

# CONFIDENTIAL PRIVATE OFFERING MEMORANDUM OF MHC Stable Income Fund I, LLC (a Delaware limited liability company)

*Maximum Offering Amount: 150 Units of Limited Liability Company Membership Interests @ \$100,000 each (\$15,000,000)*

*Minimum Offering Amount: 50 Units of Limited Liability Company Membership Interests @ \$100,000 each (\$5,000,000)*

*Minimum Subscription: 5 Units at \$100,000 each for Class A Members and 1 Unit at \$100,000 for Class B Members; provided, however, the Managing Member reserves the right to sell less than or more than a whole number of Units*

*Payable upon Subscription*

THE UNITS OF LIMITED LIABILITY COMPANY MEMBERSHIP INTERESTS OFFERED BY THIS CONFIDENTIAL PRIVATE OFFERING MEMORANDUM OF MHC STABLE INCOME FUND 1, LLC (THIS "MEMORANDUM") ARE SPECULATIVE. AN INVESTMENT IN MHC STABLE INCOME FUND I, LLC, A DELAWARE LIMITED LIABILITY COMPANY, INVOLVES A HIGH DEGREE OF RISK (SEE "SECTION 3: RISK FACTORS"). PROSPECTIVE INVESTORS MUST BE PREPARED TO BEAR THE ECONOMIC RISK OF THEIR INVESTMENT FOR AT LEAST FIVE YEARS, ALTHOUGH THE PERIOD COULD BE LONGER, AND BE ABLE TO WITHSTAND A LOSS OF THEIR INVESTMENT.

THE UNITS OF LIMITED LIABILITY COMPANY MEMBERSHIP INTERESTS OFFERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY APPLICABLE STATE SECURITIES LAWS. NEITHER THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE OR FOREIGN REGULATORY AUTHORITY HAVE PASSED UPON THE ACCURACY OR ADEQUACY OF THIS MEMORANDUM OR ENDORSED THE MERITS OF THIS OFFERING. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL. THESE SECURITIES ARE OFFERED PURSUANT TO EXEMPTIONS FROM REGISTRATION PROVIDED BY THE SECURITIES ACT, INCLUDING REGULATION D ADOPTED THEREUNDER, CERTAIN STATE SECURITIES LAWS AND CERTAIN RULES AND REGULATIONS PROMULGATED PURSUANT THERETO.

	<b>Price</b>	<b>Selling Commissions and Expenses</b>	<b>Proceeds</b>
Per Unit	<i>\$100,000</i>	\$4,000	\$96,000
Minimum Offering	<i>\$5,000,000</i>	\$200,000	\$4,800,000
Maximum Offering	<i>\$15,000,000</i>	\$600,000	\$14,400,000

March 7, 2017

Name of Offeree: \_\_\_\_\_

No: \_\_\_\_\_ Date: \_\_/\_\_/\_\_\_\_\_

THIS MEMORANDUM RELATES TO THE SALE (THE "OFFERING") OF AT LEAST 50 AND UP TO 150 UNITS OF LIMITED LIABILITY COMPANY MEMBERSHIP INTERESTS (THE "UNITS") IN MHC STABLE INCOME FUND, LLC, A DELAWARE LIMITED LIABILITY COMPANY FORMED ON MARCH 7, 2017 ("MHC," THE "FUND" OR "WE"). ALL OF THE UNITS OFFERED HEREBY SHALL BE SOLD BY THE FUND AND/OR LICENSED BROKER/DEALERS OR INVESTMENT ADVISERS, AS PROVIDED IN THIS MEMORANDUM. THERE IS NO PUBLIC MARKET FOR ANY SECURITIES OF THE FUND AND NO SUCH MARKET IS EXPECTED TO DEVELOP FOLLOWING THIS OFFERING.

THE INFORMATION CONTAINED IN THIS MEMORANDUM IS CONFIDENTIAL AND PROPRIETARY TO THE FUND AND IS BEING SUBMITTED TO PROSPECTIVE INVESTORS SOLELY FOR SUCH PROSPECTIVE INVESTOR'S CONFIDENTIAL USE WITH THE EXPLICIT UNDERSTANDING THAT, WITHOUT THE PRIOR WRITTEN PERMISSION OF THE FUND, SUCH PERSONS WILL NOT RELEASE THIS MEMORANDUM, OR DISCUSS THE INFORMATION CONTAINED HEREIN, OR MAKE REPRODUCTIONS OF OR USE THIS MEMORANDUM, FOR ANY PURPOSE OTHER THAN THE EVALUATION OF A POTENTIAL INVESTMENT IN THE UNITS OF LIMITED LIABILITY COMPANY MEMBERSHIP INTERESTS OFFERED HEREBY, EXCEPT TO THE PROSPECTIVE INVESTOR'S OWN ATTORNEY, BUSINESS ADVISOR AND TAX ADVISOR. A PROSPECTIVE INVESTOR, BY ACCEPTING DELIVERY OF THIS MEMORANDUM, AGREES PROMPTLY TO RETURN TO THE FUND THIS MEMORANDUM AND ANY OTHER DOCUMENTS OR INFORMATION FURNISHED TO THE PROSPECTIVE INVESTOR BY THE FUND, IF THE PROSPECTIVE INVESTOR ELECTS NOT TO PURCHASE ANY OF THE UNITS OF LIMITED LIABILITY COMPANY MEMBERSHIP INTERESTS OFFERED HEREBY, OR IF THE OFFERING IS TERMINATED OR WITHDRAWN.

THE UNITS ARE BEING OFFERED ONLY TO "ACCREDITED INVESTORS," AS DEFINED IN RULE 501 OF REGULATION D PROMULGATED UNDER THE SECURITIES ACT. IF ANY RECIPIENT OF A COPY OF THIS MEMORANDUM IS NOT QUALIFIED AS SUCH, SUCH RECIPIENT SHOULD PROMPTLY RETURN THIS MEMORANDUM TO THE FUND. EACH PROSPECTIVE INVESTOR MUST ALSO REPRESENT THAT HE, SHE OR IT CAN BEAR THE ECONOMIC RISK OF LOSING A SUBSTANTIAL PORTION OF HIS/HER/ITS INVESTMENT HEREIN, AND HAS ALONE, OR TOGETHER WITH HIS/HER/ITS PURCHASER REPRESENTATIVE, SUCH KNOWLEDGE AND EXPERIENCE IN FINANCIAL MATTERS THAT HE, SHE OR IT IS CAPABLE OF EVALUATING THE RELATIVE RISK AND MERITS OF THIS INVESTMENT.

THIS MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL OR SOLICITATION OF AN OFFER TO BUY THE UNITS OF LIMITED LIABILITY COMPANY MEMBERSHIP INTERESTS IN ANY JURISDICTION WHERE, OR TO ANY PERSON TO WHOM, IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION IN SUCH JURISDICTION. THIS MEMORANDUM DOES NOT PURPORT TO BE ALL-INCLUSIVE OR TO CONTAIN ALL THE INFORMATION THAT A PROSPECTIVE INVESTOR MAY DESIRE IN INVESTIGATING THE FUND. EACH PROSPECTIVE INVESTOR MUST CONDUCT AND RELY ON ITS OWN EVALUATION OF THE FUND AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED IN MAKING AN INVESTMENT DECISION WITH RESPECT TO THE UNITS OF LIMITED LIABILITY COMPANY MEMBERSHIP INTERESTS. SEE SECTION 3: "RISK FACTORS" FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED IN CONNECTION WITH THE PURCHASE OF LIMITED LIABILITY COMPANY MEMBERSHIP INTERESTS.

**IN CONSIDERING THE PERFORMANCE INFORMATION CONTAINED HEREIN, PROSPECTIVE INVESTORS SHOULD BEAR IN MIND THAT THERE CAN BE NO ASSURANCE THAT THE FUND WILL BE ABLE TO IMPLEMENT ITS INVESTMENT STRATEGY AND INVESTMENT APPROACH OR ACHIEVE ITS INVESTMENT OBJECTIVE.**

EXCEPT AS OTHERWISE INDICATED, THIS MEMORANDUM IS CURRENT, AS OF THE DATE HEREOF. NEITHER THE DELIVERY OF THIS MEMORANDUM NOR ANY SALE OF THE UNITS OF LIMITED LIABILITY COMPANY MEMBERSHIP INTERESTS SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE FUND AFTER THE DATE HEREOF. THE FUND PREPARED THE INFORMATION PRESENTED HEREIN SOLELY FOR USE BY PROSPECTIVE INVESTORS IN CONNECTION WITH THIS OFFERING FOR

INFORMATION PURPOSES ONLY WITH THE UNDERSTANDING THAT SUCH RECIPIENTS WILL USE IT ONLY TO DECIDE WHETHER TO PROCEED WITH DISCUSSIONS LEADING TO A POSSIBLE INVESTMENT IN THIS MEMORANDUM. WHILE THE FUND BELIEVES THAT THE INFORMATION CONTAINED HEREIN IS ACCURATE, IT EXPRESSLY DISCLAIMS ANY AND ALL LIABILITY FOR REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, CONTAINED IN, OR FOR OMISSIONS FROM, THIS MEMORANDUM OR ANY OTHER WRITTEN OR ORAL COMMUNICATION TRANSMITTED OR MADE AVAILABLE, EXCEPTING SUCH REPRESENTATIONS AND WARRANTIES, AS ARE INCLUDED IN THE SUBSCRIPTION AGREEMENT RELATING TO THE UNITS, ATTACHED HERETO AS EXHIBIT C. NOTHING CONTAINED HEREIN IS, OR SHOULD BE RELIED ON AS, A PROMISE OR REPRESENTATION AS TO THE FUTURE PERFORMANCE OF THE FUND. FURTHER, NO OTHER WRITTEN OR ORAL COMMUNICATIONS FROM THE COMPANY SHOULD BE RELIED UPON BY A PROSPECTIVE INVESTOR APART FROM THIS MEMORANDUM AND ITS EXHIBITS HERETO.

NO AGENT OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OTHER THAN THAT CONTAINED IN THIS MEMORANDUM OR TO MAKE ANY REPRESENTATIONS IN CONNECTION WITH THE OFFERING MADE HEREBY AND, IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE FUND. EACH PROSPECTIVE INVESTOR MAY RELY SOLELY ON THOSE REPRESENTATIONS AND WARRANTIES MADE BY THE FUND IN THE THIS MEMORANDUM AND SUBSCRIPTION AGREEMENT RELATING TO THE UNITS OFFERED HEREBY. PROSPECTIVE INVESTORS ARE NOT TO CONSTRUE THE CONTENTS OF THIS MEMORANDUM AS LEGAL, BUSINESS OR TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT HIS OR HER OWN ATTORNEY, BUSINESS ADVISOR AND TAX ADVISOR AS TO LEGAL, BUSINESS, TAX AND RELATED MATTERS CONCERNING THIS OFFERING. CERTAIN PROVISIONS OF VARIOUS DOCUMENTS ARE SUMMARIZED IN THIS MEMORANDUM, BUT PROSPECTIVE INVESTORS SHOULD NOT ASSUME THAT THE SUMMARIES ARE COMPLETE. SUCH SUMMARIES ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE TEXTS OF THE COMPLETE DOCUMENTS.

THE FUND WILL MAKE AVAILABLE TO ANY PROSPECTIVE INVESTOR, PRIOR TO THE CLOSING, THE OPPORTUNITY TO ASK REASONABLE QUESTIONS OF, AND TO RECEIVE ANSWERS FROM, REPRESENTATIVES OF THE FUND CONCERNING THE FUND AND THE TERMS AND CONDITIONS OF THE OFFERING AND TO OBTAIN ANY ADDITIONAL RELEVANT INFORMATION TO THE EXTENT THE FUND POSSESSES SUCH INFORMATION OR CAN OBTAIN IT WITHOUT UNREASONABLE EFFORT OR EXPENSE DURING NORMAL BUSINESS HOURS. THE SECURITIES DESCRIBED HEREIN MAY NOT BE SOLD, NOR MAY ANY OFFERS TO PURCHASE BE ACCEPTED PRIOR TO THE DELIVERY TO PROSPECTIVE INVESTORS OF CERTAIN UNDERLYING DOCUMENTS INCLUDING, AMONG OTHERS, A SUBSCRIPTION AGREEMENT REFLECTING THE DEFINITIVE TERMS AND CONDITIONS OF THE OFFERING. THE FULL TEXT OF SUCH SUBSCRIPTION AGREEMENT SHOULD BE REVIEWED CAREFULLY PRIOR TO PURCHASE.

THE FUND RESERVES THE RIGHT, IN ITS SOLE DISCRETION AND FOR ANY REASON WHATSOEVER, TO MODIFY, AMEND AND/OR WITHDRAW ALL OR A PORTION OF THE OFFERING AND/OR TO ACCEPT OR REJECT IN WHOLE OR IN PART ANY PROSPECTIVE INVESTMENT IN THE UNITS OR TO ALLOT TO ANY PROSPECTIVE INVESTOR LESS THAN THE NUMBER OF INTERESTS SUCH PROSPECTIVE INVESTOR DESIRES TO PURCHASE. THE FUND SHALL HAVE NO LIABILITY WHATSOEVER TO ANY OFFEREE AND/OR PROSPECTIVE INVESTOR IN THE EVENT THAT ANY OF THE FOREGOING SHALL OCCUR.

THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD, EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. PROSPECTIVE INVESTORS MUST BE PREPARED TO BEAR THE ECONOMIC RISK OF A LOCK-UP OF THEIR INVESTMENT FOR AT LEAST A FIVE-YEAR INVESTMENT CYCLE OR LONGER AND BE ABLE TO WITHSTAND A SUBSTANTIAL OR COMPLETE LOSS OF THEIR INVESTMENT. IT IS THE RESPONSIBILITY OF EACH PERSON PURCHASING ANY LIMITED LIABILITY COMPANY MEMBERSHIP INTERESTS OFFERED HEREBY TO FULLY OBSERVE THE LAWS OF ANY RELEVANT TERRITORY OR JURISDICTION OUTSIDE THE UNITED STATES OF AMERICA IN CONNECTION WITH

ANY SUCH PURCHASE, INCLUDING OBTAINING ANY REQUIRED GOVERNMENTAL OR OTHER CONSENTS OR OBSERVING ANY OTHER REQUIRED LEGAL OR OTHER FORMALITIES.

PROSPECTIVE INVESTORS SHOULD INFORM THEMSELVES AS TO THE LEGAL REQUIREMENTS AND TAX CONSEQUENCES WITHIN THE COUNTRIES OF THEIR CITIZENSHIP, RESIDENCE, DOMICILE AND PLACE OF BUSINESS WITH RESPECT TO THE ACQUISITION, HOLDING OR DISPOSAL OF THE UNITS AND ANY FOREIGN EXCHANGE RESTRICTIONS THAT MAY BE RELEVANT THERETO.

THIS MEMORANDUM INCLUDES CERTAIN FORWARD-LOOKING STATEMENTS WITH RESPECT TO THE ANTICIPATED FUTURE PERFORMANCE OF THE FUND. ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE IN SUCH FORWARD-LOOKING STATEMENTS. THEREFORE, NO ASSURANCES CAN BE GIVEN THAT THE RESULTS IN SUCH FORWARD-LOOKING STATEMENTS WILL BE ACHIEVED. IMPORTANT FACTORS THAT COULD CAUSE THE FUND'S ACTUAL RESULTS TO DIFFER FROM THOSE CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INCLUDE, AMONG OTHERS, THOSE FACTORS SET FORTH UNDER THE SECTION 3: "RISK FACTORS" CONTAINED HEREIN.

ALL COMMUNICATION OR INQUIRIES RELATING TO THESE MATERIALS OR TO A POSSIBLE TRANSACTION INVOLVING THE FUND SHOULD BE DIRECTED TO THE INDIVIDUALS LISTED BELOW:

MHC Stable Income Fund I, LLC  
316 W. 2<sup>nd</sup> Street, Suite 1104  
Los Angeles, CA 90012  
Attn: Bradley Froling  
(248) 647-8300  
Attn: Steven Anderson  
(816) 508-9011

## **TABLE OF CONTENTS**

<b>SECTION 1: SUMMARY OF THE OFFERING .....</b>	<b>2</b>
<b>SECTION 2. EXECUTIVE SUMMARY .....</b>	<b>14</b>
<b>SECTION 3. RISK FACTORS .....</b>	<b>26</b>
<b>SECTION 4. SOURCES OF FUNDS AND USE OF PROCEEDS.....</b>	<b>33</b>
<b>SECTION 5. PLAN OF DISTRIBUTION OF SECURITIES.....</b>	<b>33</b>
<b>SECTION 6. MANAGEMENT AND COMPENSATION .....</b>	<b>34</b>
<b>SECTION 7. DESCRIPTION OF MEMBERSHIP INTERESTS .....</b>	<b>36</b>
<b>SECTION 8. CASH DISTRIBUTION TO MEMBERS .....</b>	<b>36</b>
<b>SECTION 9. RESTRICTION ON TRANSFER .....</b>	<b>37</b>
<b>SECTION 10. TAX AND REGULATORY CONSIDERATIONS.....</b>	<b>38</b>
<b>SECTION 11. INVESTOR SUITABILITY STANDARDS .....</b>	<b>42</b>
<b>SECTION 12. DOCUMENTS AVAILABLE FOR INSPECTION .....</b>	<b>44</b>
<b>SECTION 13. ADDITIONAL INFORMATION .....</b>	<b>45</b>
<b>SECTION 14. HOW TO SUBSCRIBE .....</b>	<b>45</b>
<b>SECTION 15. EXHIBITS.....</b>	<b>45</b>

## SECTION 1: SUMMARY OF THE OFFERING

The following executive summary is qualified in its entirety by the detailed information appearing elsewhere in this Confidential Private Offering Memorandum.

The Fund: MHC Stable Income Fund I, LLC ("MHC," the "Fund" or "We"), was formed on March 6, 2017, as a Delaware limited liability company by the filing of a Certificate of Formation with the Secretary of State of the State of Delaware. The principal address of the Fund is 316 W. 2<sup>nd</sup>, Suite 1104, Los Angeles, California 90012. The Fund has been formed to invest capital, acquire and own: (i) one hundred percent (100%) of the ownership interest in various single purpose entities (each, a "Community Owner SPE" and collectively, the "Community Owner SPEs"), which such Community Owner SPEs will be formed for the sole purposes of acquiring, owning, managing, improving, financing, refinancing and ultimately selling various mobile home communities located throughout the United States of America; and (ii) one hundred percent (100%) of the ownership interest in various single purpose entities (each, a "Home Owner SPE" and collectively, the "Home Owner SPEs"), which such Home Owner SPEs will be formed for the sole purposes of acquiring, owning, managing, improving, financing, refinancing, leasing and selling mobile homes (each, a "Home Owner SPE" and collectively, the "Home Owner SPEs"). The Community Owner SPEs and the Home Owner SPEs are collectively referred to herein as the "Property Owner SPEs."

The Fund is a real estate fund formed to operate as a perpetual life, open-end, commingled collective investment fund. The Fund's investment objective is wealth preservation and generating consistent current income, using risk parameters and portfolio management strategies established by the Managing Member and as further described in this Memorandum. The Fund will make capital contributions to form Property Owner SPEs and to cause such Property Owner SPEs to acquire, but not limited to, mobile home communities and individual mobile homes (each, an "Investment"). The Fund intends to employ a buy and hold portfolio management style but will opportunistically sell, or cause to be sold, an asset if the Managing Member believes such asset will sell for a significant gain. Although the Managing Member anticipates that the Fund's portfolio will consist primarily of indirect ownership interests in real estate assets and personal property, the Fund will utilize, or cause to utilize, investment grade, short-term financial instruments as a repository for proceeds not yet invested in the properties. ***No assurance can be given, however, that the Fund will achieve its objective, and investment results may vary substantially over time and from period-to-period.***

The Managing Member: The Fund will be managed by MHC Stable Income Fund Management, LLC, a Delaware limited liability company (the "Managing Member" or the "Manager") which was formed on March 6, 2017 by the filing of a Certificate of Formation with the with the Delaware Secretary of State. The address of the Managing Member is 316 W. 2<sup>nd</sup> Street, Los

Angeles, CA 90012. The members of the Managing Member are Granderson Holdings, Inc., a California corporation, BEF Capital, LLC, a Michigan limited liability company, Dennis Duling and Steven Anderson, each of whom own a twenty-five percent (25%) membership interest percentage in the Managing Member. The sole shareholder of Granderson Holdings, Inc. is Kwame Granderson, and the sole member of BEF Capital, LLC is Bradley Froling. More detailed information regarding the members of the Managing Member is set forth in Section 6: Management and Compensation.

The Offering and Closings:

The Fund is offering a maximum of one hundred fifty (150) (the “Maximum Offering Amount”) units and a minimum of fifty (50) (the “Minimum Offering Amount”) units of limited liability company member interests (the “Limited Membership Interests” or “Units”) upon the terms and conditions set forth in this Memorandum, as it may be amended or supplemented from time to time. Units in the Fund sold to a limited number of sophisticated investors meeting certain criteria (i.e., Accredited Investors). (See Section 11: "INVESTOR SUITABILITY STANDARDS"). The subscription price for each Unit will be \$100,000, subject to Managing Member’s right to sell less than or more than a whole number of Units. The Fund is seeking a minimum of \$5,000,000 and up to \$15,000,000 through the sale of a total of the Maximum Offering Amount. The capital contributed by of each Investor Member is referred to as a “Capital Contribution” and in the aggregate, as the “Total Capital Contribution.”

The Fund expects to accept subscriptions as they are received subject to raising the Minimum Offering Amount. Until the Fund achieves the Minimum Offering Amount, the Fund will hold all subscription received in escrow in a separate account. Subsequent to achieving the Minimum Offering Amount, the Fund will hold an initial closing (the "Initial Closing"). Thereafter, the Fund may hold multiple closings, in the Managing Member’s sole discretion, for the purchase of additional Units up to the Maximum Offering Amount (“Additional Closing”). The Fund may reject subscriptions in its sole discretion, in whole or in part, for any reason. If the Offering is over-subscribed, the Fund may determine, in its sole discretion, to reject subscriptions, in whole or in part or allocate to any prospective investor less than the subscription amount to which the investor subscribed.

The subscription price of each Unit is payable in cash upon subscription with a minimum subscription of one Unit, however the Managing Member reserves the right to sell less than or more than a whole number of Units. The Units when combined equals fifty percent (50%) of the Fund’s total membership interests. Each Unit purchased at the Initial Closing date will equate to a membership interest computed as follows: 50% multiplied by the fraction, the numerator of which is the purchase price paid for such Unit (i.e., \$100,000) and the denominator of which is the total purchase price for all Units purchased at the Initial Closing. The membership interest of the Investor Members, however, will be adjusted at each Additional Closing, in accordance with the provisions set forth below.

The remaining fifty percent (50%) of the membership interests in the Fund will be owned by Managing Member, as defined below.

At each Additional Closing, the current Investor Member's membership interest in the Fund will be adjusted pursuant to the following formula: 50% multiplied by the fraction, the numerator of which is the purchase price paid for all of the Unit(s) purchased by such Investor Member and the denominator of which is the total purchase price for all Units purchased at all of the Initial Closing and the Additional Closings. The membership interest of all the Investor Members, however, will be adjusted at each Additional Closing, in accordance with the provisions set forth above. For example, assume that (1) an Investor Member purchased 5 Units at the Initial Closing for a total of \$500,000; (2) the total purchase price for all Units purchased at the Initial Closing was \$5,000,000; and (3) that the total purchase price for the Units purchased at an Additional Closing was \$5,000,000. Following the Initial Closing, such Investor Member's membership interest percentage in the Fund equaled approximately 5.00% (i.e.,  $\$500,000/\$5,000,000 \times 50\%$ ). Following the Additional Closing, assuming such Investor Member did not purchase additional Units at the Additional Closing, the Investor Member's membership interest percentage in the Fund would equal approximately 2.50% (i.e.,  $\$500,000/10,000,000 \times 50\%$ ).

Any Member purchasing five (5) or more Units at any Closing or at any Additional Closing will be issued Class A Membership Interest Percentage in the Fund and will be referred to as a Class A Member ("Class A Member"). Any Member purchasing less than five (5) Units at any Closing or at any Additional Closing will be issued Class B Membership Interest Percentage in the Fund and shall be referred to as a Class B Member ("Class B Member" collectively with Class A Members, the "Investor Members").

Each Class A Member will be allocated a Class A Membership Interest Percentage computed as follows: the numerator of which is the purchase price paid for all of the Units purchased by such Class A Member and the denominator of which is the total purchase price for all of the Units purchased by the all of the Class A Members ("Class A Membership Interest Percentage"). Each Class B Member will be allocated a Class B Membership Interest Percentage computed as follows: the numerator of which is the purchase price paid for all of the Units purchased by such Class B Member and the denominator of which is the total purchase price for all of the Units purchased by the all of the Class B Members ("Class B Membership Interest Percentage"). The Class A Membership Interest and the Class B Membership Interest Percentage will be adjusted at each Additional Closing.

**Business Plan:**

The Fund was formed for the purpose of providing stable income to its investors by acquiring direct interests in the Property Owner SPEs which will acquire underutilized mobile home communities throughout the United States and acquire, improve, lease and sell mobile homes to residents of such mobile home communities. The Managing Member

intends to reposition such mobile home communities owned by the Community Owner SPEs by infilling the vacant sites with new and used mobile homes purchased, refurbished, leased and sold by the Home Owner SPEs. The Fund expects that the combination of monetizing vacant sites and improving the overall management of the Investments will deliver stable, safe returns. The Fund will invest exclusively in real estate and real estate related assets located in the United States.

The Market Opportunity:

In any given year, some 35 million U.S. households make their homes in rental housing. Due to the flawed valuation model used to price mobile home parks, the Fund believes that it can acquire mobile home parks at favorable cap rates, significantly outperforming other income producing property with a comparable risk profile. We target mobile home parks where a significant percentage of the residents own their own home and are heavily dis-incentivized to bear the costs of relocating their home or defaulting on their site rent. This unusually stable tenant base results in low turnover and predictable cash flows.

Leverage:

The Property Owner SPEs will utilize various forms of financing to acquire the Investments, which may include high leverage secured financing.

The Term:

The Offering will commence on the date of this Memorandum and end on the one year anniversary of this Memorandum (the "Initial Offering Period"), although the Managing Member reserves the right, in its sole discretion, to extend the Initial Offering Period indefinitely to achieve the Maximum Offering Amount (this additional period and the Initial Offering Period will be referred to as the "Offering Period"). However, Investor Members must be prepared to commit their funds for a minimum of five (5) years from the Initial Closing.

In the event that subscriptions for the Minimum Offering Amount are not received prior to the expiration of the Offering Period, as extended in accordance with this Memorandum and other relevant documents, the funds received by the Fund will be promptly returned in full to subscribers, without deduction there from or interest thereon. Any purchases of the Units by the Fund's respective employees, agents, officers, directors, affiliates and placement agents, will be counted towards both the Minimum Offering Amount and the Maximum Offering Amount.

Operating Expenses  
of the Fund:

The Fund will bear (a) all direct costs and expenses incurred in connection with operating the Fund, including without limitation, costs and expenses incurred in respect of (i) custodial fees and expenses, (ii) accounting, audit, compliance and administration, including fees and expenses of accountants and third-party administrators, (iii) fees and expenses of other professional advisers such as attorneys and consultants, (iv) filings and registration fees with respect to the Fund and governmental charges levied against the Fund, (v) taxes and tax compliance (other than income taxes and similar taxes imposed on the Managing Member), (vi) insurance and indemnification obligations with

respect to claims, (vii) the valuation of any non-cash property of the Fund and (viii) other extraordinary costs and expenses incurred with respect to the Fund, and (b) to the extent not reimbursed by a third party, all third party expenses incurred in connection with a proposed investment that is not ultimately made. The Managing Member will be reimbursed by the Fund for direct operating expenses incurred which are paid or advanced by the Managing Member on behalf of the Fund. See Section 4: "Sources of Funds and Uses of Proceeds."

Notwithstanding the foregoing, the Fund will not be responsible for the Managing Member's overhead and administrative costs or the salaries and benefit costs associated with their officers and employees.

Return on Investment:

The Fund's estimated financial performance based on total cash distributions made to holders of Units is an 18-25% Internal Rate of Return. Further, the Fund anticipates an average annual preferred return payment of 10%, which preferred return payment will be included as part of the calculation of the Internal Rate of Return, though there can be no assurance that the Fund will achieve such returns. The Internal Rate of Return means an annual discount rate, compounded quarterly, that causes the present value of all distributions to the Investor Members to equal the present value of the Total Capital Contributions made by the Investor Members to the Fund, determined as of the date on which the Investor Members first made a Capital Contribution to the Fund. The calculation of the Internal Rate of Return shall not take into account any federal, state or local income taxes imposed on the Investor Members as a result of receiving such distributions or on the Investor Members share of the taxable income of the Fund. The prospective investor acknowledges that the prospective investor has never been promised, guaranteed, or warranted by the Fund, its agents, employees, or any other person, including the principals of the Managing Member or the Fund, expressly or by implication any expected percentage of profit and/or amount of or type of consideration, profit or loss to be realized, if any, as a result of an investment in the Fund.

Placement Agents:

The Units are offered on a "best efforts" basis directly by the Fund and by selected broker dealers who are members of the Financial Industry Regulatory Authority ("FINRA"), in an amount of up to 3% of the purchase price of securities sold through their efforts. Additionally, the Fund will pay all other expenses of the Offering including but not limited to, legal, accounting, blue sky filing fees, due diligence fees and non-accountable expense allowances paid to selected broker dealers. No selling commissions, placement fees, compensation paid to broker-dealers or independent contractors and other Offering costs paid or incurred in connection with the Offering shall exceed the maximum sales compensation permitted to be paid under Federal and state law.

Use of Proceeds:

After placement agent fees, legal costs, commissions, allowances and expenses of the Offering are paid, proceeds of the Offering will be used to fund the acquisition of properties and all general business purposes,

including working capital, reserves, and capital expenditures, as described in part herein.

Vote:

The Managing Member will make the day-to-day decisions of the Fund and manage its operations and investments. Accordingly, the Members will have a limited right to vote on the affairs of the Fund, as set forth in the Fund's Operating Agreement. Each Member is entitled to vote in accordance with their membership interest percentage in the Fund. Unless otherwise provided, the Managing Member is entitled to vote its membership interest percentage in the Fund in accordance with the Fund's Operating Agreement or the operation of law requires a vote of the Member's. See Section 5 of the "Operating Agreement" attached as an **Exhibit A** to this Memorandum.

Tax Allocations and  
Distributions  
by the Property Owner SPEs  
to the Fund:

*Tax Allocations.* The Property Owner SPEs are anticipated to derive its revenue and tax benefits solely from the ownership and operation of the Investments. The Property Owner SPEs shall allocate one hundred percent (100%) of each item of income, expense, gain, loss, deduction, and credit to their sole member (i.e., the Fund) as set forth in Section 3 of the Property Owner SPEs Operating Agreement, the form of which is attached hereto as **Exhibit B**.

*Distributions – Property Owner SPE's Net Cash Flow.* The Property Owner SPE's Net Cash Flow (as defined below), provided that all fees and expenses of such Property Owner SPE are paid in full, which shall include the payment of the Property Management Fee and Developer Fee, shall be distributed to the Fund.

The term "Property Owner SPE's Net Cash Flow" shall mean, with respect to each Property Owner SPE, the portion of the cash and cash equivalent assets of such Property Owner SPE which the manager of the Property Owner SPE has determined, in its sole discretion, exceeds the amount of cash needed by the Property Owner SPE to: (i) remain "solvent", (ii) service its debts and obligations in a timely fashion, (iii) maintain or increase working capital and reserves, as deemed necessary, and (iv) conduct its business and carry out its purposes. In making this determination, the manager of the Property Owner SPE shall take into account the Property Owner SPE's then current and foreseeable sources of, and needs for, cash. For purposes of this definition, "solvent" means that at the time of, and after giving effect to, the distribution of Property Owner SPE's Net Cash Flow, the Property Owner SPE's liabilities do not exceed the fair value of the Property Owner SPE's assets, except that the fair value of property that is subject to a liability for which the recourse of creditors is limited shall be included in the Property Owner SPE's assets only to the extent that the fair value of the encumbered property exceeds the liability secured by such property.

*Distributions – Property Owner SPE's Net Sale or Refinance Proceeds.* The Property Owner SPE's Net Sale or Refinance Proceeds (as defined

below), provided that all fees and expenses of such Property Owner SPE are paid in full, which shall include the payment of the Property Management Fee and Developer Fee shall be distributed to the Fund.

The term “Property Owner SPE’s Net Sale or Refinance Proceeds” shall mean, with respect to each Property Owner SPE, the net cash proceeds of such Property Owner SPE resulting from the sale, exchange, destruction, condemnation or other disposition of the Investment or any refinancing of any indebtedness encumbering the Investment owned by such Property Owner SPE.

Tax Allocations and  
Distributions  
by the Fund  
to the Members:

*Tax Allocations.* The Fund is anticipated to derive its revenue and tax benefits solely from the ownership of the membership interest in the Property Owner SPEs. The Fund shall allocate each item of income, expense, gain, loss, deduction, and credit to its members as set forth in Section 3 of the Fund’s Operating Agreement, the form of which is attached hereto as **Exhibit A**.

*Distributions – The Fund’s Net Cash Flow.* The Fund’s Net Cash Flow (as defined below), provided that all fees and expenses of the Fund are paid in full, which shall include the payment of the Developer Fee and Property Management Fee shall be distributed in the following order of priority:

1. first, to pay to the Class A Members and the Class B Members, pro-rata pursuant to their respective Membership Interest Percentages, any unpaid annual, cumulative but non-compounding distribution equal to ten percent (10%) of the Class A Member’s and Class B Member’s unreturned capital contribution (the “Preferred Return”) until such Class A Member and each Class B Member have received their respective Preferred Return;
2. second, until such time that the Class A Members have received an Internal Rate of Return of 17%: (i) 60% of the Class A Excess Cash Flow to the Class A Members, pro-rata, pursuant to their respective Class A Membership Interest Percentage, and 40% of the Class A Excess Cash Flow to the Managing Member; and (ii) 50% of the Class B Excess Cash Flow to the Class B Members, pro-rata, pursuant to their respective Class B Membership Interest Percentage, and 50% of the Class B Excess Cash Flow to the Managing Member; and
3. third, to the Members of the Fund, pro-rata, in proportion to their respective Membership Interest Percentage.

The term “Fund’s Net Cash Flow” shall mean, at any time, the Property Owner SPE’s Net Cash Flow received from the Property Owner SPE less amounts that the Managing Member has determined, in its sole

discretion, exceeds the amount of cash needed by the Fund and the Property Owner SPEs to: (i) remain "solvent", (ii) service its debts and obligations in a timely fashion, (iii) maintain adequate working capital and reserves that may be needed to service the debts and obligations of any of the Property Owner SPEs or the Fund, and (iv) conduct its business and carry out its purposes. In making this determination, the Managing Member shall take into account the Fund's and Property Owner SPE's then current and foreseeable sources of, and needs for, cash. For purposes of this definition, "solvent" means that at the time of, and after giving effect to, the distribution of the Fund's Net Cash Flow, the Fund and Property Owner SPEs liabilities do not exceed the fair value of the Fund's assets, except that the fair value of property that is subject to a liability for which the recourse of creditors is limited shall be included in the Fund's assets only to the extent that the fair value of the encumbered property exceeds the liability secured by such property.

The term "Class A Excess Cash Flow" shall mean the amount of the Fund's Net Cash Flow remaining following the payment of the Preferred Return multiplied by a fraction, the numerator of which is the purchase price paid for all of the Units purchased by the Class A Members and the denominator of which is the total purchase price for all of the Units purchased by all of the Class A Members and Class B Members.

The term "Class B Excess Cash Flow" shall mean the amount of the Fund's Net Cash Flow remaining following the payment of the Preferred Return multiplied by a fraction, the numerator of which is the purchase price paid for all of the Units purchased by the Class B Members and the denominator of which is the total purchase price for all of the Units purchased by all of the Class A Members and Class B Members.

*Distributions – The Fund's Net Sale or Refinance Proceeds.* The Fund's Net Sale or Refinance Proceeds (as defined below), provided that all fees and expenses of the Fund are paid in full, which shall include the payment of the Developer Fee and Property Management Fee shall be distributed in the following order of priority:

1. first, to pay to the Class A Members and the Class B Members, pro-rata pursuant to their respective Membership Interest Percentages, any unpaid Preferred Return owed to such Class A Member and Class B Member until such Class A Member and such Class B Member have received their respective Preferred Return;
2. second, to pay to the Class A Members and the Class B Members, pro-rata based on Membership Interest Percentage, an amount equal to their unreturned capital contribution until such Class A Member and such Class B Member have received distributions equal to their respective unreturned capital contributions;
3. third, until such time that the Class A members have received an Internal Rate of Return of 17%: (i) 60% of the Class A Excess Cash Flow to the Class A Members, pro-rata, pursuant to their respective Class A Membership Interest Percentage, and 40% of the Class A Excess Cash Flow to the Managing Member; and (ii) 50% of the

Class B Excess Cash Flow to the Class B Members, pro-rata, pursuant to their respective Class B Membership Interest Percentage, and 50% of the Class B Excess Cash Flow to the Managing Member; and

4. fourth, to the Members, pro-rata, in proportion to their respective Membership Interest Percentage.

The term “Fund’s Net Sale or Refinance Proceeds” shall mean the Property Owner SPE’s Net Sale or Refinance Proceeds received from the Property Owner SPE less amounts that the Managing Member has determined, in its sole discretion, exceeds the amount of cash needed by the Fund and the Property Owner SPEs to: (i) remain "solvent", (ii) service its debts and obligations in a timely fashion, (iii) maintain adequate working capital and reserves that may be needed to service the debts and obligations of any of the Property Owner SPEs or the Fund, and (iv) conduct its business and carry out its purposes.

Developer Fee:

The Managing Member will receive a Developer Fee for managing the development process necessary to prepare vacant sites, haul and renovate mobile homes and reposition each mobile home park. The Developer Fee shall be equal to five percent (5.00%) of the project costs associated with each deal upon closing and five percent (5.00%) at stabilization. Project costs include both the Fund equity and 3<sup>rd</sup> party debt necessary to achieve the stated goals for each project as exemplified in the Pro Forma attached as **Exhibit D**.

Property Management Fee:

The Fund will pay a property management fee to FTI Property Management, Inc. (“FTI”), an affiliate of the Managing Member, in the amount of six and one half percent (6.5%) of annual gross revenue of the Fund, as consideration for FTI Property Management, Inc.’s services to the Fund. Fees to the FTI shall also include (a) a leasing commission for renting homes equal to one month’s rent, (b) a sales commission for selling homes equal to six (6%) of the sales price and (c) a service fee equal to 20% of contracted third party services. The services contemplated include the management of the Fund’s properties and assistance with the rental and/or sale of the properties. Prior to the Initial Closing, the Fund will enter into a property management agreement with FTI Property Management, Inc. to govern this relationship, which terms will be subject to commercially reasonable terms.

Operating Agreement:

By effecting an investment in the Units offered hereunder, Investor Members will be deemed to have agreed to be bound by the terms and conditions of the Fund’s limited liability company agreement (the “Fund’s Operating Agreement”), attached hereto. The rights of Members in the Fund will be governed by the Fund’s Operating Agreement the form of which is attached hereto as **Exhibit A**, among the Managing Member and the Investor Members admitted therein, and as amended from time-to-time. In the event that the description or terms in this Memorandum are inconsistent with or contrary to the description in or terms of the Operating Agreement, the terms of the Operating Agreement shall control.

Loans: In the event that the Fund or any Property Owner SPE require additional capital, the Managing Member may borrow funds needed from any person, including one or more of the Investor Members, the Managing Member or their Affiliates, pursuant to such terms, provisions and conditions as the Managing Member may determine in its sole discretion. Any such financing may be secured by a pledge, mortgage or other lien or liens on any portion of any Property Owner SPE's property, including, but not limited to, the membership interest. Any such financing shall be repaid prior to any distributions to the Investor Members.

Eligible Investors: The Offering is being made by the Fund to one or more "accredited investors," as defined in Rule 501 of Regulation D promulgated under the Securities Act. All investors will be required to (i) make certain representations with respect to their status and business experience, (ii) represent, among other things, that they have received a copy of this Memorandum, that they understand the terms and risks of this Offering, and (iii) represent that they are capable of withstanding a loss of their entire investment in the Units, among other representations and information, as provided in the Subscription Agreements and Investor Questionnaire attached hereto.

1031 Exchange: The Units being offered herein (both Class A Units and Class B Units) are considered for IRS purposes to be personal property, partnership interests, and thus, not suitable for 1031 exchange. Investors seeking to do a 1031 exchange should not invest in this Offering.

Risk Factors: An investment in the Units is speculative and involves a high degree of risk. Prospective investors should not invest in the Units unless they are in a position to lose the entire investment or be able to lock-up the investment proceeds in the Fund for an extended period. Before making an investment decision, prospective investors should read this Memorandum and, in particular, consider carefully the matters discussed under Section 3: "Risk Factors."

Conflicts of Interest: Certain conflicts of interest may arise from the involvement of the Fund's Managing Member and its affiliates' activities in other investment related businesses and investments in which the Fund has no interest.

Subscription Agreement: The Investors are required to complete the "Subscription Agreement and Confidential Investor Questionnaire" in the form attached to this Memorandum as **Exhibit C**. Among other provisions, the "Subscription Agreement," which contains representations and warranties by the Fund, investment representations by the subscriber and restrictions on transferability.

Related Companies: One of the Managing Member's principals is also a principal of other real estate related companies, including FTI Property Management, Inc., which interests and role he will continue along with the formation, management and operation of the Fund. See "Property Management Fee" above.

**Exclusivity:** Unless consented to by at least a majority in interest of the Investor Members, the Managing Member will not act as a general partner or manager or serve as the primary source of transactions on behalf of a pooled investment fund with investment objectives substantially similar to those of the Fund until the deployment of all of the net proceeds from this Offering following the final closing. Until the net proceeds are fully deployed, the Managing Member will present all investment opportunities that fit the Fund’s investment objectives only to the Fund. Nevertheless, during the Term, the Managing Member and its affiliates may pursue investments that do not meet the investment objectives of the Fund.

**Fiscal Year:** The fiscal year of the Fund will end on December 31.

**Reporting:** The Managing Member intends to furnish to each Member (i) a periodic written report with descriptive information for each new Fund investment with an update on any material information relating to existing Fund investments, and (ii) an IRS Schedule K-1 along with a copy of the Fund’s audited financial statements within 90 days after the end of each fiscal year.

**Limitation of Liability:** As further set forth in Operating Agreement, the Managing Member, its affiliates, partners, members, officers, employees, attorneys, and agents (in each case, an “Indemnitee”) will not be liable to the Fund or to the Members for any act performed or omission made by it in the absence of its own fraud, willful misfeasance or reckless disregard. The Fund will indemnify each Indemnitee for any loss, damage or expense incurred by such Indemnitee on behalf of the Fund or in furtherance of the Units of the investors or otherwise arising out of or in connection with the Fund or the business of the Fund or in enforcing this indemnification, except for losses arising from such Indemnitee’s own fraud, willful misconduct or gross negligence. The Fund shall advance attorneys’ fees, disbursements and other expenses incurred by an Indemnitee in connection with any matter for which indemnification may be sought. Members will not be individually obligated with respect to such indemnification beyond their respective Commitments.

**Tax:** The tax matters discussed in Section 10: “Tax and Regulatory Considerations” below are not intended or written to be used, and will not be used, to avoid penalties that may be imposed on the investor. The Fund provided this information to support the promotion of the Fund and the sale of the Units. As a limited liability company, the Fund will not be subject to U.S. federal income tax and each Member subject to U.S. federal tax will be required to include in computing its U.S. federal income tax liability its allocable share of the items of income, gain, loss and deduction of the Fund, regardless of whether and to what extent distributions are made by the Fund to such Member. Tax losses will generally be allocated among the Members in accordance with their respective Capital Commitment percentages in the Fund.

Accounting: The Managing Member will utilize the services of Metzler, Locricchio Serra & Company, P.C., 1800 West Big Beaver Rd. Ste. 100, Troy, Michigan 48081, Attn: Joseph Serra, for project level work, audits, accounting and investor reporting. Other accounting firms may be used in addition to the above stated firm.

Legal: Legal counsel for the Fund and the Managing Member in connection with various corporate, securities and tax matters is Sullivan, Ward, Asher & Patton, P.C., a Michigan professional services corporation, located at 25800 Northwestern Highway, Suite 1000, Southfield, Michigan 48075. Acquisition, financing and other local counsel may be used in addition to the above stated firm on a case-by-case basis.

Amendment of the Operating Agreement: The Managing Member may amend the Operating Agreement without the approval of any Members to cure any ambiguity or inconsistency of the Operating Agreement, or admit or withdraw any Member as provided in the Operating Agreement, or to address other matters, as set forth in the Operating Agreement, except that no such amendment can change the Commitment of a Member or alter a Member's economic benefit in the Fund, without the consent of such Member.

Removal of the Managing Member: The Managing Member may be removed by the written consent of more than 50% of all Units (excluding Units held by the Managing Member or its Affiliates) of the Fund in the event of a determination by a court of competent jurisdiction that any of the following actions or events with respect to the General Partner have occurred (each, "Cause") (i) any action that constitutes gross negligence, fraud or willful misconduct or (ii) a bankruptcy event. The Managing Member may be removed for other than Cause by the written consent of members of the Fund holding more than two thirds of all Units (excluding Units held by the Managing Member or its affiliates).

## SECTION 2. EXECUTIVE SUMMARY

### *INTRODUCTION.*

In the aftermath of the housing crisis that forced Americans into foreclosures in record setting numbers, the affordable housing sector has captured attention for its resilience. Regardless of the current state of the economy, demand for affordable housing has remained comparatively constant, experiencing less volatility during economic cycles than other asset classes. In other words, there is always a need for affordable housing and that need is as keen now as ever. With over half of all Americans making less than \$27,000 (Reuters) and baby boomers turning 65 as of 2011 (US Census Bureau), we believe that the affordable housing sector will be a strategically important segment of the real estate market for decades to come.

Many of the nation's top investors agree, and we have seen a sizeable influx of investment capital into this space in recent years, specifically in mobile home communities. High profile individuals such as Warren Buffet and Sam Zell, as well as hedge funds and REITs have all made investments in the mobile home sector. Why has this asset class drawn so much attention from those looking to deploy large amounts of investment capital? The answer is simple – greater stability of income than other asset classes while at the same time offering the opportunity for significant capital gain.

We have discovered, however, that despite the opportunities this sector offers, it is still very much undercapitalized. Why? Because the difficulty of securing financing for mobile homes prevents community owners from filling vacant sites in their communities, which in turn prevents them from getting to the occupancy levels that would allow for attractive financing for the entire community. Communities with limited financing options trade at higher cap rates (i.e., lower price points). Even more surprisingly, lenders, and therefore appraisers, assign no value to the vacant sites and sites occupied by abandoned homes. (*See MHC Capital White Paper #1 for a more detailed explanation of the significance of this flawed valuation approach.*)

**The Opportunity:** thousands of communities with highly stable cash flow but are undervalued because of the unavailability of conventional financing for the homes. This market disequilibrium persists despite the fact that the demand for affordable housing is at an all-time high.

**Our Solution:** Acquire large mobile home communities that are below stabilized occupancy and still in the hands of “mom and pap” owners looking to exit the space. Infuse the capital necessary to achieve stabilized occupancy and create significant upside through (1) the increase in net operating income and (2) the lower cap rate (i.e., higher price point) applied to stabilized communities.

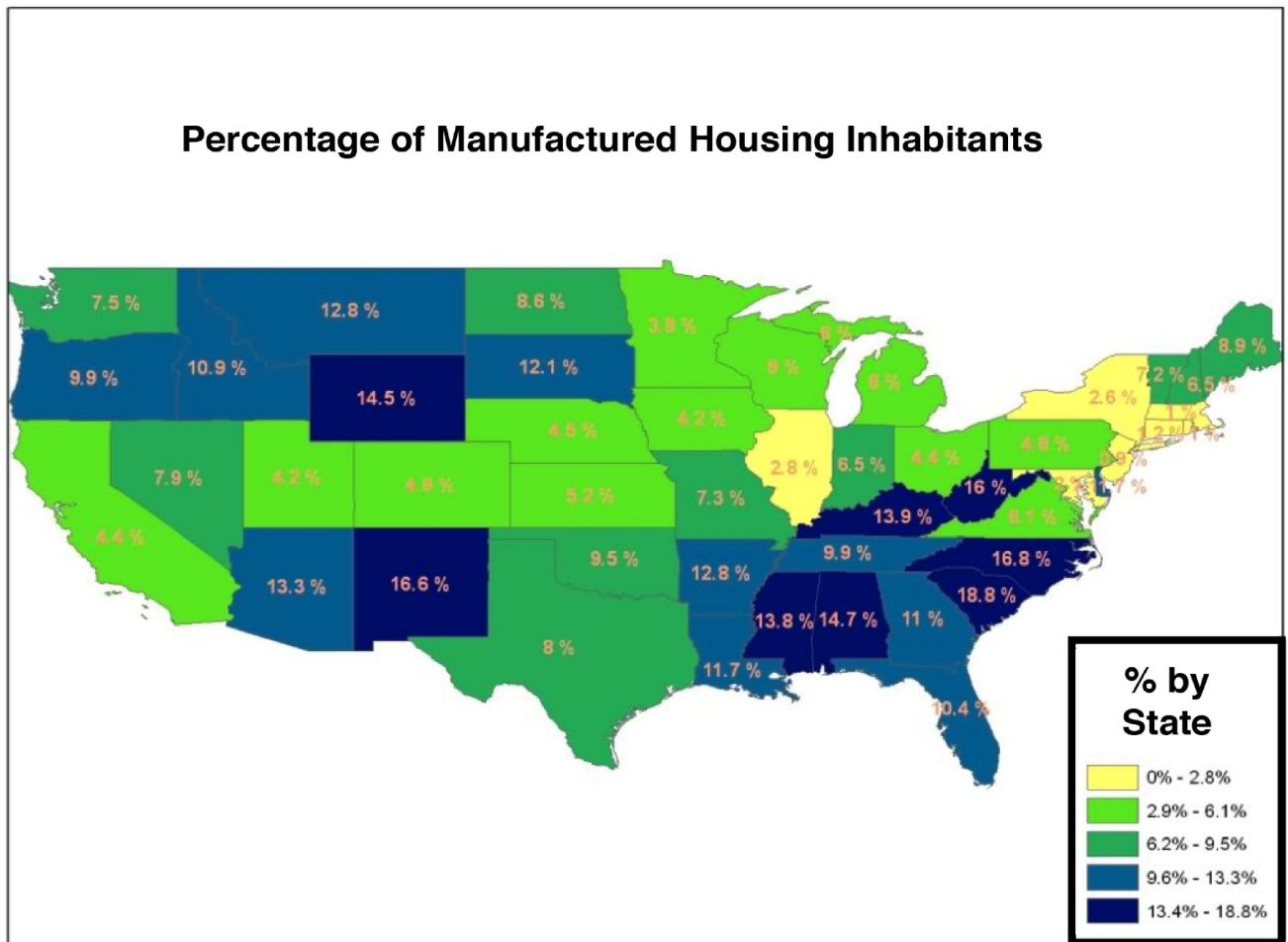
**Goal:** Acquire as many of these communities before (1) cap rates get compressed by the flood of institutional equity that is entering the market, and (2) the industry becomes aggregated in the hands of a small number of sophisticated ownership groups. We fully intend to be one of those ownerships groups.

We believe that as a country we will have to solve our housing needs with an approach that is more sustainable than exotic loan products designed to squeeze people into homes they cannot really afford. The number of available sites in the mobile home sector that can help address this need represents a \$10 billion opportunity to provide affordable housing. Since the top 10 ownership groups only control about 5% of the market share, there is no shortage of deal flow to create a sizable portfolio.

## THE BUSINESS MODEL

Approximately 10% of all housing units in the U.S. are mobile homes. In some states like North Carolina and South Carolina, that number almost doubles. *See chart below from City-Data.com.* A mobile home is a factory built home with an automotive frame that allows for towing to the site. Most of these homes are concentrated in the approximately 50,000 mobile home communities scattered throughout the country.

These communities range from small RV parking lots to beautifully landscaped neighborhoods with views overlooking the ocean. The majority fall somewhere between those extremes—decent communities with decent families.



## ***Identifying Target Communities***

We target mobile home communities having the following characteristics:

***Geography:*** *Midwest and Northeast*

***Economics:*** Site rent of approximately \$250-\$350 and home rent of \$300 or above in the case of homes owned by the community

***Occupancy:*** Between 55%-80% occupancy

***Density:*** A maximum density no greater than 10 sites/acre. A density of seven (7) sites/acre is optimal so that most sites can accommodate 80 ft. homes *and* have a more spacious lot, which is a competitive advantage.

***Home Ownership:*** Majority owner occupied homes. Communities with a significant number of rental units are significantly less stable than homes with a significant number of owner-occupied homes.

***Home Vintage:*** A home mix weighted toward newer vs. older homes. Communities with newer homes tend to attract residents that are more financially responsible than found in lower caliber communities with predominantly older homes. Minimum number of functionally obsolescent homes.

***Sub-metering:*** Individual metering of water and sewer when applicable controls excessive consumption.

In addition, we use additional criteria to ensure that the community is suitable, including:

- Overall appearance of community and improvements (e.g., paved roads)
- Number of total sites v. unoccupied sites v. unoccupied homes on occupied sites
- Quality of management infrastructure
- Access to highways
- Quality of school district
- Utilities infrastructure
- Demonstrated demand for homes in the community (we run test ads during our due diligence period)



## ***Community Acquisition Strategy***

In order to find the right deal, we must be exposed to numerous deals. As such, we employ a variety of strategies to identify suitable opportunities:

**Independent Brokerage Firms:** Large brokerage firms such as Marcus & Millichap or CBRE typically represent sellers. They pride themselves on achieving the maximum sales price for their clients by soliciting as many offers as possible and encouraging bidding wars. Smaller, independent brokers often represent buyers and have to be more resourceful in getting to sellers before the larger brokers. We prefer to work with these brokers as they do a better job of finding off market deals that can be acquired at a price that leaves room for upside.

**Industry Relationships:** We got our start in this industry by renovating hundreds of homes in communities owned by other ownership groups. Out of that effort has come a broad network of industry relationships that we mine for potential deal opportunities. Our relationships include industry consultants, property managers, insurance brokers, heads of state associations and many more. This is a tight industry where industry professionals tend to be much more aware of prospective buying opportunities than in the apartment sector for example.

**Large Portfolio Owners:** As ownership groups grow, they often change their buying parameters. As they move more towards buying 5-star communities, for example, they seek to sell off 3-4 star communities they acquired earlier in their career. Since we have relationships with many of the largest ownerships groups in the country, we expect to be able to acquire communities that no longer meet the current criteria of some of these bigger portfolio owners.

**REO's and Receivers:** The downturn in the real estate market has resulted in a significant number of commercial assets still sitting on the books of lenders or in the hands of receivers charged with disposing of these assets. We broaden our net by targeting lenders and receivers directly.

**Grass Roots (Direct Marketing):** Often nothing beats simply marketing directly to community owners. We plan to target communities in close proximity to any community that we acquire and approach the owner directly.



## ***Community Repositioning Strategy***

The land in mobile home communities is often underutilized. A typical breakdown of the land usage can be categorized as follows.

**Abandoned Homes:** Sites occupied by homes that have been abandoned by the previous homeowner (5%). This is relatively common because most residents cannot afford the cost of

relocating a home when they need to move. Many community owners don't have the expertise and/or liquidity to renovate abandoned homes expeditiously.

**Vacant Sites:** Available sites that have the requisite infrastructure in place to accommodate a home (25%).

**Occupied Sites:** Sites occupied by homes with paying residents (70%). We target communities occupied primarily by residents that own their own homes. Such communities have incredibly stable income because long-term residents cannot afford to lose a free and clear home and will do whatever is necessary to ensure their site rent is paid in full and on time.

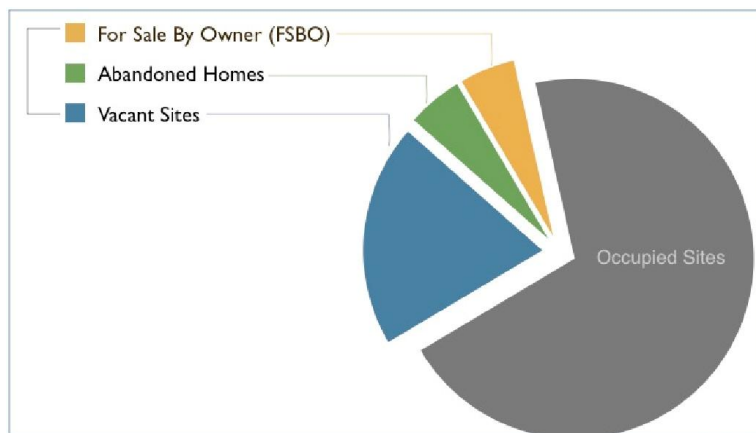
The combination of vacant sites and abandoned homes in some communities can result in as much as 40% of the community being underutilized even while the other 60% is being effectively managed. In other words, the vacancy rate is not a function of demand or operational competence but, rather, an absence of available capital.

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***This creates a unique opportunity: the prospect of creating significant upside with an asset that is not technically distressed and not poorly managed but rather underperforming because of industry wide illiquidity. The typical risk/reward relationship is also unhooked because the asset is producing a highly stable cash flow even as it's being repositioned.***

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There are approximately 50,000 mobile home communities with hundreds of thousands of ready-to-occupy empty lots and underutilized lots occupied by abandoned homes. We use several different strategies to reposition these communities including: (1) bringing in new homes, (2) bringing in and renovating used homes being sold in neighboring communities, (3) renovating existing abandoned homes, and (4) incentivizing homeowners to bring their homes into our communities.



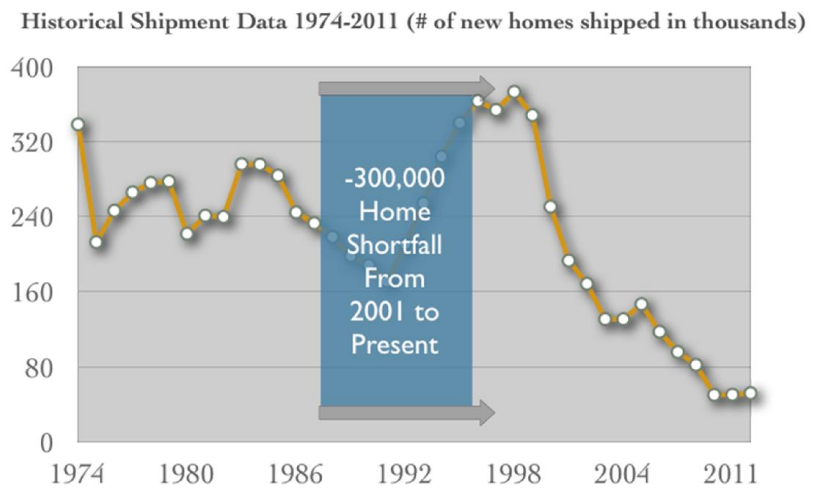
**(1) Bring in Newly Manufactured Homes:** The fastest way to add value to underperforming communities is to bring additional homes into the community. Due to the cost of new homes, however, we use this approach only to fill those communities where the site rent is at the higher end of the spectrum.

It is important to point out that this is quite different from a new construction development project. A typical new construction development project requires a rather lengthy, and somewhat risky, process of acquiring raw land, entitling it, and subdividing it before construction can even begin. Construction budget overruns are common and unreasonable inspectors can cause frustrating time delays and additional costs.

Our business model, on the other hand, affords significant repositioning opportunities without many of the typical risks associated with a development project.

### ***Risk Mitigation***

- *Cash Flow From Day One:* The substantial carrying costs generally associated with the construction phase of a development project are not incurred under our model because we target communities that are cash flowing at the time of purchase. This is very different from a development project that has lengthy lead times (and risk) before the asset begins to cash flow.
- *Unparalleled Speed to Market:* An average sized manufacturer can build as many as 5 homes per day and hundreds of manufacturing plants are currently operating below capacity because of a dramatic drop-off in shipments over the last decade. (see chart below). Newly built homes can be shipped and installed within weeks. Development risk associated with significant time delays, city approvals, or cost overruns, therefore, is rare.
- *No Nightmare Inspectors:* Although manufacturing plants are periodically spot checked by HUD inspectors, the actual homebuilding process is not micromanaged in the way it is with site built homes because the factory is a much more controlled environment with extremely standardized procedures. This results in a far more predictable construction duration.



## Home Features

We strive to bring the resident a quality home that they can be proud of. To this end, we incorporate into our custom-designed new home model features that will improve the living environment for the resident.

Features of our new homes worth highlighting include:

- 3 Bedrooms, 2 Bathrooms
- 14 x 80 (minimum 70 ft.; and 14 ft. in width to accommodate a king-sized bed)
- Zone III construction to provide comfort in the most extreme weather conditions
- Thermal windows to improve energy efficiency
- Aesthetic accents (e.g., backsplash on the kitchen countertop)
- 25 year roof
- Central A/C
- Name brand appliances

This is a home in which any American family can live with dignity while still paying a fraction of what they would otherwise pay for a traditional single family home.



**(2)—Bring in and Renovate Used Manufactured Homes:** We source used homes for sale in surrounding communities, haul them in and renovate them. Bringing used homes into the community and renovating them is about 30% cheaper than ordering a new home from a manufacturer, but it requires more work. The economics of the deal determine which approach makes more sense.

We consider our ability to source used homes to be one of our competitive advantages. The market for used homes dried up years ago when repos from the collapse of large mobile home lenders like Greentree/Conseco in the early 2000's were absorbed.

A steady flow of used inventory in today's market requires industry contacts. We have active relationships with the following suppliers who sell us homes in bulk:

- Banks who sell us their REO's
- Retailers who sell us their trade-in's
- Wholesalers who sell us their renovated homes.

Our relationships can supply us as many as 10 homes per week.

**(3)—Renovate Existing Homes:** Abandoned homes can be secured and restored to habitability relatively easily. In fact, it was precisely our prior experience with renovating abandoned homes that brought to our attention the even greater need to address the vacant site problem.

### **The Renovation Process**

In the renovation phase, we first identify homes that are worth salvaging and demolish the remainder to clear the sites. Our renovation process is as follows:

- Determine which units to work on in which order.
- Bring the homes that require the least work online first.
- Prepare bids for labor and materials based on our extensive renovation checklist.
- Commence job and schedule periodic inspections to track progress and issue progress payments.
- Conduct final inspection before commencing occupancy.



**(4)—Incentivize Homeowners to Relocate to Our Community (“Move For Free Program”):** Since every additional site we fill significantly increases the value of the community, we offer to pay nearby homeowners looking to relocate their home the entire cost of hauling and setting up their home in our community. The costs associated with hauling and setting up a home represent a significant expenditure to a mobile home owner. As such, we have had great success enticing homeowners to our communities with our Move For Free Program.

## LEASING AND MANAGEMENT

The key success factors for an effective lease up campaign are choosing markets that have sufficient demand, employing appropriate management systems for operations and setting the rental rates at a level that are appropriate for the market.

Our management affiliate, FTI Property Management, Inc. is a full service property management company which has more than 10 years of experience leasing and managing residential and commercial property in over 10 States.

Assets currently under management of FTI Property Management Inc.:

- Over 200 individual mobile home units in over 10 states and 45 mobile home parks
- 10 mobile home parks with over 1500 sites

FTI Property Management provides a full complement of property management services and has had great success in making sure that properties are leased to qualified tenants in order to maximize investor return. On-site managers work closely with a well-oiled team of contractors and local professionals to ensure that the investment properties are renovated and maintained to the highest standards.

Property management services include:

- Aggressive leasing services
- Customized marketing plans to fill vacancies
- Monthly income and expense reporting and quarterly balance sheet preparation

Prompt and professional maintenance and repairs

- Tenant retention and screening
- Coordination of tenant evictions
- Preparation of operational budgets and forecasts

## EXIT STRATEGY

A business model is only as effective as its exit strategy. Our model was built with the exit strategy in mind. The criteria we use to select our communities is the same criteria used by many large, institutional buyers (pension funds, REIT's, etc.) with one exception: they buy fully stabilized communities; we buy communities at 55%-80% occupancy that need to be stabilized. In other words, we buy the communities they want once our work is finished.

By targeting communities that when stabilized are attractive to institutional buyers, we position ourselves to benefit from a cap rate bump at exit. The following example illustrates the point.

NOI @ Purchase:	\$270,000
Cap Rate:	9%
Purchase Price:	\$3,000,000
NOI @ Stabilization:	\$540,000
Cap Rate:	7.5% (Non-Institutional Buyer)
Purchase Price:	\$7,200,000
NOI @ Stabilization:	\$540,000
Cap Rate:	6% (Institutional Buyer)
Purchase Price:	\$9,000,000

Institutional/Non-Institutional Delta: \$1,800,000 (*This amounts to a 25% premium for buying communities that appeal to institutional buyers which dramatically increases the Internal Rate of Return to the investor*).

We define stabilization as follows:

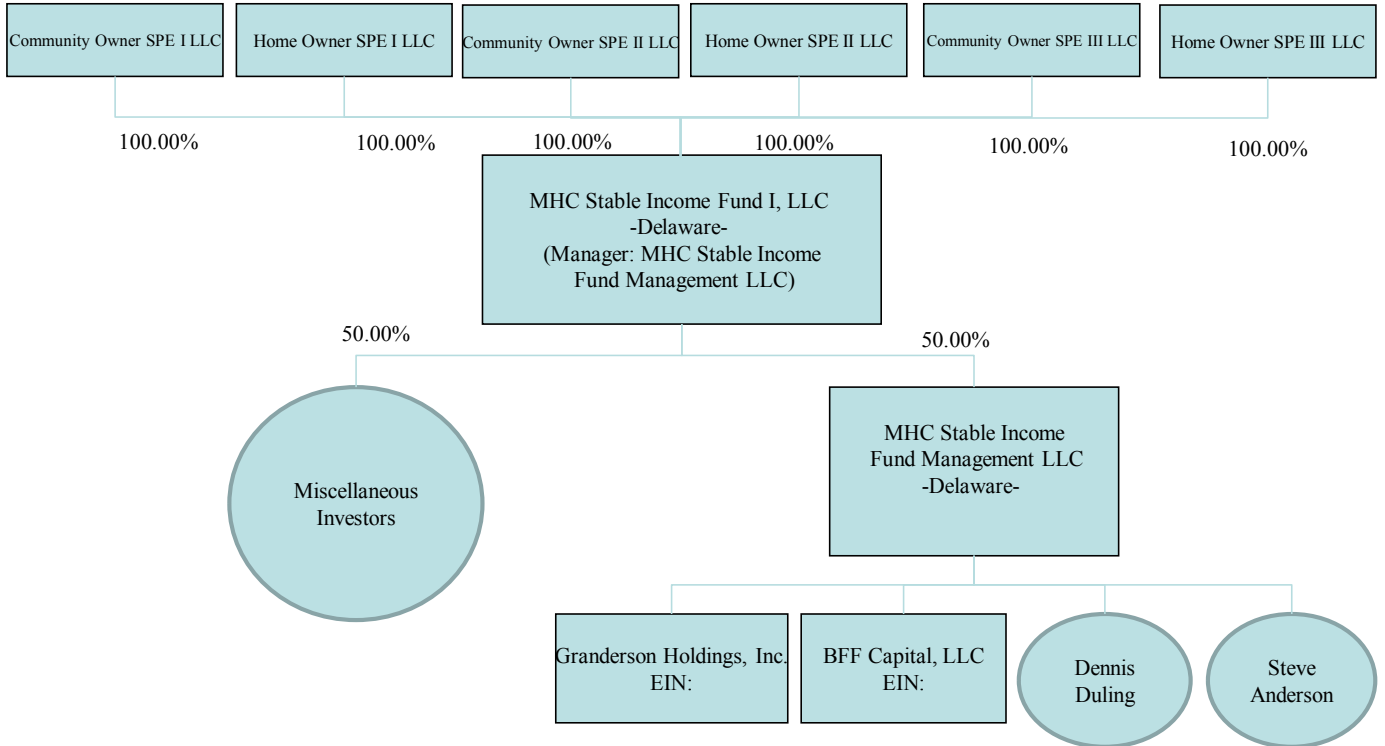
- Economic occupancy at or above 90%
- Physical occupancy at or above 90%
- Site rent at or above market
- Collections at or above 95%
- All significant physical plant issues under control (water, sewer, etc.)

The investor will note provisions in the operating agreement that allow the Managing Member of the Fund to roll up the single purpose entities that will be formed to acquire each community precisely to ensure that the Fund benefits from institutional valuation.

The Managing Member shall decide at the end of the Fund term whether to actually sell the portfolio to an institutional buyer or simply use institutional valuation to cash out the investors through a refinance of the portfolio.

# ENTITY STRUCTURE

The organization chart below sets forth the relationship between the entities that will be involved in the Fund.



## SECTION 3. RISK FACTORS

An investment in the Fund involves a significant degree of risk relating to its structure and investment objectives. In addition to the information set forth below, investors should carefully consider the risks described in the “Section 10: Tax and Regulatory Considerations” section below and throughout this Memorandum before making an investment in the Fund. Statements contained in this Memorandum that are not historical facts are based on current expectations, estimates, projections, opinions and beliefs of the Managing Member. Such statements involve known and unknown risks, uncertainties and other factors, and no assurance can be given with respect to any investment return in the Fund. If any of the following risks occur, our business, financial condition or results of operations could be adversely affected and you may lose part or all of your investment.

### **Risks Related to the Business**

**LIMITED OR NO OPERATING HISTORY.** Although our management and directors combine more than 75 years of collective experience in investing, renovating and managing residential real estate, the Fund has no operating history, which can be used to assess our future prospects. We are uncertain whether our property portfolio will ever sustain revenue levels, as discussed in this Memorandum and if we will be able to position any of our properties for resale at a premium. We may have underestimated the costs for repositioning some of our properties, overestimated acceptance by quality tenants, and entered into financing agreements based on less than optimal terms. If any of these factors were to occur, the financial position of the Fund could suffer.

**REAL ESTATE INVESTMENT CONSIDERATIONS.** Real estate investments are subject to varying degrees of risk. The financial returns available from equity investments in residential properties depend on the amount of revenue generated and expenses incurred while operating the properties. If the properties do not generate revenues sufficient to meet operating expenses, debt service, if any, and capital expenditures, the Fund's income and ability to make distributions to its members will be adversely affected. Income and value derived from such properties may be adversely affected by changes in the national and regional economic climate, local real estate conditions, such as an oversupply of rentals or a reduction in demand for rentals, availability of "stick built" housing, the attractiveness of the properties to residents, competition from other properties, the inability to provide adequate maintenance and to obtain adequate insurance and increased operating costs (including municipal and state taxes). The Property Owner SPEs' and the Fund's income will be adversely affected if some residents are unable to pay rent or if the homes cannot be rented on favorable terms.

Further, certain significant expenditures associated with equity investments in real estate (such as mortgage payments, if any, applicable taxes and maintenance costs) are generally not reduced when circumstances cause a reduction in rental income. In addition, the net income to the Fund from any of the properties may be adversely affected by factors, among others, such as changes in zoning, building, environmental, and other laws and regulations, population shifts, which may affect the demand for rental housing in the Fund's markets, changes in applicable taxes and interest rates, the availability of financing, weather and acts of God (such as hurricanes and floods) and other factors beyond the control of the Fund that may significantly affect the Fund's revenue and operating expenses. The Fund is also exposed to the various types of litigation that may be brought against a property owner or manager.

**ILLIQUIDITY OF REAL ESTATE.** Investments in real estate are relatively illiquid and, therefore, will tend to restrict the Fund's ability to vary its portfolio of properties promptly in response to changes in economic or other conditions.

**PROTRACTED RENTAL REAL ESTATE VACANCIES.** The Fund faces significant competition from owners, operators and developers of similar real estate properties designed and dedicated to serve tenants with the same needs as the tenants that occupy or could occupy the properties we acquire in the same market. These competitors may have greater resources than we do, and may have other advantages that result from lower cost of capital and enhanced operating efficiencies. This competition may affect our ability to attract and retain tenants and may reduce the rents we are able to charge. These competing properties may have vacancy rates higher than our properties, which may result in their owners being willing to lease available homes at lower prices than the homes in our properties. Due to such competition, the terms and conditions of any lease that we enter into with our tenants may vary substantially from those we anticipate when we acquire a property. Our properties experience competition from existing and planned projects, as well as newer developments located within the market area. We cannot assure that competitors will not develop similar properties in the area or not be able to negotiate better leases for existing or new properties, which will adversely affect the profitability and viability of our properties.

**INCREASED AFFORDABILITY OF SINGLE-FAMILY HOMES COULD LIMIT OUR ABILITY TO RETAIN RESIDENTS, LEASE HOME OR INCREASE OR MAINTAIN RENTS.** The Fund's properties will compete with numerous housing alternatives in attracting residents, including other manufactured housing communities, apartment communities and single-family homes, as well as owner occupied single- and multi-family homes available to rent. Competitive housing in a particular area and the increasing affordability of owner occupied single- and multi-family homes available to rent or buy caused by declining mortgage interest rates and government programs to promote home ownership could adversely affect our ability to retain our residents, lease homes and increase or maintain rental rates.

**FUTURE PROPERTY ACQUISITIONS.** In the normal course of its business, and in the pursuit of its business and growth strategies, the Fund continually evaluates potential acquisitions throughout the country. The Fund intends to continue to acquire mobile home communities, if attractive opportunities arise. In addition to general investment risks associated with any new real estate investment, acquisitions entail risks that investments will fail to perform in accordance with expectations and that judgments with respect to the costs of improvements to bring an acquired property up to standards established for the market position intended for that property will prove to be inaccurate. Properties acquired may have characteristics or deficiencies unknown to the Fund affecting their valuation or revenue potential, and it is possible that their operating performance may decline under the Fund's management. No assurance can be given that the Fund will identify suitable acquisitions, complete acquisitions on terms favorable to it or successfully integrate acquired properties into the Fund's portfolio. If financing is not available on acceptable terms for new acquisitions or renovations, further acquisitions might be curtailed.

**RISKS OF REPOSITIONING AND RENOVATION.** The Fund intends to reposition or renovate certain of the properties and other properties it may acquire in the future. In connection with any such project, the Fund will bear certain risks, including delays or cost overruns, that may increase project costs and could make such projects uneconomical, and the risk that rental rates at a property once such a project has been completed will not be sufficient to enable the Fund to pay operating expenses or earn its anticipated rate of return on its investment. In case of an unsuccessful repositioning or renovation project, the Fund's loss could exceed its investment in such project.

**NO ASSURANCE OF INVESTMENT RETURN.** The Fund investment portfolio will consist primarily of mobile home communities. The Fund's financial return with respect to any investment or for a specified period will be difficult to predict. There is no assurance that the Fund will be able to invest its capital with attractive terms or generate returns for its Members. Even if several of the investments are successful, there can be no guarantee that Members will receive distributions in an amount equal to their investment.

**SEVERE WEATHER AND NATURAL DISASTERS.** Many of properties will be located in the mid-west, which is prone to severe weather conditions such as tornadoes and extreme wind. In addition, we may acquire properties in coastal areas such as south Florida, which is prone to severe weather conditions such as torrential rain, tropical thunderstorms, floods and hurricanes. Damages from such extreme weather can include the loss of infrastructure, the loss of property, and extensive property damage based on which we may lose a portion of our investment and associated revenues. Although the Fund will obtain windstorm and flood insurance to mitigate the risk of property loss or damage, the costs of maintaining such coverage has increased dramatically over the last 10 years. In the event that any of our properties will be lost or damaged as a result of severe weather or natural disaster, proceeds derived from insurance policies may prove to be insufficient to rebuild affected properties and cover the loss of rent payments during the rebuilding period. Accordingly, the Fund's business, financial condition, and results of operations may suffer.

**REAL ESTATE FINANCING RISKS.** Although the Fund plans to acquire mobile home communities with the proceeds of this Offering, in certain instances, the Fund may elect to leverage its property portfolio in order to finance additional acquisitions. In such cases, the Fund will be subject to the risks normally associated with debt financing, including the risk that the Fund's cash flow will be insufficient to meet required payments of principal and interest. If the Fund were unable to meet its debt service obligations under its mortgage loans, the lender could foreclose on the relevant property, in which case the Fund would lose the property and its associated investment and revenue stream. The Fund's Operating Agreement does not limit the amount of indebtedness it may incur. Accordingly, the Managing Member may decide to incur additional debt. The Fund might therefore become more leveraged as a result, and our financial condition and cash available for distribution to members might be negatively affected and the risk of default on our indebtedness could increase.

**DEPENDENCE ON KEY PERSONNEL.** The Fund is dependent on the efforts of all of the officers and directors. While the Fund believes that it could find replacements for these key personnel, the loss of their services could have a material adverse effect on the operations of the Fund. Currently, the Fund has no intention to secure key-man life insurance for any of its officers or directors.

**PRIOR INVESTMENT PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.** The past investment performance of the Managing Member or the management team discussed throughout this Memorandum or elsewhere cannot be relied upon as an indication of the Fund's future performance or success; it is solely intended to illustrate their experience and the type of transactions the Managing Member intends to pursue on behalf of the Fund. The prior transactions represented herein are not intended to be complete or representative of all the transactions in which the management team has been involved.

**LACK OF DIVERSIFICATION.** Although it is the Fund's intention to invest the proceeds of this Offering in a diverse geographic area around the United States, the portfolio of investments will not be significantly varied with respect to asset class. Further, the Fund may be adversely affected by unfavorable conditions, which might prevail in any particular property location or the type targeted for investment. In particular, the Fund will be subject to local economic conditions in its markets, which can adversely affect the Fund's ability to acquire the investments at favorable terms and manage the successfully.

**UNSPECIFIED USE OF PROCEEDS.** As of the date of this Memorandum, the Fund has a proposed project pipeline, however, the Managing Member has not identified any additional specific future investments as of the date hereof. Members will be relying on the ability of the Managing Member to identify and procure profitable investments using the net proceeds hereof. Because such investments may occur over a substantial period, the Fund faces the risks of changes in the real estate markets.

**UNINSURED LOSSES MAY ADVERSELY AFFECT OUR RESULTS OF OPERATION.** The Fund intends to obtain certain insurance coverage on our investments. The property owner or any third-party lender may select policy specifications and insured limits, which it believes to be appropriate and adequate given the risk of loss, the cost of the coverage and industry practice. The nature of the tenants at the properties we hold, such as seniors, may expose the Fund to an increase in liability for personal injuries or other losses. There can be no assurance that such insurance will be sufficient to cover all liabilities. Some of our policies may be subject to limitations involving large deductibles or co-payments and policy limits, which may not be sufficient to cover losses. Furthermore, insurance against certain risks, such as terrorism and toxic mold, may be unavailable or available at commercially unreasonable rates or in amounts that are less than the full market value or replacement cost of the properties. There can be no assurance that particular risks that are currently insurable will continue to be insurable on an economical basis or that current levels of coverage will continue to be available. If a loss occurs that is partially or completely uninsured, we may lose all or part of our investment in a property as well as the anticipated future cash flows from such properties. In addition, if the damaged properties were subject to recourse indebtedness, we would continue to be liable for the indebtedness, even if these properties were irreparably damaged. We may also be liable for any uninsured or underinsured personal injury, death or property damage claims, which could result in decreased profitability.

**POSSIBLE ENVIRONMENTAL LIABILITIES.** Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real estate may be required to investigate and clean up hazardous or toxic substances or petroleum products released on, under, in or emitting from such property and may be held liable to a governmental entity or to third parties for property damage and for investigation and clean-up costs incurred by such parties in connection with the contamination. Such laws typically impose clean up responsibility and liability without regard to whether the owner knew of or caused the presence of the contaminants, and the liability under such laws has been interpreted to be joint and several unless the harm is divisible and there is a reasonable basis for an allocation of responsibility.

The cost of investigation, remediation or removal of such substances may be substantial, and the presence of such substances or the failure to remediate the contamination properly on such property may adversely affect the ability to sell or rent such property or to borrow using such property as collateral. This risk is particularly relevant to the Fund as our investment strategy and property portfolio focuses on mobile home communities, some of which may have been developed before such laws were enacted and thus any inherent environmental liabilities may still be unknown. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and costs it incurs in connection with the contamination. Finally, the owner of a site may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from a site.

Federal legislation requires owners and landlords of residential housing constructed prior to 1978 to disclose to potential residents or purchasers of the properties any known lead-paint hazards and will impose treble damages for failure to give the required notice. The existence of lead-based paint in a property may result in lead poisoning in children residing therein if chips or particles of lead-based paint are ingested, and the Fund may be held liable under state laws for any injuries caused by ingestion of lead-based paint by children living at properties acquired by the Fund in the future.

**SEWAGE TREATMENT AND WELL WATER.** Some of the communities the Fund will acquire may have onsite sewage treatment plants, drain fields or other facilities for the treatment management and treatment of sewage. Federal, state or local regulations may change and impose additional costs on the Fund to bring these facilities into compliance. Undisclosed capacity issues may arise with respect to these facilities that require costly repairs or upgrades that negatively impact the Funds cash reserves.

Some of the communities the Property Owner SPEs will acquire may have onsite well towers, well houses or other facilities necessary to provide water to the residents. Federal, state or local regulations may change and impose additional costs on the Fund to bring these facilities into compliance. Undisclosed capacity issues may arise with respect to these facilities that require costly repairs or upgrades that negatively impact the Funds cash reserves.

## **Risks Related to the Offering**

**FINANCIAL PROJECTIONS.** Financial projections concerning the estimated operating results of the Fund may be included with the Memorandum. Any projections would be based on certain assumptions which could prove to be inaccurate and which would be subject to future conditions, which may be beyond the control of the Fund, such as general industry conditions and fierce competition. The Fund may experience unanticipated costs, or anticipated revenues may not materialize, resulting in lower revenues than forecasted. There is no assurance that the results illustrated in any financial projections will in fact be realized by the Fund. Any financial projections would be prepared by management of the Fund and would not be examined or compiled by independent certified public accountants. Counsel to the Fund has had no participation in the preparation or review of any financial projections prepared by the Fund. Accordingly, neither the independent certified public accountants nor counsel to the Fund would be able to provide any level of assurance on them. There is no assurance that the Fund will have sufficient capital to fund its business operations. There is no assurance that the Fund could obtain additional financing or capital from any source, or that such financing or capital would be available to the Fund on terms acceptable to it.

**CONFLICTS OF INTEREST.** The relationship of management to the Fund may create conflicts of interest because of time devoted to other entities besides the Fund and the management's affiliate entities providing services to the Fund. Management believes that it will have the resources necessary to fulfill its management obligations to all entities for which it is responsible. See "Management and Compensation."

**PARTNERSHIP STATUS.** The Fund is organized as a limited liability company and as such, it is not recognized as a separate tax entity for state and federal income tax purposes. Therefore, any income, gains, losses, deductions and credits of the Fund will be allocated directly to its members regardless of whether or not shareholders received an actual distribution of money, property, or otherwise from the Fund. The Fund will issue annual statements and supply copies of its annual information returns with the Internal Revenue Service to members who request such copies.

**TAX LIABILITY MAY EXCEED CASH DISTRIBUTED BY THE FUND.** If the Fund's operations generate taxable income, a Member's share of such taxable income and/or the taxes attributable to such income may exceed the cash actually distributed to such Member. Likewise, a Member's taxable gain and/or tax liability attributable to the sale or other disposition of an Investment may exceed a Member's share of the distributed cash proceeds, if any, realized from such disposition.

**POSSIBLE INADEQUACY OF COMPANY FUNDS.** The Fund will have limited capital available to it, to the extent that the Company raises capital from this offering. If the Fund's entire original capital is fully expended and additional costs cannot be funded from borrowings or capital from other sources, then the Fund's financial condition, results of operations and business performance would be materially adversely affected. There is no assurance that the Fund will have adequate capital to conduct its business.

**DEDUCTIBILITY OF LOSSES; AT RISK LIMITATIONS.** The ability of each Member to deduct their allowable share of The Fund losses will be limited to the tax basis of each Member's Interest in the Fund. If one or more Members or other persons guarantee any of the Member's Interest in the

Fund or other financing, the tax basis of the other Members in their Interest in the Fund, will be correspondingly limited. Deduction of allocated losses is also limited to the amount with respect to which individuals are “at risk.” The amount “at risk” in any activity fluctuates according to the losses sustained, indebtedness liability changes, income earned but not distributed and cash distributions. Likewise, guarantees of amounts to which a Member is entitled, or for which a Member is obligated, may limit the amount for which the Member may be “at risk” at the close of a taxable year in which a loss occurs.

**PASSIVE LOSS LIMITATIONS.** Losses from passive activities for individuals and certain other taxpayers are further limited to offset only passive activity income. A non-managing limited liability company interest is generally a passive interest. Cash distributions from the Fund to a Member in excess of the tax basis of the Member’s interest will be taxable gain to the Members, irrespective of the existence or amount of The Fund income.

**MEMBERS ARE SUBJECT TO TAX PREFERENCES.** Members must include their respective share of The Fund’s items of tax preference in their total items of tax preference for purposes of computing alternative minimum tax.

**A SMALL GROUP OF MEMBERS WILL RETAIN CONTROL.** Upon the completion of this Offering, there will be only one Managing Member, MHC Stable Income Management, LLC, which will be entitled to vote on matters to be voted on by the Fund’s members. Therefore, the Managing Member will effectively control the Fund, regardless of its equity holdings in the Fund. As a result, the Managing Member is at liberty to control effectively the Fund, direct its affairs and have significant influence in the election of board members and the approval of other corporate transactions. The interests of the Managing Member may conflict with those of other members and its principal control over matters concerning the Fund may delay, defer or prevent a change in control of the Fund, including a potential merger or acquisition.

**MANAGEMENT WILL CONTROL THE USE OF PROCEEDS.** Prospective investors will be relying on the judgment of our management regarding our use of proceeds. The Fund has not designated any specific use for the net proceeds from our sale of the Units, as described in this Memorandum other than funding the acquisition of properties. Therefore, we expect to use the net proceeds for the acquisition of properties, general corporate purposes, including working capital and capital expenditures. Consequently, management of the Fund will have significant flexibility in applying the net proceeds of this Offering.

**DETERMINATION OF OFFERING PRICE.** We determined our offering price of the Units without conducting a detailed valuation, considering assets, earnings potential, book value or any other objective standard of value. Consequently, the offering price might differ substantially from the fair market price for our Units and thus not provide a reasonable basis for generating desirable financial returns.

**INVESTORS MUST HOLD THEIR UNITS FOR AT LEAST FIVE YEARS.** Because it is impossible to accurately predict general market conditions and market values of our properties at the end of the Fund’s five-year closed-end investment cycle, we may elect to extend the Fund’s investment cycle by 12 months, and after that indefinitely, if we believe that doing so will be in the best economic interest of the fund and its members. If at the end of the Fund’s five-year closed-end investment cycle general market conditions haven’t improved and we haven’t been able to sell our property portfolio at the projected return, management may elect to extend the Fund’s investment cycle by 12 months and after that indefinitely, if management believes that doing so will be in the best economic interest of the Fund and its members. During an extended investment cycle, the Fund will not make any cash distributions to its members except for required annual minimum cash distributions to holders of our Units. See “Cash Distribution to Members.”

**THERE IS NO PUBLIC MARKET.** There is no public market for the Fund's securities and there will be restrictions on the transferability of our membership interests. We cannot assure you that any such public market will ever develop. Moreover, even if such a public market does develop, any sale of the Units may be made only in accordance with the Fund's limited liability company and operating agreements and pursuant to an effective registration statement under federal and state securities laws or available exemptions therefrom.

**YOUR INVESTMENT MAY BE HELD FOR UP TO SIX MONTHS.** We may encounter difficulties in selling our securities for a variety of reasons. If you commit to buying a Unit or Units in this Offering, your investment will be held until the Fund has reached the minimum investment required for funds to be released to the Fund. You will be unable to cancel your subscription (unless otherwise provided in state Blue Sky Laws of the state where you reside) until such benchmark is reached or we elect to cancel the Offering and return your investment.

**PROJECTS; OPINIONS.** Statements contained in this Memorandum that are not historical facts are based on current expectations, estimates, projections, opinions and beliefs of the Managing Member. Such statements involve known and unknown risks, uncertainties and other factors. No assurance can be given that Fund will achieve the returns from its investments that it is targeting as described herein.

**REPAYMENT OF CERTAIN DISTRIBUTIONS.** In the event the Fund is unable otherwise to meet its obligations, the Members may be required to repay to the Fund or to pay to creditors of the Fund distributions previously received by them. In addition, Members may be required to pay to the Fund amounts that are required to be withheld by the Fund for tax purposes.

**PAST RESULTS OF THE MANAGING MEMBER OR THE MANAGEMENT TEAM MAY NOT BE INDICATIVE OF FUTURE PERFORMANCE. NO ASSURANCE CAN BE MADE THAT PROFITS WILL BE ACHIEVED.**

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**THE FOREGOING LIST OF RISK FACTORS DOES NOT PURPORT TO BE A COMPLETE ENUMERATION OR EXPLANATION OF THE RISKS INVOLVED IN AN INVESTMENT IN THE FUND. PROSPECTIVE INVESTORS SHOULD READ THIS ENTIRE MEMORANDUM AND ITS EXHIBITS ATTACHED HERETO AND CONSULT WITH THEIR OWN LEGAL, TAX AND FINANCIAL ADVISERS BEFORE DECIDING TO INVEST IN THE FUND.**

## SECTION 4. SOURCES OF FUNDS AND USE OF PROCEEDS

The following discussion of the sources of capital and uses of the Offering proceeds should be read in conjunction with the Exhibits attached hereto. These figures assume that the Fund has sold the Maximum Offering Amount of 150 Units for a total gross raise of \$15,000,000.

**Sources of Funds.** The table below reflects the equity to be raised in this Offering. These are projections only and actual financial performance will vary and may be materially different.

<b>Sources of funds - MHC Stable Income Fund, LLC</b>		
	Minimum offering	Maximum offering
Current capitalization	\$0	\$0
New equity:		
From investors	\$5,000,000	\$15,000,000
Estimated offering expenses*	(\$50,000.00)	(\$150,000.00)
Estimated placement agent expenses**	(\$150,000.00)	(\$450,000.00)
<b>Total capitalization after Expenses</b>	<b><u>\$4,800,000.00</u></b>	<b><u>\$14,400,000.00</u></b>

\* This estimate of the Fund's offering expenses relate to legal costs, printing costs, travel expenses, filing fees with securities regulators, etc.

\*\* The 3% placement agent fee will apply only to monies raised through a placement agent, and thus the fee may be less.

**Uses of Funds.** As of the publication of this Memorandum, we cannot state specifically the uses of the net proceeds received from this Offering, except that the Proceeds of this Offering will be used to acquire mobile home communities that are poised for significant cash flow. A more detailed discussion of the expected uses of funds can be found in the financial projections contained in the Exhibits hereto. Unforeseen expenses for categories not appearing in our projected operating income statements, or higher than anticipated costs for operating these properties, may result in a scale-back of day-to-day operations, planned property acquisitions and development activities.

## SECTION 5. PLAN OF DISTRIBUTION OF SECURITIES

The Securities are being offered through officers, directors, and employees of the Fund to a select group of investors who meet the suitability standards set forth under "Suitability Standards." The Fund may also be using the services of one more placement agents, in the Managing Member's discretion, to place the Units as part of this offering. The Fund will accept subscriptions as they are received, however, the Initial Closing shall not occur until the Fund achieves the Minimum Offering Amount of \$5,000,000. Until the occurrence of the Initial Closing, the Fund will hold all subscription monies in a separate account. The Fund also reserves the right to withdraw, cancel or modify this Offering and to reject subscriptions in whole or in part for the purchase of any of the Securities.

Any Member purchasing five (5) or more Units at the Initial Closing or at any Additional Closing will be issued Class A Membership Interest Percentage in the Fund and will be referred to as a Class A Member. Any Member purchasing less than five (5) Units at the Initial Closing or at any Additional

Closing will be issued Class B Membership Interest Percentage in the Fund and shall be referred to as a Class B Member.

Each Class A Member will be allocated a Class A Membership Interest Percentage computed as follows: the numerator of which is the purchase price paid for all of the Units purchased by such Class A Member and the denominator of which is the total purchase price for all of the Units purchased by the all of the Class A Members. Each Class B Member will be allocated a Class B Membership Interest Percentage computed as follows: the numerator of which is the purchase price paid for all of the Units purchased by such Class B Member and the denominator of which is the total purchase price for all of the Units purchased by the all of the Class B Members. The Class A Membership Interest and the Class B Membership Interest Percentage will be adjusted at each Additional Closing.

This Offering will terminate on March 7, 2018, although the Managing Member reserves the right, in its sole discretion, to extend the Initial Offering Period indefinitely to achieve the Maximum Offering Amount. No notice of extension is required by the Fund to investors who have already subscribed before the extension takes place. The Fund also reserves the right to terminate the Offering at any time. Investors who have already subscribed will receive due notice and the Fund will promptly return any funds already received to investors. The Fund will hold all subscription payments in a subscription escrow account for the benefit of subscribers. However, Investor Members must be prepared to commit their funds for minimum five (5) years from the Initial Closing.

The Units will be issued in such names as shall be provided for in the accepted Subscription Agreements and shall be delivered by the Fund to investors as soon as practicable following our acceptance. The Units will be delivered to the address specified in the subscription agreement. The Fund reserves the right to reject any subscription in whole or in part, in our sole discretion. In the event a subscription is rejected, all funds delivered to the Fund with such subscription will be returned to the subscriber as soon as practicable following rejection. The Fund will not assume any liabilities for costs or interest.

## **SECTION 6. MANAGEMENT**

### **Managing Members, Officers and Key Employees**

The Fund's Managing Member is MHC Stable Income Management, LLC. The Fund's management team includes the following persons in the following roles:



**Kwame Granderson – Partner**

Mr. Granderson is a Harvard Law educated real estate attorney, who has practiced for years representing Fortune 500 clients in a variety of commercial real estate transactions that collectively exceed \$1 Billion. While practicing as a lawyer at Gibson, Dunn and Crutcher, he structured entities and drafted loan documents for multi-million dollar real estate transactions including The Capital Company of America financing of the \$250,000,000 acquisition of Fox Plaza in Century City and the Morgan Stanley \$240,000,000 financing of a cross collateralized asset package including real estate located in California and Washington. He has worked as a consultant to large financial firms and opportunity funds, in connection with the underwriting of development projects including shopping centers, hotels and high-rise condo projects. Mr. Granderson is responsible for deal structuring and underwriting.



**Dennis Duling – Partner**

Prior to entering the world of Real Estate, Mr. Duling spent 26 years in corporate America working for fortune 500 companies such as Bank of America, Nissan Motors and Kaiser Permanente Healthcare, in positions ranging from business analyst to senior executive. As an original partner, he was a key to launching the firm's entry into the manufactured housing space and creating the MHC Capital brand and business model. Mr. Duling provides oversight to existing park operations and serves as the firm's liaison to the manufactured housing industry, building strategic alliances with brokers, lenders, manufacturers and other park operators.



**Bradley Froling – Partner**

Mr. Froling is a second-generation real estate investor and lawyer whose family has developed shopping centers and single-family residential for more than 50 years. Mr. Froling has spent the last 15 years in the affordable housing sector, repositioning undervalued apartment buildings using Federal low-income tax credits before exploiting the significant disequilibrium in the manufactured housing industry. Mr. Froling is a member of the Michigan Bar and holds a B.B.A from the University of Michigan Ross School of Business. He is principally responsible for capital raising and acquisitions.



**Steven Anderson - Partner**

This former Senior Financial services executive oversaw a Fortune 400 firm's national network of financial advisors and was responsible for \$600m of revenue and \$6b of sales. Mr. Anderson has over 30 years in the investment and asset management business. He holds Chartered Mutual Fund Counselor (CMFC) and Chartered Leadership Fellow (CLF) designations. Mr. Anderson graduated with a BA in Economics from the University of Northern Iowa. He is responsible for capital raising and structuring.

## **Managing Member Liability and Indemnification**

The Fund's Operating Agreement requires that the Fund indemnify our Managing Member, officers and directors, if any, from certain claims, liabilities and expenses under certain circumstances and subject to certain limitations and the provisions of Delaware law. Under Delaware law, a company may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than by or in the right of the company) by reason of the fact that he is or was a general partner, director, officer, employee or agent of the company, against expenses actually and reasonably incurred by him in connection with an action, suit or proceeding if the person acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the company. With respect to a criminal action or

proceeding, such officer, director or employee must have had no reasonable cause to believe his conduct was unlawful.

## SECTION 7. DESCRIPTION OF MEMBERSHIP INTERESTS

The following is a summary of material provisions governing our membership interests. This summary is not complete, you should review this information along with our articles of organization and operating agreement, copies of which are available upon request. Upon the completion of this Offering, assuming that the Fund successfully places the Maximum Offering Amount, the Fund's authorized and outstanding equity will consist of One Hundred and Fifty (150) Units of which 150 will be issued and outstanding upon the completion of this Offering. Immediately prior to the closing of this Offering, the Fund has issued to date zero (0) Units, all of which are outstanding and held of record by the Managing Member.

### *Description of our Units*

However, subject to the rights of the Investor Members, the Managing Member's interest are entitled to receive the balance of the Fund's terminal value in excess of the cash distributions required to be made to the non-Managing Member interests. See the "Operating Agreement" for further information. Upon our liquidation, creditors and accumulated annual minimum cash distributions to holders of the Units will need to be satisfied before any distribution to the Managing Member can be made. Secondary purchasers of the Units who are not admitted as members are not entitled to vote on matters to be voted on by members, but they are entitled to receive cumulative annual minimum cash distributions. Upon the liquidation of the Fund, creditors and accumulated annual minimum cash distributions to holders of the Units will need to be satisfied before any distribution to the Managing Membership can be made.

## SECTION 8. CASH DISTRIBUTION TO MEMBERS

All cash distributions shall be made in accordance with the Fund's Operating Agreement. In summary, cash distributions are estimated to be payable monthly of funds legally available for such distributions, or at such occasion or frequency determined from time to time by the Managing Member in its sole discretion, in the best interests of the Fund. Investment proceeds resulting from Short-Term Investments held for less than nine (9) months can be reinvested in the Fund in the Managing Member's sole discretion. If such projected monthly cash distributions cannot be made due to the lack of funds legally available for such purposes, the required distributions will rollover to the next month on a non-compounded basis (simple interest). The annual minimum cash distributions to holders of our Units are cumulative and all annual minimum cash distributions must be made before any other cash distributions can be made to holders of the Units. The Operating Agreement provides for the following priority of distributions and capitalized terms not otherwise defined herein are defined in the Operating Agreement attached hereto as **Exhibit A**.

1. first, to pay to the Class A Members and the Class B Members, pro-rata pursuant to their respective Membership Interest Percentages, any unpaid annual, cumulative but non-compounding distribution equal to ten percent (10%) of the Class A Member's and Class B Member's unreturned capital contribution until such Class A Member and each Class B Member have received their respective Preferred Return;

2. second, until such time that the Class A Members have received an Internal Rate of Return of 17%: (i) 60% of the Class A Excess Cash Flow to the Class A Members, pro-rata, pursuant to their respective Class A Membership Interest Percentage, and 40% of the Class A Excess Cash Flow to the Managing Member; and (ii) 50% of the Class B Excess Cash Flow to the Class B Members, pro-rata, pursuant to their respective Class B Membership Interest Percentage, and 50% of the Class B Excess Cash Flow to the Managing Member; and

3. third, to the Members of the Fund, pro-rata, in proportion to their respective Membership Interest Percentage.

The Fund's Net Cash Flow occurring from net sales or refinancing proceeds, if any, shall be distributed in the following order of priority:

1. first, to pay to the Class A Members and the Class B Members, pro-rata pursuant to their respective Membership Interest Percentages, any unpaid Preferred Return owed to such Class A Member and Class B Member until such Class A Member and such Class B Member have received their respective Preferred Return;

2. second, to pay to the Class A Members and the Class B Members, pro-rata based on Membership Interest Percentage, an amount equal to their unreturned capital contribution until such Class A Member and such Class B Member have received distributions equal to their respective unreturned capital contributions;

3. third, until such time that the Class A members have received an Internal Rate of Return of 17%: (i) 60% of the Class A Excess Cash Flow to the Class A Members, pro-rata, pursuant to their respective Class A Membership Interest Percentage, and 40% of the Class A Excess Cash Flow to the Managing Member; and (ii) 50% of the Class B Excess Cash Flow to the Class B Members, pro-rata, pursuant to their respective Class B Membership Interest Percentage, and 50% of the Class B Excess Cash Flow to the Managing Member; and

4. fourth, to the Members, pro-rata, in proportion to their respective Membership Interest Percentage.

## **SECTION 9. RESTRICTION ON TRANSFER**

The Fund has not registered any securities under the Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws. We offer these securities in reliance on certain exemptions from registration contained in the Securities Act and applicable state laws. Consequently, purchasers may not sell these securities unless they are subsequently registered under the Securities Act and applicable state laws or an exemption from such registration is available. Accordingly, any purchaser must bear the economic risk of investment in these securities for an indefinite period.

We will restrict the sale or assignment of our membership certificates (both General & Limited) by (i) placing a legend on all certificates stating that we have not registered these securities evidenced by such certificate under the Securities Act or any state laws and that the holder may not sell or assign the securities without registration or an available exemption therefrom, according to an opinion of counsel acceptable to us, (ii) referring to the above-described restrictions in our transfer records, and (iii) requiring each purchaser, in the Subscription Agreement, to represent that the purchaser will not sell or assign these securities without registration under the Securities Act and applicable state laws, or appropriate exemptions therefrom.

## **SECTION 10. TAX AND REGULATORY CONSIDERATIONS**

CAUTION: THE INCOME TAX CONSEQUENCES OF AN INVESTMENT IN THE LLC ARE COMPLEX. THEREFORE PROSPECTIVE INVESTORS SHOULD CONSULT WITH AND RELY ONLY ON THE ADVICE OF THEIR INDEPENDENT TAX ADVISORS, ATTORNEYS OR ACCOUNTANTS ON MATTERS RELATING TO THIS INVESTMENT WITH SPECIAL REFERENCE TO THEIR OWN SITUATION.

### **CLASSIFICATION AS A PARTNERSHIP**

No rulings have been sought from the IRS with respect to any of the matters described in this Memorandum. The Fund was formed as a Delaware limited liability Fund and will not “check the box” to be treated as an “association” for federal income tax purposes; accordingly the Fund will be treated, under the general entity classification rules of the Treasury Regulations, as a partnership for U.S. federal income tax purposes.

An entity that would be classified as a partnership for U.S. federal income tax purposes under the general entity classification regulations or that elects to be taxed as a partnership will nonetheless be treated as an association taxable as a corporation if it is a “publicly traded partnership” and does not qualify for any exceptions. If the Fund were classified or treated for federal income tax purposes as a publicly traded partnership or an association taxable as a corporation, the Fund would be required to pay federal income tax at corporate rates on its taxable income. This would substantially reduce the amount of cash (or other property) available for distribution to the Members. Moreover, losses of the Fund would only be allowed to offset income of the Fund and could not be passed through to the Members for use on their own federal income tax returns.

### **TAXATION GENERALLY; RISK OF “PHANTOM INCOME”**

As a limited liability Fund that is taxed as a partnership, the Fund itself will not be subject to federal income tax. Each Member must report separately on his federal income tax return its share of Fund’s income, gains, losses, deductions and credits for each fund taxable year ending with or within the Member’s taxable year, whether or not the Fund makes any distributions to such Member. These items generally will have, in the hands of the Members, the same character they had in the hands of the Fund. Such taxable income or loss will be required to be taken into account in the taxable year of the Member in which the fiscal year of the Fund ends.

Because a Member may be required to include income or gain in gross income in advance of cash distributions from the Fund, a Member may be liable for federal income tax in respect of the Member’s distributive share of Fund income or gain even though cash distributions received from the Fund are not sufficient to pay the tax. There is no assurance the amount of distributions to a Member will be sufficient to satisfy the Member’s actual tax liability in respect of this distributive share of Fund income or gain. Fund’s taxable year will be the calendar year or such other year that becomes required under the tax laws or is subsequently chosen by the Managing Member and available for tax purposes. For each taxable year, the Fund will provide each Member with a statement of the amounts and types of income, gain, loss, deduction, and credit allocated to the Member during the previous taxable year.

## CAPITAL ACCOUNTS; TAX BASIS IN UNITS IN THE FUND

The Fund will maintain a capital account (each, a “Capital Account”) for each Member. Each Capital Account will equal the amount of money contributed by such Member to the Fund in connection with such Member’s Capital Commitment. Thereafter, each Member’s Capital Account will be (i) increased to reflect the amount of such Member’s share of Fund’s income, gain and the value of any additional property or the amount of any additional cash contributed by such Member, and (ii) decreased to reflect the value of securities or the amount of any cash distributed to such Member and such Member’s share of Fund’s losses, deductions and expenses.

A Member’s initial tax basis in its Units in the Fund will equal the amount of capital actually contributed by such Member to the Fund, plus the Member’s share of Fund’s nonrecourse liabilities (including Fund’s share of any nonrecourse liabilities of a partnership in which the Fund holds an Interest), if any. A Member’s tax basis in its Units in the Fund will be increased by the Member’s share of Fund’s taxable income, including capital gain, and income, if any, that is exempt from tax, and any increase in the Member’s share of Fund’s nonrecourse liabilities. A Member’s tax basis in its Units in the Fund will be decreased (but not below zero) by:

- (i) the amount of any cash and the adjusted basis of assets of the Fund that are distributed to the Member,
- (ii) the Member’s share of Fund’s losses and deductions,
- (iii) any decrease in the Member’s share of Fund’s nonrecourse liabilities, and
- (iv) the Member’s share of Fund’s expenditures that is neither deductible nor properly chargeable to the Capital Account.

## EMPLOYEE BENEFIT PLAN CONSIDERATIONS

THIS DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN. IT IS NOT INTENDED OR WRITTEN TO BE USED, AND IT CANNOT BE USED BY ANY TAXPAYER, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON A TAXPAYER. A TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER’S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

### General

The fiduciary responsibility standards and prohibited transaction restrictions of ERISA apply to most employee retirement and welfare benefit plans maintained by private corporate employers (“ERISA plans”). Although ERISA does not (with certain exceptions) apply to certain types of plans, such as individual retirement accounts, plans covering only self-employed individuals (*i.e.*, sole proprietors and partners) and their respective spouses, or corporate plans covering only a corporation’s sole shareholder and his or her spouse, these plans (as well as most ERISA plans) are subject to the prohibited transaction excise tax provisions of Section 4975 of the Code, which are substantially similar to the prohibited transaction restrictions of ERISA. Neither ERISA nor Section 4975 of the Code applies to employee benefit plans established or maintained by government entities, plans established and maintained by churches or certain entities associated with churches, plans maintained outside the U.S. primarily for the benefit of nonresident aliens, and certain other plans excluded by statute.

The following summary of certain aspects of ERISA and Section 4975 of the Code is based upon the statutes, judicial decisions, and regulations and rulings of the U.S. Department of Labor in existence

on the date hereof. This summary is general in nature and does not address every issue under ERISA or Section 4975 of the Code that may be applicable to the Fund or a particular Member. Accordingly, each prospective Member should consult with its own counsel in order to understand such issues affecting the Fund or the Member.

### **Investment Considerations**

The assets of the Fund will be invested in accordance with the investment policies and objectives described in this Memorandum. Accordingly, an authorized fiduciary of an employee benefit plan proposing to invest in the Fund should, in consultation with its advisers, consider whether the investment would be consistent with the terms of the plan's governing documents and applicable law. The fiduciary of an ERISA plan, for example, should give appropriate consideration to, among other things, (i) the role that an investment in the Units would play in the plan's portfolio, taking into consideration whether the investment is designed reasonably to further the plan's purposes, the risk and return factors associated with the investment, the composition of the plan's total investment portfolio with regard to diversification, the liquidity and current return of the plan's portfolio relative to its anticipated cash flow needs, and the projected return of the plan's portfolio relative to its objectives, (ii) the fact that the Members may consist of a diverse group of investors (possibly including taxable and tax-exempt entities) and that the Managing Member necessarily will not take investment objectives of any particular Member that are not consistent with those of the Fund into account in managing the Property, (iii) limitations on the plan's right to redeem or transfer the Units, (iv) the implications arising from whether or not the assets of the Fund are treated as "plan assets" for purposes of ERISA and Section 4975 of the Code, and (v) the tax effects of an investment in the Units.

As described elsewhere in this Memorandum, the Managing Member will be entitled to receive a performance-based fee. The appropriate fiduciary of an investing ERISA plan should satisfy itself that the performance-based fee meets applicable requirements of ERISA, taking Department of Labor guidance regarding such fee arrangements into account. The fiduciary of an investing plan, whether or not subject to ERISA, will be required to represent, among other things, that it understands the performance-based fee arrangements and has obtained information (and has had the opportunity to request additional information) regarding such arrangements and the risks associated with them, as necessary to enable the fiduciary to conclude that the performance-based fee arrangements are reasonable and consistent with the interests of the plan. The Managing Member is not responsible for determining and is not making any representation regarding whether a purchase of Units is a prudent or suitable investment for a Member.

### **Prohibited Transactions**

A purchase of the Units by an employee benefit plan having a relationship with the Managing Member or any of its affiliates outside Fund could, under certain circumstances, be considered a transaction prohibited under ERISA, Section 4975 of the Code, or, in some circumstances, applicable state law. In addition, the prohibited transaction restrictions of ERISA prohibit an ERISA plan fiduciary from causing the plan to engage in a transaction if the fiduciary knows or should know the transaction would involve a "party in interest" of the plan. "Parties in interest" of an ERISA plan include, among others, persons providing services to the plan and certain affiliates of such persons. Transactions between ERISA plans and parties in interest that are prohibited include, among others, any direct or indirect sale or exchange of property between the plan and a party in interest and any transfer of plan assets to, or use of plan assets by or for the benefit of, a party in interest.

Section 4975 of the Code prohibits substantially similar transactions between plans subject to that Section and "disqualified persons" of such plans, defined to include substantially the same persons as parties in interest for ERISA purposes. Although the Managing Member believes that the Fund itself

should not be considered a party in interest (or disqualified person) with respect to investing ERISA plans (or plans subject to Section 4975 of the Code), the application of ERISA, Section 4975 of the Code, or applicable state laws depends upon the particular facts and circumstances of each situation.

Accordingly, an authorized fiduciary of an investing plan will be required to represent, among other things, that the plan's purchase and holding of the Units will not be a transaction prohibited under ERISA, Section 4975 of the Code, or applicable state law, for which no exemption applies. Such fiduciary also will be required to represent that neither the Managing Member nor any of its affiliates, agents, or employees (i) exercises any authority or control with respect to the management or disposition of assets of the plan used to purchase the Units, (ii) renders investment advice for a fee (pursuant to an agreement or understanding that such advice will serve as a primary basis for investment decisions and that such advice will be based on the particular investment needs of the plan), with respect to such assets of the plan, or has the authority to do so, or (iii) is an employer maintaining or contributing to, or any of whose employees are covered by, the plan.

### **Plan Assets**

ERISA and regulations issued by the Department of Labor describe when the assets of an entity are to be treated as "plan assets" for purposes of ERISA and Section 4975 of the Code. ERISA and the regulations provide that, if an ERISA plan or a plan subject to Section 4975 of the Code acquires an "equity interest" (such as the Units) in a certain type of private investment entity (such as the Fund), and if benefit plan investors in the aggregate hold 25% or more of the value of any class of equity interests in the entity, the entity's assets will be treated as "plan assets" for purposes of ERISA's fiduciary responsibility standards and prohibited transaction restrictions and the parallel prohibited transaction excise tax provisions of Section 4975 of the Code.

ERISA defines the term "benefit plan investor" for purposes of this computation to include employee benefit and other plans subject to ERISA and/or Section 4975 of the Code, as well as private investment funds and other entities whose underlying assets are treated as "plan assets" of such plans. (In addition, assets of the general account of an insurance Fund may, in certain circumstances, be considered "plan assets.") ERISA and the regulations require that any equity interests held by a person having discretionary authority or control over the assets of the entity or providing investment advice for a fee with respect to such assets or any affiliate of such person (as defined in the Department of Labor regulations), other than interests held by such person through a benefit plan investor, be disregarded in making the 25% computation.

In order to avoid treatment of Fund's assets as "plan assets" for purposes of ERISA or Section 4975 of the Code, the Fund intends to restrict aggregate investments by benefit plan investors to less than 25% of the value of the Units, not including the Units held by the Managing Member (or any other person having discretionary authority or control over the Fund's assets or providing investment advice for a fee with respect to such assets) or any affiliate of the Managing Member (as defined in the Department of Labor regulations), other than the Units held by such person through a benefit plan investor.

Because the 25% test is ongoing, the Fund not only may restrict initial or additional investments by benefit plan investors, it also may require existing benefit plan investors to redeem all or a portion of their Units and/or reduce their Capital Commitment if other Members cause an Event of Default on their Units. The Fund will effect such rejections or mandatory withdrawals in such manner as the Managing Member, in its sole discretion, determines to be reasonable and appropriate under the circumstances. Although it is not expected that the assets of the Fund will be treated as "plan assets," if at any time benefit plan investors were to hold 25% or more of the value of any class of the Units, the Managing Member and any other person exercising discretionary authority over the Fund or its assets

would be a “fiduciary” (as defined in ERISA) with respect to investing ERISA plans and would be subject to the obligations and liabilities imposed on fiduciaries by ERISA.

If the Managing Member, with the advice of counsel, reasonably concludes that the assets of the Fund are, or are likely to become, “plan assets” for purposes of ERISA or Section 4975 of the Code, and that continued operation of the Fund under arrangements existing at the time would violate ERISA or would cause any Member to be deemed to be a party to any transaction that violates the prohibited transaction restrictions of ERISA or Section 4975 of the Code for any reason other than as a result of an action taken exclusively by the Member, the Managing Member intends to take such steps as are necessary or appropriate to avoid such result, including proposing amendments to Fund’s governing documents to ensure compliance with ERISA and Section 4975 of the Code, as applicable. However, if and for so long as Fund’s assets are treated as “plan assets” for purposes of ERISA and Section 4975 of the Code, the Managing Member will take such steps as it may determine are necessary to manage Fund’s assets in accordance with the applicable requirements of ERISA.

### **Considerations for Non-Plan Members**

Prospective investors that are not ERISA plans or subject to the prohibited transaction provisions of Section 4975 of the Code should note that, if and for so long as Fund’s assets are treated as “plan assets” for purposes of ERISA and Section 4975 of the Code, the Fund may be prevented from engaging in a transaction with a party in interest of an investing plan subject to ERISA or a disqualified person of a plan subject to Section 4975 of the Code, unless an exemption applies, even though the Fund includes Members that are not subject to ERISA or Section 4975 of the Code. Moreover, this summary does not include a discussion of any laws, regulations or statutes that may apply to prospective investors that are not employee benefit plans or state statutes that impose fiduciary responsibility requirements in connection with the investment of assets of governmental plans and other plans not subject to ERISA or Section 4975 of the Code. Such investors should consult their own professional advisers about these matters.

Fiduciaries of employee benefit plans should consult with their own counsel as to the consequences under ERISA or other applicable law of an investment in the Fund. The sale of Units to an employee benefit plan is in no respect a representation by the Fund or the Managing Member that an investment in Units meets applicable legal requirements with respect to investments by employee benefit plans generally or any employee benefit plan in particular.

## **SECTION 11. INVESTOR SUITABILITY STANDARDS**

Investment in the Fund’s securities involves significant risks and is suitable only for persons of adequate financial means who have no need for liquidity with respect to this investment and who can bear the economic risk of a substantial loss of their investment.

The minimum investment will be \$100,000 although the Fund may, under certain circumstances and in its sole discretion, permit the purchase of fractional partnership interests. The Offering will not be registered under the Securities Act of 1933, as amended (the “Securities Act”), in reliance upon exemption from registration by Section 4(2) of the Act and Rule 506 thereunder. Therefore, the securities cannot be resold unless they are registered under the Act or unless an exemption from registration is available.

Each subscriber for the purchase of securities must be an “Accredited Investor” as that term is defined in Rule 501 (a) of Regulation D promulgated under the Securities Act. However, the Fund may, in its sole discretion, and subject to applicable law, accept subscriptions from up to 35 individuals or entities that do not qualify as Accredited Investors, if the Fund believes that these individuals or entities

have the knowledge and experience in financial and business matters, and, as a result, are capable of evaluating the merits and risks of a proposed investment, “Sophisticated Investors”.

**Accredited Investor Standards.** “Accredited Investors” as defined by the Securities Act and regulation D adopted thereunder. Accordingly, each Member must meet the requirements of at least one of the following categories in order to make an investment in the Fund:

- (a) Be a natural person whose individual net worth, or joint net worth with that person’s spouse, at the time of purchase, exceeds \$1,000,000<sup>1</sup>;
- (b) Be a natural person who had an individual income in excess of \$200,000 in each of the most recent two years or joint income with that person’s spouse in excess of \$300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year;
- (c) A trust with total assets in excess of \$5,000,000 not formed for the specific purpose of acquiring Units, whose purchase is directed by a sophisticated person;
- (d) An employee benefit plan within the meaning of Title I of the Employee Retirement Income Security Act of 1974, if the investment is made by a plan fiduciary which is a bank, savings and loan association, insurance company or registered investment company, or if the employee benefit plan has total assets in excess of \$5,000,000, or if the plan is a self-directed plan, with investment decisions made solely by persons that are accredited investors;
- (e) Any bank, savings and loan association, building and loan association, cooperative bank, homestead association or similar institution which is supervised and examined by state or federal authority having supervision over any such institutions acting in its individual or fiduciary capacity;
- (f) A registered broker or dealer; a small business investment company licensed by the U.S. Small Business Investment Administration under Section 301(c) or (d) of the Small Business Investment Company Act of 1958;
- (g) Any private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940, as amended;
- (h) Any organization described in Section 501(c)(3) of the Internal Revenue Code, corporation, Massachusetts or similar business trust, or partnership, not formed for the specific purpose of acquiring the securities offered with total assets in excess of \$5,000,000;
- (i) A director or officer of the LLC;
- (j) A small Business Investment Company licensed by the U.S. Small Business Administration under Section 301(c) or (d) of the Small Business Investment Act of 1958; an employee benefit plan within the meaning of Title I of the Employee Retirement Income Security Act of 1974, if the investment decision is made by a plan fiduciary, as defined in Section 3(21) of that Act, which is either a bank, savings and loan association, insurance company, or registered investment adviser, or if the

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<sup>1</sup> For purposes of calculating net worth: (i) the person’s primary residence shall not be included as an asset; (ii) indebtedness that is secured by the person’s primary residence, up to the estimated fair market value of the primary residence at the time of the sale of securities, shall not be included as a liability (except that if the amount of such indebtedness outstanding at the time of sale of securities exceeds the amount outstanding 60 days before such time, other than as a result of the acquisition of the primary residence, the amount of such excess shall be included as a liability); and (iii) indebtedness that is secured by the person’s primary residence in excess of the estimated fair market value of the primary residence at the time of the sale of securities shall be included as a liability.

employee benefit plan has total assets in excess of \$5,000,000.00 or, if a self-directed plan, with investment decisions made solely by persons who are accredited investors; or

(k) Any entity in which all the equity owners qualify pursuant to the foregoing criteria.

**Sophisticated Investor Standards.** In consideration of the factors set forth herein, the Fund has established suitability standards for sophisticated investors who are not accredited in this Offering. Each such purchaser of Units is required to have such knowledge and experience in financial and business matters that they are capable of evaluating the merits and risks of the investment, and must have, excluding the value of the investor's home, furnishings and automobiles, either:

- (a) A net worth of at least \$250,000; or
- (b) A gross annual income of at least \$70,000 and a net worth of at least \$70,000; or
- (c) In the case of sales to fiduciary accounts (such as an IRA, Keogh Plan or pension or profit sharing plan), these minimum suitability standards must be satisfied by the beneficiary, the fiduciary account, or by the donor or grantor who directly or indirectly supplies the funds to purchase Units if the donor or the grantor is the fiduciary.

In this regard, each Member will be required to acknowledge and represent in the Subscription Agreement, among other representations, that:

(a) He, she or it is able to bear the economic risk of the investment and he, she or it has such knowledge and experience in financial and business matters that he, she or it is capable either on his, her or its own or together with his, her or its advisors and representatives of evaluating the merits and risks of investing in the Fund as Member;

(b) In evaluating the merits and risks of an investment in the Units, he, she or it has relied upon the advice of his, her or its own personal tax and legal counsel;

(c) Prior to the purchase of Units, the Fund afforded the Member and his, her or its advisors full and complete access to all information with respect to the Fund's proposed activities that the Member and his, her or its advisors deemed necessary in order to evaluate the merits and risks of an investment, to the extent that information was processed or could be acquired by the Fund without unreasonable effort or expense; and

(d) The Units he, she or it is willing to purchase will be purchased solely for his, her or its account for investment purposes only, and not with the view to, or for resale in connection with, any distribution thereof.

The Fund reserves the right to refuse to sell an Interest to any person if, in its sole discretion, the Prospective Investor offering to purchase the Units do not meet one or more of the suitability criteria, including the financial suitability criteria discussed below, or for whatever reason whatsoever subject to any applicable laws or regulations.

## **SECTION 12. DOCUMENTS AVAILABLE FOR INSPECTION**

In addition to this Memorandum and Exhibits attached hereto, the Subscription Agreement and Confidential Investor Questionnaire to be executed by investors relating to their purchase of the Units, there are various other documents (*e.g.*, our articles of organization and operating agreements) available for inspection by investors or their representatives.

While certain of these documents have been summarized in this Memorandum, prospective investors are urged to review these documents in their entirety. Prospective investors and/or their purchaser representatives desiring to examine these documents should check the Fund's website or contact the Fund and request copies of such agreements or schedule an appointment to review them in the offices of the Fund.

## **SECTION 13. ADDITIONAL INFORMATION**

The Fund has agreed to make available to each prospective investor, prior to the sale of the Units, the opportunity to ask questions of, and receive answers from, the Fund's Managing Member concerning the terms and conditions of the Offering and to obtain any additional information, to the extent the Fund possesses such information or can acquire it without unreasonable effort or expense, which may be necessary to verify the accuracy of the information set forth herein. ANY FINANCIAL INFORMATION IN THESE DOCUMENTS REGARDING POTENTIAL EARNINGS OR MARKETS SHOULD NOT BE CONSIDERED TO REFLECT ANY ACTUAL REVENUES THAT MAY BE EARNED BY THE FUND.

You may be required to sign a confidentiality agreement if you wish to receive additional information that we deem to be proprietary. You, and your representatives, if any, will be asked to acknowledge in the Subscription Agreement that you were given the opportunity to obtain additional information and that you did so or elected to waive this opportunity. In the event that there are material changes in the information described in this Memorandum, the Fund will supplement this Memorandum before the Offering is consummated. Prospective investors may mail questions, inquiries and requests for information to MHC Stable Income Fund, LLC, 316 W. 2nd Street, Suite 1104, Los Angeles, California 90012 or call Bradely Froling at 248-647-8300 or Steven Anderson at 816-508-9011.

## **SECTION 14. HOW TO SUBSCRIBE**

Any Investor who wishes to purchase Units in the Fund should deliver the following documents to the Fund:

- 1) One dated and executed *Subscription Agreement and Confidential Investor Questionnaire* (which is attached as **Exhibit C** to this Memorandum and an execution copy of which will be separately provided) and a counterpart signature page to the Fund's Operating Agreement (which is attached as **Exhibit A** to this Memorandum and an execution copy of which will be separately provided);
- 2) Payment of the subscription amount to MHC Stable Income Fund I, LLC.

Subscribers for our Units must meet investor suitability standards, which are described above under the heading "Suitability Standards." Following receipt of your completed subscription documents and check or wire transfer, MHC Stable Income Fund I, LLC will accept or reject your subscription in its sole discretion. If your subscription is accepted, a confirmation will be sent to you prior to closing. If, for any reason, your subscription is rejected, your funds and a copy of your subscription documents will be returned to you immediately. The Fund may reject a subscription for any reason in their sole discretion.

## **SECTION 15. EXHIBITS**

### **Financial Statements and Agreements**

Notes to the Reader of the following financial statements:

The Fund included projected financial statements are un-audited and were prepared by management for discussion and analysis purposes only. The Fund believes that all material items that

would affect these statements have been entered therein. However, The Fund can give no assurance that, upon audit by an independent certified public accounting firm, other adjustments will not be necessary to reflect the Fund's financial situation properly under generally accepted accounting principles. The Fund is considered a development stage Company, and as such, special accounting rules are applicable.

The attached financial information is highly confidential and should be treated as such.

**EXHIBIT A**

**MHC STABLE INCOME FUND I, LLC OPERATING AGREEMENT**

**OPERATING AGREEMENT  
OF  
MHC STABLE INCOME FUND I, LLC**

THE MEMBERSHIP INTERESTS REPRESENTED BY THIS OPERATING AGREEMENT HAVE NOT BEEN REGISTERED UNDER THE DELAWARE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY OTHER STATE, AND MAY NOT BE PLEDGED, SOLD, OFFERED FOR SALE, TRANSFERRED, OR OTHERWISE DISPOSED OF IN THE ABSENCE OF REGISTRATION UNDER OR EXEMPTION FROM SUCH ACTS AND ALL APPLICABLE STATE SECURITIES LAWS.

TRANSFER OF THE MEMBERSHIP INTERESTS REPRESENTED BY THIS OPERATING AGREEMENT ARE FURTHER RESTRICTED BY THE TERMS OF THIS OPERATING AGREEMENT.

**OPERATING AGREEMENT  
OF  
MHC STABLE INCOME FUND I, LLC**

This Operating Agreement of MHC Stable Income Fund I, LLC, a Delaware limited liability company (the “Company”), is made and entered into as of March 7, 2017, by and among the parties listed on the attached Exhibit A, as the Members. Certain capitalized terms in this Operating Agreement are defined in Section 10 below.

**RECITALS:**

A. The parties are the members of MHC Stable Income Fund I, LLC and desire to set forth in this Operating Agreement their entire agreement and understanding with respect to the constitution and operation of MHC Stable Income Fund I, LLC, as a Delaware limited liability company.

NOW THEREFORE, for and in consideration of the Recitals set forth above and other good and valuable consideration, the receipt and adequacy of which are acknowledged, the parties to this Operating Agreement agree as follows:

1. **FORMATION AND PURPOSE**

- 1.1 **Formation.** The Company was organized by filing a Certificate of Formation with the Delaware Secretary of State on March 6, 2016. The Manager shall have the right to execute such certificates or documents and to do such filings and recordings and all other acts, including the filing or recording of any amendments to the Certificate of Formation and any assumed name filings in the appropriate offices in the State of Delaware and any other applicable jurisdictions as may be required to comply with applicable law. The Members hereby acknowledges that at the time the Certificate of Formation of the Company as executed and filed with the with the Delaware Secretary of State, Adam P. Lumberg was serving as the lawfully appointed “Authorized Person” of the Company. The Members hereby ratify the execution and filing of such document.
- 1.2 **Purpose.** The Company has been formed to invest capital, acquire and own: (i) one hundred percent (100%) of the ownership interest in various single purpose entities (each, a “Community Owner SPE” and collectively, the “Community Owner SPEs”), which such Community Owner SPEs will be formed for the sole purposes of acquiring, owning, managing, improving, financing, refinancing and ultimately selling various mobile home communities located throughout the United States of America; and (ii) one hundred percent (100%) of the ownership interest in various single purpose entities (each, a “Home Owner SPE” and collectively, the “Home Owner SPEs”), which such Home Owner SPEs will be formed for the sole purposes of acquiring, owning, managing, improving, financing, refinancing, leasing and selling mobile homes (each, a “Home Owner SPE” and collectively, the “Home Owner SPEs”). The Community Owner SPEs

and the Home Owner SPEs are collectively referred to herein as the “Property Owner SPEs.”

- 1.3 **Name.** The name of the Company is “MHC Stable Income Fund I, LLC”. The Company may conduct its business under one or more assumed names, as the Members deem appropriate.
- 1.4 **Principal Place of Business.** The Company’s principal place of business shall be located at 316 W. 2nd Street, Suite 1104, Los Angeles, CA 90012. The Company may establish additional places of business, and may change the location of its principal place of business or any additional place of business, as the Members upon deem appropriate.
- 1.5 **Registered Office and Resident Agent.** The Company’s initial registered office shall be located at 850 New Burton Road, suite 201, Dover, Delaware 19904, and its resident agent at such initial registered office shall be National Corporate Research, Ltd. The Members upon a unanimous vote may change either the Company’s registered office or its resident agent or both. If the Company’s resident agent resigns, the Members upon a unanimous vote shall promptly appoint a successor resident agent and designate a successor registered office. The Manager shall have the authority to amend the Certificate of Formation to reflect any change in the Company’s registered office or resident agent, no matter how effected.
- 1.6 **Duration.** Unless its duration is limited in the Certificate of Formation, the Company shall exist perpetually, subject to earlier dissolution in accordance with the other provisions of this Operating Agreement or the provisions of the Delaware Act.
- 1.7 **Intention for Limited Liability Company.** The Members have formed the Company as a limited liability company under and pursuant to the Delaware Act. The Members specifically intend and agree that the Company not be a partnership (including, but not necessarily limited to, a limited partnership) or any other venture, but a limited liability company under and pursuant to the Delaware Act. No Member shall be construed to be a partner in the Company or a partner of any other Member or person, and the Certificate of Formation, this Operating Agreement and the relationships created pursuant to and arising from those documents shall not be construed to suggest otherwise.
- 1.8 **Taxation as a Partnership.** The Members intend that the Company shall be taxed as a partnership, pursuant to Subchapter K of the Code, for federal and state income tax purposes, and agree to report all Company items of income, gain, loss, deduction and credit in accordance with that Subchapter.

2. **CAPITAL CONTRIBUTIONS, MEMBERSHIP INTEREST PERCENTAGES AND RELATED MATTERS**

2.1 **Initial Capital Contributions.** By the execution of this Operating Agreement, each Member hereby agrees to make, when needed, in the form of cash, the initial Capital Contribution set forth opposite its name on the attached Exhibit A, which shall be amended at each Closing. Exhibit A shall be completed by the Manager under the power of attorney granted pursuant to Section 8.4 and the Subscription Agreement executed by each Investor Member.

2.2 **Membership Interest Percentages/Closings/Class A Membership Interest Percentages/Class B Membership Interest Percentages.**

- (a) The names and addresses of the Members, including the Investor Members, and their respective Membership Interest Percentages, their Class A Membership Interest Percentages, and their Class B Membership Interest Percentages, as applicable, are set forth on the attached Exhibit A, which shall be completed and amended from time to time by the Manager under the power of attorney granted pursuant to Section 8.4 and the Subscription Agreement executed by each Investor Member and pursuant to the provisions set forth in this Operating Agreement.
- (b) The Company expects to accept subscriptions from Investor Members as they are received. Pursuant to the terms of the Private Offering Memorandum, the Company will hold an initial closing (the "Initial Closing") and each Investor Member who has purchased Units (as defined in the Private Offering Memorandum) at such Initial Closing will be issued Membership Interests as set forth in the Private Offering Memorandum and this Operating Agreement. Thereafter, the Company may hold multiple closings, in the Manager's sole discretion, for the purchase of additional Units ("Additional Closings" and collectively with the Initial Closing, the "Closings" and each a "Closing"), pursuant to the terms of the Private Offering Memorandum.
- (c) Each Unit purchased by an Investor Member at the Initial Closing will equate to a Membership Interest Percentage computed as follows: (i) fifty percent (50%) multiplied by (ii) the fraction, the numerator of which is the purchase price paid for such Unit (i.e., \$100,000) and the denominator of which is the total purchase price paid for all Units purchased at the Initial Closing. The Membership Interest Percentage and the Membership Interest of the Investor Members, however, will be adjusted at each Additional Closing, in accordance with the provisions set forth below.
- (d) The remaining fifty percent (50%) of the Membership Interest Percentage and Membership interests in the Company will be owned by the Manager.

- (e) At each Additional Closing, the current Investor Member's Membership Interest Percentage and Membership Interest will be adjusted and the Membership Interest Percentage of each Investor Member, including the current Investor Members (i.e., the Investor Members who purchased Units at the Initial Closing and any previous Additional Closing) and the new Investor Members who are purchasing Units at such applicable Additional Closing will be computed pursuant to the following formula: (i) fifty percent (50%) multiplied by; (ii) the fraction, the numerator of which is the purchase price paid for all of the Unit(s) purchased by such Investor Member and the denominator of which is the total purchase price for all Units purchased at the Initial Closing and all of the Additional Closings to date. The Membership Interest Percentage and Membership Interest of all the Investor Members will be adjusted at each subsequent Additional Closing, in accordance with the provisions set forth above. For example, assume that (1) an Investor Member purchased 5 Units at the Initial Closing for a total of \$500,000; (2) the total purchase price for all Units purchased at the Initial Closing was \$5,000,000; and (3) that the total purchase price for the Units purchased at an Additional Closing was \$5,000,000. Following the Initial Closing, such Investor Member's membership interest percentage in the Fund equaled approximately 5.00% (i.e.,  $\$500,000/\$5,000,000 \times 50\%$ ). Following the Additional Closing, assuming such Investor Member did not purchase additional Units at the Additional Closing, the Investor Member's membership interest percentage in the Fund would equal approximately 2.50% (i.e.,  $\$500,000/10,000,000 \times 50\%$ ).
- (f) Any Investor Member purchasing five (5) or more Units at any Closing will be issued a Class A Membership Interest Percentage in the Fund and will be referred to as a Class A Member ("Class A Member"). Any Member purchasing less than five (5) Units at any Closing or at any Additional Closing will be issued a Class B Membership Interest Percentage in the Fund and shall be referred to as a Class B Member ("Class B Member" collectively with Class A Members, the "Investor Members"). Each Class A Member will be allocated a Class A Membership Interest Percentage computed pursuant to the following formula: (i) the purchase price paid for all of the Units purchased by such Class A Member; divided by (ii) the total purchase price for all of the Units purchased by the all of the Class A Members ("Class A Membership Interest Percentage"). Each Class B Member will be allocated a Class B Membership Interest Percentage computed pursuant to the following formula: (i) the purchase price paid for all of the Units purchased by such Class B Member; divided by (ii) the total purchase price for all of the Units purchased by the all of the Class B Members ("Class B Membership Interest Percentage"). The Class A Membership Interest and the Class B Membership Interest Percentage will be adjusted at each Additional Closing.

- 2.3 **Additional Capital Contributions.** If the Manager, in the exercise of its reasonable business judgment, at any time or from time to time, determines that the Company requires Capital Contributions (“Additional Capital”) in addition to the initial Capital Contributions provided by Section 2.1 in order to enable the Company or the Property Owner SPEs to pay their operating expenses or to meet their obligations in a timely fashion, then the Manager, on behalf of the Company, may borrow funds the Company needs from any Person, including one or more of the Members, the Manager or their Affiliates, pursuant to such terms, provisions and conditions as the Manager may determine in its reasonable discretion. Any such financing may be secured by a pledge, mortgage or other lien or liens on any portion of the Company’s property. Any such financing shall be repaid prior to any distributions to the Members pursuant to Section 3.1 below.
- 2.4 **No Third Party Beneficiaries.** Except for the authority expressly granted to the Members in this Agreement, no Member shall have any authority to bind or act for the other Members or the Company. The obligations undertaken by the Members in this Operating Agreement, including their obligations, if any, to make Capital Contributions, loans and reimbursements, are for the benefit of the Company and the Members only, and neither any creditor of the Company or of any Member, nor any other party (other than a successor in interest to the Company or the Members), shall have the right to rely on or enforce the provisions of this Operating Agreement as a third-party beneficiary or otherwise. Neither any creditor of the Company or of any Member, nor any other party, may compel a capital call from the Members, regardless of whether the Company’s assets are sufficient to provide for its liabilities. In addition, the discretions granted to the Members in this Agreement are personal to them, and no receiver, trustee or liquidator of the Company’s business shall have the right or power to exercise any such discretions.
- 2.5 **Membership Interest Certificates.** Membership Interests shall not be represented by a certificate.

### 3. **PROFITS, LOSSES AND DISTRIBUTIONS**

#### 3.1 **Distributions**

- (a) *Distribution of Net Cash Flow.* Subject to Sections 2.3, Net Cash Flow of the Company, if any, shall be distributed to the Members, on a monthly basis, in the following order of priority:
- (i) first, to pay to the Class A Members and the Class B Members, pro-rata pursuant to their respective Membership Interest Percentages, any unpaid annual, cumulative but non-compounding distribution equal to ten percent (10%) of the Class A Member’s and Class B Member’s unreturned capital contributions (the “Preferred Return”) until such time as the applicable Class A

Member and Class B Member have received their respective Preferred Return;

- (ii) second, until such time that the Class A Members have received an Internal Rate of Return of seventeen percent (17%): (i) sixty percent (60%) of the Class A Excess Cash Flow to the Class A Members, pro-rata, pursuant to their respective Class A Membership Interest Percentage, and forty percent (40%) of the Class A Excess Cash Flow to the Managing Member; and (ii) fifty percent (50%) of the Class B Excess Cash Flow to the Class B Members, pro-rata, pursuant to their respective Class B Membership Interest Percentage, and fifty percent (50%) of the Class B Excess Cash Flow to the Managing Member; and
  - (iii) third, to the Members, pro-rata, in proportion to their respective Membership Interest Percentage.
- (b) *Distribution of Net Sale or Refinancing Proceeds.* Subject to Sections 2.3, Net Sale or Refinancing Proceeds, if any, shall be distributed to the Members, promptly after receipt thereof, in the following order of priority:
- (i) first, to pay to the Class A Members and the Class B Members, pro-rata pursuant to their respective Membership Interest Percentages, any unpaid Preferred Return owed to such applicable Class A Member and Class B Member until such time as the applicable Class A Member and Class B Member have received their respective Preferred Return;
  - (ii) second, to pay to the Class A Members and the Class B Members, pro-rata based on Membership Interest Percentage, an amount equal to their unreturned capital contribution until such time as the applicable Class A Member and such Class B Member have received distributions equal to their respective unreturned capital contributions;
  - (iii) third, until such time that the Class A members have received an Internal Rate of Return of seventeen percent (17%): (i) sixty percent (60%) of the Class A Excess Cash Flow to the Class A Members, pro-rata, pursuant to their respective Class A Membership Interest Percentage, and forty percent (40%) of the Class A Excess Cash Flow to the Managing Member; and (ii) fifty percent (50%) of the Class B Excess Cash Flow to the Class B Members, pro-rata, pursuant to their respective Class B Membership Interest Percentage, and fifty percent (50%) of the Class B Excess Cash Flow to the Managing Member; and

- (iv) fourth, to the Members, pro-rata, in proportion to their respective Membership Interest Percentage.

3.2 **Limitations on Distributions.** Distributions pursuant to Section 3.1 above may be made from any source; provided they do not violate any agreement that the Company has with any of its creditors or any provision of the Delaware Act.

3.3 **Allocation of Profits and Losses.** Subject to the special allocations described in Sections 3.4 and 3.5 below, Net Profits and Net Losses shall be allocated as follows:

- (a) Subject to Section 3.3(b) below, Net Profits and Net Losses for any fiscal year shall be allocated among the Members so that the Capital Account of each Member, increased by its share, if any, of Company Minimum Gain and Member Minimum Gain is, as nearly as possible, equal to the net amount of cash that the Company would distribute to such Member, if (i) the Company liquidated by selling all of its properties for their respective Book Basis (without making any adjustment thereto under clause (b) of the definition of Book Basis for such liquidation), (ii) the proceeds of such sales, and any other cash of the Company, were used to satisfy the Company's liabilities in accordance with, and to the extent required by, their terms and in the order of priority prescribed by the applicable laws governing creditors' rights, and (iii) the Company distributed to the Members any remaining cash pursuant to Section 3.1(a), Section 3.1(b), or 3.1(c) (in accordance with the classification of such proceeds or other cash as Net Cash Flow or Net Sale or Refinance Proceeds).
- (b) The Net Losses allocated pursuant to Section 3.3(a) above shall not exceed the maximum amount of Net Losses that can be so allocated without causing any Member to have an Adjusted Capital Account Deficit at the end of any tax year. Any such disallowed allocations shall be made to the Members entitled to receive such allocations under Treasury Regulation Section 1.704-1 in proportion to their respective Membership Interest Percentages.

3.4 **Special Allocations.** Special allocations of items of income, gain, loss, deduction and credit shall be made in the following order and priority:

- (a) *Company and Member Minimum Gain Chargebacks.* Any provision of this Operating Agreement to the contrary notwithstanding, if there is a net decrease in either Company or Member Minimum Gain during any taxable year of the Company or other period for which allocations of Profits and Losses are made, and if such decrease is not the result of any of the circumstances described in Treasury Regulations Sections 1.704-2(f)(2) or (3) or 1.704-2(i)(4), then items of income and gain for that period (and, if necessary, subsequent periods) shall be specially and specifically allocated to the Members in an amount equal to each Member's share of the net

decrease in Company or Member Minimum Gain, as the case may be. The provisions of this Section 3.4(a) are intended to comply, and shall be interpreted consistently, with Treasury Regulation Sections 1.704-2(f)(1) and 1.704-2(i)(4), respectively.

- (b) **Qualified Income Offset.** Items of income and gain shall be specially and specifically allocated to any Member who unexpectedly receives any adjustment, allocation or distribution described in Treasury Regulations Sections 1.704-1(b)(2)(ii)(d)(4), (5) or (6) in an amount and manner sufficient to eliminate, to the extent required by the Treasury Regulations, such Member's Adjusted Capital Account Deficit, if any, as quickly as possible. The provisions of this Section 3.4(b) are intended to comply with the qualified income offset requirement of, and shall be interpreted consistently with, Treasury Regulations Section 1.704-1(b)(2)(ii)(d).
- (c) **Gross Income Allocation.** In the event any Member has a deficit Capital Account balance at the end of any fiscal year which is in excess of the sum of (i) the amount such Member is obligated to restore pursuant to a provision of this Agreement and (ii) the amount such Member is deemed obligated to restore pursuant to the penultimate sentences of Treasury Regulation Sections 1.704-2(g)(1) and 1.704-2(i)(5), such Member shall be specially allocated items of Company income and gain in the amount of such excess as quickly as possible, provided that an allocation pursuant to this Section 3.4(c) shall be made only if and to the extent that such Member would have an Adjusted Capital Account Deficit in excess of such amount after all other allocations provided for in this Section 3.4 have been tentatively made as if Section 3.4(b) and this Section 3.4(c) were not in the Agreement.
- (d) **Nonrecourse Deductions.** Nonrecourse Deductions for any taxable year of the Company or other period shall be allocated (as nearly as possible) under Treasury Regulations Section 1.704-2 to the Members, pro rata in proportion to their respective Membership Interest Percentages.
- (e) **Member Nonrecourse Deductions.** Any Member Nonrecourse Deductions for any taxable year of the Company or other period shall be allocated to the Member that made, or guaranteed or is otherwise liable with respect to the loan to which such Member Nonrecourse Deductions are attributable in accordance with principles under Treasury Regulation Section 1.704-2(i).
- (f) **Section 754 Adjustments.** To the extent an adjustment to the adjusted tax basis of any Company asset pursuant to Code Section 734(b) or 743(b) is required, pursuant to Treasury Regulation Section 1.704-1(b)(2)(iv)(m), to be taken into account in determining Capital Accounts, the amount of such adjustment to Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis) and such gain or loss shall be specially allocated to the Members in a manner consistent with the manner in which their

Capital Accounts are required to be adjusted pursuant to such Section of the Treasury Regulations.

- (g) *Excess Non-Recourse Liabilities.* Excess non-recourse liabilities will be allocated first to the Member(s) up to the amount of built in gain that is allocable to such Member(s) under Section 704(c) pursuant to Reg. Sec 1.752-3(a)(3).

3.5 **Curative Allocations.** The allocations set forth in Sections 3.3 and 3.4 are intended to comply with certain requirements of Treasury Regulations Sections 1.704-1 and 1.704-2, but may not be consistent with the manner in which the Members intend to share the economic benefits of the Company. To ensure that the Members' economic intentions are not distorted, the Manager may request a waiver of the minimum gain chargeback rules pursuant to Treasury Regulations Sections 1.704-2(f)(4) and 1.704-2(i)(4), if it deems it appropriate in its sole discretion. In addition, the Manager may allocate items not subject to Section 3.4 above among the Members in such a manner as is necessary to prevent the allocations described in Section 3.4 above from distorting the manner in which Company distributions would be divided among the Members pursuant to Section 3.1 above, if the Manager deems it appropriate in its sole discretion. the Manager may accomplish this result in any reasonable manner that is consistent with Code Section 704 and the related Treasury Regulations, as the Manager deems appropriate in its sole discretion.

3.6 **Tax Allocations.**

- (a) *Generally.* Except as provided below, or as otherwise required by the Code or Treasury Regulations promulgated thereunder, Company income, gain, loss, deduction, credit and other items, as computed for Federal income tax purposes, shall be allocated among the Members in the same manner as the corresponding book items are allocated pursuant to Sections 3.3, 3.4 and 3.5.
- (b) *Section 704(c) Allocations.*
  - (i) In accordance with Section 704(c) of the Code and the Treasury Regulations thereunder, income, gain, loss and deduction with respect to any property contributed to the capital of the Company shall, solely for tax purposes, be allocated among the Members so as to take account of any variation between the adjusted basis of such property to the Company for federal income tax purposes and its initial Book Basis.
  - (ii) In the event the Book Basis of any asset of the Company is adjusted pursuant to clause (b) of the definition of Book Basis, subsequent allocations of income, gain, loss and deduction with respect to such asset shall take account of any variation between the adjusted basis of such asset for federal income tax purposes

and its Book Basis in the same manner as under Section 704(c) of the Code and the Treasury Regulations thereunder.

- (iii) Income, gain, loss and deduction with respect to any property contributed to the Company shall be allocated, solely for tax purposes, among the Members in accordance with any method of making Section 704(c) allocations described in Treasury Regulations Section 1.704-3 and selected by the Members, as provided by Section 4.8. Allocations made pursuant to this Section 3.6(b) shall be for federal, state and local tax purposes only, and shall not affect, or in any way be taken into account in computing, any Member's Capital Account or share of distributions under any provision of this Operating Agreement.

#### 4. **MANAGEMENT OF THE COMPANY; RIGHTS AND DUTIES OF THE MANAGERS**

4.1 **Management by Managers; Number.** The business and affairs of the Company shall be managed by one or more Managers. The Company shall initially have one (1) Manager. The Manager need not be a resident of the State of Delaware, a Member or a natural person. Initially, the Manager shall be MHC Stable Income Fund Management, LLC.

#### 4.2 **Power and Authority.**

- (a) Except as otherwise provided in this Operating Agreement, the Manager shall have full and complete power, authority and discretion to manage and control the Company and its business and affairs and to make all incidental decisions, subject only to the power and authority which this Operating Agreement or the Delaware Act expressly vests in the Members or any number of them. Without limiting the generality of the immediately preceding sentence, but subject to any power and authority which this Operating Agreement or the Delaware Act expressly vests in the Members or any number of them, the Manager shall have the power, authority and discretion, for and on behalf of the Company:
  - (i) To make capital expenditures for the acquisition of any equipment necessary for the business of the Company;
  - (ii) To settle and pay the Company's debts and obligations;
  - (iii) To open, maintain, deposit into and withdraw from bank accounts, and, if desired, to designate other persons to execute checks or drafts on such accounts;
  - (iv) To invest Company funds temporarily in (by way of example but not limitation) time deposits, short-term governmental, obligations, or commercial paper;

- (v) To commence, prosecute and defend all actions and other proceedings affecting the Company in any way;
- (vi) To negotiate, prepare, modify, execute, deliver and award any and all contracts, agreements and documents to which the Company is or proposes to become a party in the ordinary course of business;
- (vii) Generally, to carry on the Company's business in the ordinary course, and to manage the Company's day-to-day operations and to carry out the development and expansion of the Company and its business; and
- (viii) To negotiate, prepare, modify, change, execute, deliver and, if appropriate, file or record any and all documents, agreements, instruments and papers, and to do and perform any and all acts and deeds, which are or become necessary, proper, convenient or desirable in connection with or in furtherance of any of the powers enumerated above or in order to effectuate or carry out the Company's purpose, as described in Section 1.2 above.

#### 4.3 **Standard of Care; Liability; Indemnification.**

- (a) *Standard of Care.* The Manager shall discharge his duties in good faith and in a manner he reasonably believes is in the best interests of the Company and its Members. In discharging his duties, the Manager may rely on information, opinions, reports or statements, including, but not necessarily limited to, financial statements or other financial data, prepared or presented by (i) one or more Members or employees of the Company whom the Manager reasonably believes is reliable and competent with respect to the matter prepared or presented, or (ii) legal counsel, public accountants, engineers or other persons as to matters the Manager reasonably believes are within such person's professional or expert competency; provided that the Manager does not have knowledge concerning the matter in question which makes such reliance unwarranted.
- (b) *Liability.*
  - (i) The Manager shall be liable solely to the Company and, derivatively, to its Members for his gross negligence or willful misconduct. Any Manager's taking of any action or failure to take any action, or a Manager's errors in judgment, the effect of which may cause or result in loss or damage to the Company, if done pursuant to the provisions of the Delaware Act, the Certificate of Formation and this Operating Agreement, shall be presumed not to constitute gross negligence or willful misconduct on the part of the Manager.
  - (ii) The Members shall look solely to the Company's property for the return of their Capital Contributions and any Additional Capital

and if the Company's property remaining after payment or discharge of the Company's debts and liabilities is insufficient to return such Capital Contributions and any Additional Capital, no Member shall have recourse against any Manager, except as provided in Section 4.3(b)(i) above, or any other Member.

- (c) *Indemnification.* The Company shall to the fullest extent authorized or permitted by the Delaware Act, indemnify, defend and hold harmless the Manager and its respective members, managers, officers and directors (the collectively the "Indemnified Party") from and against any and all losses, damages, liabilities, claims, demands, obligations, fines, penalties, expenses (including reasonable fees and expenses of attorneys engaged by the Indemnified Party in defense of any act or omission), judgments or amounts paid in settlement by the Indemnified Party by reason of any act performed, or omitted to be performed, by it in connection with the Company's business or in furtherance of the Company's interests, or in connection with any proceeding to which the Indemnified Party is a part or is threatened to be made a part because it is or was the Manager. The provisions of this Section 4.3(c), however, shall not relieve the Manager of any liability which it may have (i) pursuant to Section 4.3(b) above for gross negligence or willful misconduct, (ii) in connection with the receipt of a financial benefit to which the Manager is not entitled, or (iii) in connection with a knowing violation of law, and the Manager shall not be entitled to indemnification with respect to any such matters. The indemnification afforded pursuant to this Section 4.3(c) shall be limited to the Company's assets, and the Manager shall not have a claim against any Member by virtue of this Section 4.3(c), nor shall this Section 4.3(c) be construed so as to impose any obligation on any Member to make a Capital Contribution.

#### 4.4 **Tenure; Resignation; Removal; Vacancies.**

- (a) *Tenure.* Each person or entity that has been appointed or elected as a Manager shall hold such office until such time as his, her or its successor has been duly appointed or elected in accordance with this Operating Agreement and shall have qualified, or until he, she or it resigns or otherwise vacates the position.
- (b) *Resignation.* The Manager may resign at any time by giving thirty (30) days prior written notice to the other Managers or, if none, to the Members. Unless otherwise specified in the notice, acceptance of a Manager's resignation by the other Managers or the Members, as the case may be, shall not be necessary to make it effective. The resignation of a Manager who is also a Member shall not affect such Manager's rights as a Member and shall not constitute the withdrawal of such Manager as a Member.

- (c) *Removal.* The Members, and not the Manager, may remove the Manager, but only for “Cause.” For purposes of this Operating Agreement, “Cause” means (i) any material breach or material nonperformance by the Manager of his obligations under this Operating Agreement, which breach is not cured by the Manager within thirty (30) days after the Manager has received written notice from the Company specifically setting forth, in reasonable detail, the Manager’s breach or nonperformance, (ii) the Manager’s use of illegal drugs, or his use of alcohol which interferes with the performance of the Manager’s obligations under this Operating Agreement, (iii) the conviction of the Manager of a felony, which includes but is not limited to a felony in the nature of theft, dishonesty or fraud (or a written confession thereof freely and voluntarily given by the Manager), (iv) the Manager’s willful misappropriation of the funds or property of the Company, (v) the Manager violates any of the restrictive covenants set forth in this Operating Agreement, or (vi) Manager knowingly violates any law or ordinance.
- (d) *Vacancies.* Any vacancy in the Manager position occurring as a result of a Manager’s resignation or any other reason whatsoever may be filled by the consent of a Majority Vote of the Members at a special meeting of the Members called expressly for that purpose or at the next regular meeting of the Members. Each person or entity that has been elected to fill a vacancy in the Manager position shall hold such office until such time as his, her or its successor shall have been duly appointed or elected in accordance with this Operating Agreement and shall have qualified, or until his, her or its earlier resignation or other vacancy. Any Manager which is removed for Cause shall not be entitled to participate in the selection of a new Manager.
- (e) *Compensation; Reimbursement.* Except as otherwise set forth herein, the Manager shall not be entitled to any compensation for managing the affairs of the Company, unless otherwise agreed to by a Majority Vote of the Members. In addition, the Manager shall be entitled to reimbursement from the Company for all valid Company costs and expenses reasonably incurred and paid for by the Manager on the Company’s behalf. Such costs and expenses may include, but shall not necessarily be limited to, legal and accounting fees relating to the organization of the Company, and current and recurring legal and accounting expenses. The foregoing notwithstanding, a Manager may be employed or engaged by the Company and provide services to the Company and to receive compensation therefore, provided such is pursuant to a written agreement between the Manager and the Company approved by a Majority Vote of the Members.
- (f) *Contracts with Affiliates.* Notwithstanding the foregoing, the Company or the Property Owner SPEs shall pay to the Manager, or its Affiliates,

certain management fees and developer fee (the “Developer Fee”) as set forth in the Private Offering Memorandum.

- 4.5 **Self-Dealing.** Any Manager and any Affiliate of any Manager may deal with the Company, directly or indirectly, as vendor, purchaser, employee, agent or otherwise, if the Manager has informed the Members of the material terms of such dealings, and such terms are commercially reasonable under the circumstances. No contract or other act of the Company shall be voidable or affected in any manner by the fact that any Manager or his, her or its Affiliate is directly or indirectly interested in such contract or other act apart from his, her or its interest as a Manager, nor shall such Manager or his, her or its Affiliate be accountable to the Company or the other Members with respect to any profits directly or indirectly realized by reason of such contract or other act, if such contract or other act was approved in accordance with this Section 4.5.
- 4.6 **Devotion of Time to Company.** The Manager agrees to devote his, her or its commercially reasonable efforts to the business and welfare of the Company to achieve the performance and profitability goals established by the Company. It is understood that no Manager is prohibited from having other business interests and may engage in other activities in addition to those relating to the Company, provided such activities do not conflict with or inhibit in any way any Manager’s obligations set forth in the preceding sentence. In the event any Manager decides to take an active role in any outside business interest(s), in any form or in any manner whatsoever, such Manager shall fully disclose to the other Managers, in detail, the terms, conditions and activities of his involvement in the outside business interest(s). Neither the Company nor any Member shall have any right, by virtue of this Operating Agreement, to share or participate in such other interests or activities of a Manager or to income or proceeds derived from such interests or activities. The Manager shall not incur liability to the Company or to any of the Members as a result of engaging in any other interests or activities. The provisions of this Section 4.6 shall be subject to those of Section 4.5 above.

## 5. **RIGHTS AND DUTIES OF MEMBERS**

### 5.1 **Participation in Management; Voting Rights.**

- (a) Except as otherwise provided in this Operating Agreement, the Members shall have no right to take part in, vote on or interfere in any manner with the management, conduct or control of the Company or its business and shall have no right or authority whatsoever to act for or on behalf of, or to bind, the Company. In addition to the rights of the Members to vote as provided elsewhere in this Operating Agreement, the Members shall have the right to vote, in accordance with their Membership Interest Percentages, on each of the following matters, which the Members agree not to unreasonably withhold or delay their approval of such matters:

- (i) The removal of the Manager as set forth in Section 4.4(c) above;
  - (ii) The dissolution of the Company, as provided in Section 7.1(b) below;
  - (iii) A merger of the Company;
  - (iv) An amendment to the Articles of Organization, or an amendment to this Operating Agreement, unless such right is granted to the Manager as specifically provided in this Operating Agreement or for amendments that do not have a material effect on the Members; and
  - (v) Any other matters with respect to which this Operating Agreement expressly contemplates that the Members will have a right to vote.
- (b) Unless a greater or lesser vote is expressly required pursuant to any other provision of this Operating Agreement, any action which the Members are required or permitted to take shall require the Majority Vote of the Members and any fewer than that number of Members shall have no power whatsoever to take any action for or on behalf of, or to bind, the Company or the Members. Any action by the requisite number of Members, if taken in conformity with this Operating Agreement, shall bind all of the Members, and no Member shall have the right to dissent from such action. Any Member may delegate all or any of his, her or its voting rights or powers to another Member (but only in writing), in which case any act of the other Members shall be the act of the delegating Member. In the event that there is any action which the Members are required or permitted to take, including, without limitation, the matters described above, the Manager shall provide written notice to the Members (the "Member's Notice") of such action and state in the notice that any Member who does not indicate his disapproval of the proposed action by written notice back to the Company within a time period set forth in the Member's Notice (of which shall not be less than ten (10) days following the date that the Member's Notice is mailed) shall be deemed to have given consent or approval to the proposed action or event or to have made the agreement referred to in the Member's Notice.

5.2 **Withdrawal.** No Member shall be entitled to withdraw from the Company unless approved in writing by a Majority Vote of the Members. No withdrawing Member shall be entitled to a withdrawal distribution unless such distribution has been approved by a Majority Vote the Members which approval may be subject to such conditions, terms, qualifications as the Members deem appropriate.

- 5.3 **Limited Liability of Members.** No Member shall be personally liable for the Company's acts, debts or obligations, unless the Delaware Act or any other provision of this Operating Agreement expressly provides otherwise.
- 5.2 **Reports; Access to Company Information.** The Manager shall provide reports concerning the financial condition and results of the operation of the Company to the Members on a semi-annual basis and shall include a statement of each Member's share of profits and other items of income, gain, loss, deduction and credit. The Manager shall also provide the Members with copies of the Company's most recent annual financial statements and federal, state and local income tax returns and reports as soon as reasonably practicable after they are prepared. On reasonable written request by a Member, (i) the Manager shall provide such Member with information regarding the current state of business and the financial condition of the Company; (ii) any Member, or his her or its designated representative, may inspect and copy, at such Member's request, any of the records maintained pursuant to Section 9.2 below; and (iii) a Member may obtain such other information regarding the Company's affairs or inspect, personally or through a representative, during ordinary business hours, such other books and records of the Company as is just and reasonable. Any Member may call for a formal accounting of the Company's affairs whenever circumstances render such request just and reasonable as determined by the Manager.

6. **DISPOSITION OF MEMBERSHIP INTERESTS; ASSIGNMENT OF MEMBERSHIP INTERESTS; ADMISSION OF ADDITIONAL MEMBERS.**

- 6.1 **General.** Except as otherwise specifically provided for in this Operating Agreement or otherwise consented to in writing by a Majority Vote of the Members, no Member may assign (as defined in Section 6.8 below) all or any portion of the Member's Membership Interest in the Company, whether now owned or acquired subsequent to the date of this Operating Agreement, for any reason or purpose whatsoever. Any attempted assignment of a Membership Interest in violation of this Section 6.1 is null and void and the assignee or transferee shall have no right to participate in the management of the business and affairs of the Company or to become a Member.

6.2 **Involuntary Transfer.**

- (a) In the event any Member's Membership interest in the Company is the subject of an involuntary transfer, whether due to bankruptcy, assignment for benefit of creditors, judicial order, legal process, execution, attachment, enforcement of a pledge or other encumbrance, or otherwise, or a Member who is also the Manager and is removed for cause pursuant to Section 4.4(c) then such Member's (the "Transferor") Membership Interest shall be subject to the Option of the Company and the Remaining Members in Section 6.2(b) below.

- (b) Upon the occurrence of any event described in Section 6.2(a) above, the Company and the Members other than the Transferor (the "Remaining Members") shall have an option (the "Option") to purchase all (but not less than all) of the Membership Interest of the Transferor (the "Option Interest") at a purchase price equal to the Fair Market Value (as defined in Section 6.5 below) associated with such Membership Interest. The Company or the Remaining Members may exercise the Option as follows:
- (i) The Company shall have a period of sixty (60) days after being informed of the occurrence of any event described in Section 6.2(a) above, within which to send to the Transferor written notice of its decision to exercise the Option.
  - (ii) If the Company fails to exercise the Option within the period provided in Section 6.2(b)(i) above, then the Remaining Members shall have an additional thirty (30) day period within which to send to the Transferor written notice of their decision to exercise the Option with respect to the Option Interest. Each of the Remaining Members electing to exercise the Option with respect to the Option Interest shall have the right to purchase a percentage of the Option Interest which is equal to or less than such Remaining Members' pro rata share of such Option Interest, based on the relative percentage of ownership of all of the Remaining Members who have exercised the Option with respect to the Option Interest. In the event any Remaining Member does not elect to purchase all, he is entitled to purchase, the other Remaining Members may purchase such non-elected portion in proportion to the Remaining Members pro rata share of the non-elected portion, based on the relative Membership Interest Percentages of all of the Remaining Members electing to purchase the non-elected portion.
  - (iii) The exercise of the Option by the Company or the Remaining Members shall, in the aggregate, be for all, but not less than all, of the Option Interest.
  - (iv) If the Company or a Remaining Member fails, for any reason, to exercise the Option in the manner and within the time periods set forth in this Section 6.2, or to close the transaction contemplated by the Option in the manner and within the time periods set forth in Section 6.4, the Option shall lapse.
  - (v) In the event all of the Option Interest is not purchased by the Company or the Remaining Members, then the Option Interest not purchased may be transferred to the transferee subject to all the provisions of this Operating Agreement or will remain with the Transferor, as applicable. Further, the transferee shall not

have any voting rights as a member of the Company; provided, however the transferee shall have the economic right to receive the same pro-rata share of any distribution made by the Company as to that portion of the Option Interest transferred to the transferee. The transferee shall execute a counterpart of this Operating Agreement, the original of which shall be retained as a part of the Company's records. The failure of the transferee to execute a counterpart of this Operating Agreement shall not affect the applicability of this Operating Agreement to the Option Interest, it being the intention of each Member and the Company that any and all subsequent owners of a membership interest in the Company pursuant to any event described in Section 6.2(a) above shall only receive and own such membership interest subject to the restrictions upon transfer and encumbrance as set forth in this Operating Agreement to which the Transferor was subject.

6.3 **Closing.**

- (a) The closing of any transfer of a Membership Interest by a Member to the Company or any Remaining Member pursuant to the provisions of Section 6.2 above shall take place at the Company's principal offices within thirty (30) days. The foregoing notwithstanding, the closing of any transfer of a Membership Interest hereunder may occur at such other time and place as the selling and purchasing parties may agree.
- (b) The purchase price shall be paid in the following manner: At the closing, the purchaser shall pay to the seller in cash, by certified or cashier's check or wire transfer an amount equal to twenty (20%) percent of the purchase price and shall also deliver, at the time of said initial cash payment, a promissory note substantially in an amount equal to the unpaid purchase price, if any, for the seller's Membership Interest providing for the payment of the balance of the purchase price in equal monthly payments over a period not to exceed five (5) years, with interest thereon at the Prime Rate (as defined below) in effect on the date of closing while not in default and at two (2%) percent in excess of such Prime Rate during any period of default. The promissory note shall provide for acceleration of the unpaid balance under the promissory note upon the default of the maker thereof. "Prime Rate" means the Prime Rate of interest as charged by the Company's principal bank at the time of the closing. The promissory note shall permit prepayment of the outstanding principal and interest without penalty at any time. Payment of the promissory note shall be secured by a lien on the seller's Membership Interest.

6.4 **Determination of Fair Market Value.** In the event of any purchase and sale of a Member's Membership Interest pursuant to Section 6.2 above, the purchase price to be paid for such Membership Interest pursuant to this Operating Agreement

shall be the Member's Membership Interest multiplied by the Fair Market Value of the Company. The Fair Market Value of the Company shall mean the agreed upon value as of the Valuation Date by the respective purchaser and seller. However, in the event the purchaser and seller do not agree within thirty (30) days of the Valuation Date on the Fair Market Value of the Membership Interest, the Fair Market Value shall be then as determined by a "Qualified Appraiser" (i.e., a recognized appraiser having at least five (5) years' experience in appraising comparable companies as the Company), who shall be selected by the respective transferor and transferee of the Membership Interest within the ninety (90) days following the Valuation Date, and who shall then determine the Fair Market Value of the Membership Interest within sixty (60) days following such selection, and such determination shall be final and binding on such parties. In the event such parties are unable to agree upon a Qualified Appraiser on or before the ninetieth (90th) day following the Valuation Date, then both parties shall each select a Qualified Appraiser who shall mutually select a third Qualified Appraiser within said ninety (90) day period, who shall then determine the Fair Market Value of the Membership Interest within sixty (60) days following such selection and such third Qualified Appraiser's determination shall be final and binding upon the parties. The cost of the appraiser(s) shall be borne equally between the transferor and transferee.

#### 6.5 **Permitted Assignments and Substitute Members.**

- (a) *Permitted Assignment.* Subject to the remaining provisions of this Section 6.5, and subject to the requirements of any lender doing business with the Company, any Member may assign his Membership Interest, or any portion thereof, to: (i) any other Member; (ii) the Member's spouse, siblings, lineal ascendants, or lineal descendants; (iii) an inter vivos or testamentary trust primarily for the benefit of the persons named in clause (ii) or for the benefit of the Member, or (iv) if the Member is a Trust, to the beneficiary thereof, provided that such beneficiary is a natural person and is a person named in clause (ii); or (v) if the Member is not an individual, an Affiliate of the Member. Notwithstanding the foregoing, an assignment of a Membership Interest does not entitle the assignee to participate in the management and affairs of the Company or to become, or exercise any rights of, a Member. An assignment of a Membership Interest merely entitles the assignee, to the extent assigned, to share in the and to receive the distributions and allocations of income, gain, loss, deduction, credit or similar items to which the assigning Member would be entitled pursuant to this Operating Agreement. In no event shall the Company, the Manager or any Member have any obligation whatsoever to recognize an assignment of a Membership Interest unless the assignee has been admitted, in accordance with Section 6.5(b) below, as a substitute Member in place of the assigning Member to the extent of the Membership Interest assigned. Until such time as the assignee has been so admitted, the Company, the Manager and the Members may consider the assigning Member to be the owner of its Membership Interest for all

purposes relevant to the Certificate of Formation, this Operating Agreement and the Delaware Act, and all distributions relating to the assigned Membership Interest may be made to the assigning Member, it being his responsibility to forward the appropriate portion of such distributions to the assignee.

(b) *Substitute Members.* An assignee of a Membership Interest, shall be admitted as a substitute Member in place of the assigning Member to the extent of the Membership Interest assigned, only on satisfaction of each of the following conditions precedent:

- (i) The Manager's consent to such admission in writing (unless such assignment is made pursuant to Section 6.6(a) in which case no consent is required;
- (ii) The assignee has executed a statement that he, she or it is acquiring the Membership Interest for his, her or its own account for investment, and not with a view to distribution thereof;
- (iii) The agreement effecting the assignment is reasonably satisfactory, in form and substance, to the Manager's and the Company's counsel and the assigning Member and the assignee have executed and acknowledged such agreement and such other documents, instruments and papers as the Manager and the Company's counsel reasonably deem necessary, proper, convenient or desirable in order to evidence or effect the assignment or the admission of the assignee as a substitute Member in place of the assigning Member to the extent of the Membership Interest assigned;
- (ii) The assignee accepts, adopts and agrees to be bound by all of the terms and provisions of this Operating Agreement, as it may have been amended, from and after the effective date of the assignment as if the assignee had joined in the original execution of this Operating Agreement (and all subsequent amendments to this Operating Agreement) as a Member. Such acceptance, adoption and agreement shall be set forth in a writing, the form and substance of which shall be reasonably satisfactory to the Manager and the Company's counsel; and
- (iii) The assignee has paid, or acknowledged that he, she or it is obligated to pay, all reasonable fees and expenses (including, without limitation, all reasonable attorney fees and expenses) incurred by the Company in connection with such admission.

The Manager may waive compliance with any or all of the above requirements, except the requirements set forth in clauses (i) and (iii) above, as the Manager deems appropriate in his sole discretion.

(c) *Effect of Assignment.* An assignee who is admitted as a substitute Member in accordance with Section 6.6(b) above has, to the extent assigned, the rights and powers, and is subject to the restrictions and liabilities, of a Member under the Certificate of Formation, this Operating Agreement and the Delaware Act. Such an assignee also is liable for any obligations of his, her or its assignor to make Capital Contributions and to return distributions, to the extent provided in the Delaware Act or this Operating Agreement, but shall not be obligated for liabilities unknown to the assignee at the time he, she or it became a Member, unless the liabilities are shown on the Company's financial records.

6.6 **Amendment of Operating Agreement to Reflect Assignment.** Notwithstanding Section 9.5 below, the Manager may amend this Operating Agreement to reflect any assignment or admission of a substitute or additional Member accomplished in accordance with Section 6.

6.7 **Definition.** As used in this Section 6, the term "assign" means to sell, transfer, convey, assign, gift, pledge or otherwise dispose of or encumber all or any portion of a Membership Interest. All derivations of the term "assign" shall have similar meanings, as is appropriate.

## 7. NOTICES

7.1 **Manner of Delivery.** Any notice, election, demand, request, consent, approval, concurrence or other communication (collectively, a "notice") given or made under the provision of this Operating Agreement shall be deemed to have been sufficiently given or made for all purposes only if it is in writing and it is: (a) delivered personally to the party to whom it is directed, (b) sent by first class mail or overnight express mail, postage and charges pre-addressed to the party to whom it is directed, at his address set forth opposite his name on the attached Exhibit A; or (c) telecopied to the party to whom it is directed, at his address set forth opposite his name on the attached Exhibit A. Counsel for a party hereto may give notices on behalf of its client with the same effect as if such notice had been given by such party.

7.2 **Date.** Unless any other provision of this Operating Agreement expressly provides to the contrary, any notice:

(a) given or made in the manner indicated in Section 7.1(a) above shall be deemed to have been given or made on the day on which such notice was actually delivered to an adult residing or employed at the address of the intended recipient, but if such day was not a business day, such notice shall be deemed to have been given or made on the first business day following such day.

(b) given or made in the manner indicated in Section 7.1(b) above shall be deemed to have been given or made on the third business day after the day

on which it was deposited in a regularly maintained receptacle for the deposit of the United States' mail, or in the case of overnight express mail, on the business day immediately following the day on which it was deposited in a regularly maintained receptacle for the deposit of overnight express mail, provided that the notice is subsequently delivered by the U.S. Post Office or the courier service to the designated address in the ordinary course of business; and

- (c) given or made in the manner indicated in Section 7.1(c) above shall be deemed to have been given or made on receipt by the transmitting part of printed confirmation that the transmission was received, provided, that if the transmission occurs after 4:30 p.m. EST or EDT (as appropriate) or on a non-business day, the notice shall be deemed to have been given or made on the first business day to follow such transmission. Notwithstanding the immediately preceding sentence, if the intended recipient actually receives a notice before the date on which such notice is deemed to have been given or made, as specified above, the date of actual receipt shall be the date on which such notice is deemed to have been given or made for the purposes of this Operating Agreement.

7.3 **Change of Address.** Any Member, any Manager or the Company may change his address for purposes of this Operating Agreement by giving the Manager and the Company notice of such change in the manner provided in Section 7.1 above.

## 8. DISSOLUTION

8.1 **Events of Dissolution.** The Company shall be dissolved and its affairs wound upon the occurrence of any of the following events, whichever occurs first:

- (a) The expiration of the period fixed for the Company's duration set forth in its Certificate of Formation, if any;
- (b) The Majority Vote of the Members; or
- (c) The entry of a decree of judicial dissolution.

8.2 **Winding Up and Liquidating Distributions.** Upon the dissolution of the Company pursuant to Section 8.1 above or otherwise, the Manager shall file a Certificate of Dissolution for the Company with the Delaware Secretary of State and shall wind up the Company's affairs in accordance with the provisions of the Delaware Act. Once the Company's affairs have been wound up, the Manager shall proceed with an orderly liquidation of the Company's assets. On completion of such liquidation, the Manager shall file all tax returns and pay all tax obligations required by applicable Delaware law, and within a reasonable time, the Manager shall furnish each Member with a statement prepared by the Company's accountants, which shall set forth the assets and liabilities of the Company as of the date of dissolution and the proceeds and expenses of the

Company's liquidation. The Manager shall apply or distribute the proceeds of the liquidation in the following order of priority:

- (a) First, to the Company's creditors, whether they are or are not Members, to the extent permitted by applicable law, in satisfaction of the debts and liabilities of the Company and the expenses of liquidation. At the same time, the Manager shall establish such reserves it reasonably deems necessary, and in such amounts as it reasonably deem necessary, for any contingent or unforeseen debts, liabilities or obligations of the Company. On the expiration of the period described above, the Manager shall distribute the balance of such reserves in accordance with the remaining provisions of this Section 8.2;
- (b) Second, to the Members, in accordance with Section 3.1 above.

8.3 **Representations And Warranties.** As of the date of this agreement, each of the members represent and warrant for itself to the other members and the company as follows:

- (a) Each Investor Member is an "Accredited Investor" with sufficient business and financial experience to evaluate the risk of the investment in the Company and has sufficient financial strength to bear the risk of loss of its investment. Accordingly, each Investor Member meets the requirements of at least one of the following categories: (i) is a natural person whose individual net worth, or joint net worth with that person's spouse, at the time of purchase, exceeds \$1,000,000<sup>1</sup>; (ii) is a natural person who had an individual income in excess of \$200,000 in each of the most recent two years or joint income with that person's spouse in excess of \$300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year; (iii) is a trust with total assets in excess of \$5,000,000 not formed for the specific purpose of acquiring Units, whose purchase is directed by a sophisticated person; (iv) is an employee benefit plan within the meaning of Title I of the Employee Retirement Income Security Act of 1974, if the investment is made by a plan fiduciary which is a bank, savings and loan association, insurance company or registered investment company, or if the employee benefit plan has total assets in excess of \$5,000,000, or if the plan is a self-directed plan, with investment decisions made solely by persons that are

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<sup>1</sup> For purposes of calculating net worth: (i) the person's primary residence shall not be included as an asset; (ii) indebtedness that is secured by the person's primary residence, up to the estimated fair market value of the primary residence at the time of the sale of securities, shall not be included as a liability (except that if the amount of such indebtedness outstanding at the time of sale of securities exceeds the amount outstanding 60 days before such time, other than as a result of the acquisition of the primary residence, the amount of such excess shall be included as a liability); and (iii) indebtedness that is secured by the person's primary residence in excess of the estimated fair market value of the primary residence at the time of the sale of securities shall be included as a liability.

accredited investors; (v) is a bank, savings and loan association, building and loan association, cooperative bank, homestead association or similar institution which is supervised and examined by state or federal authority having supervision over any such institutions acting in its individual or fiduciary capacity; (vi) is a registered broker or dealer; a small business investment company licensed by the U.S. Small Business Investment Administration under Section 301(c) or (d) of the Small Business Investment Company Act of 1958; (vii) is a private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940, as amended; (viii) is an organization described in Section 501(c)(3) of the Internal Revenue Code, corporation, Massachusetts or similar business trust, or partnership, not formed for the specific purpose of acquiring the securities offered with total assets in excess of \$5,000,000; or (ix) is any entity in which all the equity owners qualify pursuant to the foregoing criteria.

- (b) If any Member is an entity, such Member is duly organized and validly existing under the laws of the State of its organization and has the requisite power and authority to enter into and carry out the provisions of this Agreement.
- (c) All action required to be taken by such Member (and its constituent members or partners, if applicable) to consummate this Agreement has been taken and no further approval of any Person, court or other body is necessary in order to permit such Member (and its constituent members or partners) to consummate this Agreement.
- (d) Neither the execution nor delivery of this Agreement, nor the performance of or the compliance with, this Agreement has resulted (or will result) in any violation of, or be in conflict with, or invalidate, cancel, or make inoperative, or interfere with, or constitute a default under, or result in the creation of any lien, encumbrance, or any other charge upon any project pursuant to any charter or bylaw provision, partnership agreement, trust agreement, mortgage, deed of trust, indenture, contract, agreement, permit, judgment, decree or order to which such Member is a party or by which any project (or any portion thereof) is bound, and there is no default and no event or omission has occurred which, but for the passing of time or the giving of notice, or both, would constitute a default on the part of such Member under this Agreement.
- (e) There is no action, proceeding or investigation, pending or, to the best of such Member's knowledge, threatened, which questions, directly or indirectly, the validity or enforceability of this Agreement as to such Member or which would materially and adversely affect the Company or its business.

- (f) Its interest in the Company has been acquired under this Agreement for its own account, for investment, and not with a view to, or for sale in connection with, any distribution thereof, nor with any intention of distributing or selling such interest, and that it will not assign, or attempt to assign, its interest in the Company in violation of the Securities Act of 1933 or any other applicable federal or state law.
- (g) No Member, any of its direct, indirect and beneficial owners (including intermediate and ultimate owners in a multi-tier ownership structure), officers, directors and additionally, Persons who have a controlling interest in the Member (its “Member OFAC Parties”) or any Person controlling such Member OFAC Parties:
  - (i) has illegally transferred funds to, or illegally received funds from, anyone on any list of blocked persons or persons known or suspected to be terrorists, including those designated through a presidential or executive order or on the list of Specially Designated Nationals and Blocked Persons compiled and updated regularly by the United States Department of the Treasury’s Office of Foreign Assets Control (“OFAC”), and published in the Code of Federal Regulations and on the internet web site <http://sanctionssearch.ofac.treas.gov/> (the “Lists”),
  - (ii) is now or has ever been on any such Lists itself,
  - (iii) has a reasonable basis to believe that it would be put on any such Lists, or
  - (iv) is a Person otherwise identified by government or legal authority as a Person with whom a United States Person (as defined below) is prohibited from transacting business.

For purposes of this representation, a “United States Person” shall mean: (1) any individual or business entity, regardless of location, that is a resident of the United States, (2) any individual or business entity physically located within the United States; (3) any company or business entity organized under the laws of the United States or of any state, territory, possession, or district thereof; and (4) any individual or business entity, wheresoever organized or doing business, which is owned or controlled by those specified in (1) or (3) above.

- (h) It is in compliance, and shall continue to comply, with all of the applicable provisions of the laws administered by OFAC including, without limitation, the Trading with the Enemy Act, 50 App. U.S.C. § 1, and the International Emergency Economic Powers Act (50 U.S.C. §§ 1701-06, as well as presidential executive orders and regulations issued or

promulgated under the authority of such statutes administered by OFAC); and

- (i) Each Member is aware that its rights to transfer the Membership Interest are restricted by the Securities Act of 1933, applicable state securities laws, this Agreement and the absence of a market for the Membership Interests, and it will not offer for sale, sell or otherwise transfer the Membership Interest without complying with the provisions of this Agreement and all applicable laws.
- (j) Each Member understands that the Membership Interest is a speculative investment that involves the potential risk of loss of the entire investment, and the Member's financial condition is such that it is able to bear the risk of holding the Membership Interest for an indefinite period of time.
- (k) No representations or warranties have been made to the Member by the Company or the Manager, or any agent of either of them. The Member acknowledges that it is purchasing an interest in the Company without being furnished any literature or prospectus, other than this Agreement and that certain Confidential Private Offering Memorandum of MHC Stable Income Fund I, LLC dated March 7, 2017, as amended or supplemented. The Member (i) has read the foregoing, (ii) has investigated the acquisition of the Membership Interest to the extent it deemed necessary or desirable, (iii) has had an opportunity to ask its advisors questions regarding the foregoing, (iv) understands the foregoing, and (v) has all the information it needs to make an informed decision regarding this investment.
- (l) The Manager and the Company have made available to the Member the opportunity to ask questions concerning the terms and conditions of this investment and have received satisfactory answers thereto or chosen not to ask any questions.
- (m) The Member has such knowledge and experience in financial and business matters, including real estate investments, that it is capable of evaluating the merits and risks of the acquisition of the Membership Interest and of making an informed investment decision with respect thereto.
- (n) The Member is aware that no federal or state agency has passed upon the adequacy or accuracy of the information set forth in any document provided to the Member, made any finding or determination as to the fairness of the investment, this Agreement, the terms of the offering, the sale of the Membership Interest or any other item whatsoever, or made any recommendation of the Membership Interest as an investment.
- (o) The Member understands that the Membership Interest has not been registered under the Securities Act of 1933 or any state securities act and

is being offered in reliance on an exemption for private offerings, the availability of which depends on the accuracy of the representations and warranties of the Member contained herein.

- (p) The Member is not investing as a result of (i) any advertisement, article, notice or other communication published in any newspaper, magazine or other publication of general circulation, (ii) an advertisement on radio, television, e-mail or other electronic communications media, or (iii) a program of general solicitation by means of mail or telephone.
- (q) The address set forth on signature page next to such Member's name is the Member's true and correct residence.
- (r) The Member has full power and authority to make the representations referred to herein, to purchase the Membership Interest pursuant to this Agreement and to execute and deliver this Agreement.
- (s) The Member acknowledges that it will have no right to participate in the management of the Company's business or in the decisions of the Manager other than those rights specifically set forth in this Operating Agreement.
- (t) The Member acknowledges that it is expected that the Company will be classified as a partnership for federal income tax purposes and as such, the Company will not be liable to pay federal income taxes but federal income taxes (if any) will be borne by its Members; any method of reporting income by the Company, which may limit or exclude federal income taxes of the undersigned in the early years of the Company and may create substantial federal income tax burdens on the undersigned in later years; the deductibility and the federal income tax consequences of the transactions anticipated by the Company are subject to challenge and possible disallowance by the Internal Revenue Service or an audit of either the Company's information tax return or the personal tax return of the undersigned and federal income tax laws are subject to a modification at any time by legislative, judicial, or administrative action, which modification could be applied on a retroactive basis, all of which may adversely affect the undersigned and reduce or eliminate virtually all the federal income tax benefits associated with this investment.
- (u) The Member acknowledge that the Company is subject to various conflicts of interest arising out of its relationships with the Manager and its Affiliates, including conflicts related to the arrangements pursuant to which the Manager and its Affiliates will be compensated by the Company. Because the Company is organized and will be operated by the Manager and its Affiliates, these conflicts will not be resolved through arms-length negotiations, but through the exercise of the Manager's judgment consistent with its fiduciary responsibility to the Members and the Company's investment objectives and policies.

- (v) The Member acknowledges that neither Sullivan Ward Asher & Patton, P.C. nor any attorney employed by them, has represented the Member in connection with this Agreement or related matters, but rather represents the Company, and the Manager and the representation of the Company is as directed by the Manager. Each Member acknowledges that it has had the opportunity, if he, she or it wishes, to discuss this Agreement, including without limitation, related tax matters, with his, her or its own counsel.

8.4 **Power of Attorney.** Each Member, by the execution of the Subscription Agreement with respect to the Private Offering Memorandum, has constituted and appointed the Manager or its managers (i.e., Bradley Froling and Kwame Granderson), or either of them acting alone, as his, her or its true and lawful attorney-in-fact with full power of substitution, and with power and authority to act in his name and on his behalf, to make, execute and deliver, swear to, acknowledge, file, and record, as applicable:

- (a) this Operating Agreement (and copies hereof) and amendments hereto or restatements hereof adopted pursuant to the provisions hereof and, upon termination of the Company (or its successor), a certificate, articles or agreement of dissolution and termination, as and if the same may be required by applicable law, or by any regulatory agency;
- (b) the Certificate of Formation (and copies thereof) and any amendments thereto or restatements thereof adopted pursuant to the provisions hereof;
- (c) any certificate of fictitious or assumed name and any amendment thereto, if required by law;
- (c) any other certificates or instruments as may be required under applicable laws or by any regulatory agency, as the Manager deems necessary or desirable;
- (d) all such other instruments as the Manager deems necessary or desirable to carry out the provisions hereof in accordance with the terms hereof; and
- (f) any document(s) to confirm the foregoing.

Such attorney-in-fact shall, as such, have the right, power, and authority as such to amend or modify this Operating Agreement and all certificates and the like required when acting in such capacity, so long as such amendment, modification, and/or filing is(are) specifically permitted by this Operating Agreement. The power of attorney granted in this Section 8.4 is a special power of attorney coupled with an interest, is irrevocable, and shall survive the transfer by a Member of his Membership Interest and shall survive his disability, incapacity,

incompetency, bankruptcy, and death and may be exercised by the attorney-in-fact by his signature on behalf of all of the Members.

## 9. MISCELLANEOUS

- 9.1 **Fiscal Year.** The Company's fiscal year shall be the calendar year.
- 9.2 **Books and Records.** The Manager shall cause the Company to keep records and books of account in which shall be entered fully and accurately all transactions and other matters relative to the Company's business as are usually entered in records and books of account maintained by persons engaged in business of a like character to the Company's business. The Company's records and books of account shall be made available to the Members as required by the Delaware Act and upon their reasonable request. The Company's books shall be kept on such method of accounting as the Manager deems appropriate. The Company's books shall be maintained in a full and accurate manner at its principal place of business or at such other location or locations as the Manager deems appropriate, and each and every transaction of the Company shall be entered fully and accurately in such books. The Company shall keep the following records at its registered office: (i) a copy of the Company's federal, state and local tax returns and financial statements for the Company's last three (3) fiscal years; (ii) a current and accurate list of each Member and the Manager, including his full name and last known address; (iii) a copy of this Operating Agreement and the Certificate of Formation including all amendments and restatements; and (iv) copies of records that would enable a Member to determine his relative share of the Company's distributions and his relative voting rights, to the extent such information is not ascertainable from the records required to be maintained pursuant to clauses (i), (ii) and (iii) of this Section 9.2.
- 9.3 **Financial Statements.** At the Company's expense, the Manager shall cause to be prepared and distributed to all of the Members (i) all appropriate information relating to the Company that is necessary for the preparation of the Members' federal income tax returns and (ii) an annual report for the Company, containing financial statements prepared on the basis of accounting then used by the Company.
- 9.4 **Governing Law.** This Operating Agreement shall be deemed to have been entered into within the State of Delaware. The Operating Agreement shall be construed and enforced in accordance with the laws of the State of Delaware, without regard to its conflict of laws principles. Each Member hereby irrevocably submits itself to the exclusive personal jurisdiction of the Federal and State courts of Delaware.
- 9.5 **Amendments.** Except to the extent that another provision of this Operating Agreement expressly provides to the contrary, any amendment to this Operating Agreement must be approved, in writing, by a majority of the Members.

- 9.6 **Binding Effect.** Except to the extent that another provision of this Operating Agreement expressly provides to the contrary, this Operating Agreement shall be binding on and inure to the benefit of the parties to it and their respective estates, personal representatives, executors, administrators, heirs, devisees, successors and permitted assigns.
- 9.7 **Severability.** The provisions of this Operating Agreement shall be severable. Any section, paragraph, clause or provision of this Operating Agreement which is found to be unenforceable or invalid shall not affect the enforceability or validity of any other section, paragraph, clause or provision of this Operating Agreement.
- 9.8 **Construction.** The parties acknowledge that they each participated in the drafting of this Operating Agreement and the negotiation of its provisions. This Operating Agreement shall not be construed for or against any party, regardless of whether some parties had a greater degree of participation than others. This Operating Agreement sets forth the entire understanding and agreement of the parties with respect to its subject matter and supersedes all prior understandings and agreements, whether written or oral, with respect to its subject matter.
- 9.9 **Pronouns.** References in this Operating Agreement to a Member or any other person in the singular or plural or as him, her, it, or other like references, shall also, where the context so requires, be deemed to include the singular or the plural reference, or the masculine, feminine or neuter reference, as the case may be.
- 9.10 **Counterparts and Facsimile Signatures.** This Operating Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall constitute one instrument. Copies (whether facsimile, photostatic or otherwise) of signatures to this Operating Agreement shall be deemed to be originals and may be relied on to the same extent as the originals.
- 9.11 **Tax Matters Partner.** The Manager shall serve as the Company's "Tax Matters Partner" for purposes of Code Section 6231(a)(7). The Tax Matters Partner shall have the powers and duties provided for in such Code Section and in the related Treasury Regulations. The Tax Matters Partner shall promptly send the Members copies of any notices received from the Internal Revenue Service with respect to the Company and shall keep them advised as to the status of any Company issues or proceedings before the Internal Revenue Service. The Tax Matters Partner shall be prohibited from entering into any settlement or arrangement on behalf of the Company with respect to any federal, state or local tax authorities without the express written approval of all Members to the extent any such settlement or arrangement would affect the tax liability or reporting position of any other Member. The Tax Matters Partner shall keep the Company apprised of the status of all administrative and judicial proceedings regarding the determination of Company tax items, including, without limitation, the commencement of an audit, settlement offers proposed by the Internal Revenue Service and the status of any litigation. The Tax Matters Partner shall promptly furnish the Internal Revenue

Service with the name and address of each Member of the Company and shall designate each member as a “Notice Partner” pursuant to the provisions of Code Sections 6223 and 6231(a)(8). Nothing contained herein shall be deemed to prohibit any Member from requesting special notice or exercising any other rights permitted pursuant to Code Sections 6221 through 6231.

- 9.12 **Attorneys’ Fees.** In the event of any action or proceeding brought by any Member against the Company or any other Member for any matter arising out of or in any way relating to this Operating Agreement, the non-prevailing party in such action or proceeding shall pay all costs, expenses and reasonable attorneys’ fees incurred by the prevailing party in connection with such action or proceeding.

## 10. DEFINITIONS

- 10.1 **Definitions.** As used in this Operating Agreement, the following terms shall have the following meanings:

- (a) "*Adjusted Capital Account Deficit*" means, with respect to any Member, the deficit balance, if any, in such Member's Capital Account as of the end of the taxable year, after giving effect to the following adjustments:
- (i) credit to such Capital Account any amount which such Member is obligated to restore under Section 1.704-1(b)(2)(ii)(c) of the Treasury Regulations, as well as any addition thereto pursuant to the next to last sentence of Sections 1.704-2(g)(1) and (i)(5) of the Treasury Regulations, after taking into account thereunder any changes during such year in minimum gain, as determined in accordance with Sections 1.704-2(d) and 1.704-2(i)(3) of the Treasury Regulations; and
  - (ii) debit to such Capital Account the items described in Sections 1.704-1(b)(2)(ii)(d)(4), (5) and (6) of the Treasury Regulations.

This definition of Adjusted Capital Account Deficit is intended to comply with the provisions of Treasury Regulations Section 1.704-1(b)(2)(ii)(d) and 1.704-2, and will be interpreted consistently with those provisions.

- (b) "*Adjusted Contribution Account*" means with respect to the Members (i) an account to which there shall be credited on the date of any and all Capital Contributions, the aggregate amount of cash or the Gross Fair Market Value of any property contributed to the Company by such Member, and to which there shall be debited, on the date of distribution, the amount of any distributions to such Member under Section 3.6(d) above.
- (c) An "*Affiliate*" of a person is (i) any person who, directly or indirectly, controls, is controlled by or is under common control with such person, (ii) if such person is an entity, any officer, director, general partner,

manager or trustee, or (iii) any person who is an officer, director, general partner, manager or trustee, or who, directly or indirectly, controls, is controlled by or is under common control with any person described in clauses (i) or (ii) of this sentence. For the purposes of this definition, the term “control” means to own or to have power to vote or direct the vote of at least ten percent (10%) of the outstanding voting securities of another person. (f)

- (d) "*Book Basis*" means, with respect to any asset of the Company, the adjusted basis of such asset for federal income tax purposes; provided, however, that (a) if any asset is contributed to the Company, the initial Book Basis of such asset shall equal its fair market value on the date of contribution (as agreed to by the Members), and (b) if the Capital Accounts of the Members are adjusted pursuant to Treasury Regulation Section 1.704-1(b)(2)(iv)(f) to reflect the fair market value of any asset of the Company, the Book Basis of such asset shall be adjusted to equal its respective fair market value of the time of such adjustment (as agreed to by the Members), in accordance with such Treasury Regulation. The Book Basis of all assets of the Company shall be adjusted thereafter by depreciation as provided in Treasury Regulation Section 1.704-1(b)(2)(iv)(g) and any other adjustment to the basis of such assets other than depreciation or amortization. The Book Basis of all assets shall be adjusted to equal their respective fair market values upon the occurrence of events set forth in Treasury Regulation Section 1.704-1(b)(2)(iv)(f)(5)(i) and (ii).
- (e) "*Certificate of Formation*" means the Certificate of Formation of MHC Stable Income Fund I, LLC, filed with the Delaware Secretary of State in accordance with the Delaware Act, as the same may be amended or restated from time to time.
- (f) "*Capital Account*" means, with respect to each Member, a single capital account which shall be established for such Member and which shall be maintained for such Member in accordance with the Treasury Regulations Section 1.704-1(b)(2)(iv). Consistent therewith, the Capital Account of each Member will be determined and adjusted as follows:

Each Member's Capital Account will be credited with:

- (i) Any contributions of cash made by such Member to the capital of the Company plus the Book Basis of any property contributed by such Members to the capital of the Company (net of any liabilities to which such property is subject or which are assumed by the Company);
- (ii) The Member's distributive share of Net Profit, Profit and items thereof;

- (iii) Any other increases required by Treasury Regulation Section 1.704-1(b)(2)(iv).
- (g) “*Capital Contribution*” means anything of value that a Member contributes to the Company’s capital, whether in the form of cash, property (tangible or intangible), services or a promissory note or other binding obligation to contribute cash or property or to perform services, whenever made.
- (h) “*Class A Excess Cash Flow*” shall mean the amount of the Company’s Net Cash Flow remaining following the payment of the Preferred Return multiplied by a fraction, the numerator of which is the purchase price paid for all of the Units purchased by the Class A Members and the denominator of which is the total purchase price for all of the Units purchased by all of the Class A Members and Class B Members.
- (i) “*Class B Excess Cash Flow*” shall mean the amount of the Fund’s Net Cash Flow remaining following the payment of the Preferred Return multiplied by a fraction, the numerator of which is the purchase price paid for all of the Units purchased by the Class B Members and the denominator of which is the total purchase price for all of the Units purchased by all of the Class A Members and Class B Members.
- (j) “*Code*” means the Internal Revenue Code of 1986, as amended, or corresponding provisions of subsequent superseding federal revenue laws.
- (k) “*Company*” means MHC Stable Income Fund I, LLC, a limited liability company organized under the laws of the State of Delaware pursuant to the Certificate of Formation and this Operating Agreement.
- (l) “*Company Minimum Gain*” has the meaning assigned to the term partnership minimum gain in Treasury Regulations Sections 1.704-2(b)(2) and 1.704-2(d)(1). Generally speaking, Company Minimum Gain equals the excess of the amount by which a non-recourse liability exceeds the adjusted tax basis of the Company property it encumbers.
- (m) “*Delaware Act*” means the Delaware Limited Liability Company Act, 6 Del. C. Section 18-101 et seq., as it may be amended from time to time.
- (n) “*Internal Rate of Return*” means an annual discount rate, compounded quarterly, that causes the present value of all distributions to the Investor Members to equal the present value of all Capital Contributions made by the Investor Members to the Company, determined as of the date on which the Investor Members first made Capital Contribution to the Company. The calculation of the Internal Rate of Return shall not take into account any federal, state or local income taxes imposed on the Investor Members

as a result of receiving such distributions or on the Investor Members share of the taxable income of the Fund.

- (o) “*Investor Member*” means each person or entity that has purchased Units and has been admitted to the Company as a Class A Member or a Class B Member and has been issued a Class A Membership Interest Percentage or a Class B Membership Interest Percentage.
- (p) “*Loss*” means, for each taxable year of the Company or other period, an amount equal to the Company's items of taxable deduction and loss for such year or other period, determined in accordance with Section 703 (a) of the Code (including all items of loss or deduction required to be stated separately under Section 703(a)(1) of the Code), with the following adjustments:
  - (i) Any expenditures of the Company described in Section 705(a)(2)(B) of the Code or treated as Section 705(a)(2)(B) expenditures under Treasury Regulation Section 1.704-1(b)(2)(iv)(i), and not otherwise taken into account in computing Loss, will be considered an item of Loss;
  - (ii) Loss resulting from any disposition of any assets of the Company with respect to which gain or loss is recognized for federal income tax purposes will be computed by reference to the Book Basis of such property, notwithstanding that the adjusted tax basis of such property may differ from its Book Basis;
  - (iii) In lieu of depreciation, amortization and other cost recovery deductions taken into account in computing taxable income or loss, there will be taken into account depreciation for the taxable year or other period as determined in accordance with Treasury Regulation Section 1.704-1(b)(2)(iv)(g);
  - (iv) Any items of deduction and loss specially allocated pursuant to Sections 8.13 and 8.14 hereof shall not be considered in determining Loss; and
  - (v) Any decrease to Capital Accounts as a result of any adjustment to the Book Basis of Company assets pursuant to Treasury Regulation Section 1.704-1(b)(2)(iv)(f) shall constitute an item of Loss.
- (q) “*Majority Vote*” means the affirmative vote of one or more Members, the aggregate of the Membership Interest Percentages of which is greater than fifty percent (50%).

- (r) “*Manager*” (or “*Managers*”) means the person(s) or entity(ies) appointed, elected or otherwise designated as the manager of the Company pursuant to Section 4 above.
- (s) “*Member*” means each person or entity that has executed this Operating Agreement as a Member, as well as each person or entity that may become a Member by both (i) fulfilling the applicable requirements set forth on this Operating Agreement with respect to the admission of such person or entity as a Member, and (ii) accepting, adopting and agreeing to be bound by all of the terms and provisions of this Operating Agreement, as it may have been amended or restated, from and after the date of his, her or its admission to the Company as a Member, as if such person or entity had joined in the original execution of this Operating Agreement (and all amendments and restatements) as a Member. Members shall include the Class A Members, the Class B Members and the Manager.
- (t) “*Member Minimum Gain*” means the Company's "partner nonrecourse debt minimum gain" as defined in Treasury Regulation Section 1.704-2(i)(2).
- (u) “*Member Nonrecourse Deductions*” means "partner nonrecourse deductions" as defined in Treasury Regulation Section 1.704-2(i)(2).
- (v) “*Membership Interest*” means, with respect to each Member, such Member’s entire rights and interest in the Company and the Company’s property, assets, capital and business, including, but not limited to, such Member’s right to receive distributions of the Company’s assets and any right to participate in the management of the Company’s affairs all as and to the extent provided in this Operating Agreement and the Delaware Act.
- (w) “*Membership Interest Percentage*” means a Member’s right to a specified percentage of the Company’s capital, Profits, Losses and distributions as set forth on the attached Exhibit A.
- (x) “*Net Cash Flow*” shall mean, at any time, the Property Owner SPE’s Net Cash Flow (as such term is defined in the Property Owner SPE’s Operating Agreement) received from the Property Owner SPE, less amounts that the Manager has determined, in its sole discretion, exceeds the amount of cash needed by the Company and the Property Owner SPEs to: (i) remain "solvent", (ii) service its debts and obligations in a timely fashion, (iii) maintain adequate working capital and reserves that may be needed to service the debts and obligations of any of the Property Owner SPEs or the Fund, and (iv) conduct its business and carry out its purposes. In making this determination, the Manager shall take into account the Company’s and Property Owner SPE’s then current and foreseeable sources of, and needs for, cash. For purposes of this definition, "solvent" means that at the time of, and after giving effect to, the distribution of the Net Cash Flow, the

Company's and the Property Owner SPEs liabilities do not exceed the fair value of the Company and the Property Owner's SPE's assets, except that the fair value of property that is subject to a liability for which the recourse of creditors is limited shall be included in the Company's and the SPE Property Owner's assets only to the extent that the fair value of the encumbered property exceeds the liability secured by such property.

- (y) "*Net Loss*" means, for any period, the excess of items of Loss over items of Profit, if applicable, for such period determined without regard to any items of Profit or Loss allocated pursuant to Sections 3.4 and 3.5 hereof.
- (z) "*Net Profit*" means, for any period, the excess of items of Profit over items of Loss, if applicable, for such period determined without regard to any items of Profit or Loss allocated pursuant to Sections 3.4 and 3.5 hereof.
- (aa) "*Net Sale or Refinance Proceeds*" shall mean the Property Owner SPE's Net Sale or Refinance Proceeds (as such term is defined in the Property Owner SPE's Operating Agreement) received from the Property Owner SPE less amounts that the Manager has determined, in its sole discretion, exceeds the amount of cash needed by the Company and the Property Owner SPEs to: (i) remain "solvent", (ii) service its debts and obligations in a timely fashion, (iii) maintain adequate working capital and reserves that may be needed to service the debts and obligations of any of the Property Owner SPEs or the Company, and (iv) conduct its business and carry out its purposes.
- (bb) "Nonrecourse Deductions" has the meaning set forth in Treasury Regulation Section 1.704-2(b)(1).
- (cc) "*Operating Agreement*" (or "Agreement") means this Operating Agreement of MHC Stable Income Fund I, LLC, as it may be amended or restated from time to time.
- (dd) "*Person*" means any natural person, corporation, limited liability company, general or limited partnership, trust, association or other legal entity.
- (ee) "*Profit*" means, for each taxable year of the Company or other period, an amount equal to the Company's taxable gross income and gain for such year or other period, determined in accordance with Section 703(a) of the Code (including all items of gross income and gain required to be stated separately under Section 703(a)(1) of the Code), with the following adjustments:
  - (i) Any income of the Company that is exempt from federal income tax and not otherwise taken into account in computing Profit or Loss will be added to taxable gross income and gain;

- (ii) Gain resulting from any disposition of any assets of the Company with respect to which gain or loss is recognized for federal income tax purposes will be computed by reference to the Book Basis of such property, notwithstanding that the adjusted tax basis of such property may differ from its Book Basis;
  - (iii) Any items specially allocated pursuant to Sections 8.13 and 8.14 hereof shall not be considered in determining Profit; and
  - (iv) Any increase to Capital Accounts as a result of any adjustment to the Book Basis of Company assets pursuant to Treasury Regulation Section 1.704-1(b)(2)(iv)(f) shall constitute an item of Profit.
- 
- (ff) "*Private Offering Memorandum* " means that certain Confidential Private Offering Memorandum of MHC Stable Income Fund I, LLC dated March 7, 2017, as it may be now or hereafter amended or supplemented.
  - (gg) "*Property Owner SPE Operating Agreement*" means the Operating Agreement of each Property Owner SPE Operating Agreement entered into by the Company.
  - (hh) "*Subscription Agreement*" means the Subscription Agreement executed by each Investor Member pursuant to the terms of the Private Offering Memorandum.
  - (ii) "*Treasury Regulations*" includes proposed, temporary and final regulations promulgated under the Code in effect as of the date of the filing of the Certificate of Formation and the corresponding sections of any regulations subsequently issued that amend or supersede such regulations.

[Signatures on following page]

**IN WITNESS WHEREOF**, the undersigned have executed this Operating Agreement of MHC STABLE INCOME FUND I, LLC, as of the date first written above.

**MANAGER:**

**MHC STABLE INCOME MANAGEMENT  
LLC**, a Delaware limited liability company

By: \_\_\_\_\_

Its: \_\_\_\_\_

\_\_\_\_\_  
Date

**EXHIBIT A**  
**MEMBER LIST AND MEMBERSHIP INTEREST PERCENTAGES**

<b><u>Investors Members (Class A Members and Class B Members)</u></b>	<b><u>Address</u></b>	<b><u>Initial Capital Contribution</u></b>	<b><u>Class A Membership Interest Percentage</u></b>	<b><u>Class B Membership Interest Percentage</u></b>	<b><u>Membership Interest Percentage</u></b>
<i>Names of the Members to be inserted by the Manager pursuant to Section 8.4</i>	<i>Addresses of the Members to be inserted by the Manager pursuant to Section 8.4</i>	<i>Initial Capital Contribution of each of the Members to be inserted by the Manager pursuant to Section 8.4</i>	<i>Class A Membership Interest Percentage of each of the Class A Members to be inserted by the Manager pursuant to Section 8.4 (total of 100%)</i>	<i>Class B Membership Interest Percentage of each of the Class B Members to be inserted by the Manager pursuant to Section 8.4 (total of 100%)</i>	<i>Membership Interest Percentage of each of the Members to be inserted by the Manager pursuant to Section 8.4 (total of 50%)</i>
<b><u>Manager Member</u></b>	<b><u>Address</u></b>	<b><u>Initial Capital Contribution</u></b>			<b><u>Membership Interest Percentage</u></b>
MHC Stable Income Fund Management, LLC	316 W. 2nd Street, Los Angeles, CA 90012	\$0.00	0%	0%	50%
<b>Total – Members:</b>			<b>100%</b>		<b>100%</b>

**EXHIBIT B**

**FORM PROPERTY OWNER SPE OPERATING AGREEMENT**

**FORM OPERATING AGREEMENT PROPERTY OWNER SPE**

**OPERATING AGREEMENT  
OF**

\_\_\_\_\_, LLC

THE MEMBERSHIP INTERESTS REPRESENTED BY THIS OPERATING AGREEMENT HAVE NOT BEEN REGISTERED UNDER THE DELAWARE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY OTHER STATE, AND MAY NOT BE PLEDGED, SOLD, OFFERED FOR SALE, TRANSFERRED, OR OTHERWISE DISPOSED OF IN THE ABSENCE OF REGISTRATION UNDER OR EXEMPTION FROM SUCH ACTS AND ALL APPLICABLE STATE SECURITIES LAWS.

TRANSFER OF THE MEMBERSHIP INTERESTS REPRESENTED BY THIS OPERATING AGREEMENT ARE FURTHER RESTRICTED BY THE TERMS OF THIS OPERATING AGREEMENT.

**OPERATING AGREEMENT  
OF**

\_\_\_\_\_, LLC

This Operating Agreement of \_\_\_\_\_, LLC, a Delaware limited liability company (the “Company”), is made and entered into as of \_\_\_\_\_, 20\_\_, by and among the parties listed on the attached Exhibit A, as the Members. Certain capitalized terms in this Operating Agreement are defined in Section 10 below.

**RECITALS:**

A. The parties are the members of \_\_\_\_\_ and desire to set forth in this Operating Agreement their entire agreement and understanding with respect to the constitution and operation of \_\_\_\_\_, LLC, as a Delaware limited liability company.

NOW THEREFORE, for and in consideration of the Recitals set forth above and other good and valuable consideration, the receipt and adequacy of which are acknowledged, the parties to this Operating Agreement agree as follows:

**1. FORMATION AND PURPOSE**

1.1 **Formation.** The Company was organized by filing a Certificate of Formation with the Delaware Secretary of State on \_\_\_\_\_. The Manager shall have the right to execute such certificates or documents and to do such filings and recordings and all other acts, including the filing or recording of any amendments to the Certificate of Formation and any assumed name filings in the appropriate offices in the State of Delaware and any other applicable jurisdictions as may be required to comply with applicable law.

1.2 **Purpose.** The Company has been formed to [either: acquire, own, manage, improve, finance, refinance and ultimately sell that certain mobile home community located at \_\_\_\_\_, in the \_\_\_\_\_ of \_\_\_\_\_, County of \_\_\_\_\_, State of \_\_\_\_\_ OR acquire, own, manage, improve, finance, refinance, lease and sell certain mobile homes to be located at \_\_\_\_\_, in the \_\_\_\_\_ of \_\_\_\_\_, County of \_\_\_\_\_, State of \_\_\_\_\_ ]

1.3 **Name.** The name of the Company is “\_\_\_\_\_, LLC”. The Company may conduct its business under one or more assumed names, as the Members deem appropriate.

1.4 **Principal Place of Business.** The Company’s principal place of business shall be located at 316 W. 2nd Street, Suite 1104, Los Angeles, CA 90012. The Company may establish additional places of business, and may change the location of its principal place of business or any additional place of business, as the Members upon deem appropriate.

- 1.5 **Registered Office and Resident Agent.** The Company's initial registered office shall be located at \_\_\_\_\_, and its resident agent at such initial registered office shall be \_\_\_\_\_. The Members upon a unanimous vote may change either the Company's registered office or its resident agent or both. If the Company's resident agent resigns, the Members upon a unanimous vote shall promptly appoint a successor resident agent and designate a successor registered office. The Manager shall have the authority to amend the Certificate of Formation to reflect any change in the Company's registered office or resident agent, no matter how effected.
- 1.6 **Duration.** Unless its duration is limited in the Certificate of Formation, the Company shall exist perpetually, subject to earlier dissolution in accordance with the other provisions of this Operating Agreement or the provisions of the Delaware Act.
- 1.7 **Intention for Limited Liability Company.** The Members have formed the Company as a limited liability company under and pursuant to the Delaware Act. The Members specifically intend and agree that the Company not be a partnership (including, but not necessarily limited to, a limited partnership) or any other venture, but a limited liability company under and pursuant to the Delaware Act. No Member shall be construed to be a partner in the Company or a partner of any other Member or person, and the Certificate of Formation, this Operating Agreement and the relationships created pursuant to and arising from those documents shall not be construed to suggest otherwise.
- 1.8 **Taxation as a Partnership.** The Members intend that the Company shall be taxed as a partnership, pursuant to Subchapter K of the Code, for federal and state income tax purposes, and agree to report all Company items of income, gain, loss, deduction and credit in accordance with that Subchapter.

2. **CAPITAL CONTRIBUTIONS, MEMBERSHIP INTEREST PERCENTAGES AND RELATED MATTERS**

- 2.1 **Initial Capital Contributions.** By the execution of this Operating Agreement, each Member hereby agrees to make, when needed, in the form of cash, the initial Capital Contribution set forth opposite its name on the attached Exhibit A, which shall be amended at each Closing .
- 2.2 **Membership Interest Percentages.** The names and addresses of the Members and their respective Membership Interest Percentages are set forth on the attached Exhibit A. The Membership Interest Percentages will not be subjected to dilution or adjustment without the prior unanimous written consent and approval of the Members. .
- 2.3 **Additional Capital Contributions.** If the Manager, in the exercise of its reasonable business judgment, at any time or from time to time, determines that the Company requires Capital Contributions ("Additional Capital") in addition to

the initial Capital Contributions provided by Section 2.1 in order to enable the Company to pay its operating expenses or to meet its obligations in a timely fashion, then the Manager, on behalf of the Company, may borrow funds the Company needs from any Person, including one or more of the Members, the Manager or their Affiliates, pursuant to such terms, provisions and conditions as the Manager may determine in its reasonable discretion. Any such financing may be secured by a pledge, mortgage or other lien or liens on any portion of the Company's property, including, but not limited to, the Interest. Any such financing shall be repaid prior to any distributions to the Members pursuant to Section 3.1 below.

- 2.4 **No Third Party Beneficiaries.** Except for the authority expressly granted to the Members in this Agreement, no Member shall have any authority to bind or act for the other Members or the Company. The obligations undertaken by the Members in this Operating Agreement, including their obligations, if any, to make Capital Contributions, loans and reimbursements, are for the benefit of the Company and the Members only, and neither any creditor of the Company or of any Member, nor any other party (other than a successor in interest to the Company or the Members), shall have the right to rely on or enforce the provisions of this Operating Agreement as a third-party beneficiary or otherwise. Neither any creditor of the Company or of any Member, nor any other party, may compel a capital call from the Members, regardless of whether the Company's assets are sufficient to provide for its liabilities. In addition, the discretions granted to the Members in this Agreement are personal to them, and no receiver, trustee or liquidator of the Company's business shall have the right or power to exercise any such discretions.
- 2.5 **Membership Interest Certificates.** Membership Interests shall not be represented by a certificate.

### 3. **PROFITS, LOSSES AND DISTRIBUTIONS**

#### 3.1 **Distributions**

(a) **Distribution of Net Cash Flow.** Subject to Section 2.3, one hundred percent (100%) of the Net Cash Flow of the Company, if any, shall be distributed to the Member, on a monthly basis.

(b) **Distribution of Net Sale or Refinancing Proceeds.** Subject to Section 2.3, one hundred percent (100%) of the Net Sale or Refinancing Proceeds, if any, shall be distributed to the Member, promptly after receipt thereof.

- 3.2 **Limitations on Distributions.** Distributions pursuant to Section 3.1 above may be made from any source; provided they do not violate any agreement that the Company has with any of its creditors or any provision of the Delaware Act.

3.3 **Allocation of Profits and Losses.** Subject to the special allocations described in Sections 3.4 and 3.5 below, Net Profits and Net Losses shall be allocated as follows:

- (a) Subject to Section 3.3(b) below, Net Profits and Net Losses for any fiscal year shall be allocated among the Members so that the Capital Account of each Member, increased by its share, if any, of Company Minimum Gain and Member Minimum Gain is, as nearly as possible, equal to the net amount of cash that the Company would distribute to such Member, if (i) the Company liquidated by selling all of its properties for their respective Book Basis (without making any adjustment thereto under clause (b) of the definition of Book Basis for such liquidation), (ii) the proceeds of such sales, and any other cash of the Company, were used to satisfy the Company's liabilities in accordance with, and to the extent required by, their terms and in the order of priority prescribed by the applicable laws governing creditors' rights, and (iii) the Company distributed to the Members any remaining cash pursuant to Section 3.1(a), Section 3.1(b), or 3.1(c) (in accordance with the classification of such proceeds or other cash as Net Cash Flow or Net Sale or Refinance Proceeds).
- (b) The Net Losses allocated pursuant to Section 3.3(a) above shall not exceed the maximum amount of Net Losses that can be so allocated without causing any Member to have an Adjusted Capital Account Deficit at the end of any tax year. Any such disallowed allocations shall be made to the Members entitled to receive such allocations under Treasury Regulation Section 1.704-1 in proportion to their respective Membership Interest Percentages.

3.4 **Special Allocations.** Special allocations of items of income, gain, loss, deduction and credit shall be made in the following order and priority:

- (a) *Company and Member Minimum Gain Chargebacks.* Any provision of this Operating Agreement to the contrary notwithstanding, if there is a net decrease in either Company or Member Minimum Gain during any taxable year of the Company or other period for which allocations of Profits and Losses are made, and if such decrease is not the result of any of the circumstances described in Treasury Regulations Sections 1.704-2(f)(2) or (3) or 1.704-2(i)(4), then items of income and gain for that period (and, if necessary, subsequent periods) shall be specially and specifically allocated to the Members in an amount equal to each Member's share of the net decrease in Company or Member Minimum Gain, as the case may be. The provisions of this Section 3.4(a) are intended to comply, and shall be interpreted consistently, with Treasury Regulation Sections 1.704-2(f)(1) and 1.704-2(i)(4), respectively.
- (b) *Qualified Income Offset.* Items of income and gain shall be specially and specifically allocated to any Member who unexpectedly receives any adjustment, allocation or distribution described in Treasury Regulations

Sections 1.704-1(b)(2)(ii)(d)(4), (5) or (6) in an amount and manner sufficient to eliminate, to the extent required by the Treasury Regulations, such Member's Adjusted Capital Account Deficit, if any, as quickly as possible. The provisions of this Section 3.4(b) are intended to comply with the qualified income offset requirement of, and shall be interpreted consistently with, Treasury Regulations Section 1.704-1(b)(2)(ii)(d).

- (a) *Gross Income Allocation.* In the event any Member has a deficit Capital Account balance at the end of any fiscal year which is in excess of the sum of (i) the amount such Member is obligated to restore pursuant to a provision of this Agreement and (ii) the amount such Member is deemed obligated to restore pursuant to the penultimate sentences of Treasury Regulation Sections 1.704-2(g)(1) and 1.704-2(i)(5), such Member shall be specially allocated items of Company income and gain in the amount of such excess as quickly as possible, provided that an allocation pursuant to this Section 3.4(c) shall be made only if and to the extent that such Member would have an Adjusted Capital Account Deficit in excess of such amount after all other allocations provided for in this Section 3.4 have been tentatively made as if Section 3.4(b) and this Section 3.4(c) were not in the Agreement.
- (b) *Nonrecourse Deductions.* Nonrecourse Deductions for any taxable year of the Company or other period shall be allocated (as nearly as possible) under Treasury Regulations Section 1.704-2 to the Members, pro rata in proportion to their respective Membership Interest Percentages.
- (c) *Member Nonrecourse Deductions.* Any Member Nonrecourse Deductions for any taxable year of the Company or other period shall be allocated to the Member that made, or guaranteed or is otherwise liable with respect to the loan to which such Member Nonrecourse Deductions are attributable in accordance with principles under Treasury Regulation Section 1.704-2(i).
- (d) *Section 754 Adjustments.* To the extent an adjustment to the adjusted tax basis of any Company asset pursuant to Code Section 734(b) or 743(b) is required, pursuant to Treasury Regulation Section 1.704-1(b)(2)(iv)(m), to be taken into account in determining Capital Accounts, the amount of such adjustment to Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis) and such gain or loss shall be specially allocated to the Members in a manner consistent with the manner in which their Capital Accounts are required to be adjusted pursuant to such Section of the Treasury Regulations.
- (g) *Excess Non-Recourse Liabilities.* Excess non-recourse liabilities will be allocated first to the Member(s) up to the amount of built in gain that is allocable to such Member(s) under Section 704(c) pursuant to Reg. Sec 1.752-3(a)(3).

3.5 **Curative Allocations.** The allocations set forth in Sections 3.3 and 3.4 are intended to comply with certain requirements of Treasury Regulations Sections 1.704-1 and 1.704-2, but may not be consistent with the manner in which the Members intend to share the economic benefits of the Company. To ensure that the Members' economic intentions are not distorted, the Manager may request a waiver of the minimum gain chargeback rules pursuant to Treasury Regulations Sections 1.704-2(f)(4) and 1.704-2(i)(4), if it deems it appropriate in its sole discretion. In addition, the Manager may allocate items not subject to Section 3.4 above among the Members in such a manner as is necessary to prevent the allocations described in Section 3.4 above from distorting the manner in which Company distributions would be divided among the Members pursuant to Section 3.1 above, if the Manager deems it appropriate in its sole discretion. the Manager may accomplish this result in any reasonable manner that is consistent with Code Section 704 and the related Treasury Regulations, as the Manager deems appropriate in its sole discretion.

3.6 **Tax Allocations.**

- (a) *Generally.* Except as provided below, or as otherwise required by the Code or Treasury Regulations promulgated thereunder, Company income, gain, loss, deduction, credit and other items, as computed for Federal income tax purposes, shall be allocated among the Members in the same manner as the corresponding book items are allocated pursuant to Sections 3.3, 3.4 and 3.5.
- (b) *Section 704(c) Allocations.*
  - (i) In accordance with Section 704(c) of the Code and the Treasury Regulations thereunder, income, gain, loss and deduction with respect to any property contributed to the capital of the Company shall, solely for tax purposes, be allocated among the Members so as to take account of any variation between the adjusted basis of such property to the Company for federal income tax purposes and its initial Book Basis.
  - (ii) In the event the Book Basis of any asset of the Company is adjusted pursuant to clause (b) of the definition of Book Basis, subsequent allocations of income, gain, loss and deduction with respect to such asset shall take account of any variation between the adjusted basis of such asset for federal income tax purposes and its Book Basis in the same manner as under Section 704(c) of the Code and the Treasury Regulations thereunder.
  - (iii) Income, gain, loss and deduction with respect to any property contributed to the Company shall be allocated, solely for tax purposes, among the Members in accordance with any method of

making Section 704(c) allocations described in Treasury Regulations Section 1.704-3 and selected by the Members, as provided by Section 4.8. Allocations made pursuant to this Section 3.6(b) shall be for federal, state and local tax purposes only, and shall not affect, or in any way be taken into account in computing, any Member's Capital Account or share of distributions under any provision of this Operating Agreement.

#### 4. **MANAGEMENT OF THE COMPANY; RIGHTS AND DUTIES OF THE MANAGERS**

4.1 **Management by Managers; Number.** The business and affairs of the Company shall be managed by one or more Managers. The Company shall initially have one (1) Manager. The Manager need not be a resident of the State of Delaware, a Member or a natural person. Initially, the Manager shall be MHC Stable Income Fund Management, LLC.

#### 4.2 **Power and Authority.**

- (a) Except as otherwise provided in this Operating Agreement, the Manager shall have full and complete power, authority and discretion to manage and control the Company and its business and affairs and to make all incidental decisions, subject only to the power and authority which this Operating Agreement or the Delaware Act expressly vests in the Members or any number of them. Without limiting the generality of the immediately preceding sentence, but subject to any power and authority which this Operating Agreement or the Delaware Act expressly vests in the Members or any number of them, the Manager shall have the power, authority and discretion, for and on behalf of the Company:
- (i) To make capital expenditures for the acquisition of any equipment necessary for the business of the Company;
  - (ii) To settle and pay the Company's debts and obligations;
  - (iii) To open, maintain, deposit into and withdraw from bank accounts, and, if desired, to designate other persons to execute checks or drafts on such accounts;
  - (iv) To invest Company funds temporarily in (by way of example but not limitation) time deposits, short-term governmental, obligations, or commercial paper;
  - (v) To commence, prosecute and defend all actions and other proceedings affecting the Company in any way;

- (vi) To negotiate, prepare, modify, execute, deliver and award any and all contracts, agreements and documents to which the Company is or proposes to become a party in the ordinary course of business;
- (vii) Generally, to carry on the Company's business in the ordinary course, and to manage the Company's day-to-day operations and to carry out the development and expansion of the Company and its business; and
- (viii) To negotiate, prepare, modify, change, execute, deliver and, if appropriate, file or record any and all documents, agreements, instruments and papers, and to do and perform any and all acts and deeds, which are or become necessary, proper, convenient or desirable in connection with or in furtherance of any of the powers enumerated above or in order to effectuate or carry out the Company's purpose, as described in Section 1.2 above.

#### 4.3 **Standard of Care; Liability; Indemnification.**

- (a) *Standard of Care.* The Manager shall discharge his duties in good faith and in a manner he reasonably believes is in the best interests of the Company and its Members. In discharging his duties, the Manager may rely on information, opinions, reports or statements, including, but not necessarily limited to, financial statements or other financial data, prepared or presented by (i) one or more Members or employees of the Company whom the Manager reasonably believes is reliable and competent with respect to the matter prepared or presented, or (ii) legal counsel, public accountants, engineers or other persons as to matters the Manager reasonably believes are within such person's professional or expert competency; provided that the Manager does not have knowledge concerning the matter in question which makes such reliance unwarranted.
- (b) *Liability.*
  - (i) The Manager shall be liable solely to the Company and, derivately, to its Members for his gross negligence or willful misconduct. Any Manager's taking of any action or failure to take any action, or a Manager's errors in judgment, the effect of which may cause or result in loss or damage to the Company, if done pursuant to the provisions of the Delaware Act, the Certificate of Formation and this Operating Agreement, shall be presumed not to constitute gross negligence or willful misconduct on the part of the Manager.
  - (ii) The Members shall look solely to the Company's property for the return of their Capital Contributions and any Additional Capital and if the Company's property remaining after payment or discharge of the Company's debts and liabilities is insufficient to

return such Capital Contributions and any Additional Capital, no Member shall have recourse against any Manager, except as provided in Section 4.3(b)(i) above, or any other Member.

- (c) *Indemnification.* The Company shall to the fullest extent authorized or permitted by the Delaware Act, indemnify, defend and hold harmless the Manager and its respective members, managers, officers and directors (the collectively the “Indemnified Party”) from and against any and all losses, damages, liabilities, claims, demands, obligations, fines, penalties, expenses (including reasonable fees and expenses of attorneys engaged by the Indemnified Party in defense of any act or omission), judgments or amounts paid in settlement by the Indemnified Party by reason of any act performed, or omitted to be performed, by it in connection with the Company’s business or in furtherance of the Company’s interests, or in connection with any proceeding to which the Indemnified Party is a part or is threatened to be made a part because it is or was the Manager. The provisions of this Section 4.3(c), however, shall not relieve the Manager of any liability which it may have (i) pursuant to Section 4.3(b) above for gross negligence or willful misconduct, (ii) in connection with the receipt of a financial benefit to which the Manager is not entitled, or (iii) in connection with a knowing violation of law, and the Manager shall not be entitled to indemnification with respect to any such matters. The indemnification afforded pursuant to this Section 4.3(c) shall be limited to the Company’s assets, and the Manager shall not have a claim against any Member by virtue of this Section 4.3(c), nor shall this Section 4.3(c) be construed so as to impose any obligation on any Member to make a Capital Contribution.

#### 4.4 **Tenure; Resignation; Removal; Vacancies.**

- (a) *Tenure.* Each person or entity that has been appointed or elected as a Manager shall hold such office until such time as his, her or its successor has been duly appointed or elected in accordance with this Operating Agreement and shall have qualified, or until he, she or it resigns or otherwise vacates the position.
- (b) *Resignation.* The Manager may resign at any time by giving thirty (30) days prior written notice to the other Managers or, if none, to the Members. Unless otherwise specified in the notice, acceptance of a Manager’s resignation by the other Managers or the Members, as the case may be, shall not be necessary to make it effective. The resignation of a Manager who is also a Member shall not affect such Manager’s rights as a Member and shall not constitute the withdrawal of such Manager as a Member.
- (c) *Removal.* The Members and not the Manager may remove the Manager, but only for “Cause.” For purposes of this Operating Agreement, “Cause”

means (i) any material breach or material nonperformance by the Manager of his obligations under this Operating Agreement, which breach is not cured by the Manager within thirty (30) days after the Manager has received written notice from the Company specifically setting forth, in reasonable detail, the Manager's breach or nonperformance, (ii) the Manager's use of illegal drugs, or his use of alcohol which interferes with the performance of the Manager's obligations under this Operating Agreement, (iii) the conviction of the Manager of a felony, which includes but is not limited to a felony in the nature of theft, dishonesty or fraud (or a written confession thereof freely and voluntarily given by the Manager), (iv) the Manager's willful misappropriation of the funds or property of the Company, (v) the Manager violates any of the restrictive covenants set forth in this Operating Agreement, or (vi) Manager knowingly violates any law or ordinance.

- (d) *Vacancies.* Any vacancy in the Manager position occurring as a result of a Manager's resignation or any other reason whatsoever may be filled by the consent of a Majority Vote of the Members at a special meeting of the Members called expressly for that purpose or at the next regular meeting of the Members. Each person or entity that has been elected to fill a vacancy in the Manager position shall hold such office until such time as his, her or its successor shall have been duly appointed or elected in accordance with this Operating Agreement and shall have qualified, or until his, her or its earlier resignation or other vacancy. Any Manager which is removed for Cause shall not be entitled to participate in the selection of a new Manager.
- (e) *Compensation; Reimbursement.* Except as otherwise set forth herein, the Manager shall not be entitled to any compensation for managing the affairs of the Company, unless otherwise agreed to by a Majority Vote of the Members. In addition, the Manager shall be entitled to reimbursement from the Company for all valid Company costs and expenses reasonably incurred and paid for by the Manager on the Company's behalf. Such costs and expenses may include, but shall not necessarily be limited to, legal and accounting fees relating to the organization of the Company, and current and recurring legal and accounting expenses. The foregoing notwithstanding, a Manager may be employed or engaged by the Company and provide services to the Company and to receive compensation therefore, provided such is pursuant to a written agreement between the Manager and the Company approved by a Majority Vote of the Members.
- (f) *Contracts with Affiliates.* Notwithstanding the foregoing, the Company or shall pay to the Manager, or its Affiliates, certain management fees and developer fee (the "Developer Fee") as set forth in the Private Offering Memorandum of MHC Stable Income Fund I, LLC dated March 7, 2017.

- 4.5 **Self-Dealing.** Any Manager and any Affiliate of any Manager may deal with the Company, directly or indirectly, as vendor, purchaser, employee, agent or otherwise, if the Manager has informed the Members of the material terms of such dealings, and such terms are commercially reasonable under the circumstances. No contract or other act of the Company shall be voidable or affected in any manner by the fact that any Manager or his, her or its Affiliate is directly or indirectly interested in such contract or other act apart from his, her or its interest as a Manager, nor shall such Manager or his, her or its Affiliate be accountable to the Company or the other Members with respect to any profits directly or indirectly realized by reason of such contract or other act, if such contract or other act was approved in accordance with this Section 4.5.
- 4.6 **Devotion of Time to Company.** The Manager agrees to devote his, her or its commercially reasonable efforts to the business and welfare of the Company to achieve the performance and profitability goals established by the Company. It is understood that no Manager is prohibited from having other business interests and may engage in other activities in addition to those relating to the Company, provided such activities do not conflict with or inhibit in any way any Manager's obligations set forth in the preceding sentence. In the event any Manager decides to take an active role in any outside business interest(s), in any form or in any manner whatsoever, such Manager shall fully disclose to the other Managers, in detail, the terms, conditions and activities of his involvement in the outside business interest(s). Neither the Company nor any Member shall have any right, by virtue of this Operating Agreement, to share or participate in such other interests or activities of a Manager or to income or proceeds derived from such interests or activities. The Manager shall not incur liability to the Company or to any of the Members as a result of engaging in any other interests or activities. The provisions of this Section 4.6 shall be subject to those of Section 4.5 above.

## 5. **RIGHTS AND DUTIES OF MEMBERS**

### 5.1 **Participation in Management; Voting Rights.**

- (a) Except as otherwise provided in this Operating Agreement, the Members shall have no right to take part in, vote on or interfere in any manner with the management, conduct or control of the Company or its business and shall have no right or authority whatsoever to act for or on behalf of, or to bind, the Company. In addition to the rights of the Members to vote as provided elsewhere in this Operating Agreement, the Members shall have the right to vote, in accordance with their Membership Interest Percentages, on each of the following matters, which the Members agree not to unreasonably withhold or delay their approval of such matters:
- (i) The removal of the Manager as set forth in Section 4.4(c) above;

- (ii) The dissolution of the Company, as provided in Section 7.1(b) below;
  - (iii) A merger of the Company;
  - (iv) An amendment to the Articles of Organization, or an amendment to this Operating Agreement, unless such right is granted to the Manager, as specifically provided in this Operating Agreement or for amendments that do not have a material effect on the Members; and
  - (v) Any other matters with respect to which this Operating Agreement expressly contemplates that the Members will have a right to vote.
- (b) Unless a greater or lesser vote is expressly required pursuant to any other provision of this Operating Agreement, any action which the Members are required or permitted to take shall require the Majority Vote of the Members and any fewer than that number of Members shall have no power whatsoever to take any action for or on behalf of, or to bind, the Company or the Members. Any action by the requisite number of Members, if taken in conformity with this Operating Agreement, shall bind all of the Members, and no Member shall have the right to dissent from such action. Any Member may delegate all or any of his, her or its voting rights or powers to another Member (but only in writing), in which case any act of the other Members shall be the act of the delegating Member. In the event that there is any action which the Members are required or permitted to take, including, without limitation, the matters described above, the Manager shall provide written notice to the Members (the "Member's Notice") of such action and state in the notice that any Member who does not indicate his disapproval of the proposed action by written notice back to the Company within a time period set forth in the Member's Notice (of which shall not be less than ten (10) days following the date that the Member's Notice is mailed) shall be deemed to have given consent or approval to the proposed action or event or to have made the agreement referred to in the Member's Notice.

- 5.2 **Withdrawal.** No Member shall be entitled to withdraw from the Company unless approved in writing by a Majority Vote of the Members. No withdrawing Member shall be entitled to a withdrawal distribution unless such distribution has been approved by a Majority Vote the Members which approval may be subject to such conditions, terms, qualifications as the Members deem appropriate.
- 5.3 **Limited Liability of Members.** No Member shall be personally liable for the Company's acts, debts or obligations, unless the Delaware Act or any other provision of this Operating Agreement expressly provides otherwise.

5.4 **Reports; Access to Company Information.** The Manager shall provide reports concerning the financial condition and results of the operation of the Company to the Members on a semi-annual basis and shall include a statement of each Member's share of profits and other items of income, gain, loss, deduction and credit. The Manager shall also provide the Members with copies of the Company's most recent annual financial statements and federal, state and local income tax returns and reports as soon as reasonably practicable after they are prepared. On reasonable written request by a Member, (i) the Manager shall provide such Member with information regarding the current state of business and the financial condition of the Company; (ii) any Member, or his her or its designated representative, may inspect and copy, at such Member's request, any of the records maintained pursuant to Section 9.2 below; and (iii) a Member may obtain such other information regarding the Company's affairs or inspect, personally or through a representative, during ordinary business hours, such other books and records of the Company as is just and reasonable. Any Member may call for a formal accounting of the Company's affairs whenever circumstances render such request just and reasonable as determined by the Manager.

6. **DISPOSITION OF MEMBERSHIP INTERESTS; ASSIGNMENT OF MEMBERSHIP INTERESTS; ADMISSION OF ADDITIONAL MEMBERS.**

6.1 **General.** Except as otherwise specifically provided for in this Operating Agreement or otherwise consented to in writing by a Majority Vote of the Members, no Member may assign (as defined in Section 6.8 below) all or any portion of the Member's Interest in the Company, whether now owned or acquired subsequent to the date of this Operating Agreement, for any reason or purpose whatsoever. Any attempted assignment of a Membership Interest in violation of this Section 6.1 is null and void and the assignee or transferee shall have no right to participate in the management of the business and affairs of the Company or to become a Member.

6.2 **Involuntary Transfer.**

- (a) In the event any Member's Membership interest in the Company is the subject of an involuntary transfer, whether due to bankruptcy, assignment for benefit of creditors, judicial order, legal process, execution, attachment, enforcement of a pledge or other encumbrance, or otherwise, or a Member who is also the Manager and is removed for cause pursuant to Section 4.4(c) then such Member's (the "Transferor") Membership Interest shall be subject to the Option of the Company and the Remaining Members in Section 6.2(b) below.
- (b) Upon the occurrence of any event described in Section 6.2(a) above, the Company and the Members other than the Transferor (the "Remaining Members") shall have an option (the "Option") to purchase all (but not less than all) of the Membership Interest of the Transferor (the "Option

Interest") at a purchase price equal to the Fair Market Value (as defined in Section 6.5 below) associated with such Membership Interest. The Company or the Remaining Members may exercise the Option as follows:

- (i) The Company shall have a period of sixty (60) days after being informed of the occurrence of any event described in Section 6.2(a) above, within which to send to the Transferor written notice of its decision to exercise the Option.
- (ii) If the Company fails to exercise the Option within the period provided in Section 6.2(b)(i) above, then the Remaining Members shall have an additional thirty (30) day period within which to send to the Transferor written notice of their decision to exercise the Option with respect to the Option Interest. Each of the Remaining Members electing to exercise the Option with respect to the Option Interest shall have the right to purchase a percentage of the Option Interest which is equal to or less than such Remaining Members' pro rata share of such Option Interest, based on the relative percentage of ownership of all of the Remaining Members who have exercised the Option with respect to the Option Interest. In the event any Remaining Member does not elect to purchase all, he is entitled to purchase, the other Remaining Members may purchase such non-elected portion in proportion to the Remaining Members pro rata share of the non-elected portion, based on the relative Membership Interest Percentages of all of the Remaining Members electing to purchase the non-elected portion.
- (iii) The exercise of the Option by the Company or the Remaining Members shall, in the aggregate, be for all, but not less than all, of the Option Interest.
- (iv) If the Company or a Remaining Member fails, for any reason, to exercise the Option in the manner and within the time periods set forth in this Section 6.2, or to close the transaction contemplated by the Option in the manner and within the time periods set forth in Section 6.4, the Option shall lapse.
- (v) In the event all of the Option Interest is not purchased by the Company or the Remaining Members, then the Option Interest not purchased may be transferred to the transferee subject to all the provisions of this Operating Agreement or will remain with the Transferor, as applicable. Further, the transferee shall not have any voting rights as a member of the Company; provided, however the transferee shall have the economic right to receive the same pro-rata share of any distribution made by the Company as to that portion of the Option Interest transferred to the

transferee. The transferee shall execute a counterpart of this Operating Agreement, the original of which shall be retained as a part of the Company's records. The failure of the transferee to execute a counterpart of this Operating Agreement shall not affect the applicability of this Operating Agreement to the Option Interest, it being the intention of each Member and the Company that any and all subsequent owners of a membership interest in the Company pursuant to any event described in Section 6.2(a) above shall only receive and own such membership interest subject to the restrictions upon transfer and encumbrance as set forth in this Operating Agreement to which the Transferor was subject.

6.3 **Closing.**

- (a) The closing of any transfer of a Membership Interest by a Member to the Company or any Remaining Member pursuant to the provisions of Section 6.2 above shall take place at the Company's principal offices within thirty (30) days. The foregoing notwithstanding, the closing of any transfer of a Membership Interest hereunder may occur at such other time and place as the selling and purchasing parties may agree.
- (b) The purchase price shall be paid in the following manner: At the closing, the purchaser shall pay to the seller in cash, by certified or cashier's check or wire transfer an amount equal to twenty (20%) percent of the purchase price and shall also deliver, at the time of said initial cash payment, a promissory note substantially in an amount equal to the unpaid purchase price, if any, for the seller's Membership Interest providing for the payment of the balance of the purchase price in equal monthly payments over a period not to exceed five (5) years, with interest thereon at the Prime Rate (as defined below) in effect on the date of closing while not in default and at two (2%) percent in excess of such Prime Rate during any period of default. The promissory note shall provide for acceleration of the unpaid balance under the promissory note upon the default of the maker thereof. "Prime Rate" means the Prime Rate of interest as charged by the Company's principal bank at the time of the closing. The promissory note shall permit prepayment of the outstanding principal and interest without penalty at any time. Payment of the promissory note shall be secured by a lien on the seller's Membership Interest.

- 6.4 **Determination of Fair Market Value.** In the event of any purchase and sale of a Member's Membership Interest pursuant to Section 6.2 above, the purchase price to be paid for such Membership Interest pursuant to this Operating Agreement shall be the Member's Membership Interest multiplied by the Fair Market Value of the Company. The Fair Market Value of the Company shall mean the agreed upon value as of the Valuation Date by the respective purchaser and seller. However, in the event the purchaser and seller do not agree within thirty (30) days

of the Valuation Date on the Fair Market Value of the Membership Interest, the Fair Market Value shall be then as determined by a "Qualified Appraiser" (i.e., a recognized appraiser having at least five (5) years' experience in appraising comparable companies as the Company), who shall be selected by the respective transferor and transferee of the Membership Interest within the ninety (90) days following the Valuation Date, and who shall then determine the Fair Market Value of the Membership Interest within sixty (60) days following such selection, and such determination shall be final and binding on such parties. In the event such parties are unable to agree upon a Qualified Appraiser on or before the ninetieth (90th) day following the Valuation Date, then both parties shall each select a Qualified Appraiser who shall mutually select a third Qualified Appraiser within said ninety (90) day period, who shall then determine the Fair Market Value of the Membership Interest within sixty (60) days following such selection and such third Qualified Appraiser's determination shall be final and binding upon the parties. The cost of the appraiser(s) shall be borne equally between the transferor and transferee.

#### 6.5 **Permitted Assignments and Substitute Members.**

- (a) *Permitted Assignment.* Subject to the remaining provisions of this Section 6.5, and subject to the requirements of any lender doing business with the Company, any Member may assign his Membership Interest, or any portion thereof, to: (i) any other Member; (ii) the Member's spouse, siblings, lineal ascendants, or lineal descendants; (iii) an inter vivos or testamentary trust primarily for the benefit of the persons named in clause (ii) or for the benefit of the Member, or (iv) if the Member is a Trust, to the beneficiary thereof, provided that such beneficiary is a natural person and is a person named in clause (ii); or (v) if the Member is not an individual, an Affiliate of the Member. Notwithstanding the foregoing, an assignment of a Membership Interest does not entitle the assignee to participate in the management and affairs of the Company or to become, or exercise any rights of, a Member. An assignment of a Membership Interest merely entitles the assignee, to the extent assigned, to share in the and to receive the distributions and allocations of income, gain, loss, deduction, credit or similar items to which the assigning Member would be entitled pursuant to this Operating Agreement. In no event shall the Company, the Manager or any Member have any obligation whatsoever to recognize an assignment of a Membership Interest unless the assignee has been admitted, in accordance with Section 6.5(b) below, as a substitute Member in place of the assigning Member to the extent of the Membership Interest assigned. Until such time as the assignee has been so admitted, the Company, the Manager and the Members may consider the assigning Member to be the owner of its Membership Interest for all purposes relevant to the Certificate of Formation, this Operating Agreement and the Delaware Act, and all distributions relating to the assigned Membership Interest may be made to the assigning Member, it

being his responsibility to forward the appropriate portion of such distributions to the assignee.

- (b) *Substitute Members.* An assignee of a Membership Interest, shall be admitted as a substitute Member in place of the assigning Member to the extent of the Membership Interest assigned, only on satisfaction of each of the following conditions precedent:
- (i) The Manager's consent to such admission in writing (unless such assignment is made pursuant to Section 6.6(a) in which case no consent is required;
  - (ii) The assignee has executed a statement that he, she or it is acquiring the Membership Interest for his, her or its own account for investment, and not with a view to distribution thereof;
  - (iii) The agreement effecting the assignment is reasonably satisfactory, in form and substance, to the Manager's and the Company's counsel and the assigning Member and the assignee have executed and acknowledged such agreement and such other documents, instruments and papers as the Manager and the Company's counsel reasonably deem necessary, proper, convenient or desirable in order to evidence or effect the assignment or the admission of the assignee as a substitute Member in place of the assigning Member to the extent of the Membership Interest assigned;
  - (ii) The assignee accepts, adopts and agrees to be bound by all of the terms and provisions of this Operating Agreement, as it may have been amended, from and after the effective date of the assignment as if the assignee had joined in the original execution of this Operating Agreement (and all subsequent amendments to this Operating Agreement) as a Member. Such acceptance, adoption and agreement shall be set forth in a writing, the form and substance of which shall be reasonably satisfactory to the Manager and the Company's counsel; and
  - (iii) The assignee has paid, or acknowledged that he, she or it is obligated to pay, all reasonable fees and expenses (including, without limitation, all reasonable attorney fees and expenses) incurred by the Company in connection with such admission.

The Manager may waive compliance with any or all of the above requirements, except the requirements set forth in clauses (i) and (iii) above, as the Manager deems appropriate in his sole discretion.

- (c) *Effect of Assignment.* An assignee who is admitted as a substitute Member in accordance with Section 6.6(b) above has, to the extent assigned, the

rights and powers, and is subject to the restrictions and liabilities, of a Member under the Certificate of Formation, this Operating Agreement and the Delaware Act. Such an assignee also is liable for any obligations of his, her or its assignor to make Capital Contributions and to return distributions, to the extent provided in the Delaware Act or this Operating Agreement, but shall not be obligated for liabilities unknown to the assignee at the time he, she or it became a Member, unless the liabilities are shown on the Company's financial records.

6.6 **Amendment of Operating Agreement to Reflect Assignment.** Notwithstanding Section 9.5 below, the Manager may amend this Operating Agreement to reflect any assignment or admission of a substitute or additional Member accomplished in accordance with Section 6.

6.7 **Definition.** As used in this Section 6, the term "assign" means to sell, transfer, convey, assign, gift, pledge or otherwise dispose of or encumber all or any portion of a Membership Interest. All derivations of the term "assign" shall have similar meanings, as is appropriate.

## 7. NOTICES

7.1 **Manner of Delivery.** Any notice, election, demand, request, consent, approval, concurrence or other communication (collectively, a "notice") given or made under the provision of this Operating Agreement shall be deemed to have been sufficiently given or made for all purposes only if it is in writing and it is: (a) delivered personally to the party to whom it is directed, (b) sent by first class mail or overnight express mail, postage and charges pre-addressed to the party to whom it is directed, at his address set forth opposite his name on the attached Exhibit A; or (c) telecopied to the party to whom it is directed, at his address set forth opposite his name on the attached Exhibit A. Counsel for a party hereto may give notices on behalf of its client with the same effect as if such notice had been given by such party.

7.2 **Date.** Unless any other provision of this Operating Agreement expressly provides to the contrary, any notice:

- (a) given or made in the manner indicated in Section 7.1(a) above shall be deemed to have been given or made on the day on which such notice was actually delivered to an adult residing or employed at the address of the intended recipient, but if such day was not a business day, such notice shall be deemed to have been given or made on the first business day following such day.
- (b) given or made in the manner indicated in Section 7.1(b) above shall be deemed to have been given or made on the third business day after the day on which it was deposited in a regularly maintained receptacle for the deposit of the United States' mail, or in the case of overnight express mail,

on the business day immediately following the day on which it was deposited in a regularly maintained receptacle for the deposit of overnight express mail, provided that the notice is subsequently delivered by the U.S. Post Office or the courier service to the designated address in the ordinary course of business; and

- (c) given or made in the manner indicated in Section 7.1(c) above shall be deemed to have been given or made on receipt by the transmitting part of printed confirmation that the transmission was received, provided, that if the transmission occurs after 4:30 p.m. EST or EDT (as appropriate) or on a non-business day, the notice shall be deemed to have been given or made on the first business day to follow such transmission. Notwithstanding the immediately preceding sentence, if the intended recipient actually receives a notice before the date on which such notice is deemed to have been given or made, as specified above, the date of actual receipt shall be the date on which such notice is deemed to have been given or made for the purposes of this Operating Agreement.

7.3 **Change of Address.** Any Member, any Manager or the Company may change his address for purposes of this Operating Agreement by giving the Manager and the Company notice of such change in the manner provided in Section 7.1 above.

## 8. DISSOLUTION

8.1 **Events of Dissolution.** The Company shall be dissolved and its affairs wound upon the occurrence of any of the following events, whichever occurs first:

- (a) The expiration of the period fixed for the Company's duration set forth in its Certificate of Formation, if any;
- (b) The Majority Vote of the Members; or
- (c) The entry of a decree of judicial dissolution.

8.2 **Winding Up and Liquidating Distributions.** Upon the dissolution of the Company pursuant to Section 8.1 above or otherwise, the Manager shall file a Certificate of Dissolution for the Company with the Delaware Secretary of State and shall wind up the Company's affairs in accordance with the provisions of the Delaware Act. Once the Company's affairs have been wound up, the Manager shall proceed with an orderly liquidation of the Company's assets. On completion of such liquidation, the Manager shall file all tax returns and pay all tax obligations required by applicable Delaware law, and within a reasonable time, the Manager shall furnish each Member with a statement prepared by the Company's accountants, which shall set forth the assets and liabilities of the Company as of the date of dissolution and the proceeds and expenses of the Company's liquidation. The Manager shall apply or distribute the proceeds of the liquidation in the following order of priority:

- (a) First, to the Company's creditors, whether they are or are not Members, to the extent permitted by applicable law, in satisfaction of the debts and liabilities of the Company and the expenses of liquidation. At the same time, the Manager shall establish such reserves it reasonably deems necessary, and in such amounts as it reasonably deems necessary, for any contingent or unforeseen debts, liabilities or obligations of the Company. On the expiration of the period described above, the Manager shall distribute the balance of such reserves in accordance with the remaining provisions of this Section 8.2;
- (b) Second, to the Members, in accordance with Section 3.1 above.

## 9. MISCELLANEOUS

- 9.1 **Fiscal Year.** The Company's fiscal year shall be the calendar year.
- 9.2 **Books and Records.** The Manager shall cause the Company to keep records and books of account in which shall be entered fully and accurately all transactions and other matters relative to the Company's business as are usually entered in records and books of account maintained by persons engaged in business of a like character to the Company's business. The Company's records and books of account shall be made available to the Members as required by the Delaware Act and upon their reasonable request. The Company's books shall be kept on such method of accounting as the Manager deems appropriate. The Company's books shall be maintained in a full and accurate manner at its principal place of business or at such other location or locations as the Manager deems appropriate, and each and every transaction of the Company shall be entered fully and accurately in such books. The Company shall keep the following records at its registered office: (i) a copy of the Company's federal, state and local tax returns and financial statements for the Company's last three (3) fiscal years; (ii) a current and accurate list of each Member and the Manager, including his full name and last known address; (iii) a copy of this Operating Agreement and the Certificate of Formation including all amendments and restatements; and (iv) copies of records that would enable a Member to determine his relative share of the Company's distributions and his relative voting rights, to the extent such information is not ascertainable from the records required to be maintained pursuant to clauses (i), (ii) and (iii) of this Section 9.2.
- 9.3 **Financial Statements.** At the Company's expense, the Manager shall cause to be prepared and distributed to all of the Members (i) all appropriate information relating to the Company that is necessary for the preparation of the Members' federal income tax returns and (ii) an annual report for the Company, containing financial statements prepared on the basis of accounting then used by the Company.
- 9.4 **Governing Law.** This Operating Agreement shall be deemed to have been entered into within the State of Delaware. The Operating Agreement shall be

construed and enforced in accordance with the laws of the State of Delaware, without regard to its conflict of laws principles. Each Member hereby irrevocably submits itself to the exclusive personal jurisdiction of the Federal and State courts of Delaware.

- 9.5 **Amendments.** Except to the extent that another provision of this Operating Agreement expressly provides to the contrary, any amendment to this Operating Agreement must be approved, in writing, by a majority of the Members.
- 9.6 **Binding Effect.** Except to the extent that another provision of this Operating Agreement expressly provides to the contrary, this Operating Agreement shall be binding on and inure to the benefit of the parties to it and their respective estates, personal representatives, executors, administrators, heirs, devisees, successors and permitted assigns.
- 9.7 **Severability.** The provisions of this Operating Agreement shall be severable. Any section, paragraph, clause or provision of this Operating Agreement which is found to be unenforceable or invalid shall not affect the enforceability or validity of any other section, paragraph, clause or provision of this Operating Agreement.
- 9.8 **Construction.** The parties acknowledge that they each participated in the drafting of this Operating Agreement and the negotiation of its provisions. This Operating Agreement shall not be construed for or against any party, regardless of whether some parties had a greater degree of participation than others. This Operating Agreement sets forth the entire understanding and agreement of the parties with respect to its subject matter and supersedes all prior understandings and agreements, whether written or oral, with respect to its subject matter.
- 9.9 **Pronouns.** References in this Operating Agreement to a Member or any other person in the singular or plural or as him, her, it, or other like references, shall also, where the context so requires, be deemed to include the singular or the plural reference, or the masculine, feminine or neuter reference, as the case may be.
- 9.10 **Counterparts and Facsimile Signatures.** This Operating Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall constitute one instrument. Copies (whether facsimile, photostatic or otherwise) of signatures to this Operating Agreement shall be deemed to be originals and may be relied on to the same extent as the originals.
- 9.11 **Tax Matters Partner.** The Manager shall serve as the Company's "Tax Matters Partner" for purposes of Code Section 6231(a)(7). The Tax Matters Partner shall have the powers and duties provided for in such Code Section and in the related Treasury Regulations. The Tax Matters Partner shall promptly send the Members copies of any notices received from the Internal Revenue Service with respect to the Company and shall keep them advised as to the status of any Company issues or proceedings before the Internal Revenue Service. The Tax Matters Partner

shall be prohibited from entering into any settlement or arrangement on behalf of the Company with respect to any federal, state or local tax authorities without the express written approval of all Members to the extent any such settlement or arrangement would affect the tax liability or reporting position of any other Member. The Tax Matters Partner shall keep the Company apprised of the status of all administrative and judicial proceedings regarding the determination of Company tax items, including, without limitation, the commencement of an audit, settlement offers proposed by the Internal Revenue Service and the status of any litigation. The Tax Matters Partner shall promptly furnish the Internal Revenue Service with the name and address of each Member of the Company and shall designate each member as a "Notice Partner" pursuant to the provisions of Code Sections 6223 and 6231(a)(8). Nothing contained herein shall be deemed to prohibit any Member from requesting special notice or exercising any other rights permitted pursuant to Code Sections 6221 through 6231.

- 9.12 **Attorneys' Fees.** In the event of any action or proceeding brought by any Member against the Company or any other Member for any matter arising out of or in any way relating to this Operating Agreement, the non-prevailing party in such action or proceeding shall pay all costs, expenses and reasonable attorneys' fees incurred by the prevailing party in connection with such action or proceeding.

## 10. DEFINITIONS

- 10.1 **Definitions.** As used in this Operating Agreement, the following terms shall have the following meanings:

- (a) "*Adjusted Capital Account Deficit*" means, with respect to any Member, the deficit balance, if any, in such Member's Capital Account as of the end of the taxable year, after giving effect to the following adjustments:
- (i) credit to such Capital Account any amount which such Member is obligated to restore under Section 1.704-1(b)(2)(ii)(c) of the Treasury Regulations, as well as any addition thereto pursuant to the next to last sentence of Sections 1.704-2(g)(1) and (i)(5) of the Treasury Regulations, after taking into account thereunder any changes during such year in minimum gain, as determined in accordance with Sections 1.704-2(d) and 1.704-2(i)(3) of the Treasury Regulations; and
  - (ii) debit to such Capital Account the items described in Sections 1.704-1(b)(2)(ii)(d)(4), (5) and (6) of the Treasury Regulations.

This definition of Adjusted Capital Account Deficit is intended to comply with the provisions of Treasury Regulations Section 1.704-1(b)(2)(ii)(d) and 1.704-2, and will be interpreted consistently with those provisions.

- (b) “*Adjusted Contribution Account*” means with respect to the Members (i) an account to which there shall be credited on the date of any and all Capital Contributions, the aggregate amount of cash or the Gross Fair Market Value of any property contributed to the Company by such Member, and to which there shall be debited, on the date of distribution, the amount of any distributions to such Member under Section 3.6(d) above.
- (c) An “*Affiliate*” of a person is (i) any person who, directly or indirectly, controls, is controlled by or is under common control with such person, (ii) if such person is an entity, any officer, director, general partner, manager or trustee, or (iii) any person who is an officer, director, general partner, manager or trustee, or who, directly or indirectly, controls, is controlled by or is under common control with any person described in clauses (i) or (ii) of this sentence. For the purposes of this definition, the term “control” means to own or to have power to vote or direct the vote of at least ten percent (10%) of the outstanding voting securities of another person. (f)
- (d) “*Book Basis*” means, with respect to any asset of the Company, the adjusted basis of such asset for federal income tax purposes; provided, however, that (a) if any asset is contributed to the Company, the initial Book Basis of such asset shall equal its fair market value on the date of contribution (as agreed to by the Members), and (b) if the Capital Accounts of the Members are adjusted pursuant to Treasury Regulation Section 1.704-1(b)(2)(iv)(f) to reflect the fair market value of any asset of the Company, the Book Basis of such asset shall be adjusted to equal its respective fair market value of the time of such adjustment (as agreed to by the Members), in accordance with such Treasury Regulation. The Book Basis of all assets of the Company shall be adjusted thereafter by depreciation as provided in Treasury Regulation Section 1.704-1(b)(2)(iv)(g) and any other adjustment to the basis of such assets other than depreciation or amortization. The Book Basis of all assets shall be adjusted to equal their respective fair market values upon the occurrence of events set forth in Treasury Regulation Section 1.704-1(b)(2)(iv)(f)(5)(i) and (ii).
- (e) “*Certificate of Formation*” means the Certificate of Formation of \_\_\_\_\_, filed with the Delaware Secretary of State in accordance with the Delaware Act, as the same may be amended or restated from time to time.
- (f) “*Capital Account*” means, with respect to each Member, a single capital account which shall be established for such Member and which shall be maintained for such Member in accordance with the Treasury Regulations Section 1.704-1(b)(2)(iv). Consistent therewith, the Capital Account of each Member will be determined and adjusted as follows:

Each Member's Capital Account will be credited with:

- (i) Any contributions of cash made by such Member to the capital of the Company plus the Book Basis of any property contributed by such Members to the capital of the Company (net of any liabilities to which such property is subject or which are assumed by the Company);
  - (ii) The Member's distributive share of Net Profit, Profit and items thereof;
  - (iii) Any other increases required by Treasury Regulation Section 1.704-1(b)(2)(iv).
- (g) “*Capital Contribution*” means anything of value that a Member contributes to the Company’s capital, whether in the form of cash, property (tangible or intangible), services or a promissory note or other binding obligation to contribute cash or property or to perform services, whenever made.
- (h) “*Code*” means the Internal Revenue Code of 1986, as amended, or corresponding provisions of subsequent superseding federal revenue laws.
- (i) “*Company*” means \_\_\_\_\_, LLC, a limited liability company organized under the laws of the State of Delaware pursuant to the Certificate of Formation and this Operating Agreement.
- (j) “*Company Minimum Gain*” has the meaning assigned to the term partnership minimum gain in Treasury Regulations Sections 1.704-2(b)(2) and 1.704-2(d)(1). Generally speaking, Company Minimum Gain equals the excess of the amount by which a non-recourse liability exceeds the adjusted tax basis of the Company property it encumbers.
- (k) “*Delaware Act*” means the Delaware Limited Liability Company Act, 6 Del. C. Section 18-101 et seq., as it may be amended from time to time.
- (l) “*Loss*” means, for each taxable year of the Company or other period, an amount equal to the Company's items of taxable deduction and loss for such year or other period, determined in accordance with Section 703 (a) of the Code (including all items of loss or deduction required to be stated separately under Section 703(a)(1) of the Code), with the following adjustments:
- (i) Any expenditures of the Company described in Section 705(a)(2)(B) of the Code or treated as Section 705(a)(2)(B) expenditures under Treasury Regulation Section 1.704-

- 1(b)(2)(iv)(i), and not otherwise taken into account in computing Loss, will be considered an item of Loss;
- (ii) Loss resulting from any disposition of any assets of the Company with respect to which gain or loss is recognized for federal income tax purposes will be computed by reference to the Book Basis of such property, notwithstanding that the adjusted tax basis of such property may differ from its Book Basis;
  - (iii) In lieu of depreciation, amortization and other cost recovery deductions taken into account in computing taxable income or loss, there will be taken into account depreciation for the taxable year or other period as determined in accordance with Treasury Regulation Section 1.704-1(b)(2)(iv)(g);
  - (iv) Any items of deduction and loss specially allocated pursuant to Sections 8.13 and 8.14 hereof shall not be considered in determining Loss; and
  - (v) Any decrease to Capital Accounts as a result of any adjustment to the Book Basis of Company assets pursuant to Treasury Regulation Section 1.704-1(b)(2)(iv)(f) shall constitute an item of Loss.
- (m) “*Majority Vote*” means the affirmative vote of one or more Members, the aggregate of the Membership Interest Percentages of which is greater than fifty percent (50%).
- (n) “*Manager*” (or “*Managers*”) means the person(s) or entity(ies) appointed, elected or otherwise designated as the manager of the Company pursuant to Section 4 above.
- (o) “*Member*” means each person or entity that has executed this Operating Agreement as a Member, as well as each person or entity that may become a Member by both (i) fulfilling the applicable requirements set forth on this Operating Agreement with respect to the admission of such person or entity as a Member, and (ii) accepting, adopting and agreeing to be bound by all of the terms and provisions of this Operating Agreement, as it may have been amended or restated, from and after the date of his, her or its admission to the Company as a Member, as if such person or entity had joined in the original execution of this Operating Agreement (and all amendments and restatements) as a Member.
- (p) “*Member Minimum Gain*” means the Company's "partner nonrecourse debt minimum gain" as defined in Treasury Regulation Section 1.704-2(i)(2).

- (q) "*Member Nonrecourse Deductions*" means "partner nonrecourse deductions" as defined in Treasury Regulation Section 1.704-2(i)(2).
- (r) "*Membership Interest*" means, with respect to each Member, such Member's entire rights and interest in the Company and the Company's property, assets, capital and business, including, but not limited to, such Member's right to receive distributions of the Company's assets and any right to participate in the management of the Company's affairs all as and to the extent provided in this Operating Agreement and the Delaware Act.
- (s) "*Membership Interest Percentage*" means a Member's right to a specified percentage of the Company's capital, Profits, Losses and distributions as set forth on the attached Exhibit A.
- (t) "*Net Cash Flow*" shall mean the portion of the cash and cash equivalent assets of the Company which the Manager has determined, in its sole discretion, exceeds the amount of cash needed by the Company to: (i) remain "solvent", (ii) service its debts and obligations in a timely fashion, (iii) maintain or increase working capital and reserves, as deemed necessary, and (iv) conduct its business and carry out its purposes. In making this determination, the Manager of the Company shall take into account the Company's then current and foreseeable sources of, and needs for, cash. For purposes of this definition, "solvent" means that at the time of, and after giving effect to, the distribution of Company's Net Cash Flow, the Company's liabilities do not exceed the fair value of the Company's assets, except that the fair value of property that is subject to a liability for which the recourse of creditors is limited shall be included in the Company's assets only to the extent that the fair value of the encumbered property exceeds the liability secured by such property.
- (t) "*Net Loss*" means, for any period, the excess of items of Loss over items of Profit, if applicable, for such period determined without regard to any items of Profit or Loss allocated pursuant to Sections 3.4 and 3.5 hereof.
- (u) "*Net Profit*" means, for any period, the excess of items of Profit over items of Loss, if applicable, for such period determined without regard to any items of Profit or Loss allocated pursuant to Sections 3.4 and 3.5 hereof.
- (v) "*Net Sale or Refinance Proceeds*" shall mean the net cash proceeds resulting from the sale, exchange, destruction, condemnation or other disposition of the Company's property or any refinancing of any indebtedness encumbering the Company's property.
- (w) "Nonrecourse Deductions" has the meaning set forth in Treasury Regulation Section 1.704-2(b)(1).

- (x) “*Operating Agreement*” (or “*Agreement*”) means this Operating Agreement of \_\_\_\_\_, LLC, as it may be amended or restated from time to time.
- (y) “*Person*” means any natural person, corporation, limited liability company, general or limited partnership, trust, association or other legal entity.
- (z) “*Profit*” means, for each taxable year of the Company or other period, an amount equal to the Company's taxable gross income and gain for such year or other period, determined in accordance with Section 703(a) of the Code (including all items of gross income and gain required to be stated separately under Section 703(a)(1) of the Code), with the following adjustments:
  - (i) Any income of the Company that is exempt from federal income tax and not otherwise taken into account in computing Profit or Loss will be added to taxable gross income and gain;
  - (ii) Gain resulting from any disposition of any assets of the Company with respect to which gain or loss is recognized for federal income tax purposes will be computed by reference to the Book Basis of such property, notwithstanding that the adjusted tax basis of such property may differ from its Book Basis;
  - (iii) Any items specially allocated pursuant to Sections 8.13 and 8.14 hereof shall not be considered in determining Profit; and
  - (iv) Any increase to Capital Accounts as a result of any adjustment to the Book Basis of Company assets pursuant to Treasury Regulation Section 1.704-1(b)(2)(iv)(f) shall constitute an item of Profit.
- (aa) “*Treasury Regulations*” includes proposed, temporary and final regulations promulgated under the Code in effect as of the date of the filing of the Certificate of Formation and the corresponding sections of any regulations subsequently issued that amend or supersede such regulations.

[Signatures on following page]

**IN WITNESS WHEREOF**, the undersigned have executed this Operating Agreement of \_\_\_\_\_, as of the date first written above.

**MANAGER:**

\_\_\_\_\_, a Delaware limited liability company

By: \_\_\_\_\_

Its: \_\_\_\_\_

\_\_\_\_\_  
Date

**EXHIBIT A**

**MEMBER LIST AND MEMBERSHIP INTEREST PERCENTAGES**

<b><u>Members</u></b>	<b><u>Address</u></b>	<b><u>Initial Capital Contribution</u></b>	<b><u>Membership Interest Percentage</u></b>
MHC STABLE INCOME FUND I, LLC	316 W. 2nd Street, Suite 1104 Los Angeles, CA 90012	\$ _____	100.00%
<b>Total – Member:</b>		\$ _____	<b>100%</b>

**EXHIBIT C**  
**SUBSCRIPTION AGREEMENT  
AND  
CONFIDENTIAL INVESTOR QUESTIONNAIRE**

MHC STABLE INCOME MANAGEMENT LLC  
316 WEST 2<sup>ND</sup> STREET, SUITE 1104  
LOS ANGELES, CALIFORNIA 90012  
Attn: Bradley Froling  
(248)-647-8300  
Attn: Steven Anderson  
(816)-508-9011

Dear Prospective Investor:

Thank you for your interest in participating in this financing of MHC Stable Income Fund I, LLC. Please find attached a copy of our Subscription Agreement together with the Confidential Private Offering Memorandum and Exhibits thereto. We appreciate your consideration of this investment opportunity and urge you to read the Confidential Private Offering Memorandum and Exhibits carefully and advise us of any questions you may have and of any additional information or documentation we may provide.

If you choose to join us as an investor, *please do the following*:

1. Print out two copies. Please review, complete and sign TWO COPIES of the attached Subscription Agreement and Operating Agreement Counterpart Signature Page.
2. Complete the “Accredited Investor/Sophisticated Investor Representations” checking all the applicable descriptions.
3. Please complete the section below entitled “Subscription; Method of Payment,” stating the amount for which you are subscribing and method of payment.
4. Send all of the signed original documents to the following address:

MHC Stable Income Fund I, LLC  
316 W. 2<sup>nd</sup> Street, Suite 1104  
Los Angeles, CA 90012  
Attn: Bradley Froling  
(248)-647-8300  
Attn: Steven Anderson  
(816)-508-9011

Best regards,  
*Kwazoo J. Granderson*

**MEMBER COUNTERPART SIGNATURE PAGE  
TO THE  
MHC STABLE INCOME FUND I, LLC  
OPERATING AGREEMENT**

THE UNITS OF MHC STABLE INCOME FUND I, LLC (THE "FUND") HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") OR ANY STATE SECURITIES LAWS OR THE LAWS OF ANY OTHER NATION OR JURISDICTION AND MAY NOT BE SOLD OR OTHERWISE TRANSFERRED UNLESS THE SAME HAVE BEEN INCLUDED IN AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT OR AN OPINION OF COUNSEL SATISFACTORY TO THE MANAGING MEMBER OF THE FUND HAS BEEN RENDERED TO THE FUND THAT AN EXEMPTION FROM REGISTRATION UNDER THE APPLICABLE SECURITIES LAWS IS AVAILABLE. IN ADDITION, THE TRANSFER, SALE OR OTHER DISPOSITION OF THE UNITS IS RESTRICTED AS PROVIDED IN THE OPERATING AGREEMENT.

The undersigned hereby acknowledges that the undersigned has read in its entirety the Operating Agreement of MHC Stable Income Fund I, LLC dated as of March 7, 2017 (the "Agreement"), a copy of which has been furnished to the undersigned; and the undersigned, by executing this Member Counterpart Signature Page, acknowledges that the undersigned has joined MHC Stable Income Fund I, LLC, a Delaware limited liability company (the "Company"), as an Investor Member pursuant to the provisions of the Agreement. The execution of this Member Counterpart Signature Page by the undersigned shall constitute the execution of the Agreement by the undersigned as a party to such document.

IN WITNESS WHEREOF, the undersigned had duly executed this Member Signature Page under seal on the date and year indicated below.

Date of Execution: \_\_\_\_\_, 2017

Signature \_\_\_\_\_

FOR SUBSCRIBERS THAT ARE ENTITIES:

Name of Entity: \_\_\_\_\_

Title of above Signatory: \_\_\_\_\_

ACCEPTED BY:  
MHC STABLE INCOME FUND I, LLC

\_\_\_\_\_

By: \_\_\_\_\_, as Managing Member

## MHC STABLE INCOME FUND, LLC

### SUBSCRIPTION AGREEMENT

The undersigned (the “Subscriber”) acknowledges that, in order to receive the Units in the Fund, it must deliver to the Fund two (2) executed counterparts of this Subscription Agreement, one (1) fully completed and signed counterpart signature page to the Operating Agreement, and a check or evidence of wire transfer.

By executing this Subscription Agreement, the Subscriber agrees to be bound by the terms of the Operating Agreement of MHC Stable Income Fund I, LLC, which grants a power of attorney to Brad Froling and Kwame Granderson, or either of them acting alone, agrees to purchase the Units that corresponds to the Subscription Amount tendered by the Investor Member to the LLC, and makes certain representations and warranties as set forth in this Subscription Agreement.

The Subscriber acknowledges that it has received and reviewed this Subscription Agreement, including without limitation the representations and warranties set out below, plus the Operating Agreement and the Confidential Offering Memorandum in their entirety. The Subscriber desires to become a Member of MHC Stable Income Fund I, LLC (the “Fund”). The Subscriber and the Fund hereby agree as follows:

#### **Accredited Investor/Sophisticated Investor Representations.**

##### **Check the appropriate description:**

\_\_\_\_\_ The Subscriber **does not meet** any of the criteria set forth below to qualify as an “accredited investor” pursuant to Regulation D under the Securities Act, but has such knowledge and experience in financial and business matters that he or she is capable of evaluating the merits and risks of the prospective investment.

\_\_\_\_\_ The Subscriber **qualifies as an “accredited investor”** pursuant to Regulation D under the Securities Act, as a result of having the following status (check the appropriate description(s)):

\_\_\_\_\_ (1) a natural person with an individual net worth, or joint net worth with his or her spouse, exceeding \$1,000,000 (exclusive of Subscriber’s primary residence)\*;

\_\_\_\_\_ (2) a natural person who had an individual income in excess of \$200,000 in each of the two most recent years, or joint income with his or her spouse in excess of \$300,000 in each of the two most recent years, and who in either case reasonably expects reaching the same income level in the current year;

\_\_\_\_\_ (3) a trust, with total assets in excess of \$5,000,000 not formed for the specific purpose of acquiring the securities offered, whose purchase decision is directed by a person who has such knowledge and experience in financial and business matters that he or she is capable of evaluating the merits and risks of the prospective investment;

\_\_\_\_\_ (4) a corporation, a Massachusetts or similar business trust, partnership or limited liability company, in each case not formed for the specific purpose of acquiring the Units in the Fund offered, with total assets in excess of \$5,000,000;

\*For purposes of calculating net worth: (i) the person's primary residence shall not be included as an asset; (ii) indebtedness that is secured by the person's primary residence, up to the estimated fair market value of the primary residence at the time of the sale of securities, shall not be included as a liability (except that if the amount of such indebtedness outstanding at the time of sale of securities exceeds the amount outstanding 60 days before such time, other than as a result of the acquisition of the primary residence, the amount of such excess shall be included as a liability); and (iii) indebtedness that is secured by the person's primary residence in excess of the estimated fair market value of the primary residence at the time of the sale of securities shall be included as a liability.

\_\_\_\_\_ (5) an employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974 ("ERISA"), if

\_\_\_\_\_ (a) the investment decision is made by a plan fiduciary, as defined in Section 3(21) of ERISA, which is either a bank, savings and loan association, insurance company, or registered investment adviser, or

\_\_\_\_\_ (b) the employee benefit plan has total assets in excess of \$5,000,000;

\_\_\_\_\_ (6) an account that is a self-directed plan with investment decisions made solely by persons that are "accredited investors"; or

\_\_\_\_\_ (7) an entity in which all of the equity owners are "accredited investors" under any one or more of the categories specified in paragraphs 1 through 6 above.

Further, all of the information that the Subscriber has provided to the Fund concerning the Subscriber, the Subscriber's financial position and the Subscriber's knowledge of financial and business matters is correct and complete as of the date hereof.

The Subscriber further agrees, if requested by the Fund or its authorized representative, to provide other confirming information concerning the Subscriber's financial information, as well as any other similar information as may be reasonably requested by the Fund to verify the Subscriber's "accredited investor" status. If any representations or information become untrue, inaccurate or incomplete between the date hereof and the date on which the Fund accepts this subscription, the Subscriber agrees to supply the Fund with the correct information prior to such acceptance of the Subscriber's subscription.

The Subscriber has such knowledge and experience in financial and business matters that the Subscriber is capable of evaluating the merits and risks of investment in the Fund and of making an informed investment decision.

**Subscription; Method of Payment.**

The Subscriber irrevocably subscribes for the Units in the Fund indicated below and, by subscribing for the Units as indicated below, agrees to pay for such Unit in the manner indicated below. The funds will be transferred in care of MHC Stable Income Management LLC.

a. Amount subscribed for: \_\_\_\_\_ @ \$100,000 per Unit = \$ \_\_\_\_\_.

b. Method of Payment (please check the method selected):

\_\_\_\_\_ Check payable to “MHC Stable Income Fund I, LLC”

\_\_\_\_\_ Wire transfer.

\_\_\_\_\_ IRA Buy Direction Forms (attached)

Pursuant to such subscription, the Subscriber hereby agrees to become a Member in accordance with the terms and conditions of this Subscription Agreement and the Operating Agreement of the Fund (a copy of which is attached to the Confidential Offering Memorandum).

*[signature page to follow]*

*IN WITNESS WHEREOF, the Subscriber has hereby executed this Subscription Agreement as of the date set forth below.*

Exact name(s) of Subscriber(s): \_\_\_\_\_

Signature of Subscriber(s): By: \_\_\_\_\_

\_\_\_\_\_

Date: \_\_\_\_\_

Contact Information. Subscriber's contact information is as follows:

Mailing Address: \_\_\_\_\_

\_\_\_\_\_

Home Telephone: (\_\_\_\_) \_\_\_\_\_

Employer: \_\_\_\_\_

Title: \_\_\_\_\_

Business Telephone: (\_\_\_\_) \_\_\_\_\_

Cell Telephone: (\_\_\_\_) \_\_\_\_\_

Email Address: \_\_\_\_\_

EIN/Social Security Number: \_\_\_\_\_

The foregoing subscription is accepted by MHC Stable Income Fund I, LLC this \_\_\_\_ day of \_\_\_\_\_, 2017.

**MHC STABLE INCOME FUND I, LLC**

**MHC Stable Income Management, LLC, as  
Managing Member**

By: \_\_\_\_\_

**THE SECURITIES OFFERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION (COLLECTIVELY, “STATE ACTS”), AND ARE BEING OFFERED AND SOLD IN RELIANCE UPON EXEMPTIONS FROM SAID REGISTRATION AND QUALIFICATION REQUIREMENTS.**

**THE SECURITIES OFFERED HEREBY ARE “RESTRICTED SECURITIES” WITHIN THE MEANING OF SECURITIES AND EXCHANGE COMMISSION RULE 144. THE SECURITIES OFFERED HEREBY MAY NOT BE SOLD, ASSIGNED, TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS SUCH SECURITIES HAVE BEEN (A) REGISTERED OR QUALIFIED UNDER THE SECURITIES ACT AND ALL APPLICABLE STATE ACTS, OR (B) TRANSFERRED PURSUANT TO EXEMPTIONS FROM SUCH REGISTRATION AND QUALIFICATION REQUIREMENTS. THE SECURITIES OFFERED HEREBY ARE ALSO SUBJECT TO THE RESTRICTIONS ON TRANSFER SET FORTH IN THIS SUBSCRIPTION AGREEMENT AND THE OPERATING AGREEMENT OF MHC STABLE INCOME FUND I, LLC.**

**THE SECURITIES SUBSCRIBED FOR BY THIS AGREEMENT HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION, OR BY ANY OTHER SECURITIES COMMISSION OR OTHER REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE SECURITIES OFFERED BY THE FUND. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.**

**1. Offering; Subscription.**

a. This Agreement relates to an offering (the “Offering”) by the Fund of up to \$15,000,000 in limited liability company membership interests of the Fund (the “Units”) and is part of a package of documents related to the Fund’s confidential private offering of the Units. This Offering is being made to a limited number of investors who are “accredited investors” as that term is defined in Regulation D promulgated under the Securities Act of 1933, as amended (the “Securities Act”). The Subscriber is subject to a minimum purchase requirement of \$1,000,000 unless the Fund waives such requirement with respect to the Subscriber. While the Fund is targeting \$15,000,000 (the “Maximum Offering”) of capital, capital contributions in excess of or less than this amount may be accepted in the sole discretion of the Managing Member, but no less than \$7,500,000 (the “Minimum Offering”).

Pending the closing of this Offering, the Fund shall deposit the proceeds of this Offering in a separate operating account until it achieves the Minimum Offering that must be subscribed for prior to closing. If the amount of subscriptions is not sufficient to achieve the Minimum Offering as of August \_\_, 2018, unless otherwise extended by the Fund in its sole discretion, as provided in the Confidential Private Placement Memorandum dated as of March \_\_, 2017 (“Termination Date”), this Offering will be terminated and all monies will be returned to the Subscriber, without interest. Subject to the forgoing, the Fund may elect at any time to close this Offering, at or prior to the Termination Date (the “Closing Date”).

b. The Subscriber acknowledges and agrees that the Fund has the right, in its sole discretion, to accept or reject this subscription in whole or in part for any reason. If and to the extent that the Fund does not accept the Subscriber’s subscription, it shall return to the Subscriber the subscription price tendered by the Subscriber herewith (or the portion thereof not accepted, if this subscription is only accepted in part), without interest, and thereupon the Fund and the Subscriber shall have no further

liability or obligation among one another other than with respect to such returned subscription funds, or as a result of this Subscription Agreement as it relates to such returned subscription funds.

2. **Representations of the Subscriber.** The Subscriber represents, warrants, acknowledges, covenants and agrees as follows, with the intent and understanding that, the Fund will rely thereon:

a. **Reliance on Representations.** The information contained in this Subscription Agreement is being furnished to the Fund in order for the Fund to determine whether the Subscriber's subscription to purchase Units may be accepted by the Fund in compliance with applicable registration or qualification exemption requirements under Federal and State securities laws. The Subscriber understands that the Fund and its counsel will rely on the information contained in this Subscription Agreement for the purposes of such determination.

b. **Analysis of Investment.** Subscriber acknowledges that it has received full and fair disclosure and carefully considered each of the following items in its entirety relating to the Fund's offering of Units in the Fund: (i) the Operating Agreement; and (ii) the Confidential Offering Memorandum (collectively, the "Offering Materials"). Subscriber also acknowledges that it has received and carefully considered all answers to any questions the Subscriber submitted to the Fund regarding an investment in the Fund and any other written information provided by the Fund prior to the investment, including information that the Subscriber deemed necessary to verify the accuracy and completeness of the Fund's representations included in this Subscription Agreement. The Subscriber further acknowledges and agrees that the Subscriber has been given access to, or has been furnished with, all material books and records of the Fund and all material contracts and documents related to the proposed transaction that Subscriber has requested to review in order to evaluate the merits and risks of this investment. All of Subscriber's questions have been answered, and all such additional information has been provided, to the full satisfaction of the Subscriber, none of which answers or additional information is in any way inconsistent with the written information provided to the Subscriber.

c. **Suitability.** The Subscriber represents and warrants that (i) the Subscriber's overall commitment to investments which are not readily marketable, including the purchase of Units, is reasonable in relation to the Subscriber's net worth; (ii) the Subscriber is acquiring the Units for investment for the Subscriber's own account, and not with a view towards the resale or distribution of any or all such Units; and (iii) the Subscriber can bear the economic risk of losing the Subscriber's entire investment.

d. **No Other Representations.** Except as set forth in the Offering Materials, no representations or warranties, oral or otherwise, have been made to the Subscriber by the Fund, or any officer, director, representative, agent, employee or affiliate of the Fund, or any other person, whether or not associated with this Offering, and in entering into this transaction the Subscriber is not relying upon any representations, warranties or information other than those contained in the Offering Materials and the exhibits thereto.

e. **Restrictions on Transfer.** The Subscriber understands that (i) the Subscriber must bear the economic risk of this investment for an indefinite period of time because the Units are not registered under the Securities Act or any state securities laws; (ii) Units may not be resold unless subsequently registered under the Securities Act or applicable state securities laws or unless an exemption from such registration is available; (iii) there is no market for the Units nor is it anticipated that any market will arise in the future; and (iv) only the Fund may register or qualify the Units for sale under the Securities Act and applicable state securities laws, and the Fund is under no obligation to take, and does not anticipate taking, any action to register the Units or to make available any exemption from the registration or qualification requirements of the Securities Act or applicable state securities laws. Further,

the Subscriber understands that the transfer of Units is further restricted by the Operating Agreement of the Fund.

Subscriber shall not sell, assign, encumber or transfer all or any part of the Units being acquired unless the Fund has determined, upon the advice of counsel for the Fund, that no applicable securities laws will be violated as a result of such transfer. The Fund may require, if counsel so advises, an opinion of counsel acceptable to the Fund to the effect that such transfer or assignment may be effected without registration under the Act, and does not violate any applicable securities laws. In either case, the Subscriber is responsible for reimbursing the Fund for any attorneys' fees incurred in reviewing the opinion (if requested by the Fund) or otherwise incurred in reviewing the transaction for consistency with the federal and state securities laws, and the Fund may pre-condition its approval of the transaction and registration of the transfer upon prior receipt of such reimbursement. In the event that a transfer is made in violation of this paragraph, the Fund may elect not to recognize the transfer in its books.

f. Entity Representations. If the Subscriber is not a natural person, the Subscriber hereby represents and warrants that (i) the Subscriber is duly organized and validly existing, and has the power, authority and capacity to enter into this Subscription Agreement and to consummate the transactions contemplated hereby; (ii) all necessary actions have been taken, and all necessary approvals and consents have been given, to authorize the execution, delivery and performance of this Subscription Agreement by the Subscriber; (iii) this Subscription Agreement has been duly executed and delivered by the Subscriber and constitutes the valid and legally binding obligation of the Subscriber, fully enforceable against the Subscriber in accordance with its terms; and (iv) the execution and delivery of this Subscription Agreement by the Subscriber, and the Subscriber's performance of its obligations hereunder, will not conflict with the charter, bylaws, trust agreement or other organizational document(s) of the Subscriber, will not violate or result in default under any contract or other agreement to which the Subscriber is a party or is otherwise bound, and will not conflict with or result in a breach of any judgment, order or other decree of any court or of any governmental authority binding on the Subscriber.

g. Risk of Loss. The Subscriber recognizes and understands that an investment in the Units is highly speculative and involves a substantial risk of loss of the entire investment, and involves a number of significant and material risks including, but not necessarily limited to, those described in the attached Risk Factors.

h. Projections. The Subscriber is aware and understands that any estimates or projections provided to Subscriber are only estimates by the Fund; that actual results will vary, and may vary substantially, from those estimates or projections and are based on many assumptions and forecasts, many of which are beyond the control of the Fund and any of which may prove to be erroneous and material. The Subscriber understands that various risks, including general market conditions, competition, inflation and other limitations will affect the results of Company operations; and that because of the uncertainties inherent in real estate ventures of this nature no representation has been made or could be made about what the amount, if any, of future income, loss or net worth of the Fund will be. The Subscriber acknowledges that the Subscriber has never been promised, guaranteed, or warranted by the Fund, its agents, employees, or any other person, including the principals of MHC Stable Income Management LLC or of MHC Stable Income Fund I, LLC, expressly or by implication, any of the following: (i) the approximate or exact length of time that Subscriber will be required to remain as owner of the Units; (ii) any expected percentage of profit and/or amount of or type of consideration, profit or loss to be realized, if any, as a result of an investment in the Fund; and (iii) any expected amount or percentage of tax deduction or other tax benefit as a result of the investment.

i. Additional Information. The Subscriber will, promptly upon the request of the Fund, provide the Fund with such other documents and information as the Fund may reasonably request relating to the Subscriber's qualification and authority to acquire the Units.

j. No General Solicitation. The Subscriber acknowledges that the investment in this Company was not affected by any means of general advertising or general solicitation of an investment in the Fund and that such investment is considered a private transaction. The Subscriber has had prior personal or business relationships with the Fund or its affiliates, managers, agents, officers or directors or because of the Subscriber's business or financial experience, has the capacity to protect its own interest in connection with this transaction.

k. Purchase Price. The Subscriber understands that the price for the Units has been arbitrarily determined by the Fund and that no assurances have been given about the increase in value, if any, of the Units.

3. **Representations of the Fund.** The Fund hereby represents and warrants that:

a. Authority; Validity. Upon the Fund's receipt and acceptance of payment by the Subscriber hereunder, the Units will have been duly authorized and validly issued, fully paid and nonassessable.

b. Organization; Good Standing. The Fund is a limited liability company registered under the laws of the State of Delaware, and it has full power and authority to enter into this Subscription Agreement and to carry out the transactions contemplated hereby.

4. **Indemnification.** The Subscriber understands the meaning and legal consequences of the representations, warranties, covenants, agreements and acknowledgments contained in this Subscription Agreement, and the Subscriber hereby agrees to indemnify and hold harmless the Fund, the Managing Member of the Fund, and all other Members of the Fund, any corporation or other entity affiliated with any of the foregoing, and the officers, directors, shareholders, agents, representatives and employees of the foregoing, from and against any and all loss, damage or liability (including reasonable attorneys' fees and expenses, court costs, and investigation costs) due to or arising out of a breach of any acknowledgement, representation or warranty or failure to fulfill any covenant, agreement or other obligation of the Subscriber whether contained in this Subscription Agreement or any other document executed by the Subscriber in connection with the Subscriber's investment in the Fund.

5. **Miscellaneous.**

a. This Subscription Agreement shall be governed by and enforced, determined and construed in accordance with the laws of the State of Delaware applicable to contracts entered into and to be performed in the State of Delaware, without giving effect to the principles of choice of law.

b. This Subscription Agreement, the Operating Agreement, and the other documents executed by the Subscriber in connection with the Offering and the Offering Materials contain the entire agreement between the parties and supersede all prior and contemporaneous agreements and understandings, inducements or conditions, express or implied, oral or written, except as herein contained. The provisions of this Subscription Agreement may not be amended, modified or waived except by an instrument in writing signed by the party against which enforcement of the amendment, modification or waiver is sought. No course of conduct or dealing shall be construed to modify, amend or otherwise affect any of the provisions hereof.

c. The headings of this Subscription Agreement are for convenient reference only, and they shall not limit or otherwise affect the interpretation of any term or provisions hereof. All terms and words in this Subscription Agreement, regardless of the number and gender in which they are used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context or sense of this Subscription Agreement or any paragraph or clause herein may require, as if such words had been fully and properly written in the appropriate number and gender.

d. This Subscription Agreement shall bind and inure to the benefit of the spouses, heirs, executors, administrators, legal and personal representatives, successors and assigns of the parties hereto.

e. The Subscriber may not transfer this Subscription Agreement, or any of the Subscriber's rights or obligations under this Subscription Agreement, without the written consent of the Fund.

f. This Subscription Agreement shall survive the death, disability, legal incapacity, bankruptcy, insolvency, dissolution or cessation of business of the Subscriber.

g. Any notice or other communication required or permitted hereunder shall be in writing and shall be delivered personally, telegraphed, telexed, sent by facsimile transmission or sent by certified, registered or express mail, postage prepaid, to the address of each party set forth herein. Any such notice shall be deemed given when delivered personally, telegraphed, telexed or sent by facsimile transmission or, if mailed, three days after the date of deposit in the United States mails.

h. In the event that any provision of this Subscription Agreement is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform to such statute or rule of law. Any provision hereof which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision hereof.

**EXHIBIT D**

**PROFORMA**

**EXECUTIVE SUMMARY**

prepared by MHC Capital, LLC  
Villager MHP

<b>SITE COUNT</b>		<b>RENT AMOUNTS</b>	
Total # of Usable Sites	181	Average Total Rent	\$550
Occupied Sites	141	Average Site Rent	\$250
Vacant Sites	40	Average Home Rent	\$300
<b>PURCHASE TERMS</b>		<b>FEE SUMMARY</b>	
Purchase Price (Land)	\$2,160,000	Management Fee	6.5%
Purchase Price (Homes)	\$190,000	Developer Fee	10%
Broker Fee	\$0	Asset Management Fee	0%
Total Cost	\$2,350,000	Expenses	\$10,000
<b>FINANCING TERMS</b>		<b>ADDITIONAL UPSIDE SUMMARY</b>	
Purchase Loan	\$1,762,500	Monetize Vacant Lots and Homes	63
Interest Rate	5.25%	Rental Increase	5%
Amortization Schedule	25		
<b>PROJECT EQUITY</b>		<b>STABILIZATION ANALYSIS</b>	
Acquisition Equity	\$587,500	Cash-on-Cash @ Stabilization (Yr 5) <i>(Includes debt amortization)</i>	25%
Cap Ex Equity	\$1,679,660	Community Value @ Stabilization <i>(assuming 8% cap rate)</i>	\$6,599,729
Developer Fee (50%)	\$209,235	Home Value	\$456,250
Contingency Reserve	\$43,200	<b>TOTAL VALUE</b>	\$7,055,979
Closing Cost	-\$6,166		
Home Recapture	(\$396,000)		
<b>TOTAL EQUITY</b>	<b>\$2,117,429</b>	<b>EQUITY ANALYSIS</b>	
		Loan Balance @ Stabilization	\$1,564,391
		Seller Carry	\$0
		<b>TOTAL EQUITY @ Stabilization</b>	<b>\$5,491,588</b>
		<b>ADDED EQUITY</b>	<b>\$3,374,159</b>
		Investor IRR	27.61%

<b>REQUIRED CAPITAL</b>		<b>DEAL ANALYTICS</b>	
<b>CAPITAL TO CLOSE</b>		<b>Purchase Cap Rate</b>	<b>9.50%</b>
Acquisition Equity	\$ 587,500	<b>Cap Rate Incl Homes</b>	<b>9.56%</b>
Closing Costs	\$ (6,166)	<b>Gross Rent Multiplier</b>	<b>6.1</b>
Developer Fee (50%)	\$ 209,235	<b>Price per Site</b>	<b>\$11,934</b>
<b>TOTAL</b>	<b>\$ 790,569</b>	<b>Price per Site (Normalized)</b>	<b>\$11,934</b>
<b>CAPITAL YEAR ONE</b>		<b>Cash on Cash (Yr 1)</b>	<b>12.78%</b>
Capital Expenditures	\$ 689,660	<b>DSCR</b>	<b>1.51</b>
Contingency Reserve	\$ 43,200	<b>Debt Yield</b>	<b>11%</b>
<b>TOTAL</b>	<b>\$ 732,860</b>		
<b>TOTAL YR 1 CAPITAL</b>	<b>\$ 1,523,429</b>		
<b>ACQUISITION GUIDELINES</b>		<b>DEAL RECOMMENDATION</b>	
<b>Cash on Cash (Yr 1)</b>	10% or greater	<b>Cash on Cash (Yr 1)</b>	BUY
<b>Cash on Cash (Stabilization)</b>	15% or greater	<b>Cash on Cash (Stabilization)</b>	BUY
<b>Gross Rent Multiplier</b>	6 or below	<b>Gross Rent Multiplier</b>	FURTHER ANALYSIS
<b>Cap Rate</b>	9 or above	<b>Cap Rate</b>	BUY
<b>Price Per Site</b>	\$15,000 or less	<b>Price Per Site</b>	BUY
<i>*Base site rent \$250</i>		<i>*Base site rent \$250</i>	

<b>CAPITAL STACK SUMMARY</b>		
<b>Equity</b>	<b>Park Credit Facility</b>	<b>Home Credit Facility</b>
10% Preferred	5.75% Int	10% Int
60/40 up to 17%	5yr Term	5yr Term
50/50	25yr Amort	Interest Only
	<b>Per Deal</b>	
Equity	\$	1,123,429
Park Credit Facility	\$	1,762,500
Home Credit Facility	\$	1,122,880
<b>Total Capital Per Deal</b>	<b>\$</b>	<b>4,008,809</b>
Capital Raise	\$	50,000,000
<b>Number of Potential Transactions</b>		<b>12</b>

<b>DEPLOYMENT</b>		
Equity	\$	14,012,005
Park Credit Facility	\$	21,982,838
Home Credit Facility (Yr 1)	\$	2,801,031
<b>TOTAL YEAR 1</b>	<b>\$</b>	<b>38,795,874</b>
<b>TOTAL YEAR 5</b>	<b>\$</b>	<b>50,000,000</b>

<b>BLENDED RETURN</b>		
	<b>% of Raise</b>	<b>IRR or Interest</b>
Equity	28%	27.61%
Park Credit Facility	44%	5.25%
Home Credit Facility (Yr 1-5)	28%	10%
<b>BLENDED RETURN</b>	<b>100%</b>	<b>13%</b>

ACQUISITION DATE: 1/1/2017

# PRO FORMA

(In \$000s, except square foot and site/rent data. Data shaded in blue can be changed)

## PROPERTY INFORMATION

Property Name:  
 Property Address:  
 Acreage:  
 Condition:  
 Utilities

## KEY INPUTS

Total # of Usable Sites 181  
 # of Occupied Sites 141  
 Vacant Sites 40  
 Vacant Homes 23

Site Rent \$250  
 Acquired Home/Site Rent \$550  
 Existing Home/Site Rent \$550  
 Comm Cap Ex \$225  
 Travel Expenses \$10  
 Cap Rate 9.50%

## KEY ECONOMIC ASSUMPTIONS

### LAND DETAIL

		%
# of Sites Occupied by Homes	141	78%
# of Sites Offline (Available Sites)	40	22%
<b>Total # of Sites</b>	<b>181</b>	
# of Sites with Paying Residents	118	
<i>(Occupied Sites - Privately Owned)</i>		
<b>Average Rent (per site/mo.)</b>	<b>250</b>	

### ECONOMIC VACANCY FACTOR

Current	35%
2018	27%
2019	17%
2020	12%
2021	7%
2022	0%

### HOME OWNERSHIP DETAIL

		%
Total # of Sites	181	
# of Sites Offline	40	22%
# of Aban/Non Paying Homes	23	13%
# of Corporate Paying Homes	0	0%

### HOME RENT DETAIL

Avg Rent (per Acquired Home/ mo)	\$300
Avg Rent (per Existing Home/mo.)	\$300
Current Owned Home Revenue	\$44

### ADD'L HOME & SITE REV

Acquired Home Rev	\$144
Renovated Home Re	\$83
<b>Total Additional H</b>	<b>\$227</b>
<b>Total Additional Si</b>	<b>\$195</b>

### PURCHASE ASSUMPTIONS

		%
<b>Purchase Price:</b>	<b>\$2,160</b>	
Cap Rate*	9.50%	
Yr 1 NOI (Net of Homes):	\$194	
Home Purchase Price	\$190	
<b>Total Purchase Price</b>	<b>\$2,350</b>	
Due Diligence & Closing Cost	\$112	
Contingency Reserve	\$43	2.0%
Seller Credit	\$118	
<b>Total Acquisition Cost:</b>	<b>\$2,387</b>	

### REVENUE GROWTH

2018	\$8
2019	5%
2020	5%
2021	3%
2022	3%

### HOME CAPITAL EX ASSUMPTIONS

Acquired Home Price:	\$28
Existing Home Renovation:	\$15

### EXPENSE RATIOS

2018	54%
2019	46%
2020	44%
2021	42%
2022	40%

### TOTAL CAPITAL EXPENDITURE

Purchase Price (Acquired Homes):	\$1,100
Renovation Costs (Existing Homes)	\$345
Community Cap Ex (incl Travel)	\$235
<b>Total Cap Ex</b>	<b>\$1,680</b>

### TARGET OCC

Target Occ	181	100.0%
# Sites to Bring Onli	63	
Empty Sites to Fill	40	

### LEVERAGE ASSUMPTIONS

Community Acquisition Debt:	\$1,763	75.0%
Interest Rate:	5.25%	
Maturity Date:	Jan-2042	
Term (Yrs):	25	

### ATTRITION RATES

2018	8%
2019	4%
2020	2%
2021	2%
2022	2%

Seller Carryback	\$0	0%
Interest Rate:	0.00%	
Maturity Date:	Jan-2022	
Term(Yrs):	5	

### REPOSITIONING PERIOD

Period (Mos):	60
Year of Stabilization	2022

\*Cap Rate

Includes Finder's Fee

### SOURCES & USES

Sources	Amount	%
Equity (Purchase)	\$625	
Equity (Cap Ex)	\$1,680	
Lender Debt	\$1,763	
Seller Carry	\$0	
Seller Credit	\$118	
<b>Project Cap</b>	<b>\$4,185</b>	
Equity (Dev Fee)	\$209	10.0%
<b>TOTAL</b>	<b>\$4,394</b>	
Uses	Amount	%
Total Purchase	\$2,350	53.5%
Contingency R	\$43	1.0%
Total Closing	\$112	2.5%
Dev Fee (50%)	\$209	4.8%
Capital Ex	\$1,680	38.2%
<b>TOTAL</b>	<b>\$4,394</b>	<b>100.0%</b>

### CAPITAL RAISE

Down Payment (Purchase)	\$588
Equity (Cap Ex)	\$1,284
Contingency Reserve	\$43
Net Closing Cost	(\$6)
Dev Fee (50%)	\$209
<b>TOTAL</b>	<b>\$2,117</b>

## CASH FLOW SUMMARY (UNLEVERAGED)

Year Ending		2018	2019	2020	2021	2022
	<u>Yr 0</u>	<u>Yr 1</u>	<u>Yr 2</u>	<u>Yr 3</u>	<u>Yr 4</u>	<u>Yr 5</u>
<b>Acquisition Cost</b>	(\$625)	\$0	\$0	\$0	\$0	\$0
<b>Cap Ex Cost</b>	(\$899)	(\$196)	(\$174)	(\$175)	(\$177)	\$0
<b>Gross Income</b>	<b>Current</b>					
Total Projected Market Rents	\$354	\$559	\$587	\$617	\$635	\$654
Other Income (Late Fees, Pets, Etc.)	\$7	\$7	\$7	\$7	\$7	\$7
Add'l Site Rev	\$65	\$72	\$83	\$91	\$98	\$108
Scheduled Base Rental Income	\$426	\$638	\$677	\$715	\$740	\$770
Abandoned Home Site Inc.		<u>\$35</u>	<u>\$69</u>	<u>\$69</u>	<u>\$69</u>	<u>\$69</u>
Total Potential Gross Revenue	\$426	\$673	\$746	\$784	\$809	\$839
Attrition		(\$45)	(\$23)	(\$12)	(\$12)	(\$12)
<u>General Vacancy</u>		<u>(\$153)</u>	<u>(\$102)</u>	<u>(\$77)</u>	<u>(\$47)</u>	<u>(\$2)</u>
Effective Gross Income	\$426	\$475	\$620	\$695	\$750	\$825
<b>Expenses</b>						
Operating Expenses	(\$205)	(\$226)	(\$245)	(\$261)	(\$266)	(\$276)
<u>Offsite Management Fees</u>	6.5% (\$28)	(\$31)	(\$40)	(\$45)	(\$49)	(\$54)
Total Operating Expenses	(\$232)	(\$257)	(\$285)	(\$306)	(\$315)	(\$330)
% of Effective Gross Income	54%	54%	46%	44%	42%	40%
<b>Net Operating Income</b>	<b>\$194</b>	<b>\$219</b>	<b>\$335</b>	<b>\$389</b>	<b>\$435</b>	<b>\$495</b>
<b>Home Income</b>		\$53	\$78	\$88	\$99	\$115
<b>Capital Expenditures</b>						
Capital Reserves (\$100 per lot)	\$0.00	\$0	\$0	(\$18)	(\$18)	(\$18)
<b>Asset Management Fee</b>	0%	\$0	\$0	\$0	\$0	\$0
<b>Cash Flow from Operations:</b>	<b>(\$1,523)</b>	<b>\$272</b>	<b>\$413</b>	<b>\$459</b>	<b>\$516</b>	<b>\$592</b>
Value @ Stabilization						<b>\$6,600</b>
Cap Rate @ Stabilization	7.50%					

## LEVERAGED CASH FLOW

		2018	2019	2020	2021	2022
	<u>Yr 0</u>	<u>Yr 1</u>	<u>Yr 2</u>	<u>Yr 3</u>	<u>Yr 4</u>	<u>Yr 5</u>
Capital Expenditures	(\$1,523)	(\$196)	(\$174)	(\$175)	(\$177)	\$0
Cash Flow from Capital Events	\$0	\$0	\$0	\$0	\$0	\$0
Cash Flow from Operations	\$0	\$272	\$413	\$459	\$516	\$592
Community Existing Debt*						
Debt Repayment	\$0	\$0	\$0	\$0	\$0	\$0
Interest Expense	\$0	(\$93)	(\$91)	(\$89)	(\$87)	(\$84)
Principal Payment	\$0	(\$36)	(\$38)	(\$40)	(\$42)	(\$44)
Seller Carryback Debt						
Debt Repayment		\$0	\$0	\$0	\$0	\$0
Interest Expense		\$0	\$0	\$0	\$0	\$0
Principal Payment						
<b>Total Expenses</b>	<b>\$0</b>	<b>(\$128)</b>	<b>(\$128)</b>	<b>(\$128)</b>	<b>(\$128)</b>	<b>(\$128)</b>
<b>Leveraged Cash Flow (Incl Cap Ex)</b>	<b>(\$1,523)</b>	<b>(\$53)</b>	<b>\$110</b>	<b>\$156</b>	<b>\$211</b>	<b>\$464</b>
<b>Leveraged Cash Flow COC (Net of Cap Ex)</b>		<b>\$143</b>	<b>\$284</b>	<b>\$331</b>	<b>\$388</b>	<b>\$464</b>

<u>Debt Assumptions</u>	<u>Seller Debt</u>
Original Balance	\$1,763 New Balance
Loan Balance at Stabilization	\$1,564 Interest
Loan-to-Value	75% Amortization
Interest	5.25%
Amortization (Yrs)	25
Current DSCR	1.51
Current DSCR (incl Homes)	1.51
Debt Yield	11.01%
Years Elapsed	0

Acq./Dev Fee (50%): 10.0% \$209

*To be paid upon sale or refinance after the preferred return.*

PAYOUT ANALYSIS

ASSUMPTIONS

	Investor Share	Developer Share
Contribution Percentages	100%	0%
Preferred Return	10%	
1st Hurdle	17%	40%
2nd Hurdle	17%	50%
Final Promote	50%	50%

	Interest Rate
Home Credit Facility	10%

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Investor Outstanding Capital	\$ 1,523,429	\$ 1,719,769	\$ 1,893,629.02	\$ 2,068,929.02	\$ 2,246,309.02	\$ 2,246,309.02
Developer Outstanding Capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Outstanding Balance	\$1,523,429	\$1,719,769	\$1,893,629	\$2,068,929	\$2,246,309	\$2,246,309
Equity Investment	(\$1,123,429)					
Senior Equity	(\$400,000)	(\$196,340)	(\$173,860)	(\$175,300)	(\$177,380)	
Net Inflow (Outflow)	(\$1,523,429)	(\$196,340)	(\$173,860)	(\$175,300)	(\$177,380)	
Property Cash Flows	\$ 143,412.88	\$ 284,330.68	\$ 330,992.76	\$ 387,943.14	\$ 463,887.45	
Senior Equity Payment	\$ (40,000)	\$ (59,634)	\$ (77,020)	\$ (94,550)	\$ (112,288)	
Net Cash Flow	\$ 103,413	\$ 224,697	\$ 253,973	\$ 293,393	\$ 351,599	
Cash Flow to Investor	\$ (1,123,429.02)	\$ 107,878	\$ 168,520	\$ 183,158	\$ 202,868	\$ 231,971
Cash Flow to Developer	\$ -	\$ (4,465)	\$ 56,177	\$ 70,815	\$ 90,525	\$ 119,628
Cash on Cash Return		9.60%	15.00%	16.30%	18.06%	20.65%
Cash on Cash Return (Debt Amort)		12.78%	18.34%	19.82%	21.76%	24.55%
Cash on Cash at Stabilization						24.55%

Stabilized Cap Rate	7.5%
Stabilized NOI	\$ 494,980
Stabilized Value	\$ 6,599,729
Sales Costs	5%
Net Proceeds	\$ 6,269,742
Home Value	\$ 456,250
Net Proceeds	\$ 6,725,992
Park Mortgage Payoff	\$ (1,564,391)
Senior Equity Payoff	\$ (1,122,880)
Backend Developer Fee (5%)	\$ (209,235)
Net Profit	\$ 3,829,487

		FROM SALES PROCEEDS							
		Net Sales Proceeds:						\$ 3,829,486.70	
		Addl Payout to Investor		Addl Payout to Developer		Balance to Split			
End of the Year	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	IRR		
Preferred Return	\$ (1,123,429.02)	\$ 107,877.89	\$ 168,519.79	\$ 183,157.83	\$ 202,868.02	\$ 982,274.01	10%	\$750,302.83	\$ 3,079,183.87
1st Hurdle	\$ (1,123,429.02)	\$ 107,877.89	\$ 168,519.79	\$ 183,157.83	\$ 202,868.02	\$1,502,924.92	17%	\$520,650.91	\$ 2,211,432.35
2nd Hurdle	\$ (1,123,429.02)	\$ 107,877.89	\$ 168,519.79	\$ 183,157.83	\$ 202,868.02	\$1,502,924.92	17%	\$0.00	\$ 2,211,432.35
Final Promote	\$ (1,123,429.02)	\$ 107,877.89	\$ 168,519.79	\$ 183,157.83	\$ 202,868.02	\$2,608,641.09	28%	\$ 1,105,716.17	\$ 1,105,716.17
Investor Payout		\$ 107,877.89	\$ 168,519.79	\$ 183,157.83	\$ 202,868.02	\$ 2,608,641.09	<b>TOTAL</b>	<b>\$ 3,271,064.63</b>	
Investor Cash on Cash Return		9.6%	15.0%	16.3%	18.1%				
<b>Investor IRR</b>								<b>27.61%</b>	

\*Distributions in the amount of 10% on outstanding equity will be paid monthly.