

MICHELLE UTSLER, COUNTY RECORDER
MADISON IOWA

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Prepared by Linda Zastrow, IBGC, 5409 NW 88th Street, Suite 100, Johnston, IA 50131 (515) 223-4511

✓ Attn: John Henderson - Great Western Bank P.O. Box 171, Leon, IA 50144

Loan Name: Madison Square Assisted Living Corp.
Loan Number: 644,448 40 08 IA

SUBORDINATION AGREEMENT

THIS AGREEMENT is dated April 25, 2006 for reference, and is between Madison Square Assisted Living Corp., (an Iowa Corporation), owner(s) of the land described in the security instruments referenced below ("Owner"), Great Western Bank ("Lender") and the United States Small Business Administration, an agency duly created under and by virtue of an Act of Congress, having its principal office in Washington, D.C., and a Commercial Loan Servicing Center at 2719 North Air Fresno Drive, Suite 107, Fresno, California 93727 (hereinafter called "SBA").

RECITALS:

Owner has executed a mortgage dated August 28, 2003, to secure a note in the principal amount of \$1,066,000.00 in favor of Iowa Business Growth Company and recorded on August 28, 2003, (Book 2003, Page 5159), in the records of the Madison County Recorder's office. This mortgage was subsequently assigned to the Small Business Administration ("SBA Mortgage") and recorded in Book 2003, Page 5160, in the Madison County, Iowa official records on the real property described as follow: See ATTACHMENT "B" Legal Description:

Owner has also executed a Security Agreement and financing statement to secure a note in the original sum of \$1,066,000.00 in favor of Iowa Business Growth Company who subsequently assigned all to the U.S. Small Business Administration. The financing statement was filed in the office of the Iowa Secretary of State on August 28, 2003, as file number P440900.

Owner has also executed, or is about to execute, a Mortgage(s), Security Agreement, Assignment of Lease, and Note which does not exceed the sum of \$1,381,000.00 for a maturity no sooner than December 22, 2013 and amortization no longer than 212 months, in favor of Great Western Bank ("Lender's Mortgage"), in Leon, Iowa. Lender's mortgage is to be recorded concurrently herewith.

As a condition precedent to Lender's performance, the SBA Mortgage, Security Agreement, and Assignment of Lease must be subordinated only to the Lender's Mortgage, Security Agreement, and Assignment of Lease securing Lender's note of \$1,381,000.00. SBA is willing to subordinate the lien of the SBA Mortgage, Security Agreement, and Assignment of Lease provided it retains its lien priority with respect to all other legal or equitable interests in the property.

AGREEMENT:

In consideration of the mutual benefits accruing to the parties and to induce Lender to make a loan to Owner, it is hereby agreed and understood as follows:

- (1) Lender's Mortgage, Security Agreement, and Assignment of Lease, and any renewals or extensions thereof, shall be a lien on the property and shall be prior to the lien of the SBA Mortgage, Security Agreement, and Assignment of Lease.
- (2) Lender would not make its loan without this subordination agreement.
- (3) Lender will not make any additional advances under its Mortgage except such disbursements which become necessary to protect its security interest and which are recoverable from Owner under the terms of its mortgage. Any lien securing funds advanced or disbursed contrary to this paragraph or monies due as a result of a default interest rate shall be subordinate to the lien of the SBA Mortgage.
- (4) This agreement shall be the whole and only agreement with regard to the subordination of the SBA Mortgage, Security Agreement, and Assignment of Lease to Lender's Mortgage, Security Agreement, and Assignment of Lease.
- (5) Except as expressly provided herein, this agreement shall not operate or be construed to alter the priority of the SBA Mortgage with regard to any legal or equitable interest in the property. Owner and Lender shall hold SBA harmless from any impairment of its lien with regard to any third party which is occasioned by this subordination.
- (6) SBA's agreement to subordinate its lien interest to that of the Lender is expressly conditioned upon Lender's, Borrower's and Guarantor's execution of this subordination agreement. This subordination agreement is null and void if not duly executed by the foregoing parties.
- (7) A default in the Borrower's obligation secured by the Lender's Mortgage may be cured (including purchase of the property at foreclosure sale) by the SBA via cash, certified funds or a United States Treasury check, at the option of the SBA. Provisions for a so-called "default rate of interest" or any similar penalty payment that may be contained within the Lender's Mortgage are inapplicable to SBA.
- (8) Owner and Lender shall indemnify the SBA from any lien, except for the new lien referenced in this agreement, which is claimed to have gained priority over the SBA Mortgage as a result of this subordination. The SBA Mortgage shall be in a second lien position after recordation of this agreement.
- (9) All proceeds of Lender's loan shall be applied to satisfy debt secured by a lien(s) presently superior to the lien of the SBA Mortgage, the following described uses, if any, plus customary closing costs. Any other use of proceeds not described herein shall void this agreement.
- (10) The terms of Lender's loan are subject to 13CFR120.921 as explained in attached Addendum. Any provision of Lender's loan documents contrary thereto is hereby waived by Lender.
- (11) Lender agrees to supply Iowa Business Growth Company with a copy of the signed Note, signed Mortgage, this recorded Subordination Agreement, and evidence that liens have been released on debt satisfied by Lender's loan. Failure to do so will void this agreement.

OWNER: Madison Square Assisted Living Corp.

Stanley L. Birchem
Stanley L. Birchem, President

Patricia A. Birchem
Patricia A. Birchem, Secretary

GUARANTOR(S):

By: Stanley L. Birchem
Stanley L. Birchem, an individual

By: Patricia A. Birchem
Patricia A. Birchem, an individual

LENDER:

Great Western Bank

SBA:

Administrator, United States Small
Business Administration, An Agency
of the United States

By: John Henderson
John Henderson, Community Banker

By: Gary A. Wamhof 4/25/06
Gary A. Wamhof
Sr. Loan Specialist



State of Iowa, County of Decatur, SS:

On this 5th day of May, 2006, before me, the undersigned Notary Public, personally appeared Stanley L. Birchem, President and Patricia A. Birchem, Secretary, who acknowledged themselves to be President and Secretary of Madison Square Assisted Living Corp. (an Iowa corporation), and that they, as such officers, being authorized to do so, executed the foregoing instrument for the purposes therein contained, by signing the name of the corporation by them as President and Secretary.

SEAL

Roberta Stanford
Notary Public

State of Iowa, County of Decatur, SS:

On this 5th day of May, 2006, before me, a Notary Public, in and for said State, personally appeared Stanley L. Birchem and Patricia A. Birchem, to me known to be the persons named in and who executed the foregoing instrument, and acknowledged that they executed the same as their voluntary act and deed.

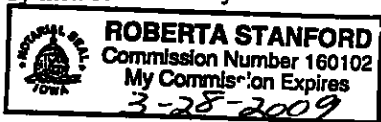
SEAL

Roberta Stanford
Notary Public

State of Iowa, County of Decatur, SS:

On this 5th day of May, 2006, before me, the undersigned Notary Public, personally appeared John Henderson (name), who acknowledged themselves to be Community Banker (title) of Great Western Bank, and that they, as such officer, being authorized to do so, executed the foregoing instrument for the purposes therein contained, by signing the name of the corporation by themselves and by them voluntarily executed.

SEAL



Roberta Stanford
Notary Public

State of California, County of Fresno, SS:

See attached

On APRIL 25, 2006, before me, the undersigned Notary Public, personally appeared _____, personally known to me to be the person whose name is subscribed to this instrument and acknowledged to me that he/she executed this instrument in his/her authorized capacity, and that by his/her signature on the instrument the United States Small Business Administration executed the instrument.

WITNESS my hand and official seal.

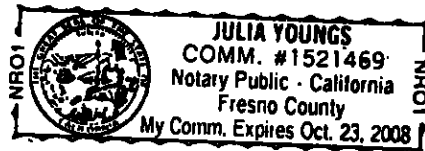
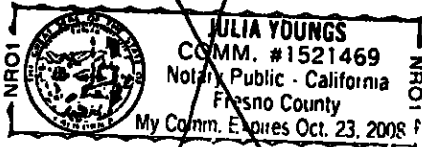
Signature: _____

State of California)
)
County of Fresno)

On APRIL 25, 2006 before me, Julia Youngs, a Notary Public, personally appeared CARY A. WAMMER, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument, the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature Julia Youngs



Addendum to Subordination Agreement

The original first mortgage lender agreed to certain terms at the time of the original loan closing. Those terms are referred to in Paragraph 10 above and are as follows:

- A) Third Party Lender's note and loan documents must not:
- (1) allow future advances except advances made for the reasonable costs of collection, maintenance, and protection of the Third Party Lender's lien;
 - (2) be cross-collateralized with other financing provided by Third Party Lender;
 - (3) have an early call feature;
 - (4) be payable on demand unless the Third Party Lender's note is in default;
 - (5) have a term less than, or require a balloon payment prior to, seven years when the 504 loan has a ten year term, or ten years when the 504 loan has a twenty year term.
- B) Third Party Lender:
- (1) confirms that the Third Party Lender Loan has been fully advanced;
 - (2) subordinates any prepayment penalties, late fees, and increased default interest to the CDC/SBA lien. Any advances made for the reasonable costs of collection, maintenance, and protection of the Third Party Lender's lien need not be subordinated;
 - (3) waives as to the CDC/SBA lien any provisions in its lien instruments prohibiting further encumbrances; and
 - (4) will provide written notice to CDC and SBA of default within 30 days of any delinquency upon which Third Party Lender intends to take action, and 60 days notice prior to foreclosure;
 - (5) confirms that the Third Party Lender note and loan documents comply with paragraph A above, or waives its right to enforce any provisions in the note and loan documents that do not comply with these SBA requirements;
 - (6) agrees not to amend or replace the note in regard to term, amortization, or rate increase without the prior written approval of CDC.

By signing the Subordination Agreement, you, as the new first mortgage lender, agree to these same terms.

SCHEDULE B

LEGAL DESCRIPTION:

Unit #102 of Jefferson Place in the City of Winterset, Madison County, Iowa, and an undivided 1/23rd interest in the common elements and areas of Jefferson Place as shown in the Declaration of Condominium of Jefferson Place filed for record on April 14, 1995 in Town Lot Deed Record 60 at page 159 in the Madison County Recorder's Office; AND

Unit #103 of Jefferson Place in the City of Winterset, Madison County, Iowa, and an undivided 1/23rd interest in the common elements and areas of Jefferson Place as shown in the Declaration of Condominium of Jefferson Place filed for record on April 14, 1995 in Town Lot Deed Record 60 at page 159 in the Madison County Recorder's Office; AND

Unit #104 of Jefferson Place in the City of Winterset, Madison County, Iowa, and an undivided 1/23rd interest in the common elements and areas of Jefferson Place as shown in the Declaration of Condominium of Jefferson Place filed for record on April 14, 1995 in Town Lot Deed Record 60 at page 159 in the Madison County Recorder's Office; AND

Unit #106 of Jefferson Place in the City of Winterset, Madison County, Iowa, and an undivided 1/23rd interest in the common elements and areas of Jefferson Place as shown in the Declaration of Condominium of Jefferson Place filed for record on April 14, 1995 in Town Lot Deed Record 60 at page 159 in the Madison County Recorder's Office; AND

Unit #108 of Jefferson Place in the City of Winterset, Madison County, Iowa, and an undivided 1/23rd interest in the common elements and areas of Jefferson Place as shown in the Declaration of Condominium of Jefferson Place filed for record on April 14, 1995 in Town Lot Deed Record 60 at page 159 in the Madison County Recorder's Office; AND

Unit #202 of Jefferson Place in the City of Winterset, Madison County, Iowa, and an undivided 1/23rd interest in the common elements and areas of Jefferson Place as shown in the Declaration of Condominium of Jefferson Place filed for record on April 14, 1995 in Town Lot Deed Record 60 at page 159 in the Madison County Recorder's Office; AND

Unit #203 of Jefferson Place in the City of Winterset, Madison County, Iowa, and an undivided 1/23rd interest in the common elements and areas of Jefferson Place as shown in the Declaration of Condominium of Jefferson Place filed for record on April 14, 1995 in Town Lot Deed Record 60 at page 159 in the Madison County Recorder's Office; AND

Unit #204 of Jefferson Place in the City of Winterset, Madison

County, Iowa, and an undivided 1/23rd interest in the common elements and areas of Jefferson Place as shown in the Declaration of Condominium of Jefferson Place filed for record on April 14, 1995 in Town Lot Deed Record 60 at page 159 in the Madison County Recorder's Office; AND

Unit #206 of Jefferson Place in the City of Winterset, Madison County, Iowa, and an undivided 1/23rd interest in the common elements and areas of Jefferson Place as shown in the Declaration of Condominium of Jefferson Place filed for record on April 14, 1995 in Town Lot Deed Record 60 at page 159 in the Madison County Recorder's Office; AND

Unit #208 of Jefferson Place in the City of Winterset, Madison County, Iowa, and an undivided 1/23rd interest in the common elements and areas of Jefferson Place as shown in the Declaration of Condominium of Jefferson Place filed for record on April 14, 1995 in Town Lot Deed Record 60 at page 159 in the Madison County Recorder's Office; AND

Unit #302 of Jefferson Place in the City of Winterset, Madison County, Iowa, and an undivided 1/23rd interest in the common elements and areas of Jefferson Place as shown in the Declaration of Condominium of Jefferson Place filed for record on April 14, 1995 in Town Lot Deed Record 60 at page 159 in the Madison County Recorder's Office; AND

Unit #303 of Jefferson Place in the City of Winterset, Madison County, Iowa, and an undivided 1/23rd interest in the common elements and areas of Jefferson Place as shown in the Declaration of Condominium of Jefferson Place filed for record on April 14, 1995 in Town Lot Deed Record 60 at page 159 in the Madison County Recorder's Office; AND

Unit #304 of Jefferson Place in the City of Winterset, Madison County, Iowa, and an undivided 1/23rd interest in the common elements and areas of Jefferson Place as shown in the Declaration of Condominium of Jefferson Place filed for record on April 14, 1995 in Town Lot Deed Record 60 at page 159 in the Madison County Recorder's Office; AND

Unit #305 of Jefferson Place in the City of Winterset, Madison County, Iowa, and an undivided 1/23rd interest in the common elements and areas of Jefferson Place as shown in the Declaration of Condominium of Jefferson Place filed for record on April 14, 1995 in Town Lot Deed Record 60 at page 159 in the Madison County Recorder's Office; AND

Unit #306 of Jefferson Place in the City of Winterset, Madison County, Iowa, and an undivided 1/23rd interest in the common elements and areas of Jefferson Place as shown in the Declaration of Condominium of Jefferson Place filed for record on April 14, 1995 in Town Lot Deed Record 60 at page 159 in the Madison County Recorder's Office; AND

Unit #308 of Jefferson Place in the City of Winterset, Madison County, Iowa, and an undivided 1/23rd interest in the common elements and areas of Jefferson Place as shown in the Declaration of Condominium of Jefferson Place filed for record on April 14, 1995 in Town Lot Deed Record 60 at page 159 in the Madison County Recorder's Office; AND

Unit #101 of Jefferson Place in the City of Winterset, Madison County, Iowa, and an undivided 1/23rd interest in the common elements and areas of Jefferson Place as shown in the Declaration of Condominium of Jefferson Place filed for record on April 14, 1995 in Town Lot Deed Record 60 at page 159 in the Madison County Recorder's Office; AND

Unit #107 of Jefferson Place in the City of Winterset, Madison County, Iowa, and an undivided 1/23rd interest in the common elements and areas of Jefferson Place as shown in the Declaration of Condominium of Jefferson Place filed for record on April 14, 1995 in Town Lot Deed Record 60 at page 159 in the Madison County Recorder's Office; AND

Unit #201 of Jefferson Place in the City of Winterset, Madison County, Iowa, and an undivided 1/23rd interest in the common elements and areas of Jefferson Place as shown in the Declaration of Condominium of Jefferson Place filed for record on April 14, 1995 in Town Lot Deed Record 60 at page 159 in the Madison County Recorder's Office; AND

Unit #301 of Jefferson Place in the City of Winterset, Madison County, Iowa, and an undivided 1/23rd interest in the common elements and areas of Jefferson Place as shown in the Declaration of Condominium of Jefferson Place filed for record on April 14, 1995 in Town Lot Deed Record 60 at page 159 in the Madison County Recorder's Office; AND

Unit #307 of Jefferson Place in the City of Winterset, Madison County, Iowa, and an undivided 1/23rd interest in the common elements and areas of Jefferson Place as shown in the Declaration of Condominium of Jefferson Place filed for record on April 14, 1995 in Town Lot Deed Record 60 at page 159 in the Madison County Recorder's Office.