

STIPULATED SETTLEMENT AGREEMENT AND RELEASE

I. INTRODUCTION

1. This Stipulated Settlement Agreement and Release (the “Agreement”) recites the terms agreed to by Plaintiffs Kenneth Arms Tenant Association, Manzanita Arms Tenant Association, California Coalition for Rural Housing Project, Virginia Breimann, Rita Janssen, Sherry Lautsbaugh, and Kathy Pounds (“Plaintiffs”) and Defendants Kenneth Arms Limited Partnership, Rancho Arms Limited Partnership, San Juan Limited Partnership, Manzanita Arms Limited Partnership and National Housing Partnership (“Defendant Owners” or “Defendant Sellers,” and collectively also referred to as “Defendants”) and U.S. Housing Partners III, L.P., (“Defendant Buyer”), the designated successor-in-interest to US Housing Partners, L.P. in resolution of the civil action *Kenneth Arms, et al. v. Martinez, et al.*, Case No. CIV. S-01-0832 LKK/JFM, (the “Action”) filed in the United States District Court in the Eastern District of California (the “Court”).

2. The properties which are the subject of this action are the Kenneth Arms Apartments, a 97-unit rental housing development located at 5945 Kenneth Avenue in Carmichael, California; Rancho Arms Apartments, a 95-unit rental housing development located at 11020 Coloma Road in Rancho Cordova, California; San Juan Apartments, a 70-unit rental housing development located at 4440 San Juan Avenue in Fair Oaks, California; and the Manzanita Arms Apartments, an 89-unit rental housing development located at 5701 Manzanita Avenue in Carmichael, California (individually, each a “Property”, and collectively, the “Properties”). All of the Properties are located in Sacramento County, California. The legal descriptions of each of the Properties are attached hereto as Exhibit “A.” Each of the Properties

receives assistance through what is known as the HUD 236 program through which Defendant Owners receive mortgage insurance and an interest reduction subsidy. Each of the Properties also receives what are known as “project-based” Section 8 assistance payments from HUD as follows: 71 units at Kenneth Arms Apartments, 44 units at Rancho Arms Apartments, all 70 units at San Juan Apartments, and 47 units at Manzanita Arms Apartments.

3. Plaintiff Kenneth Arms Tenant Association is an unincorporated association formed for the purpose of preserving the Kenneth Arms Apartments for low-income residents of the Sacramento Area. Plaintiff Manzanita Arms Tenant Association is an unincorporated association formed for the purpose of preserving the Manzanita Arms Apartments for low-income residents of the Sacramento area. Plaintiff Virginia Breimann is a low-income resident of the Kenneth Arms Apartments. Plaintiffs Sherry Lautsbaugh and Kathy Pounds are low-income residents of the Rancho Arms Apartments. Plaintiff Rita Janssen is a resident of the San Juan Apartments. Plaintiff California Coalition for Rural Housing Project is a non-profit entity whose mission is to preserve affordable housing for low-income persons residing in the Sacramento area and throughout many areas in California.

4. Defendant Kenneth Arms Limited Partnership is the owner of the Kenneth Arms Apartments, Defendant Rancho Arms Limited Partnership is the owner of the Rancho Arms Apartments, Defendant Manzanita Arms Limited Partnership is the owner of the Manzanita Arms Apartments, and Defendant San Juan Limited Partnership is the owner of the San Juan Apartments. The sole general partner of each of the limited partnerships is Defendant Owner National Housing Partnership located in Denver, Colorado. Defendant Owners have entered into a written binding contract of sale and intend to sell the Properties to U.S. Housing Partners, L.P., and Defendant Buyer, U.S. Housing Partners III, L.P, which Properties shall be subject to the

conditions set forth herein and in the attached Grant Deed, Deed Restrictions and Use Agreements attached and incorporated herein as Exhibit "B".

5. Defendant Buyer intends to purchase the subject Properties subject to the terms of this Stipulated Settlement Agreement and Release.

6. Plaintiffs have sued Defendants alleging, among other things, that Defendant Owners, in attempting to terminate the project-based Section 8 contracts at the Properties and to pre-pay the HUD-insured 236 mortgages, did not give legally required notice of such intent under federal and California law. Plaintiffs also claim that Defendant Buyer entered into a deficient "use agreement" with HUD pursuant to its efforts to purchase the Properties.

7. The parties acknowledge that this Agreement is voluntary and represents a full settlement of the disputed claims. No party has been coerced, intimidated, threatened or in any way forced to become a party to this Agreement.

8. The Agreement and release contained herein affect the settlement of claims which are denied and contested, and nothing contained herein shall be construed as an admission by any party hereto of a liability of any kind to any other party. Each party acknowledges that the legal action and disputes between the parties referred to herein involve numerous and complicated issues of law and fact which the parties hereto have settled and compromised without admitting or acknowledging the truth or falsity of any contentions as to such issues of law and fact which were or could be alleged by any of the parties.

9. The terms set forth herein are contractual and not merely a recital.

II. TERMS OF AGREEMENT

10. Actions Required Before Agreement is Effective

The parties to this Agreement have agreed as follows:

a. Execution and Recording of the Grant Deeds, Deed Restrictions with Use Agreements in accordance with the terms set forth in subsection (b) below: Prior to the Close of Escrow (as defined in subsection (d) herein), U.S. Housing Partners, L.P. shall have caused four separate Use Agreements to be executed and notarized by Defendant Buyer and by a duly authorized representative of the Secretary of Housing and Urban Development which shall not be effective until recorded. Defendant Buyer will also provide a written authorization duly executed by the Federal Housing Commissioner that the person executing each Use Agreement on behalf of the Secretary of Housing and Urban Development, in signing the Use Agreements is acting (1) within the scope of the authority pursuant to the February 1998 "Revocation and Redlegation of Authority" issued by Nicholas P. Retsinas, former Assistant Secretary for Housing-Federal Housing Commissioner; (2) consistent with any other governing laws, regulations and policies; and (3) within the specific duties she, in her present position, is authorized to perform. Defendant Sellers shall have obtained approval to prepay their HUD mortgage obligations.

b. At no cost to Plaintiffs, Defendants will have opened an escrow with Stewart Title Guaranty Company, 1980 Post Oak Boulevard, Suite 610, Houston, Texas, 77056 ("Escrow Holder"), escrow numbers 00160505 (Manzanita Arms), 00160506 (Rancho Arms), 00160507 (San Juan Apartments), and 001060508 (Kenneth Arms (collectively, the "Escrow Nos.")). In this escrow, title shall pass from Defendant Sellers to U.S. Housing Partners, L.P. and then to Defendant Buyer. By the Close of Escrow (as defined in subsection (d) herein), Defendant Buyer will either execute Section 8 contracts with HUD for each of the Properties extending the project-based Section 8 assistance at each property for at least an additional five (5) years or shall have assumed those certain Section 8 Housing Assistance Payments Contracts between

Defendant Owner and HUD. The preceding sentence in no way limits or changes U.S. Housing Partners, L.P.'s and Defendant Buyer's obligations under the Grant Deeds, Deed Restrictions and Use Agreements regarding renewal of the project-based Section 8 rental assistance contracts at each of the Properties, as set forth in said documents. After the recordation of the Grant Deeds, attached hereto in the form of Exhibit "C", executed by Defendant Sellers as Grantors conveying the properties to U.S. Housing Partners L.P., Escrow Holder will cause separate Grant Deeds and Deed Restrictions to be executed and notarized by U.S. Housing Partners, L.P. as grantor, conveying the Properties to Defendant Buyer, as the method in which title to all of the Properties passes to Defendant Buyer. Escrow Holder shall also cause the Use Agreements to be executed and notarized by Defendant Buyer and HUD for each of the Properties and then cause said Use Agreements to be duly recorded in the official records of Sacramento County after the recordation of the Grant Deeds conveying the Properties to Defendant Buyer. The Grant Deeds, Deed Restrictions and Use Agreements conveying the Properties to Defendant Buyer shall be recorded prior to the new trust deed securing the financing obtained by Defendant Buyer. Upon Close of Escrow (as defined in subsection (d) herein), at Defendant Buyer's cost, Escrow Holder shall issue CLTA leasehold policies of title insurance to Plaintiffs for each of the Properties showing the Grant Deed and each corresponding set of Deed Restrictions to be a restriction against each of the Properties described in Exhibit A to this Agreement, subject only to those liens and descriptions shown on those Preliminary Title Reports Issued by Escrow Holder order numbers 05-003494 (Manzanita Arms), 05-003493 (Rancho Arms), 05-003491 (San Juan Apartments), and 05-003492 (Kenneth Arms) (collectively, the "title Order Nos."), which Title Order Nos. are dated June 6, 2001 and updated as of September 20, 2001.

c. Prior to the date of this Agreement, Defendant Sellers and Defendant Buyer shall have caused four (4) separate amendments to those certain Purchase and Sale Agreements for the Properties in the form of Exhibit "D1" to this Agreement, to be executed setting forth terms and conditions between the Defendant Sellers and Defendant Buyer in connection with the purchase of the Properties, as subsequently amended in the form of Exhibit "D2" (collectively the "Amendments").

d. Defendants agree to complete all of the matters described in Subparagraphs 10(a), 10(b) and 10(c) above in accordance with the terms set forth therein. The parties hereto agree that escrow shall close on the Properties on or before November 29, 2001, subject to Defendant Seller's and Defendant Buyer's option to extend the closing to December 17, 2001 (whereupon such date shall be the "Close of Escrow") and subject to Defendant Seller's contractual extension right. Defendants' failure to complete all of these matters by December 17, 2001, subject to Defendant Sellers' contractual extension right, which date shall be no later than 15 days following December 17, 2001, shall cause this Agreement to automatically become null and void and of no further force and effect.

e. Defendant Buyer agrees that any breach or violation of the Deed Restrictions and/or Use Agreements constitutes a breach/violation of this Agreement.

11. Further Agreements

a. Defendant Buyer agrees that effective upon taking title to the Properties, subject to all fair housing and other applicable laws, for each property, with respect to the units covered by the project-based Section 8 contract, it will give preference for occupancy of those units that are or become vacant to current residents, meaning residents occupying the non project-based

Section 8 units at the time of such vacancy. Defendant Buyer agrees to maintain and/or implement waiting list procedures at each Property accordingly.

b. Defendant Buyer agrees that within 30 days following the Close of Escrow, it shall meet and confer in good faith with Plaintiffs to address the Properties' rehabilitation and deferred maintenance needs in a timely manner.

c. In consideration of the execution of this Agreement, and for other good and valuable consideration, and further conditioned upon the actions of Defendants described in this Agreement being completed within the time frames set forth herein, and in the Amendments, Plaintiffs hereby forever waive, release, and covenant not to sue Defendants and their respective partners, agents, employees, directors and attorneys with regard to any and all claims, damages and injuries arising out of or related in any way, directly or indirectly, to the Action, including, by way of illustration and not limitation any and all claims regarding the propriety or lack of any federal or state notices related to the prepayment of the existing HUD mortgage and the opt-out of the existing project-based Section 8 contracts; provided, however, Plaintiffs' release of Defendant Sellers shall be effective upon Close of Escrow, which in no case shall be later than fifteen days following December 17, 2001. Likewise, Defendants hereby forever waive, release and covenant not to sue or counter-sue Plaintiffs and their respective agents, employees, directors and attorneys with regard to any and all claims, damages and injuries arising out of or related in any way to, directly or indirectly, to the Action. This mutual release is expressly meant to cover any and all claims that arise out of or are related in any way, directly or indirectly to the same transaction or series of transactions or occurrences as the causes of action in the above-referenced action. The new causes of action will be deemed to arise out of, or be related in any way, directly or indirectly, to the "same transaction or occurrence" if the factual or legal

issues are logically related, even though not identical. Each of the parties warrant and represent to every other party that each is the sole and lawful owner of all right, title and interest in and to the respective release matters, and that it has not yet heretofore assigned or transferred or purported to assign or transfer to any person whomsoever any released matter or any part or portion thereof.

d. Promptly after execution of the Agreement by all parties, Plaintiffs agree to file this Agreement with the Court in a timely manner and obtain approval of this Agreement by the Court. Upon timely satisfaction by Defendants of the conditions described in this Agreement, the Defendant Buyer agrees to stipulate in writing that Defendant Seller has either satisfied or been granted a waiver of all applicable federal and state notice requirements (specifically, Defendant Buyer hereby represents and warrants to Defendant Seller that the Deed Restrictions in the Grant Deeds from U.S. Housing Partners, L.P. to Defendant Buyer shall satisfy the requirements of SB 429 as codified in the California Government Code 65863.13 with regard to waiver of state notice requirements). Pursuant to a court order to be filed prior to the Close of Escrow, the parties shall request that the Court approve and adopt this Agreement, which request in the form of an order shall also state (a) that Defendant Seller's sale of the Properties to Defendant Buyer shall not be a violation of the Court's injunction against said sales, (b) the parties shall submit a separate order (the "Second Court Order") to be filed promptly after the Close of Escrow which states that (x) the Action will be dissolved and dismissed with prejudice, and (y) the parties have waived the right to appeal the Action. Plaintiffs shall forward evidence of satisfaction of the foregoing items to Escrow Holder prior to Close of Escrow; provided, however, in the case of the Second Court Order, as a condition precedent to the Close of Escrow,

said order shall be deposited into escrow to be held by the Escrow Holder and shall be released for filing promptly after the Close of Escrow.

III. AMENDMENTS, MODIFICATIONS AND BREACH

12. No amendment to, modification of, or waiver of any provision of this Agreement shall be effective unless: (a) all signatories to the Agreement are notified in advance of the proposed amendment, modification, or waiver; (b) the amendment, modification, or waiver is in writing; and (c) the amendment, modification or waiver is approved and signed by all parties. Any such amendment, modification, waiver, or consent shall be effective only in the specific instance and for the specific purpose for which given.

13. The parties agree that should any party have reasonable cause to believe the other has breached the terms of this Agreement, written notice and a reasonable opportunity to cure the alleged breach shall be given prior to any further action.

14. In the event of an order or judgment by a tribunal of competent jurisdiction striking or otherwise modifying any aspect of the Regulatory Agreement, Defendant Buyer will not be deemed in breach of this Agreement by virtue of its compliance with such order or judgment. Defendant Buyer will make all reasonable efforts to comply to the extent possible with all other provisions of this Agreement which are not inconsistent with such order or judgment.

IV. EFFECTIVE DATE

15. This Agreement shall become effective as of the date of the last signature obtained.

V. CONTINUING JURISDICTION

16. The Court shall retain jurisdiction to enforce the terms of this Stipulation.

VI. BINDING AGREEMENT

17. The provisions of this Agreement, and all documents executed or delivered pursuant to it, shall be binding upon and inure to the benefit of the respective parties and their heirs, executors, administrators, attorneys, agents, representatives, successors, sublessees and assigns.

VII. SEVERABILITY

18. The provisions of this Agreement are severable. If a court of competent jurisdiction rules that any provision of the Agreement is invalid or unenforceable as to any term or party, the court's ruling will not in and of itself affect the validity and enforceability of the other provisions of the Agreement.

VIII. SIGNATURES

19. The parties agree that this Agreement may be executed in multiple counterparts and will be binding upon the parties as though one original had been signed by all parties. If so executed, such counterparts shall have the force and effect of an original.

20. By execution of this Agreement, each signatory acknowledges and agrees that:

- a. It has read and understands the terms and provisions of this Agreement;
- b. It has consulted with an attorney of its choice prior to execution of this

Agreement; and

- c. This Agreement is the complete agreement of the parties; and no statement, remark, agreement, or understanding, oral or written, not included in this Agreement is part of the agreement of the parties.

Agreed to:

Dated: _____

Sherry Lautsbaugh, Plaintiff

Dated: _____

Kathy Pounds, Plaintiff

Dated: _____

Virginia Breimann, Plaintiff

Kenneth Arms Tenant Association, Plaintiff

Dated: _____

By: Virginia Breimann

Manzanita Arms Tenant Association, Plaintiff

Dated: _____

By: Denise Burt

Dated: _____

Rita Janssen, Plaintiff

California Coalition for Rural Housing Project

Dated: _____

By: Rob Wiener

KENNETH ARMS, a California limited partnership

By: The National Housing Partnership,
a District of Columbia limited partnership,
its General Partner

By: National Corporation for Housing
Partnership, a District of Columbia
corporation, its General Partner

Dated: _____

By: _____
Name: _____
Its: _____

RANCHO ARMS, a California limited partnership

By: The National Housing Partnership,
a District of Columbia limited partnership,
its General Partner

By: National Corporation for Housing
Partnership, a District of Columbia
corporation, its General Partner

Dated: _____

By: _____
Name: _____
Its: _____

SAN JUAN APARTMENTS, a California limited
partnership

By: The National Housing Partnership,
a District of Columbia limited partnership,
its General Partner

By: National Corporation for Housing
Partnership, a District of Columbia
corporation, its General Partner

Dated: _____

By: _____
Name: _____
Its: _____

MANZANITA ARMS, a California limited partnership

By: The National Housing Partnership,
a District of Columbia limited partnership,
its General Partner

By: National Corporation for Housing
Partnership, a District of Columbia
corporation, its General Partner

Dated: _____

By: _____
Name: _____
Its: _____

Dated: _____

By: _____
For Defendant National Housing Partnership

Dated: _____

By: _____
Steve Klein for Defendant U.S. Housing
Partners III, L.P.

AS TO FORM:

LEGAL SERVICES OF NORTHERN
CALIFORNIA, INC.

Dated: _____

By: _____
Mona Tawatao
Attorneys for Plaintiffs

HOUSING PRESERVATION PROJECT

Dated: _____

By: _____
Ann Norton
Attorneys for Plaintiffs

NATIONAL HOUSING LAW PROJECT

Dated: _____

By: _____

Jim Grow
Attorneys for Plaintiffs

LOEB & LOEB

Dated: _____

By: _____

Daniel J. Friedman

Attorneys for Defendants Kenneth Arms
Limited Partnership, Rancho Arms Limited
Partnership, San Juan Limited Partnership,
Manzanita Arms Limited Partnership, and National
Housing Partnership, Defendants

LAW OFFICES OF MATTHEW B. PAVONE

Dated: _____

By: _____

Matthew B. Pavone
Attorneys for Defendant
U.S. Housing Partners, III, L.P.

[JURAT ATTACHED]