

PROMISSORY NOTE
NAPA COUNTY AFFORDABLE ACCESSORY DWELLING UNIT
LOAN PROGRAM

ADMINISTRATIVE COVER SHEET

(Remove Upon Completion)

BLANK LINES: CHECKLIST

- _____ Amount of Loan, p. 1, upper left
- _____ Date of Document, p. 1, upper right
- _____ Borrower's Name, p. 1, first paragraph
- _____ Amount of Loan, p. 1, first paragraph
- _____ Amount of Loan, p. 1, Section 1
- _____ First Payment Date, p. 1, Section 3(a)
- _____ Conversion Date, p.1, Section 3(a)
- _____ Interest Reserve, p.1, Section 3(a)
- _____ Maturity Date, p.1, Section 3(b)
- _____ Amortization Period, p.2, Section 3(b)
- _____ County, p.2, Section 4
- _____ County, p.2, Section 5
- _____ Signatures, p.5
- _____ Amortization Schedule, Schedule A

SECURED PROMISSORY NOTE
(Affordable Accessory Dwelling Unit Forgivable Loan Program)

THE TERMS OF THIS PROMISSORY NOTE CONTAIN A BALLOON PAYMENT

\$ _____

FOR VALUE RECEIVED, the undersigned _____ ("Borrower") promises to pay to the order of the County of Napa, a political subdivision of the State of California ("Holder"), the principal amount of _____ Dollars (\$ _____) plus interest on the principal amount pursuant to Section 2 below.

1. Loan Agreement; Security Agreement. This Promissory Note is made as of ____ __, 20__ (the "Effective Date") pursuant to a Loan Agreement dated as the same Effective Date as this Promissory Note between the Borrower and the Holder (the "Loan Agreement"). This Promissory Note is secured by a Deed of Trust, Security Agreement, and Fixture Filing dated as the same Effective Date as this Promissory Note (the "Deed of Trust") and is subject to the terms of that certain Regulatory Agreement and Declaration of Restrictive Covenants dated as the same Effective Date as this Promissory Note (the "Regulatory Agreement"), which will encumber the Property to secure the repayment of the Loan and performance of the covenants of the Loan documents. All capitalized terms used but not defined in this Promissory Note have the meanings set forth in the Loan Agreement. This Promissory Note, the Loan Agreement, the Deed of Trust, and the Regulatory Agreement are sometimes referred to collectively in this Promissory Note as the "Loan Documents".

2. Borrower's Obligation. This Promissory Note evidences Borrower's obligation to repay Holder the principal amount of _____ Dollars (\$ _____) with interest for the funds loaned to Borrower by Holder to finance the construction of an Accessory Dwelling Unit (the "ADU") on Borrower's Property pursuant to the terms of the Loan Agreement (the "AADU Loan").

3. Forgiveness; Maturity Date.

(a) Forgiveness. Commencing on the 1st day of the first month following the later of: (i) the Effective Date of the Loan Agreement; or (ii) the date of first occupancy of the ADU, and each anniversary of that date thereafter during the Term, the Borrower will submit an Annual Certification to the Holder with information regarding occupancy as required by the Regulatory Agreement. Provided that: (i) the Borrower is not in default under the Loan Documents; and (ii) the Borrower has continuously operated the ADU in compliance with the terms of the Regulatory Agreement and the Program Guidelines, no payments will be due under this Promissory Note. If Borrower has complied with the requirements of the Loan documents (including cure of any Events of Default) during the entire Term of the Loan Agreement, as evidenced by the Annual Reports, all sums otherwise due under this Promissory Note or any other Loan Documents will be forgiven by Holder. For each month during the Term that Borrower operates the ADU in accordance with the Regulatory Agreement, Holder will forgive one-sixtieth (1/60) of the principal and the interest on that month's principal amount of the Loan. Upon the Borrower's full repayment of the Loan or upon the Holder's forgiveness of the entire outstanding balance of the Loan, Holder will mark this Promissory Note as "Canceled" and will return this Promissory Note to the Borrower.

(b) Balance Due. Unless forgiven pursuant to Section 3(a), all outstanding principal and interest accrued on the Loan will be due in full at the end of the Term (except if Borrower elects to extend the Term pursuant to Section 3.2(a) of the Regulatory Agreement), or upon Holder declaration of Default pursuant to Article 4.

(c) Balloon Payment. Borrower acknowledges that the unpaid principal amount of this Loan and all unpaid interest accrued on the unpaid or unforgiven principal of the Loan will be immediately due and payable to Lender in full as one balloon payment on the Maturity Date.

4. Interest.

(d) Subject to the provisions of Subsection (b) below, the AADU Loan bears simple interest at a fixed rate of three percent (3%) per annum (the "Interest Rate") from the date of disbursement until full repayment of the principal balance of the AADU Loan.

(e) If a Default occurs, interest will accrue on all amounts due under this Promissory Note as of the date of a Default and continuing until such time as the AADU Loan funds are repaid in full or the Default is cured, at the default rate of the lesser of ten percent (10%) per annum, compounded annually and the highest rate permitted by law (the "Default Rate").

5. Assignment and Assumption. Pursuant to the terms of the Regulatory Agreement, the AADU Loan may be assumed by a transferee who occupies the Primary Unit as their residence and enters into an assumption agreement as provided in the Regulatory Agreement. If the transferee does not meet the assumption terms required by the Regulatory Agreement, Borrower must repay the outstanding balance of principal and accrued interest remaining on this Promissory Note on or before the date of transfer.

6. Security. This Promissory Note, with interest, is secured by the Deed of Trust on the Property. Upon execution, the Deed of Trust will be recorded in the official records of Napa County, California. Upon recordation of the Deed of Trust, this Promissory Note will become nonrecourse to Borrower.

7. Terms of Payment.

(a) Borrower will make all payments due under this Promissory Note in currency of the United States of America to Holder at Department of Housing & Homeless Services at 2751 Napa Valley Corporate Drive, Building B, Napa, CA 94558, Attention: Director of Housing & Homeless Services, or to such other place as Holder may from time to time designate.

(b) All payments on this Promissory Note are without expense to Holder. Borrower will pay all costs and expenses, including re-conveyance fees and reasonable attorneys' fees of Holder, incurred in connection with the enforcement of this Promissory Note and the release of any security of this Promissory Note.

(c) The obligations of Borrower under this Promissory Note are absolute and Borrower waives any and all rights to offset, deduct or withhold any payments or charges due under this Promissory Note for any reason.

8. Prepayment. Borrower may without premium or penalty, at any time and from time to time, prepay all or any portion of the outstanding principal balance due under this

Promissory Note. Prepayments will be applied first to any unpaid costs and fees then due, then to accrued interest, and then to principal.

9. Default; Acceleration.

(a) Upon the occurrence of a Default, the entire unpaid principal balance, together with all interest on the outstanding principal balance, and together with all other sums then payable under this Promissory Note and the Deed of Trust will, at the option of Holder, become immediately due and payable without further demand.

(b) Holder's failure to exercise the remedy set forth in Subsection 9(a) above or any other remedy provided by law upon the occurrence of a Default does not constitute a waiver of the right to exercise any remedy at any subsequent time in respect to the same or any other Default. The acceptance by Holder of any payment that is less than the total of all amounts due and payable at the time of such payment does not constitute a waiver of the right to exercise any of the foregoing remedies or options at that time or at any subsequent time, or nullify any prior exercise of any such remedy or option, without the express consent of Holder, except as and to the extent otherwise provided by law.

10. Waivers; Attorneys' Fees.

(a) Borrower waives diligence, presentment, protest, and demand, and notice of protest, notice of demand, notice of dishonor, and notice of non-payment of this Promissory Note. Borrower expressly agrees that this Promissory Note or any payment under this Promissory Note may be extended from time to time, and that Holder may accept further security or release any security for this Promissory Note, all without in any way affecting the liability of Borrower.

(b) Any extension of time for payment of this Promissory Note or any installment under this Promissory Note made by agreement of Holder with any person now or later liable for payment of this Promissory Note must not operate to release, discharge, modify, change, or affect the original liability of Borrower under this Promissory Note, either in whole or in part.

(c) If an action is instituted on this Promissory Note, Borrower 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.

11. Miscellaneous Provisions.

(a) All notices to Holder or Borrower are to be given in the manner and at the addresses set forth in the Loan Agreement, or to such addresses as Holder and Borrower may later designate as provided in the Loan Agreement.

(b) Borrower promises to pay all costs and expenses, including reasonable attorney's fees, incurred by Holder in the enforcement of the provisions of this Note, regardless of whether suit is filed to seek enforcement.

(c) This Promissory Note is the joint and several obligation of all makers, sureties, guarantors, and endorsers, and will be binding upon them and their successors and assigns.

(d) The relationship of Borrower and Holder under this Promissory Note is solely that of borrower and lender, and the indebtedness evidenced by this Promissory Note and secured by the Deed of Trust will in no manner make Holder the partner or joint venturer of Borrower.

(e) If any term of this Promissory Note is held by a court of competent jurisdiction to be invalid, void, or unenforceable, the remainder of the provisions will continue in full force and effect unless the rights and obligations of the parties have been materially altered or abridged by such invalidation, voiding or unenforceability.

(f) This Promissory Note is governed by the laws of the State of California.

(g) The times for the performance of any obligations under this Promissory Note are to be strictly construed, time being of the essence.

(h) The Loan Documents, of which this Promissory Note is a part, contain the entire agreement between Borrower and Lender as to the Loan. This Promissory Note may not be modified except upon the written consent of Borrower and Lender.

[signature on following page]

IN WITNESS WHEREOF, Borrower is executing this Promissory Note as of the Effective Date.

Borrower:

By: _____

Name: _____

Borrower:

By: _____

Name: _____

SCHEDULE A

Monthly Amortization Payments of Interest and Principal