

INSURANCE LOSS PROCEEDS COLLATERAL AGREEMENT

This Insurance Loss Proceeds Collateral Agreement (the "Agreement") is made as of the day of _____ by and between _____ (the "Borrower"), and Fannie Mae.

BASIS FOR THE AGREEMENT:

A. Fannie Mae is the holder of a certain Multifamily Note (the "Note") secured by a first lien mortgage or deed of trust (the "Security Instrument") on certain real property (the "Property"), all as more particularly described in Exhibit A attached hereto and made a part hereof by this reference. The Note, the Security Instrument, and all other documents executed in connection with the loan evidenced by the Note are hereinafter collectively referred to as the Loan Documents.

B. On _____, a casualty occurred at the Property, causing damage thereto (the "Damage"). On _____, Borrower's insurance company issued a loss draft in the amount of \$ (the "Proceeds") payable to Fannie Mae as compensation for the Damage.

C. Based on information supplied by Borrower that (i) the Proceeds and any Additional Funds are sufficient to repair the Damage and to fully restore the Property to its condition prior to the Damage, or to a condition otherwise acceptable to Fannie Mae (the "Repairs"); (ii) the Property, upon completion of Repairs will have sufficient rental income to pay all operating expenses, payments for reserves, and loan repayment obligations required under the Loan Documents; and, (iii) the Repairs can be completed within one year from the date of this Agreement, Fannie Mae has decided to place the Proceeds in escrow for the purpose of completing the Repairs to the Property, under and subject to the terms of this Agreement.

D. _____ ("Servicer") has contracted with Fannie Mae to service the Loan and perform the duties required by Fannie Mae under the terms of this Agreement.

Accordingly, in consideration of the mutual agreements set forth herein and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties to this Agreement agree as follows:

1. Recitals. The recitals set forth as the Basis for the Agreement are incorporated herein by reference.

2. Deposit of Funds. Borrower agrees to deliver to Fannie Mae \$ _____ (the "Additional Funds") which amount is equal to the difference between (a) Fannie Mae's estimate of the total cost to complete the Repairs, and (b) the Proceeds. Fannie Mae shall deposit the Proceeds and the Additional Funds (collectively, together with all interest earned thereon, the "Escrow") in a custodial account.

3. Security Interest in Escrow. Borrower hereby assigns to Fannie Mae all of Borrower's interest in the Escrow as additional security for all of Borrower's obligations under the Loan Documents and acknowledges that Fannie Mae has a valid and duly perfected security interest in the Escrow. If Borrower is in default under the Loan Documents, Fannie Mae may use the Escrow for any purpose in accordance with Section 8.2 hereof.

4. Required Deliveries to Fannie Mae. Prior to commencement of any Repairs, Borrower shall deliver to Fannie Mae, for review and approval by Fannie Mae (a) copy of all building and other permits and authorizations required by law to carry out the Repairs, (b) a copy of the plans and specifications relating to the Repairs (the "Plans"), (c) resumes and references for all contractor(s), architect(s), and engineer(s) (collectively, the "Construction Personnel") who Borrower wishes to engage in connection with the Repairs, and (d) the date (the "Estimated Completion Date") by which Borrower reasonably estimates the Repairs will be completed.

5. Agreement to Complete Repairs. Borrower shall commence the Repairs as soon as reasonably practicable after (a) Borrower has made all deliveries required in Section 4 of this Agreement, and (b) Fannie Mae approves the Plans and the Construction Personnel. Borrower shall diligently pursue the completion of the Repairs, and shall complete the Repairs on or before _____ (the "Required Completion Date"). Borrower shall pay all costs necessary for completion of the Repairs without regard to the sufficiency of the funds in the Escrow.

6. Disbursements from the Escrow.

6.1 Requests for Disbursements.

(a) Upon written request from Borrower (each, a "Request for Disbursement") and satisfaction of the requirements set forth in Sections 6 and 7 of this Agreement, Fannie Mae shall make disbursements to Borrower from the Escrow. Each disbursement (other than the final disbursement) shall be in the amount specified in clause (i) or (ii) below, whichever is less:

00000000(i) The actual cost of the Repair covered by the disbursement request, or, if such Repair was done under a contract or subcontract pursuant to which other work remains to be done, an amount equal to 90 percent of the actual cost of such Repair, plus 100 percent of the cost of any materials used, or to be used, in connection with such Repair, if at the time of Request for Disbursement, title to such materials has passed to Borrower and such materials have been installed, or are being properly stored, on the Property; or

(ii) The difference between the balance of the Escrow at the time of the disbursement request and the estimated cost of all remaining Repairs at the time of such Request for Disbursement.

(b) Each Request for Disbursement shall be made on a form provided or

approved by Fannie Mae and shall specify (i) the specific Repair for which reimbursement is being sought, (ii) the quantity and price of all materials (grouped by type or category) or specific replacement items (e.g., appliances) purchased in connection with such Repair; and (iii) the cost of all contracted labor or other services involved in completing such Repair. Borrower shall certify to Fannie Mae that such Repair has been completed in a good and workmanlike manner in accordance with the Plans as approved by Fannie Mae and is in compliance with all applicable laws, ordinances, rules, and regulations of all governmental authorities, agencies, and instrumentalities having jurisdiction over the Property. Borrower shall provide to Fannie Mae with each Request for Disbursement copies of invoices and evidence of payment for all items/materials purchased and all labor/services provided in connection with such Repair together with an acknowledgment of payment and release of lien from all Construction Personnel providing services and/or materials in connection with such Repair.

(c) Borrower shall not make a Request for Disbursement more frequently than once in any month unless Fannie Mae determines, in its sole and absolute discretion, that more frequent disbursements of funds are appropriate and can be managed effectively by Fannie Mae. Borrower shall not be entitled to receive any funds from the Escrow if Borrower is in default under this Agreement or the Loan Documents.

(d) Borrower shall pay all invoices for items or material supplied or purchased and all contracted labor or services performed in connection with the Repairs prior to submitting a Request for Disbursement for such Repair. However, Fannie Mae, at its option, may issue joint checks, payable to Borrower and the supplier, materialman, mechanic, subcontractor or other party to whom payment is due in connection with a Repair. In the case of all payments made by joint check, a waiver of liens from each party receiving payments, prior to Fannie Mae's disbursement of any further Escrow funds will be required.

(e) Fannie Mae shall keep a record of each action taken by Fannie Mae with respect to each Request for Disbursement. Borrower agrees that Fannie Mae and/or Servicer, as applicable, may reimburse itself from the Escrow for its actual, reasonable administrative and/or inspection costs in an amount not to exceed that provided for in the insurance policy and actually disbursed by the insurance company.

6.2 Final Disbursement.

Fannie Mae shall disburse to Borrower all remaining funds in the Escrow on completion of the Repairs to the satisfaction of Fannie Mae, satisfaction of all conditions set forth in this Agreement, and provided that (i) there is no default under any of the Loan Documents, (ii) Fannie Mae has received all cost and architectural information required by Fannie Mae, including proof that any required Certificates of Occupancy for units in the Property have been duly issued to Borrower, and (iii) Fannie Mae has received satisfactory evidence that there are no mechanic's or materialmen liens encumbering the Property.

7. Performance of Repairs.

7.1 Workmanlike Completion.

(a) If Fannie Mae determines that Borrower has failed to proceed diligently with any Repair, any Repair is not being performed in a workmanlike or timely manner, or the Repairs have not been completed prior to the Required Completion Date, Fannie Mae may assume responsibility for the completion of the remaining Repairs upon at least one business day's prior notice to Borrower.

(b) In order to facilitate Fannie Mae's completion or making of the Repairs under Section 7.1(a), Fannie Mae shall have the right to enter onto the Property and perform any work and labor necessary to make or complete the same and employ watchmen to protect the Property from damage. All sums expended by Fannie Mae pursuant to this Section 7.1(b) or any other provision of this Agreement shall be deemed to have been advanced to Borrower and shall be secured by the Security Instrument. Borrower hereby constitutes and appoints Fannie Mae its true and lawful attorney-in-fact with full power of substitution to complete or undertake the Repairs in the name of Borrower. Such power of attorney shall be deemed to be a power coupled with an interest, and cannot be revoked. Borrower agrees that all power granted to Fannie Mae pursuant to this paragraph may be exercised by Fannie Mae, Fannie Mae's successors and/or assigns, or Servicer.

(c) Nothing in this Section 7.1 shall require Fannie Mae to expend funds other than those funds in the Escrow to make or complete any Repair.

7.2 Inspections. Fannie Mae shall determine whether to conduct periodic inspections during the course of the Repairs and upon completion. Borrower shall permit Fannie Mae or Fannie Mae's representatives (including an independent person such as an engineer, architect, or inspector), to enter onto the Property during normal business hours (subject to the rights of tenant under their leases) to inspect the progress of any Repairs and all materials being used in connection with the same, to examine all plans and shop drawings relating to the Repairs that are kept at the Property, to inspect all books, contracts, subcontracts, and records of Borrower with respect to the Property, and to complete the Repairs in accordance with Section 7.1 hereof.

7.3 Lien-Free Completion.

(a) Borrower covenants and agrees that the Repairs and all materials, equipment, fixtures, or other items comprising a part of any Repair shall be constructed or installed, as the case may be, and completed free and clear of any mechanic's, materialmen, or other liens (collectively, the "Prohibited Liens").

(b) Prior to each disbursement from the Escrow, Fannie Mae may require Borrower to provide to Fannie Mae either (i) a search of title to the Property effective to the date of the release, or (ii) an endorsement to the title insurance policy insuring Fannie Mae's interest in the Property updating the effective date of the policy to the date of such disbursement. Such search or endorsement shall show that (i) no Liens (other than Liens that have been bonded off to Fannie

Mae's satisfaction) have been placed against the Property since the date of recordation of the Security Instrument, and (ii) title to the Property is free and clear of all liens other than the lien of the Security Interest and any other liens, if any, previously approved by Fannie Mae in writing.

(c) In addition to the requirements set forth in Section 7.3(b), Fannie Mae may require Borrower to obtain from any Construction Personnel an acknowledgment of payment and release of lien for work performed and/or materials supplied on or to the Property. Any such acknowledgment and release shall conform to the requirement of applicable law and shall cover all work performed and materials (including equipment and fixtures) supplied on or to the Property (other than amounts held back as provided in Section 6.1 hereof) through the date covered by the current Request for Disbursement.

7.4 Insurance Requirements. In addition to any insurance required pursuant to the Loan Documents, Borrower shall provide to Fannie Mae original insurance policies for workmen's compensation, builder's risk, public liability, and any other coverage required by applicable law or a prudent lender in connection with the Repairs. All such policies shall be (i) issued by companies approved by Fannie Mae, (ii) in form and amount satisfactory to Fannie Mae, and (iii) endorsed with standard mortgagee clauses making loss payable in the manner provided by Fannie Mae.

8. Defaults.

8.1 Default under this Agreement. Borrower shall be in default under this Agreement if (i) Borrower abandons or ceases work on any Repair for a period of more than 20 days, unless the cessation results from causes beyond the control of Borrower and Borrower is diligently seeking to recommence work, (ii) Borrower fails to complete the Repairs in a good and workmanlike manner prior to the Required Completion Date, (iii) a Prohibited Lien is filed against the Property, unless Borrower promptly contests and bonds off the same to Fannie Mae's satisfaction, (iv) Borrower fails to comply with any other provision of this Agreement within 10 days after receipt of notice from Fannie Mae of such failure, or (v) a default occurs under any of the Loan Documents. In the event of a default under this Section 8.1, Fannie Mae may, at its option, hold and apply the funds remaining in the Escrow pursuant to Section 8.2 hereof. Borrower acknowledges that (i) a default under this Agreement shall be deemed to be a default under the Loan Documents, and (ii) in addition to the remedies specified in this Agreement, Fannie Mae may exercise all of its rights and remedies under the Loan Documents.

8.2 Default under other Loan Documents. So long as Borrower is in default under any provision of the Loan Documents, Borrower shall not have the right to receive disbursements from the Escrow and Fannie Mae, in its sole and absolute discretion, may use the Escrow or any portion thereof for any purpose, including, but not limited to (i) repayment of any indebtedness secured by the Security Instrument and the prepayment premium applicable on a full or partial prepayment (as applicable), provided that such application of funds shall not cure or be deemed to cure any default, (ii) reimbursement of Fannie Mae and/or Servicer for any losses or expenses, including legal fees and costs, suffered as a result of such default, (iii) making or completing the Repairs as provided in Section 7, or (iv) applying the funds in connection with exercising any and all rights and remedies

available to Fannie Mae at law or in equity or under this Agreement or pursuant to the Loan Documents. Nothing in this Agreement or the Loan Documents shall obligate Fannie Mae to apply all or any part of the Escrow on account of any default of Borrower or to the repayment of the indebtedness evidenced by the Note or in any specific order of priority.

9. Additional Documents. Borrower agrees that, at the request of Fannie Mae, Borrower shall execute and deliver to Fannie Mae an amendment to the security agreement provisions of the Security Instrument and the related financing statements to perfect Fannie Mae's lien on any property for which funds from the Escrow were expended.

10. Indemnification. Borrower hereby indemnifies and agrees to hold harmless Fannie Mae and Servicer, and their agents, employees, and representatives, from and against any and all actions, suits, claims, demands, liabilities, losses, damages, obligations and costs or expenses, including litigation costs and reasonable attorneys' fees, arising from or in any way connected with the performance of the Repairs or the investment of the Escrow. Borrower hereby assigns to Fannie Mae all rights and claims that Borrower may have against all persons or entities supplying labor or materials in connection with the Repairs, provided that Fannie Mae may not pursue any such right or claim unless Borrower is in default under this Agreement or the Loan Documents.

11. Servicer to Act for Fannie Mae. In all instances in which the consent or approval of Fannie Mae may be given or is required, or in which any determination, judgment, or decision is to be rendered by Fannie Mae, the rendering of such consent, approval, determination, judgment, or decision shall be made or exercised by Servicer on behalf of Fannie Mae. All notices and communications to be given under this Agreement shall be given to Servicer, at the address provided below, and not to Fannie Mae. All requests for disbursement of funds and the disbursing of funds shall be made by the Servicer and not Fannie Mae. The delegation of authority to the Servicer by Fannie Mae shall continue until such time as revoked in writing by Fannie Mae, with a copy to Borrower.

12. Miscellaneous.

12.1 Benefit of Agreement. Any reference to any of the parties to this Agreement shall be deemed to include the successors and assigns of such party, provided that Borrower shall not assign its rights and obligations under this Agreement except with the prior written consent of Fannie Mae. All covenants and agreements contained in this Agreement are for the benefit of the parties to this Agreement only, and nothing expressed or implied in this Agreement is intended to be for the benefit of any other person.

12.2 Entire Agreement; Amendment and Waiver. This Agreement contains the complete and entire understanding of the parties with respect to the matters covered. No term, covenant, agreement or condition of this Agreement may be amended, nor may compliance with any such term, covenant, agreement, or condition be waived (either generally or in a particular instance and either retrospectively or prospectively) except by an instrument in writing duly executed and delivered by the parties to this Agreement.

12.3 Notices. Any notice or other communication required or permitted under this Agreement may be given by delivering the same in writing to each or any of the respective parties at the addresses shown under the signature blocks of this Agreement or to such other addresses as shall be provided in writing to each of the parties to this Agreement. Notices to Fannie Mae shall be made to Fannie Mae care of the Servicer at the Servicer's address.

12.4 Severability. If any provision of this Agreement shall be invalid, illegal or unenforceable, such provision shall be severed from the remaining provisions of this Agreement, and the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired. If any covenant, stipulation, obligation or agreement of a party contained in this Agreement shall for any reason be held to be in violation of law, then such covenant, stipulation, obligation or agreement shall be deemed to be the covenant, stipulation, obligation or agreement of the party to the fullest extent permitted by law.

12.5 Counterparts. This Agreement may be simultaneously executed in multiple counterparts, all of which shall constitute one and the same instrument, and each of which shall be deemed to be an original.

12.6 Conflicts with Other Agreements. In the event that the provisions of this Agreement and those of the Loan Documents are in conflict or are inconsistent, the provisions of this Agreement shall prevail.

12.7 Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the jurisdiction in which the Property is located.

12.8 No Partnership. Nothing contained in this Agreement shall constitute Fannie Mae as a joint venturer, partner, or agent of Borrower or render Fannie Mae liable for any debts, obligations, acts, omissions, representations, or contracts of Borrower.

12.9 Compliance with Applicable Laws. Fannie Mae's disbursement of the Escrow or acknowledgment of completion of any Repair in a manner satisfactory to Fannie Mae shall not be deemed a certification by Fannie Mae that the Repair has been completed in accordance with applicable building, zoning, or other codes, ordinances, statutes, laws, regulations or requirements of any governmental authority or agency. Borrower shall at all times have the sole responsibility for insuring that all Repairs are completed in accordance with all such governmental requirements.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first written above.

BORROWER

a

By:

Name:

Title:

Address: _____

Attention: _____

Telecopy: _____

FANNIE MAE

By: _____
Name: _____
Title: _____

Address: 3900 Wisconsin Avenue, N.W.
Washington, D.C. 20016
Attention: Director, Multifamily
Asset Management

Telecopy: (202) 752-_____

All Notices to Fannie Mae should be sent to Servicer at:

Attention:

Telecopy:

EXHIBIT A

TO THE INSURANCE LOSS PROCEEDS COLLATERAL AGREEMENT

Legal Description of the Property:

Address of the Property: