

Pine Garden Apartments



Cascade
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Pine Garden Apartments

PROPERTY MANAGEMENT AGREEMENT

THIS PROPERTY MANAGEMENT AGREEMENT ("Agreement") is made effective as of the **1st day of October, 2014** by and between **Mason County Housing Authority**, ("Owner"), and **Cascade Management, Inc.**, an Oregon corporation ("Agent").

RECITALS

A. Owner owns certain real property located in Washington, as legally described on Exhibit A attached hereto and incorporated herein by this reference, together with all improvements, appurtenances, and equipment located thereon, including **28 rental units**. This agreement represents agreement number **356 and PGA** (identifying code) for the Agent.

B. Owner wishes to obtain the services of Agent in connection with the management of the Project, subject to the terms and provisions of this Agreement; and Agent wishes to perform such services in exchange for the management fee provided herein.

NOW, THEREFORE, in consideration of the covenants and agreements herein contained, the parties hereto mutually agree as follows:

ARTICLE I DEFINITIONS

1.1 As used in this Agreement:

- OCTOBER 1ST TO SEPTEMBER 30TH MO*
- (a) "**Fiscal Year**" shall mean ~~January 1st to December 31st~~ unless specifically provided to the contrary herein.
 - (b) "**Gross Collections**" shall mean all amounts actually collected by Agent, as rents or other payments, but excluding (i) income derived from interest or investments, (ii) discounts and dividends on insurance, and (iii) Tenant Deposits.
 - (c) "**Gross Rents**" shall mean Gross Collections plus any federal rental assistance paid to Owner with respect to the Project.
 - (d) "**Lease**" shall mean any rental agreement whereby Owner has agreed to let and Tenant has agreed to accept a Rental Unit in the Project identified in the Lease in accordance with the terms of the Lease. The form of Lease entered into by a Tenant must meet the requirements set forth in Section 4.3(d) and have attached thereto the form of lease rider described in Section 4.3(e).
 - (e) "**Operating Account**" shall mean an account in Agent's name for the benefit of Owner and designated of record in an account name identifying

the Project and approved in writing by Owner, at such financial institution as Owner may specify from time to time in writing.

- (f) **"Rent"** shall mean the monthly amount (excluding federal rental assistance payments) that a Tenant is obligated to pay Owner pursuant to the terms of a Lease.
- (g) **"Rental Unit"** shall mean one of the **28 dwelling units in the Project rented and to be rented to Tenants. The management unit may be rented to a qualified resident if not used by the manager.**
- (h) **"Tenant"** shall mean one or more persons occupying a Rental Unit pursuant to a Lease.
- (i) **"Tenant Deposit"** shall mean any security deposit, cleaning deposit, prepaid rent deposit, or other sum advanced by a Tenant under terms that may require repayment by Owner or application against a future liability of such Tenant.
- (j) **"100% Lease-up"** shall mean that all Rental Units have been leased to income certified tenants and that leases have been completed and executed on or before a date to be agreed upon by the Owner and the Agent and specified in the Property Management Plan as set forth in Exhibit F.

ARTICLE 2 APPOINTMENT AND ACCEPTANCE

Owner hereby appoints Agent to manage, operate, maintain, and otherwise be responsible for renting the Rental Units in the Project, and Agent hereby accepts the appointment, subject to the terms and conditions set forth in this Agreement.

ARTICLE 3 TERM

THIS AGREEMENT ("Agreement") shall become effective on **October 1, 2014** and shall continue in full force and effect for one (3) years, at which time the term of the Agreement shall be subject to annual renewal until terminated by either party in accordance with Article 10. Notwithstanding the foregoing, either party may, not earlier than 60 days nor later than 30 days prior to any renewal date, provide written notice of any proposed amendments or modifications to the Agreement, and the parties agree to negotiate in good faith the terms of any such amendment(s). In the event the parties cannot mutually agree on acceptable terms, the Agreement shall terminate. In the event the parties fail to provide notice of any proposed amendments to this Agreement within the period specified before the renewal date, the then-existing terms of the Agreement shall remain in full force and effect for the next one-year renewal period unless the Agreement is otherwise terminated in accordance with Article 10.

ARTICLE 4 SERVICES OF AGENT

4.1 Standard of Conduct. Agent represents that it is experienced in professional management of property of the character and nature similar to the Project that it is legally authorized to manage such property in the state of Washington, and Agent agrees to manage the Project in accordance with the highest professional standards for such property.

(a) Identity of Interest. The agent discloses to the Owner any and all identities of interest that exist or will exist between the Agent and the Owner, suppliers of material and/or services, or vendors in any combination of relationship. A certification by memorandum of such disclosure is attached hereto as Exhibit D and made part of this agreement.

4.2 Plans and Specifications. As soon as practicable, but not later than final completion of the rehabilitation or construction of the Project or any phase thereof, Owner shall furnish Agent with a complete set of general plans and specifications for the Project and copies of all guaranties and warranties pertinent to construction and fixtures and equipment of the Project. With the aid of this information and inspection by competent personnel, Agent shall thoroughly familiarize itself with the character, construction, layout, and plans of the Project, including the electrical, heating, plumbing, and ventilating systems and all other mechanical equipment in the Project.

4.3 Rentals. Agent shall offer for rent and shall rent the Units in the Project in accordance with all Requirements (as defined below), a rent schedule, including required deposit amounts and conditions, approved in writing by Owner, and the leasing guidelines ("Leasing Guidelines") attached hereto as Exhibit B and incorporated herein by this reference. Pursuant to its rental responsibilities, Agent shall:

(a) Show Rental Units in the Project to all prospective Tenants.

(b) Take and process applications and application fees for rentals, including interviewing and screening prospective Tenants to determine if they meet the Leasing Guidelines. If an application is rejected, the applicant shall be advised of the reason for rejection in writing. The rejected application, together with the written notice of the rejection and any other related correspondence, shall be kept on file for three years following the rejection.

(c) Comply with HUD requirements. This project is subject to a Section 8 contract administered by HUD under Section 8 of the National Housing Act, and the Owner has or will accordingly enter into a Regulatory Agreement with the Secretary, whereby the Owner is obligated to provide for Management of the Project in a manner satisfactory to the Secretary. Owner has or will furnish the Agent with copies of the Regulatory Agreement and the Contract(s) subject to any and all Section 8 Project Based Rent Contracts. In performing its duties under the Management Agreement, the Agent will comply with all pertinent requirements of the Regulatory Agreement, and the directives of the Secretary. In the event of any instruction from the Owner, which is in contravention of such requirements, the latter will prevail.

(d) The Agent will support resident service programs in the project. The Agent will be informed as required by the Owner of the specifics of any such programs, and orientated in how best to cooperate and support. The Agent will further encourage and assist

residents of the Project in forming and maintaining representative organizations to promote their common interests, and will maintain good-faith communication with such organizations to the end that problems affecting the Project and its residents may be avoided or solved on the basis of mutual self-interest.

(e) Comply with the Leasing Guidelines and use for each lease a form of Lease that complies in all respects with Washington and local residential tenant/landlord laws, which Lease shall be subject to the approval of Owner and shall be consistent with HUD Requirements. Agent shall submit to Owner a letter from an attorney authorized to practice law in the state of Washington. The letter will state that the attorney has reviewed the lease and find that it complies in all respects with Washington and local residential/tenant laws.

(f) [reserved]

(g) Certify or re-certify Tenants covered by any Housing Assistance Payments Contract that may be applicable to the Project with respect to U.S. Department of Housing and Urban Development ("HUD") Section 8 rental assistance subsidies or housing vouchers, by obtaining third party verification(s) of Tenant income and following procedures established by HUD and as implemented by the applicable Washington authority.

(h) Execute all Leases in Agent's name, identified thereon as agent for Owner, subject to prior written approval by Owner of any deviation from Owner's approved rent schedule, Lease forms and Leasing Guidelines.

(i) [reserved]

(j) Collect, deposit, and disburse Tenant Deposits, if required, in accordance with the terms of each Lease and Section 8.2 hereof.

(k) Maintain a current list of acceptable prospective Tenants and undertake all arrangements necessary and incidental to the acceptance of rental applications and the execution of Leases. This includes maintaining and complying with wait list procedures established by Home Forward/HUD for project based Section 8 units and any other programmed units. Agent shall exercise its best efforts (including, but not limited to, placement of advertising, interview of prospective Tenants, assistance and counseling in completion of rental applications and execution of Leases, processing of documents and credit and employment verifications, and explanation of the program and operations of Owner) to effect the leasing of Rental Units, renewal of Leases, and, in accordance with the terms of each Lease and the Requirements, subleasing of Rental Units in the Project, so that the Project is occupied as fully as possible.

(l) Perform such other acts and deed requested by Owner as are reasonable, necessary and proper in the discharge of Agent's duties under this Agreement.

(m) Prorate the first month's Rent collected from a Tenant should the Lease term commence on any other day than the first day of the month. If the Lease term occurs after the 20th day of the month, the prorated amount, plus the next month's rent, shall be collected on or before the first day of the Lease term.

(n) Participate with the Tenant in the inspection of each Rental Unit identified in the Lease prior to move-in and upon move-out, and record in writing any damage to the Rental Unit at the time the Tenant moved in and any damage occurring during the Tenant's occupancy.

4.4 Qualified Rental Use:

HUD Requirements. In furtherance of Owner's business purposes, Agent shall lease Rental Units in the Project only to individuals or families who, at a minimum, qualify under the guidelines established by the Secretary of HUD as "low or moderate income families."

4.5 Collection of Rents and Other Receipts. Agent shall collect, when due, all Rents, charges and other amounts receivable on Owner's account in connection with the management and operation of the Project. Such receipts shall not be commingled with other funds and shall be deposited and held in the Operating Account in accordance with the provisions of Section 8.1.

4.6 Enforcement of Leases. Agent shall secure full compliance by each Tenant with the terms of such Tenant's Lease. Voluntary compliance will be emphasized, and Agent shall counsel Tenants and make referrals to community agencies in cases of financial hardship or under other circumstances deemed appropriate by Agent, to the end that involuntary termination of tenancies may be avoided to the maximum extent consistent with sound management of the Project. Nevertheless, Agent may, and shall if requested by Owner, lawfully terminate any tenancy when, in Agent's judgment, sufficient cause for such termination occurs under the terms of Tenant's Lease, including, but not limited to, nonpayment of Rent. For this purpose, Agent is authorized to consult with legal counsel to be designated by Owner and bring actions for eviction and execute notices to vacate and judicial pleadings incident to such actions; provided, however, that Agent shall keep Owner informed of such actions and shall follow such instructions as Owner may prescribe for the conduct of any such action. Reasonable attorney fees and other necessary costs incurred in connection with such actions, as determined by Owner, shall be paid out of the Operating Account. Agent shall properly assess and collect from each Tenant or the Tenant Deposit the cost of repairing any damages to a Rental Unit arising during the Tenant's occupancy.

4.7 Maintenance and Repairs. Agent shall, at Owner's expense, maintain the Project in a decent, safe, and sanitary condition and in a rentable state of repair, all in accordance with the Project rules and regulations and state and local law, and Agent shall otherwise maintain the Project at all times in a condition acceptable to Owner, including but not limited to cleaning, painting, decorating, plumbing, carpentry, grounds care, and such other maintenance and repair work as may be necessary. Incident thereto, the following provisions shall apply:

(a) Special attention shall be given to preventive maintenance.

(b) Subject to Owner's prior written approval, Agent shall contract with qualified independent contractors for the maintenance and repair of major mechanical systems, and for the performance of extraordinary repairs beyond the capability of regular maintenance

personnel. Agent shall obtain prior to commencement of any work appropriate written evidence of such contractor's liability and worker's compensation insurance.

(c) Agent shall systematically and promptly receive and investigate all service requests from Tenants, take such action thereon as may be justified, and keep records of the same. Emergency requests shall be serviced on a 24-hour basis. Complaints of a serious nature shall be reported to Owner after investigation. At Owner's request, Owner shall receive all service requests and the reports of action thereon.

(d) Agent shall take such action as may be necessary to comply with any and all orders and requirements of federal, state, county, and municipal authorities having jurisdiction over the Project and orders of any board of fire underwriters, insurance companies, and other similar bodies pertaining to the Project.

(e) Except as otherwise provided in this Section, Agent is authorized to purchase, at Owner's expense, all materials, equipment, tools, appliances, supplies and services necessary for proper maintenance and repair of the Project. Agent shall obtain bids for all contracts, materials, supplies, utilities, and services exceeding \$1,000 for those items that can be obtained from more than one source. Agent shall secure and credit to Owner all discounts, rebates, or commissions obtainable with respect to purchase, service contracts, and all other transactions on owner's behalf.

(f) The prior written approval of Owner will be required for any contract that exceeds one year in duration, or expenditure that exceeds budget line item or \$1,000 in any one instance for labor, materials, or otherwise in connection with the maintenance and repair of the Project, except for emergency repairs involving manifest danger to persons or property, or required to avoid suspension of any necessary service to the Project. In the event of emergency repairs, Agent shall notify Owner of the facts promptly, and in no event later than 72 hours from the occurrence of the event.

4.8 Utilities and Services. Agent shall make arrangements for water, electricity, gas, fuel, oil, sewage, and trash disposal, vermin extermination, decoration of common areas, laundry facilities, telephone services, and other necessary services in connection with the Project. Subject to Owner's prior written consent as required in Section 4.7, Agent shall make such contracts as may be necessary to secure such utilities and services, including the data connection for the manager's office and securing the Minol contract for sub metering and billing services for water and sewer utilities.

4.9 Personnel. All on-site personnel shall be contracted service providers or employees of Agent, who are subject to the approval of Owner, and shall be paid by Agent out of operations as agreed to in the annual budget. The Owner will reimburse the Agent for compensation (including fringe benefits) payable to the authorized employees, and for all local, state, and Federal taxes and assessments (including but not limited to Social Security taxes, unemployment insurance, and workman's compensation insurance) plus three percent (3%) for the Agent's cost of payroll production incident to the employment of such personnel. Such reimbursements will be paid out of the Rental Agency Account and will be treated as Project expenses. The Agent will withhold, report, and deposit from the employee's gross earnings, State and Federal Taxes, FICA, and other employee withholdings as required by law. The rental value of any dwelling unit furnished rent-free to the Project Manager will be treated as a cost to

the Project. If a dwelling unit is provided for the on-site manager, Agent will not collect a 3% payroll fee on the value of the unit.

4.10 Operating Account. Disbursements from the Operating Account shall be made in accordance with the operating budget prepared pursuant to Section 4.11. In the event that the balance in the Operating Account is at any time insufficient to pay disbursements due and payable under this Section 4.10, Agent shall promptly inform Owner of the fact and Owner may then remit to Agent sufficient funds to cover the deficiency. In no event shall Agent be required to use its own funds to pay such disbursements or be liable for any losses, costs, or damages arising out of Owner's failure to cover the deficiency. Deposits and distributions from this account can be made with paper check or electronic transfer (ACH transfer).

4.11 Operating Budget. Agent shall prepare a recommended annual operating budget and projected rental rates for the Project for each Fiscal Year during the term of this Agreement, and shall submit the same to Owner at least 90 days before the beginning of such Fiscal Year. The annual operating budget shall include a schedule of recommended rents to be charged for each Rental Unit, including recommended Rent increases with respect to Lease renewals and new Leases. In preparing each proposed annual operating budget, Agent shall use its best efforts to take into account anticipated increases in real estate taxes, utility charges, and other operating costs. To the extent feasible, Agent shall support anticipated increases in real estate taxes and utility charges with written evidence or documentation. Proposed annual operating budgets for the Project shall be subject to approval by Owner. Owner shall inform Agent of any changes incorporated in the approved operating budget and Agent shall make no expenditures in excess of the amounts set forth in such approved operating budget, for each line item of operation expense itemized, without the prior written approval of Owner, except as permitted pursuant to Section 4.7 hereof for emergency repairs involving manifest danger to persons or property, or required to avoid suspension of any necessary services to the Project. The initial year's approved operating budget and rent schedule is attached hereto as Exhibit I.

4.12 Escrow and Tax Payments. Agent shall make monthly escrow payments required under the Project's Mortgage Loans for the purpose of funding insurance, tax, and such other reserve or escrow accounts from funds collected in accordance with the Owner requirements. Agent shall promptly present tax bills and insurance premium notices to the escrow agent for payment and shall furnish Owner with evidence of timely payment of such taxes and insurance premiums, and of timely payment of Mortgage and escrow payments.

4.13 Licenses and Permits. Agent shall acquire and keep in force at Owner's expense all licenses and permits required for the operation of the Project as rental housing

4.14 Records and Reports. In addition to any requirements specified in this Agreement, Agent shall have the following responsibilities with respect to records and reports:

(a) Reports with respect to the Property will be prepared and maintained in accordance with the ownership requirements.

(b) Agent shall establish and maintain a system of records, books, and accounts in a manner satisfactory to Owner. All records, books, and accounts shall be subject

to examination at reasonable hours upon reasonable notice by any authorized representative of Owner.

(c) Agent shall prepare reports with respect to the Project satisfactory to Owner, and any other reports that are necessary to conform to the Ownership Reporting Requirements and are consistent with Agent's duties hereunder, containing and including at least the following:

- (i) Income statement, monthly budgeted and actual income and expense
- (ii) Balance Sheet
- (iii) Tenant Account Receivable
- (iv) Accounts Payable Aged Invoice Report
- (v) Schedule of Prepaid Tenant Rent
- (vi) Check History Report
- (vii) General Ledger Detail Report
- (viii) Rent Journal
- (ix) Rent roll/Cash Receipts
- (x) General Ledger Trial Balance
- (xi) Trust Account Reconciliation-Operating Reserve & Tenant Deposit
- (xii) Security Deposit Journal
- (xiii) all reports outlined in Section 4.15. of this document, and
- (xiv) a narrative of any unusual actions taken or emergencies responded to, and
- (xv) a full report of any accidents, claims, and potential claims for the previous month, and
- (xvi) any other information required by the Requirements

Agent shall submit each such report to Owner on or before the **25th day of each month** and shall send all reports that are required to be sent to Washington Department of Commerce; Washington Housing Finance Commission and to any Lenders to Owner for Owner's prior approval, which approval shall not be unreasonably withheld or delayed; provided, however, that Owner shall have two weeks to review such reports prior to submission to any Lender.

(d) Agent shall prepare, execute, and file all forms, reports, and returns required by law in connection with the employment of personnel, unemployment insurance, workers' compensation insurance, disability benefits, social security, and other similar insurance, and all other benefits or taxes now in effect or hereafter imposed.

(e) All bookkeeping, data processing services, and management overhead expenses shall be paid for by Agent.

(f) Agent shall promptly furnish such additional information (including monthly occupancy reports, Partnership balance sheets, and tenant (HUD) eligibility reports) as may be requested from time to time by the Owner with respect to the leasing and financial, physical, or operational condition of the Project.

(g) Agent shall establish Tenant files containing copies of Leases, certification forms, notices, and other documentation required by Owner as necessary to conform to the Requirements.

4.15 Supporting Documentation. As additional support to the monthly financial statement required pursuant to Section 4.14(b) above, Agent shall provide, upon Owner's request, copies of the following:

- (a) All bank statements, bank deposit slips, and bank reconciliations;
- (b) Detailed cash receipts and disbursements records;
- (c) Detailed trial balance;
- (d) Paid invoices; and
- (e) Summaries of adjusting journal entries;
- (f) Tenant eligibility reports.

4.16 Tenant-Management Relations. Agent shall encourage and assist Tenants of the Project to participate in activities to promote the Tenants' common interests and to increase their ability and incentive to protect and maintain the Project and to contribute to its efficient management.

4.17 Owner Communications. Agent shall be available for communications with Owner and shall keep Owner advised of items materially affecting the Project. Agent agrees to cause a representative of Agent to attend meetings with owner at any times reasonable requested by Owner.

4.18 Management Plan

(a) Description. Attached as Exhibit F is a copy of the Management Plan for Project, which provides a comprehensive and detailed description of the policies and procedures to be followed in the management of the Project, including but not limited to the provision of a 100% lease-up deadline for the initial year, a marketing plan for initial year lease-up, and weekly status reports to Owner until 100% lease-up is achieved.

(b) Relationship with Management Plan. The Agent shall conduct his management activities in accordance with the policies and procedures set forth in the Management Plan. In addition, the Agent will also carry out the tasks and responsibilities set forth in this agreement.

(c) Division of duties and common expense. An identification of duties and supervisory relationship for Project site staff and Agent's office staff are described in the Management Plan as is the pro rata division of singularly incurred operating expense common to the Agent and Owner.

ARTICLE 5 MANAGEMENT AUTHORITY

5.1 Authority. Agent's authority is expressly limited to the provisions contained herein, as they may be amended in writing from time to time in accordance with the provisions

of this Agreement. Owner expressly withholds from Agent any power or authority to make any structural change in the Project or to make any other major alterations or additions in or to the Project or fixtures or equipment therein, or to incur any expense chargeable to Owner other than expenses related to exercising the express powers granted to Agent by the terms of this Agreement, without the prior written consent of Owner.

5.2 Delegation of Duties. Agent shall have the right to engage independent contractors for performance of such of its duties hereunder as Agent deems necessary, but Agent shall have the responsibility for supervision of the performance of such duties. All contracts with independent contractors shall be subject to the prior written consent of Owner. Expenses associated with such delegation of Agent's duties shall be solely the responsibility of Agent and payable solely out of the management fee set forth in Article 9.

5.3 Compliance with Law. Agent shall comply fully with all federal, state, county, municipal and special district laws, ordinances, rules, regulations, and orders relative to the leasing, use, operation, repair, and maintenance of the Project. Agent shall promptly remedy any violation of any such law, ordinance, rule, or regulation which comes to its attention and shall notify Owner by the end of the next business day after Agent becomes aware of any violation for which Owner may be subject to penalty.

5.4 Nondiscrimination. In the performance of its obligations under this agreement, the Agent will comply with the provisions of any Federal, State, or local Fair Housing laws prohibiting discrimination in housing on the grounds of race, color, religion, sex, familial status, National origin, or handicap. Other nondiscrimination provisions include Title VI of the Civil Rights Act of 1964 (Public law 88-352, 78 Stat. 341), Section 504 of the Rehabilitation Act of 1973, and the Age Discrimination Act of 1975.

ARTICLE 6 INSURANCE AND INDEMNIFICATION

6.1 Liability of Agent Except as expressly provided to the contrary herein, the obligations and duties of Agent under this Agreement shall be performed as agent of Owner, but Agent shall be personally liable for its breaches of this Agreement and for damages and costs (including reasonable attorney fees) resulting from Agent's negligence or misconduct. Agent's liability shall extend to penalties incurred by Owner pursuant to Agent's negligence or misconduct in conjunction with its duties under Sections 4.3(b), 4.3(c), and 4.3(g). All expenses incurred by Agent in accordance with its obligations and duties under this Agreement and consistent with Owner's approved operating budget, except those due to its breaches of this Agreement or negligence or misconduct and those expressly specified as Agent's expenses herein, shall be for the account of and on behalf of Owner.

6.2 Insurance. Adequate insurance must be kept in force at all times.

The Owner provides adequate liability and property insurance for the property.

Agent shall obtain and keep in force such forms and amounts of insurance as necessary under the Project Requirements, with insurance companies satisfactory to Owner. Such insurance shall include, but is not limited to, insurance against physical damage (e.g., fire and extended coverage endorsement, boiler and machinery, etc.) and against liability for loss

(including loss of income due to business interruption), damage, or injury to property or persons which might arise out of the occupancy, management, operation or maintenance of any part of the Project.

(a) Agent shall be named as an additional insured while acting as real estate manager for Owner in all liability insurance maintained with respect to the Project. Agent is not required to purchase property insurance on Agent's own behalf and expense, therefore Owner agrees not to subrogate property damage claims to Agent. All property and liability insurance specific to the property location will be to the expense of the Owner.

(b) Owner will provide a list of names and addresses of all Certificate Holders, Additional Insured(s), Mortgagee(s) and Loss Payees to be listed on the policy.

(c) The Agent with the Owner's written consent may provide property (Fire and Extended Coverage) insurance by means of naming the project and its Owner as a named insured on a Master Insurance Policy used by the Agent to cover multiple properties of different ownership. Said master policy's benefits will meet or exceed all Project insurance Requirements. The cost of the Master policy coverage must be less than comparable insurance the Owner might obtain on his own account. The Agent shall charge only the actual cost of insuring the Owner project, without additional charges for processing. The premium cost shall be paid out of the Projects Accounts and premiums will be treated as operating expenses.

(d) Agent shall investigate and promptly furnish to Owner full written reports of all accidents, claims, and potential claims for damages relating to the Project, and shall cooperate fully with Owner's insurers, regardless of whether the insurance was arranged by Agent or others. Agent shall provide a copy of such insurance policies to Owner and, to the extent required under the Project Agreements, to the Lenders.

6.3 Cooperation. Agent shall furnish whatever readily available information is requested by Owner for the purpose of obtaining insurance coverage, and shall aid and cooperate in every reasonable way with respect to such insurance and any loss thereunder.

6.4 Agent's Insurance. At all times during the term of this Agreement, Agent shall maintain insurance in full force and effect, with a responsible insurance company reasonably satisfactory to Owner and to Owner's Lenders, and shall furnish Owner with a certificate of insurance evidencing workers' compensation insurance, in such amounts as may be required by law from time to time. Such certificate shall have attached thereto endorsements that Owner shall be given at least 30 days' prior written notice of cancellation of or any material change in policy. Manager, at its own cost and expense, shall procure and maintain insurance against the misfeasance, malfeasance, or nonfeasance (errors and omissions) of Manager relating to the management and operation of the Property, with coverage of not less than One Million Dollars (\$1,000,000) per occurrence, covering all officers, agents, and employees of Manager. Tenant Discrimination Insurance shall be included as part of this coverage and the Owner shall be named as additional insured through the full term and subsequent terms of this agreement. The errors and omissions insurance shall protect the assets of Owner against losses from the negligent acts, errors, and omissions of such persons.

6.5 Subcontractor's Insurance. Agent shall require that all subcontractors working on the Project maintain, at the subcontractor's expense, workers' compensation insurance, in such

amounts as may be required by law from time to time. Agent shall be notified promptly in the event Owner waives any of the requirements in this Section 6.5.

6.6 Fidelity Coverage. The Agent agrees to furnish, at its own expense, fidelity coverage to the Owner. Agent's coverage shall not be required to be a cumulative of more than \$250,000 at any one time. The Owner will be named as additional loss payee or co-obligee. The fidelity bond or employee dishonesty insurance must cover all principals of the management entity, and all persons who participate directly or indirectly in the management and maintenance of the project and its assets, accounts, and records, including supervisory and front-line staff.

6.7 Indemnification. Owner shall indemnify and hold harmless Manager and Manager's respective officers, directors, shareholders, agents, employees, parents, subsidiaries and affiliates (collectively, "Manager Indemnitees"), and defend the Manager Indemnitees with counsel reasonably satisfactory to Manager, against any and all liabilities, claims, causes of action, losses, demands, judgments, settlements and costs and expenses (including reasonable attorneys' fees and court costs) ("Claims") arising out of or in connection with (a) the ownership, maintenance or operation of the Property (including claims made by vendors or suppliers to the Property), or the performance by Manager of its responsibilities under this Agreement or acting under the express or implied directions of Owner, or Manager's status as the property manager for the Project; (b) the Property's condition or use being in violation of any applicable federal, state or local law or regulation; (c) any errors, actions or inactions taken by Owner and/or Owner's agents, contractors, tenants or invitees (other than Manager); and (d) any debts, liabilities or payments of Owner or the Project; except that this indemnity shall not apply to any of matters for which Manager is responsible under an indemnity specifically undertaken by Manager in this Agreement. Owner's responsibility shall specifically extend to hazardous materials, toxic wastes and similar substances, as well as insects, microorganisms and other substances that could cause property damage or pose a threat to human health, and to costs incurred in connection with any investigation of site conditions or remediation, removal or restoration work because of the presence of any of the same.

Manager shall indemnify and hold harmless Owner and defend Owner with counsel reasonably satisfactory to Owner, against any and all Claims to the extent arising out of Manager's gross negligence or willful misconduct.

A party seeking indemnification or defense under this Section shall give the party from whom it seeks indemnification prompt written notice of a claim; (b) shall permit the other party to conduct the defense and settlement of the claim as long as the indemnifying party confirms without reservation that the claim is within the indemnifying party's indemnification obligations; and (c) shall provide reasonable cooperation in the defense of the claim; provided that the indemnified party always shall have the right to participate in the defense of the claim with counsel of its own choosing and at its own expense. An indemnitor may not, without the indemnitee's prior written approval, settle any Claim against the indemnitee on terms that (i) provide for a criminal sanction, fine, or license suspension or revocation against the indemnitee; (ii) admit to liability on the part of the indemnitee; (iii) provide for injunctive relief against the indemnitee; or (iv) do not include appropriate confidentiality provisions.

All indemnitee parties are third-party beneficiaries of this Agreement to the extent of their indemnity, defense and similar rights under the related provision, and may enforce that provision directly against Owner or Manager and their insurers, as applicable.

The indemnity and defense obligations of the parties in this Agreement shall survive expiration or earlier termination of the Term of this Agreement.

ARTICLE 7 OWNER'S RIGHT TO AUDIT

7.1 Owner's Right to Audit. Owner reserves the right to conduct or to appoint others to conduct examinations, at Owner's expense, without notification, of the books and records maintained for Owner by Agent and to perform any and all additional audit tests relating to Agent's activities hereunder.

7.2 Correction of Discrepancies. Should Owner's employees or appointees discover either weaknesses in internal control or errors in record keeping, Agent shall correct such discrepancies either upon discovery or within a reasonable period of time. Agent shall inform Owner in writing of the action taken to correct such audit discrepancies.

ARTICLE 8 REMITTANCE OF FUNDS

8.1 Deposit of Funds into Operating Account. Agent shall deposit within 5 days of receipt all Rents, Gross Rents, Gross Collections and other funds collected from the operation of the Project, including any and all advance funds, in a bank account approved by Owner. Such account shall be in the name of the Agent for the benefit of Owner and designated of record as "**Mason County Housing Authority dba Pine Garden Apartments Property Management Operating Clients' Trust Account**".

8.2 Deposit of Funds into Tenant Deposit Account. Agent shall deposit within 5 days of receipt all Tenant Deposits in a separate bank account approved by Owner. Such account shall be in the name of the Agent for the benefit of Owner and designated of record as "**Mason County Housing Authority dba Pine Garden Apartments Security Deposit Clients' Trust Account**". The amount of each Tenant Deposit shall be held by Agent in an account, separate from all other accounts and funds. Agent shall maintain detailed records of all Tenant Deposits and such records shall be open for inspection by Owner's employees or appointees. Transfers from this account into the Operating Account for payment to the tenant can be made with paper check or electronic transfer (ACH transfer). Interest on Tenant Deposits shall be paid according to Washington law and shall be for the benefit of the Owner. Agent shall obtain Owner's written approval prior to the return of a Tenant Deposit to any particular Tenant when the amount of such return, in any single instance, exceeds \$250, and is not part of an ordinary refund of a Tenant Deposit to a Tenant upon a Tenant's vacating a Rental Unit in a voluntary move and leaving the Rental Unit in satisfactory condition.

8.3 Expenditures. Any disbursements made by Agent pursuant to this Agreement shall be made out of the Operating Account, except as otherwise designated as expenses of the Agent. Owner agrees to make necessary operating funds available to Agent. Agent shall not be obligated to make any advance to the Operating Account or to pay any amount except out of funds in the Operating Account, nor shall Agent be obligated to incur any extraordinary liability or obligation unless Owner shall furnish Agent with the necessary funds for the discharge thereof. If Agent shall voluntarily advance any amount of its own funds on behalf of Owner for the payment of any obligation or necessary expense connected with the maintenance or

operation of the Project or otherwise, Owner shall reimburse Agent therefore within a reasonable time after demand.

8.4 Notwithstanding any of the foregoing provisions or any similar provisions that follow, the prior written approval of the Owner will be required for any expenditure which exceeds \$1,000 in any one instance for litigation involving the project, or labor, materials, or otherwise in connection with the maintenance and repair of the Project (including withdrawals from the replacement reserve to fund maintenance and repair of the Project). This limitation is not applicable for recurring expenses within the limits of the operating budget or emergency repairs involving manifest danger to persons or property, or that are required to avoid suspension of any necessary service to the project. In the latter event, the Agent will inform the Owner of the facts as promptly as possible.

ARTICLE 9 COMPENSATION

Agent will be compensated for its services under this Agreement by monthly fees, to be paid out of the Operating Account and treated as Project expenses. Such fees will be payable on the first day of each month of the Agreement with respect to the services performed during the prior month. Such monthly fee will be a sum equal to **5.91% of the gross collections as calculated for the month throughout the term of this agreement.**

Additionally, the following shall be charged monthly to the Project:

- 1) **3% of monthly Payroll Cost for payroll service (per item 4.9)**
- 2) **Reimbursement for Business and Occupation Tax specific to the project when applicable.**

TERMINATION

10.1 Sale of Property. This Agreement shall be terminated automatically and immediately upon destruction, condemnation, sale, exchange, or other disposition (excluding any mortgage or refinancing) of the Project by Owner.

10.2 Other Termination. This Agreement may be terminated by Agent or Owner at any time, with or without cause, by giving 30 days' written notice of intent to terminate to Agent. If 30 day notice is given from Owner to Agent prior to 30 days from the expiration of the initial term or any subsequent term of this agreement, Owner agrees to pay agent management fees equal to the average monthly fee (as computed for all previous months) for one additional month following the termination date as liquidated damages. Agent may terminate this Agreement by giving 30 days' written notice if Owner does not make available sufficient funds to maintain the Project in compliance with applicable state and local laws. This Agreement will also terminate by mutual written consent of Agent and Owner or upon the occurrence of any of the following circumstances, which shall be considered a default:

(a) The filing of a voluntary petition of bankruptcy or insolvency or a petition for reorganization under any bankruptcy law by either Owner or Agent;

(b) The consent to an involuntary petition in bankruptcy or the failure by either Owner or Agent to vacate within 90 days from the date of entry of any order approving an involuntary petition;

(c) The entering of an order, judgment or decree by any court of competent jurisdiction, on the application of a creditor, adjudicating either Owner or Agent a bankrupt or insolvent or approving a petition seeking reorganization or appointing a receiver, trustee or liquidator of all or a substantial part of such party's assets, and such order, judgment, or decree shall continue unstayed and in effect for a period of 120 consecutive days; or

(d) The failure of Agent to perform, keep, or fulfill any of its duties hereunder or to comply with the covenants, undertakings, obligations, or conditions set forth in this Agreement, and the continuance of any such default for a period of 30 days after notice of such failure (except in the event of Agent's misconduct, in which case no notice shall be required).

Upon any such event of default, the non-defaulting party may, without prejudice to any other recourse at law that it may have, give to the defaulting party notice of its intention to terminate this Agreement and the term of this Agreement shall expire. Within five days after the termination of this Agreement, Agent shall close all accounts and pay the balances or assign all certificates of deposit regarding the Project to owner. Within ten days after the termination of this Agreement, Agent shall deliver to Owner all plans and surveys of the Project in its possession and all books and records, keys, reports, files, Leases, contracts, and all other written material and property concerning the Project. Within 30 days after the termination of this Agreement, Agent shall submit to Owner all reports required under Section 4.14 hereof to the date of such termination, and Agent and Owner shall account to each other with respect to all matters outstanding as of the date of termination. Upon Owner's request, Agent shall assign to Owner all contracts requested by Owner concerning the Project, to the extent permitted by such contracts, and shall cooperate (at no expense to Agent) with Owner in connection with the transition to a new manager.

10.3 Final Accounting. Upon termination of this Agreement for any reason, Agent shall deliver to Owner the following with respect to the Project, within the time frame required by Washington law:

(a) Any Tenant Deposits or other monies belonging to Owner held by Agent on Owner's behalf; and

(b) All records, contracts, Leases, receipts for deposits, unpaid bills, and other papers or documents relating to the Project.

ARTICLE 11 COOPERATION

If any claims, demands, suits, or other legal proceedings that arise out of any of the matters relating to this Agreement be made or instituted by any person against either Owner or Agent, Owner or Agent shall give to each other all pertinent information and reasonable assistance in the defense or other disposition thereof, at its sole expense.

ARTICLE 12 CONSENT

Whenever in this Agreement the consent or approval of Agent or Owner is required, such consent or approval shall not be unreasonably withheld or delayed. Such consent shall be in writing and shall be duly executed by an authorized officer or agent for the party granting such consent or approval; provided, however, notwithstanding anything in this Agreement to the contrary, if such consent or approval would be required for Agent to comply with the Requirements, Agent shall not be responsible for a failure to comply with the Requirements as a result of Owner's refusal or unreasonable delay to so consent or approve.

ARTICLE 13 NOTICES

All notices, demands, consents, and reports provided for in this Agreement shall be given in writing and shall be deemed received by the addressee on the third day after mailing if mailed by United States certified or registered mail, postage prepaid, or on the day delivered if personally delivered at the following addresses:

If to Owner:

Mason County Housing Authority
411 N. 5th Street
Shelton, WA 98584

If to Agent:

Cascade Management, Inc.
13221 SW 68th PKWY, # 310
Portland, Oregon 97223

The above addresses may be changed by the appropriate party giving written notice of such change to the other party.

ARTICLE 14 MISCELLANEOUS

14.1 Special Power of Attorney. Owner authorizes Agent as attorney-in-fact for Owner to enter into and execute Leases and rental agreements with respect to the Project on forms approved by Owner, to collect rents and other funds due Owner in Agent's name on Owner's behalf, and to establish and make deposits into and withdrawals from the Tenant Deposit Account and the Operating Account in accordance with the terms of this Agreement.

14.2 Amendments. This Agreement constitutes the entire Agreement between Agent and Owner, and no amendment, alteration, modification, or addition to this Agreement shall be valid or enforceable unless expressed in writing and signed by the parties hereto and unless such amendment, alteration, modification, or addition has been consented to in writing by the Limited Partner.

14.3 Headings. All headings herein are inserted only for convenience and ease of reference and are not to be considered in the construction or interpretation of any provisions of this Agreement.

14.4 Waiver. The waiver of any of the terms and conditions of this Agreement on any occasion or occasions shall not be deemed as waiver of such terms and conditions on any future occasion.

14.5 Illegality. If any provision of this Agreement shall prove to be illegal, invalid or unenforceable, the remainder of this Agreement shall not be affected thereby.

14.6 Relationship. Nothing contained in this Agreement shall be construed to create a relationship of employer and employee between Owner and Agent, it being the intent of the parties hereto that the relationship created hereby is that of an independent contractor. Nothing contained herein shall be deemed to constitute Owner and Agent as partners or joint ventures.

14.7 Governing Law. This Agreement shall be governed by and interpreted in accordance with the laws of the state of Washington.

14.8 Mediation. Owner and Agent agree to first seek voluntary mediation in the case of any dispute, claim or controversy between the parties concerning this agreement, including but not limited to interpretation, application, enforcement or validity. Mediation shall occur via community non-profit mediation services, or via other means mutually agreeable to both parties.

14.9 Arbitration. Any dispute, claim or controversy between the parties concerning this Agreement not first resolved in voluntary mediation, including but not limited to its interpretation, application, enforcement or validity, shall be arbitrated under the Commercial Arbitration Rules of the American Arbitration Association and U.S. Code Title 9; provided that the parties, by mutual agreement, may elect not to conduct the arbitration under the auspices of the American Arbitration Association. All claims will be subject to the statute of limitations that would be applicable if the claims were litigated.

One neutral arbitrator shall decide all issues unless either party's claim exceeds \$100,000, in which case three neutral arbitrators will decide all issues. The arbitrator(s) shall be authorized and entitled to grant any relief available at law or equity including, without limitation, including without limitation, incidental and consequential damages, and costs, including expert witness fees; provided that the arbitrator(s) may not award exemplary or punitive damages. The prevailing party shall be entitled to recover its reasonable attorney's fees and costs incurred (including the cost of the arbitrator(s)) in connection with the arbitration and/or any appeal thereof. All arbitration hearings shall be held in Portland, Oregon. The arbitrator shall be an attorney admitted to practice in Washington with at least 10 years experience with government housing programs for multifamily low-income housing similar to the government programs providing funding for the Project. Judgment on any arbitration award may be entered and enforcement of and relief granted may be sought in any court with jurisdiction.

Notwithstanding any other provision of this Agreement, the parties shall be entitled to seek equitable and provisional relief (including, without limitation, temporary restraining orders and preliminary and permanent injunctive relief) in a judicial proceeding before, during or after any arbitration proceeding or mediation.

14.10 Judicial Action and Venue. In the event that Owner or Agent shall take any action after and beyond arbitration, judicial or otherwise, concerning this agreement or any of its terms, including any suit, the venue and forum for the same shall be in Multnomah County, Oregon.

14.11 Execution of Counterparts. For the convenience of the parties, this Agreement may be executed in multiple counterparts, each of which shall constitute a complete original of this Agreement, which may be introduced in evidence or used for any other purpose without the production of any other counterparts.

14.12 Successors and Assigns. This Agreement shall inure to the benefit of and constitute a binding obligation upon Owner and Agent and their respective successors and assigns; provided, however, that Agent shall not assign this Agreement or any of its duties hereunder, without the prior written consent of Owner.

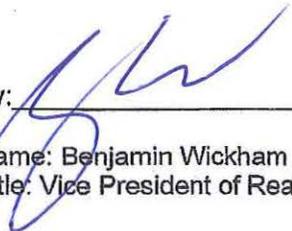
IN WITNESS WHEREOF, the parties have executed this agreement as of the date first above written.

AGENT

OWNER

Cascade Management, Inc.

Mason County Housing Authority

By:  09/29/14
Name: Benjamin Wickham
Title: Vice President of Real Estate Services

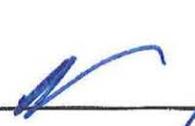
By:  / 09/25/2014
Name: Merrill Wallace
Title: Chair Person

Exhibit A
Legal Description

Exhibit B

LEASING GUIDELINES

A. Screening Process

1. Application. Each prospective Tenant must complete and sign a written application for lease, containing detailed personal information, previous residences and landlords for several years, information on employment, income, assets, and credit, proposed occupants (including ages) and pets, and references, and containing such other information and statements as will enable Agent to screen the prospective Tenant or as is otherwise proper and advisable for the management of the Project in accordance with professional standards. In conjunction with the Lease application for each Rental Unit which is intended to qualify for HUD Low Income Housing, each prospective Tenant must complete a Tenant income certification in a form approved by HUD.

2. Interview. Agent shall interview each proposed adult occupant of the Rental Unit to be leased in order to help determine the character of such persons.

3. Employment. In conjunction with the Lease application for each Rental Unit which is intended to qualify for HUD Housing, Agent shall verify the employment and income information given by the prospective Tenant, using a form of employer verification approved by Owner.

4. Credit. Agent shall have conducted a responsible credit agency check of the prospective Tenant, and shall personally check with one or more of the Tenant's previous landlords, if possible, with respect to past rent payment history.

5. Housekeeping. If possible, Agent shall check with one or more previous landlords of the proposed Tenant and other occupants with respect to their ability to maintain an apartment in good condition and to abide by building rules. If verbal information is vague or questionable, Agent shall visit the proposed occupants' present residence(s).

6. Other. If advisable, Agent shall check other references and perform other screening of the proposed Tenant. Exhibit H of this agreement details the screening guidelines that will be used by agent. Agent agrees that every Tenant will have explained the guidelines and that Tenant will sign in acknowledgment that they received the guidelines. Agent may change the guidelines as reasonable with the approval of Owner.

7. Approval. Agent shall approve the proposed Tenant's Lease application only if, in Agent's best professional judgment, the proposed Tenant is qualified to pay Rent when due and all proposed occupants are likely to maintain properly the Rental Unit, abide by reasonable rules, and otherwise be suitable occupants of the Project. Also, without Owner's prior written consent, Agent shall not approve any Lease application unless the Tenant and other proposed occupants meet the rental guidelines contained in the Requirements.

B. Lease

1. Application. Prior to leasing any Rental Unit, Agent shall have screened the prospective Tenant and all other proposed occupants in accordance with Section A hereof, and shall have approved the Lease application as described above.

2. Lease Form. In leasing Rental Units, Agent shall use only the form of Lease approved in writing by Owner from time to time, without material changes unless approved in writing by Owner, Agent shall attach to each Lease a copy of the Lease Rider.

3. Approved Rent. Agent shall not lease any Rental Unit for a rental amount other than as specified in the rent schedule included as part of Owner's approved operating budget or otherwise approved by Owner in writing.

4. Tenant Deposit. Agent shall require not less than one month's Rent as a Tenant Deposit, and shall require such greater amount as circumstances warrant, but not more than the maximum allowed by law. Agent shall also, if advisable, collect a key deposit, subject to applicable law.

5. Named Tenant, Occupants, and Pets. Each adult occupant of the Rental Unit shall be named as Tenant in the Lease, and shall be jointly and severally liable for rental payments. The Lease shall specify all other permitted occupants and pets, and it shall be a default of the lease if any non-permitted occupant resides in the Rental Units.

6. Term. Each Lease shall be for a term of at least six months.

7. Substitution of Unit. In the event rehabilitation or other plans for the Project will require that a Rental Unit to be leased to a Tenant be vacated or made available to another Tenant during any portion of the Lease term, the Lease shall contain a provision for substitution of another Rental Unit and relocation of the Tenant.

8. Certain Lease Provisions. The form of Lease to be approved by Owner shall contain detailed provisions concerning the following matters of practical importance, including but not limited to:

a. Condition of Unit. Acknowledgment of the condition of the Rental Unit as described in a unit inspection report.

b. Default Charges. Tenant's liability for the following default charges: late rent payment charges; returned check charges; lost keys; damage to the Rental Unit or the Project not caused by ordinary wear and tear; missing property, fixtures, or equipment; and costs of rent collection and eviction.

c. Tenant Deposit. Procedures concerning deductions from and return of Tenant Deposits, with interest to the extent required by law, and any key deposit.

d. Utilities and Other Charges. Tenant's responsibilities concerning utility services to the Rental Unit, other services to the Rental Unit, other services provided by Owner or Agent, and any parking or other charges.

e. Maintenance. Maintenance duties of Tenant and of Owner, respectively, separately listed.

f. Alterations. Requirement of Owner's or Agent's consent to alterations of the Rental Unit, listing examples, and to changes of keys and locks.

g. Use Restrictions. Restrictions on Tenant's use of the Rental Unit, including hazards, noise, nuisance, etc.

h. Changes. Tenant's obligation to report change in Tenant's household, employment status, or income.

i. Rules. Tenant's and all other occupants' obligation to comply with any rules and regulations issued by Owner or Agent. A copy of any such rules shall be attached to the Lease.

j. Other. Other provisions customarily included in apartment leases or advisable for the Project, and all provisions necessary to comply with the Requirements.

k. Attachments. Acknowledgment by Tenant of any attachments to the Lease.

9. Execution. Execution of each Lease by Agent as agent for Owner.

EXHIBIT C

Reserved

Exhibit D

IDENTITY OF INTEREST MEMORANDUM

Please describe any identity of interest between any entities of the Owner and the Agent in this Exhibit.

NONE.

Exhibit E

TENANT INCOME/UNIT MIX

# BDRMS	#OF BATHS	SQ FT/UNIT	SET ASIDE	PROGRAM	# OF UNITS	RENT	TOTALS
1	1	530			4	\$555	2,220.00
2	1	840		HUD Sec 8	14	\$718	10,052.00
3	2	1033		HUD Sec 8	8	\$825	6,600.00
4	2	1322		HUD Sec 8	2	\$1,024	2,048.00
TOTALS					28		20,920.00

Exhibit F
[Reserved]

Exhibit G

INSURANCE GUIDELINES

A. Fidelity Coverage. It is the Agent's overall responsibility as described in the Management Plan to see that fidelity coverage is in place on any personnel entrusted with the receipt, custody, and disbursement of any project monies, securities, or readily salable property other than money or securities. The Agent should have fidelity coverage in force as soon as there are assets within the organization and it must be obtained before any loan funds or interim financing funds are made available to the borrower. Coverage must be from a company licensed to provide coverage in the state where the project is located. Fidelity coverage obtained should utilize standard industry forms copyrighted by an organization such as the American Association of Insurance Services ("AAIS"); Insurance Services Office, Inc. ("ISO"); or the Surety Association of America ("SSA"). Use of the following guidelines will meet the administrative intent of the Owner:

(1) Fidelity coverage policies must declare in the insuring agreement(s) that the insurance company will provide protection to the insured against the loss of project money, securities, and property other than money and securities, through any criminal or dishonest act or acts committed by any "employee," whether acting alone or in collusion with others, not to exceed the amount of indemnity stated in the declaration of coverage. The Owner minimally requires any insuring policy to include an insuring agreement that covers employee dishonesty.

(2) The types of coverage policies acceptable to the Owner are:

(a) Blanket crime policy. This type of policy usually provides the broader fidelity coverage and economy of cost options. Premiums are subject to discount based on the level of internal control exercised by the insured operation. This type of policy can provide the following insuring agreements:

(1) Employee dishonesty - Form A, Blanket. (Required)

(2) Loss inside the premises - Money and Securities Broad Form. (Recommended)

(3) Loss outside the premises - Money and Securities Broad Form. (Recommended)

(4) Depositor's forgery or alteration. (Recommended)

(b) Fidelity Bond. Fidelity bonds limit coverage only to employee dishonesty. Fidelity bonds are generally used when one or two employees are covered. Premiums are based on established rate charges that are usually greater than for blanket crime policies.

(1) Schedule and position bonds. A schedule bond covers a named employee and is acquired with each change of employment. A position bond covers a named position of responsibility and permits continuous coverage even though the person holding that position changes. Of the two, a position bond is preferred by the Owner.

(2) Blanket bonds. Blanket bonds cover all employees in either of two forms:

(i) Commercial blanket bond (Form A). This bond limits coverage to each loss, irrespective of how many persons are involved. This form of bond is available on a "standard" basis.

(ii) Blanket position bond (Form B). This bond limits coverage to each employee; hence it can provide greater protection if there is collusion of two or more persons. This is a nonstandard form of bond available from some insurance companies who use their own individualized forms.

(3) The Owner requires only an endorsement listing all Owner's properties and their locations covered under the policy or bond. The policy or bond may also include properties or operations other than the Owner's properties on separate endorsement listings.

(4) Individual or organizational borrowers will have fidelity coverage when they have employees with access to project assets as cited in paragraph XV A of this exhibit; otherwise, an Agent with exclusive access to the Owner's assets will have the fidelity coverage.

(5) A management agent with exclusive access to project assets as cited above will be required to have fidelity coverage on all principals and employees with access to the project assets.

(6) The minimum amount of fidelity coverage will be the amount calculated by multiplying an exposure index by a coverage factor. When the calculated amount is less than \$10,000, minimum coverage of \$10,000 must be provided. This calculation is made as follows:

(a) Determine exposure index: Exposure index - 25 percent of the SUM of annual cash receipts (rents, cash subsidy, interest, etc.) and cash (cash carryover, reserves, CDs, tax and insurance escrows, etc.). Round to next higher \$1,000.

(b) Determine coverage. Coverage - exposure index X coverage factor taken from the coverage chart. Round to next higher \$1,000.

(c) Coverage chart:

<u>Exposure Index</u>	<u>Coverage Factor</u>
\$100,000 or less	.30
\$100,000 to \$200,000	.28
\$200,000 to \$300,000	.26
\$300,000 to \$400,000	.24
\$400,000 to \$500,000	.22
\$500,000 to \$600,000	.20
\$600,000 to \$700,000	.18
\$700,000 to \$800,000	.16
\$800,000 to \$900,000	.14
\$900,000 to \$1,000,000	.12
\$1,000,000 or more	.10

(d) Example: \$245,000 exposure index X .26 = \$63,700, Minimum coverage (rounded) = \$64,000.

(7) A deductible is designed to allow flexibility in balancing what the project can prudently pay from its own assets, at a time of loss, against the economy of annual premiums in its annual budget. The following deductible levels will meet the Owner's requirements:

<u>Fidelity Coverage</u>	<u>Deductible Level</u>
Under \$50,000	\$1,000
In the area of \$100,000	\$2,500
In the area of \$250,000	\$5,000
In the area of \$500,000	\$10,000
In the area of \$1,000,000	\$15,000

(8) When discussing fidelity coverage with its insurance agent, the management agent should inquire how it can improve its internal controls to reduce exposure to risk. Adoption of improvement measures may result in lower premiums.

(9) The premium of a management agent's fidelity coverage for the agent's principals and employees will be the management agent's business expense (i.e., it is included within the management fee). When a project site employee is covered under the "umbrella" of the agent's fidelity coverage, the pro rata portion of the premium covering the employee may be considered a project expense.

(10) Fidelity coverage should be reviewed during annual review and adjusted when necessary.

B. Insurance. The minimum amounts and types of insurance required will be determined by the Owners. The Owner or its agent shall obtain:

(1) Adequate fire, extended coverage, and earthquake insurance as needed will be required on all buildings owned. The amount of coverage will be not less than the total cost of the improvements. The following additional provisions will apply:

(a) An initial insurance policy with evidence of first year paid premium will be delivered to the Owner at the time of loan closing or transfer of loan, providing at least one year of coverage.

(b) Provisions printed in the policy or in a blanket letter from an insurance company must be part of the policy; namely to provide the Owner with at least 30 days advance notice of cancellation.

(c) Any change of insurance provider or level of coverage or term will be provided to the Owner.

(2) Suitable Worker's Compensation Insurance on all its employees. Worker's Compensation Insurance for employees of a management agent shall be paid out of the agent's management fee. When a project site employee is covered under the "umbrella" of the agent's insurance, the portion of premium attributable to a project site employee may be a project expense.

(3) Adequate liability insurance pursuant to the requirements of the Ownership.

(4) Flood insurance when the project is located in a designated flood hazard area.

(5) A blanket insurance policy may be accepted from an Agent when blanket coverage is more cost effective for each project on a pro rata basis, and an endorsement is attached to the policy listing Owner projects, locations, and coverage limited separate from any other properties covered by the policy.

Exhibit H
SCREENING GUIDELINES

Exhibit I
BUDGET AND RENT SCHEDULE

Exhibit L
REGULATORY AGREEMENTS