

Return to:
Mountain Title Co
222 S. 6th
Klamath Falls, Oregon 97601

Clerk's Stamp:

mtc 31918-8w
TRUST DEED

DATE: January 1, 1994

PARTIES:

Paul L. McKelvey and
Judy McKelvey, husband and wife
P.O. Box 993
Chiloquin, OR 97624

GRANTORS

Mountain Title Company
222 S. 6th Street
Klamath Falls, OR 97601

TRUSTEE

R.L. Slade, Inc., an Oregon
Corporation
935 S Spring
Klamath Falls, OR 97601

BENEFICIARY

RECITALS:

Grantors are the owner of real property described as;

Lots 5 and 6, Block 15, FIRST ADDITION TO THE
CITY OF CHILOQUIN, according to the official
plat thereof on file in the office of the
County Clerk of Klamath County, Oregon.

including all appurtenances, buildings and existing or future improvements
located thereon and all fixtures and attachments thereto, all of which real
property is hereinafter referred to as "the Trust Property."

A. Beneficiary has agreed to sell to Grantors certain real
property and Grantors have executed a Promissory Note for the purchase price
in the sum of \$31,600.00 upon the terms and conditions set out herein and in
the Promissory Note (the Note) dated concurrently with this Trust Deed with
the final payment due on the 15th day of July, 2005, which is the maturity
date of this Trust Deed. Grantors have agreed to deed to Trustee the Trust
Property to secure punctual payment of the Note and any other indebtedness
owing by Grantors to Beneficiary and to secure performance of all of
Grantors' obligations under the Note, under this Trust Deed and under any
other instruments evidencing an indebtedness of Grantors to Beneficiary.

THEREFORE, to secure payment by Grantors of the indebtedness
to be evidenced by the Note in strict accordance with its terms, including
payment of interest thereon and payment of any prepayment penalty for which
provision is made in the Note, and performance by Grantors of the covenants
contained herein and in the Note by it to be performed, and to secure payment
of any other indebtedness of Grantors to Beneficiary which arises directly or
indirectly out of the Note or this Trust Deed, Grantors hereby grants,
bargains, sells and conveys to the Trustee, in trust, with power of sale, the
Trust Property and presently assigns the rents, revenues, income, issues and
profits therefrom to the Trustee, its successors and its assigns, upon the
terms set forth herein.

PROVIDED, HOWEVER, that until the occurrence of an event of
default, Grantors may remain in control of and operate and manage the Trust
Property and collect and enjoy the rents, revenues, income, issues and
profits therefrom; and

PROVIDED, FURTHER, that if Grantors shall make all payments
for which provision is made in the Note in strict accordance with the terms
thereof and shall perform all of the covenants contained herein, and shall

make all payments due on any other indebtedness and shall perform all of the covenants contained in the Note and this Trust Deed, then Trustee shall execute and deliver to Grantors, without warranty, a reconveyance of the Trust Property.

The parties covenant and agree as follows:

SECTION 1.

GRANTORS' COVENANTS AND WARRANTIES

1.1 Payment of the Note. Grantors will make all payments of the interest and principal for which provision is made in the Note, and in any note or notes given in renewal or replacement thereof, promptly as such payments become due and payable and will pay the unpaid balance of the Note upon maturity.

1.2 Warranty of Title. Grantors warrants that it holds good and merchantable title to the Trust Property subject to no liens or encumbrances other than those suffered by beneficiary. Grantors covenants with Beneficiary that it will defend Beneficiary's and Trustee's rights hereunder against the claims and demands of all persons.

1.3 Use of Loan Proceeds. Grantors warrants that this Trust Deed is not to be used for Grantors' personal, family, household or agricultural purposes, but is for business or commercial purposes other than agricultural purposes.

1.4 Use of Trust Property. Grantors covenants and warrants that the Trust Property is not currently used for agricultural, timber or grazing purposes. Grantors further covenants and warrants that the current use of the Trust Property is in compliance with all laws, ordinances and regulations of all governmental authorities.

1.5 Taxes and Assessments; Liens and Claims.

1.5.1 Payment. Grantors shall pay, when due, all taxes and all assessments imposed against the Trust Property and all claims and demands arising from the Grantors' use or occupancy of the Trust Property.

1.5.2 Protection of the Trust Property From Liens. Grantors shall not permit any lien prior or equal to the Trustee's title to be imposed upon the Trust property, except liens for taxes or assessments assessed but not yet due.

1.5.3 Grantors' Right to contest. Grantors may withhold payment of any taxes, assessments, claims or demands or may elect to contest any lien if Grantors are in good faith conducting appropriate proceedings to contest its obligation to pay and for so long as the Trustee's interest in the Trust Property is not jeopardized. If the Trust Property is subjected to a lien which is not discharged within thirty (30) days from the date that the notice of claim of lien is filed, Grantors shall deposit or cause to be deposited with Beneficiary cash, a sufficient corporate surety bond or other security reasonably satisfactory to Beneficiary in an amount adequate to provide for discharge of the lien plus any interest, cost, attorney fees or other charges that could accrue as a result of foreclosure or sale. In any contest Grantors shall, at Grantors' expense, defend itself, Trustee and Beneficiary and shall satisfy any final adverse judgment before enforcement against the Trust Property.

1.5.4 Evidence of Payment of Taxes or assessments. Upon payment of real property taxes and assessments Grantors shall furnish to Beneficiary evidence of payment of such taxes and assessments. Grantors hereby authorizes the appropriate city or county official to deliver to Trustee and Beneficiary at any time a written statement of the taxes and assessments against the Trust Property.

1.6 Insurance.

1.6.1 Property Insurance. Grantors shall procure and maintain policies of fire insurance with standard extended coverage endorsements on a replacement cost basis covering all building and improvements, including additions thereto and replacements thereof, in an amount sufficient to avoid application of any coinsurance clause and with loss payable to Beneficiary. The amount of insurance shall, in no event, be less than the amount of principal owed on the Note.

1.6.2 Insurance companies, Policies and Certificates. Both the insurance company providing the policy required by this Section 1.6 and the form of the policy must be acceptable to Beneficiary. Grantors shall deliver to Beneficiary a certificate of coverage from the insurer issuing the policy required by paragraph 1.6.1 containing a stipulation that coverage will not be canceled or diminished without a minimum of 10 days advance written notice to Beneficiary. Grantors shall deliver to Beneficiary at least 10 days prior to the expiration of any insurance policy required by this Section 1.6 a certificate showing the placement of a renewal or substitute policy of insurance.

1.6.3 Notice of Loss. In the event of loss, Grantors shall immediately notify Beneficiary, which may make proof of loss if it is not made promptly by Grantors.

1.6.4 Insurance Proceeds. Insurance proceeds shall be paid directly to Beneficiary which may deal directly with any insurance company. If Beneficiary, by reason of such insurance, receives any money for loss or damage, such amount may, at the option of Beneficiary, either: (i) be retained and applied by Beneficiary toward payment of all or part of the indebtedness secured by this Trust Deed in such order as Beneficiary may determine, without regard to whether or not the security of Beneficiary is impaired, or (ii) be paid over wholly or in part to the Grantors upon such conditions as Beneficiary may determine for the repair of buildings or improvements located on the Trust Property or for the erection of new buildings or improvements in their place or for any other purpose or object satisfactory to Beneficiary. If Beneficiary elects to pay all or a portion of the insurance proceeds to Grantors, Beneficiary shall not be obligated to see to the proper application or any amount paid to Grantors.

1.7 Use, Maintenance and Alterations.

1.7.1 Duty to Maintain. Grantors shall maintain the Trust Property in good condition and repair and promptly perform all repairs and maintenance necessary to preserve its value.

1.7.2 Waste; Nuisance. Grantors shall not conduct or permit any nuisance on the trust Property nor commit or suffer any strip or waste thereof.

1.7.3 Removal of Improvements. Grantors shall not demolish or remove any improvements on the Trust Property without prior written consent of Beneficiary but Grantors may make alterations which it deems necessary for the purpose of renting the Trust Property.

1.7.4 Beneficiary's Right to Enter and Inspect. Grantors will permit Beneficiary and its agents to enter upon the Trust Property at all reasonable times to inspect the Trust Property.

1.7.5 Compliance with Governmental Requirements. Grantors shall promptly comply with all laws, ordinances and regulations of all governmental authorities applicable to the use or occupancy of the Trust Property. Grantors may contest in good faith any such law, ordinance or regulation and withhold compliance during any proceeding, including appropriate appeals, so long as Beneficiary's and Trustee's interests in the Trust Property are not jeopardized.

1.8 Eminent Domain.

1.8.1 Notice of Taking or Condemnation Proceeding. If the Trust Property, or any part thereof or interest therein, should be taken or damaged by reasons of any public improvement or condemnation proceeding, or if Grantors should receive any notice or other information regarding a condemnation proceeding or similar type of proceeding, Grantors shall immediately notify Beneficiary.

1.8.2 Condemnation Proceeds. Beneficiary shall be entitled to all compensation, awards and other payment or relief related to condemnation, and shall be entitled at its sole option to commence, appear in and prosecute in its own name any such action or proceeding. Beneficiary shall also be entitled to make any compromise or settlement in connection with such taking or damage. All such compensation, awards, damages, right of action and proceeds awarded to Grantors (Condemnation Proceeds) are hereby assigned to Beneficiary and Grantors agree to execute such further assignments of the condemnation Proceeds as Beneficiary may require. Beneficiary shall have the option, in its sole and absolute discretion, to either:

(a) apply such Condemnation Proceeds, after deducting therefrom all costs and expenses (regardless of the particular nature thereof and whether incurred with or without suit), including attorney fees incurred by Beneficiary in connection with such Condemnation Proceeds, upon all or part of the indebtedness secured by this Trust Deed in such order as Beneficiary may determine, without regard to whether or not the security of Beneficiary is impaired, or

(b) apply all of such Condemnation Proceeds, after deducting all of Beneficiary's costs and expenses, to the restoration of the Trust Property upon such conditions as Beneficiary may determine.

1.9 Reports.

1.9.1 Default. Grantors shall furnish to Beneficiary notice of any default on its part under any lease affecting the Trust Property.

1.9.2 Certificates of Lessee(s). Upon request of Beneficiary, and not more often than annually, Grantors will furnish to Beneficiary a certificate from each lessee of any portion of the Trust Property stating, if true, that the landlord (Grantors) is not in default under such lease, and that rental is current and has not been paid more than 60 days in advance.

1.9.3 Leases. Grantors will furnish to Beneficiary, upon request, copies of leases covering any portion of the Trust Property entered into after the date hereof.

1.10 Security Agreement. This instrument shall constitute a security agreement with respect to any fixtures attached to the Trust Property to secure all indebtedness and obligations secured by this Trust Deed and all future advances and all future indebtedness and obligations of Grantors to Beneficiary. This instrument shall also constitute a financing statement and shall be filed for recording in the real estate records of the county where the Trust Property is located.

1.11 Reserves. If Grantors have failed to perform their obligations under Sections 1.5 or 1.6 of this Trust Deed, Beneficiary may require Grantors to maintain with Beneficiary reserves for payment of taxes, assessments and insurance premiums. The reserve shall be created by monthly payments of a sum estimated by Beneficiary to be sufficient to produce, at least 15 days before due, an amount equal to the taxes, assessments and insurance premiums. If 15 days before payment is due the reserve is insufficient, Grantors shall pay any deficiency to Beneficiary upon demand. The reserve shall be held by Beneficiary as a general deposit from Grantors and shall constitute a non-interest bearing debt from Beneficiary to Grantors which Beneficiary may satisfy by payment of the taxes and assessments. If Beneficiary is required by law to pay interest on these funds they shall earn interest at the lowest permissible rate, and Beneficiary may impose any reasonable and lawful charge for holding and disbursing such funds. Nothing contained herein shall cause beneficiary to be deemed a trustee of the reserve or to be obligated to pay any amounts in excess of the amount of funds deposited with Beneficiary pursuant to this Section.

SECTION 2.

EVENTS OF DEFAULT

The following shall constitute events of default:

2.1 Nonpayment. Failure of grantor to make any payment required by the Note or to make any payment for taxes, insurance premiums or for reserves for such payments, or any other payment necessary to prevent filing of or discharge of any lien within 10 days after written notice by Beneficiary (or Beneficiary's agents) of any such nonpayment. No notice by Beneficiary shall be required for nonpayment if during the preceding 12 calendar months Beneficiary has sent notice to Grantors concerning any nonpayment hereunder.

2.2 Breach of Other Covenant. Failure of Grantors to perform any obligation contained in this Trust Deed within 30 days after notice from Beneficiary (or Beneficiary's representative) specifying the nature of the default or, if the default cannot be cured within 30 days, failure within such time to commence and pursue with reasonable diligence curative action. No notice of default and opportunity to cure shall be required if during the preceding 12 calendar months Beneficiary has already sent a notice to Grantors concerning default in performance of the same obligation.

2.3 Misinformation. Falsity in any material respect of the warranty in paragraph 1.2 or of any representation, warranty or information furnished to Beneficiary in connection with the Note or this Trust Deed.

2.4 Other Obligation. Failure of Grantors to perform any obligation required by any other instrument (i.e., other than the Note or this Trust Deed) evidencing or securing any indebtedness of Grantors to Beneficiary.

2.5 Sale or Transfer of Possession. The sale or transfer of possession

of the Trust Property or any part thereof in any manner by Grantors, whether by deed, contract of sale, lease or similar agreement, without the prior written consent of Beneficiary. The execution and delivery by the Grantors of any joint venture agreement, partnership agreement, declaration of trust, option agreement or other instrument whereunder any other person may become entitled, directly or indirectly, to the possession or enjoyment of the Trust Property, or the income or other benefits derived or to be derived therefrom, shall in each case be deemed to be a sale or transfer of Grantors' interest in the Trust Property for the purposes of this section. Grantors acknowledge that the loan secured by this Trust Deed is personal to Grantors and that in making it Beneficiary has relied on Grantors' credit, Grantors' interest in the Trust Property and financial market conditions at the time this loan is made.

2.6 Certain Taxes. This subsection shall apply to the following state taxes:

- (a) A specific tax on mortgages, trust deeds, secured indebtedness or any part of the indebtedness secured by this Trust Deed.
- (b) A specific tax on the Grantors of property subject to a trust deed which the taxpayer is authorized or required to deduct from payments on the trust deed.
- (c) A tax on property chargeable against the beneficiary or trustee under a trust deed or holder of the note secured thereby.
- (d) A specific tax on all or any portion of the indebtedness or on payments of principal and interest made by Grantors.

If any state tax to which the subsection applies is enacted after the date of this Trust Deed, enactment of the tax shall constitute an event of default unless the following conditions are met:

- (i) Grantors may lawfully pay the tax or charge imposed by the state tax without causing any resulting economic disadvantage or increase of tax to Beneficiary or Trustee, and
- (ii) Grantors pay or agree to pay the tax or charge within 30 days after notice from Beneficiary or Trustee that the tax law has been enacted.

In the event of a default under this paragraph 2.6, and notwithstanding any other provision of the Note or this Trust Deed, no prepayment penalty shall be payable.

SECTION 3.

REMEDIES IN CASE OF DEFAULT

If an event of default shall occur, Beneficiary or Trustee, as the case may be, may exercise any of the following rights and remedies, in additions to any other remedies which may be available at law, in equity, or otherwise:

3.1 Acceleration. Beneficiary may declare all sums secured by this Trust Deed, including all interest and prepayment penalties, to be immediately due and payable.

3.2 Books and Records. Beneficiary may examine all books, records and contracts of Grantors pertaining to the Trust Property and of any guarantors and make such memoranda thereof as may be desired.

3.3 Receiver. Beneficiary may have a receiver of the Trust Property appointed. Beneficiary shall be entitled to the appointment of a receiver as a matter of right whether or not the apparent value of the Trust Property exceeds the amount of the indebtedness secured by this Trust Deed. Employment by Trustee or Beneficiary shall not disqualify a person from serving as receiver. Grantors waive all defenses and consents to the appointment of a receiver at Beneficiary's option.

3.4 Possession. Beneficiary may, either through a receiver or as a lender-in-possession, take possession of all or any part of the Trust Property, and Grantors shall peaceably surrender the same.

3.5 Rents and Revenues. Beneficiary may revoke Grantors' right to collect the rents and revenues from the Trust Property, and may, either itself or through a receiver, collect the same. To facilitate collection, Beneficiary may notify Grantors' tenants to pay rents directly to it. Beneficiary shall not be deemed to be in possession of the Trust Property solely by reason of exercise of the rights contained in this paragraph 3.5. If rents are collected by Beneficiary under this paragraph 3.5, Grantors hereby irrevocably designates Beneficiary as Grantors' attorney-in-fact to endorse instruments received in payment of rent, in respect of any part of the Trust Property, in the name of Grantors and to negotiate such instruments and collect the proceeds thereof.

3.6 Foreclosure. Beneficiary may obtain a decree foreclosing Grantors' interest in all or any part of the Trust Property.

3.7 Fixtures and Personal Property. With respect to any fixtures or personal property subject to a security interest in favor of Beneficiary, Beneficiary may exercise any and all of the rights and remedies of a secured party under the Uniform commercial Code.

3.8 Abandon Security. Beneficiary may abandon any security afforded by this Trust Deed or any other security instrument by notifying Grantors of Beneficiary's election to do so.

3.9 Power of Sale. Beneficiary may direct Trustee, and Trustee shall be empowered, to foreclose the Trust Property by advertisement and exercise of the power of sale under applicable law.

3.10 Sale of Collateral; Bid at Public Sale. In exercising its rights a remedies, Beneficiary shall be free to sell all or any part of the collateral together or separately, or to sell certain portions of its collateral and refrain from selling other portions. Beneficiary shall be entitled to bid at any public sale of all or any portion of its collateral.

3.11 Cumulative Remedies. Election to pursue one remedy shall not exclude resort to any other remedy, and, unless the context otherwise requires, all remedies under this Trust Deed are cumulative and not exclusive. An election to cure under paragraph 6.7 shall neither prejudice the right to declare a default nor constitute a waiver of the breached term or of any of the remedies provided herein. No delay or omission in exercising any right or remedy shall impair that or any other right to remedy or shall be construed to be a waiver of the default.

SECTION 4.

RECEIVER OR TRUSTEE-IN-POSSESSION

Upon taking possession of all or any part of the Trust Property, a receiver or Trustee or Beneficiary or Beneficiary's representative may:

4.1 Management. Use, operate, manage, control and conduct business on the Trust Property and make expenditures for such purposes and for maintenance and improvements as in its judgment are necessary.

4.2 Rents and Revenues. Collect all rents, revenues, income, issues and profits from the Trust Property and apply such sums to the expenses of use, operation, management, maintenance and improvements.

4.3 Construction. At its option, complete any construction in progress on the Trust Property, and in that connection pay bills, borrow funds, employ contractors and make any changes in plans and specifications as it deems appropriate.

4.4 Additional Indebtedness. If the revenues produced by the trust Property are insufficient to pay expenses, including, without limitation, any disbursements made by Beneficiary or Trustee pursuant to this Section 4, a receiver may borrow, or Beneficiary or Trustee may advance, such sums upon such terms as it deems necessary for the purposes stated in this Section, and repayment of such sums shall be secured by this Trust Deed. Amounts borrowed or advanced shall bear interest at a rate equal to the lesser of 12% per annum or the highest rate permitted by applicable law. Amounts borrowed or advanced and interest thereof shall be payable by Grantors to Beneficiary or Trustee on demand.

SECTION 5.

APPLICATION OF PROCEEDS

All proceeds realized from the exercise of the rights and remedies under Sections 3 and 4 shall be applied as follows:

5.1 Costs and Expenses. To pay the costs of exercising such rights and remedies, including the costs of any sale, the costs and expenses provided for in paragraph 6.6.

5.2 Indebtedness. To pay all other amounts owed by Grantors, payment of which is secured by this Trust Deed.

5.3 Surplus. The surplus, if any, shall be paid to the clerk of the court in the case of a foreclosure by judicial proceeding, otherwise to the person or persons legally entitled thereto.

SECTION 6.

GENERAL PROVISIONS

6.1 Reconveyance Upon Payment. Upon written request of Beneficiary stating that all sums secured hereby have been paid, surrender of this Trust Deed and the Note to Trustee for cancellation and retention and payment of its fees, Trustee shall reconvey, without warranty, the Trust Property then held hereunder. The recitals in any reconveyance executed under this Trust Deed of any matters of facts shall be conclusive proof of the truthfulness thereof. The Grantee in such reconveyance may be described as "the person or persons legally entitled thereto."

6.2 Substitute Trustee. In the event of dissolution or resignation of the Trustee, Beneficiary may substitute one or more trustees to execute the trust hereby created, and the new trustee(s) shall succeed to all of the powers and duties of prior trustees.

6.3 Trust Deed Binding on Successors and Assigns. This Trust Deed shall be binding on and insure to the benefit of the successors and assigns of Grantors, Trustee and Beneficiary.

6.4 Indemnity. Grantors shall hold beneficiary and Trustee harmless from any and all loss and expense, including but not limited to attorney fees and court costs, in any suit, action or proceeding or any appeal therefrom brought against Trustee or Beneficiary by a third party resulting from or attributable to Beneficiary ownership of the Note or Trustee's interest under this Trust Deed, except suits, actions and proceedings based upon a claim that Beneficiary or Trustee improperly entered into this Trust Deed or Note or loaned money thereunder.

6.5 Notice. Any notice under this Trust Deed shall be in writing. Any notice to be given or document to be delivered under this Trust Deed shall be effective when either delivered in person or deposited as registered or certified mail, postage prepaid, addressed to the party at the address first stated in this Trust Deed; provided that any notice pursuant to exercise of the Trustee's power of sale in the event of default shall be sufficient if such notice complies with all provisions of Oregon law applicable to exercise of such powers of sale. Any party may, by notice to the others, designate a different address.

6.6 Expenses and Attorney Fees. In the event that Beneficiary or Trustee shall take any action, judicial or otherwise, to enforce the Note or any provision of this Trust Deed or if Beneficiary or Trustee shall be required to appear in any proceeding to protect and maintain the priority of Trustee's title to the Trust Property, Trustee or Beneficiary (or both) shall be entitled to recover from Grantors all expenses which it may reasonably incur in taking such action, including but not limited to costs incurred in searching records, the cost of title reports and surveyors' reports, and its attorney fees, whether incurred in a suit or action or any appeals from a judgment or decree therein or petition for review, or in connection with nonjudicial action.

6.7 Beneficiary's Right to Cure. If Grantors fail to perform any obligation required of it under this Trust Deed, Beneficiary may, without notice, take any steps necessary to remedy such failure. Grantors shall reimburse Beneficiary for all amounts expended in so doing on demand with interest at a rate equal to the lesser of 12% percent per annum or the highest rate permitted by applicable law from the date of expenditure until repaid. Such action by Beneficiary shall not constitute a waiver of the default or any other right or remedy which Beneficiary may have on account of Grantors' default.

6.8 Applicable Law. This Trust Deed shall be governed by the laws of the State of Oregon.

6.9 Time of Essence. Time is of the essence of this Trust Deed.

6.10 Headings. The headings to the sections and paragraphs of this Trust Deed are included only for the convenience of the parties and shall not have the effect of defining, diminishing or enlarging the rights of the parties or affecting the construction or interpretation of any portion of this Trust Deed.

6.11 Severability. If any provision of this Trust Deed shall be held to be invalid, illegal or unenforceable, such invalidity, illegality or unenforceability shall not affect any other provisions of this Trust Deed, but this Trust Deed shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

6.12 Entire Agreement. This Trust Deed and the Note contain the entire

agreement of the parties with respect to the matters covered, and no other previous agreement, statement or promise made by any party to this Trust Deed which is not contained in its terms or in the terms of the Note shall be binding or valid.

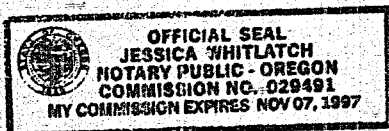
IN WITNESS WHEREOF, Grantors have caused this Trust Deed to be executed as of the day and year first above written.

Paul L. McKelvey

Judy McKelvey

STATE OF OREGON)
) ss. January 10, 1994
County of Klamath)

Personally appeared Paul L. McKelvey and Judy McKelvey, and acknowledged the foregoing instrument to be their voluntary act and deed. Before me:



Jessica Whitlatch
Notary Public for Oregon
My Commission expires: 11/7/97

STATE OF OREGON: COUNTY OF KLAMATH: ss.

Filed for record at request of Mountain Title co the 12th day
of Jan A.D., 19 94 at 10:09 o'clock A.M., and duly recorded in Vol. M94,
of Mortgages on Page 1119.

FEE \$35.00

Evelyn Biehn, County Clerk

By Carolyn Miller