

## Replacement Reserve Agreement for Lone Oak II

This REPLACEMENT RESERVE AGREEMENT ("Agreement") is made and entered into, to be effective as of May 19, 2026, by and between and Penn Valley Pacific Associates II, a California Limited Partnership ("Borrower"), with offices at 430 E. State Street, Suite 100, Eagle, ID 83616, in consideration of HOME Investment Partnerships Program (HOME) funds loaned from the County of Nevada, California, acting by and through its Health and Human Services Agency, Department of Housing and Community Services, (Collectively, the "Lender") with offices at 950 Maidu Avenue, Nevada City, CA 95959, from funds secured through a HOME Developer Commitment Agreement.

### WITNESSETH:

WHEREAS, Lender has agreed to make and Borrower has agreed to accept the Loan, which is to be evidenced by the HOME Developer Commitment Agreement, Deed of Trust, Note, Regulatory Agreements, and other loan documents encumbering the Land and the Improvements. The Land is described on Exhibit "A" attached to this Agreement; and

WHEREAS, as a condition of making the Loan, Lender is requiring Borrower to establish the Replacement Reserve Fund for the funding of Capital Replacements throughout the Loan term.

NOW, THEREFORE, for and in consideration of the Loan, the mutual promises and covenants herein contained, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Lender and Borrower agree as follows:

#### **I. Definitions.**

The following terms used in this Agreement shall have the meanings set forth below in this Section I. Any term used in this Agreement and not defined shall have the meaning given to that term in the Commitment Agreement.

- A. "Capital Replacement" means the replacement of those items listed on Exhibit "B" of this Agreement and such other replacements of equipment, major components or capital systems related to the Improvements as may be approved in writing or required by Lender.
- B. "Disbursement Period" means the interval between disbursements from the Replacement Reserve Fund, which interval shall be no shorter than once a month.
- C. "Improvements" means the buildings, Personal Property and improvements situated upon the Land, upon which a multifamily rental housing project at will be built.
- D. "Loan" means the loan from Lender to Borrower in the original principal amount of Eleven Million Forty-One Thousand Six Hundred Twenty-Eight Dollars (\$11,041,628), as

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evidenced by HOME Commitment Agreement, Deed of Trust, Note, Regulatory Agreements, and other loan documents.

- E. "Minimum Disbursement Request Amount" means Two Thousand Dollars (\$2,000).
- F. "Annual Deposit" means the amount of Forty Thousand Dollars (\$40,000) per year to be deposited into the Replacement Reserve Fund in accordance with this Agreement. "Property" means the Land and Improvements. This deposit may be deposited annually or monthly, in equal deposits equaling at least \$40,000 over the course of the year.
- G. "Replacement Reserve Deposit" means the Annual Deposit and/or the Revised Annual Deposit, as appropriate.
- H. "Replacement Reserve Fund" means the account established pursuant to this Agreement to defray the costs of Capital Replacements.
- I. "Revised Annual Deposit" means the adjusted amount per year that Lender determines Borrower must deposit in the Replacement Reserve Fund following any adjustment determination by Lender pursuant to Section II(A)(3), below.

## II. Replacement Reserve Fund.

### A. Establishment; Funding; Adjustment.

1. Commencing on the date of project completion and close out, and the start of the HOME affordability period, as described in the HOME Developer Commitment Agreement, the parties shall establish the Replacement Reserve Fund.
2. Commencing on the date of project completion and close out, and the start of the HOME affordability period, as described in the HOME Developer Commitment Agreement, and continuing on the same day of each successive year until the Loan is paid in full, Borrower shall pay an Annual Deposit into the Replacement Reserve Fund. Borrower may also make monthly deposits to the Replacement Reserve Fund in an amount equal to the pro rata portion of the Annual Deposit. This deposit shall be made into the Replacement Reserve Account to be held by a financial institution and in an account to be identified by Borrower, in writing to County, within 30 days of the issuance of a certificate of occupancy.
3. Lender reserves the right to make one adjustment to the amount of the Annual Deposit based on a third-party capital needs assessment obtained at the City's sole cost and expense during the term of the affordability period. Lender will not make such an adjustment prior to the date that is 10 years after the first installment due date. Upon written notice from Lender, Borrower shall begin paying the Revised Annual Deposit on the first annual payment date that is at least 30 days after the date of Lender's notice. If Lender does not provide Borrower with written notice of a Revised Annual Deposit, Borrower shall continue to pay the Annual Deposit or the Revised Annual Deposit then in effect. Beyond these requirements, any required

reset of the Replacement Reserve Deposit will be subject to the Borrower's limited partnership agreement and senior loan documents. The Borrower's investor limited partner and senior lender also have the right to consent to any reduction in the Replacement Reserve Deposits initiated by Lender. Failure to obtain the Lender's consent will void any reduction of replacement reserve amount approval pursuant to Borrower's limited partnership agreement or senior loan documents.

- B. Investment of Deposits. Borrower and Lender agree that the financial institution to be identified, as described in A2 above, shall hold all moneys deposited into the Replacement Reserve Fund in an interest-bearing account, and any interest earned on such moneys shall be added to the principal balance of the Replacement Reserve Fund and disbursed in accordance with the provisions of this Agreement.
- C. Use. Subject to the pledge and security interest and other rights of Lender set forth in this Agreement, the Replacement Reserve Fund shall be maintained for the payment of the costs of the Capital Replacements identified in Exhibit B.

### **III. Performance of Capital Replacements; Disbursements.**

- A. Requests for Disbursement. Lender shall approve disbursements from the Replacement Reserve Fund, in its reasonable discretion, as follows:
  - 1. Borrower's Request. If Borrower determines, at any time or from time to time, that a Capital Replacement is necessary or desirable, Borrower shall perform such Capital Replacement and request from Lender, in writing, approval for payment or reimbursement from the replacement reserve fund for such Capital Replacement. Borrower's request for payment or reimbursement shall include (A) a detailed description of the Capital Replacement performed (B) lien waivers from each contractor and material supplier supplying labor or materials for such Capital Replacement.
  - 2. Lender's Request. Subject to the rights of Senior Lender, if Lender shall reasonably determine at any time or from time to time, that a Capital Replacement is necessary for the proper maintenance of the Property, it shall so notify Borrower, in writing, requesting that Borrower obtain and submit to Lender bids for all labor and materials required in connection with such Capital Replacement. Borrower shall submit such bids and a time schedule for completing each Capital Replacement to Lender within thirty (30) days after Borrower's receipt of Lender's written notice. Borrower shall perform such Capital Replacement and request from Lender, in writing, approval for payment or reimbursement for such Capital Replacement. Borrower's request for reimbursement shall include (A) a detailed description of the Capital Replacement performed and (B) lien waivers from each contractor and material supplier supplying labor or materials for such Capital Replacement.

- B. Conditions Precedent. Disbursements shall be made only if the following conditions precedent have been satisfied, as reasonably determined by Lender:
1. Cost Incurred for Capital Replacement. The Capital Replacement has been performed and/or installed on the Property in a good and workmanlike manner with suitable materials (or in the case of a partial disbursement, performed and/or installed on the Property to an acceptable stage) and paid for by Borrower (or subject to payment by Borrower) as evidenced by copies of all applicable paid invoices or bills submitted to Lender by Borrower at the time Borrower requests disbursement from the Replacement Reserve Fund.
  2. No Default. There is no condition, event or act that would constitute a default (with or without notice and/or lapse of time) under this Agreement or any other Loan Document.
  3. Representations and Warranties. All representations and warranties of Borrower set forth in this Agreement and in the Loan Documents are true in all material respects.
  4. Continuing Compliance. Borrower is in full compliance with the provisions of this Agreement, the other Loan Documents and any request or demand by Lender permitted hereby.
  5. No Lien Claim. No lien or claim based on furnishing labor or materials has been filed or asserted against the Property, unless Borrower has properly provided bond or other security against loss in accordance with applicable law.
  6. Approvals. All licenses, permits, and approvals of governmental authorities required for the Capital Replacement as completed to the applicable stage have been obtained.
  7. Legal Compliance. The Capital Replacement as completed to the applicable stage does not violate any laws, ordinance, rules or regulations, or building lines or restrictions applicable to the Property.
  8. Senior Lender. The senior lender has approved such disbursement.

#### **IV. Right to Complete Capital Replacements.**

If Borrower abandons or fails to proceed diligently to undertake and/or complete any Capital Replacement in a timely fashion or is otherwise in default under this Agreement for 30 days after written notice of such failure by Lender to Borrower, Lender shall have the right (but not the obligation) to enter upon the Property and take over and cause the completion of such Capital Replacement. However, no such notice or grace period shall apply in the case of such failure which could, in Lender's judgment, absent immediate exercise by Lender of a right or remedy under this Agreement, result in harm to Lender or impairment of the security given under the HOME Developer Commitment Agreement, Deed of Trust, Note, Regulatory Agreements, or other loan documents.

Any contracts entered into or indebtedness incurred upon the exercise of such right may be in the name of Borrower, and Lender is hereby irrevocably appointed the attorney in fact of Borrower, such appointment being coupled with an interest, to enter into such contracts, incur such obligations, enforce any contracts or agreements made by or on behalf of Borrower (including the prosecution and defense of all actions and proceedings in connection with the Capital Replacement and the payment, settlement or compromise of all bills and claims for materials and work performed in connection with the Capital Replacement) and do any and all things necessary or proper to complete any Capital Replacement including signing Borrower's name to any contracts and documents as may be deemed necessary by Lender. In no event shall Lender be required to expend its own funds to complete any Capital Replacement, but Lender may, in its sole discretion, advance such funds. Any funds advanced shall be added to the outstanding balance of the Loan, secured by the HOME Developer Commitment Agreement, Deed of Trust, Note, Regulatory Agreements, and other loan documents, and payable to Lender by Borrower in accordance with the provisions of the loan documents pertaining to the protection of Lender's security and advances made by Lender. Borrower waives any and all claims it may have against Lender for materials used, work performed or resultant damage to the Property.

### **V. Inspection.**

Lender or any representative of Lender may periodically inspect any Capital Replacement in process and upon completion during normal business hours or at any other reasonable time upon reasonable prior written notice to Borrower (except in an emergency, as determined by Lender in its discretion or after an Event of Default, in which event no such prior notice shall be required). If Lender, in its sole discretion, retains a professional inspection engineer or other qualified third party to inspect any Capital Replacement, Lender shall be entitled to deduct from the Replacement Reserve Fund an amount sufficient to pay all reasonable fees and expenses charged by such third-party inspector.

### **VI. Insufficient Account.**

If Borrower requests disbursement from the Replacement Reserve Fund for a Capital Replacement in accordance with this Agreement in an amount which exceeds the amount on deposit in the Replacement Reserve Fund, Lender shall approve a disbursement to Borrower of only the amount on deposit in the Replacement Reserve Fund. Borrower shall pay all additional amounts required in connection with any such Capital Replacement from Borrower's own funds.

### **VII. Security Agreement.**

To secure Borrower's obligations under this Agreement and to further secure Borrower's obligations under the HOME Developer Commitment Agreement, Deed of Trust, Note, Regulatory Agreements, and other Loan Documents, Borrower hereby conveys, pledges, transfers and grants to Lender a security interest pursuant to the laws applicable in the State

of California in and to all money in the Replacement Reserve Fund, as same may increase or decrease from time to time, all interest and dividends thereon and all proceeds thereof.

**VIII. Post Default.**

Subject to the rights of the Project's senior lender, If Borrower defaults in the performance of its obligations under this Agreement or under the HOME Developer Commitment Agreement, Deed of Trust, Note, Regulatory Agreements, or other loan documents, after the expiration of any applicable notice or cure period, Lender shall have all remedies available to them under any applicable laws in the State of California. In addition, Lender may retain all money in the Replacement Reserve Fund, including interest, and in Lender's discretion, may apply such amounts, without restriction and without any specific order of priority, to the payment of any and all indebtedness or obligations of Borrower set forth in the HOME Developer Commitment Agreement, Deed of Trust, Note, Regulatory Agreements, and other loan documents, including, but not limited to, principal, interest, taxes, insurance, reasonable attorneys' fees and costs (including those of Lender's in-house counsel) and disbursements actually incurred and/or repairs to the Property.

**IX. Termination.**

If not sooner terminated by written concurrence of the parties, this Agreement shall terminate upon the expiration of the HOME 20-year affordability period for this project, and upon such termination, subject to the rights of the senior lender, Lender shall approve payment to Borrower of all funds remaining in the Replacement Reserve Fund.

**X. No Amendment.**

Nothing contained in this Agreement shall be construed to amend, modify, alter, change or supersede the terms and provisions of the HOME Developer Commitment Agreement, Deed of Trust, Note, Regulatory Agreement or any other Loan Document; and, if there is a conflict between the terms and provisions of this Agreement and those of the HOME Developer Commitment Agreement, Deed of Trust, Note, Regulatory Agreements, or any other Loan Document then the terms and provisions of the HOME Developer Commitment Agreement, Deed of Trust, Note, Regulatory Agreements or such other Loan Document shall control.

**XI. Release; Indemnity.**

A. Release. Borrower covenants and agrees that, in performing any of its duties under this Agreement, none of Lender, any Loan Servicer, or any of their respective agents or employees shall be liable for any losses, claims, damages, liabilities and expenses that may be incurred by any of them as a result of such performance, except that no such party will be released from liability for any losses, claims, damages, liabilities or expenses arising out of the willful misconduct or gross negligence of such party.

- B. Indemnity. Borrower hereby agrees to indemnify and hold harmless Lender, and its agents and employees against any and all losses, claims, damages, liabilities and expenses including, without limitation, reasonable attorneys' fees and costs (including those of Lender's in-house counsel) and disbursements, which may be imposed or incurred by any of them in connection with this Agreement except that no such party will be indemnified from liability for any losses, claims, damages, liabilities or expenses arising out of the willful misconduct or gross negligence of such party.

**XII. Choice of Law.**

This Agreement shall be construed and enforced in accordance with the laws of the State of California.

**XIII. Successors and Assigns.**

The terms used to designate any of the parties herein shall be deemed to include the heirs, legal representatives, successors and assigns of such parties; and the term "Lender" shall also include any lawful owner, holder or pledgee of the Note. Reference herein to "person" or "persons" shall be deemed to include individuals and entities. Borrower may not assign or delegate its rights, interests, or obligations under this Agreement without first obtaining Lender's prior written consent.

**XIV. Compliance with Laws; Insurance Requirements.**

- A. Compliance with Laws. Borrower shall ensure that all Capital Replacements comply with all applicable laws, ordinances, rules and regulations of all governmental authorities having jurisdiction over the Property and applicable insurance requirements including, without limitation, applicable building codes, special use permits, environmental regulations, and requirements of insurance underwriters.
- B. Insurance Requirements. In addition to any insurance required under the Loan Documents, Borrower shall provide or cause to be provided workers' compensation, builder's risk (if required by Lender), and public liability insurance and other insurance required under applicable law in connection with any of the Capital Replacements. All such policies that can be endorsed with standard mortgage clauses making losses payable to Lender or its assigns shall be so endorsed.

**XV. Remedies Cumulative.**

In the event of Borrower's default under this Agreement, Lender may exercise all or any one or more of its rights and remedies available under this Agreement, at law or in equity. Such rights and remedies shall be cumulative and concurrent, and may be enforced separately, successively or together, and Lender's exercise of any particular right or remedy shall not in any way prevent Lender from exercising any other right or remedy available to Lender. Lender may exercise any such remedies from time to time as often as Lender chooses.

**XVI. Determinations by Lender.**

Unless otherwise provided in this Agreement, in any instance where the consent or approval of Lender may be given or is required, or where any determination, judgment or decision is to be rendered by Lender under this Agreement, the granting, withholding or denial of such consent or approval and the rendering of such determination, judgment or decision shall be made or exercised by Lender (or its designated representative) at its sole and exclusive option and in its sole and absolute discretion.

**XVII. Completion of Capital Replacements.**

Lender's approval for disbursement of moneys from the Replacement Reserve Fund or other acknowledgment of completion of any Capital Replacement in a manner satisfactory to Lender shall not be deemed a certification by Lender that the Capital Replacement has been completed in accordance with applicable building, zoning or other codes, ordinances, statutes, laws, regulations or requirements of any governmental authority or agency. Borrower shall at all times have the sole responsibility for ensuring that all Capital Replacements are completed in accordance with all such governmental requirements.

**XVIII. No Agency or Partnership.**

Nothing contained in this Agreement shall constitute Lender as a joint venturer, partner or agent of Borrower, or render Lender liable for any debts, obligations, acts, omissions, representations or contracts of Borrower.

**XIX. Entire Agreement.**

This Agreement and the other Loan Documents represent the final agreement between the parties and may not be contradicted by evidence of prior, contemporaneous or subsequent oral agreements. There are no oral agreements between the parties. All prior or contemporaneous agreements, understandings, representations and statements, oral or written, are merged into this Agreement and the other Loan Documents. Neither this Agreement nor any of its provisions may be waived, modified, amended, discharged or terminated except in writing signed by the party against which the enforcement of the waiver, modification, amendment, discharge or termination is sought, and then only to the extent set forth in writing; provided, however, that in the event of a Transfer requiring Lender's consent under the terms of the HOME Developer Commitment Agreement, Deed of Trust, Note, Regulatory Agreements, and other loan documents, one or more or all of the Modifications to Agreement set forth in Exhibit C (if any) may be modified or rendered void by Lender at Lender's option by notice to Borrower/transferee.

**XX. 21. Counterparts.**

This Agreement may be executed in multiple counterparts, each of which shall constitute an original document and all of which together shall constitute one agreement.

## Replacement Reserve Agreement for Lone Oaks Senior II

ATTACHED EXHIBITS. The following Exhibits are attached to this Agreement:

| Exhibit A: Legal Description of the Land (required)

| Exhibit B: Capital Replacements (required)

Replacement Reserve Agreement for Lone Oaks Senior II

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the day and year first written above.

BORROWER:

PENN VALLEY PACIFIC ASSOCIATES II, A CALIFORNIA LIMITED PARTNERSHIP

By: TPC HOLDINGS IX, LLC,  
an Idaho limited liability company  
Its: Administrative General Partner

By: Pacific West Communities, Inc.,  
an Idaho corporation  
Its: Manager

By: \_\_\_\_\_  
Caleb Roope, President and CEO

By: LONE OAK II-BBP, LLC,  
a California limited liability company  
Its: Managing General Partner

By: Building Better Partnerships, Inc.,  
a California Nonprofit Public Benefit Corporation  
Its: Manager

By: \_\_\_\_\_  
Gustavo Becerra, President

**LENDER:**

**THE COUNTY OF NEVADA, CALIFORNIA**

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(signature)

Ryan Gruver, Health and Human Services Agency Director

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(Date)

**EXHIBIT A: Legal Description of the Leased Premises**

Real property in Penn Valley, County of Nevada, State of California, described as follows:

PARCEL 1, AS SHOWN ON THE PARCEL MAP FILED FOR RECORD JULY 18, 2018 IN VOL. 21 OF PARCEL MAPS PAGE 55 OF NEVADA COUNTY RECORDS.

APN: 051-151-065-000

## EXHIBIT B: Capital Replacements

- Carpet/vinyl flooring
- Window treatments
- Roofs
- Furnaces/boilers
- Air conditioners
- Ovens/ranges
- Refrigerators
- Dishwashers
- Water heaters
- Washing machines/dryers
- Garbage disposals
- Large landscaping system repairs
- Pavement overlays and restriping
- Such other items which are capital in nature, as determined Lender in its sole but good-faith judgment in accordance with generally accepted accounting principles and such other replacements of equipment, major components, or capital systems related to the Project as may be approved in writing by Lender.