



Recognition Agreement of Non-Institutional Lenders

THIS RECOGNITION "AGREEMENT" is made between United Laguna Woods Mutual, a California Nonprofit Mutual Benefit Corporation, with a mailing address of 24351 El Toro Road, Laguna Woods, California, 92637 ("Corporation") and _____ (insert name of lender) with a mailing address of _____ (insert mailing address for lender) ("Lender") with respect to the pledge and assignment to Lender by _____ (insert borrower's name(s)) ("Borrower") of Borrowers evidence of ownership in the Corporation and right to the possessions and use of Unit No. _____ (insert apartment number) and Garage/Parking Space No. _____ (insert parking space/garage space number) (collectively called the "Unit"), as collateral security for a loan ("Loan") to be made by Lender to Borrower.

NOW, THEREFORE, to induce Lender to make the Loan to Borrower, and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledge, the Corporation and Lender make the following representations, warranties, and agreements:

THE CORPORATION AND LENDER REPRESENT AND WARRANT AS FOLLOWS:

1. The Corporation is a stock cooperative, as defined in Civil Code Section 4190, that is formed to own, operate, and manage a common interest development, as defined in Civil Code Section 4100, in Laguna Woods Village, California, consisting of six thousand three hundred and twenty-three (6,323) residential units and common area ("Project").
2. The Corporation has approved Borrower for membership in the Corporation and occupancy of the Unit.
3. The Corporation has issued to Borrower or will issue to Borrower to be held by escrow or some other third party trustee as agreed between Lender and Borrower ("Third Party"), promptly after settlement, the evidence of Borrower's ownership in the Corporation and possession and use of the Unit which in the case of this Corporation are represented by a Stock Certificate and Occupancy Agreement, and any other documents issued by the Corporation related to Borrower's rights of membership in the Corporation and use of the Unit. ("Proprietary Documents").
4. The Corporation's records do not reflect, and the Corporation does not have knowledge or notice of, any encumbrances liens or claims relating to the Proprietary Documents and said Proprietary Documents may be freely pledged and assigned by Borrower to Lender under the Corporation's governing documents, as defined by Civil Code Section 4150, including an Occupancy Agreement, Stock Certificate, Bylaws and rules and regulations, copies of which have been provided to Lender and Borrower, both of which hereby acknowledge receipt and reading of same. ("Operative Documents").
5. The Corporation is the owner in fee simple of the land and all improvements thereon of which said Unit is a part, subject only to the loan(s) secured by mortgages or deeds of trust, if applicable.
6. The Corporation is not presently in default with respect to payment of other obligations of any loans.
7. The Proprietary Documents and any encumbrances on the Property do not prohibit the pledge and collateral assignment of the Proprietary Documents to Lender in accordance with this Agreement.
8. The Corporation consents to the pledge and assignment to Lender by Borrower of the Proprietary Documents issued by the Corporation, and relating to the Unit, as collateral security for the Loan.
9. If the Borrower is the present owner of the Proprietary Documents, including the Stock Certificate, Borrower is not presently in default under any of the terms of the Proprietary Documents and no notice of default has been given to Borrower, or, if a notice of default has been given to Borrower, the default referred to in such notice has been cured.
10. The Corporation has the right of first refusal in case of sale or foreclosure of the Unit by Lender, and Lender agrees to provide Corporation with reasonable notice prior to proceeding with any sale or foreclosure so Corporation can exercise its right to first refusal.
11. The Corporation will recognize the priority of Lender over Borrower in the event of any distribution of funds resulting from destruction, condemnation, liquidation or refinancing of the Corporation, or any part thereof, less all sums that may be due the Corporation pursuant to the Proprietary Documents and all reasonable expenses incurred by the Corporation relating to such proceeds.
12. If applicable, the Corporation may require the collection of fees from escrows or any Third Party at the time of settlement. Such fees shall be collected by the escrow or Third Party.
13. A Borrower's interest may not be pledged to the Lender without the written consent of the Corporation.
14. Lender, for itself and its successors and assigns, covenants, and agrees that all its right and powers under any obligation entered into

with Borrower shall be in accordance with all terms and conditions of this Agreement (a "share loan") and shall be subordinate and subject to rights of the Corporation to collect monthly and special assessments from Borrower and Lender. Moreover, in the event the Corporation acquires Borrower's Unit and ownership interest based on the foreclosure process pursuant to the Davis-Stirling Common Interest Development Act and in accordance with the Corporation's governing documents (whether under judicial foreclosure or nonjudicial foreclosure), the Lender's lien or any interest in the Unit that the Lender had shall automatically terminate, subject to the conditions hereinafter described. The Lender may cure the Borrower's default to the Corporation prior to any such foreclosure action.

15. All Loans secured by this Agreement shall be funded and settled by a third party escrow or title company licensed in, or controlled by, the State of California. Such escrow or title company shall have a functional understanding of stock cooperative corporations, this Agreement and the Proprietary Documents.

LENDER IS ENTITLED TO RECEIVE TIMELY WRITTEN NOTICES OF:

1. The generation by the Corporation during a taxable year of 80% or less gross income from "tenant-stockholders" as such terms are defined in Section 216 of the Internal Revenue Code of 1986: as amended.
2. Any surrender, cancellation, termination, or similar notification of the Proprietary Documents.
3. Any change in the form of ownership of the Corporation, including the contraction, expansion, or termination of the Corporation's cooperative housing project.
4. Obtaining any new financing collateralized by the Unit.
5. Any sixty (60) day delinquency by the Borrower that is related to the payment of his or her monthly or special assessments.
6. Any 30-day delinquency, by the Corporation in payments due under any mortgage for real estate taxes, assessments, and charges imposed by a government entity or public utility, or under any ground lease.
7. Any lapse or cancellation of any insurance coverage maintained by the Corporation.

LENDER'S RIGHTS UPON BORROWER'S DEFAULT

1. In the event there is a default under the Loan, and Lender becomes owner of the Proprietary Documents, including the Stock Certificate, pursuant to remedies provided in the Loan, the Corporation will recognize and approve such ownership, and within sixty (60) days after receipt of written notice and delivery of the Proprietary Documents from Lender (as executed by Borrower and pledged or assigned to Lender), the Corporation will cancel such Proprietary Documents and reissue such Proprietary Documents to Lender or Lender's non-corporate designee as appropriate (nothing herein shall obligate the Corporation to issue Proprietary documents to a LLC with partnership or corporation), and the following provisions shall apply:
 - a. The Corporation may exercise an option to purchase any Proprietary Documents obtained and sold, assigned or transferred by Lender pursuant to foreclosure or other proceedings related to enforcement of the Loan obligations, or any deed or assign in lieu of such foreclosure or proceedings, provided Lender is paid an amount equal to the full amount due under the Loan, less any assessments and related charges owed Corporation by Borrower, such option to be exercised and payment to be made to Lender within sixty (60) days after notice to the Corporation of the availability of the Proprietary Documents, which option, if not exercised within said sixty (60) day period, shall be deemed null and void.
 - b. Without the approval of the Corporation, Lender shall have no power or right to transfer, sell, assign, or otherwise dispose of the Proprietary Documents or to sublease the Unit. Any required approval may be withheld only based on failure in meeting reasonable standards of creditworthiness or written cooperative occupancy standards duly adopted by the Corporation or based on potential non-compliance with law, regulation, administrative rulings, or Corporation's Operative Documents.
 - c. The Corporation's lien for sums due from the Borrower under the Proprietary Documents with respect to the portion of such sums which are attributable to any payments due on any mortgage on the Unit, current real estate taxes and any assessments is prior (i.e., superior) to the security of Lender. The Corporation's lien for any other unpaid expenses and other sums due under the Proprietary Documents (the "Subordinated Sums") is subordinated to the security interest of Lender. The acquisition, in fact, by Lender of the Proprietary Documents pursuant to foreclosure or other remedies provided in the Loan instruments or otherwise, shall be free and clear of any claims for the Subordinated Sums which accrued prior to the time Lender acquired said documents, provided, however, that Lender's security agreement with Borrower shall recognize the Corporation lien(s) aforesaid as follows. The Lender shall distribute any proceeds realized from a sale by the Lender of the Proprietary Documents and other collateral, to the extent of available proceeds, in the following order of priority: (1) to the Corporation, sums owing other than the Subordinated Sums; (2) to the Lender, reasonable expenses incurred pursuant to the foreclosure, including reasonable attorney's fees; (3) to the Corporation, an amount sufficient to discharge all of the Subordinated Sums; (4) to the Lender, sums owing under the Loan; and (5) to the Borrower, any remaining sums. Notwithstanding any of the foregoing provisions, the security interest of the Lender shall be subordinate to any mortgage or deed of trust, including any assignment of rents or assessments, or maintenance expenses, now or hereafter secured by the Unit.

2. In the event there is a default under the Loan, and Lender elects not to cure said default or to act to acquire Borrower's interest in the Proprietary Documents, then the Corporation, upon issuance of Proprietary Documents to another party, shall recognize Lender's rights as a lien holder against the net proceeds of any such transaction after reimbursement to the Corporation of all sums due under the Proprietary Documents.
3. The Corporation and Borrower, by their execution of the Agreement, agree that the Corporation's rights to terminate and cancel Borrower's Proprietary Documents, pursuant to this Agreement and the Proprietary Documents, shall be deemed to amend and supersede the terms of the Proprietary Documents, and Borrower agrees that Lender, the Corporation, and their officers, agents and employees shall incur no liability by reason of any action taken or omission by any persons pursuant to this Agreement.

TERMS

1. The Corporation shall give written notice to the Lender if the Corporation records a Notice of Delinquent Assessments. The lender shall have sixty (60) days to cure the default after the notice of the Borrower's default to the Corporation or notice of the Corporation's intent to accept the Borrower's interest in lieu of foreclosure is mailed.
2. Notwithstanding the Borrower's pledge to the Lender, the Borrower shall retain all rights, privileges, and obligations of membership (specifically including the right to occupy and use the Unit and community facilities, the right to vote and the obligation to comply with the Proprietary Documents of the Corporation until and unless said documents and membership rights are terminated under the provisions of the Occupancy Agreement and the Corporation's Bylaws or the pledged collateral is foreclosed or accepted in lieu of the foreclosure by the Lender under the terms of the lending relationship between the Lender and the Borrower.
3. **Right to Cure in the Event of Default.** The Corporation agrees that it will not commence action to terminate the Proprietary Document, including Occupancy Agreement and or Membership, of Borrower for a default under the terms of the Proprietary Documents, including the Corporation's Bylaws, without giving Lender prior written notice and the opportunity to cure said default or acquire such Borrower's rights under the Proprietary Documents, including the Borrower's Stock Certificate and Occupancy Agreement in accordance with the following:
 - a) **Monetary Default.** If the default arises from the Borrower's failure to make any payment due to Corporation (including assessments, late charges, interest and any other cost associated with the delinquency), and Lender or the Borrower cures said default within sixty (60) days after Lender's receipt of the Corporation's notice the Corporation shall not commence action to terminate the Borrower's Occupancy Agreement or Membership. The Corporation's acceptance of any amounts paid by Lender to cure a Member's monetary default shall not constitute a waiver of the Corporation's rights under the Corporation's Bylaws or Proprietary Documents concerning the occupancy and use of the Borrower's Unit or the transfer of the Borrower's membership in the Corporation.
4. **Corporation Transfer of Memberships and Termination of Occupancy Agreements in the Event of Default or Surrender.** The Corporation retains its right to terminate and transfer the Borrower's rights under the Occupancy Agreement in accordance with the Corporation's Bylaws if:
 - a) Lender consents to transfer and termination by reconveyance of the Lender's security agreement or otherwise; or,
 - b) The Borrower's monetary default is not cured within sixty (60) day period for which provision is made pursuant to this Agreement; or
 - c) If Lender pays the Corporation all amounts which become due to the Corporation from the defaulting Borrower and Lender furnishes Corporation with evidence of Lender's having acquired Borrower's rights and interest under the Proprietary Documents, and membership prior to the Corporation's termination of the Borrower's membership and the Borrower's rights under the Proprietary Documents, the Corporation will issue a new Stock Certificate and enter into a new Occupancy Agreement for only one Unit with a designee of Lender approved by the Corporation (as provided in Paragraph 8 below) as soon as reasonably possible after such termination or surrender.
5. **Lender's Right to Proceeds or to Designate Transferee if Corporation Redeems or Accepts Surrender of Membership.** If the Corporation exercises its option to purchase the membership of Borrower in accordance with the Corporation's Bylaws upon the Borrower's actual or constructive notice of an intention to leave the Project, Corporation shall pay Lender from the funds otherwise payable to the Borrower an amount not exceeding the Borrower's indebtedness to Lender. In the event the amount otherwise payable to the Borrower is less than the Borrower's indebtedness to Lender, then if Lender pays Corporation all amounts owed to the Corporation by the Borrower pursuant to this Agreement, and any other provision of the Corporation's Bylaws or Occupancy Agreement within 30 days after the Corporation exercises its option to purchase the membership or after the Corporation accepts a surrender of the Borrower's membership, right to occupy, and Stock Certificate, the Corporation will issue a new Stock Certificate and enter into a new Occupancy Agreement for only one Unit with a designee of Lender approved by the Corporation (as provided in this Agreement) as soon as reasonably possible after all payments due are received by the Corporation.
6. **Foreclosure by Lender.**

- a) If Lender forecloses its Pledge or accepts an assignment of the Proprietary Documents encumbered by the Security Agreement, the membership, and or the Stock Certificate in lieu of foreclosure as to the Borrower's Loan, Lender shall give the Corporation the first right of refusal to purchase Borrower's membership interest. Thereafter, if the Corporation declines to purchase the membership interest within a reasonable time, Lender will then use its best efforts to sell Borrower's membership interest at fair market value as rapidly as reasonably possible to a buyer acquiring only one Unit.
 - b) When Lender seeks the Corporation's approval of a designee pursuant to this Agreement, the Corporation will not unreasonably withhold its approval of such designee who meets the Corporation's customary requirements for membership. The Corporation shall review the qualifications of the designee in the same manner as it reviews the qualifications of a prospective purchaser of a Stock Certificate from any prospective member of Corporation, and the Corporation's requirements or standards for membership shall not be applied capriciously or arbitrarily.
 - c) During the period between Lender's foreclosure or acceptance of an assignment in lieu of foreclosure and the sale of the Borrower's membership to a designee approved by the Corporation, Lender shall not be considered a member, *per se*, and shall have no right to occupy or use the Unit or common facilities or to vote. Lender's rights shall be limited to those specified in this Agreement. However, during this period Lender shall have the same duties and responsibilities under the Corporation's Bylaws and the Borrower's Occupancy Agreement as the Borrower, as a former member, specifically including the Borrower's obligation to pay the assessments and related charges promptly and obligation to maintain the Unit, including maintaining and repairing alternations in the Unit. Moreover, the Corporation shall have the same remedies against the Lender in the event of default that it had against the Borrower and former member.
 - d) The Parties hereto agree and covenant that if Lender forecloses its pledge or accepts an assignment of the pledge in lieu of foreclosure, that Lender's interest in the Unit is taken subject to all sums due and owing Corporation by the Borrower and former member under the Occupancy Agreement or otherwise ("Defaulted Sums"). Lender agrees to pay all Defaulted Sums to Corporation upon sale or lease of the membership or Unit, regardless of whether Corporation has obtained or perfected a lien against the membership and regardless whether the proceeds from any such sale exceed or satisfy sums due and owing Lender by the Borrower and former member; the Parties agree that under any and all circumstance Lender shall pay Corporation the full amount of the Defaulted Sums upon sale of the membership or Unit.
7. **Indemnification of the Corporation.** Lender shall indemnify and defend the Corporation and its officers, directors, and agents against, and hold the Corporation and its officers, directors, and agents free and harmless from, any loss, liability or expense incurred by the Corporation in connection with any claim by the Borrower or the Borrower's successors in interest which arises out of Lender's representations or actions pursuant to this Agreement.
 8. **Amendment to Occupancy Agreement.** The Corporation agrees that it will not consent to or make any amendment that is materially detrimental to Lender's rights under this Agreement to any Occupancy Agreement between the Corporation and Borrower without obtaining Lender's prior written consent, which consent shall not be withheld unreasonably.
 9. **Estoppel Statement.** Within ten (10) days after receipt of a request for an estoppel statement, either Party shall deliver to the other a written statement of the magnitude and nature of any amounts which the Party alleges are due from Borrower. Such a statement shall be binding upon the Party providing the statement as of the date of the statement. The party providing the statement shall have the right to require the Party requesting the statement to pay a reasonable fee for the provider's cost to prepare and reproduce such statement.
 10. **Fire and Casualty Insurance.** The Corporation warrants that it has and will maintain until the termination of this Agreement fire and casualty insurance with extended coverage of all buildings containing the Unit which is the subject of an Occupancy Agreement with Borrower in an amount as near as reasonably and financially possible to the replacement value of the Unit and its building (including, without limitation, all portions of such Unit consisting of built-in or set-in appliances and cabinets, as initially installed, or replacements thereof), without deduction for depreciation. To the extent reasonably and financially possible, each such policy of fire and casualty insurance shall provide for waiver of subrogation of claims against Corporation's members.
 11. **Casualty Losses.** The Corporation hereby waives and releases all claims against Lender resulting from an insured or uninsured casualty to the extent of the insurance proceeds available plus any deductible under insurance coverage, whether the damage or injury is caused by the Borrower's negligence, fault, or misuse. Notwithstanding any provision of the Corporation's Bylaws or of the Occupancy Agreement with Borrower, the Corporation shall repair or replace the Unit subject to the Occupancy Agreement that is damaged or destroyed as a result of an insured casualty in a manner that restores the Unit to substantially its condition and value prior to the damage or destruction if the cost of doing so does not exceed the insurance proceeds plus the deductible under the insurance coverage. If the cost of repairing or replacing such damaged Unit in a manner that restores it to substantially its condition and value prior to the damage is greater than the insurance proceeds available to the Corporation for such purpose plus the deductible under the insurance coverage and the Corporation elects not to repair and replace it, then the Corporation shall pay Lender from funds otherwise payable to the Borrower an amount not exceeding the Borrower's indebtedness to Lender prior to paying any portion of such insurance proceeds to such Borrower or using any portion of such proceeds for any purpose other than to satisfy any amounts owed by such Borrower to the Corporation.
 12. **Condemnation Awards.** If the Corporation receives an award for condemnation or taking of all or any portion of a Unit which is subject to the Occupancy Agreement in favor of Borrower or any other award for condemnation or taking a portion of which is allocable to Borrower, the Corporation shall pay Lender from the funds otherwise payable to the Borrower an amount not exceeding the Borrower's indebtedness to Lender prior to paying any portion of the condemnation or taking award to the Borrower or using any

portion of such proceeds for any purpose other than to satisfy any amounts owed by such Borrower to the Corporation.

- 13. **Further Blanket Encumbrances.** The Corporation agrees that it will not consent to any further blanket lien or blanket deed of trust encumbering real property which is subject to Occupancy Agreements owned by Borrower on the list without giving Lender sixty (60) days prior written notice.
- 14. **Termination.** This Agreement may be terminated at any time by either party by giving sixty (60) days prior written notice of said termination to the other party; provided, however, that following any such termination, the terms and provisions of this Agreement shall remain in effect as to all Memberships, Certificates, and Occupancy Agreements then transferred or pledged to Lender as of the date of such termination, until (a) such time as the obligations secured by such transferred or pledged Memberships, Certificates, and Occupancy Agreements have been satisfied or (b) Lender has acquired such Memberships, Certificates, and Occupancy Agreements pursuant to its right of foreclosure or assignment in lieu of foreclosure and such Memberships, Certificates, and Occupancy Agreements have been transferred to eligible Members approved by the Corporation, whichever occurs first.
- 15. **Recording of Memorandum of Occupancy Agreement.** Upon the Lender's request, Corporation shall execute, acknowledge, and deliver to Lender a Memorandum of Occupancy Agreement in a form that will permit recordation of such Memorandum of Occupancy Agreement in the Official Records of Orange County, California.
- 16. **Prohibition Against Guarantors.** Transfers to Borrowers requiring a guarantor are prohibited. The Corporation will not approve Borrower, having a Guarantor, for membership in the Corporation and or occupancy of the Unit.
- 17. **Notices.** Any notice or consent required pursuant to the terms hereof shall be deemed given when personally delivered to an authorized representative of a party or if mailed, it shall be deemed given five (5) days after mailed by registered or certified mail, postage prepaid, addressed as follows:

If to Corporation:

United Laguna Woods Corporation
c/o Village Management Services 24351 El Toro Road
P. O. Box 2220
Laguna Hills, California 92654

If to Lender:

Or such other address as either party may specify from time to time.

- 18. **Successors and Assigns.** The provisions of this Agreement shall bind and inure to the benefit of the respective successors and assigns of the Parties. As used herein, the term "Lender" includes, in addition to the lender named in this Agreement, (1) any other lender; (2) any investor of any type which has then succeeded to the Lender's right and interest in all or any part of the loans subject to this Agreement; (3) any person or institution which may service the loans for such lender or investor; and, (4) any insurer or guarantor of all or any part of any loan to a Borrower or a member of the Corporation that is subject to this Agreement. The Corporation shall have an obligation to notify any person or institution other than the Lender named herein only if that person or institution has provided written notice of its interest in a specified dwelling unit as provided in number 16 above.
- 19. **Miscellaneous.** As used herein, words of the masculine gender, if any, shall mean and include correlative words of the feminine and neuter genders and words importing the singular number shall mean and include the plural number and vice versa. In Witness herewith this agreement has been executed as of the date set forth above.

In Witness herewith this agreement has been executed as of the date set forth above.

Lender:

Corporation:

UNITED LAGUNA WOODS CORPORATION,
A California nonprofit Corporation benefit corporation

By: _____
Its: _____
By: _____
Its: _____

By: _____
Its: President
By: _____
Its: Secretary

[NOTICE AND ACKNOWLEDGMENT]

BINDING AND ENTIRE AGREEMENT.

This Agreement has been duly signed, attested to, and is authorized by the Corporation’s Board of Directors in accordance with its governing documents. This Agreement may be modified or amended only in writing executed by both parties hereto. Notwithstanding any other provisions of the Proprietary Documents to the contrary, the provisions of this Agreement shall control, and no amendment or violation of the Proprietary Documents shall render invalid the rights of Lender granted herein. If any provision of this Agreement is found to be invalid or unenforceable, such invalidity or unenforceable shall not affect the remaining provisions.

CONSENT

THE CORPORATION DOES HEREBY CONSENT, which consent has been approved in accordance with the provisions of the Occupancy Agreement , to the assignment of _____ (insert number of shares, if applicable) shares of stock of the Corporation and the Occupancy Agreement from _____ (insert borrower’s name(s)) (the “Assignor”) together, to _____ (insert lender’s name) (the “Assignee”).

AND DOES HEREBY CERTIFY THAT:

1. The assessments, maintenance charges and other charges under the Occupancy Agreement are paid through _____ (insert settlement date).
2. The Occupancy Agreement is in full force and effect; the shares of Corporation allocated to the Unit are duly registered in the name of Assignor; Corporation has not been notified of a pledge or disposition of, or lien upon, such shares; and there is no known existing default in respect to any of the terms, covenants, and conditions of the Occupancy Agreement. .

IN WITNESS WHEREOF, Corporation has caused this instrument to be executed by its authorized officer be hereunto and _____ (insert name of Lender) has caused this instrument to be executed by its authorized officer, on _____ (insert settlement date).

Lender:

Corporation:

UNITED LAGUNA WOODS CORPORATION,
A California Nonprofit Mutual Benefit Corporation

By: _____
Its: _____
By: _____
Its: _____

By: _____
Its: President
By: _____
Its: Secretary

AGREEMENT CONSENT APPROVAL
TO BE SIGNED BY OWNER OF UNIT

The undersigned, to induce the Corporation to enter into the foregoing Recognition Agreement, (a) agree(s) and consent(s) to and approve(s) all of the terms and provisions of the Recognition Agreement, and (b) agree(s) that Borrower shall indemnify Lender, the Corporation and their respective officers , agents and employees against and defend and hold harmless against, any and all liability, claims, demands, judgements, settlements and court costs and attorney’s fees which may be incurred by reason of any action taken, or omission, by and of the aforesaid persons pursuant to the Agreement.

BORROWER(S)

(Insert name of Borrower)

(Insert name of Borrower)