

SUPPLEMENTAL AGREEMENT CONCERNING
PAYMENT OF LIENS, TAXES, ASSESSMENTS AND INSURANCE

THIS AGREEMENT made this 30th day of December, 1987 between TERRY D. SHERRILL and JANET R. SHERRILL, husband and wife,, hereinafter called "Sherrills", and SOUTH VALLEY STATE BANK, an Oregon Banking Corporation, hereinafter called "SVSB".

R E C I T A L S:

A. Sherrills have contemporaneously executed a Note to SVSB in the sum of \$335,000.00, under Loan Number 300530 and a Trust Deed to secure the Note, wherein SVSB is Beneficiary, concerning the following described real property situated in Klamath County, Oregon, to-wit:

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°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°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°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°04' West along the Southwesterly line of said Lot 6, a distance of 14.00 feet to a point; thence North 38°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°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°27'39" East; thence South 38°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°00½' 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°52½' 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°07½' East a distance of 175 feet; thence North 55°52½' West 126 feet; thence South 34°07½' West 175 feet; thence South 55°52½' East 126 feet to the point of beginning.

B. Sections 4 and 5 of the Trust Deed deal with insurance, liens, taxes and assessments upon the real property.

C. The parties hereto desire to provide a means for the orderly reserve of the sum necessary to pay the liens, taxes, assessments and insurance upon the real property.

D. The parties agree as follows:

AGREEMENT

1. The provisions of this Agreement shall be in addition to and supplemental to the Note and the Trust Deed.

2. Sherrills shall pay all delinquent taxes upon the execution of this Agreement.

3. Commencing January 1, 1988, Sherrills shall provide written proof of payment of taxes to SVSB. Written documentation shall be provided quarterly.

4. In the event of default of any provision of this Supplemental Agreement, the Note, or the Trust Deed, Sherrills shall deposit into an account at SVSB, under the name of Sherrills but under the control of SVSB, a sum equal to one-twelfth of the annual taxes for the year 1988-89, and for each year thereafter in the same increments. Sherrills shall, on or before the 10th day of each month thereafter, make a similar deposit for taxes. Failure of Sherrills to make any such deposit shall constitute a default under the Note, Trust Deed, and this agreement. Any or all interest earned upon the controlled account shall accrue to the benefit of Sherrills. SVSB shall pay taxes as they become due and may pay the taxes on a quarterly basis, at its election. In the event the funds in the controlled account are, for any reason, insufficient to pay the taxes due for any quarter, or any other lien or assessment that becomes due, SVSB shall send Sherrills a ten (10) day demand letter setting forth the taxes, liens or assessments which are deficient and Sherrills will deposit to the controlled account the funds necessary to pay the taxes, liens or assessments. Failure of Sherrills to deposit such funds within the ten (10) day period shall constitute a default under the Note, Trust Deed, and this agreement.

5. Insurance proceeds shall be paid directly to SVSB which may deal directly with any insurance company. All proceeds from any insurance on the Trust Property shall be held by SVSB as

collateral to secure performance of the obligations secured by the Trust Deed.

Sherrills may elect either to restore or not to restore the damaged improvements. If Sherrills shall repair or replace the damaged improvements in a manner satisfactory to SVSB, SVSB shall, upon satisfactory proof of performance of work, pay or reimburse Sherrills from the insurance proceeds for the reasonable cost of repair or restoration completed. If Sherrills notify SVSB in writing that, pursuant to their rights hereunder, they elect not to repair or replace the damaged improvements, SVSB shall apply the proceeds not to be so used toward payment of all or part of the indebtedness secured by the Trust Deed in such order as SVSB may determine. Any insurance proceeds which have not been paid out within one year after their receipt for the repair, replacement or restoration of the Trust Property shall forthwith be applied by SVSB toward payment of all or part of the indebtedness secured by the Trust Deed in such order as SVSB may determine.

IN WITNESS WHEREOF the parties have set their hands and seal the day and year first hereinabove written.

Terry D. Sherrill
Terry D. Sherrill

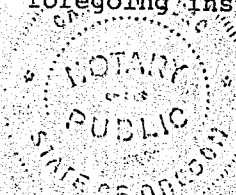
Janet R. Sherrill
Janet R. Sherrill

SOUTH VALLEY STATE BANK, an
Oregon Banking Corporation,

By: Jeffrey J. Bradford

STATE OF OREGON)
County of Klamath) ss. December 30, 1987.

Personally appeared the above-named TERRY D. SHERRILL and JANET R. SHERRILL, husband and wife, and acknowledged the foregoing instrument to be their voluntary act. Before me:



Carol A. Bueh
Notary Public for Oregon
My Commission expires: 12-13-91

4. SUPPLEMENTAL AGREEMENT
87-12-14e (MP17)

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 154

FEE \$20.00

Evelyn Biehn,
By Ram Smith County Clerk

Rt. South Valley State Bank
5215 So. 6th St
HFO 97601