

STATE OF INDIANA
LAKE COUNTY
FILED FOR RECORD

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ZERO-INTEREST THIRD LEASEHOLD MORTGAGE AND SECURITY AGREEMENT

THIS ZERO-INTEREST THIRD LEASEHOLD MORTGAGE AND SECURITY (the "Third Mortgage") made and entered into this 23rd day of June, 2005, by and between **HORACE MANN ASSOCIATES, L.P.**, a Missouri limited partnership, of the City of St. Louis, and State of Missouri (hereinafter called "Grantor") whose address is 1415 Olive Street, Suite 310, St. Louis, Missouri 63103; and **GARY HOUSING AUTHORITY**, a public body corporate and politic, organized and existing under the laws of the State of Indiana (hereinafter called "Grantee") whose address is 578 Broadway, Gary, Indiana 46402.

NOT OFFICIAL!
WITNESSETH
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WHEREAS, Grantor is justly indebted to Grantee in the principal sum of Five Million Two Hundred Twenty-One Thousand Sixty Dollars (\$5,221,060.00), or so much thereof as may be advanced pursuant to a certain Zero-Interest Third Mortgage Loan Agreement (the "Loan Agreement") bearing even date herewith between Grantor and Grantee, all and singular the terms and provisions of which are incorporated herein by this reference as fully as if set forth herein, such debt being evidenced by a certain Zero-Interest Third Mortgage Loan Promissory Note (the "Note") bearing even date herewith made by Grantor to the order of Grantee, which Note is payable on December 31, 2051, in accordance with the terms thereof; and

WHEREAS, pursuant to that certain Ground Lease of even date herewith, the Grantee, as lessor, has leased to Grantor the real property referenced below and described in Exhibit "A" attached hereto for a term of 57 years, subject to a covenant running with the land obligating the Grantee and the Grantor and any successor who acquires title to the Grantor's estate by foreclosure of a leasehold mortgage, to maintain and operate certain public housing units in compliance with all applicable requirements the U.S. Housing Act of 1937, as amended from time to time, and any successor legislation, and the Ground Lease.

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NOW, THEREFORE, in consideration of the indebtedness evidenced by the Note, and in order to secure the payment of the principal of and interest on the Note according to the true intent and purpose thereof, and any sums which may be advanced by the holder thereof pursuant thereto, and any expenses of said holder in enforcing or attempting to enforce payment of the Note, and any other sums advanced hereunder or thereunder, and to secure the due and prompt observance of the covenants, conditions and agreements hereof and of the Note and the Loan Agreement, and in consideration of the sum of Ten Dollars (\$10.00) and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by Grantor, Grantor hereby grants, bargains and sells, conveys and confirms, assigns, transfers and sets over, mortgages and warrants unto the Grantee, his successors and assigns, the following property:

a. A leasehold interest in the lands and premises particularly described in Exhibit "A" attached hereto and made a part hereof, together with all and singular the tenements, hereditaments, easements, rights-of-way and appurtenances thereto belonging or in anywise appertaining, and all of the estate, right, title, interest, claim or demand whatsoever of Grantor therein and in the streets and ways and areas adjacent thereto (the "Land");

b. All buildings and other improvements now or hereafter located on the Land, including without limitation a 123-unit multi-family housing development to be constructed thereon by Grantor to be known as Horace Mann HOPE VI Development (the "Improvements"); and

c. All machinery, apparatus, equipment, fittings and fixtures of every kind and nature whatsoever now owned or hereafter acquired by Grantor, which may now or hereafter be placed in any building(s) or other improvement(s) now or hereafter constructed, rehabilitated, renovated, improved or placed upon said Land or any part thereof, and whether used or procured for use in connection with the operation and maintenance of said building(s) or improvement(s) or the operation of any business of Grantor conducted on or from said building(s) or improvement(s), all of which machinery, apparatus, equipment, fittings and fixtures are hereby declared, determined and agreed to be part and parcel of said lands and premises and appropriated to the use thereof, whether affixed or annexed thereto or not, and shall for the purposes of this Third Mortgage be deemed conclusively to be real estate and conveyed hereby as security for the payment and performance herein mentioned (it being agreed that to the extent any of the property described or referred to in this Third Mortgage is governed by the provisions of the Uniform Commercial Code or any similar statute adopted by the State of Indiana, this Third Mortgage is hereby deemed to be a "Security Agreement" under said code or similar statute, and Grantor is hereby deemed to be the "Debtor" and Grantee is hereby deemed to be the "Secured Party" thereunder. Grantor, and each successor and assign of Grantor, specifically agrees that it will join with Grantee in executing one or more Financing Statements pursuant to the Uniform Commercial Code in such form and with

such parties signatory as Grantee or such successor or assign of Grantee may request, to be filed in such office or offices as Grantee or such successor or assign may deem necessary or desirable.); all of the foregoing being hereinafter referred to as the "Mortgaged Property."

TO HAVE AND TO HOLD the Mortgaged Property and every part thereof unto the Grantee, and unto his successors and assigns;

To secure the payment of the Note and debt above described and the performance of the covenants and agreements herein undertaken to be performed by Grantor; and subject to the following terms, conditions and uses, Grantor covenants and agrees with Grantee, its successors and assigns, as follows:

This conveyance is made subject to that certain (i) Leasehold Mortgage (the "First Mortgage") executed by Grantor in favor of Gershman Investment Corp. (the "First Mortgage Lender"), dated as of June 24, 2005, securing a note in the original principal amount of \$2,563,500.00 (the "First Note"), and recorded in *DOCUMENT No. 2005-052035* City of Gary, Indiana Records, plus any further advances by the holder thereof which are invested in the Project and are required for its completion, along with a U. S. Department of Housing and Urban Development ("HUD") Regulatory Agreement, and a HUD Building Loan Agreement, all dated as of June 24, 2005, and (ii) AFR Second Leasehold Mortgage and Security Agreement (the "Second Mortgage") executed by Grantor in favor of the Gary Housing Development Corporation, an Indiana not-for-profit corporation ("GHDC") securing a note in the original principal amount of \$500,000.00 (the "Second Mortgage Note"). Grantor agrees that in the event of any default in the performance of any of the obligations of the First Mortgage or Second Mortgage (collectively the "Superior Mortgages"), Grantee and its assigns may make any payments or perform any act necessary to release said default and the cost thereof shall be added to the indebtedness hereby secured. Any such default in said Superior Mortgages and the First Note and the Second Note (collectively, the "Superior Notes") may, at the option of the Grantee and its assigns, be deemed a default under this instrument.

So long as HUD or its successors or assigns is the insurer or holder of the First Mortgage, payments due under the Note shall be payable only from permitted distributions of "Surplus Cash" available for distribution, as said term is defined in the HUD Regulatory Agreement and as provided in the Loan Agreement. The restriction on payment imposed by this paragraph shall not excuse any default caused by the failure of the Maker to pay the indebtedness evidenced by the Note.

This conveyance constitutes a third mortgage lien upon the real property described herein, and, if required by the Superior Mortgages or the HUD Regulatory Agreement, prior to the exercise of any rights by the Grantee hereunder or under the note secured hereby or to amendment of any of the terms hereof, the Grantee must obtain the prior

written consent of: HUD, so long as HUD is the insurer of the indebtedness secured by the First Mortgage and GHDC, so long as GHDC holds the Second Mortgage.

Grantee, for itself and its successors and assigns, further covenants and agrees that in the event of the appointment of a receiver or of the appointment of the Grantee as mortgagee-in-possession, in any action by the Grantee, its successors or assigns to foreclose this mortgage, no rents, revenue or other income of the Project collected by the receiver or by the mortgagee-in-possession shall be utilized for the payment of interest, principal or any other charges due and payable under this mortgage or the Note secured hereby, except from permitted distributions of Surplus Cash, if any, as that term is defined in the HUD Regulatory Agreement, and from Net Proceeds and Condemnation Proceeds, as those terms are defined in the Loan Agreement; and further, the receiver or mortgagee-in-possession shall operate the Project in accordance with all the provisions of the Superior Mortgages, the HUD Regulatory Agreement, and the Ground Lease.

In the event HUD, or the First Mortgage Lender or GHDC (collectively, the "Superior Lender") acquires title to the Project by a deed-in-lieu of foreclosure, the lien of this mortgage will automatically terminate subject to the conditions hereinafter described. The holder of this mortgage may cure a default under a Superior Mortgage prior to a conveyance by deed-in-lieu of foreclosure. HUD or the Superior Lender, who declared the default under the Superior Mortgage, as applicable, shall give written notice to the holder of this mortgage of a proposed tender of title in the event HUD or the applicable Superior Lender decides to accept a deed-in-lieu of foreclosure. The holder of this mortgage shall have thirty (30) days to cure the default after the notice of intent to accept a deed-in-lieu of foreclosure is mailed.

Grantor and Grantee further agree that when a Superior Note, after having become due and payable, shall remain unpaid, and there is no Surplus Cash available for payment, then the term of the Note secured hereby will be extended for such term as is deemed to be acceptable, in writing, by the beneficiary thereof. It has been further agreed that the term of this mortgage will be extended, at the direction of a Superior Lender, in the event that the Superior Lender grants a deferment of amortization or forbearance which results in an extended maturity of the Superior Mortgage.

The indebtedness hereby secured includes any renewal or extension of any part or all of said indebtedness; and if any portion of said indebtedness or any provision of this instrument shall be held invalid for any reason, it is the intent of the parties that such portion shall be severable, and such invalidity shall not affect the remainder of said debt or instrument. Any one of several persons named as Grantee herein or their assigns may receive payment of the secured indebtedness and execute a valid cancellation or reconveyance hereof. No release of any part of the property herein described or extension of all or any part of the indebtedness hereby secured, shall affect the priority of this instrument.

Should the indebtedness hereby secured be paid according to the tenor and effect thereof when the same shall become due and payable, and should Grantor perform all covenants herein contained, then this leasehold mortgage shall be canceled and surrendered.

The Grantor covenants and agrees, so long as any indebtedness secured hereby shall remain unpaid, to comply with the provisions of the Ground Lease and to keep the property and all improvements thereon in accordance therewith and also not to demolish, destroy, or remove any permanent structure now existing on the premises or make any alteration thereon that would constitute a structural change without the written consent of the Grantee; to pay all taxes and assessments that may be liens upon said property, as they become due; and to keep the improvements on said property fully insured against loss by fire and other hazards as may, from time to time, be required by Grantee in amounts and companies and with mortgage clause approved by Grantee, and shall deliver the evidence of insurance and any renewals thereof to said Grantee; and that any tax, assessment, prior lien or premium of insurance, not paid when due by the Grantor may be paid by the Grantee, and any sum so paid shall be added to the amount of said principal debt as part thereof, shall draw interest from the time of said payment at the rate of ten percent per annum, and shall, with interest, be covered by the security of this leasehold mortgage.

Subject to the rights of the holders of the Superior Mortgages and the provisions of the Ground Lease, all or any loss proceeds payable to Grantee hereunder may, at Grantee's option, be applied in any one or more of the following ways: (a) applied to the indebtedness hereunder, (b) applied to fulfill any of the covenants of Grantor contained herein, (c) applied to the replacement or restoration of the premises, or (d) released to Grantor. Notwithstanding anything to the contrary contained herein, provided Grantor is not in default hereunder or under the Note or the Loan Agreement, such insurance proceeds shall be used to restore or repair the premises, so long as Grantor, in its sole discretion, determines that it is feasible to do so, and so long as Grantor provides or causes to be provided sufficient additional funds which, when added to such insurance proceeds, will fully effect such repair or restoration.

AND Grantor hereby further covenants and agrees that in case of any default in any partial payment of said indebtedness or in the due performance of any of the covenants herein expressed to be performed by Grantor, or in the due performance of any of the covenants or obligations set forth in that certain Zero-Interest Third Mortgage Loan Agreement of even date herewith between Grantor and Grantee (the "Loan Agreement"), then and in that event, the entire amount of said principal indebtedness, together with any and all sums paid for account of Grantor in accordance with the provisions above set forth, shall, at the option of Grantee, then and thereby become and be due and payable forthwith, with accrued interest, and all expenses and cost of collection, including reasonable attorneys' fees, and the amount of such costs, expenses and fees shall be added

to the amount of the debt hereby secured as part thereof, and as such shall also be covered by the security of this leasehold mortgage; and time is the essence of this contract.

Should default occur in the payment of any portion of the indebtedness secured hereby, or taxes, or insurance premiums herein mentioned, or in the performance of any material obligation or condition recited herein or in the Loan Agreement, then and in that event Grantee shall be at liberty immediately to apply for and shall be entitled as a matter of right, without regard to the value of the property above described, or to the solvency or insolvency of Grantor, to the appointment of a receiver to collect the rents and profits of said property and with the power to sell said property under order of Court and apply the net proceeds of the sale toward the payment of the debt secured by this leasehold mortgage.

In consideration of the loan made Grantor by Grantee, and to further secure the indebtedness of Grantor to Grantee hereunder, Grantor hereby sells, assigns and transfers to Grantee all of the rent which shall hereafter become due or be paid on the above described property; but Grantee agrees that this rent assignment will not be enforced so long as no default on the part of Grantor exists under the terms and conditions of this mortgage, and while no such default exists, Grantee waives its rights to and its interest in said rents, but upon any default in the performance of any agreement or covenant to be performed by Grantor under the terms of this leasehold mortgage, Grantor agrees that Grantee may enter upon said property and collect the rents therefrom, and hereby constitutes Grantee as Grantor's agent to declare the existence of a default hereunder, and Grantor hereby agrees that any tenant in said property or any renting agent in charge thereof shall be, and is hereby, authorized when a default shall be so declared to exist, to pay any such rents to Grantee, to be applied toward the payment of the debt secured hereby or as provided by law.

The title, interest, rights and powers granted herein by Grantor to Grantee, particularly the power of sale granted herein, shall inure to the benefit of anyone to whom Grantee shall assign the indebtedness herein secured, and/or convey a leasehold interest in the property herein described, as well as to the successors and legal representatives of Grantee.

NOW THEREFORE, if the said Note and any interest thereon be paid when due, and the agreements by Grantor herein contained be faithfully kept and performed, then these presents shall be void and the Mortgaged Property hereinbefore conveyed shall be released from the lien hereof at the cost of Grantor; but if default be made in the payment of said Note or any part thereof or any interest thereon when due and payable according to the tenor of said Note or this instrument, or in the faithful performance of any agreements herein contained within the time periods set forth herein, then, subject to the rights of the holders of the Superior Mortgages and to the terms herein, the whole of said Note shall, at the option of the holder(s) thereof, become due and payable at once without notice and be paid as hereinafter provided and (whether or not any unmatured indebtedness be so

declared due and payable) this Third Mortgage shall remain in force and the Grantee, or his successor appointed as hereinafter provided, may proceed to sell the Mortgaged Property and any and every part thereof at public venue, to the highest bidder for cash, at the north front door of the Circuit Court for the City of Gary, Indiana, after first giving at least twenty (20) days public notice of the time, terms and place of sale, and the property to be sold, by advertisement in some newspaper printed and published in the City of Gary, or after giving notice for the minimum period and in the manner provided by statute for such sales at the time of such notice; and upon such sale shall execute and deliver deed(s) conveying the property so sold to the purchaser(s) thereof, and any statement or recital of fact in any such deed(s) shall be prima facie evidence of the truth of such statement or recital, and said Grantee, or its successors, shall receive the proceeds of said sale, out of which he shall pay in the following order, costs and expenses of executing the mortgage created and evidenced hereby; all monies with interest thereon as herein provided, which may have been expended under the terms of this Third Mortgage by any owner or legal holder of the Note; any past due and accrued, unpaid interest on said Note; the unpaid principal of said Note; and the remainder of such proceeds of sale, if any, to Grantor or to those lawfully entitled to receive any such remainder.

The covenant of the Grantor to pay principal and interest is included in the Note secured hereby for the purpose of establishing and continuing the existence of the indebtedness. However, it is a condition of said covenant and those contained herein that in the event of default under the terms of the Note, the Loan Agreement or this leasehold mortgage, Grantee shall take no action against the Grantor, any partner of Grantor, its successors or assigns, personally and shall look solely to the leasehold interest in the premises conveyed by this mortgage and revenues and receipts derived therefrom for satisfaction of the indebtedness secured hereby, and Grantor, its partners, successors or assigns assume no personal liability for said indebtedness. The foregoing shall not preclude an action against the Grantor, nor limit its liability for, or as a result of (i) fraudulent acts, or willful or wanton acts or omissions in violation of the provisions of the Loan Documents, (ii) the misapplication of funds or proceeds in violation of the terms of the Loan Documents, or of security deposits attributable to any leases of units at the Project, or (iii) intentional waste to the Project.

This Third Mortgage shall be subject to any "extended low-income housing commitment" (as defined in Section 42(h)(6)(B) of Internal Revenue Code of 1986, as amended (the "Code")) (the "Extended Use Agreement") to be recorded in the Office of the Recorder of Lake County, Indiana; provided that under the terms of the Extended Use Agreement, if the Grantee or its successors or assigns (collectively, the "REO Owner") acquires the Mortgaged Property by foreclosure (or instrument in lieu of foreclosure), then the "extended use period" (as defined in Section 42(h)(6)(D) of the Code) shall terminate, except for the obligation of the REO Owner to comply with the limitations on evictions, termination of tenancy and increase in rents for the three year period following the REO Owner's acquisition of the Mortgaged Property, as set forth in Code Section 42(h)(6)(E)(ii).

Notwithstanding anything to the contrary contained herein, Grantor shall have all of the notice and cure rights set forth in Article VI of the Loan Agreement. Any notice of default shall be made to the persons and in the manner set forth in Article VII of the Loan Agreement.

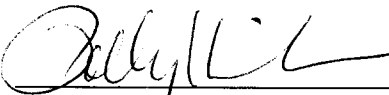
Whenever the terms "Grantor" or "Grantee" are used in this leasehold mortgage, such terms shall be deemed to include the successors and assigns of said parties. All rights and powers herein granted to the Grantee shall inure to and include its successors and assigns, and all obligations herein imposed on Grantor shall extend to and include Grantor's successors and assigns.




IN WITNESS WHEREOF, Grantor has caused this instrument to be executed and sealed the day and year first above written.

HORACE MANN ASSOCIATES, L.P.,
a Missouri limited partnership

By: MBA Urban Development Co., a Missouri
corporation, General Partner

By: 
Polly Kinslowe, Vice President

GARY HOUSING AUTHORITY, a municipal
corporation

By: 
Estelle W. Brooks, Executive Director



STATE OF MISSOURI)
) ss.
CITY OF ST. LOUIS)

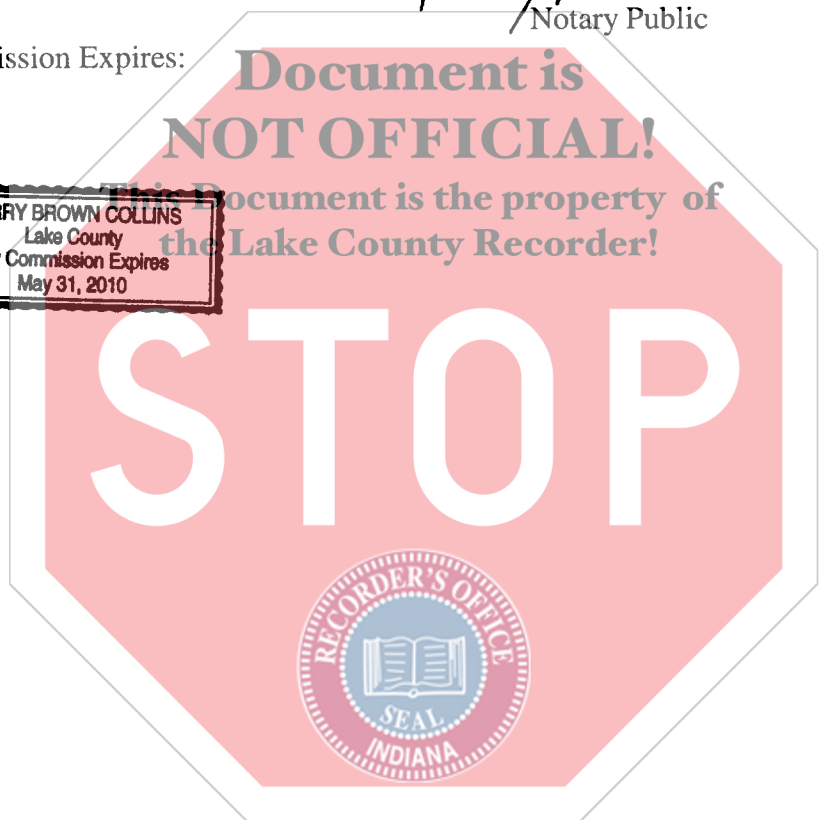
On this 23rd day of June, 2005, before me, a Notary Public in and for the City and State aforesaid, personally appeared Polly Kinslowe, to me personally known, who, being by me duly sworn, did say that she is Vice President of MBA Urban Development Co., a Missouri corporation, and the sole general partner of Horace Mann Associates, L.P., a Missouri limited partnership, and acknowledge before me that, acting under due corporate and partnership authority, she executed the foregoing instrument for the purposes therein expressed as the free act and deed of said corporation, and of said limited partnership.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal in the aforesaid City and State, the day and year last above written.

Terry Brown Collins

Notary Public

My Commission Expires:



STATE OF INDIANA)
) ss.
COUNTY OF LAKE)

On this 23rd day of June, 2005, personally appeared before me Estelle Brooks, who, being by me duly sworn, did say that she is the Executive Director of Gary Housing Authority, a public body corporate and politic, organized and existing under the laws of the State of Indiana, and that she has authority to execute under oath and has so executed the foregoing instrument for the purposes therein expressed as the free act and deed of said company.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal on the day and year first above written.

Terry Brown Collins
Notary Public

My Commission expires:

This instrument prepared by:

Hillary B. Zimmerman
Senior V.P. and General Counsel
McCormack Baron Salazar, Inc.
1415 Olive Street, Suite 310
St. Louis, MO 63103

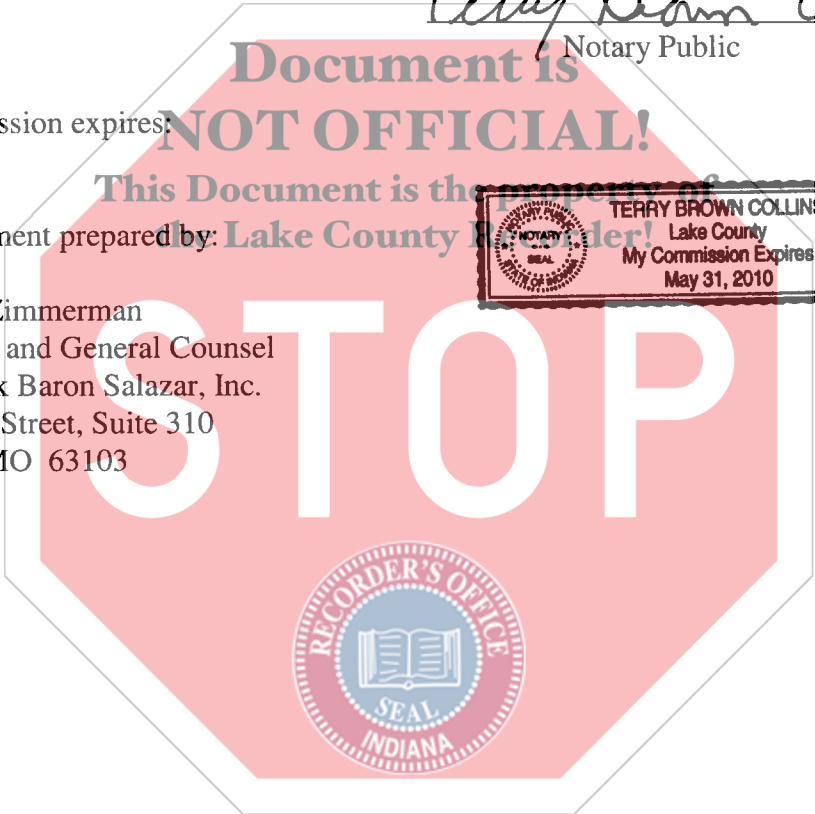


EXHIBIT A

LEGAL DESCRIPTION

Blocks 1, 2, 3, 4, 5, and 6 in Horace Mann Subdivision, recorded in Plat Book 96 page 54, in the Office of the Recorder of Lake County, Indiana.

