

INDUCEMENT AND SETTLEMENT AGREEMENT

This Inducement and Settlement Agreement (the "Agreement") is made and entered into as of January 31, 2002, by and among Rancho Murieta Community Services District ("RMCS D") acting through its Improvement District No. 1 ("ID"), Community Facilities District No. 1 ("CFD"), and Rancho Murieta (Lakeview), L.L.C. ("Buyer"). RMCS D, CFD and Buyer are collectively referred to as the "Parties."

RECITALS

WHEREAS, the Board of Directors of the RMCS D ("Board"), pursuant to the Mello-Roos Community Facilities Act of 1982, California Government Code (commencing at Section 53311) ("MR Act"), established the CFD, and the Board, acting *ex officio* as the Legislative Body of the District, authorized the levy of a special tax and the sale and issuance of CFD Bonds;

WHEREAS, the Board, pursuant to the Improvement Act of 1913, California Streets and Highways Code (commencing at Section 10000) established and levied assessments in its ID, and, pursuant to the Improvement Bond Act of 1915 ("1915 Act"), California Streets and Highways Code (commencing at Section 8500) authorized the issuance of ID Bonds;

WHEREAS, the Buyer desires to purchase the parcel of real property located in the CFD and ID known as Sacramento County Assessor's Parcel Number 073-0790-006, described below ("Parcel"), currently owned by Rancho Murieta Joint Venture.

THAT REAL PROPERTY SITUATED IN THE UNINCORPORATED AREA, COUNTY OF SACRAMENTO, STATE OF CALIFORNIA, DESCRIBED AS FOLLOWS:

PARCEL 5 AS SHOWN ON THAT CERTAIN PARCEL MAP ENTITLED "BEING A DIVISION OF PARCEL 7 AND INCLUDING A PORTION OF PARCEL 3 PER BOOK 12 OF PARCEL MAPS, PAGE 47, SACRAMENTO COUNTY RECORDS," FILED IN THE OFFICE OF THE COUNTY RECORDER OF SACRAMENTO COUNTY, CALIFORNIA, ON FEBRUARY 28, 1990, IN BOOK 117, OF PARCEL MAPS, AT PAGE 15 AS MODIFIED BY THE AMENDED PARCEL MAP FILED APRIL 3, 1991, IN BOOK 123 OF PARCEL MAPS, AT PAGE 26.

WHEREAS, CFD special taxes totaling \$1,062,661.42 are currently delinquent for Tax Year 1996/97 through Tax Year 2000-01, exclusive of penalties, interest, administrative fees, and attorneys fees and costs (the "delinquent CFD taxes");

WHEREAS, ID assessment installments totaling \$340,041.30 are currently delinquent for Tax Year 1996/97 through Tax Year 2000-01, exclusive of penalties, interest, administrative fees, and attorneys fees and costs (the "delinquent ID installments");

WHEREAS, CFD special taxes and ID assessment installments for Tax year 2001-02 are currently due and owing as to the Parcel, which amounts are payable to the Sacramento County tax collector and the first installments become delinquent on December 10, 2001;

WHEREAS, Buyer does not now have any interest in the Parcel and did not have any interest in the Parcel when any CFD special taxes or ID assessment installments became delinquent;

WHEREAS, ad valorem taxes are delinquent and due and owing as to the Parcel, which amounts are payable to the Sacramento County tax collector;

WHEREAS, in response to the delinquent CFD taxes and ID assessment installments, RMCS D commenced *Rancho Murieta Community Services District v. Rancho Murieta Joint Venture, et al.* (Sacramento Superior Case No. RSC 97AS06252) a judicial foreclosure proceeding as required by the covenants of the RMCS D made to the holders of the CFD and ID Bonds and for which judgment in favor of RMCS D was entered on August 24, 1998, as later amended, which judgment includes delinquent CFD taxes and ID assessment installments for the 1997/97 and 1997/98 tax years, penalties, attorneys fees and costs ("Judgment");

WHEREAS, attempts to sell the Parcel on April 27, 1999 and on December 19, 2001 pursuant to the Judgment failed for lack of bids;

WHEREAS, RMCS D has recorded Notices of Intent to remove the 1998/99, 1999/2000 and 2000/01 delinquent ID assessment installments and CFD special taxes and penalties and interest thereon from the Sacramento County tax rolls for collection by RMCS D, such amounts subsequently were removed from the rolls, and are properly collected directly by RMCS D and RMCS D may amend the Judgment to include such delinquent amounts and penalties, interest and related attorneys fees and costs thereon ("Post-judgment Delinquencies");

WHEREAS, Buyer proposes to pay the delinquent CFD special taxes and delinquent ID assessment installments, provided that it is not required to pay accrued interest, penalties, fees and costs thereon; and,

WHEREAS, RMCS D, the CFD and Buyer have determined that it would be in their mutual best interests and in the best interests of the owners of the CFD and ID bonds to enter into this Agreement on the terms and conditions set forth herein to resolve and settle, once and for all time, all

past and present claims and causes of action regarding the delinquent CFD special taxes and delinquent ID assessments, penalties, interest, fees and costs owing and arising from the Parcel and thereby to encourage the development of the Parcel and the timely payment of CFD special taxes and ID assessment installments on the Parcel in the future;

NOW THEREFORE, in consideration of the above recitals and the covenants hereinafter contained, and for good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, the parties hereto agree as follows:

AGREEMENT

Section 1. Purpose. It is the purpose of the Parties in entering into this Agreement to set forth the framework in which the delinquent CFD special taxes and ID assessment installments on the Parcels are to be paid and satisfied, to encourage the timely payment of the 2001/02 Tax Year and future CFD No. 1 special taxes and ID assessment installments, and to encourage construction on the Parcel.

Section 2. Purchase by Buyer of the Parcel. Buyer is to acquire the Parcel by December 31, 2001, provided, however, Buyer has two separate options to extend its purchase of the Parcel, one until January 31, 2002 and the second until February 28, 2002, provided that Buyer exercises each option by giving RMCS D written notice of such exercise no sooner than fourteen (14) and no later than five (5) calendar days prior to the expiration of the then existing time limit.

Section 3. Payments by Buyer. Buyer is to timely make the payments set forth below:

3.1. Delinquent CFD Special Taxes and ID Assessment Installments. Buyer shall pay to RMCS D the amount of \$1,402,702.72 ("Principal Amount") which is the total of the delinquent CFD special taxes and delinquent ID assessment installments. The Principal Amount shall be paid as follows:

3.11. \$350,675.72 on or before December 31, 2001 or five (5) calendar days after Buyer purchases the Parcel, which ever comes last; and,

3.12. Four (4) quarterly payments of \$263,006.75 plus simple interest at 8% per annum on the unpaid Principal Amount calculated from January 1, 2002 until date of payment, as follows:

April 1, 2002:	\$284,047.29
July 1, 2002:	\$278,787.16
Oct. 1, 2002:	\$273,527.02
Jan. 2, 2003:	\$268,266.88

- 3.13. Notwithstanding par. 3.12, the entire unpaid Principal Amount with simple interest thereon at 8% per annum from January 1, 2002 shall become immediately due and owing: A) if ownership or any percentage of ownership of any or all of the Parcel is transferred, whether voluntarily or involuntarily, to any other person or entity whether or not Buyer holds an interest in that entity; B) as a condition of subdividing the Parcel pursuant to the California Subdivision Map Act; C) as a condition to segregating the ID assessment on the Parcel pursuant to the 1915 Act; D) work is begun on the Parcel pursuant to any issued permit. Buyer shall deliver notice to RMCS D of any such event no less than twenty (20) days prior to the date the event is to occur, and shall ensure that payment of the amount owing is received by RMCS D no later than five (5) days before the event occurs.
- 3.14. Payments shall be considered "timely received" by the RMCS D only if payment is actually, physically in the RMCS D Offices, 15160 Jackson Road, Rancho Murieta, CA 95683 in an envelope addressed to the Attention of Edward R. Crouse, RMCS D Manager on or before the specified date.
- 3.2. Payments to Tax Collector. Buyer shall make the following payments to the Sacramento County Tax Collector as to the Parcel and deliver proof of timely payment to RMCS D within 5 days of such payment:
- 3.21. On or before December 31, 2001 Buyer shall redeem all delinquent secured taxes;
- 3.22. On or before December 31, 2001, Buyer shall pay the first installment of the Tax Year 2001-02 secured tax bill which is delinquent if not paid on or before December 10, 2001; and,
- 3.23. Buyer shall timely pay the secured tax bills for the Parcel which become delinquent on April 10, 2002 and December 10, 2002.

Section 4. Satisfaction of Judgment. If and when all of the payments specified in Section 3 are timely made, RMCS D shall record and file with the court a full Satisfaction of Judgment as to the foreclosure lawsuit within fifteen (15) days of its confirmation that the payments have been made and the checks have cleared.

Section 5. Default. Buyer's failure to comply with any requirement of Section 3 shall constitute a default under this agreement. In the event of Buyer's default, RMCS D shall send written notice of default to Buyer and Buyer shall have 15 days from delivery of the notice to deliver to RMCS D proof that it has cured the default.

Section 6. RMCS D's Remedies on Default. In the event of Buyer's default, the following shall apply without any further notice to Buyer except as otherwise required by law.

- 6.1. Buyer's right to satisfy the Judgment and the Post-judgment Delinquencies pursuant to this Agreement shall immediately terminate;
- 6.2. The entire Judgment amount plus statutory post judgment interest shall be immediately due and owing;
- 6.3. All amounts owing pursuant to applicable law on account of the Post-judgment Delinquencies and any other delinquent ID assessment installments and CFD special taxes which are not included in the Judgment, including all penalties, interest and costs thereon, shall be immediately due and owing;
- 6.4. Any amounts paid by Buyer to RMCS D pursuant to this Agreement shall be credited by RMCS D to the amounts owing pursuant to sections 6.2 and 6.3 as follows: first to accrued administrative and legal costs, with any remaining amounts then credited to penalties and interest, and any remaining amounts then credited toward the original delinquent ID assessment installments and CFD special taxes. Except as specified here, the crediting of amounts paid by Buyer shall be solely within RMCS D's discretion;
- 6.5. RMCS D may, at its sole option, apply to amend the Judgment to include the Post-judgment Delinquencies and any additional ID and CFD delinquencies, penalties, interest, fees and costs;
- 6.6. RMCS D may, at its sole option, hold a sale or sales pursuant to the Judgment as it exists or as it might be amended. The sale price shall reflect credits toward the Judgment amount made pursuant to paragraph 6.4.
- 6.7. RMCS D's delay or failure to amend the Judgment or sell the Parcel shall not constitute or be deemed to constitute a waiver of its right to do so.

Section 7. Notice. Any written notice, statement, demand, consent, approval, authorization, offer, designation, request or other communication to be given under this Agreement shall be given to the party entitled to it at its address set forth below, or at such other address as such party may provide to the other party in writing from time to time, namely:

RMCS D & CFD:

Edward R. Crouse, General Manager
Rancho Murieta Community Services District
15160 Jackson Road
Rancho Murieta, CA 95683

Fax No. 916/354-2082

Buyer:

Christopher Stevens
Managing Partner
Rancho Murieta (Lakeview), LLC
1820 Cathay Way
Sacramento, CA 95864
Fax No. 916/364-3570

Each such notice, proof, statement, demand, consent, approval authorization, offer, designation, request or other communication shall be deemed delivered to the party to whom it is addressed (a) if personally served or delivered, upon delivery, (b) if given by electronic communication, whether by telex, telegram, or telecopy, or fax upon the sender's receipt of an appropriate answer back or other written acknowledgment, (c) if given by registered or certified mail, return receipt requested, deposited in the United States mail postage prepaid, 72 hours after such notice is deposited with the United States mail, (d) if given by overnight courier, with courier charges prepaid, 24 hours after delivery to said overnight courier, or (e) if given by any other means, upon delivery at the address specified in this Section.

Section 8. Representations and Warranties made by Buyer. Buyer warrants that: 1) the execution and delivery of this Agreement and the performance of its covenants and obligations have been duly authorized by all necessary partnership formalities; 2) the person executing this agreement on its behalf has been duly authorized to do so consistent with its formation papers; and 3) neither the execution nor the delivery of this Agreement nor the consummation of its terms will constitute a default, violation or breach of any agreement to which it or related entities may be bound. Buyer shall provide all parties with documentation required to support these representations if requested.

Section 9. Buyer's Indemnity. Buyer agrees to indemnify, protect, hold harmless and defend with counsel acceptable to RMCS D, RMCS D and the CFD and their elective or appointive boards, board members, officers, trustees, agents, attorneys, employees, and successors against any and all claims, demands, damages of any nature, liabilities and costs and expenses (including, without limitation, court costs and attorneys' fees) brought by or on behalf of the owner of any ID bond, the owner of any CFD bond, the owner of any real property located in the ID and the owner of any real property located in the CFD, arising out of, related to or having any connection with the waiver of any penalties or interest by RMCS D pursuant to the terms of this Agreement.

Section 10. Jurisdiction and Venue. All parties, each, (a) agree that any suit, action or other legal proceeding arising out of or relating to this Agreement shall be brought in state or local court in the County of Sacramento, in the Courts of the United States of America in the district in which the said County is located, (b) consent to the jurisdiction of each such court in any suit, action or legal proceeding, and (c) waive any objection that it may have to the laying of venue of any suit, action or

legal proceeding in any of such courts and any claim that any such suit, action or proceeding has been brought in an inconvenient forum. The Parties each agree that a final and non-appealable judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdiction by suit on the judgment or in any other manner provided by law.

Section 11. General Provisions. This Agreement contains the entire agreement between the Parties with respect to the matters herein provided for, and may only be amended by a subsequent written agreement signed by all the Parties. There are no third party beneficiaries to this Agreement. Waiver of any of the provisions of this Agreement shall not be deemed a waiver of any other of any other provision of this Agreement. This Agreement shall be construed and governed by the Constitution and laws of the State of California. If a provision of this Agreement is found to be void, illegal or unenforceable, then any such provision shall be deemed stricken and the remaining provisions hereof shall, nevertheless, remain in full force and effect. The parties to this Agreement and their counsel have reviewed and revised this Agreement, and the normal rule of construction to the effect that any ambiguities in an agreement are to be resolved against the drafting parties shall not be employed in the interpretation of this Agreement. Should any party to this Agreement commence a court action or proceeding against any other party with respect to this Agreement, the party or parties prevailing in such action or proceeding shall be entitled to receive from the losing party or parties its/their attorneys' fees, expert witness' fees, court costs and other costs incurred by it/them in prosecuting or defending such action or proceedings. The captions of the sections of this Agreement are provided for convenience only and shall not have any bearing on the interpretation of any section hereof. This Agreement may be executed in several counterparts, each of which shall be an original copy of the same agreement and which together shall constitute a single agreement.

Section 12. Effective Date. This Agreement shall be effective as of the date first written above.

IN WITNESS WHEREOF, the parties below hereby execute this Settlement Agreement.

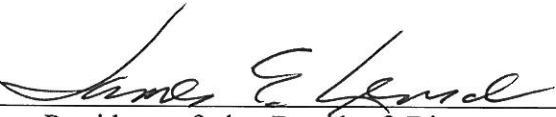
RANCHO MURIETA COMMUNITY SERVICES
DISTRICT

Date: 2/13/02

By 
President, Board of Directors


COMMUNITY FACILITIES DISTRICT NO. 1

Date: 2/13/02

By: 
President of the Board of Directors, acting as the
Legislative Body of Community Facilities District No.
1 of Rancho Murieta Community Services District

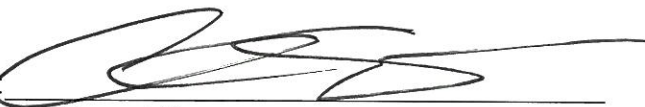
ATTEST:

Secretary of the Board of Directors

By: 

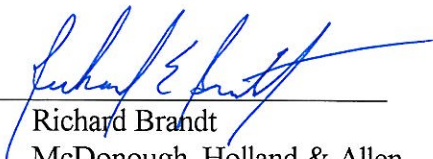
RANCHO MURIETA (LAKEVIEW), L.L.C.

Date: 1/31/02

By: 
General Partner

APPROVED AS TO FORM:

RMCS D and CFD

By: 
Richard Brandt
McDonough, Holland & Allen
General Counsel

BUYER

By: _____
Counsel