

STATE OF OREGON
HOUSING AND COMMUNITY SERVICES DEPARTMENT

LOCAL INNOVATION AND FAST TRACK HOUSING PROGRAM

PROMISSORY NOTE

[\$X,XXX,XXX]

[Month] [Day], 20[XX]

ON THIS **[Day]** day of **[Month]** 20**[XX]**, **[Legal Entity Name]**, an Oregon **[type of entity]** (“**Borrower**”), promises to pay the **State of Oregon**, acting by and through its **Housing and Community Services Department**, together with its successors and assigns (“**Lender**”), at 725 Summer Street NE, Suite B, Salem, Oregon 97301-1266, or at such other address as Lender may specify in writing, the principal amount of **[UPPER CASE NUMBER] Dollars** (**[\$X,XXX,XXX]**), or so much thereof as may be disbursed pursuant to the terms of the Loan Agreement dated **[Month] [Day], 20[XX]** between Borrower and Lender (the “**Loan Agreement**”), together with any accrued interest.

This promissory note (this “**Note**”) is the note referred to in the Loan Agreement and is entitled to the benefits of, and subject to the limitations of, the Loan Agreement. Interest under this Note will be computed on the basis of a 360-day year consisting of twelve 30-day months. Capitalized terms not defined herein have the respective meanings given thereto in the Loan Agreement.

1. CONSTRUCTION LOAN

The Loan will initially be a Construction Loan. Construction Loan interest will accrue on amounts disbursed hereunder during the Construction Loan Period at the rate of **zero percent (0.00%)** per annum. Upon written request by Borrower and with the prior written consent of Lender, the Construction Loan Period may be extended for two, three-month periods upon written request. Subject to Section 2 below and the provisions of this Note requiring earlier payment, the Construction Loan will be due and payable in full on the last day of the Construction Loan Period.

2. PERMANENT LOAN

If the conditions set forth in Section 4 of the Loan Agreement are satisfied as provided therein, the Loan will be converted to a Permanent Loan, the initial principal balance of which will be the balance of the Construction Loan at conversion. Permanent Loan interest will accrue on the outstanding principal balance at the rate of **zero percent (0.00%)** per annum. Subject to the provisions of this Note requiring earlier payment the Permanent Loan will be due and payable in full on the Maturity Date (as hereinafter defined).

3. MATURITY DATE

The maturity date is the earlier of the date when this entire Note, principal and interest, is paid in full, or **December 31, [Year]** (the “**Maturity Date**”). The unpaid principal balance of this Note

and all unpaid accrued interest thereon and all sums payable by Borrower in connection with this Note will be due and payable in full on the Maturity Date or, at Lender's option, upon any Event of Default.

4. PROJECT COST SAVINGS

- 4.1. Subject to the rights of any other lender sharing a first-lien interest in the Project with Lender, Project Cost Savings will be determined at the end of the Construction Loan Period and paid at the time of conversion of the Construction Loan to the Permanent Loan, or earlier if agreed to by Borrower and Lender. "**Project Cost Savings**" means the sum of sources in the Sources and Uses Funding Budget that have been disbursed to or for the benefit of Borrower, less the actual development costs, including approved and permitted change orders.
- 4.2. Project Cost Savings will include funds remaining in all the line items in the Sources and Uses of Funding Budget at the end of the Construction Loan Period. Specific forms of cost savings will be determined as follows:
 - 4.2.1. Funds remaining in hard construction cost line items will be considered remaining hard cost contingency funds, excluding retainage.
 - 4.2.2. Funds remaining in soft cost line items will be considered remaining soft cost contingency, including Construction Loan Period interest and unused reserves.
- 4.3. All Project Cost Savings will be attributed to the benefit of Lender.
- 4.4. Lender will apply its share of Project Cost Savings first to accrued interest on this Note, if any, and finally, to the principal balance of this Note.

5. PREPAYMENT

Borrower may prepay this Note in whole or in part at any time without penalty. All prepayments will be applied first to accrued interest on this Note, if any, and then to the principal balance of this Note. Partial prepayments will not affect any other obligation of Borrower under this Note.

6. SUBSIDIZED LOAN; DUE ON TRANSFER; NO CHANGE IN USE

- 6.1. Borrower acknowledges that the terms of the Loan, including the interest rate, are subsidized by public funds and are more favorable than the prevailing market rate for similar loans obtainable in the private marketplace. Borrower further acknowledges that the more favorable terms on the Loan are not intended to benefit Borrower or any subsequent owner of the Project in the event of any sale or transfer of the Project or of a beneficial interest in Borrower.
- 6.2. Accordingly, subject to the terms and conditions of that certain Operating Agreement and Declaration of Restrictive Covenants of even date herewith between Borrower, as

“Owner,” and Lender as, “OHCS” of even date herewith (the “Operating Agreement”), any sale or transfer (or any attempted sale or transfer) of all or any part of, or any interest in, the Property or the Project, or any beneficial interest in Borrower, without the prior written consent of Lender (which Lender may grant, condition, or withhold in its sole and absolute discretion) is prohibited, and upon any such prohibited sale or transfer, this Note and all other indebtedness secured by the Trust Deed shall become immediately due and payable in full. As used herein, the term “sale or transfer” is used in its broadest sense, and includes, with respect to the Property or the Project, an encumbrance, pledge, or grant of a security interest, a ground lease, master lease or other lease not in the ordinary course of business, land sale contract, foreclosure, deed in lieu of foreclosure, or transfer (by operation of law or otherwise) pursuant to any dissolution, liquidation, merger, reorganization or consolidation, and with respect to a beneficial interest in Borrower, a sale, gift or other transfer of any partnership, stock, membership or other ownership interest in Borrower other than a transfer upon death of the owner of such interest.

- 6.3. Notwithstanding who is the holder of this Note, Lender reserves the right to approve a sale or transfer as described in this Section. Any transferee will be bound by the terms of this Note. Borrower will notify Lender of any proposed or actual sale or transfer as required in the Operating Agreement.
- 6.4. Borrower will not change the use of the Property without Lender’s prior written consent, which may be withheld or conditioned in Lender’s sole and absolute discretion.

7. EVENTS OF DEFAULT

An Event of Default will occur under this Note if one or more of the Events of Default described in the Trust Deed, the Loan Agreement, or the Operating Agreement, which are incorporated by reference in this Note, occur.

8. LENDER’S RIGHTS AND REMEDIES ON DEFAULT

- 8.1. Upon the occurrence of any Event or Events of Default, Lender may exercise any one or more of the rights and remedies described in the Trust Deed, the Loan Agreement, or the Operating Agreement, all of which are incorporated by reference in this Note.
- 8.2. Upon the occurrence of any Event or Events of Default, interest under this Note will accrue on the unpaid principal balance from the date of the Event of Default, or if the Event of Default is a payment default, from the date the first unpaid payment was due, at a rate equal to the lesser of six percent (6%) per annum or the maximum interest which may be collected from Borrower under applicable law (the “Default Rate”). If the unpaid principal balance and all accrued interest are not paid in full on the Maturity Date, the unpaid principal balance and all accrued interest will bear interest from the Maturity Date at the Default Rate. Borrower agrees that the increase in the rate of interest payable under this Note to the Default Rate represents a fair and reasonable

estimate, taking into account all circumstances existing on the date of this Note, of the additional costs and expenses Lender will incur by reason of the Borrower's delinquent payment and the additional compensation Lender is entitled to receive for the increased risks of nonpayment associated with a delinquent loan.

9. RECOURSE PROVISION

The obligations under this Note, including the obligations secured by the Trust Deed, are with recourse to the Borrower and its managing member(s) or general partner(s), as applicable, unless and until the Loan is converted to the Permanent Loan. Upon conversion of the Loan to the Permanent Loan, notwithstanding any other provision of this Note or the Loan Agreement, but subject to the qualifications set forth below in this Section, the obligation to pay the indebtedness evidenced by or arising under this Note will be nonrecourse as to Borrower and its members or partners except as to their rights, if any, in the collateral described in the Trust Deed, and no personal judgment may be obtained against Borrower or its members or partners contrary to this limitation; provided, however, that Borrower and its managing member(s) or general partner(s), as applicable, will be personally liable for (a) failure to pay taxes, assessments, or other charges which could result in liens (including construction liens) against the collateral described in the Trust Deed, (b) retention by Borrower or its managing member(s) or general partner(s) of any rental or other income or insurance or condemnation proceeds arising with respect to such collateral which, under the terms of the Trust Deed, should have been paid to Lender, and (c) any liability or losses incurred by Lender as a result of any fraud or deceit by Borrower in connection with this Loan.

10. MISCELLANEOUS

This Note may not be modified or amended except in writing and signed by Borrower and Lender. This Note also reflects and sets forth the entire agreement and supersedes all prior agreements and understanding relating to such subject matter. Time is of the essence of each provision of this Note. Borrower waives presentment for payment, notice of dishonor, protest, notice of protest and diligence in collection, and consents that the time of payment of the principal balance and accrued interest, or any part thereof, may be extended by Lender without otherwise modifying, altering, releasing, affecting or limiting Borrower's liability or the security for this Note. If any provision of this Note is held to be invalid, such event will not affect, in any respect whatsoever, the validity of the remainder of this Note. This Note shall be construed in accordance with Oregon law.

(Signature Page Follows)

BORROWER:

**Legal Name of Owner Entity,
an Oregon type of entity
Tax ID: tax id #**

By: _____
Name of Signor, title

STATE OF OREGON)
 : ss
County of)

The foregoing instrument was acknowledged before me this **[day]** day of **[Month]**, 20__ by **[name of signor, title of entity, type of entity, role of entity (see signature block)]** of Borrower, for and on behalf of Borrower.

NOTARY PUBLIC FOR OREGON
My Commission Expires: _____