 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 Deed of Trust With Absolute Assignment of Leases and Rents, Security Agreement, and Fixture Filing, encumbering the Project (the "Lender Deed of Trust") by and between Borrower as Trustor, First American Title Insurance Company (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 Project.

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, renewals, modifications, or assignments thereof.

E. Pursuant to Section 14.3 of that certain unrecorded First Amended and Restated Operating Agreement of Iris Glen Townhomes, LLC dated November 16, 2009 ("Operating Agreement"), Borrower has previously granted to Grantee a right of first refusal to purchase the Project (the "Purchase Option") on certain terms and conditions as set forth in the Operating Agreement. A memorandum of the Purchase Option was recorded \_\_\_\_\_, 2009 as Instrument Number \_\_\_\_\_ in the Official Records of Klamath County, Oregon.

F. Lender would not make the Lender Loan to Borrower but for the subordination of the Purchase Option provided in this Subordination Agreement.

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## **AGREEMENT:**

**NOW, THEREFORE,** the undersigned Grantee, Borrower and Lender agree as follows:

**1. Subordination.** In consideration of benefits to Grantee and Borrower from Lender making the Lender Loan to Borrower to enable Lender to finance the construction loan 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 Project, Grantee and Borrower do hereby acknowledge, agree, and affirm that the Purchase Option, 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. Approval of Lender Loan Documents.** Grantee acknowledges and agrees that it has reviewed a copy of the Lender Deed of Trust and other Lender Loan Documents, has read and understands the Lender Deed of Trust and other Lender Loan Documents, and has approved the terms of the Lender Deed of Trust and the other Lender Loan Documents.

**3. Modification of Lender Loan Documents.** Grantee, solely in its capacity as grantee under the Purchase Option, and not in its capacity as the managing member of Borrower under the Lender Loan Documents, 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.

**4. Entire Agreement.** This Subordination Agreement contains the whole and only agreement between the parties with regard to the subordination of the Purchase Option 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. Grantee and Borrower have not relied on any inducements or assurances from Lender, each other, or anyone in executing this Subordination Agreement, other than as set forth herein.

**5. Binding on Successors.** Grantee and Borrower, together with any successor to its rights, duties, and obligations, and any other party claiming rights under the Purchase Option, shall be bound by this Subordination Agreement.

**6. 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.

**7. 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.

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

**9. 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.

**10. 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.

**11. 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.

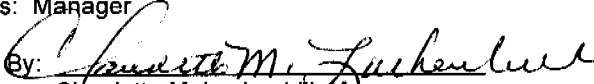
**IN WITNESS WHEREOF**, the parties have executed and delivered this Subordination Agreement on the date first written above.

"BORROWER"

IRIS GLEN TOWNHOMES, LLC, an Oregon  
limited liability company


By: LDA-Klamath Development, LLC, an Arizona limited liability company  
Its: Manager

By: Luckenbill-Drayton & Associates, LLC, an Arizona limited liability company  
Its: Manager

By:   
Claudette M. Luckenbill, Manager

"GRANTEE"

KLAMATH HOUSING AUTHORITY

By: 

"LENDER"

Wells Fargo Bank, National Association

By: \_\_\_\_\_  
Melinda Rex, Relationship Manager

STATE OF OREGON )

COUNTY OF

Deschutes

) ss:

The foregoing instrument was acknowledged before me this 13 day of Nov, 2009 by  
Claudette M Luckenbill as Manager of and on behalf of  
Luckenbill-Drayton & Assoc LLC

Melissa S Riverman

Notary Public for Oregon

My commission expires:



STATE OF OREGON )

COUNTY OF Klamath ) ss:

The foregoing instrument was acknowledged before me this 16 day of Nov, 2009, by Diane Otero as Executive Director of and on behalf of Klamath Housing Authority

[Signature]  
Notary Public for Oregon

My commission expires: 9-23-11



**11. 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.

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

"BORROWER"

IRIS GLEN TOWNHOMES, LLC, an Oregon  
limited liability company

By: LDA-Klamath Development, LLC, an Arizona limited liability company  
Its: Manager

By: Luckenbill-Drayton & Associates, LLC, an Arizona limited liability company  
Its: Manager

By: \_\_\_\_\_  
Claudette M. Luckenbill, Manager

"GRANTEE"

KLAMATH HOUSING AUTHORITY

By: \_\_\_\_\_

"LENDER"

Wells Fargo Bank, National Association

By: Melinda Rex  
Melinda Rex, Relationship Manager

STATE OF OREGON )

) ss:

COUNTY OF Multnomah

The foregoing instrument was acknowledged before me this 12<sup>th</sup> day of November, 2009 by Melinda Rex as Relationship Manager of Wells Fargo Bank, National Association and on behalf of

Brenda K Fitterer

Notary Public for Oregon

My commission expires: 11-27-10



## EXHIBIT A

All that certain real property located in the County of Klamath, State of Oregon, described as follows:

A portion of Lots 4,5 & 6, Block 11, Dixon Addition to the City of Klamath Falls, in the County of Klamath, State of Oregon, more particularly described as follows:

Beginning on the east side of Hillside Avenue at a point 36 feet south of the Northwest corner of Lot 6, Block 11, Dixon Addition to the City of Klamath Falls, Oregon; Running thence south along the east side of said Hillside Avenue a distance of 37 feet; thence east and parallel with the north line of said Lot 6 to the northwesterly line of Fort Klamath Road to a point where said line intersects with a line drawn east from said point of beginning and parallel with the north line of said Lot 6; thence west to the point of beginning, being a tract of land fronting 37 feet on said Hillside Avenue and extending across Lots 6,5 and 4 of said Block 11 to Fort Klamath Road, Situate in southwest quarter of southeast quarter of Section 28, Township 38 South, Range 9 East of the Willamette meridian, Klamath County, Oregon. Together with an easement for a driveway across the southerly and easterly side of said Lot 4, Block 11, conveniently wide for a drive from the alley in the rear of said Lot 4.

Lots 4,6,7,8,9,10 and 11, Block 12, Dixon Addition to the City of Klamath Falls, in the County of Klamath, State of Oregon, except portion deeded to the State of Oregon by deeds recorded in Book 169 at Page 194 and in Book 19 at Page 458, Deed Records of Klamath County, Oregon.

Lot 3, Block 11, Dixon Addition to the City of Klamath Falls, in the County of Klamath, State of Oregon.