

NOTICE TO BORROWER:

THIS DOCUMENT CONTAINS PROVISIONS RESTRICTING REALES AND ASSUMPTIONS

PROMISSORY NOTE
Secured by Deed of Trust

\$ _____

San Luis Obispo, California
_____, 20 _____

FOR VALUE RECEIVED, the undersigned _____
_____ (the "Borrower") promises
to pay to the County of San Luis Obispo (the "County") the principal sum of _____

Dollars (\$ _____) plus simple interest at the rate of three percent (3%)
per annum which shall accrue on the unpaid principal balance for the entire Term of this
promissory note (this "Note") and be payable in accordance with section 5 below or as
otherwise specified in this Note and after twenty (20) years shall be payable in
accordance with section 5(d) below or as otherwise specified in this Note.

1. Definitions. The terms set forth in this section shall have the following meanings
in this Note.

(a) "County Deed of Trust" shall mean the deed of trust securing the obligations
under this Note.

(b) "Fair Market Value" shall be determined by an appraisal of the Property
performed as provided in Section 8 (Fair Market Value) of the Affordability/Recapture
Agreement. Nothing in this subparagraph shall preclude the Borrower and the County
or its designated agent from establishing the Fair Market Value of the Property by
mutual agreement in lieu of an appraisal.

(c) "First Lender" shall have the meaning set forth in the Recapture Agreement.

(d) "First Lender Deed of Trust" shall mean the deed of trust securing the first
mortgage loan in first and superior position on the Property.

(e) The "Property" shall mean the housing unit and land which secure the deed of
trust executed in connection with this Note. The property is located at _____
_____,
in the County of San Luis Obispo, California.

(f) "Term" shall mean the period commencing on the date first above written and expiring on the date fifty (50) years thereafter.

(g) "Transfer" shall mean any sale, assignment or transfer, voluntary or involuntary, or any interest in the Property, including, but not limited to, a fee simple interest, a joint tenancy interest, a life estate, a leasehold interest, or an interest evidenced by a land contract by which possession of the Property is transferred and Owner retains title. Any Transfer without satisfaction of the provisions of the Affordability/Recapture Agreement and Option to Purchase ("Agreement") is prohibited. Transfers by gift, devise, or inheritance to an existing spouse who is also an obligor under the Note; by an Owner to a spouse where the spouse becomes the co-owner of the Property; to a spouse who is also an obligor under the Note, as part of a dissolution proceeding; or by the Owner into an inter vivos trust in which the Owner is the beneficiary shall not be considered a Transfer for the purposes of this Agreement.

(h) "Value of Improvements" shall mean the value of any substantial structural or permanent fixed improvements which value shall be determined in accordance with Section 10 (Transfer By Owner) of the Affordability/Recapture Agreement.

(i) "Appraised Value" shall mean that value established pursuant to Section 1(b) above.

(j) "Other Deed of Trust" shall mean a deed of trust other than the First Lender Deed of Trust and the County Deed of Trust encumbering the Property and securing a loan under which payments are not deferred until the full repayment of this Note.

2. Security. This Note is secured by a deed of trust on "the Property"(described above) dated the same date as this Note (the "County Deed of Trust").

3. Assumption of Note is Restricted. Borrower(s) acknowledges that this Note is given in connection with the purchase of the Property as part of a program of the County to assist low income persons with home ownership. Consequently, this Note is not automatically assumable, but is subject to Section 711.5 of the California Civil Code which allows the County to accelerate all amounts due under this Note if any subsequent sale or transfer of the Property of any kind does not comply with the provisions of this Note, the County Deed of Trust and the Affordability/ Recapture Agreement and Option to Purchase executed between the Borrower and the County and dated the same date as this Note.

4. Term. The term of this Note shall begin on the date first written above and shall continue for a period of fifty (50) years.

5. Repayment. The County has extended the loan to Borrower as evidenced by this Note for the express purpose of making the Property affordable to Borrower. Borrower shall not be required to make payments on principal or interest owed under

this Note for the first twenty (20) years of the Term so long as the Borrower owns the Property and is not in violation of any provisions of this Note, the Affordability/Recapture Agreement, or the County Deed of Trust, subject to the following provisions:

(a) The total amount of the principal and any accrued interest owed under this Note shall immediately become due and payable, at the option of County, if at any time after execution of this Note:

- (1) Title to all or any part of the Property described in the County Deed of Trust securing this Note is transferred to anyone other than a spouse or member of the immediate family of the undersigned; or
- (2) An equitable interest in all or any part of the Property described in the County Deed of Trust securing this Note is transferred to or created in anyone other than a spouse or member of the immediate family of the undersigned; or
- (3) Said Property is primarily occupied by other than the undersigned or a member(s) of the undersigned's immediate family (i.e., parent, spouse or child); or
- (4) Said Property is used for rental income purposes; or
- (5) A default by the Borrower under this Note, the County Deed of Trust or the Affordability/Recapture Agreement has occurred.

Failure to declare such amounts due shall not constitute a waiver on the part of the County to declare them due in the event of subsequent violations of the terms of this Note, the County Deed of Trust or the Affordability/Recapture Agreement.

(b) In the event Borrower encumbers the Property with a deed of trust securing a loan under which payments are not deferred until the full repayment of this Note (an "Other Deed of Trust") except for the First Lender Deed of Trust, Borrower shall make level monthly payments to the County in an amount sufficient to amortize the unpaid principal balance of this Note at a three percent (3%) interest rate over a thirty (30) year period beginning on the date the Other Deed of Trust is recorded in the Official Records of the County of San Luis Obispo, which monthly payment is set forth in section 5(d) below. All monthly payments required to be made pursuant to this section 5(b) shall commence on the first day of the month following recordation of an Other Deed of Trust. Notwithstanding the foregoing, in the event Borrower encumbers the Property with an Other Deed of Trust prior to the fifth anniversary of the date of this Note, the thirty (30) year amortization period shall not begin until the first day of the month following the fifth anniversary of the date of this note. Any interest accrued by Borrower under this Note prior to the recordation of an Other Deed of Trust shall be due and payable pursuant to the terms of Section 5(d) below.

(c) In the event of default in the repayment of this Note, the undersigned shall pay to the County the unpaid principal sum, from and after the date of default, with interest, which interest shall accrue until paid at the then current rate imposed under California Civil Code Section 3289(b), or any similar or successor provision thereof.

(d) Beginning on the date which is the twentieth anniversary of the date of this Note, _____, 20 _____, if this Note has not previously become subject to repayment pursuant to section 5(a) or 5(b) above, Borrower shall begin making a total monthly payment to the County in the amount of _____ Dollars (\$ _____) over thirty (30) years. This monthly payment includes:

- (1) _____ Dollars (\$ _____) to repay interest which was accrued during the first 20 years; and
- (2) _____ Dollars (\$ _____) to amortize the principal at a three percent (3%) simple interest rate.

Borrower shall continue making such payments until all principal and interest due under this Note has been paid. Any amounts still owing at the end of the Term shall be due from Borrower upon expiration of the Term.

6. Forgiveness of Interest. The County shall forgive interest due under this Note at the time of a transfer, prepayment, or repayment of this Note to the extent necessary to ensure that the Borrower's obligations to repay the principal and any interest due on this Note and on the First Lender's promissory note, plus the amount of the Borrower's downpayment and the Value of Improvements to the Property made by the Borrower, if any, do not exceed the purchase price or appraised value of the residence, whichever is higher.

7. Prepayments. Borrower may prepay all or part of the balance due under this Note.

8. Notice Required. In the event the Borrower intends to encumber the Property pursuant to section 5(b) above, the Borrower shall promptly notify the County in writing of such intent. The written notice shall be provided at least thirty (30) days prior to the date the property is encumbered and shall acknowledge the requirements of section 5(b). Said notice from the Borrower shall be sent to the County's designated agent, by certified mail, return receipt requested to: Director of Planning and Building, County Government Center, Rm. 300, San Luis Obispo, CA 93408.

9. Default. Borrower shall be in default under this Note if, after the notice and cure period provided by the County to Borrower pursuant to the notice and cure provisions of the Deed of Trust, Borrower (a) fails to pay any money when due under this Note; (b) breaches any representation or covenant made in this Note in any material respect; (c) breaches any provision of the Deed of Trust; or (d) breaches any provision of the Affordability/Recapture Agreement.

10. Acceleration. Upon the occurrence of a violation of section 5(a) above or a default under this Note, the Affordability/Recapture Agreement or the County Deed of Trust, the County shall have the right to declare the full amount of the principal along with any accrued interest under this Note immediately due and payable. Any failure by the County to pursue its legal and equitable remedies upon default or violation of section 5(a) of this Note shall not constitute a waiver of the County's right to declare a default and exercise all of its rights under this Note, the Deed of Trust, and the Affordability/Recapture Agreement. Nor shall acceptance by the County of any payment provided for herein constitute a waiver of the County's right to require prompt payment of any remaining principal and interest owed.

11. No Offset. Borrower hereby waives any rights of offset it now has or may hereafter have against the County, its successors and assigns, and agrees to make the payments called for herein in accordance with the term of this Note.

12. Waiver; Attorneys' Fees. Borrower and any endorsers or guarantors of this Note, for themselves, their heirs, legal representatives, successors and assigns, respectively, severally waive diligence, presentment, protest, and demand, and notice of protest, dishonor and non-payment of this Note, and expressly waive any rights to be released by reason of any extension of time or change in terms of payment, or change, alteration of release of any security given for the payments hereof, and expressly waive the right to plead any and all statutes of limitations as a defense to any demand on this Note or agreement to pay the same, and jointly and severally agree to pay all costs of collection when incurred, including reasonable attorneys' fees. If an action is instituted on this Note, the undersigned promises to pay, in addition to the costs and disbursements allowed by law, such sum as a court may adjudge reasonable as attorneys' fees in such action.

13. Severability. If any provision of this Note is determined by the County or by an appropriate court of law to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby.

14. No Waiver by the County. No waiver of any breach, default or failure of condition under the terms of this Note shall be implied from any failure of the County to take, or any delay by the County in taking, action with respect to such breach, default or failure or from any previous waiver of any similar or unrelated breach, default or failure; and a waiver of any term of the Note must be made in writing and shall be limited to the express written terms of such waiver.

15. Joint and Several Obligations. This Note is the joint and several obligation of all makers, sureties, guarantors and endorsers, and shall be binding upon them and their successors and assigns.

APPROVED AS TO CONTENT

COUNTY OF SAN LUIS OBISPO:

Kami Griffin
Assistant Director of Planning and Building

Dated: _____

APPROVED AS TO FORM AND LEGAL EFFECT:

WARREN R. JENSEN
County Counsel

By: _____
Deputy County Counsel

Dated: _____

EXHIBIT "A"
(LEGAL DESCRIPTION)