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Together with all and singular the tenements, hereditaments and appurtenances thereunto belonging or in anywise appertaining, and which may hereafter thereto belong or appertain, and the rents, issues and profits therefrom and any and all fixtures upon said premises at the time of the execution of this mortgage or at any time during the term of this mortgage;

TO HAVE AND TO HOLD the said premises with the appurtenances unto the said mortgagee, his successors and assigns forever,

THIS CONVEYANCE is intended as a mortgage to secure the payment of the sum of Thirty-Five Thousand and 00/100 Dollars (\$35,000.00) in accordance with the terms of that certain promissory note, as follows:

PROMISSORY NOTE

I promise to pay to the STATE OF OREGON Thirty-Five Thousand and 00/100 Dollars (\$35,000.00), with interest from May 1, 1980, at the rate of Seven and 5/10 percent (7.5%) per annum, principal and interest to be paid in lawful money of the United States at the office of the Executive Director of the State of Oregon, Salem, Oregon, as follows:

\$ 5,342.00 on or before the 1st day of March, 1981, and \$ 5,342.00 on each March 1st thereafter, and continuing until the full amount of the principal and interest 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 the 1st day of March, 1990.

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 from the 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, on the 21st day of May, 1980.

Fred G. Hess
Fred G. Hess

Edith M. Hess
Edith M. Hess

The date of maturity of the debt secured by this mortgage is the date on which the last scheduled principal payment becomes due, to-wit: March 1, 1990.

This indenture is further conditioned upon the faithful observance by the mortgagor of the following covenants hereby expressly entered into by the mortgagor, to-wit:

That mortgagor is lawfully seized of said premises, and now has a valid and unincumbered fee simple title thereto, (see Attachment A) and that he will warrant and defend the same against the claims and demands of all persons whomsoever;

That he will pay the said promissory note and all installments of interest thereon promptly as the same become due, according to the tenor of said note;

That so long as this mortgage shall remain in force he will pay all taxes, assessments, and other charges of every nature which may be levied or assessed upon or against the said premises when due and payable, according to law, and before the same become delinquent, and will also pay all taxes which may be levied or assessed on this mortgage or the debt thereby secured, and will promptly pay and satisfy any mechanics' liens or other incumbrances that might by operation of law or otherwise become a lien upon the mortgaged premises superior to the lien of this mortgage;

That he will keep all the improvements erected on said premises in good order and repair and will not commit or suffer any waste of the premises hereby mortgaged.

That so long as this mortgage shall remain in force he will keep the buildings now erected, or any which may hereafter be erected on said premises insured against loss or damage by fire, with extended coverage, to the extent of the original principal sum of the note secured by this obligation in some company or companies acceptable to said mortgagee and for the benefit of both parties hereto as their interests may appear, and will deliver evidence of such policies and renewals thereof to said mortgagee.

NOW, THEREFORE, if the said mortgagor shall pay said promissory note and shall fully satisfy and comply with the covenants hereinbefore set forth, then this conveyance shall be void, but otherwise to remain in full force and virtue as a mortgage to secure the payment of said promissory note in accordance with the terms thereof and the performance of the covenants and agreements herein contained; it being agreed that any failure to make any of the payments provided for in said note or this mortgage when the same shall become

due or payable, or to perform any agreement herein contained, shall give to the mortgagee the option to declare the whole amount due on said note, or unpaid thereon or on this mortgage, at once due and payable and this mortgage by reason thereof may be foreclosed at any time thereafter. And if the said mortgagor shall fail to pay any taxes or other charges or any lien or insurance premium as herein provided to be done, the mortgagee shall have the option to pay the same and any payment so made shall be added to and become a part of the debt secured by this mortgage, and draw interest at a rate equal to the rate stated in the original note secured by this mortgage, without waiver, however, of any right arising from breach of any of the covenants herein.

In case of complaint is filed in a suit brought to foreclose this mortgage, the court shall, upon motion of the holder of the mortgage, without respect to the condition of the property herein described, appoint a receiver to collect the rents and profits arising out of said premises, and apply such rents and profits to the payment and satisfaction of the amount due under this mortgage, first deducting all proper charges and expenses of the receivership.

In the event of any suit or action instituted to foreclose this mortgage, the losing party agrees to pay such sum as the trial court may adjudge reasonable as attorney's fees to be allowed the prevailing party in such suit or action and in the event of any appeal, the losing party agrees to pay such sum as the appellate court shall adjudge reasonable as the prevailing party's attorney's fees on such appeal; in any event the mortgagor agrees to pay all reasonable costs incurred by the mortgagee for title reports and title search, all statutory costs and disbursements, all such sums to be secured by the lien of this mortgage and included in the decree of foreclosure.

In construing this mortgage, it is understood that the mortgagor or mortgagee may be more than one person; that if the context so requires, the singular shall be taken to mean and include the plural, the masculine pronoun shall mean the feminine and the neuter, and that generally all grammatical changes shall be made, assumed and implied to make the provisions hereof apply equally to corporations and to individuals.

IN WITNESS WHEREOF, the mortgagor has executed this instrument this 21st day of May, 1980; if a corporate mortgagor, it has caused its name to be signed and seal affixed by its officers, duly authorized thereto by order of its board of directors.

Fred G. Hess
Fred G. Hess

Edith M. Hess
Edith M. Hess

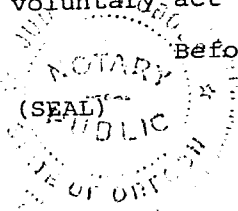
(If executed by a corporation,
affix corporate seal)

STATE OF OREGON)
) ss:
County of)

Dated this 21st day of May,
1980.

Personally appeared the above named Fred G. Hess
and Edith M. Hess
and acknowledged the foregoing instrument to be their
voluntary act and deed.

Before me:



Judy Blau
Notary Public for Oregon
My Commission Expires: 8-23-81

STATE OF OREGON)
) ss:
 County of)

Dated this _____ day of _____, 19__.

Personally appeared _____
 AND _____ who, being duly sworn, each for himself
 and not one for the other, did say that the former is the _____
 president and that the latter is the _____ secretary of
 _____, a corporation, and that the seal
 affixed to the foregoing instrument is the corporate seal of
 said corporation and that said instrument was signed and sealed
 in behalf of said corporation by authority of its board of directors;
 and each of them acknowledged said instrument to be its voluntary
 act and deed.

Before me:

(SEAL)

 Notary Public for Oregon
 My Commission Expires: _____

RECORDING INFORMATION

STATE OF OREGON, County of _____ Klamath _____) ss:

I certify that the within instrument was received
 for record on the 5th day of June, 1980, at
 10:50'clock A.M., and recorded in book M80 on
 page 10199 or as file/reel number 85159, Record
 of Mortgages of said County.

Witness my hand and seal of County affixed.

Wm. D. Milne

 Recording Officer

By Bernetha D. Helach (Deputy)

Fee \$24.50

MORTGAGE

Fred G. Hess and Edith M. Hess

TO

State of Oregon, acting by
 Director, Water Resources
 Department

AFTER RECORDING RETURN TO:

Director, Water Resources
 Department
 WATER DEVELOPMENT LOAN FUND
 555 13th Street NE
 Salem, OR 97310