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KCTC  
PARTICIPATION AGREEMENT

DATED: December 30, 1983

BETWEEN: LINCOLN SAVINGS AND LOAN  
ASSOCIATION  
10250 SW Greenburg Road  
Portland, Oregon 97223 LINCOLN

AND: HARRY R. WAGGONER  
3926 South Sixth Street  
Klamath Falls, Oregon 97601 WAGGONER

Waggoner has assigned to Lincoln two promissory notes (the "Notes") executed by Ronald D. Cone, Bethel M. Cone, Robert S. Gaddis and Walter E. Remstedt ("Borrowers"), both of which are secured by a wrap-around Mortgage dated October 24, 1979, recorded October 25, 1979 in Book M-79, page 25150 of the Mortgage Records of Klamath County, Oregon, and rerecorded February 17, 1982 in Book M-82, page 1991 of such records (the "Wrap Mortgage").

One of the Notes is in the face amount of \$330,000, is payable in monthly installments of \$2,896 each, including interest at the rate of 10 percent per annum, and is due in full on December 1, 1994 (the "Equity Note"). When assigned, the Equity Note had a principal balance owing of \$324,000. The other note secured by the Wrap Mortgage is in the face amount of \$650,000, is payable in monthly installments of \$4,216 each, including interest at the rate of 6 3/4 percent per annum, and

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is due in full on December 1, 1994 (the "Wrap Note"). When assigned, the Wrap Note had a principal balance owing of approximately \$ 620,917.85.

The Wrap Mortgage and the Wrap Note wrap around a prior first mortgage to First National Bank (now First Interstate Bank of Oregon) dated and recorded January 7, 1969 in Book M-69, page 175 of the Mortgage Records of Klamath County, Oregon (the "First Mortgage"). The First Mortgage secures a note payable in monthly installments of \$4,216 each, including interest at the rate of 6 3/4 percent per annum and will be fully paid by December 1, 1994. As of December 1, 1983, such note had a principal balance of \$400,839.70. Waggoner wishes to participate in the Wrap Note to the extent the same exceeds the amount owing on the First Mortgage.

NOW, THEREFORE, the parties agree as follows:

1. PARTICIPATION. Waggoner shall participate in the Wrap Note to the extent such note exceeds the amounts owing under the First Mortgage.
2. PAYMENTS. Lincoln shall receive all collections on the Notes and pay or cause to be paid, out of such collections, the payment due on the First Mortgage. Waggoner shall receive no portion of any payments or proceeds from the Wrap Note until the First Mortgage and the Equity Note have been satisfied in

full and Lincoln has been reimbursed for all costs of collection, including interest on the amounts expended at the rate described in paragraph 4 below. Upon final payment of the Wrap Note, if the Equity Note and all collection costs have been satisfied, the amount of such payment in excess of the First Mortgage principal and interest shall be paid to Waggoner.

3. AUTHORITY OF LINCOLN. Lincoln shall have the authority to do any or all of the following:

(a) Demand, collect, receive and give acquittance for all sums received from the Borrowers or others under the terms of the Notes, and to make or consent to any modifications of the Notes and Wrap Mortgage, or make or consent to any release of the Borrowers from any liability, or waive any claim against the Borrowers under the Notes or Wrap Mortgage.

(b) Receive, hold and disburse pursuant to the terms of the Wrap Mortgage any proceeds of fire or other insurance covering the mortgaged property, or any award for the condemnation of all or any part thereof, with any amount retained by Lincoln to be disbursed in accordance with paragraph 2 above.

(c) Advance such sums as may be necessary for insurance premiums, real estate taxes, water rates, payments due on the First Mortgage and similar items

for the preservation of the mortgaged property, where in the judgment of Lincoln such advances are necessary to preserve the security of the Wrap Mortgage. In such event, repayment of the amounts advanced, together with interest at the then prevailing prime lending rate in the Portland, Oregon, area, shall be a first call upon collections on the Notes, and shall be prior to any right of Waggoner to participate in the Wrap Note.

(d) Demand of the Borrowers full performance of all of the terms, covenants and conditions of the Notes and the Wrap Mortgage, and take any action which in Lincoln's judgment is necessary or desirable to collect the proceeds of the Notes, including foreclosure, suit on the Notes or deed in lieu of foreclosure.

(e) Upon acquisition of the mortgaged property at foreclosure or by deed in lieu of foreclosure, expend funds necessary to operate and maintain the mortgaged property, together with the right to sell the mortgaged property in a commercially reasonable manner. Any proceeds from such a sale shall be distributed in accordance with paragraph 4 below.

4. FORECLOSURE OR DEED IN LIEU OF FORECLOSURE. In the event Lincoln reacquires the mortgaged property pursuant to foreclosure or deed in lieu of foreclosure and thereafter

disposes of the mortgaged property, the net proceeds shall be applied first to any sums expended by Lincoln in connection with the foreclosure or owning and managing the property in excess of the income from the property, together with interest thereon at the then prevailing prime lending rate in the Portland, Oregon, area, next to satisfaction of the First Mortgage, then to satisfaction of the Equity Note, then to the extent available to payment to Waggoner of Waggoner's interest in the Wrap Note, and the balance, if any, to Lincoln.

5. LIABILITY. Lincoln shall not be liable to Waggoner for any action taken or omitted or for any error in judgment, except for its own bad faith. Lincoln does not assume and shall have no responsibility or liability, express or implied, for the collectibility, enforceability, genuineness or validity of the Wrap Note or Wrap Mortgage, or the financial condition of the Borrowers.

6. NOTICE. Any notice under this agreement shall be in writing and shall be effective when actually delivered or when deposited in the mail, registered or certified, addressed to the parties at the addresses stated in this agreement or such other addresses as either party may designate by written notice to the other.

Return to: Harry R. Waggoner  
P.O. Box 664  
Klamath Falls, Or  
97601

LINCOLN SAVINGS AND LOAN  
ASSOCIATION

By [Signature]  
Harry R. Waggoner

STATE OF OREGON,

County of Klamath } ss.

FORM NO. 23 — ACKNOWLEDGMENT  
STEVENS-NESS LAW PUB. CO., PORTLAND, ORE.

BE IT REMEMBERED, That on this 13th day of February, 1984, before me, the undersigned, a Notary Public in and for said County and State, personally appeared the within named Harry R. Waggoner

known to me to be the identical individual described in and who executed the within instrument and acknowledged to me that he executed the same freely and voluntarily.

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

[Signature]  
Notary Public for Oregon.  
My Commission expires 9/23/85.

STATE OF OREGON: COUNTY OF KLAMATH:ss  
I hereby certify that the within instrument was received and filed for record on the 20th day of March A.D., 1984 at 2:57 o'clock P.M. and duly recorded in Vol MR4, of            Mortgages on page 4533.

Fee: \$ 20.00

EVELYN BIEHN, COUNTY CLERK

by: [Signature] Deputy