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MAC 16709

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THIS AGREEMENT, Made and entered into this 8th day of August, 1986, by and between Charles G. Duncan and Leone M. Duncan, hereinafter called the first party, and Dan W. Duncan and Connie J. Duncan, South Valley State Bank hereinafter called the second party; WITNESSETH: On or about August 8, 1986, Dan W. Duncan and Connie J. Duncan, husband and wife, being the owner of the following described property in Klamath County, Oregon, to-wit:

See attached Exhibit "A" by this reference made a part hereto.

executed and delivered to the first party his certain Mortgage (State whether mortgage, trust deed, contract, security agreement or otherwise) (herein called the first party's lien) on said described property to secure the sum of \$23,000.00, which lien was Recorded on August 21, 1985, in the Clerk's Records of Klamath County, Oregon, in book/reel/volume No. m86 at page 15010 thereof or as document/fee/file/instrument/microfilm No. (indicate which); Filed on 19, in the office of the County, Oregon, where it bears the document/fee/file/instrument/microfilm No. (indicate which); Created by a security agreement, notice of which was given by the filing on 19, of a financing statement in the office of the Oregon Secretary of State Department of Motor Vehicles where it bears file No. and in the office of the County, Oregon, where it bears the document/fee/file/instrument/microfilm No. (indicate which). Reference to the document so recorded or filed hereby is made. The first party has never sold or assigned his said lien and at all times since the date thereof has been and now is the owner and holder thereof and the debt thereby secured. The second party is about to loan the sum of \$84,000.00 to the present owner of the property above described, with interest thereon at a rate not exceeding 13.0% per annum, said loan to be secured by the said present owner's Mortgage (hereinafter called the second party's lien) upon said property and to be repaid within not more than one year from its date.

To induce the second party to make the loan last mentioned, the first party heretofore has agreed and consented to subordinate first party's said lien to the lien about to be taken by the second party as above set forth.

NOW, THEREFORE, for value received and for the purpose of inducing the second party to make the loan aforesaid, the first party, for himself, his personal representatives (or successors) and assigns, hereby covenants, consents and agrees to and with the second party, his personal representatives (or successors) and assigns, that the said first party's lien on said described property is and shall always be subject and subordinate to the lien about to be delivered to the second party, as aforesaid, and that second party's said lien in all respects shall be first, prior and superior to that of the first party; provided always, however, that if second party's said lien is not duly filed or recorded or an appropriate financing statement thereon duly filed within 15 days after the date hereof, this subordination agreement shall be null and void and of no force or effect.

It is expressly understood and agreed that nothing herein contained shall be construed to change, alter or impair the first party's said lien, except as hereinabove expressly set forth.

In construing this subordination agreement and where the context so requires, the singular includes the plural; the masculine includes the feminine and the neuter, and all grammatical changes shall be supplied to cause this agreement to apply to corporations as well as to individuals.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand and seal; if the undersigned is a corporation, it has caused its corporate name to be signed and its corporate seal to be affixed hereunto by its officers duly authorized thereunto by order of its board of directors, all on this, the day and year first above written.

* The initial "p" representing the word prime.*

Charles G. Duncan
Leone M. Duncan

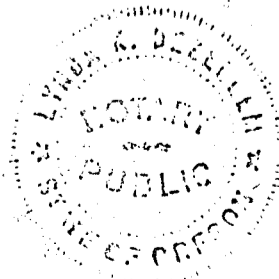
STATE OF OREGON,

SS.

August 8, 1986

County of Klamath

personally appeared the above named Charles G. Duncan and Leone M. Duncan and acknowledged the foregoing instrument to be their voluntary act and deed.



Return:
South Valley
State Bank
5215 So 6th
City 97603
attn: Duane

Before me:

Lydia K. Byller

Notary Public for Oregon
My commission expires: 9/12/89

PAGE ONE OF EXHIBIT A

The following described real property in Klamath County, Oregon:

PARCEL 1

All that portion of the SE 1/4 SW 1/4 lying South of the Irrigation ditch which runs through the said forty in Section 33, Township 40 South, Range 12 East of the Willamette Meridian; SAVING AND EXCEPTING the potato cellar in the Southeast corner of said described tract, being a tract of land 36 feet North and South by 152 feet East and West; and EXCEPTING a right of way 16 feet wide to the Northwest corner of said potato cellar and along the North side of said cellar to the North and South road along the East side of said cellar for ingress and egress from other land as reserved by former owners; AND ALSO EXCEPTING part of the SE 1/4 SW 1/4 of Section 33, Township 40 South, Range 12 East of the Willamette Meridian, as follows: Beginning at a point on the East line of said SE 1/4 SW 1/4 of Section 33 and the center line of the irrigation ditch which runs through said SE 1/4 SW 1/4; thence South along said East line of said SE 1/4 SW 1/4 a distance of 193 feet; thence West a distance of 250 feet; thence North and parallel with the East line of said SE 1/4 SW 1/4 a distance of 239 feet to the center line of said irrigation ditch; thence Easterly along said center line to the point of beginning.

PARCEL 2

That part of the E 1/2 E 1/2 of Section 32 and part of the W 1/2 SW 1/4 of Section 33, Township 40 South, Range 12 East of the Willamette Meridian, described as beginning at the Southwest corner of the E 1/2 SE 1/4 of Section 32, Township 40 South, Range 12 East of the Willamette Meridian, and running thence North along the forty line a distance of 1300 feet, more or less, to a point where the center line of the East-West Canal of the Shasta View Irrigation District extended meets the forty line; thence East a distance of 65 feet, more or less, to a point on the West bank of said North-South canal of Shasta View Irrigation District; thence South along the West bank of said North-South Canal a

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Description continued ... PAGE TWO OF EXHIBIT A

distance of 10 feet to a point; thence Easterly following the South bank of said East-West Canal through the E 1/2 SE 1/4 of Section 32, and the W 1/2 SW 1/4 of Section 33, both in said Township 40 South, Range 12 East of the Willamette Meridian, to the Easterly line of the W 1/2 SW 1/4 of Section 33; thence South along the Easterly line of the W 1/2 SW 1/4 of Section 33 to the Township line; thence Westerly along the township line to the point of beginning, being in the E 1/2 SE 1/4 of Section 32, and the W 1/2 SW 1/4 of Section 33, Township 40 South, Range 12 East of the Willamette Meridian; SAVING AND EXCEPTING tract of land described as beginning at an iron pin on the South section line which lies West 781.5 feet from the Southeast corner of the SW 1/4 SW 1/4 of Section 33, Township 40 South, Range 12 East of the Willamette Meridian and running thence North a distance of 95 feet to an iron pin; thence North 56° 35' West a distance of 961 feet to an iron pin; thence South 33° 25' West a distance of 45 feet to an iron pin which lies on the East bank of the Shasta View Irrigation Canal; thence South 36° 25' East along the East bank of the above mentioned canal a distance of 200.00 feet to an iron pin; thence continuing along the East bank of the above mentioned canal South 30° 14' East a distance of 492.8 feet to an iron pin which lies on the Section line; thence East along the section line a distance of 460 feet, more or less, to the point of beginning, being in the SW 1/4 SW 1/4 of Section 33, and in the SE 1/4 SE 1/4 of Section 32, both sections in Township 40 South, Range 12 East of the Willamette Meridian, said exception being for the West Reservoir.

PARCEL 3

The NW 1/4 SE 1/4 of Section 33, Township 40 South, Range 12 East of the Willamette Meridian.

ALL SUBJECT TO: A mortgage to Federal Land Bank of Spokane in the original amount of \$35,000.00, dated April 2, 1973, recorded April 20, 1973, in Volume M-73 at page 4743, Mortgage Records of Klamath County, Oregon; easements and rights of way of record or apparent on the land; contracts, proceedings, assessments, liens, regulations and statutes for irrigation or drainage purposes; reservations and restrictions contained in deed from A. M. Kelsey, et ux, to C. M. Duncan, et ux, dated April 11, 1949, recorded April 13, 1949 in Book 230 at page 229; reservations and restrictions contained in deed from C. M. Duncan, et ux, to Charles C. Duncan, et ux, dated September 18, 1950, recorded September 18, 1950 in Book 242 at page 147, Deed Records of Klamath County, Oregon; and mortgage, including the terms and provisions thereof, dated August 4, 1972, recorded August 17, 1972 in Book M-72 at page 9216, Microfilm Records, given to secure the payment of \$45,000.00.

STATE OF OREGON: COUNTY OF KLAMATH: ss.

Filed for record at request of _____
 of December A.D., 19 86 at 3:31 o'clock P M., and duly recorded in Vol. M86
 of Mortgages on Page 22461

FEE \$13.00

Evelyn Biehn, County Clerk
 By Ann Smith