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46574 **MORTGAGE** Vol. M78 Page 7668

APRIL 3, 19 78

SHASTA WOOD PRODUCTS CO. Mortgagor

SOUTH HIGHWAY 97. MIDLAND, OREGON 97634 Address

SOUTH VALLEY STATE BANK Branch

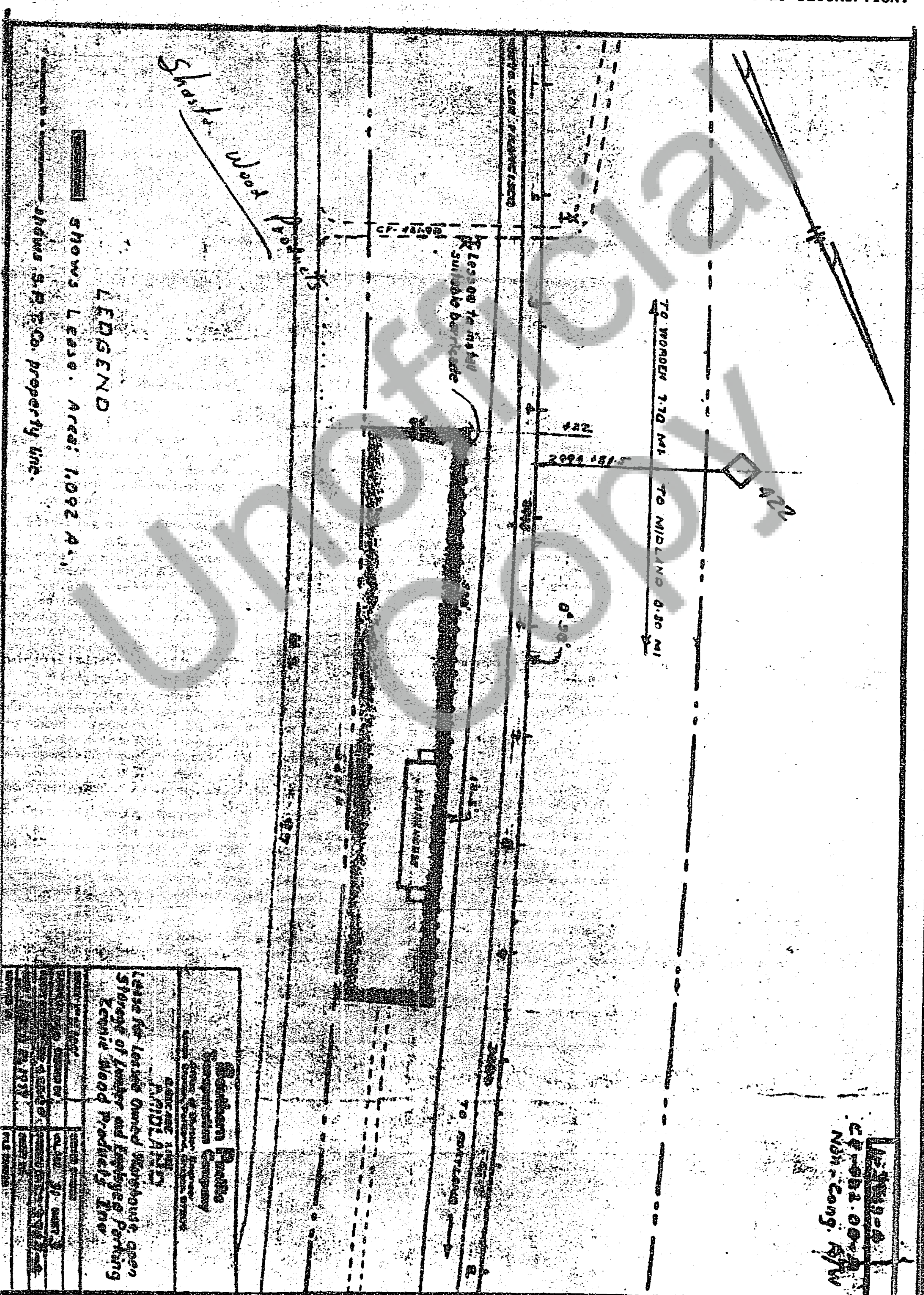
5215 SOUTH SIXTH STREET. KLAMATH FALLS, ORE. 97601 Address

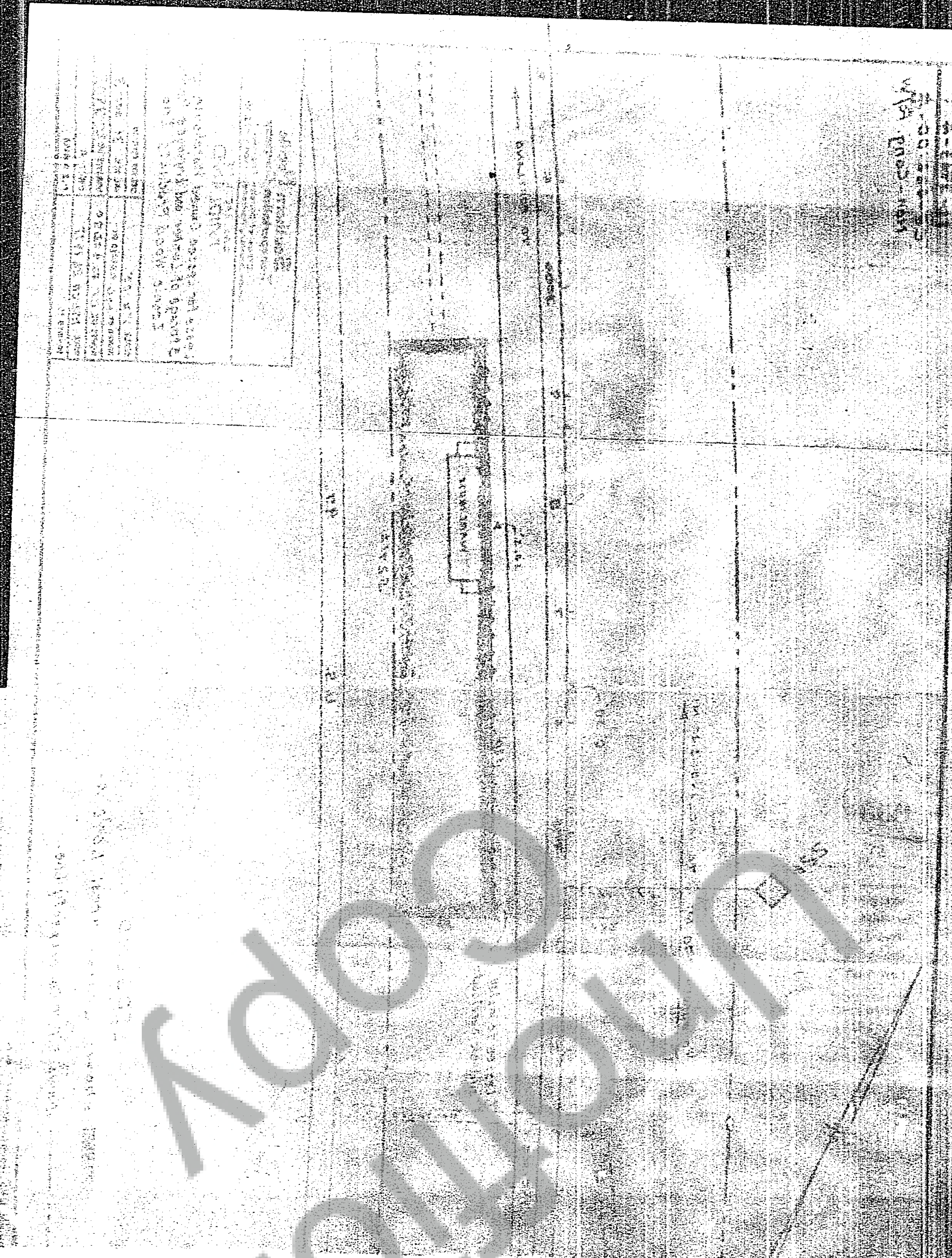
The Bank has loaned SHASTA WOOD PRODUCTS CO. * (Borrower)

$ 48,950.40 which is repayable with interest according to the terms of a promissory note dated the same as this mortgage, under which the final payment of principal and interest is due on or before FOUR years from date. The term "Indebtedness" as used in this mortgage shall mean (a) the principal and interest payable under the note, (b) any future amounts that the Bank may in its discretion loan to Borrower or Mortgagor, and (c) any sums paid or advanced by the Bank to discharge obligations of Mortgagor as permitted under this mortgage.

To secure payment of the Indebtedness and performance of all obligations of Mortgagor under this mortgage, Mortgagor mortgages to the Bank on the terms set out below the following property in KLAMATH County, Oregon.

LEASEHOLD IMPROVEMENTS ON S P T CO. PROPERTY, INCLUDING BUT NOT LIMITED TO EXISTING QUONSET BUILDING AND MILL EQUIPMENT. LEASED PROPERTY MORE COMPLETELY DESCRIBED BY ATTACHED DESCRIPTION:





Return to
South Valley St. Bank
P.O. Box 5210
K F.

7669

together with all appurtenances, all existing or subsequently erected or affixed improvements or fixtures, and all equipment, furnishings and other articles of personal property now or subsequently located on or used in connection with the property, all of which is collectively referred to as the Property.

1. Possession and Maintenance of the Property.

1.1 Until in default, Mortgagor shall remain in possession and control of the Property and to the extent that the Property consists of commercial improvements shall be free to operate and manage the Property and receive the proceeds of operation. The Property shall be maintained in good condition at all times, Mortgagor shall promptly make all necessary repairs, replacements and renewals so that the value of the Property shall be maintained, and Mortgagor shall not commit or permit any waste on the Property. Mortgagor shall comply with all laws, ordinances, regulations and private restrictions affecting the Property.

1.2 To the extent that the Property constitutes commercial property or a farm or orchard, Mortgagor shall operate the Property in such manner as to prevent deterioration of the land and improvements including fences, except for reasonable wear and tear from proper use, and to the extent that the land is under cultivation, shall cultivate or otherwise operate the Property according to good husbandry.

1.3 Mortgagor shall not demolish or remove any improvement from the Property without the written consent of Bank.

2. Completion of Construction.

If some or all of the proceeds of the loan creating the Indebtedness are to be used to construct or complete construction of any improvement on the Property, the improvement shall be completed on or before six months from the date of this mortgage and Mortgagor shall pay in full all costs and expenses in connection with the work.

3. Taxes and Liens.

3.1 Mortgagor shall pay before they become delinquent all taxes and assessments levied against or on account of the Property, and shall pay as due all claims for work done on or for services rendered or material furnished to the Property. Mortgagor shall maintain the Property free of any liens having priority over or equal to the interest of the Bank under this mortgage, except for the lien of taxes and assessments not delinquent and except as otherwise provided in 3.2.

3.2 Mortgagor may withhold payment of any tax, assessment, or claim in connection with a good faith dispute over the obligation to pay, so long as the Bank's interest in the Property is not jeopardized. If a lien arises or is filed as a result of nonpayment, Mortgagor shall within 15 days after the lien arises or, if a lien is filed, within 15 days after Mortgagor has notice of the filing, secure the discharge of the lien or deposit with the Bank cash or a sufficient corporate surety bond or other security satisfactory to the Bank in an amount sufficient to discharge the lien plus any costs, attorneys' fees or other charges that could accrue as a result of a foreclosure or sale under the lien.

3.3 The assessor or tax collector of the county in which the Property is located is authorized to deliver to the Bank a written statement of the property taxes assessed or owing at any time.

4. Insurance.

4.1 Mortgagor shall carry such insurance as the Bank may reasonably require. This shall include insurance on the Property against fire, additional risks covered by a standard endorsement for extended coverage, and such other risks as may be specified by the Bank including without limitation war risks. Insurance on the Property shall be carried in companies and under policies approved by the Bank and shall be for an amount equal to the remaining unpaid portion of the Indebtedness or the full insurable value of the Property, whichever is less, and an amount sufficient to comply with any co-insurance provision in any policy.

4.2 All policies of insurance on the Property shall bear an endorsement in a form satisfactory to the Bank making loss payable to the Bank and shall be deposited with the Bank. In the event of loss, Mortgagor shall immediately notify the Bank, who may make proof of loss if it is

*Insert "Mortgagor" or the name of the borrower if different from the Mortgagor.

US-90-849 3/70

7670

not made promptly by Mortgagor. Proceeds shall be paid directly to the Bank who may compromise with any insurance company and make a final settlement which shall be binding upon Mortgagor. The Bank may, at its election, apply the proceeds to the reduction of the Indebtedness or the restoration or repair of the Property.

4.3 At least 30 days prior to the expiration of any policy, a satisfactory renewal or substitute policy shall be secured by Mortgagor.

5. Reserves; Mortgage Insurance Premiums.

5.1 The Bank may require Mortgagor to maintain reserves for payment of taxes (including special assessments and other charges against the Property by governmental or quasi-governmental bodies) or premiums on insurance or both. The reserves shall be created by payment each month to the Bank of an amount determined by the Bank to be sufficient to produce, at least 30 days before they are due, amounts equal to or in excess of the taxes or insurance premiums to be paid. If at the time that payments are to be made the reserve for either taxes or insurance premiums is insufficient, Mortgagor shall upon demand pay such additional sum as the Bank shall determine to be necessary to cover the required payment.

5.2 If the Bank carries insurance covering the repayment of all or any part of the Indebtedness, the premiums for such insurance shall be paid by Mortgagor, and the Bank may require Mortgagor to maintain a reserve for such purpose in the same manner as for taxes and insurance.

5.3 If Mortgagor desires to carry a package plan of insurance that includes coverage in addition to that required under this mortgage, the Bank may at its option establish and administer a reserve for that purpose. In such event the premium attributable to the required insurance coverage shall be quoted separately, and the Bank may permit Mortgagor to furnish a certificate of insurance rather than deposit the policy as required in 4.2. If at any time the Bank holds an insufficient amount in the insurance reserve to cover the premium for the entire package policy, the Bank may, at its discretion, pay only that portion of the premium attributable to the required insurance coverage. If the blanket policy does not permit such partial payment, the Bank may use the reserve funds for the premium on a new, separate policy providing the required insurance coverage and allow the package policy to lapse. The Bank may from time to time establish reasonable service charges for the collection and disbursement of premiums on package plan insurance.

6. Expenditures by the Bank.

If Mortgagor shall fail to comply with any provision of this mortgage, the Bank may, at its option, on Mortgagor's behalf take the required action and any amount that it expends in so doing shall be added to the Indebtedness. Amounts so added shall be payable on demand with interest at the rate of ten percent per annum from the date of expenditure. The rights provided for in this paragraph shall be in addition to any other rights or any remedies to which the Bank may be entitled on account of the default, and the Bank shall not by taking the required action cure the default so as to bar it from any remedy that it otherwise would have had.

7. Late Payment Penalty.

If any payment under the note is late by 15 days or more, the Bank may charge a penalty up to two cents for each dollar of payment so in arrears to cover the extra expense involved in handling delinquent payments. Collection of a late payment charge shall not constitute a waiver of or prejudice the Bank's right to pursue any other right or remedy available on account of the delinquency.

8. Warranty; Defense of Title.

8.1 Mortgagor warrants that he holds merchantable title to the Property in fee simple free of all encumbrances other than those enumerated in the title policy, if any, issued for the benefit of the Bank in connection with this transaction and accepted by the Bank.

8.2 Subject to the exceptions in 8.1 above, Mortgagor warrants and will forever defend the title against the lawful claims of all persons. In the event any action or proceeding is commenced that questions Mortgagor's title or the interest of the Bank under this mortgage, Borrower shall defend the action at his expense.

9. Condemnation.

9.1 If all or any part of the Property is condemned, the Bank may at its election require that all or any portion of the net proceeds of the award be applied on the Indebtedness. The net proceeds of the award shall mean the award after payment of all reasonable costs, expenses and attorneys' fees necessarily paid or incurred by Mortgagor and the Bank in connection with the condemnation.

9.2 If any proceedings in condemnation are filed, Mortgagor shall promptly take such steps as may be necessary to defend the action and obtain the award.

10. Imposition of Tax by State.

10.1 The following shall constitute state taxes to which this paragraph applies:

(a) A specific tax upon mortgages or upon all or any part of the Indebtedness secured by a mortgage.

(b) A specific tax on the owner of mortgaged property which the taxpayer is authorized or required to deduct from payments on the mortgage.

(c) A tax on mortgaged premises chargeable against the mortgagee or the holder of the note secured.

(d) A specific tax on all or any portion of the indebtedness or on payments of principal and interest made by a mortgagor.

10.2 If any state tax to which this paragraph applies is enacted subsequent to the date of this mortgage, this shall have the same effect as a default, and the Bank may exercise any or all of the remedies available to it in the event of a default unless the following conditions are met:

(a) Mortgagor may lawfully pay the tax or charge imposed by the state tax, and

(b) Mortgagor pays or offers to pay the tax or charge within 30 days after notice from the Bank that the tax law has been enacted.

11. Transfer by Mortgagor.

11.1 Mortgagor shall not, without the prior written consent of the Bank, transfer Mortgagor's interest in the Property, whether or not the transferee assumes or agrees to pay the Indebtedness. If Mortgagor or transferee applies to the Bank for consent to such a transfer, a prospective transferee applies to the Bank for consent concerning the transferee action, the Bank may require such information concerning the transferee as would normally be required from a new loan applicant. The Bank shall not unreasonably withhold its consent.

11.2 As a condition of its consent to any transfer, the Bank may in its discretion impose a service charge not exceeding one percent of the original amount of the Indebtedness, and may increase the interest rate of the Indebtedness by not more than one percent per annum.

11.3 No transfer by Mortgagor shall relieve Mortgagor of liability for payment of the Indebtedness. Following a transfer, the Bank may agree to any extension of time for payment or modification of the terms of this mortgage or the promissory note or waive any right or remedy under this mortgage or the promissory note without relieving Mortgagor from liability. Mortgagor waives notice, presentment and protest with respect to the Indebtedness.

12. Security Agreement; Financing Statements.

12.1 This instrument shall constitute a security agreement with respect to any personal property included within the description of the Property.

12.2 Mortgagor shall join with the Bank in executing one or more financing statements under the Uniform Commercial Code and shall file the statement at Mortgagor's expense in all public offices where filing is required to perfect the security interest of the Bank in any personal property under the Uniform Commercial Code.

13. Release on Full Performance.

If Mortgagor pays all of the Indebtedness when due and otherwise performs all of its obligations under this mortgage and the note, the Bank shall execute and deliver to Mortgagor a suitable release and satisfaction of this mortgage and suitable statements of termination of any financing statements on file evidencing the Bank's security interest in personal property.

14. Default.

The following shall constitute events of default:

14.1 Failure of Mortgagor to pay any portion of the Indebtedness when it is due.

14.2 Failure of Mortgagor within the time required by this mortgage to make any payment for taxes, insurance, or mortgage insurance premiums or for reserves for such payments, or any payment necessary to prevent filing of or discharge any lien.

14.3 Failure of Mortgagor to perform any other obligation under this mortgage within 20 days after receipt of written notice from the Bank specifying the failure.

15. Rights and Remedies on Default.

15.1 Upon the occurrence of any event of default and at any time thereafter, the Bank may exercise any one or more of the following rights and remedies:

(a) The right at its option by notice to Borrower to declare the entire Indebtedness immediately due and payable.

(b) With respect to all or any part of the Property that constitutes realty, the right to foreclose by judicial foreclosure in accordance with applicable law.

(c) With respect to all or any part of the Property that constitutes personalty, the rights and remedies of a secured party under the Uniform Commercial Code.

(d) The right, without notice to Mortgagor, to take possession of the Property and collect all rents and profits, including those past due and unpaid, and apply the net proceeds, over and above the Bank's costs, against the Indebtedness. In furtherance of this right the Bank may require any tenant or other user to make payments of rent or use fees directly to the Bank, and payments by such tenant or user to the Bank in response to its demand shall satisfy the obligation for which the payments are made, whether or not any proper grounds for the demand existed.

(e) The right in connection with any legal proceedings to have a receiver appointed to take possession of any or all of the

Property, with the power to protect and preserve the Property and to operate the Property preceding foreclosure or sale and apply the proceeds, over and above cost of the receivership, against the Indebtedness. The receiver may serve without bond if permitted by law. The Bank's right to the appointment of a receiver shall exist whether or not apparent value of the Property exceeds the Indebtedness by a substantial amount.

(f) Any other right or remedy provided in this mortgage or the promissory note evidencing the Indebtedness.

15.2 In exercising its rights and remedies, the Bank shall be free to sell all or any part of the Property together or separately or to sell certain portions of the Property and refrain from selling other portions. The Bank shall be entitled to bid at any public sale on all or any portion of the Property.

15.3 The Bank shall give Mortgagor reasonable notice of the time and place of any public sale of any personal property or of the time after which any private sale or other intended disposition of the property is to be made. Reasonable notice shall mean notice given at least ten days before the time of the sale or disposition.

15.4 A waiver by either party of a breach of a provision of this agreement shall not constitute a waiver of or prejudice the party's right otherwise to demand strict compliance with that provision or any other provision. Election by the Bank to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or take action to perform an obligation of Mortgagor under this mortgage after failure of Mortgagor to perform shall not affect the Bank's right to declare a default and exercise its remedies under this paragraph 15.

15.5 In the event suit or action is instituted to enforce any of the terms of this mortgage, the Bank shall be entitled to recover from Mortgagor such sum as the court may adjudge reasonable as Attorneys' fees at trial and on any appeal. All reasonable expenses incurred by the Bank that are necessary at any time in the Bank's opinion for the protection of its interest or the enforcement of its rights, including without limitation, the cost of searching records, obtaining title reports, surveyors' reports, attorneys' opinions or title insurance, whether or not any court action is involved, shall become a part of the Indebtedness payable on demand and shall bear interest at the rate of ten percent per annum from the date of expenditure until repaid.

16. **Notice.**

Any notice under this mortgage shall be in writing and shall be effective when actually delivered or, if mailed, when deposited as registered or certified mail directed to the address stated in this mortgage. Either party may change the address for notices by written notice to the other party.

17. **Succession; Terms.**

17.1 Subject to the limitations stated in this mortgage on transfer of Mortgagor's interest, this mortgage shall be binding upon and inure to the benefit of the parties, their successors and assigns.

17.2 In construing this mortgage the term mortgage shall encompass the term security agreement when the instrument is being construed with respect to any personal property.

SHASTA WOOD PRODUCTS CO.

BY Donald J. Legget PRES.

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF OREGON, County of ______________) ss.

______________, 19____

Personally appeared the above-named ______________

and acknowledged the foregoing instrument to be ______________ voluntary act.

Before me:

______________ (SEAL)

Notary Public for Oregon

My commission expires:

CORPORATE ACKNOWLEDGEMENT

STATE OF OREGON, County of KLAMATH) ss.

APRIL 3, 19 78

Personally appeared DONALD J. LEGGET, and

that he, the said DONALD J. LEGGET who, being sworn, stated PRESIDENT is a ______________, and he, the said ______________ is a ______________ of Grantor corporation and that the seal affixed hereto is its seal and that this deed was voluntarily signed and sealed in behalf of the corporation by authority of its Board of Directors.

Before me: Lloyd M Johnston

Notary Public for Oregon (SEAL)

My commission expires: JAN 24, 1981

STATE OF OREGON; COUNTY OF KLAMATH; ss.

I hereby certify that the within instrument was received and filed for record on the 19th day of April A.D., 19 78 at 3:00 o'clock P M., and duly recorded in Vol M78, of Mortgages on Page 7668.

FEE $12.00

WM. D. MILNE, County Clerk

By Bernetha G Letsch Deputy

IN TESTIMONY WHEREOF, I have hereunto set my hand and notarial seal the day and year last above written.

My commission expires ______________

______________ Notary Public in and for said County and State.