

LEASE OPTION OF RESIDENTIAL REAL PROPERTY

This Agreement is made on January 22, 1988, between Kathryn and John Baley, hereinafter referred to as "Optionors/Lessors" and Keith and Debbie Baley, hereinafter referred to as "Optionees/Lesseees".

In consideration of the covenants herein contained, Optionor/Lessor do hereby lease, demise and let certain premises located on Railroad Avenue in Malin, Oregon, unto the Optionees/Lesseees. Said premises are situated on Railroad Avenue in the City of Malin, County of Klamath, State of Oregon, as follows:

Lots 19, 20, 21 Block 39 of Malin, Oregon, includes 1/2 of vacated alley.

TERMS OF LEASE: The lease of said premises shall be for a term beginning January 1, 1988, and ending at midnight on December 31, 1992, at and for a rental of \$300 per month during said term, payable in advance in lawful money of the United States to the order of the Optionor/Lessors at the following address: Kathryn and John Baley, Route 1 Box 215, Tulalake, California, 96134.

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EXTENDED RENTAL: If after the expiration or termination of this lease, Optionees/Lessees shall remain in possession of the premises and continue to pay rent without any written agreement as to such possession, said tenancy shall be determined to be from month to month at a monthly rental payable in advance equivalent to the last month's rent paid.

LESSORS OBLIGATIONS: Pursuant to the provisions of the Oregon Revised Statutes 91.770, Optionor/Lessors agree to maintain the leased premises in a habitable condition. For purposes of this section, a dwelling unit shall be considered uninhabitable if it substantially lacks any of the following: effective waterproofing and weather protection of roof, exterior walls, windows and doors; plumbing facilities which conform to applicable law in effect at the time of installation and maintained in good working order; a water supply capable of producing hot and cold running water with appropriate fixtures and connected to a sewage disposal system approved under applicable law and maintained in good working order; adequate heating facilities which conform to applicable law and are maintained in good working order; floors, walls, ceilings, stairways, and railings maintained in good repair; ventilating, air conditioning and other facilities and appliances maintained in good repair if supplied;

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Optionor/Lessor shall install and maintain smoke detectors in said premises under Oregon Revised Statutes 497.270, and shall provide a notice containing the manufacturer's instructions for testing said device.

LESSEES OBLIGATIONS: Optionees/Lessees expressly agree as follows: To pay said rents at the time and place as indicated herein, to use said premises for residential purposes and no other purpose with the consent of the Optionors/Lessor; pursuant to Oregon Revised Statute 91.774 to maintain the premises in a reasonable manner considering the purposes for which they were designed and intended; to keep all areas clean, sanitary, and free from all accumulations of debris, garbage; to use all electrical, plumbing, sanitary, heating, ventilating, and other facilities and appliances in a reasonable manner; to not deliberately or negligently destroy, deface, damage, impair, or remove any part of the premises or knowingly permit any other person to do so; to act and require other persons on the premises to act in such a manner as not to destroy the neighbor's peaceful enjoyment of the premises; not to suffer or permit any waste or strip of the premises; not to make any alterations or improvements upon said premises with the consent of the Optionors/Lessors; to keep said premises, including all exposed plumbing, heating equipment

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and apparatuses in good working repair and to pay all repairs on said premises during the term of this lease except those in which the Optionors/Lessors specifically agree herein to make; to comply with all laws, ordinances and regulations of any public authority respecting the use of said premises; promptly to pay for heat, light, water, power, and other services and utilities including garbage disposal which are used on said premises; Furthermore, Optionees/Lessees agree to hold Optionors/Lessors harmless of any and all mechanics and other liens placed upon said premises by any third parties contracted with by Optionees/Lessees; Optionees/Lessees shall be responsible for testing any smoke detecting device every six months in accordance with the instruction posted on the premises and shall notify Optionor/Lessors of any malfunction therein.

DESTRUCTION OF PREMISES: If the Optionors/Lessors elect to restore said structure, then the parties may at their mutual option enter into a written agreement to renew the lease and option agreements contained herein. Absent said written renewal agreement, this option and lease agreement shall cease at the time of said destruction and shall be of no further or binding effect on either party.

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IMPROVEMENTS: Unless otherwise agreed to in writing between the parties as an addendum to this agreement, any additions, improvements or alterations made on said residential premises by the Optionees/Lessees shall become the property of the Optionors/Lessors as soon as made.

RIGHT OF ACCESS: Optionors/Lessors shall have the right to enter the premises in order to inspect, make necessary or agreed repairs, alterations or improvements, or in the case of emergencies. Except in the case of emergencies or agreements to the contrary, or unless it is impractical to do so, Optionors/Lessors shall give Optionees/Lessees at least 24 hours notice to their intent to enter said premises prior to said entry, and said entry shall be at reasonable times. Optionors/Lessors shall also have the right to enter the premises where tenant has abandoned or surrendered the premises.

INSURANCE: During the terms of this lease, Optionees/Lessees shall not be required to insure premises against fire, theft or other casualty. Optionees/Lessees shall bear the expense of any insurance which they do procure to insure against personal property loss or against any public liability or property damage.

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INDEMNIFICATION: Optionees/Lessees shall indemnify, defend and hold harmless Optionor/Lessors against any claim, loss, or liability arising out of or related to any activity on the residential premises of any persons who comes on the premises at the invitation of or with the acquiescence of Optionees/Lessees.

ASSIGNMENT AND SUBLEASE: No part of these premises may be assigned, mortgaged or subleased nor may a right of use of any portion of the property be conferred on any third person without the prior written consent of Optionors/Lessors. No consent in one instance shall prevent this provision from applying to a subsequent instance.

NON WAIVER: Waiver by either party of strict performance of any provision of this lease, including acceptance by Optionees/Lessees of late payment of rent, shall not be a waiver of or prejudice Optionors/Lessors rights to require strict performance of the same provision in the future or of any other provisions.

ATTORNEY FEES: If suit or action is instituted, or an appeal taken therefrom, in connection any controversy arising out of this lease, the prevailing party shall be entitled to

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recover, in addition to costs, such sums as the court may adjudge reasonable as attorney fees.

NOTICES: Any notice required under this lease shall be given when actually delivered or when deposited in the United States mail, with first class postage and addressed to Optionors/Lessors or Optionees/lessees at such address as is indicated herein or may be specified from time to time by either of the parties in writing.

MODIFICATION: No modification of this lease option agreement shall be valid unless in writing and signed by the parties hereto.

OPTION TO PURCHASE: Optionors/Lessors grant to Optionees/Lessees the sole, exclusive and irrevocable right and option to purchase the above described premises at any time in which this lease is in full force and effect provided the Optionees/Lessees are not in default in their performances thereof, and subject to the terms and conditions set forth as follows: It is mutually agreed that the selling price shall be \$48,000.00.

It is therefore mutually agreed that one-half or \$150 of the total non-refundable rental payments of \$300 per month

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shall be applied towards reducing the purchase price if Optionees exercise their right to purchase said property prior to the expiration of the lease.

Time is of the essence in this agreement, and this option shall be null and void and of no force and effect unless exercised by the Optionees on or before the 31 day of December, 1992, at 5:00 PM by written notice of Optionors.

Within 10 days from the date of the written notice by Optionees of their exercise of this option, the parties shall execute a Contract of Sale for the above described premises and deliver said Contract to a title company selected by Optionors for closing said sale. Contemporaneous with the execution and delivery of said Contract of Sale to the title company, Vendees shall make the first or down payment stated in said Contract of Sale and shall comply with all other terms and conditions thereof.

ADVICE OF COUNSEL: All parties agree that they have had adequate opportunity to consult with counsel of their choice prior to signing this agreement. All parties further agree that they understand the provisions of this agreement and agree to be bound by its terms.

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FAILURE TO EXERCISE OPTION: Should the Optionees fail to exercise the aforesaid option, the foregoing lease shall continue until terminated pursuant to its terms.

IN WITNESS WHEREOF the parties hereunto set their hands on this day and year.

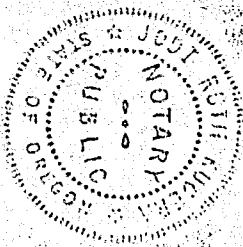
John Baley
John Baley

Kathryn Baley
Kathryn Baley

Keith Baley
Keith Baley

Debbie Baley
Debbie Baley

SUBSCRIBED AND SWORN to before me this 22nd day of January, 1988.



Jodi Ruth Kucera
Notary Public For Oregon
My Commission Expires: 6-16-91

9. LEASE OPTION OF RESIDENTIAL REAL PROPERTY

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 THE TITLE TO THE PROPERTY SHOULD CHECK WITH THE APPROPRIATE CITY OR COUNTY PLANNING DEPARTMENT FOR APPROVED USES.

10. LEASE OPTION OF RESIDENTIAL REAL PROPERTY

Return to: Karla J. Knieps
409 Pine St.
Klamath Falls, Or.
97601

STATE OF OREGON: COUNTY OF KLAMATH: ss.

Filed for record at request of Karla J. Knieps the 6th day
of July A.D. 19 88 at 2:07 o'clock P. M., and duly recorded in Vol. M88
of Deeds on Page 10563.

FEE \$53.00

Evelyn Biehn . County Clerk
By Paulene Mullendore