

may require Mortgagee to maintain a reserve for such purposes in the same manner as for taxes and property insurance, and subject to the same agreements.

5.3 If Mortgagee 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 Mortgagee to furnish a certificate of insurance rather than deposit the 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. Mortgagee agrees that Lender may commingle reserve funds with other funds of Lender and need not invest them for the benefit of Mortgagee. Mortgagee agrees that Lender need not pay Mortgagee interest on reserves unless applicable statutes require payment of interest notwithstanding any contrary agreement.

6 Expenditures by Lender.

If Mortgagee shall fail to comply with any provision of this Mortgage, the Lender may, at its option, on Mortgagee'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 be 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 expenses 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 Mortgagee 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 Mtg. dtd. 4-26-78, recorded 5-01-78, Vol. M78, pg. 8578, Klamath County, OR to Veterans Affairs (hereinafter referred to as "Permitted Encumbrances").

8.2 Mortgagee 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 Mortgagee's title or the interest of the Lender under this Mortgage, Mortgagee shall defend the action at Mortgagee's expense.

8.3 If any Permitted Encumbrance is a lien, Mortgagee 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 Mortgagee and the Lender in connection with the condemnation.

9.2 If any proceeding in condemnation are filed, Mortgagee shall promptly take such steps as may be necessary to defend the action and obtain the award. Mortgagee hereby assigns to Lender the net proceeds of any condemnation 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 property covered by a mortgage which the taxpayer is authorized or required to deduct from payments on the mortgage.
- (c) A tax on premises covered by a mortgage chargeable against the mortgagee under the mortgage 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 Mortgagee under a mortgage.

304010.2 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) Mortgagee may lawfully pay the tax or charge imposed by the state tax, and
- (b) Mortgagee 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 Due on Sale Clause.

Mortgagee agrees that Lender may, at Lender's option, declare the entire indebtedness immediately due and payable if all or any part of the Property, or an interest therein, is sold, transferred, further encumbered, or alienated. If Lender exercises the option to declare the entire indebtedness immediately due and payable, Mortgagee agrees that Lender may use any default remedies permitted under this Mortgage and under applicable law. Mortgagee agrees that Lender may exercise Lender's rights under this Due-On-Sale provision each time all or any part of the Property or an interest in the Property, is sold, transferred, further encumbered, or alienated whether or not Lender previously exercised Lender's rights under this or any other Due-On-Sale provision.

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 Mortgagee shall join with the Lender in executing one or more financing statements under the Uniform Commercial Code and shall file the statement at Mortgagee'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 Default.

The following shall constitute events of default:

- 13.1 Any portion of the indebtedness is not paid when it is due.
- 13.2 Failure of Mortgagee 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.
- 13.3 Failure of Mortgagee to perform any other obligation under this Mortgage within 20 days after receipt of written notice from the Lender specifying the failure.
- 13.4 If this Mortgage secures a construction loan, any failure of Mortgagee or builder or any other person or entity 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 Lender specifying the failure.
- 13.5 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.
- 13.6 Either Mortgagee or Borrower become insolvent, file a voluntary petition in bankruptcy, become subject of an involuntary petition in bankruptcy, make an assignment for the benefit of creditors, or consent to the appointment of a receiver or trustee for any portion of the Property or all or a substantial part of Mortgagee's or Borrower's assets.
- 13.7 Default by Mortgagee or any predecessors in title of Mortgagee, as lessee or sublessee under the terms of any lease or sublease of the Property to which Mortgagee is a party or through which Mortgagee's interest in the Property is derived.

14 Release on Full Performance.

If the indebtedness is paid when due and Mortgagee otherwise performs all of its obligations under this mortgage and the notes, the Lender shall execute and deliver to Mortgagee 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.

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:

- (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 personality, the rights and remedies of a secured party under the Uniform Commercial Code.
- (d) The right, without notice to Mortgagee, 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 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 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) The right to obtain a deficiency judgment in the event the net sale proceeds of any foreclosure sale are insufficient to pay the entire unpaid indebtedness

(g) Any other right or remedy provided in this mortgage, the promissory notes evidencing the indebtedness, any construction loan agreement, any other security document, or under the law

15.2 In exercising its rights and remedies, 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 portions. The Lender shall be entitled to bid at any public sale on all or any portion of the Property

15.3 The Lender shall give Mortgagee 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 Lender to pursue any remedy shall not exclude action to perform an obligation of Mortgagee under this Mortgage after failure of Mortgagee to perform shall not affect the Lender'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 Lender shall be entitled to recover from Mortgagee such sum as the court may adjudge reasonable as attorneys' fees at trial and on

any appeal. All reasonable expenses incurred by the Lender that are necessary at any time in the Lender'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 highest rate as provided in any note from the date of expenditure until paid.

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 Mortgagee'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

17.3 Attorneys' fees. "Attorneys' fees" as that term is used in the note and in this Mortgage, shall include attorneys' fees, if any, which may be awarded by an appellate court

Paul M. Addy

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF OREGON)

County of Klamath) ss.

January 23, 19 86

Personally appeared the above-named Paul M. Addy and acknowledged the foregoing instrument to be his voluntary act.

Before me:

John L. Sumner 7-22-89
Notary Public for Oregon
My commission expires

CORPORATE ACKNOWLEDGEMENT

STATE OF OREGON)

County of _____) ss.

Personally appeared _____, 19 _____, and stated that _____, who, being sworn, is a _____ and _____, the said _____ is a _____

of Mortgagee 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:

Notary Public for Oregon
My commission expires

PARTNERSHIP ACKNOWLEDGMENT

STATE OF OREGON)

County of _____) ss.

THIS CERTIFIES that on this _____ day of _____, 19 _____, personally appeared before me, the undersigned, a Notary Public in and for said County and State, the within named _____ 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

Before me: *Return to*
US Bank
P.O. Box 789
Klamath Falls, OR

Notary Public for Oregon

STATE OF OREGON: COUNTY OF KLAMATH: ss.

Filed for record at request of _____ of _____ January _____ A.D., 19 86 at 4:09 o'clock P M., and duly recorded in Vol 1182 the 23rd day of _____ Mortgagee

By *Evelyn Blehn* County Clerk
Bernetha J. Blehn