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THIS INDENTURE between PATRICK J. PENNY and TERRIE R. PENNY, hereinafter called Grantors, and HOUSING DIVISION, DEPARTMENT OF COMMERCE, STATE OF OREGON, hereinafter called Grantee;

W I T N E S S E T H:

WHEREAS, the title to the real property hereinafter described is vested in fee simple in Grantors, subject to the lien of a trust deed given by Grantors to Transamerica Title Insurance Co., as trustee for the benefit of Amfac Mortgage Corporation, an Oregon corporation, as beneficiary, which such trust deed is recorded in the Mortgage Records of Klamath County, Oregon, as number 83901, Volume M80, Page 8158, and

WHEREAS, Grantors owe the approximate sum of \$35,315.45 to Grantee on a certain promissory note and indebtedness secured by said trust deed, and

WHEREAS, said trust deed and promissory note secured thereby are now in default and subject to immediate foreclosure, and

WHEREAS, Grantors, being unable to pay the same, have requested the Grantee to accept an absolute deed of conveyance of said property in satisfaction of the indebtedness secured by said trust deed, Grantee does now accede to said request;

NOW, THEREFORE, for the consideration hereinafter stated, which includes the cancellation of the note and indebtedness secured by said trust deed, and the surrender thereof marked "paid in full" to Grantors, Grantors do hereby grant, bargain, sell and convey unto the Grantee, its successors and assigns, all of the following described real property situate in Klamath County, State of Oregon, to wit:

N¹ Lot 1 Block 2, Bryant Tract No. 2, according to the official plat thereof on file in the office of the County Clerk of Klamath County, Oregon,

together with all of the tenements, hereditaments and appurtenances thereunto belonging or in anywise appertaining.

To have and to hold the same unto said Grantee, its successors and assigns forever.

The Grantors, for themselves and their heirs and legal representatives, do covenant to and with the Grantee, its successors and assigns, that Grantors are lawfully seized in fee simple of said property, free and clear of encumbrances except such trust deed, and further that Grantors will warrant and forever defend the above granted premises, and every part and parcel thereof against the lawful claims and demands of all persons whomsoever, other than the lien above expressly set out; that this deed is intended as a conveyance, absolute in legal effect as well as in form, of the title to said premises to the Grantee and all redemption rights which the Grantors may have therein, and not as a mortgage, trust deed or security of any kind; that possession of said premises is hereby surrendered and delivered to Grantee; that in executing this deed, the Grantors are not acting under any misrepresentation as to the effect thereof, or under any duress, undue influence, or misrepresentations by the Grantee, or its representative, agents or

NOTE: Until a change is requested, all tax statements shall be sent to the following address: 110 Labor and Industries Building, Salem, OR 97310

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attorneys; that this deed is not given as a preference over other creditors of the Grantors and that at this time there is no person, copartnership or corporation, other than the Grantee, interested in said premises directly or indirectly, in any manner whatsoever, except as aforesaid.

The true and actual consideration paid for this transfer, stated in terms of dollars, is none. However, the actual consideration consists of or includes other property or value given or promised.

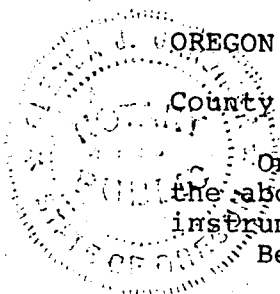
In construing this instrument, it is understood and agreed that the Grantors, as well as Grantee, may be more than one person; that if the context so requires, the singular shall be taken to mean the plural; the singular pronoun means and includes the plural, the masculine, the feminine and the neuter and that, generally, all grammatical changes shall be made, assumed and implied to make the provisions hereof apply equally to corporations and to individuals.

THIS INSTRUMENT WILL NOT ALLOW USE OF THE PROPERTY DESCRIBED IN THIS INSTRUMENT IN VIOLATION OF APPLICABLE LAND USE LAWS AND REGULATIONS. BEFORE SIGNING OR ACCEPTING THIS INSTRUMENT, THE PERSON ACQUIRING FEE TITLE TO THE PROPERTY SHOULD CHECK WITH THE APPROPRIATE CITY OR COUNTY PLANNING DEPARTMENT TO VERIFY APPROVED USES.

IN WITNESS WHEREOF, the Grantors above named have executed this instrument this 12 day of November, 1986.

Patrick J. Penny
Patrick J. Penny

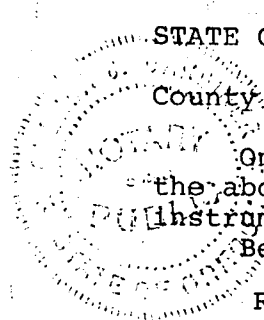
Terrie R. Penny
Terrie R. Penny STATE OF



STATE OF OREGON)
County of Klamath) ss.

On this 12 day of November, 1986, personally appeared the above named Patrick J. Penny and acknowledged the foregoing instrument to be his voluntary act and deed.
Before me:

Glenda J. Hardman
Notary Public for Oregon
My Commission Expires 10/2/90



STATE OF Oregon)
County of Klamath) ss.

On this 12 day of November, 1986, personally appeared the above named Terrie R. Penny and acknowledged the foregoing instrument to be her voluntary act and deed.
Before me:

Return to:
Bruce Kellington
15 Newtown Street
Medford, Oregon 97501

Glenda J. Hardman
Notary Public for State of Oregon
My Commission Expires 10/2/90

2 - Deed in Lieu of Foreclosure
STATE OF OREGON: COUNTY OF KLAMATH: ss.

Filed for record at request of _____ the 6th day of February A.D., 19 87 at 12:06 o'clock P M., and duly recorded in Vol. M87 of _____ Deeds on Page 1924.

FEE \$14.00

Evelyn Biehn, County Clerk
By [Signature]