

March 18 1985

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Willard R. Lilly

109 Seventh Street West, Dickinson, North Dakota 58601

United States National Bank of Oregon, Mortgagee ("Lender") Klamath Falls

740 Main Street, P.O. Box 789, Klamath Falls, Oregon 97601

The Lender has loaned to Willard R. Lilly, \$75,000.00

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 30 mos. years from date. The term

"Indebtedness" as used in this mortgage shall mean (a) the principal and interest payable under the note and under any extensions and

renewals of the note; (b) any future amounts, together with interest, that the Lender may in its discretion loan to Borrower or Mortga-

gor under this mortgage and any extensions and renewals; and (c) any sums paid or advanced by the Lender to discharge obligations of

Mortgagor as permitted under this mortgage with interest. To secure payment of the indebtedness and performance of all obligations of Mortgagor under this mortgage, Mortgagor mort-

gages to the Lender on the terms set out below the following property in Klamath County, State of Oregon

See attached Exhibit A. The following shall constitute the property in Klamath County, State of Oregon

(hereinafter referred to as "the property")

2.3116 recorded 2/13/85 10251 to

the Lender in connection with the acquisition and possession of the

property in the county of Klamath, State of Oregon

together with all appurtenances, all existing or subsequently erected

or affixed improvements or fixtures, and, unless this mortgage is

being given to secure an extension of consumer credit requiring

disclosures under the Federal Truth-in-Lending Act, Mortgagor also

hereby grants to Lender a Uniform Commercial Code security in-

terest in all equipment, furnishings and other articles of personal

property now or subsequently located on or used in connection

with the property; all of the foregoing 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 Mortga-

gor shall not commit or permit any waste on the Property. Mort-

gagor shall comply with all laws, ordinances, regulations and private

restrictions affecting the Property.

1.2 To the extent that the Property constitutes commercial prop-

erty or a farm or orchard, Mortgagor shall operate the Property

in such manner as to prevent deterioration of the land and im-

provements 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 improvements

from the Property without the written consent of Lender.

2. Completion of Construction

If some or all of the proceeds of the loan creating the indebted-

ness are to be used to construct or complete construction of any

improvement on the Property, the improvement shall be completed

on or before 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 tax-

es 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. Special assessments

shall be paid currently, without deferral, unless the lien for deferred

assessments is subordinate to the interest of Lender under this

mortgage, or Lender gives its prior written consent to the deferral.

Mortgagor shall maintain the Property free of any liens having

priority over or equal to the interest of the Lender under this mortgage,

except for "Permitted Encumbrances" as defined in 8.1, 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 Lender's interest in the Property is not jeop-

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

4. Reserves; Mortgage Insurance Premiums.

5.1 If allowed by law, and if Mortgagor and Lender do not

otherwise expressly agree in writing, Lender may require Mortgagor

to maintain reserves for payment of taxes (including special as-

sessments and other charges against the Property by governmental

or quasi-governmental bodies) or premiums on property insurance

or both. The reserves shall be created by payment each month to

the Lender of an amount determined by the Lender to be sufficient

to produce by the date they are due amounts equal to the estimated

taxes and insurance premiums to be paid. If at the time that pay-

ments are to be made the reserve for either taxes or insurance

premiums is insufficient, Mortgagor shall upon demand pay such

additional sum as the Lender shall determine to be necessary to

cover the required payment.

5.2 If the Lender carries mortgage (default) insurance covering

the repayment of all or any part of the Indebtedness, the premiums

for such insurance shall be paid by the Mortgagor, and if allowed

by law, the Lender may require Mortgagor to maintain a reserve for

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gagor 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 Lender cash or a sufficient

corporate surety bond or other security satisfactory to the Lender

in an amount sufficient to discharge the lien plus any costs, attor-

neys fees or other charges that could accrue as a result of a fore-

closure 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 Lender a written

statement of the property taxes assessed or owing at any time.

4. Insurance:

4.1 Mortgagor shall carry such insurance as the Lender 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 Lender, including without limitation flood and war risks. In-

surance on the Property shall be carried in companies and under

policies approved by the Lender and shall be for an amount equal

to the remaining unpaid portion of the Indebtedness or the full in-

surable 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 en-

dorsement in a form satisfactory to the Lender making loss payable

to the Lender and shall be deposited with the Lender. In the event

of loss, Mortgagor shall immediately notify the Lender, who may

make proof of loss if it is not made promptly by Mortgagor. Pro-

ceeds shall be paid directly to the Lender who may compromise

with any insurance company and make a final settlement which

shall be binding upon Mortgagor. The Lender may, at its election,

apply the proceeds to the reduction of the Indebtedness or the re-

stitution or repair of the Property.

4.3 At least 30 days prior to the expiration of any policy, a sat-

isfactory renewal or substitute policy shall be secured by Mortgagor.

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within 15 days after Mortgagor has notice of the filing, secure the

such purpose in the same manner as for taxes and property insurance, and subject to the same agreements.

5.3 If Mortgagor desires to carry a package plan of insurance that includes coverage in addition to that required under this mortgage, the Lender, if allowed by law, 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 Lender may permit Mortgagor to furnish a certificate of insurance rather than deposit the policy as required in 5.2. If at any time the Lender holds an insufficient amount in the insurance reserve to cover the premium for the entire package policy, the Lender 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 Lender 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.

5.4 Lender shall not charge a service charge for collecting reserves and paying taxes and insurance premiums. The reserves shall not constitute a trust. Mortgagor agrees that Lender may commingle reserve funds with other funds of Lender, and need not invest them for the benefit of Mortgagor. Mortgagor agrees that Lender need not pay Mortgagor interest on reserves, unless applicable statutes require payment of interest notwithstanding any contrary agreement.

6. Expenditures by the Bank.

If Mortgagor shall fail to comply with any provision of this mortgage, the Lender 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 same rate as provided in the note 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 Lender may be entitled on account of the default, and the Lender 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 Charges.

To cover the extra expense involved in handling delinquent payments, Lender may charge a late charge on any scheduled payment which Lender does not receive within 15 days after the due date, or by the next business day, if the 15-day period ends on a Saturday, Sunday, or legal holiday. The amount of the late charge shall be as specified in the note or, if the note specifies no late charge, _____ percent of the payment of principal and interest, or portion of such payment, which Lender does not receive within the 15-day period. The late charge under the note or under this mortgage shall in no event exceed the maximum charge, if any, specified under applicable law. Collection of a late charge shall not constitute a waiver of or prejudice the Lender'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 (a) those enumerated in the title policy, if any, issued for the benefit of the Lender in connection with this transaction and accepted by the Lender; and (b) the encumbrances described as: a mtg. dated 5/3/79 recorded 5/9/79 M79, page 10521 to Klamath First Federal Savings and Loan Ass. (hereinafter referred to as "Permitted Encumbrances").

8.2 Mortgagor warrants and will forever defend the title against the lawful claims, other than Permitted Encumbrances, of all persons. In the event any action or proceeding is commenced that questions Mortgagor's title or the interest of the Lender under this Mortgage, Borrower shall defend the action at Borrower's expense.

8.3 If any Permitted Encumbrance is a lien, Borrower shall pay any sums and do any other acts necessary to prevent a default or prevent any action or condition which, with the lapse of time, the giving of notice, or any other action of a creditor, would be a default or enable any creditor to declare a default or foreclose any Permitted Encumbrance which is a lien.

9. Condemnation.

9.1 If all or any part of the Property is condemned, the Lender 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 Lender 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 mortgage 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 federal, state or local 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 Lender 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 Lender that the tax law has been enacted.

11. Transfer by Mortgagor.

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

11.2 As a condition of its consent to any transfer, the Lender 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 to any rate which is satisfactory to Lender, and does not exceed any maximum interest rate set by law, and adjust the monthly payment to include the increased interest.

11.3 No transfer by Mortgagor shall relieve Mortgagor of liability for payment of the Indebtedness. Following a transfer, the Lender 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 Lender 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 Lender 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 Lender 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 Lender'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 Lender specifying the failure.

14.4 If this mortgage secures a construction loan, any failure of Mortgagor or builder to comply with or perform any provision of any construction loan agreement executed in connection with the loan within 20 days after receipt of written notice from Mortgagee specifying the failure.

14.5 Default in any obligation secured by a lien which has or may have priority over this Mortgage, or the commencement of any action to foreclose any prior lien.

15. Rights and Remedies on Default.

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

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(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 personally, 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 Lender's costs, against the Indebtedness. In furtherance of this right the Lender may require any tenant or other user to make payments of rent or use fees directly to the Lender, and payments by such tenant or user to the Lender 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 receiver-ship, against the Indebtedness. The receiver may serve with-out bond if permitted by law. The Lender'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 Lender 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 all or any portion of the Property.

15.3 The Lender 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.

The term "Indebtedness" as used in this mortgage shall mean (a) the principal and interest payable under the notes referred to above, (b) any future amounts that the Lender may in its discretion loan to Mortgagor plus interest thereon, and (c) any sums paid or advanced by the Lender to discharge the obligations of the Mortgagor as permitted under this mortgage.

INDIVIDUAL ACKNOWLEDGMENT

STATE OF OREGON No. Dakota) ss. 3/28, 19 85
County of Stark)
Personally appeared the above-named _____ and acknowledged the foregoing instrument to be _____ voluntary act.

Before me:

Linda Hatzenbiller

My Commission Expires Sept. 29, 1987

Notary Public for Oregon
My commission expires:

CORPORATE ACKNOWLEDGMENT

STATE OF OREGON)
County of _____) ss. _____, 19____
Personally appeared _____, and
stated that _____ he, the said _____, who, being sworn, is a _____ is a _____, and _____ he, the said _____

of Mortgagor corporation and that the seal affixed hereto is its seal and that this Mortgage was voluntarily signed and sealed in behalf of the corporation by Authority of its Board of Directors.

Before me:

Linda Hatzenbiller
Notary Public for Oregon
My commission expires:

PARTNERSHIP ACKNOWLEDGMENT

My Commission Expires Sept. 29, 1987

STATE OF OREGON)
County of _____) ss. _____, 19____
THIS CERTIFIES that on this _____ day of _____ before me, the undersigned, a Notary Public in and for said County and State, the within named _____, personally appeared _____ known to me to be the person _____ named in and who executed the foregoing instrument and who _____ member _____ of the partnership of _____ acknowledged to me that _____ he _____ executed said instrument freely and voluntarily for the purposes and use therein mentioned, on behalf of said partnership.
IN TESTIMONY WHEREOF, I have hereunto set my hand and notarial seal the day and year last above written.

Notary Public for Oregon
My commission expires:

Willard R. Lilly
Legal Description

EXHIBIT A

6263

PARCEL 1:

Beginning at the Northeast corner of Lot 9, ELM PARK in Klamath County, Oregon; thence North 0° 53' West 246.95 feet to a point on the South line of a Canal; thence along the South line of said Canal and along the arc of a 714.22 foot radius curve to the left (the chord of which bears North 55° 55' West 93.57 feet) a distance of 93.63 feet; thence South 0° 05' East 300.63 feet to a point on the North line of said Lot; thence North 89° 06' East 80.87 feet to the place of beginning, being situated in the SW $\frac{1}{4}$ of Section 34, Township 38 South, Range 9 East of the Willamette Meridian, Klamath County, Oregon.

PARCEL 2:

Beginning on the North line of Lot 9, ELM PARK in Klamath County, Oregon, at a point which is 80.87 feet South 89° 06' West from the Northeast corner of said Lot; thence North 0° 05' West 300.63 feet to a point on the South line of a Canal; thence along the South line of said Canal and along the arc of a 714.22 foot radius curve to the left (the chord of which bears North 65° 25' West 143.05 feet) a distance of 143.29 feet; thence South 0° 05' East 362.19 feet to a point on the North line of said Elm Park; thence North 89° 06' East 130.01 feet to the place of beginning, being situated in the SW $\frac{1}{4}$ of Section 34, Township 38 South, Range 9 East of the Willamette Meridian, Klamath County, Oregon.

PARCEL 3:

Beginning on the North line of ELM PARK in Klamath County, Oregon, at a point which is 210.88 feet South 89° 06' West from the Northeast corner of Lot 9, ELM PARK; thence South 89° 06' West 170.52 feet to a point; thence North 0° 05' West 400.59 feet to a point on the South line of a canal; thence along the South line of said Canal and along the arc of a 714.22 foot radius curve to the left to a point which is North 0° 05' West 362.19 feet from the point of beginning; thence South 0° 05' East 362.19 feet to the place of beginning, being situated in the SW $\frac{1}{4}$ of Section 34, Township 38 South, Range 9 East of the Willamette Meridian, Klamath County, Oregon.

Willard R. Lilly

Date

3/28/85

STATE OF OREGON,)

County of Klamath)

Filed for record at request of

on this 30th day of April A.D. 19 85

at 11:50 o'clock A M, and duly

recorded in Vol. M85 of Mortgages

Page 6260

EVELYN BIEHN, County Clerk

By Pam Smith Deputy

Fee 17.00

Ret: U.S. Nat'l Bank of Ore
Box 789
KFO