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NOTE AND MORTGAGE

THE MORTGAGOR, William W. [illegible] Homes and [illegible] L. Homes, Husband and Wife

mortgages to the STATE OF OREGON, represented and acting by the Director of Veterans' Affairs, pursuant to ORS 407.030, the following described real property located in the State of Oregon and County of Klamath:

Lot 14, Block 33, HILLSIDE ADDITION to the City of Klamath Falls, according to the official plat thereof on file in the office of the County Clerk of Klamath County, Oregon.

[illegible]

together with the [illegible] hereditaments, rights, privileges, and appurtenances including roads and easements used in connection with the premises; electric wiring and fixtures; furnace and heating system, water heaters, fuel storage receptacles; plumbing, ventilating, water and irrigating systems; screens, doors, window shades and blinds, shutters; cabinets, built-ins, linoleums and floor coverings, built-in stoves, ovens, electric sinks, air conditioners, refrigerators, freezers, dishwashers; and all fixtures now or hereafter installed in or on the premises; and any shrubbery, flora, or timber now growing or hereafter planted or growing thereon; and any replacements of any one or more of the foregoing items, in whole or in part, all of which are hereby declared to be appurtenant to the land, and all of the rents, issues, and profits of the mortgaged property;

to secure the payment of Thirty Seven Thousand Fifty and no/100---------- Dollars

($37,050.00------), and interest thereon, evidenced by the following promissory note:

> I promise to pay to the STATE OF OREGON Thirty Seven Thousand Fifty and no/100---------- Dollars ($37,050.00------), with interest from the date of initial disbursement by the State of Oregon, at the rate of [illegible] percent per annum until such time as a different interest rate is established pursuant to ORS 407.072, principal and interest to be paid in lawful money of the United States at the office of the Director of Veterans' Affairs in Salem, Oregon, as follows:
>
> $226.00------ on or before October 15, 1978------ and $226.00 on the 15th of each month------ thereafter, plus One-twelfth of------ the ad valorem taxes for each successive year on the premises described in the mortgage, and continuing until the full amount of the principal, interest and advances shall be fully paid, such payments to be applied first as interest on the unpaid balance, the remainder on the principal.
>
> The due date of the last payment shall be on or before September 15, 2005------
>
> In the event of transfer of ownership of the premises or any part thereof, I will continue to be liable for payment and the balance shall draw interest as prescribed by ORS 407.070 from date of such transfer.
>
> This note is secured by a mortgage, the terms of which are made a part hereof.
>
> Dated at Klamath Falls, Oregon [illegible]
>
> [illegible signatures]

The mortgagor or subsequent owner may pay all or any part of the loan at any time without penalty.

The mortgagor covenants that he owns the premises in fee simple, has good right to mortgage same, that the premises are free from encumbrance, that he will warrant and defend same forever against the claims and demands of all persons whomsoever, and this covenant shall not be extinguished by foreclosure, but shall run with the land.

MORTGAGOR FURTHER COVENANTS AND AGREES:

1. To pay all debts and moneys secured hereby;
2. Not to permit the buildings to become vacant or unoccupied; not to permit the removal or demolishment of any buildings or improvements now or hereafter existing; to keep same in good repair; to complete all construction within a reasonable time in accordance with any agreement made between the parties hereto;
3. Not to permit the cutting or removal of any timber except for his own domestic use; not to commit or suffer any waste;
4. Not to permit the use of the premises for any objectionable or unlawful purpose;
5. Not to permit any tax, assessment, lien, or encumbrance to exist at any time;
6. Mortgagee is authorized to pay all real property taxes assessed against the premises and add same to the principal, each of the advances to bear interest as provided in the note;
7. To keep all buildings unceasingly insured during the term of the mortgage, against loss by fire and such other hazards in such company or companies and in such an amount as shall be satisfactory to the mortgagee; to deposit with the mortgagee all such policies with receipts showing payment in full of all premiums; all such insurance shall be made payable to the mortgagee; insurance shall be kept in force by the mortgagor in case of foreclosure until the period of redemption expires;

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8. Mortgagee shall be entitled to all compensation and damages [illegible] under right of eminent domain, or for any security voluntarily released, same to be applied upon the indebtedness;

9. Not to lease or rent the premises, or any part of same, without written consent of the mortgagee;

10. To promptly notify mortgagee in writing of a transfer of ownership of the premises or any part or interest in same, and to furnish a copy of the instrument of transfer to the mortgagee; [illegible] all payments due from the date of transfer [illegible] interest as prescribed by ORS 407.070 on [illegible] remain in full force and effect.

The mortgagee may, at its option, in case of default of the mortgagor, perform same in whole or in part and all expenditures made in so doing including [illegible] shall draw interest at the rate provided in the note and all such expenditures [illegible] of the mortgage or the note shall [illegible] and shall be secured by this mortgage. [illegible] repayable by the mortgagor without demand.

Default in any of the covenants or agreements herein contained or the expenditure of any portion of the loan for purposes other than those specified in the application, except by written permission of the mortgagee given before the expenditure is made, shall cause the entire indebtedness at the option of the mortgagee to become immediately due and payable without notice and this mortgage subject to foreclosure.

The failure of the mortgagee to exercise any options herein [illegible] shall not constitute a waiver of any right arising from a breach of the covenants.

In case foreclosure is commenced, the mortgagor shall be liable for the cost of a title search, attorney fees, and all other costs incurred in connection with such foreclosure.

Upon the breach of any covenant of the mortgage, the mortgagee shall have the right to enter the premises, take possession, collect the rents, issues and profits and apply same, less reasonable costs of collection, upon the indebtedness and the mortgagee shall have the right to the appointment of a receiver to collect same.

The covenants and agreements herein shall extend to and be binding upon the heirs, executors, administrators, successors and assigns of the respective parties hereto.

It is distinctly understood and agreed that this note and mortgage are subject to the provisions of Article XI-A of the Oregon Constitution, ORS 407.010 to 407.210 and any subsequent amendments thereto and to all rules and regulations which have been issued or may hereafter be issued by the Director of Veterans' Affairs pursuant to the provisions of ORS 407.020.

WORDS: The masculine shall be deemed to include the feminine, and the singular the plural where such connotations are applicable herein.

IN WITNESS WHEREOF, The mortgagors have set their hands and seals this [illegible] day of [illegible], 19 78

[illegible] (Seal)

Virginia L. Holmes (Seal)

(Seal)

ACKNOWLEDGMENT

STATE OF OREGON,

County of Klamath

Before me, a Notary Public, personally appeared the within named William D. Holmes & Virginia L. Holmes, his wife, and acknowledged the foregoing instrument to be their voluntary act and deed.

WITNESS by hand and official seal the day and year last above written.

[illegible]

Notary Public for Oregon

My Commission expires My Commission Expires July 13, 1981

MORTGAGE

FROM [illegible] TO Department of Veterans' Affairs

L- M94412

STATE OF OREGON,

County of Klamath

I certify that the within was received and duly recorded by me in Klamath County Records, Book of Mortgages,

No. M78 Page 17309 on the 4th day of August, 1978 WM. D. MILNE Klamath County Clerk

By [illegible] Deputy.

Filed August 4, 1978 at o'clock [illegible]

Klamath Falls, Oregon

County Klamath By [illegible] Deputy.

After recording return to:
DEPARTMENT OF VETERANS' AFFAIRS
General Services Building
Salem, Oregon 97310
Form L-4 (Rev. 5-71)