

October 13, 2009

San Diego Housing Commission  
1122 Broadway Street, 5<sup>th</sup> Floor  
San Diego, California 92101  
Attn.: Mr. D. Lawrence Clemens,  
Senior Vice President

**RE: Multiple Property Portfolio  
San Diego, California  
FHA 223(f) FULL MORTGAGE INSURANCE**

Dear Mr. Clemens:

This letter is an engagement letter between PNC Bank, N.A., doing business as “PNC MultiFamily Capital” (“PNC”) and the San Diego Housing Commission (“Borrower”) whereby PNC is being retained by Borrower on an exclusive basis to underwrite a series of loans under Section 223(f) of the National Housing Act for a multiple property portfolio located in San Diego, California, as further described on Exhibit A attached to this letter agreement.

### **SERVICES PROVIDED**

PNC will assist and advise you in the data collection and preparation of applications for the proposed loans. These applications will be directed to the Department of Housing and Urban Development, Los Angeles HUB, for FHA mortgage insurance commitments which will facilitate PNC funding permanent loans secured by these properties. It is understood by the parties that the proceeds of these loans will be used by the Borrower or an affiliate of the Borrower to finance the acquisition and rehabilitation or construction of other properties. If Firm Commitments for FHA mortgage insurance are issued by HUD, PNC will administer the closing of the loan and will arrange for funding of the loan through PNC's issuance of GNMA mortgage-backed securities or through the placement of the whole loan to investors at the most advantageous price. PNC services will include:

- Preparation of the FHA/HUD applications and exhibits, including the coordination of third party reports for “MAP” (Multifamily Accelerated Processing);

- Submission of the applications as FHA Mortgagee to HUD to commence the HUD review process. This activity may include a HUD coordinated pre-application conference as well as PNC's continued communication throughout the application processing activity;
- Follow-up as necessary with the HUD Field Office, Regional or Central Office during processing to resolve any issues that may arise;
- Placement of permanent financing for your project through the issuance and sale of GNMA mortgage-backed securities, "whole loan" participation certificates, and/or credit enhancement of tax exempt or taxable bonds, including "Build America Bonds" (defined below), as required;
- Closing and funding of the proposed loans following the issuance of any commitments to insure the mortgage by HUD;
- Permanent loan servicing.
- Coordination with the Borrower's Bond Counsel and Special Finance Matters Counsel, subject to applicable HUD statutes, regulations and other requirements, to structure the loans and conduct the pricing of any GNMA Securities sold to finance the loans in such a manner that the Borrower's obligations under the loans and related GNMA Securities, or any municipal or other bonds sold that are secured by the loans and/or related GNMA Securities, qualify as "Build America Bonds" ("Build America Bonds") under Section 1531 of the American Recovery and Reinvestment Act of 2009 ("ARRA"). Without limiting the generality of the foregoing, in the event any of the loans are funded through the sale and delivery of GNMA Securities to an investor or investors, PNC will provide to the Borrower, Bond counsel and Special counsel, in advance of such sale, information regarding prevailing market conditions based on recent sales of similar GNMA Securities and other relevant factors to assist the Borrower in evaluating the competitiveness of the proposed pricing. PNC will obtain the Borrower's consent before any final pricing terms are set and will take appropriate steps to assure that the GNMA Securities are sold in a competitive, arms length transaction including, if applicable, full and appropriate disclosure to the Borrower of any applicable premiums, discounts, fees or other payments relating to the sale, as well as full disclosure to the Borrower if any portion of the GNMA Securities are proposed to be sold to or retained by PNC, Northmarq or any affiliate of PNC or Northmarq. PNC will provide to Bond counsel such certifications with respect to such pricing as Bond Counsel may reasonably require in order to advise Borrower that such GNMA Securities constitute Build America Bonds.

## **PNC FINANCING, PLACEMENT AND SERVICING FEES**

For these services, PNC will charge a financing fee of 2.0% of the mortgage amount, plus the amount of PNC's legal fees, which fee will be deemed earned and will be collected at closing. The financing fee includes a fee of .25% of the loan amount which PNC will pay to Northmarq in connection with this transaction. Third party costs will be the responsibility of the Borrower. The costs for the third party reports will be determined by PNC and these costs must be paid by Borrower to PNC prior to PNC's engagement of the third party report providers. It is currently contemplated that third parties will perform an Appraisal, a Phase I Environmental Assessment and a Physical Needs assessment for each separate property to be included in the financing. It is estimated that the cost of these reports will be approximately \$15,000 per property, although will attempt to negotiate the best possible price based on the volume of properties to be financed. A non-refundable fee of \$25,000 (the "Application Fee") will be payable by Borrower to PNC upon execution and delivery by Borrower of this engagement letter to compensate PNC for its costs in connection with performing all processing necessary to complete the HUD applications and exhibits. This Application Fee will be credited against the financing fee referenced above at closing

The interest rate on the loans will be locked following the issuance of any HUD commitments through the sale of the GNMA Securities to secondary market investors. There is no way to "lock" this rate prior to the issuance of HUD Firm Commitments. The interest rate carried by the loans will include 25 basis points for the GNMA guaranty and servicing fee. A "good faith deposit" generally equal to .50% of the estimated loan amount will be required by investors purchasing GNMA Securities at the time of rate lock. The Good Faith Deposit is required to assure timely delivery after a funding commitment has been locked-in. All terms and conditions required by these investors will be discussed, and you will have the opportunity to choose the method and financing terms you find are most suitable, given market conditions. The permanent interest rate and financing terms will not be "locked in" without your express authorization. If market conditions preclude the Borrower's authorization for sale, the Good Faith Deposit will be refunded; however, if the Borrower authorizes the sale, and the Loan is not delivered in accordance with the funding commitment, the Good Faith Deposit is absolutely non-refundable. Additional security to cover FHA assignment fees may be required by whole loan participants. A discount (fee) will be required if the loan interest rate is fixed at a rate which is below the current market interest rate.

Midland Loan Services, a wholly owned subsidiary of PNC, will service the permanent loans, including administration of HUD required escrows, such as tax and insurance impounds and reserves for replacement.

## **HUD FEES**

HUD will charge the following fees for their application processing and commitment of mortgage insurance:

APPLICATION FEE:	0.30% of loan requested paid upon application
1st YEAR MORTGAGE INSURANCE PREMIUM:	1.00% of loan amount, paid at closing
INSPECTION FEE	\$30 per unit; if repairs are over \$3,000 per unit, fee will be 1.00% of total required repairs

In addition, HUD will charge an annual Mortgage Insurance Premium of 0.45% of the unpaid principal balance of the loan. This mortgage insurance premium is not included in the interest rate provided for in any Note evidencing a HUD insured loan. This premium is payable monthly in advance as part of the regular monthly mortgage payment and will be applied to the premium due during the following 12-month period throughout the term of the loan.

### **MAXIMUM PERMISSIBLE LOAN AMOUNT**

The HUD Field Office will complete their underwriting utilizing the 223(f) program regulations for a sale or refinance transaction.

The loan amount will be the lesser of:

- A) 85% of Fair Market Value
- B) The amount supportable by 85% of Projected Net Operating Income, as determined by HUD, divided by the relevant Loan Constant
- C) The greater of:
  - 1) 100% of Certifiable Transaction Costs, or
  - 2) 80% of Fair Market Value, as determined by HUD
- D) Statutory Per Unit Mortgage Limits designated by HUD

Certifiable costs are those that can be funded using mortgage proceeds including the following:

- Purchase Price/Cost of Retiring Existing Debt
- Repair and Replacement Reserve Costs
- Loan Fees
- Mortgage Insurance Premiums
- Loan Discount Points
- Other Eligible Loan Closing Costs

Please note that this engagement letter is not a loan commitment. In the event that HUD issues a commitment to insure a mortgage loan on the terms outlined in the proposed application to HUD, then that commitment shall serve as a loan commitment to you. In the event that HUD does issue its commitment to insure the mortgage loan and the loan subsequently closes, the Borrower's signature below shall constitute authorization for PNC to post signage at the

construction site advertising its participation as lender in the construction of the Project, and to publicly use, at its discretion, the name of the Project, photographs of the Project and basic transaction information (for example, the number of units in the Project, the loan amount, etc.) relating to the loan in advertising or press releases.

*Important Information About Procedures for Obtaining a New Loan from PNC MultiFamily Finance:*

To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who establishes a formal relationship with such institution.

*What this means for you:* When you apply for a loan with PNC, we will ask you your name, address, date of birth (for individuals) and other pertinent information that will allow us to identify you. We may also ask to see your driver's license (for individuals), organizational documents (for business entities) or other identifying information. By accepting this engagement letter, you agree that PNC, its successors and, with the Borrower's prior written consent, assigns is Borrower's exclusive agent for obtaining FHA insured financing for this Project. By accepting this engagement letter, you further acknowledge that PNC may assign any subsequent loan insured by HUD to Midland Loan Services, Inc., another wholly-owned subsidiary of PNC Bank, National Association, for purposes of loan servicing.

This Engagement Letter shall continue until terminated in accordance with its terms. Either PNC or the Borrower may terminate this Engagement Letter upon the express written consent of the other party. Notwithstanding the foregoing, this Engagement Letter may not be terminated for a period of one hundred fifty (150) days from the date hereof so long as PNC and HUD are actively processing the applications contemplated hereby, unless (i) market conditions change in such a way as to make it unreasonable to expect that it will be possible to market and close a financing or financings of the type contemplated using FHA insured loans within two hundred ten (210) days from the date hereof and the Borrower does not pursue any type of FHA insured loan with respect to the Projects with any other lender during such period; or (ii) PNC is no longer a MAP lender in good standing with HUD or a GNMA Seller/Servicer in good standing with GNMA, in which case Borrower may, in its sole discretion, assign the loans and applications or commitments to another lender and direct that the application and all materials relating to the Loans, including third party reports, to be delivered at the direction of the Borrower to another lender designated by Borrower.

PNC agrees that it will have no claims or causes of action against any commissioner, member, officer, agent, employee, attorney or affiliate of Borrower (the "Protected Parties") arising out of or in connection with this Engagement Letter or the transactions contemplated by this Engagement Letter, except to the extent any of the Protected Parties are engaged in any fraudulent conduct or activity in connection with the delivery of information to PNC for the underwriting or closing of the contemplated loans. PNC agrees not to sue or otherwise seek to enforce any obligation against any Protected Party with respect to any matters arising out of or in connection with this Engagement Letter, except as provided for above in connection with

fraudulent conduct or activities. Nothing herein would impair PNC’s ability to directly enforce its rights against the Borrower.

Please make no changes or revisions to this agreement. Any changes or revisions which you wish to have us consider should be discussed directly with the undersigned. As appropriate, a new engagement letter will be prepared and sent to you.

Please return an original signed copy of this engagement letter to authorize us to proceed, together with the Application Fee. The Borrower will be responsible for all costs incurred in connection with the underwriting and closing of the loan regardless of whether the closing of the transaction contemplated by this engagement letter occurs, including, but not limited to, all third-party reports, processing and underwriting costs, and legal fees actually incurred.

We look forward to working with you to provide financing for your Project. Upon execution, the terms of this engagement letter shall remain in effect for a term of 18 months at which point it shall automatically terminate unless extended in writing by PNC and Borrower.

Sincerely,

**PNC MULTIFAMILY CAPITAL**

W. Thomas Booher  
Executive Vice President

ACCEPTED AND AGREED TO:

**SAN DIEGO HOUSING COMMISSION**

BY: \_\_\_\_\_

ITS: \_\_\_\_\_

DATE: \_\_\_\_\_

Exhibit A

Address	Street Name	Zip Code	# of Units	Loan Amount			
12643-12687	El Camino Real	92130	45	\$5,142,400			
8792	Mira Mesa Boulevard	92126	5	\$612,800			
8816	Mira Mesa Boulevard	92126	5	\$508,000			
4055-4083	Pullitzer Place	92122	50	\$5,959,200			
2045-49	Grand Avenue	92109	6	\$732,000			
2701-11	Figeroa Boulevard	92109	6	\$459,200	<b>Loan 1: North County + Coastal</b>		
2644	Hornblend Street	92109	5	\$504,800		<b>Units</b>	<b>Count</b>
5071-5077 1/2	Muir Avenue	92107	8	\$555,200	<b>\$14,473,600</b>	<b>130</b>	<b>8</b>
7281-7289	Saranac Street	92115	7	\$966,400			
4560	Altadena Avenue	92115	8	\$672,800			
4479-4481	Altadena Avenue	92115	8	\$609,600			
4164	Altadena Avenue	92105	6	\$515,200			
5316	Meade Avenue	92115	30	\$1,772,000			
5330-5332 1/2	Rex Avenue	92105	4	\$390,000			
5326-5328	Rex Avenue	92105	4	\$370,000			
4261	45th Street	92115	6	\$584,000			
4225	44th Street	92115	6	\$451,200			
2628-2630	44th Street	92105	8	\$815,200			
4416 #1-8	Highland Avenue	92115	8	\$444,000			
4566	51st Street	92115	5	\$506,400			
3051	54th Street	92105	7	\$725,600			
4147-4157	Chamoune Avenue	92105	6	\$664,000			
4205-4215	Juniper Street	92105	20	\$2,118,400			
4273-4283	Juniper Street	92105	24	\$2,156,800			
4390	Maple Street	92105	6	\$486,400			
4180-4182	Poplar Street	92105	9	\$1,005,600	<b>Loan 2: Central San Diego</b>		
4451-4459	Market Street	92102	20	\$1,419,200		<b>Units</b>	<b>Count</b>
5359-5389	Santa Margarita	92114	32	\$2,079,200	<b>\$18,752,000</b>	<b>224</b>	<b>20</b>
1351-1359	Hollister Street	92154	20	\$2,442,400			
2381-2389	Grove Avenue	92154	41	\$4,443,200			
121-125	Averil Road	92173	14	\$1,221,600			
2005-2065	Alaquinas Drive	92173	66	\$6,365,600			
178-190	Calle Primera	92173	70	\$5,640,800			
281-289	Sycamore Road (North)	92173	24	\$1,818,400	<b>Loan 3: South</b>		
391-417	Sycamore Road (West)	92173	41	\$3,352,800		<b>Units</b>	<b>Count</b>
402-412	Sycamore Road (East)	92173	24	\$2,035,200	<b>\$27,320,000</b>	<b>300</b>	<b>8</b>
<b>36</b>			<b>654</b>	<b>\$60,545,600</b>			

**PNC MULTIFAMILY WIRING INSTRUCTIONS**

All third party fees, processing fees, legal fees, architectural review fees, extension fees, good faith deposits, return of good faith deposits, MIP & Inspection fees should all be wired into this account.

**BANK:** PNC Bank, N.A.  
**Address:** Pittsburgh, PA  
**ABA#:** 043000096  
**Account #:** *1019279691*  
**Account Name:** PNC Bank, N.A. Origination  
**Reference:** San Diego Housing Commission, 223(f) Portfolio, Application and Third Party Reports Deposit