

**NON-BINDING PROPOSED TERM SHEET
FOR LOAN MODIFICATION AGREEMENT AND
OWNER PARTICIPATION AGREEMENT
FOR DEVELOPMENT OF 53RD AND NARANJA STREETS**

July 23, 2010

This term sheet is not intended to create a binding contract or promise of entitlements. Instead, it is intended only to describe in general terms the outline of a transaction which the staff of the Southeastern Economic Development Corporation ("SEDC") would find acceptable for recommendation to the SEDC Board and the Redevelopment Agency of the City of San Diego ("Agency"). This term sheet does not include all of the terms of the proposed development of the hereinafter defined Property. No party will be bound until and unless a detailed Loan Purchase Agreement and Owner Participation Agreement ("OPA") are fully negotiated, approved by the appropriate parties/public bodies, and executed.

- 1. Developer:** Creekside Pointe, L.P., a California limited partnership ("Developer")
- 2. Lender:** Security Business Bank of San Diego, Main Office, 701 B Street, Suite 100, San Diego, CA 92101 ("Lender"). The Lender has a recorded deed of trust ("Trust Deed") to secure a promissory note ("Note") for a line of credit to Developer in the amount of \$425,000 ("Loan"). The Maturity Date on the Note is September 6, 2009. Developer failed to make payment on the Note. Consequently, the Note is currently in default. The Loan balance, including interest is \$461,830 as of July 21, 2010. Developer is currently in arrears on property taxes in the amount of \$15,022. The Agency, Developer and Lender will need to agree upon the Purchase Price for the Note.
- 3. Agency:** Redevelopment Agency of the City of San Diego ("Agency")
- 4. Property:** 5300 Naranja Street, San Diego, CA 92114 ("Property"). The Property is located within the Central Imperial Project Area and is currently undeveloped.
- 5. Proposed Agency Subsidy:** Maximum of \$350,000, which amount includes (i) purchase of the Note from the Lender, (ii) payment of property taxes in arrears and other outstanding liens, and (iii) mutually agreed upon pre-development costs, excluding overhead, profit and developer fees, to the extent of any proceeds remaining, if any, after purchase of the Note from the Lender and payment of property taxes in arrears and other outstanding liens ("Subsidy").

**6. Proposed
Conditions for
Agency Subsidy:**

a. As a pre-condition to Agency's purchase of the Note, Developer must deposit sufficient proceeds into escrow to ensure (i) purchase of the Note and (ii) payment of property taxes in arrears and other outstanding liens, to the extent that the Subsidy is not enough to cover both costs at the time of closing. Additionally, Developer shall deposit into escrow the amounts necessary to make tax payments for the first year during the modified term of the Note and shall make a subsequent deposit for payment of property taxes for an additional year in the event Developer seeks to extend the term of the Note for one (1) additional year, as discussed under subsection (b), below.

b. Concurrent with Agency's purchase of the Note from the Lender, the Developer and Agency shall execute an Owner Participation Agreement ("OPA"), which includes provisions for modification of the Loan terms that would extend the maturity for one (1) year from the date of acquisition by the Agency on an interest free basis and further allow the Developer to extend the note for one (1) additional year, assuming no other event of default, by making monthly interest only payments based on the One Year US Treasury rate. The modified Note will be secured by a Deed of Trust with the Agency as beneficiary. The Note will be made to the Developer entity and there will be no personal guarantors for the obligation, given that the Agency will have a recorded deed of trust in first place as security for the Loan. The Developer will be required to pay all entitlement costs, taxes, and other costs or fees for development of the Property as the same are incurred and due until the Note is paid in full. No transfer of the Property will be permitted without the Agency's reasonable consent and payment in full of the Note.

c. Upon closing for purchase of the Loan, and in consideration for the Agency's provision of the Subsidy and use of low and moderate income housing funds to fund the Subsidy, Agency shall record covenants to ensure that the Property is developed with affordable housing for 45 years, if the units built are offered for sale, and 55 years, if the units built are for rent ("Covenants"). The scope of the Covenants will be negotiated along with all other terms of the OPA, and will conform in all aspects to the Community Redevelopment Law (Health and Safety Code sections 33000 et seq.). The Covenants will run with the land, so that any future purchaser of the Property will need to meet these restrictions. The Covenants will be senior and unsubordinated to all other security instruments recorded on the Property.