

Regulatory Agreement for Multifamily Housing Projects

U.S. Department of Housing and Urban Development
Office of Housing
Federal Housing Commissioner

Under Sections 207, 220, 221(d)(4), 231 and 232, Except Nonprofits

Project Number 062-11049		Mortgagee Reilly Mortgage Group, Inc.	
Amount of Mortgage Note \$5,865,000.00		Date September 14, 1994	
Mortgage Recorded State Alabama	County Shelby	Date September 15, 1994	Originally endorsed for insurance under Section 207 pursuant to Section 223(f) 2001
Instrument #1994-28306			
This Agreement entered into this <u>27</u> day of <u>February</u>		interest and JWS, LLC with an undivided 10% interest	
between <u>Royal Oaks, LLC with an undivided 90%</u>			
whose address is <u>820 Shades Creek Parkway, Suite 2300</u>			
<u>Birmingham, AL 35209</u>			

Inst # 2001-06987

their successors, heirs, and assigns (jointly and severally, hereinafter referred to as Owners) and the undersigned Secretary of Housing and Urban Development and his successors (hereinafter referred to as Secretary).

In consideration of the endorsement for insurance by the Secretary of the above described note or in consideration of the consent of the Secretary to the transfer of the mortgaged property or the sale and conveyance of the mortgaged property by the Secretary, and in order to comply with the requirements of the National Housing Act, as amended, and the Regulations adopted by the Secretary pursuant thereto, Owners agree for themselves, their successors, heirs and assigns, that in connection with the mortgaged property and the project operated thereon and so long as the contract of mortgage insurance continues in effect, and during such further period of time as the Secretary shall be the owner, holder or reinsurer of the mortgage, or during any time the Secretary is obligated to insure a mortgage on the mortgage property:

1. Owners, except as limited by paragraph 17 hereof, assume and agree to make promptly all payments due under the note and mortgage.
2. (a) Owners shall establish or continue to maintain a reserve fund for replacements by the allocation to such reserve fund in a separate account with the mortgagee or in a safe and responsible depository designated by the mortgagee, concurrently with the beginning of payments towards amortization of the principal of the mortgage insured or held by the Secretary of an amount equal to \$ 2,806.17 per month unless a different date or amount is approved in writing by the Secretary.

Such fund, whether in the form of a cash deposit or invested in obligations of, or fully guaranteed as to principal by, the United States of America shall at all times be under the control of the mortgagee. Disbursements from such fund, whether for the purpose of effecting replacement of structural elements and mechanical equipment of the project or for any other purpose, may be made only after receiving the consent in writing of the Secretary. In the event that the owner is unable to make a mortgage note payment on the due date and that payment cannot be made prior to the due day of the next such installment or when the mortgagee has agreed to forgo making an election to assign the mortgage to the Secretary based on a monetary default, or to withdraw an election already made, the Secretary is authorized to instruct the mortgagee to withdraw funds from the reserve fund for replacements to be applied to the mortgage payment in order to prevent or cure the default. In addition, in the event of a default in the terms of the mortgage, pursuant to which the loan has been accelerated, the Secretary may apply or authorize the application of the balance in such fund to the amount due on the mortgage debt as accelerated.

- (b) Where Owners are acquiring a project already subject to an insured mortgage, the reserve fund for replacements to be established will be equal to the amount due to be in such fund under existing agreements or charter provisions at the time Owners acquire such project, and payments hereunder shall begin with the first payment due on the mortgage after acquisition, unless some other method of establishing and maintaining the fund is approved in writing by the Secretary.
3. Real property covered by the mortgage and this agreement is described in Schedule A attached hereto.
(This paragraph 4 is not applicable to cases insured under Section 232.)
4. (a) Owners shall make dwelling accommodation and services of the project available to occupants at charges not exceeding those established in accordance with a rental schedule approved in writing by the Secretary, for any project subject to regulation of rent by the Secretary. Accommodations shall not be rented for a period of less than thirty (3) days, or, unless the mortgage is insured under Section 231, for more than three years. Commercial facilities shall be rented for such use and upon such terms as approved by the Secretary. Subleasing of dwelling accommodations, except for subleases of single dwelling accommodations by the tenant thereof, shall be prohibited without prior written approval of Owners and the Secretary and any lease shall so provide. Upon discovery of any unapproved sublease, Owners shall immediately demand cancellation and notify the Secretary thereof.
- (b) Upon prior written approval by the Secretary, Owners may charge to and receive from any tenant such amounts as from time to time may be mutually agreed upon between the tenant and the Owners for any facilities and/or services which may be furnished by the Owners or others to such tenant upon his request, in addition to the facilities and services included in the approved rental schedule. Approval of charges for facilities and services is not required for any project not subject to regulation of rent by the Secretary.
- (c) For any project subject to regulation of rent by the Secretary, the Secretary will at any time entertain a written request for a rent increase properly supported by substantiating evidence and within a reasonable time shall

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- (i) Approve a rental schedule that is necessary to compensate for any net increase, occurring since the last approved rental schedule, in taxes (other than income taxes) and operating and maintenance cost over which Owners have no effective control or;
 - (ii) Deny the increase stating the reasons therefor.
5. (a) If the mortgage is originally a Secretary-held purchase money mortgage, or is originally endorsed for insurance under any Section other than Sections 231 or 232 and is not designed primarily for occupancy by elderly persons, Owners shall not in selecting tenants discriminate against any person or persons by reason of the fact that there are children in the family.
- (b) If the mortgage is originally endorsed for insurance under Section 221, Owners shall in selecting tenants give to displaced persons or families an absolute preference or priority of occupancy which shall be accomplished as follows:
- (1) For a period of sixty (60) days from the date of original offering, unless a shorter period of time is approved in writing by the Secretary, all units shall be held for such preferred applicants, after which time any remaining unrented units may be rented to non-preferred applicants;
 - (2) Thereafter, and on a continuing basis, such preferred applicants shall be given preference over nonpreferred applicants in their placement on a waiting list to be maintained by the Owners; and
 - (3) Through such further provisions agreed to in writing by the parties.
- (c) Without the prior written approval of the Secretary not more than 25% of the number of units in a project insured under Section 231 shall be occupied by persons other than elderly persons.
- (d) All advertising or efforts to rent a project insured under Section 231 shall reflect a bona fide effort of the Owners to obtain occupancy by elderly persons.
6. Owners shall not without the prior written approval of the Secretary:
- (a) Convey, transfer, or encumber any of the mortgaged property, or permit the conveyance, transfer or encumbrance of such property.
 - (b) Assign, transfer, dispose of, or encumber any personal property of the project, including rents, or pay out any funds except from surplus cash, except for reasonable operating expenses and necessary repairs.
 - (c) Convey, assign, or transfer any beneficial interest in any trust holding title to the property, or the interest of any general partner in a partnership owning the property, or any right to manage or receive the rents and profits from the mortgaged property.
 - (d) Remodel, add to, reconstruct, or demolish any part of the mortgaged property or subtract from any real or personal property of the project.
 - (e) Make, or receive and retain, any distribution of assets or any income of any kind of the project except surplus cash and except on the following conditions:
 - (1) All distributions shall be made only as of and after the end of a semiannual or annual fiscal period, and only as permitted by the law of the applicable jurisdiction;
 - (2) No distribution shall be made from borrowed funds, prior to the completion of the project or when there is any default under this Agreement or under the note or mortgage;
 - (3) Any distribution of any funds of the project, which the party receiving such funds is not entitled to retain hereunder, shall be held in trust separate and apart from any other funds; and
 - (4) There shall have been compliance with all outstanding notices of requirements for proper maintenance of the project.
 - (f) Engage, except for natural persons, in any other business or activity, including the operation of any other rental project, or incur any liability or obligation not in connection with the project.
 - (g) Require, as a condition of the occupancy or leasing of any unit in the project, any consideration or deposit other than the prepayment of the first month's rent plus a security deposit in an amount not in excess of one month's rent to guarantee the performance of the covenants of the lease. Any funds collected as security deposits shall be kept separate and apart from all other funds of the project in a trust account the amount of which shall at all times equal or exceed the aggregate of all outstanding obligations under said account.
 - (h) Permit the use of the dwelling accommodations or nursing facilities of the project for any purpose except the use which was originally intended, or permit commercial use greater than that originally approved by the Secretary.
7. Owners shall maintain the mortgaged premises, accommodations and the grounds and equipment appurtenant thereto, in good repair and condition. In the event all or any of the buildings covered by the mortgage shall be destroyed or damaged by fire or other casualty, the money derived from any insurance on the property shall be applied in accordance with the terms of the mortgage.
8. Owners shall not file any petition in bankruptcy or for a receiver or in insolvency or for reorganization or composition, or make any assignment for the benefit of creditors or to a trustee for creditors, or permit an adjudication in bankruptcy or the taking possession of the mortgaged property or any part thereof by a receiver or the seizure and sale of the mortgaged property or any part thereof under judicial process or pursuant to any power of sale, and fail to have such adverse actions set aside within forty-five (45) days.
9. (a) Any management contract entered into by Owners or any of them involving the project shall contain a provision that, in the event of default hereunder, it shall be subject to termination without penalty upon written request by the Secretary. Upon such request Owners shall immediately arrange to terminate the contract within a period of not more than thirty (30) days and shall make arrangements satisfactory to the Secretary for continuing proper management of the project.
- (b) Payment for services, supplies, or materials shall not exceed the amount ordinarily paid for such services, supplies, or materials in the area where the services are rendered or the supplies or materials furnished.
- (c) The mortgaged property, equipment, buildings, plans, offices, apparatus, devices, books, contracts, records, documents, and other papers relating thereto shall at all times be maintained in reasonable condition for proper audit and subject to examination and inspection at any reasonable time by the Secretary or his

duly authorized agents. Owners shall keep copies of all written contracts or other instruments which affect the mortgaged property, all or any of which may be subject to inspection and examination by the Secretary or his duly authorized agents.

- (d) The books and accounts of the operations of the mortgaged property and of the project shall be kept in accordance with the requirements of the Secretary.
- (e) Within sixty (60) days following the end of each fiscal year the Secretary shall be furnished with a complete annual financial report based upon an examination of the books and records of mortgagor prepared in accordance with the requirements of the Secretary, prepared and certified to by an officer or responsible Owner and, when required by the Secretary, prepared and certified by a Certified Public Accountant, or other person acceptable to the Secretary.
- (f) At request of the Secretary, his agents, employees, or attorneys, the Owners shall furnish monthly occupancy reports and shall give specific answers to questions upon which information is desired from time to time relative to income, assets, liabilities, contracts, operation, and condition of the property and the status of the insured mortgage.
- (g) All rents and other receipts of the project shall be deposited in the name of the project in a financial institution, whose deposits are insured by an agency of the Federal Government. Such funds shall be withdrawn only in accordance with the provisions of this Agreement for expenses of the project or for distributions of surplus cash as permitted by paragraph 6(e) above. Any Owner receiving funds of the project other than by such distribution of surplus cash shall immediately deposit such funds in the project bank account and failing so to do in violation of this Agreement shall hold such funds in trust. Any Owner receiving property of the project in violation of this Agreement shall hold such funds in trust. At such time as the Owners shall have lost control and/or possession of the project, all funds held in trust shall be delivered to the mortgagee to the extent that the mortgage indebtedness has not been satisfied.
- (h) If the mortgage is insured under Section 232:
 - (1) The Owners or lessees shall at all times maintain in full force and effect from the state or other licensing authority such license as may be required to operate the project as a nursing home and shall not lease all or part of the project except on terms approved by the Secretary.
 - (2) The Owners shall suitably equip the project for nursing home operations.
 - (3) The Owners shall execute a Security Agreement and Financing Statement (or other form of chattel lien) upon all items of equipment, except as the Secretary may exempt, which are not incorporated as security for the insured mortgage. The Security Agreement and Financing Statement shall constitute a first lien upon such equipment and shall run in favor of the mortgagee as additional security for the insured mortgage.
 - (i) If the mortgage is insured under Section 231, Owners or lessees shall at all times maintain in full force and effect from the state or other licensing authority such license as may be required to operate the project as housing for the elderly.

- 10. Owners will comply with the provisions of any Federal, State, or local law prohibiting discrimination in housing on the grounds of race, color, religion or creed, sex, or national origin, including Title VIII of the Civil Rights Act of 1968 (Public Law 90-284; 82 Stat. 73), as amended, Executive Order 11063, and all requirements imposed by or pursuant to the regulations of the Department of Housing and Urban Development implementing these authorities (including 24 CFR Parts 100, 107 and 110, and Subparts I and M of Part 200).
- 11. Upon a violation of any of the above provisions of this Agreement by Owners, the Secretary may give written notice thereof, to Owners, by registered or certified mail, addressed to the addresses stated in this Agreement, or such other addresses as may subsequently, upon appropriate written notice thereof to the Secretary, be designated by the Owners as their legal business address. If such violation is not corrected to the satisfaction of the Secretary within thirty (30) days after the date such notice is mailed or within such further time as the Secretary determines is necessary to correct the violation, without further notice the Secretary may declare a default under this Agreement effective on the date of such declaration of default and upon such default the Secretary may:
 - (a) (i) If the Secretary holds the note - declare the whole of said indebtedness immediately due and payable and then proceed with the foreclosure of the mortgage;
 - (ii) If said note is not held by the Secretary - notify the holder of the note of such default and request holder to declare a default under the note and mortgage, and holder after receiving such notice and request, but not otherwise, at its option, may declare the whole indebtedness due, and thereupon proceed with foreclosure of the mortgage, or assign the note and mortgage to the Secretary as provided in the Regulations;
 - (b) Collect all rents and charges in connection with the operation of the project and use such collections to pay the Owners' obligations under this Agreement and under the note and mortgage and the necessary expenses of preserving the property and operating the project.
 - (c) Take possession of the project, bring any action necessary to enforce any rights of the Owners growing out of the project operation, and operate the project in accordance with the terms of this Agreement until such time as the Secretary in his discretion determines that the Owners are again in a position to operate the project in accordance with the terms of this Agreement and in compliance with the requirements of the note and mortgage.
 - (d) Apply to any court, State or Federal, for specific performance of this Agreement for an injunction against any violation of the Agreement, for the appointment of a receiver to take over and operate the project in accordance with the terms of the Agreement, or for such other relief as may be appropriate, since the injury to the Secretary arising from a default under any of the terms of this Agreement would be irreparable and the amount of damage would be difficult to ascertain.
- 12. As security for the payment due under this Agreement to the reserve fund for replacements, and to secure the Secretary because of his liability under the endorsement of the note for insurance, and as security for the other obligations under this Agreement, the Owners respectively assign, pledge and mortgage to the Secretary their rights to the rents, profits, income and charges of whatsoever sort which they may receive or be entitled to receive from the operation of the

mortgaged property, subject, however, to any assignment of rents in the insured mortgage referred to herein. Until a default is declared under this Agreement, however, permission is granted to Owners to collect and retain under the provisions of this Agreement such rents, profits, income, and charges, but upon default this permission is terminated as to all rents due or collected thereafter.

13. As used in this Agreement the term:

- (a) "Mortgage" includes "Deed of Trust", "Chattel Mortgage", "Security Instrument", and any other security for the note identified herein, and endorsed for insurance or held by the Secretary;
- (b) "Mortgagee" refers to the holder of the mortgage identified herein, its successors and assigns;
- (c) "Owners" refers to the persons named in the first paragraph hereof and designated as Owners, their successors, heirs and assigns;
- (d) "Mortgaged Property" includes all property, real, personal or mixed, covered by the mortgage or mortgages securing the note endorsed for insurance or held by the Secretary;
- (e) "Project" includes the mortgaged property and all its other assets of whatsoever nature or wheresoever situate, used in or owned by the business conducted on said mortgaged property, which business is providing housing and other activities as are incidental thereto;
- (f) "Surplus Cash" means any cash remaining after:
 - (1) the payment of:
 - (i) All sums due or currently required to be paid under the terms of any mortgage or note insured or held by the Secretary;
 - (ii) All amounts required to be deposited in the reserve fund for replacements;
 - (iii) All obligations of the project other than the insured mortgage unless funds for payment are set aside or deferment of payment has been approved by the Secretary; and
 - (2) the segregation of:
 - (i) An amount equal to the aggregate of all special funds required to be maintained by the project; and
 - (ii) All tenant security deposits held.
- (g) "Distribution" means any withdrawal or taking of cash or any assets of the project, including the segregation of cash or assets for subsequent withdrawal within the limitations of Paragraph 6(e) hereof, and excluding payment for reasonable expenses incident to the operation and maintenance of the project.

(h) "Default" means a default declared by the Secretary when a violation of this Agreement is not corrected to his satisfaction within the time allowed by this Agreement or such further time as may be allowed by the Secretary after written notice:

(i) "Section" refers to a Section of the National Housing Act, as amended.

(j) "Displaced persons or families" shall mean a family or families, or a person, displaced from an urban renewal area, or as the result of government action, or as a result of a major disaster as determined by the President pursuant to the Disaster Relief Act of 1970.

(k) "Elderly person" means any person, married or single, who is sixty-two years of age or over.

14. This instrument shall bind, and the benefits shall inure to, the respective Owners, their heirs, legal representatives, executors, administrators, successors in office or interest, and assigns, and to the Secretary and his successors so long as the contract of mortgage insurance continues in effect, and during such further time as the Secretary shall be the owner, holder, or reinsurer of the mortgage, or obligated to reinsure the mortgage.

15. Owners warrant that they have not, and will not, execute any other agreement with provisions contradictory of, or in opposition to, the provisions hereof, and that, in any event, the requirements of this Agreement are paramount and controlling as to the rights and obligations set forth and supersede any other requirements in conflict therewith.

16. The invalidity of any clause, part or provisions of this Agreement shall not affect the validity or the remaining portions thereof.

17. The following Owners: ^{Royal Oaks, LLC with an} undivided 90% interest and JWS, LLC with an undivided 10% interest
Do not assume personal liability for payments due under the note and mortgage, or for the payments to the reserve for replacements, or for matters not under their control, provided that said Owners shall remain liable under this Agreement only with respect to the matters hereinafter stated, namely:

(a) for funds or property of the project coming into their hands which, by the provisions hereof, they are not entitled to retain; and

(b) for their own acts and deeds or acts and deeds of others which they have authorized in violation of the provisions hereof.

(To be executed with formalities for recording a deed to real estate.)

18. The attached LLC Rider to Note, Mortgage, and Regulatory Agreement is incorporated herein and made a part hereof.

ROYAL OAKS, LLC with an undivided 90% interest
By: Windy Hill Corporation, Sole Member

By: 
Ingram D. Tynes, President

JWS, LLC with an undivided 10% interest

By: 
James W. Shepherd, Sole Member

SECRETARY OF HOUSING AND URBAN DEVELOPMENT acting by and through the FEDERAL HOUSING COMMISSIONER

By: 
Authorized Agent David H. Silvia

STATE OF ALABAMA
COUNTY OF JEFFERSON

I, the undersigned, a Notary Public in and for said County, in said State, hereby certify that Ingram D. Tynes, whose name as President of Windy Hill Corporation, Sole Member of Royal Oaks, LLC, a limited liability company, is signed to the foregoing instrument and who is known to me, acknowledged before me on this day that, being informed of the contents of said instrument, he, as such officer of said Sole Member and with full authority, executed the same voluntarily for and as the act of said Limited Liability Company.

Given under my hand and official seal this the 29th day of ~~December~~ ^{November}, 2000.



NOTARY PUBLIC

My Commission Expires: June 14, 2003

STATE OF ALABAMA
COUNTY OF JEFFERSON

I, the undersigned, a Notary Public in and for said County, in said State, hereby certify that James W. Shepherd, whose name as Sole Member of JWS, LLC, a limited liability company, is signed to the foregoing instrument and who is known to me, acknowledged before me on this day that, being informed of the contents of said instrument, he, as such officer of said Sole Member and with full authority, executed the same voluntarily for and as the act of said Limited Liability Company.

Given under my hand and official seal this the 29 day of ~~December~~ ^{November}, 2000.



NOTARY PUBLIC

My Commission Expires: 10-14-02

STATE OF ALABAMA
COUNTY OF JEFFERSON

On this 27TH day of ^{February, 2001} ~~December, 2000~~, before me appeared David H. Silvic, to me personally known and known to me to be the duly appointed Authorized Agent and the persons who executed the foregoing instrument by virtue of the authority vested in him by 59 F.R. 62739 and acknowledged that he executed and delivered the aforesaid instrument for and on behalf of the Federal Housing Commissioner, for the purposes therein expressed.



NOTARY PUBLIC

My Commission Expires:

NOTARY PUBLIC STATE OF ALABAMA AT LARGE
MY COMMISSION EXPIRES: Mar. 23, 2004
BONDED THRU NOTARY PUBLIC UNDERWRITERS

SCHEDULE "A"

Part of the N $\frac{1}{4}$ of Section 30, Township 19 South, Range 2 West, Shelby County, Alabama, being more particularly described as follows:

Commence at the Southeast corner of the Northwest $\frac{1}{4}$ of Section 30, Township 19 South, Range 2 West, Shelby County, Alabama; thence run in a Westerly direction along the South line of said $\frac{1}{4}$ Section for a distance of 2,300.55 feet; thence turn an angle to the right of 86° and run in a Northwesterly direction along the Northeastly right of way line of U.S. Highway #31 South for a distance of 1,096.84 feet; thence turn an angle to the right of 101°03'10" and run in an Easterly direction for a distance of 346.16 feet; thence turn an angle to the left of 71°19'50" and run in a Northeastly direction for a distance of 580.0 feet; thence turn an angle to the right of 18°59'22" and run in a Northeastly direction for a distance of 525.54 feet; thence turn an angle to the right of 101°40'03" and run in a Southeastly direction for a distance of 526.96 feet; thence turn an angle to the right of 31°30' and run in a Southeastly direction for a distance of 176.65 feet; thence turn an angle to the right of 0°14'53" and run in a Southeastly direction 60.00 feet to the point of beginning of the following described curve; thence turn an angle from the last described course to the left of 90° to the tangent of a curve to the left having a central angle of 26°08'31" and the radius of 438.82 feet; thence run along the arc of said curve in a Northeastly direction 200.21 feet to the point of beginning; from the point of beginning thus obtained, thence turn an angle to the right from the tangent, if extended to the last described curve, of 98°10'47" and run in a Southeastly direction 453.07 feet, thence turn an angle to the left of 79°02' and run in a Northeastly direction 437.50 feet; thence turn an angle to the left of 69°12' and run in a Northeastly direction 106.97 feet; thence turn an angle to the right of 69°12' and run in a Northeastly direction 135.01 feet; thence turn an angle to the right of 51°22'30" and run in a Southeastly direction 128.00 feet; thence turn an angle to the left of 51°22'30" and run in a Northeastly direction 506 feet; thence turn an angle to the left of 92°14' and run in a Northwesterly direction 128 feet; thence turn an angle to the left of 31°36'13" and run in a Northwesterly direction 200 feet; thence turn an angle to the left of 35°58'40" and run in a Northwesterly direction 82.00 feet; thence turn an angle to the right of 66°44'03" and run in a Northwesterly direction 190 feet; thence turn an angle to the left of 49°03'36" and run in a Northwesterly direction 256.06 feet to a point on the South right of way line of Woods of Riverchase Drive; thence turn an angle to the left of 63°36'40" to the tangent of a curve to the left, having a central angle of 1°25'23" and a radius of 382.25 feet; thence run along the arc of said curve to the left in a Southwesterly direction along said South line of Woods of Riverchase Drive 9.49 feet to the end of said curve; thence continue along the tangent, if extended to the last described curve, and run in a Southwesterly direction along the South line of said Woods of Riverchase Drive 61.24 feet to the point of beginning of a curve to the right, said curve having a central angle of 45°57'43" and a radius of 402 feet; thence run along the arc of said curve to the right along said right of way line in a Southwesterly direction 322.48 feet to the end of said curve and the point of beginning of a curve to the left, said curve having a central angle of 62° and a radius of 342 feet; thence run along the arc of said curve to the left and along said right of way line in a Southwesterly direction 370.08 feet to the end of said curve and the point of beginning of a curve to the right, said curve having a central angle of 24°03'59" and a radius of 438.82 feet; thence run along the arc of said curve to the right along said right of way line in a Southwesterly direction 184.32 feet to the point of beginning.

LLC RIDER TO NOTE, MORTGAGE AND REGULATORY AGREEMENT

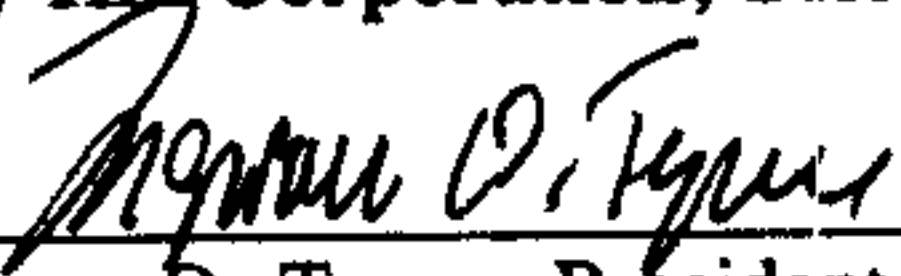
In consideration of the consent of the Secretary to the transfer of the mortgage property and in order to comply with the requirements of the National Housing Act, as amended and the regulations adopted by the Secretary pursuant thereto, the Owners agree as described below for themselves, their successors, heirs and assigns, in connection with the mortgaged property and the project operated thereon and so long as the contract of mortgage insurance continues in effect and during such further period of time as the Secretary shall be the owner, holder, or reinsurer of the mortgage, or during any time the Secretary is obligated to insure a mortgage on the mortgaged property. The signatories to this document undertake the following obligations in their individual capacities as guarantors and as members of the Owner, and the consideration described above runs to the signatories in both capacities. The following provisions are added to and made a part of the project Mortgage Note, Mortgage, and Regulatory Agreement, all dated September 14, 1994.

1. If any provision of the Owner's Articles of Organization, Operating Agreement, other organizational documents, or any later amendment to those documents, conflicts with the terms of the project loan documents (e.g., the note, mortgage, security agreement, and/or this Regulatory Agreement), the provisions of the project loan documents will control.
2. Notwithstanding any provision of state law to the contrary, any signatory to this rider receiving funds of the project other than by distribution of surplus cash as authorized in paragraph 13, above, shall immediately deposit such funds in the project bank account and failing to do so in violation of this Agreement shall hold such funds in trust. Notwithstanding any provision of state law to the contrary, any signatory to this rider receiving property of the project in violation of this agreement shall immediately deliver such property to the project and failing to do so shall hold such property in trust.
3. Notwithstanding any provision of state law to the contrary, all signatories to this rider are liable for:
 - a. Funds or property of the project coming into their hands which, by the provisions hereof, they are not entitled to retain; and
 - b. Their own acts and deeds or acts and deeds of others which they have authorized in violation of the provisions hereof;
4. Notwithstanding any provision of state law to the contrary, any member-manager, member with governance interests equaling or exceeding 10 percent, or member with financial interests equaling or exceeding 25 percent, who, on the date of the Regulatory Agreement to which this Rider is attached, include the following: Windy Hill Corporation and James W. Shepherd shall be liable on a joint and several basis, in the amount of any loss, damage or cost (including but not limited to attorneys' fees) resulting from fraud or intentional

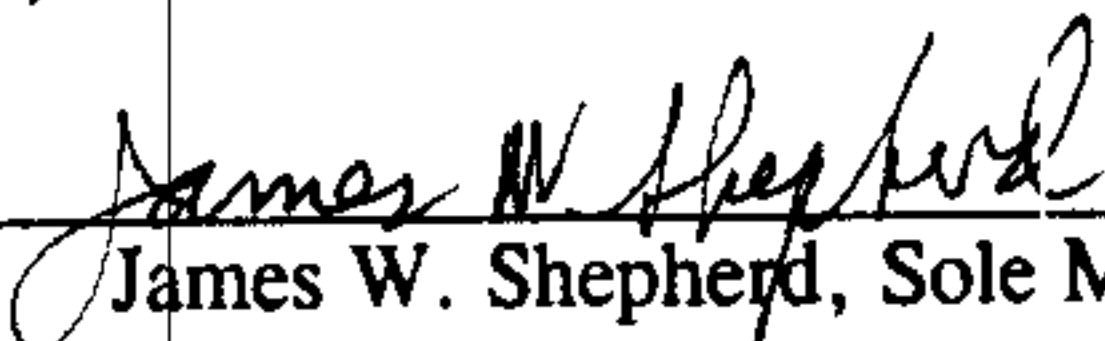
misrepresentation by the Mortgagor, the Mortgagor's agents or employees, or a member of mortgagor in connection with obtaining the loan evidenced by the note, or in complying with any of the mortgagor's obligations under the loan documents.

5. All signatories to this rider will be considered agents of the Owner for the purpose of establishing liability under the double damages provision at 12 U.S.C. §1715z-4a and the equity skimming penalty under 12 U.S.C. §1715z-19, unless HUD agrees in writing to the contrary.
6. Each signatory to this rider will be individually liable for payment of the entire amount of any civil money penalty imposed on the Mortgagor pursuant to Section 537 of the National Housing Act, 12 U.S.C. §1735f-15.
7. The Owner has designated Ingram D. Tynes as its official representative for all matters concerning the project which require HUD consent or approval. The signature of this person will bind the Owner in all such matters. The Owner may from time to time appoint a new representative to perform this function, but within 3 business days of doing so, will provide HUD with written notification of the name, address, and telephone number of its new representative. When a member other than the member identified above has full or partial authority for management of the project, the Owner will promptly provide HUD with the name of the member and the nature of that member's management authority.
8. Notwithstanding any provision of state law to the contrary, no signatory to this rider shall have any right of subrogation of indemnification against the Owner or the property of the project by reason of any payment made or liability incurred pursuant to this rider or any statute to which this rider refers.

ROYAL OAKS, LLC with an undivided 90% interest
By: Windy Hill Corporation, Sole Member

By: 
Ingram D. Tynes, President

JWS, LLC with an undivided 10% interest

By: 
James W. Shepherd, Sole Member

Inst # 2001-06987

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