



CITY OF
PORTLAND, OREGON
PORTLAND HOUSING BUREAU

183842
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- - 32 00 03 31

May 12, 2010

Villa de Suenos Limited Partnership
c/o Hacienda CDC
Attn: Pietro Ferrari
5136 NE 42nd Avenue
Portland, OR 97218

RE: Commitment of \$1,125,000.00 to Villa de Suenos Limited Partnership ("Borrower") to fund the rehabilitation consisting of twenty-eight (28) units of affordable housing for families and individuals, located at 6518 NE Killingsworth, 6512 NE Killingsworth, 6444 NE Killingsworth, 6506 NE Killingsworth, 6730 NE Killingsworth and 6808 NE Killingsworth, Portland, Oregon (the "Project").

Dear Mr. Ferrari:

The Portland Housing Bureau ("PHB") has reviewed your request for assistance to rehabilitate the above referenced property under the Housing Development Finance Program. Based on the information provided by you PHB has approved project funding subject to the following conditions:

Borrower(s): Villa de Suenos Limited Partnership

Purpose of Equity Gap: To provide financing for the rehabilitation not to exceed \$1,125,000.00 (including all related fees) for a twenty-eight unit rental Project.

<u>Total Funding Amount:</u>	\$2,875,000.00
Equity Gap Contribution Amount:	\$1,125,000.00
Rehabilitation Interest Rate:	0.00%
Permanent Interest Rate:	0.00%
Term:	Until paid in full
Funding Source:	HOME
Fiscal Year:	2009/2010

Equity Gap Payment, Interest and Terms (Rehabilitation):

No Rehabilitation interest will accrue on the Equity Gap until the end of the Rehabilitation Period as defined in the Equity Gap Contribution Agreement. All unpaid balance of the Rehabilitation Equity Gap, including accrued interest, will be due and payable on the last day of the Rehabilitation Period (including any extension approved by PHB); provided, however, if the conditions set forth in the Equity Gap Contribution Agreement are satisfied, and will be payable as set forth in the following paragraph.

Equity Gap Payment, Interest, and Terms (Permanent):

If the conditions set forth in Section 4.1 of the Equity Gap Contribution Agreement are satisfied as provided therein, the Equity Gap Contribution shall be converted to a permanent Equity Gap Contribution. The permanent equity gap contribution period means the period that begins on the first day after the expiration of the Rehabilitation Period and ends on the Maturity Date, as defined in Section 4 of the Equity Gap Agreement. During the Permanent Equity Gap Contribution Period, interest shall accrue on the unpaid principal balance at the rate of zero percent (0.00 %) per annum.

Amounts past due, whether by late payment, acceleration, or otherwise, shall bear interest at the default rate set forth in the Equity Gap Agreement.

The principal amount of the Equity Gap Contribution and any amounts past due, whether by late payment, acceleration, or otherwise, shall be repaid from Cash Flow Payments as described in Section 5 of the Equity Gap Agreement.

Cash Flow Payment: Borrower shall pay to PHB a Cash Flow Payment as provided in the Equity Gap Agreement.

Other Financing: In addition to PHB financing, the Project has received or will receive additional financing as follows:

- | | |
|---|-----------|
| 1) Energy Trust: | \$30,000 |
| 2) Insurance Proceeds: | \$209,757 |
| 3) Lawsuit Proceeds to be
Determined (est. \$700,000): | \$0 |

Appraisal: An Appraisal was done on January 28, 2010 showing a stabilized restricted value of \$1,970,000 based on a 7.5% capitalization rate and a market value of \$2,420,000 based on a 7.5% capitalization rate.

Borrower's Contribution: The total equity contribution from the Borrower shall be \$239,757.00 in the form of \$30,000.00 from Energy Trust grant funds and \$209,757.00 from insurance proceeds.

PHB Loan Documentation: Loan documentation shall include, but not be limited to the following documents:

- 1) Equity Gap Agreement
- 2) Equity Gap Contribution Agreement
- 3) HOME Agreement and Declaration
- 4) Commitment Letter
- 5) Guaranty
- 6) UCC

Security: The loan shall be evidenced by a Equity Gap Agreement and secured by a UCC for the improvements of the subject property also known as 6518 NE Killingsworth, 6512 NE Killingsworth, 6444 NE Killingsworth, 6506 NE Killingsworth, 6730 NE Killingsworth and 6808 NE Killingsworth 6706 NE Killingsworth Street, Portland Oregon. The lien instrument shall include an assignment of all leases, rents and other incomes attributable to the property and security interest in all existing and future acquired furniture, fixtures, equipment, and other items of personal property used in connection with the operation and maintenance of the subject property.

Due Diligence Materials: Borrower must provide all requested due diligence documentation, including but not limited to construction related documents such as Contractor's Contract.

Additional Terms and Conditions: Borrower must agree to any additional terms and conditions that PHB may require once additional documentation has been received.

Replacement Reserves: A separate Replacement Reserves Account must be established for the Project and shall run with the property. PHB shall be a party to the reserve agreement during the term of the PHB Regulatory Agreement affordability period.

Due on Sale Provision: The Equity Gap Contribution documents shall contain a provision granting PHB the option to declare the entire indebtedness due and payable if Borrower should either change the building's use or attempt to transfer any controlling interest in the property or other security to an entity unrelated to the current Borrower.

Equity, Cash Flow and Financial Strength: This loan is conditioned on the equity, cash flow and financial information as presented in the Borrower's application and required application exhibits. Should these factors substantially change it is Borrower's responsibility to provide PHB with updated information. If changes are found to be inconsistent with the application or the documentation submitted to PHB's Loan Committee, PHB may render this commitment null and void, and have no further responsibility to fund the Equity Gap Contribution.

Borrowing/Board Resolution: Borrower is to provide a copy of the Borrowing/Board Resolution and copy of the minutes of the meeting at which said resolution was passed which authorizes borrowing funds for this project and directs certain board members to sign loan documents.

Equity Gap Closing: The Borrower authorizes PHB to make arrangements as necessary to conduct the equity gap closing. The Borrower is responsible for all closing costs and may request that these be included in project budget and disbursed out of loan proceeds at closing.

Property Taxes and Liens: Borrower to bring current all property taxes and to cure any and all liens on the subject property prior to recording of the PHB Loan Documents.

Insurance: Borrower is to provide evidence of a prepaid All Risk Course of Construction insurance policy for not less than the full replacement value of the project with a mortgagee loss payable clause naming the "CITY OF PORTLAND, a municipal corporation of the State of Oregon, acting by and through the PORTLAND HOUSING BUREAU."

Borrower shall cause the Construction Contractor to provide PHB with evidence of liability insurance.

Upon completion of construction, Borrower shall provide PHB with evidence of a prepaid fire hazard insurance policy with a mortgagee loss payable clause naming the CITY OF PORTLAND, a municipal corporation of the State of Oregon, acting by and through the PORTLAND HOUSING BUREAU. Insurance is to be maintained for the duration of the loan. For this project coverage must be an amount not less than full replacement value.

Title Insurance Policy: The Borrower authorizes PHB to order a preliminary title report.

Performance Bond: The PHB will determine the bonding requirements for general contractors for PHB funded construction or rehabilitation projects.

Recourse Lending: All direct financial assistance loans shall be recourse to the borrowing entity with the exception of Federal Low-Income Housing Tax Credit projects. Federal Tax Credit projects shall be recourse during the construction period and shall be non-recourse to the Borrower during the permanent loan period.

Affordability Period/Occupancy Requirement: The subject property will have a total of twenty-eight (28) units that shall be affordable for a period of at least sixty (60) years (the "Term of Affordability") after the Project is substantially complete or until any form of public subsidy to the project is repaid. Should PHB request information regarding the occupancy and rents, the Borrower agrees to provide this information in a timely manner (within thirty days) after written notice to Borrower.

Borrower shall operate the Property during the Term of Affordability as follows:

Unit Type	Rent MFI %	Income MFI %	# of Units	Unit Size (square feet)	Anticipated Net Monthly Revenue
Three bedroom ^o	50%	50%	9	1056	\$75,276
Three bedroom*	50%	50%	2	1056	\$17,688
Three bedroom ^o	60%	60%	3	1056	\$27,360
Four bedroom	50%	50%	9	1312	\$79,812
Four bedroom*	50%	50%	2	1312	\$19,416
Four bedroom	60%	60%	3	1312	\$30,528
Total			28		\$250,080

*Note: These units currently receive PBS8 so their AMI is actually targeted to families at 30% AMI.

^oNote: Two of these 9 units targeted to 50% MFI will be designated the Low Home units. All of the 3 units targeted to 60% MFI will be designated the High Home units.

Section 8 Rent Assistance: The Borrower agrees to comply with those requirements and procedures necessary to retain project base Section 8 rental assistance for four (4) units. The Borrower further agrees to permit the Housing Authority of Portland to conduct such tenant interviews and property inspections necessary to secure said rental assistance. The tenant paid portion of the rent plus tenant paid utilities for the unit will be no more than 30.0% of the tenants' income.

HOME Restrictive Agreement and Declaration: The Borrower shall be required to execute a HOME Restrictive Agreement and Declaration at loan closing if the source of funding is HOME funds. The agreement will specify the number and types of units restricted as to rent, occupancy requirements, and allowable income return during the HOME affordability period.

Income to Rent Ratio: Borrower is encouraged to demonstrate a good faith effort of compliance with the current Income to Rent Policy requirement, or policy as it may be revised from time to time. Prospective tenants should be screened with a lower Income to Rent Ratio as outlined in the adopted policy provided to Borrower at time of closing, or such time as it is revised.

Compliance will be demonstrated by providing PHB, at time of closing, with a written statement of rental policy and a copy of all documentation provided to prospective tenants explaining Landlord Screening Criteria. If this information is unavailable at closing it is to be provided to PHB no later than lease-up.

Material violation, defined as failure to comply in a manner which illustrates a good faith effort to implement and use the Income to Rent standard, shall not be construed as a reason for default, but may result in denial of future funding requests by PHB.

Annual Reporting Requirements: During the Term of Affordability Borrower is required to prepare and submit reports to PHB, including but not limited to the following:

- Annual operating report
- Rent rolls, tenant surveys, tenant re-certifications
- Lease Agreements
- Documentation of required insurance
- Other documentation to demonstrate compliance with loan documents

Tenant Survey: Borrower is to provide PHB with a completed Tenant Survey (Form No. IP103) within 90 days of the project being stabilized and fully leased up. This will document compliance with program relocation and/or low-income occupancy requirements.

Property Management Agreement: All property management services must be approved by PHB and copies of pertinent documentation and the management plan must be provided within 90 days of the Completion Notice being posted.

Asset and Property Management Plan: This Commitment is subject to Borrower providing a Borrower Asset and Property Management Plan.

Affirmative Fair Housing Plan: Borrower shall provide a completed Affirmative Fair Housing and Marketing Plan.

Civil Rights: The Borrower shall not discriminate upon the basis of race, color, ethnic background, age, sex, marital status, sexual preference, handicap, religion, veteran's status or national origin in the sale, lease, rental, use or occupancy of the property to be constructed or rehabilitated with PHB direct financial assistance products.

Agreement Between Owner and Contractor: Borrower must provide a fully executed copy of the Agreement Between Owner and Contractor, including scope of work, which must be approved by PHB prior to Equity Gap closing. The Borrower agrees to comply with any applicable HUD Federal specifications on the project and to include such specifications as an addendum to the contractor's contract.

Construction/Rehabilitation: PHB retains the right to approve any General Contractor selected by Borrower and approval shall not be unreasonably withheld by PHB.

Agreement Between Owner and Architect: Borrower must provide a fully executed copy of the Agreement Between Owner and Architect, which must be approved by PHB prior to Equity Gap closing.

Project Budget and Work Scope: The PHB Equity Gap Contribution is predicated on a construction budget and a total budget acceptable to PHB, and PHB will work with the development team during the budget review. Prior to closing, the Borrower shall provide any detailed updates to the budget and description of work, if any, to be reviewed and approved by PHB.

Design/Construction Review: Prior to closing, the Project shall be in compliance with the requirements of PHB Design/Construction Review process. The Borrower is responsible for providing the necessary materials and information to PHB staff to allow for a complete review. Staff will review the requirements of the Design Review process with the Borrower.

Inspections: The Borrower shall permit inspection of the property by the City and PHB employees for compliance with all City codes and ordinances and shall also permit inspections deemed necessary by the Bureau of Development Services and Bureau of Fire in connection with the property, rehabilitation work, and all contracts, materials, equipment, payrolls and conditions of employment pertaining to the work.

Completion Schedule: The Borrower is to provide scheduled completion and Equity Gap close-out (final Equity Gap disbursement) dates to PHB for approval prior to Loan closing. Work generally should be completed by May 31st 2011.

Green Building: Project Sponsor shall incorporate all Green Building Threshold Criteria in project design.

Environmental Reports and Remedies: The Borrower will provide Environmental Reports and Remedies as required, acceptable to PHB.

Environmental Review: Under US Department of Housing and Urban Development (HUD) regulations 24 CFR Part 58, an environmental review must be completed, and recorded with a Finding of No Significance on the environmental with regard to the proposed project. The Environmental Review Record which clearly states the determinations must be made on file where it can be examined at a location or locations notified to the public with the times made available. This review is to be directed through the PHB under HUD procedures as determined in Title 24, Part 58, Section 58.1. Borrower is hereby notified that any individual, group, or agency disagreeing with the Environmental Review or wishing to comment on the project may submit written comments to the designated office. This office is noted as the PHB for the City of Portland, Oregon. The Environmental Review shall be assessed through the PHB under direction of the PHB.

A recipient may not commit HUD assistance funds on an activity or project until HUD, and the implementing agency of PHB has approved and certified the environmental review as a Finding of No Significance and the approved comment period has expired.

Proposed Improvements: All work shall be done under a building permit issued by the Bureau of Development Services. Upon completion of work, the property shall be inspected and certified in compliance with all applicable City codes and ordinances. All contractors are to be registered and bonded by the State of Oregon and licensed by the City of Portland to perform construction work. The Borrower agrees to comply with any applicable HUD Federal specifications on the project and to include such specifications as an addendum to the contractor's contract.

Project Sign: The Borrower shall post a sign that identifies that funds are being provided by PHB and HUD along with other applicable lenders. Location and format of sign to be approved by PHB staff prior to displaying at a visible point on the front of the building.

Disbursement of Equity Gap Proceeds: Upon receipt of the Project Budget, Work Scope, and Rehabilitation Schedule, PHB will consider a disbursement procedure which will allow a partial draw of Equity Gap Proceeds to reimburse a contractor in accordance with the accepted contract terms. Equity Gap Proceeds from PHB in the approximate amount of \$1,125,000.00 on the project will begin being drawn at the beginning of rehabilitation. PHB shall also retain approval rights on all rehabilitation draws. PHB will work with the Borrower on a draw disbursement procedure that is mutually acceptable.

Final Budget: Prior to final disbursement, the Borrower shall provide any detailed updates to the budget and description of work, if any, to be reviewed and approved by PHB, including all soft and hard cost change orders.

Retainage: Sufficient retainage of approximately 5.0% of the construction budget will be required to assure project completion, and final disbursement will not be authorized until the seventy-five (75) day lien period has expired. This lien period may be reduced, at the option of the Borrower, by satisfying the early issue requirements of the title insurance company and PHB.

Notice to Proceed: Work is not to begin until PHB issues a written Notice to Proceed. Prior to issuing a Notice to Proceed, Borrower to provide fully executed documentation and Borrower shall finalize its construction details including bidding, contractor selection, and construction budget, in addition to evidence of permits. Marlo Medellin, your Construction Coordinator, can be reached at 503.823.3280 and will provide assistance as needed.

Federal ADA Accessibility Compliance: For Projects designed by a licensed architect, the Borrower shall cause the architect to sign off on the handicapped checklist. For projects without an architect, Construction Coordinators will be responsible for sign off on the handicapped checklist.

Davis Bacon: If applicable, the Borrower also agrees to comply with all applicable federal labor requirements including the Davis-Bacon Act.

Oregon Prevailing Wage Requirements. To the extent applicable Borrower shall pay prevailing wages (the higher of applicable Davis Bacon or Oregon rates) in connection with the rehabilitation of the Project and otherwise complies with ORS 279C.800 to 279C.870 and the administrative rules adopted by the Oregon Bureau of Labor and Industries there under. Specifically, but without limiting the generality of the preceding sentence, Borrower shall prepare, process and submit to PHB and the Oregon Bureau of Labor and Industries, as required all documentation necessary to comply with the foregoing requirements

Programs for Diversity in Contracting: Borrower agrees to comply with PHB's requirements to increase project participation of minority-owned, women-owned, and emerging small businesses and to maximize the utilization of women and minorities, in the construction workforce. These requirements are defined by the Workforce Training and Hiring Program, the Business Equity Program (formerly known as the Minority-owned, Women-owned & Emerging Small Business/Good Faith Effort Program), and the Equal Employment Opportunity (EEO) Certification.

Business and Workforce Equity Policy. PHB has adopted the Business and Workforce Equity Policy to ensure fair and equitable opportunities to Portland's diverse populations, promote prosperity in all segments of Portland's diverse communities, foster economic growth, and expand competition in the market. The Business and Workforce Equity Policy is comprised of two (2) separate and distinct programs:

- The Business Equity Program; and
- The Workforce Equity Program

PHB has determined that the Project is subject to both the Business Equity Program and the Workforce Equity Program as follows:

Business Equity Program. Applies to construction and rehabilitation loan projects with PHB financing of \$300,000 or more and with construction or rehabilitation costs greater than or equal to \$300,000. The purpose of the Business Equity Program is to ensure that PHB provides professional, supplier and construction contracting opportunities to State certified minority-owned, women-owned and emerging small businesses (collectively, "Certified Firms") and to encourage the participation of businesses owned by veterans in connection with PHB projects. The utilization goal for Certified Firms in connection with the Project is twenty percent (20%) of the Project's hard construction or rehabilitation costs. The Borrower shall comply with the Business Equity Program by including provisions in its contract with its General Contractor that require the General Contractor to comply with the Business Equity Program and otherwise causing its General Contractor, and the subcontractors thereof, to comply with the Business Equity Program in connection with the Project. Borrower shall also comply with all portions of the Business Equity Program applicable directly to Borrower. The failure of Borrower or Borrower's General Contractor, or the subcontractors thereof, to comply with the Business Equity Program shall constitute a breach of a material provision of this Agreement.

Workforce Equity Program. Applies to construction and rehabilitation loan projects with PHB financing of \$300,000 or more and with construction or rehabilitation costs greater than or equal to \$1,000,000. The purpose of the Workforce Equity Program is to maximize apprenticeship opportunities in the construction trades and ensure employment opportunities for People of Color and women and encourage the employment of people with disabilities and veterans in connection with PHB projects. Projects subject to the Workforce Equity Program must comply with PHB's Workforce Training and Hiring Program which requires contractors to: (i) ensure that a minimum of 20% of labor hours in each apprenticeable trade performed by the contractor and subcontractors are worked by state-registered apprentices; and (ii) make all reasonable and necessary efforts to employ a workforce that reflects the diversity of the City of Portland. In connection with

the Project, the Borrower shall comply with the Workforce Equity Program by including provisions in its contract with its General Contractor that require the General Contractor to comply with the Workforce Equity Program and otherwise causing its General Contractor, and the subcontractors thereof, to comply with the Workforce Equity Program in connection with the Project. Borrower shall also comply with all portions of the Workforce Equity Program applicable directly to Borrower. The failure of Borrower or Borrower's General Contractor, or the subcontractors thereof, to comply with the Workforce Equity Program shall constitute a breach of a material provision of this Agreement.

EEO Certification. Borrower shall comply with the City's EEO Certification Program by including provisions in its contract with its General Contractor that require the General Contractor to comply with the EEO Certification Program and otherwise causing its General Contractor, and the subcontractors thereof, to comply with the EEO Certification Program. Borrower shall also comply with all portions of the EEO Certification Program applicable directly to Borrower and with all applicable provisions of Federal or state statutes and regulations and City ordinances concerning equal employment opportunities for persons engaged in the Project. The failure of Borrower or Borrower's General Contractor, or the subcontractors thereof, to comply with the EEO Certification Program or other applicable equal employment opportunity law shall constitute a breach of a material provision of this Agreement.

Mandatory Developer Meeting for Federally Funded Projects: All development teams and the project's prime contractor must meet with PHB staff for a compliance overview. This meeting will be coordinated by representatives from the PHB's Professional Services section and the Housing Construction Coordinator assigned to your project. The meeting will cover:

1. Trades being solicited for bidding.
2. MWESB criteria to be presented by PHB M/W/ESB Outreach Team
3. Workforce Training Program as presented by City of Portland's Office of Finance and Administration ("OFA").
4. Project Schedule.
5. Green/Sustainable Building standards that will be incorporated in the building by specific trades.
6. Alternative bidding, substitutions, and change order process/policy.
7. Where in the construction documents and specifications each trade is to reference for complete bidding information.
8. Bid due date and time.
9. Prevailing Wage as applicable

For more detailed information on the above programs, please contact John Classen at 503-823-3667, klassenj@pdc.us, Fax # 503-823-3368.

Housing Quality Standards: The Borrower will not receive a final disbursement of (Equity Gap or Loan) proceeds until the property has complied with the City of Portland's Housing Quality Standards.

Conditions:

This Commitment Letter is subject to Borrower complying with the following conditions:

- 1) The Borrower must provide all requested due diligence documentation including but not limited to final budgets, final plans and specifications, and service agreements prior to closing.
- 2) The Borrower will seek PHB approval prior to reallocation of any budget line item in any amount greater than \$5,000 during the project's construction phase that is defined from construction loan closing to 90% occupancy.
- 3) Final construction contract acceptable to PHB prior to closing.
- 4) All conditions for the issuance of required building permits met prior to closing.
- 5) Borrower agrees to execute PHB replacement cost, operating and debt reserve and asset management agreements prior to occupancy.
- 6) Borrower to follow proper Davis Bacon wage compliance procedures.

Posting of Completion Notice: Upon substantial completion of the work, Borrower shall ensure that the project is posted with a completion notice and that the notice is filed with Multnomah County. Unless otherwise agreed and arranged, the final disbursement of retainage will not be made until a minimum of 75 days after the posting of the completion notice and the construction lien period has expired.

Equity Gap Close Out: The Borrower will not receive a final disbursement until all items on the Close-Out Check List have been provided.

SIGNATURE PAGES TO FOLLOW

Villa de Suenos LP-Villa de Sueños
Commitment of \$1,125,000.00
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This letter constitutes a funding set aside of a total of \$1,125,000.00, subject to satisfaction of the above described conditions. The Borrower shall comply with all other conditions of the Rental Housing Development Program outlined in the PHB Housing Development Financial Products Manual. Please indicate your acceptance of these conditions by signing the enclosed copy of this letter and transmitting it within ten (10) days to Margaret Jonsson at the Portland Housing Bureau. Upon acceptance, this commitment will be firm until May 31, 2010.

Sincerely,

By: Nick Fish
Nick Fish, Commissioner

APPROVED AS TO FORM
APPROVED AS TO FORM: Kan
Paula Henry
CITY ATTORNEY
Portland Housing Bureau
Legal Counsel

RECEIVED AND ACCEPTED BORROWER

VILLA DE SUENOS LIMITED PARTNERSHIP, an
Oregon limited partnership

By: HACIENDA COMMUNITY DEVELOPMENT
CORPORATION, an Oregon nonprofit corporation, its
general partner

Pietro Ferrari
By: Pietro Ferrari, Executive Director