

CONSTRUCTION LOAN SERVICES II, LLC
1019 39TH AVE SE STE 220
PUYALLUP, WA 98374

May 13th, 2025

Tamara Vides, City Manager

City of Watsonville

275 Main St., Suite 400 (4th Floor)

Watsonville, CA 95076

Dear Ms. Vides:

1. The undersigned Construction Loan Services II, LLC ("Lender") has made a development and construction loan ("Loan") covering the costs of construction of subdivision improvements as specified in the Improvement Agreement For Tract Map Number 1607, Hillcrest Stages 2 Through 5 made between LANDCO Hillcrest, LLC, a California limited liability company (hereinafter "Borrower") and the City of Watsonville ("City") dated _____, 202_ ("Improvement Agreement").

2. At the request of Borrower, Lender is making this Set Aside Letter for the benefit of the City with respect to the completion of the "Improvements" specified under the Improvement Agreement as such Improvements are described on Exhibit A, attached hereto and incorporated herein by this reference.

3. In consideration of the acceptance of this Set-Aside Letter by the City Council of the City of Watsonville (hereinafter referred to as the "Council" or the "City"), through its designees, the undersigned Lender hereby pledges that monies to the extent of **SIXTEEN MILLION SIX HUNDRED EIGHTY-EIGHT THOUSAND FOUR HUNDRED EIGHTY-EIGHT AND 7/100 DOLLARS (\$16,688,488.07)** are set aside from said Loan for the purpose of securing the performance by Borrower of the Improvements for the construction of the Improvements as so described as the Faithful Performance Guarantee in Section 5(a) of the Improvement Agreement (the "Borrower Work") and payment therefore lien free.

4. In the absence of the City exercising its Draw Right (as defined below) hereunder, Lender will only disburse the Set Aside Funds to the Borrower upon the City's written consent to Borrower's request for such funds, which consent may be evidenced by the Public Works Director's (or other duly authorized representative's) signature on the Borrower's draw request or certification submitted to Lender for such funds. If the City's right to draw on the Set Aside Funds to complete the Borrower Work has arisen under the Improvement Agreement pursuant to the occurrence of a default thereunder (such right, the "Draw Right"), Lender will disburse remaining undisbursed funds to the City (and not Borrower) the Set Aside Funds for the City to use in diligently completing the Borrower Work and paying the costs of it. Lender will only disburse these Set Aside Funds to the City if (i) the Draw Right has arisen upon a declaration of default by the City under Sections 24-25 the Improvement Agreement, and (ii) Lender receives the written demand of the City for such funds. Lender shall disburse the Set Aside Funds to the City within five (5) calendar days from receipt of the declaration and demand as specified in sub-numerals (i) and (ii) in this Paragraph 4.

5. Lender further agrees that as work progresses on this Project, the amount set aside from the Loan shall not be reduced except to the extent disbursed to the Borrower or City to cover the cost of the Borrower Work and for no other purpose; provided, (1) that in no event will the amount set aside (prior to release of the Improvement Agreement by the City) be less than the cost to complete construction of the Improvements in accordance with the terms of the Improvement Agreement, and (2) that said disbursements shall be disbursed subject to the terms and conditions of the loan agreement between the Lender

and the Borrower governing the Loan. If there is any conflict between the disbursement procedures outlined in this Set-Aside Letter and the terms and conditions of the loan agreement between the Lender and the Borrower governing the Loan, this Set-Aside Letter shall control.

6. The Set Aside Funds have been determined from an estimate prepared by Borrower. Lender is not responsible or liable for the sufficiency of the Set Aside Funds to pay for the Public Improvements, or for the quality of workmanship and materials, timeliness or sufficiency of the work performed, except that City may draw down from the Set Aside Funds to address any workmanship and materials deficiencies associated with the Borrower Work.

7. Lender hereby agrees that no change, extension of time, alteration or addition to the Borrower or to the plans or specifications relating to the same, shall in any way affect the Lender's obligations under this Set-Aside Letter and Lender hereby waives notice of any such change, extension of time, alteration, or addition, on the understanding that no such change, extension of time, alteration, or addition shall increase the amount of Lender's obligation under this Set-Aside Letter.

8. For avoidance of doubt, the Lender's commitment of funds under this Set-Aside Letter shall not exceed the amount specified in the Improvement Agreement, less all prior reductions authorized by the City or amounts paid to the City.

9. Lender represents and warrants that the individual executing this Agreement on its behalf has been duly authorized to do so and that this Set-Aside Letter constitutes a binding agreement of such party, enforceable in accordance with its terms.

10. Any notices pursuant to the Set-Aside Letter shall be given by certified mail, return receipt requested, to the Lender and Borrower at the addresses shown herein and to the City by copies to the addresses of this letter and to the Director of the Department of Public Works, City of Watsonville, 250 Main Street, Watsonville CA 95076.

Made, signed and dated this day of May 13th, 2025

LENDER

Construction Loan Services II, LLC, a Washington limited liability company

By: 

Curt Altig

Its: Chairman

Address of Lender:

1019 39TH AVE SE STE 220

PUYALLUP, WA 98374

ATTACH NOTARY ACKNOWLEDGEMENT

STATE OF Washington)
COUNTY OF Pierce)

The record was acknowledged before me on May 13th 2025 by
Curt Altia as Chairman
Bo Construction Loan Services II, LLC

Dated: May 13th 2025

[SEAL]

M L Schwab
Miranda L Schwab
Notary Public

MIRANDA L SCHWAB
NOTARY PUBLIC #23012288
STATE OF WASHINGTON
MY COMMISSION EXPIRES
04-14-27

My commission expires: 04-14-2027