



CATHAY BANK

VIA EMAIL AND PERSONAL DELIVERY

February 20, 2015

Honorable Mayor Bao Nguyen  
City of Garden Grove  
11222 Acacia Parkway  
Garden Grove, CA 92840

Mayor ProTem Steve Jones  
City of Garden Grove  
11222 Acacia Parkway  
Garden Grove, CA 92840

Councilman Christopher Phan  
City of Garden Grove  
11222 Acacia Parkway  
Garden Grove, CA 92840

Councilman Phat Bui  
City of Garden Grove  
11222 Acacia Parkway  
Garden Grove, CA 92840

Councilman Kris Beard  
City of Garden Grove  
11222 Acacia Parkway  
Garden Grove, CA 92840

Mr. Allan L. Roeder  
Interim City Mgr. – City of Garden Grove  
11222 Acacia Parkway  
Garden Grove, CA 92840

Ms. Erin Webb  
Senior Planner  
City of Garden Grove – Comm. Dev. Dept.  
11222 Acacia Parkway  
Garden Grove, CA 92840

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Costa Mesa, CA 92626

Re: 10800 and 10180 Garden Grove Boulevard, Garden Grove, CA (the "Property")

Dear Sirs and Madam,

Cathay Bank, the current lender on the leasehold interest of the Property, appreciates this opportunity to provide to the Garden Grove City Council and affiliated parties, a brief background and current status of the Property. As you are aware, the Emlen W. Hoag Foundation, a California non-profit corporation ("Hoag Foundation"), the fee owner of the Property, as Landlord and Garden Grove Galleria, LLC, a California limited liability company ("GGG"), as Tenant, entered into a Ground Lease dated March 18, 2004, as amended (the "Ground Lease"), pursuant to which Hoag Foundation leased to GGG the Property. Under the GGG Ground Lease, the original proposed project was to construct a mixed-use residential and retail development, containing sixty-six (66) condominiums and approximately one hundred thousand (100,000) square feet of retail floor area, which was commonly known as the "Garden Grove Galleria" (the "GGG Project").

On October 30, 2007, Cathay Bank, along with two other participant banks (with Cathay Bank as the lead bank), made a loan to GGG in the original principal amount of \$42,500,000.00 (the "Loan"). The Loan was made pursuant to a Construction Loan Agreement dated as of October 30, 2007 (the "Loan Agreement"). The Loan was secured by that certain Construction Deed of Trust dated as of October 30, 2007 (the "Deed of Trust") encumbering GGG's rights and interest under the GGG Ground Lease as security for the Loan and wherein GGG assigned to Cathay Bank all of the right, title and interest of GGG in and to all leases, rental agreements, tenant improvement, construction and reimbursements agreements involving or relating to the Property as security for the Loan.

In connection with the Loan, Hoag Foundation, Cathay Bank and GGG entered into a Ground Lease Consent, Estoppel Certificate and Agreement dated November 7, 2007 (the "Ground Lease Consent"). The Note, the Loan Agreement, the Deed of Trust, the Assignment of Leases, the Ground Lease Consent and any and all other agreements, documents or instruments entered into by GGG and Cathay Bank in connection with the Loan are collectively referred to as the "Loan Documents".

Thereafter, disputes arose between GGG and Cathay Bank over their respective rights and obligations pursuant to the Loan Documents, which culminated in the filing of a lawsuit in February 2010 by GGG against Cathay Bank in the Superior Court of the State of California in and for the County of Orange captioned *Garden Grove Galleria, LLC v. Cathay Bank, et al.* (Case No. 30-2010-00342212), as well as the filing of Cathay Bank's cross-complaint against GGG and the guarantors in April 2010 (the "Lawsuit"). On or about August 31, 2012, the jury issued a verdict on the complaint in favor of GGG and against Cathay Bank and awarded damages in favor of GGG in the sum of \$11,275,000.00. On or about January 14, 2013, the Court, in the cross-complaint, ruled against Cathay Bank, including its motion to be permitted to judicially foreclose under the Deed of Trust. Judgment was subsequently entered in the Lawsuit on February 24, 2014 ("Judgment"). Cathay Bank obtained a statutory appeal bond and filed an appeal of the Judgment in July 2014 in the Court of Appeal of the State of California, Fourth Appellate District, Division Three; Appeal No. G050395 (the "Appeal"), which is pending as of this writing. Cathay Bank's appellate brief was filed on November 6, 2014. GGG's respondent's appellate brief was filed on or about January 26, 2015. Cathay Bank's reply brief is due to be filed on or before March 19, 2015. Oral argument has not yet been set by the Court of Appeal.

On September 17, 2012, Hoag Foundation, in the manner provided in the GGG Ground Lease, served on GGG and Cathay Bank Three Day Notices to Cure or Quit. On October 9, 2012, Hoag Foundation and Cathay Bank entered into a Reinstatement and Cure Agreement (the "Cure Agreement"). In the Cure Agreement, Cathay Bank agreed, among others, to cure the monetary defaults of GGG pursuant to the GGG Ground Lease. In consideration for the covenants and agreements of Cathay Bank, in the Cure Agreement, Hoag Foundation agreed in the Cure Agreement to reinstate the GGG Ground Lease.

On July 2, 2013, the City of Garden Grove (the "City") served Hoag Foundation, Cathay Bank and GGG with written notice regarding the GGG Project contending, among other things,

that the partially completed improvements on the Property constitute blight, and the Property is unsafe and an attractive nuisance. As a result, the City gave Hoag Foundation, Cathay Bank and GGG one year to commence construction of the GGG Project or, if that did not occur, to commence the demolition and removal of the existing partially-completed improvements on the Property. The City subsequently extended the demolition deadline to August 16, 2014. Thereafter, Hoag Foundation received correspondence from the City to Hoag Foundation, upon which Cathay Bank and GGG were copied, dated November 7, 2014, directing the partially completed improvements on the Property be demolished if by December 1, 2014 a "complete application package for the necessary land use entitlements needed to facilitate recommencement of construction of the Project has not been submitted to the City ..." In a letter to the City from Cathay Bank dated November 24, 2014, Cathay Bank requested the City to grant a forty-five (45) day extension of the demolition deadline. The City has not yet responded to the extension request of Cathay Bank.

During this period of time, Cathay Bank sought a developer that might be acceptable to Hoag Foundation to complete the GGG Project, but taking into account that the real estate and economic environment had materially changed subsequent to the start of the GGG Project. With this in mind, Cathay Bank had numerous communications with Tri-Millennium Homes, Inc. ("TMH") about the nature of the GGG Project. TMH also had communications with Hoag Foundation concerning changes to the GGG Project.

Ultimately, Cathay Bank and TMH entered into a Purchase and Sale Agreement and Joint Escrow Instructions, dated April 16, 2014 (the "PSA"). In the PSA, Cathay Bank agreed to sell, and TMH agreed to purchase, certain assets, including the right to enter into a new ground lease with Hoag Foundation. In connection with the PSA, Cathay Bank and TMH requested Hoag Foundation to enter into a new ground lease of the Property with TMH, or an affiliate of TMH, as TMH proposed to construct a retail/apartment development on the Property to be known as "Garden Grove Lotus Plaza" (the "TMH Project").

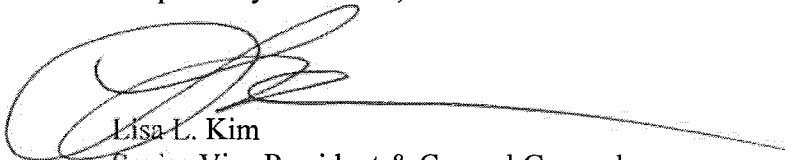
Thereafter, Hoag Foundation, Cathay Bank and TMH began negotiations of a Tri-Party Agreement ("TPA"), which, among other things, would grant TMH a new ground lease at closing of the PSA and TPA. However, prior to Hoag Foundation and the parties completing negotiations for the TPA, on or about December 18, 2014, Hoag Foundation voted to disapprove the TMH Project.

Since then, Cathay Bank has been and is actively working to identify other potential purchasers/developers of the GGG Project, with the cooperation of Hoag Foundation. Once this occurs, it is Cathay Bank's goal to enter into a purchase agreement with the buyer/developer, negotiate a tri-party agreement with such party and Hoag Foundation, and then consummate the transaction so that construction of the building on the Property can be completed. The prospective buyer/developer will need to entitle the Property for whatever project is ultimately agreed upon among the parties, including the City. Cathay Bank has to date received a letter of intent by an interested buyer/developer as well as received numerous inquiries from other mixed use developers and have been showing the site to numerous but capable developers. One of the challenging issues that the prospective developers have indicated to both Cathay Bank and Hoag

Foundation is the required retail component of the project. The City requires at least 40,000 square feet of retail space. Since the inception of the GGG Project and the current market trend for residential units, the mixed used/retail concept may pose certain challenges for all parties. Cathay Bank and Hoag Foundation are diligently pursuing the best feasible development project for the Property and will continue to work with each other and the City. In the next few months a buyer/developer will be selected by Cathay Bank and Hoag Foundation who we hope will be compatible with working with the City to obtain entitlements to complete the project. It is Cathay Bank and Hoag Foundation's goal to construct a building that the City of Garden Grove and the Hoag Foundation will be proud to have in its City for a very long time.

On behalf of Cathay Bank, we appreciate this opportunity to meet with the City and answer any questions you may have. You may also contact me at (626) 279-3297 or [lisa.kim@cathaybank.com](mailto:lisa.kim@cathaybank.com).

Respectfully submitted,



Lisa L. Kim  
Senior Vice President & General Counsel  
of Cathay Bank

cc: Mr. Bill Grant  
Mr. Scott Weimer  
William Brinckloe, Esq.  
Mr. Heng W. Chen