

Return Address

U.S. Bank National Association
Commercial Real Estate Division
1420 Fifth Avenue, 8th Floor
Seattle, Washington 98101
Attention: Kim Etherton

Document Title(s) (or transactions contained therein):

1. Priority and Subordination Agreement

Reference Number(s) of Documents assigned or released:
(on page ___ of documents(s))

Grantor(s) (Last name first, then first name and initials):

1. The United States of America, acting through the Rural Housing Service of the United States Department of Agriculture
2. U.S. Bank National Association
3. State of Washington Department of Community, Trade and Economic Development, Office of Community Development
4. Washington State Housing Finance Commission
5. Mercy Properties Washington I LLC

Grantee(s) (Last name first, then first name and initials):

1. The United States of America, acting through the Rural Housing Service of the United States Department of Agriculture
2. U.S. Bank National Association
3. Washington State Housing Finance Commission
4. State of Washington Department of Community, Trade and Economic Development, Office of Community Development
5. Mercy Properties Washington I LLC

Legal description (abbreviated: i.e. lot, block, plat or section, township, range)

Lots 1, 2, 3, 4, 5, 6 & 11 MEAGHERS ADDITION [ADD ADDITIONAL PROPERTY]

☒ Full legal is on Page 11 of document.

Assessor's Property Tax Parcel/Account Number

03-07-36-4-3-1300-00; 92-000520 [ANY ADDITIONAL APNs?]

**PRIORITY AND SUBORDINATION AGREEMENT
(Cascade Village Apartments)**

THIS PRIORITY AND SUBORDINATION AGREEMENT (the "Agreement"), dated November 30, 2004, is by and between MERCY PROPERTIES WASHINGTON I LLC, a Washington limited liability company, U.S. BANK NATIONAL ASSOCIATION, as lender (the "Lender"); the UNITED STATES OF AMERICA, acting through the RURAL HOUSING SERVICE OF THE UNITED STATES DEPARTMENT OF AGRICULTURE (the "Government"), the STATE OF WASHINGTON DEPARTMENT OF COMMUNITY, TRADE AND ECONOMIC DEVELOPMENT, OFFICE OF COMMUNITY DEVELOPMENT (the "State"); and the WASHINGTON STATE HOUSING FINANCE COMMISSION (the "Commission").

WHEREAS, the Government (formerly known as United States of America, acting through the Farmers Home Administration, United States Department of Agriculture) is the owner and holder of that certain Deed of Trust dated the 20th day of September, 1978, recorded September 21, 1978 in Book 55, Page 820, Auditor's File No. 87252, Skamania County Mortgage Records, securing a loan in the original principal amount of \$950,000 (the "Existing Government Deed of Trust");

~~WHEREAS, in conjunction with the Government's consent to the sale and refinancing of the Property (defined below), the Borrower has executed that certain Restrictive Covenant Agreement dated the 19 day of November, 2004, recorded November , 2004 in Auditor's File No. , Skamania County Records (the "Government Covenant");~~

WHEREAS, Lender has agreed to loan the principal sum of \$961,102 to Borrower with interest at the per annum rate not to exceed 5 and 125/1000ths percent (5.125%), except in the event of a default in which event the default interest rate shall be the Note rate of interest plus 5 percent, for the following purposes only: acquiring the property legally described on Exhibit A attached hereto ("Real Property"), renovating the affordable housing project located on the Real Property, funding a replacement reserve, and paying costs and fees associated with loan (the "Bank Loan"), such loan to be secured by that certain Deed of Trust encumbering the Real Property dated the 1st day of November, 2004, recorded November 30, 2004 in Auditor's File No. , Skamania County Records (the "Bank Deed of Trust");

*2004154422

WHEREAS, the State has agreed to loan the principal sum of \$500 to Borrower, a portion of which will be used for the purpose of acquiring and rehabilitating the Real Property and improvements located thereon.;

WHEREAS, in conjunction with the State Loan, the Borrower has executed that certain Low Income Housing Covenant Agreement dated the 19 day of November, 2004

* 2004/55421

recorded November 30, 2004 in Auditor's File No. *, Skamania County Records (the "State Covenant"). The State's Low Income Housing Agreement is not subordinated to the Bank's Deed of Trust;

WHEREAS, the Commission has agreed to acquire the Bank Loan from the Lender with proceeds of a tax-exempt bond (the "Bond") in consideration for which the Borrower has agreed to enter into a Regulatory Agreement, dated as of November 1, 2004 (the "Regulatory Agreement"), to be recorded on the real property records of the Real Property acquired with the Bank Loan, which Regulatory Agreement is required by federal tax law to be recorded in a first lien position.

NOW THEREFORE, in consideration of parties' agreements to make the loans referenced herein, and in consideration of the Commission's agreement to issue the Bond on behalf of the Borrower, and subject to the terms and conditions set forth below, the Government, the State and Lender hereby agree as follows:

(a) Regardless of the time each party's interest in the Real Property was or shall be created or recorded, such interests have and shall have the following priorities:

- (i) Regulatory Agreement;
- (ii) State Covenant;
- (iii) Bank Deed of Trust;
- (iv) Existing Government Deed of Trust; and
- (v) Government Covenant.

(b) The Government and Lender agree to and do subordinate each of their respective security instruments to the liens of the Regulatory Agreement and State Covenant.

(c) The Government (i) consents to the Borrower obtaining the Bank Loan from the Lender for the above-described purposes, and (ii) agrees to and does subordinate in favor of the Lender and its successors and assigns its liens and security interests created or evidenced by the above-described instruments insofar as such security instrument is secured by the following-described property ("Property") that will secure the Bank Loan, provided the Lender perfects a lien on that Property: The legal description of the Real Property is set forth on Exhibit A attached hereto and incorporated herein by this reference, together with all improvements, fixtures and tangible personal property now or hereafter located on the Real Property, all intangible personal property now or hereafter used or acquired in connection with the ownership, development, operation or maintenance of the Real Property and improvements, and all of the present and future rents, revenues, issues, accounts, profits and income of the Real Property and improvements. This subordination is limited to (i) the amount actually loaned by the Lender to the Borrower (principal and accrued interest,

including default interest, if applicable, at a rate of five percent (5%) above the note rate) for the foregoing purposes, (ii) future advances for taxes, assessments, insurance, cost of maintenance and repairs to the Property necessary for the operation of the Property as a Rural Housing Service Multifamily Project and completed in accordance with applicable Government regulations; and payments on liens prior to the Lender's lien, and (iii) the amount actually advanced for costs and fees incurred by Lender in connection with realizing on the collateral for the Bank Loan, including, without limitation, legal fees and disbursements, foreclosure costs, title charges, appraisal fees, environmental assessment fees, and expenses incurred in any bankruptcy, reorganization, liquidation, receivership or similar proceedings.

Any amount in excess of such amount will not be covered by this subordination unless prior written consent was obtained from the Government for incurring the expenditure in question.

(d) The Lender must incorporate into the Borrower's Promissory Note a statement that the Loan will be in default should any proceeds of the Loan funds obtained as a result of this subordination be used (i) for a purpose that will contribute the excessive erosion of highly erodible land or to the conversion of wetlands to produce an agricultural commodity, provided by Exhibit M of Subpart G of Part 1940 Title 7, Code of Federal Regulations, or (ii) for any purpose not provided for above.

(e) The parties further agree as follows:

(i) The Lender will not declare the Bank Loan to be in default and the Bank Loan will not be accelerated unless at least 30 days' prior written notice has been provided to the Government.

(ii) The Lender agrees that the Government may, at its option, cure any monetary default by the Borrower by paying the amount of the Borrower's delinquent payments to the Lender within 30 days after written notice has been provided to the Government.

If the Government obtains title to the Real Property which secured the Bank Loan, whether by foreclosure or deed in lieu of foreclosure, the Government, subject to the Lender's lien, notwithstanding any prohibition if any of the Lender's security instruments to the contrary, may transfer the Real Property only with the consent of the Lender provided that Lender shall not unreasonably withhold its consent to a transferee meeting the Government's rural housing program requirements and such transferee is a 501(c)(3) entity.

(iii) Any notice to be given by either party to the other shall be delivered in person or deposited in the United States mail, duly certified, with postage prepaid, and addressed to the party for whom intended.

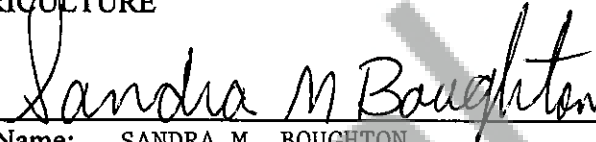
(iv) Each of the terms, covenants and conditions of this subordination shall extend to and be binding on the assigns of each party to this Agreement.

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IN WITNESS WHEREOF, the parties hereto have executed this Priority and Subordination Agreement on this 16th day of November, 2004.

UNITED STATES OF AMERICA, acting through
the RURAL HOUSING SERVICE OF THE
UNITED STATES DEPARTMENT OF
AGRICULTURE

By 
Name: SANDRA M. BOUGHTON
AS Acting State Director

U.S. BANK NATIONAL ASSOCIATION

By 
Darrell McKissic, Vice President

MERCY PROPERTIES WASHINGTON I LLC, a
Washington limited liability company

By: Mercy Properties Washington II, a Washington
nonprofit corporation, its sole member

By 
Patricia O'Roark, Executive Vice President

STATE OF WASHINGTON DEPARTMENT OF
COMMUNITY, TRADE AND ECONOMIC
DEVELOPMENT, OFFICE OF COMMUNITY
DEVELOPMENT

By _____
Name: _____
Title: _____

IN WITNESS WHEREOF, the parties hereto have executed this Priority and Subordination Agreement on this _____ day of November, 2004.

UNITED STATES OF AMERICA, acting through
the RURAL HOUSING SERVICE OF THE
UNITED STATES DEPARTMENT OF
AGRICULTURE

By _____
Name: _____
Acting State Director

U.S. BANK NATIONAL ASSOCIATION

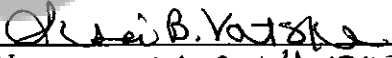
By  _____
Darrell McKissic, Vice President

MERCY PROPERTIES WASHINGTON I LLC, a
Washington limited liability company

By: Mercy Properties Washington II, a Washington
nonprofit corporation, its sole member

By _____
Patricia O'Roark, Executive Vice President

STATE OF WASHINGTON DEPARTMENT OF
COMMUNITY, TRADE AND ECONOMIC
DEVELOPMENT, OFFICE OF COMMUNITY
DEVELOPMENT

By  _____
Name: LISA B. VATSKE
Title: CRAM, Managing Director

WASHINGTON STATE HOUSING FINANCE
COMMISSION

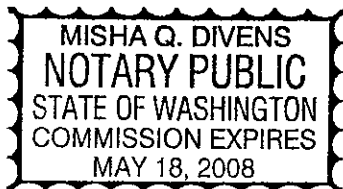
By Paul Edwards
Name: PAUL EDWARDS
Title: DEPUTY DIRECTOR

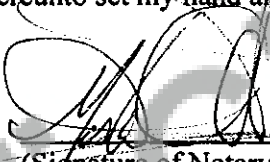
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STATE OF WASHINGTON)
) ss.
COUNTY OF THURSTON)

On this 16th day of November, 2004, before me, the undersigned, a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared Sandra M. Boughton, to me known to be Acting State Director, UNITED STATES OF AMERICA, acting through the RURAL HOUSING SERVICE OF THE UNITED STATES DEPARTMENT OF AGRICULTURE, and the person(s) described in and who executed the foregoing Priority and Subordination Agreement, and acknowledged she executed the same as her free act and deed.

IN WITNESS WHEREOF I have hereunto set my hand and official seal the day and year first above written.




(Signature of Notary)

MISHA Q. DIVENS
(Print or stamp name of Notary)

NOTARY PUBLIC in and for the State
of Washington, residing at Olympia.
My appointment expires: May 18, 2008.

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

On this 14th day of November, 2004, before me, the undersigned, a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared Darrell McKissic, to me known to be the person who signed as a Vice President of U.S. BANK NATIONAL ASSOCIATION, the national banking association that executed the within and foregoing instrument, and acknowledged said instrument to be the free and voluntary act and deed of said national banking association for the uses and purposes therein mentioned, and on oath stated that he was duly elected, qualified and acting as said officer of the national banking association and that he was authorized to execute said instrument.

IN WITNESS WHEREOF I have hereunto set my hand and official seal the day and year first above written.



Kim K. Etherton
(Signature of Notary)

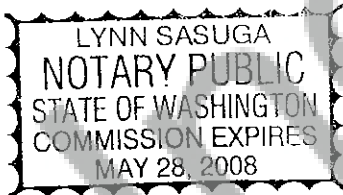
Kim K. Etherton
(Print or stamp name of Notary)

NOTARY PUBLIC in and for the State
of Washington, residing at Seattle
My appointment expires: 8-19-08

STATE OF WASHINGTON)
) ss.
COUNTY OF King)

On this 18th day of November, 2004, before me, the undersigned, a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared Patricia O'Roark, to me known to be the person who signed as ~~Executive~~ Vice President of Mercy Properties Washington II, the corporation acting as sole member of MERCY PROPERTIES WASHINGTON I LLC, the limited liability company that executed the within and foregoing instrument, and acknowledged said instrument to be the free and voluntary act and deed of Mercy Properties Washington II as sole member and of MERCY PROPERTIES WASHINGTON I LLC for the uses and purposes therein mentioned; and on oath stated that she was duly elected, qualified and acting as said officer of the corporation and that she was authorized to execute the said instrument on behalf of Mercy Properties Washington II and that the seal affixed, if any, is the corporate seal of the corporation, and that the corporation was authorized to execute said instrument on behalf of MERCY PROPERTIES WASHINGTON I LLC.

IN WITNESS WHEREOF I have hereunto set my hand and official seal the day and year first above written.



Lynn Sasuga
(Signature of Notary)

Lynn Sasuga
(Print or stamp name of Notary)

NOTARY PUBLIC in and for the State
of Washington, residing at Renton WA
My appointment expires: 5/28/08

STATE OF WASHINGTON)
) ss.
COUNTY OF Thurston)

On this 17th day of November, 2004, before me, the undersigned, a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared Lisa B. Vatske, to me known to be the person who signed as CCAM, Managing Director of the STATE OF WASHINGTON DEPARTMENT OF COMMUNITY, TRADE AND ECONOMIC DEVELOPMENT, OFFICE OF COMMUNITY DEVELOPMENT, the agency that executed the within and foregoing instrument, and acknowledged said instrument to be the free and voluntary act and deed of said corporation for the uses and purposes therein mentioned, and on oath stated that she was duly elected, qualified and acting as said officer of the corporation, that she was authorized to execute said instrument and that the seal affixed, if any, is the corporate seal of said agency.

IN WITNESS WHEREOF I have hereunto set my hand and official seal the day and year first above written.



Pamela L. Denham
(Signature of Notary)

Pamela L. Denham
(Print or stamp name of Notary)

NOTARY PUBLIC in and for the State
of Washington, residing at Olympia.
My appointment expires: 4-21-07.

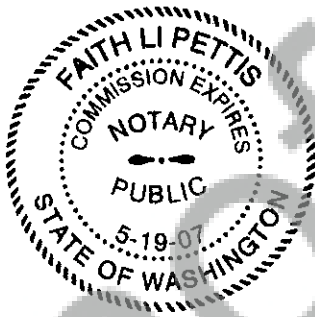
STATE OF WASHINGTON)
COUNTY OF King) ss.

On this 14 day of November, 2004, before me, the undersigned, a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared Paul Edwards, to me known to be Deputy Director, WASHINGTON STATE HOUSING FINANCE COMMISSION, and the person(s) described in and who executed the foregoing Priority and Subordination Agreement, and acknowledged he executed the same as his free act and deed.

IN WITNESS WHEREOF I have hereunto set my hand and official seal the day and year first above written.

[Signature]
(Signature of Notary)

Faith Li Pettis
(Print or stamp name of Notary)



NOTARY PUBLIC in and for the State
of Washington, residing at Seattle
My appointment expires: May 19, 2007

EXHIBIT "A"
LEGAL DESCRIPTION

PARCEL I

Lots 1, 2, 3, 4, 5, 6 and 11 of MEAGHERS ADDITION TO STEVENSON, according to the Plat thereof, on file and of record at Page 120 of Book 'A' of Plats, records of Skamania County, State of Washington.

PARCEL II

Commencing at a point 289.7 feet West of the South Quarter corner of Section 36, Township 3 North, Range 7 East of the Willamette Meridian, thence North 05°30' West 505.4 feet to the Point of Beginning; thence South 74° East 241 feet; thence North 11°19' West 228 feet; thence West 200.1 feet; thence South 05°30' East to the Point of Beginning.

EXCEPT that portion thereof conveyed to Joe Garcia by instrument dated July 16, 1948 and recorded July 20, 1948 at Page 102 of Book 32 of Deeds, Auditor File No. 38164, records of Skamania County, State of Washington.

PARCEL III

Beginning at the South Quarter corner of Section 36, Township 3 North, Range 7 East of the Willamette Meridian, in the County of Skamania, state of Washington; thence North 89°19'22" West along the South line of said Section 36, 289.70 feet; thence North 04°49'22" West 662.00 feet; thence South 88°11'28" East, 99.67 feet to a 5/8 inch iron rod as shown in a survey by Olson Engineering, dated April 1977, said point being the True Point of Beginning; thence South 02°56'42" East 181.84 feet to a 1/2 inch iron rod set by Olson Engineering in said Survey; thence North 00°40'38" East 181.25 feet to a 1/2 inch iron rod set by Olson Engineering in said Survey; thence North 88°11'28" West 11.49 feet to the True Point of Beginning.

PARCEL IV

Beginning at a point on the West line of the East Half of Section 36, Township 3 North, Range 7 East of the Willamette Meridian, 406.83 feet North 0°19'52" East of the Southwest corner of said East Half of Section 36; thence North 73°19'22" West 349.21 feet; thence North 4°49'22" West 156.60 feet; thence South 88°11'28" East 99.67 feet to the Southwest corner of Lot 6, Meagher's Addition; thence North 0°57'52" West 82.89 feet to the Northwest corner of said Lot 6; thence South 48°10'52" East 32.27 feet; thence South 89°33'39" East 273.33 feet to the Northeast corner of Lot 3, Meagher's Addition; thence South 1°07'25" West 324.89 feet to a point that bears South 73°19'22" East from the Point of Beginning; thence North 73°19'22" West 43.37 feet to the Point of Beginning.

Excepting therefrom the following:

- A. That portion conveyed to Bruce A. Isaacson, et ux, by instrument recorded in Book 181, Page 293.
- B. That portion conveyed to Cascade Village by instrument recorded in Book 80, Page 419.