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DEFAULT ASSIGNMENT OF RENTS AND LEASES

THIS DEFAULT ASSIGNMENT OR RENTS AND LEASES ("Assignment") is granted as of the 30th day of December, 1987, by TERRY D. SHERRILL and JANET R. SHERRILL, husband and wife, ("Assignor"), to SOUTH VALLEY STATE BANK, an Oregon Banking Corporation, ("Assignee").

W I T N E S S E T H:

WHEREAS, Assignor is the owner of improvements consisting of commercial buildings and appurtenant facilities on property in Klamath County, Oregon, more particularly described as:

PARCEL 1: Lots 1, 2, 3, 4 and 5 in Block 106, Klamath Addition to the City of Klamath Falls, EXCEPT THEREFROM any portion of Lot 5 conveyed to the City of Klamath Falls.

PARCEL 2: An irregular tract of land located in Government Lots 3 and 10, Section 32, Township 38 South, Range 9 East of the Willamette Meridian, more particularly described as follows:

Commencing at the East quarter corner of Section 32, Township 38 South, Range 9 East of the Willamette Meridian; thence South 69°36' West a distance of 38.1 feet to a point on the Southeasterly line of Kinlock St.; thence South 38°56' West along said Southeasterly line of Kinlock St. a distance of 16.47 feet to the true point of beginning; thence South 10°46½' West 246.59 feet, more or less, to its intersection with the Westerly line of Fifth Street in Klamath Falls, Oregon, if extended; thence North 51°04' West a distance of 116.51 feet, more or less, to the intersection of said Westerly line of Fifth St. and the Southeasterly line of Kinlock St.; thence North 38°56' East a distance of 217.33 feet, along the said Southeasterly line of Kinlock St., to the point of beginning. EXCEPTING that part lying Northerly of the South line of South Fifth Street.

Beginning at the intersection of the centerline of Fifth Street and the Southeasterly line of Kinlock Street, as shown on the plat of Klamath Addition to the Town of Linkville, now Klamath Falls, on file in the office of the County Clerk, Klamath County Courthouse; thence North 51°04' West along said centerline, a distance of 19.0 feet to a point, said point being the point of tangency of a curve concave to the East and having a radius of 30.00 feet, a radial line to said point bearing South 38°56' West; thence Northerly along said curve a distance of 47.12 feet to a point on the Southwesterly line of Lot 6, Block 106 of said Klamath Addition, a radial line to said point bearing North 51°04' West; thence South 51°04' East along the

Southwesterly line of said Lot 6 to the Southwest corner of said Lot 6; thence North $38^{\circ}56'$ East, a distance of 19.06 feet along the Southeasterly line of said Lot 6 to a point on the Southerly right of way line of the Klamath Falls-Lakeview Highway as relocated, said right of way being on a curve concave to the North having a radius of 316.48 feet and a central angle of $25^{\circ}28'23''$; thence Southeasterly along said curve right of way line a distance of 49 feet, more or less, to its intersection with the Southeasterly line of Kinlock Street; thence South $38^{\circ}56'$ West along said Southeasterly line a distance of 86 feet, more or less, to the point of beginning.

A tract of land situated in Lot 6, Block 106 of Klamath Addition to the Town of Linkville, now Klamath Falls, described as follows:

Beginning at the most Southerly corner of Lot 6, Block 106 of Klamath Addition to the Town of Linkville; thence North $51^{\circ}04'$ West along the Southwesterly line of said Lot 6, a distance of 14.00 feet to a point; thence North $38^{\circ}56'$ East a distance of 7.42 feet to a point on a curve concave to the North having a radius of 316.48 feet, a radial bearing to said curve at said point being South $00^{\circ}50'10''$ West; thence Easterly along said curve, a distance of 18.21 feet to a point on the Southeasterly line of said Lot 6, a radial bearing to said curve at said point being South $2^{\circ}27'39''$ East; thence South $38^{\circ}56'$ West along said Southeasterly line a distance of 19.06 feet to the true point of beginning.

PARCEL 3: Commencing at the Northwest corner of Section 3, Township 39 South, Range 9 E.W.M., Klamath County, Oregon, and running thence South $0^{\circ}00\frac{1}{2}'$ East 826.8 feet, more or less, along the West line of said Section 3 to its intersection with a line parallel to and 75.0 feet distance from (when measured at right angles to) the center line of Klamath Falls-Lakeview Highway (also known as South Sixth Street); thence South $55^{\circ}52\frac{1}{2}'$ East, parallel to said center line of South Sixth Street, 601.2 feet, more or less, to the true point of beginning of this description; thence North $34^{\circ}07\frac{1}{2}'$ East a distance of 175 feet; thence North $55^{\circ}52\frac{1}{2}'$ West 126 feet; thence South $34^{\circ}07\frac{1}{2}'$ West 175 feet; thence South $55^{\circ}52\frac{1}{2}'$ East 126 feet to the point of beginning.

Such property and the improvements thereon are herein collectively called the "Property"; and,

WHEREAS, Assignor or its predecessors in interest have entered into and executed one or more leases and/or rental agreements, including but not limited to the existing leases described in Exhibit "A" hereto, and Assignor or its successors in interest may enter into and execute one or more additional leases and/or rental agreements (the existing Lease and any

additional Leases or rental agreements are collectively "Leases") covering all or portions of the Property; and,

WHEREAS, Assignor has executed a Deed of Trust of even date herewith ("Deed of Trust") which constitutes a lien upon the Property, which Deed of Trust secures a Note and Agreement of even date herewith ("Note") executed by Assignor and payable to Assignee in the principal sum of Three Hundred Thirty-Five Thousand and No/100ths (\$335,000.00) DOLLARS.

WHEREAS, Assignee has required, as a condition of, and additional security for, the Note and Agreement and to supplement the Deed of Trust, that Assignor assign the Leases including but not limited to all rights and interest of Lessor under the leases described in Exhibit "A", together with the proceeds thereof, as further security for payment of the Note and Agreement, which this Default Assignment of Rents and Leases is intended to secure:

NOW, THEREFORE, in consideration of and as an inducement to the making by Assignee to Assignor of the loan secured by the Deed of Trust, Assignor does hereby assign, transfer and set over to Assignee all the right, title and interest of the Lessor in and to the Leases, including but not limited to all rights and interest of Lessor under the leases described in Exhibit "A" and any and all other documents executed or to be executed in connection with the creation, operation and maintenance of the improvements on the Property, whether written or oral, now in effect or hereafter entered into covering the Property or any portion thereof (hereinafter collectively referred to as the "Assigned Documents", which term shall be deemed to include amendments, modifications, extensions or renewals thereof) and all rents, issues, profits, fees, revenues, costs, expenses and other sums payable under the Assigned Documents (herein collectively called the "Assigned Payments")

accruing from the Property and any and all other or further rights, powers and privileges of Assignor in and under the Assigned Documents, together with all Assigned Payments which may be or become due, or to which Assignor may now or hereafter become entitled, arising or issuing out of the Assigned Documents or from or out of the Property or any part thereof.

TO HAVE AND TO HOLD the same unto Assignee, its successors and assigns, until such time as the indebtedness secured by the Deed of Trust shall have been paid in full, for the purpose of further and collaterally securing (1) the payment of the indebtedness evidenced by the Note and Agreement, together with the interest on said indebtedness; (2) payment of all other sums, with interest thereon, to become due and payable to Assignee under the provisions of the Note and Agreement and the Deed of Trust, and (3) performance and discharge of each and every obligation, covenant and agreement of Assignor herein, and in the Note and Agreement and the Deed of Trust contained.

This instrument and assignment is delivered and accepted upon the following terms and conditions:

1. So long as no default shall exist under the Note and Agreement and the Deed of Trust or this Assignment, the Assignor shall have the right to manage and operate the Property and to collect, receive and apply for its own account all Assigned Payments accruing by virtue of the Assigned Documents and to execute and deliver proper receipts and acquittances therefor.

2. Immediately upon the occurrence of any event which would entitle the holder of the Note and Agreement to accelerate the maturity date thereof (including but not limited to a default under this Assignment) and until such default shall have been cured as hereinafter defined, Assignee is hereby expressly and irrevocably authorized to enter and take possession of the

4. DEFAULT ASSIGNMENT

Property by actual physical possession, or by written notice served personally upon or sent by registered mail to Assignor, as Assignee may elect, and no further authorization shall be required. Following such entry and taking of possession, Assignee may:

- (a) Manage and operate the Property or any part thereof;
- (b) Lease any part or parts thereof for such periods of time and upon such terms and conditions as Assignee may, in its reasonable discretion, deem proper;
- (c) Enforce, cancel or modify any Assigned Documents;
- (d) Demand, collect, sue for, attach, levy, recover, receive, compromise and adjust, and make, execute and deliver receipts and releases for all Assigned Payments that may then be or may thereafter become due, owing or payable with respect to the Property or any part thereof from any present or future lessees, owners, purchasers, tenants or occupants thereof;
- (e) Institute, prosecute to completion or compromise and settle all actions, suits or proceedings for Assigned Payments affecting the Assigned Documents, the Property, or any part or parts thereof;
- (f) Enforce, enjoin or restrain the violation of any of the terms, provisions and conditions of any Assigned Documents, now or hereafter affecting the Property or any part thereof;
- (g) Make such repairs and alterations to the Property or any part thereof as Assignee may, in its reasonable discretion, deem proper;
- (h) Pay, from and out of the Assigned Payments collected in respect of the Property or any part thereof, or from or out of any other funds and any and all charges (i) required to

be paid under any Assigned Document or (ii) which may, either then currently or may at any time thereafter, constitute a lien on any property conveyed by the Deed of Trust; together with any taxes, assessments, water rates, sewer rates or other government charges levied, assessed or imposed against the Property or any part thereof, and also any and all other charges, costs and expenses which it may be necessary or advisable for Assignee, or Assignee's sole discretion, to pay in connection with the management or operation of the Property, including (without limiting the generality of any rights, powers, privileges and authority hereinbefore or hereinafter conferred) the costs of completing construction of the improvements, commissions for selling or renting the Property, or any portions thereof, and legal expenses in enforcing claims, preparing papers or for any other services which may be required, and any other items incident to the completion, control, care, management, repair and maintenance of the Property; and

(i) Generally do, execute and perform any other act, deed, matter or things whatsoever that ought to be done, executed and performed in and about or with respect to the Property or any part thereof, as fully as Assignor might do.

(j) Assignee shall apply the net amount of Assigned Payments received by it from the Property, after payment of all proper costs and charges (including any loss or damage hereinafter referred to) to the reduction and payment of the principal and interest on the Note and Agreement. Assignee shall be accountable to Assignor only for monies actually received by Assignee pursuant to this Assignment.

(k) A default shall be deemed to be cured hereunder only when Assignor shall have paid in full all sums owing and past due, and shall have performed all other terms, covenants and conditions required to be performed by Assignor

hereunder and under the Note and Agreement and the Deed of Trust.

3. Assignor hereby irrevocably directs each lessee, licensee, concessionaire, owner, purchaser, tenant or occupant or other person required to make any payments to Assignor under each Assigned Document and under any other document which shall hereafter become an Assigned Document, upon demand and notice from Assignee of Assignor's default under the Note and Agreement, or which would entitle the holder of the Note and Agreement to accelerate the maturity date thereof, to pay Assignee all Assigned Payments accruing or due under the Assigned Documents from and after the receipt of such demand and notice. Any such person making such payment to Assignee shall be under no obligation to inquire into or determine the actual existence of any such default claimed by Assignee.

4. Assignor hereby agrees to indemnify and hold Assignee harmless against and from any and all liability, loss, damage and expense, including reasonable attorneys' fees which it may or shall incur under any of the Assigned Documents, or by reason of this assignment, or by reason of any action taken by Assignee hereunder, and against and from any and all claims and demands whatsoever which may be asserted against Assignee by reason of any alleged obligation or undertaking on its part to perform or discharge any of the terms, covenants or conditions contained in any Assigned Documents or otherwise to impose any obligation upon Assignee with respect to any of the Assigned Documents. Prior to actual entry into and taking possession of the Property by Assignee, this Assignment shall not operate to place upon Assignee any responsibility for the operation, control, care, management or repair of the Property, and the execution of this Assignment by Assignor shall constitute conclusive evidence that all responsibility for the operation, control, care, management and repair of the Property is and shall

be that of Assignor, prior to such actual entry and taking of possession.

5. Assignor agrees that so long as no default shall exist under the Deed of Trust, the Note and Agreement or this Assignment, Assignor will enforce or secure the performance of each and every obligation, covenant, condition and agreement to be performed by each person under each Assigned Document, and any document which may hereafter become an Assigned Document.

6. Assignor agrees to execute and deliver to Assignee, at any time or times during which this assignment shall be in effect, such further instruments as Assignee may deem necessary to make effective this Assignment and the several covenants of Assignor herein contained.

7. All leases or subleases covering all or any part of the Property and all amendments, extensions or modifications to leases of space in the property shall be submitted to and approved by Assignee prior to their execution and delivery by Assignor. Each and every amendment, extension, renewal of any Assigned Document shall also be submitted to and approved by Assignee prior to its execution and delivery by Assignor.

8. Failure of Assignee to avail itself of any of the terms, covenants and conditions of this assignment for any period of time, or at any time or times, shall not be construed or deemed to be a waiver of any of its rights hereunder. The rights and remedies of Assignee under this instrument are cumulative and are not in lieu of but are in addition to any other rights and remedies which Assignee shall have under or by virtue of the Deed of Trust or the Note and Agreement. The rights and remedies of Assignee hereunder may be exercised from time to time and as often as such exercise is deemed expedient.

9. Assignee shall have the right to assign to any subsequent holder of the Deed of Trust, or to any person

acquiring title to the Property, all right, title and interest in any Assigned Document; subject, however, to the provisions of this Assignment. No assignee of Assignor's interest in the Assigned Documents shall be liable to account to Assignor for any rents, income, revenue, issues or profits thereafter accruing.

10. Upon payment in full of all the indebtedness secured by the Deed of Trust, as evidenced by a recorded satisfaction or release of Deed of Trust, as well as any sums which may be payable hereunder or under the Note and Agreement and the Deed of Trust, this Assignment shall become and be void and of no effect and, in such event, upon the request of the Assignor, Assignee covenants to execute and deliver to Assignor instruments effective to evidence the termination of this Assignment, and/or the reassignment to Assignor of the rights, power and authority granted herein.

11. Assignor shall not amend, cancel, abridge, terminate or otherwise modify any of the Assigned Documents or any part thereof and any such amendment, cancellation, abridgement, termination or modification made without consent of Assignee shall be void at the option of Assignee. Assignor further covenants and agrees that it has not and will not accept or receive any payment of rent in advance other than according to the terms and provisions of said Leases.

12. Assignor hereby covenants and warrants that no tenant of said Property holds any option or contract to purchase the same; that Assignor has not executed any superior assignment of the Leases, or rentals, nor has Assignor performed any acts or executed any other instrument which might prevent Assignee from operating under any of the terms and conditions of this Assignment, or which would limit Assignee in such operation, and Assignor further covenants and warrants that it has not executed or granted any modification whatever of said Leases specified on

Exhibit "A" except as therein specified, either orally or in writing, that the said Leases are in full force and effect according to their terms, and that there are no defaults now existing under the said Leases. No security deposited by the Lessee under said Leases with the Lessor under the terms of the Leases hereby assigned has been transferred to Assignee and Assignee assumes no liability for any security so deposited.

13. No change, amendment, modification, cancellation or discharge hereof, or of any part hereof, shall be valid unless Assignee shall have consented thereto in writing. The terms, covenants and conditions contained herein shall inure to the benefit of, and bind Assignee and Assignor and their respective distributees, legal representatives, successors and assigns.

14. Assignor shall serve written notice to all existing lessees, and shall give written notice to all future lessees or include in all future leases a notice to the lessees containing the following, or similar, language:

"The property which you are leasing is subject to a Deed of Trust and a Default Assignment of Rents and Leases executed and delivered to South Valley State Bank. Under the provisions of the Default Assignment of Rents and Leases, in the event that you receive written notice from South Valley State Bank to pay rents to South Valley State Bank, you are to follow those written instructions."

15. The covenants and agreements herein contained and the rights and remedies herein conferred shall be binding upon Assignor's successors and assigns and shall run with the land.

16. This Assignment shall be construed under and governed by the laws of the State of Oregon.

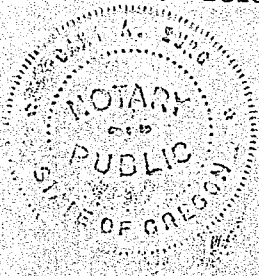
IN WITNESS WHEREOF, the Default Assignment of Rents and Leases has been executed as of the day and year first set forth above.

Terry D. Sherrill
Terry D. Sherrill

Janet R. Sherrill
Janet R. Sherrill

STATE OF OREGON)
) ss.
County of Klamath)

Personally appeared the above-named TERRY D. SHERRILL and JANET R. SHERRILL, husband and wife, and being first duly sworn, stated that the above instrument is their voluntary act and deed. Before me:



Carl A. Burg
Notary Public for Oregon
My Commission expires: 12-13-91

*Ret. South Valley State Bank
5215 So. 6th St
KFO 97603*

STATE OF OREGON: COUNTY OF KLAMATH: ss.

Filed for record at request of South Valley State Bank the 5th day
of January A.D. 19 88 at 12:36 o'clock P M., and duly recorded in Vol. M88
of Mortgages on Page 143

FEE \$55.00

Evelyn Biehn, County Clerk
By PAm Smith