

78320
 Return:
 Liberty Federal Bank
 1000 Biddle Rd.
 Medford OR 97504



DEED OF TRUST
 CONSTRUCTION LOAN

MTN 32229-KR

THIS DEED OF TRUST ("Security Agreement") is made on March 17 1994. The grantor is MONTI'S CONSTRUCTION, INC., AN OREGON CORPORATION

("Borrower"). The trustee is MOUNTAIN TITLE COMPANY OF KLAMATH COUNTY

("Trustee"). The beneficiary is LIBERTY FEDERAL BANK, S.B., whose address is 1000 BIDDLE RD., MEDFORD, OR 97504

("Lender"). Borrower owes Lender the principal sum of SEVENTY SIX THOUSAND EIGHT HUNDRED AND 00/100

Dollars (U.S.S. 76,800.00). This debt is evidenced by Borrower's note dated the same date as this Security Instrument ("Note"), which provides for monthly payments, with the full debt, if not paid earlier due and payable on January 1, 1995. This Security Instrument secures to Lender: (a) the repayment of the debt evidenced by the Note, with interest, and all renewals, extensions and modifications; (b) the payment of all other sums, with interest advanced under paragraph 6 to protect the security of this Security Instrument; and (c) the performance of Borrower's covenants and agreements under this Security Instrument and the Note. For this purpose, Borrower irrevocably grants and conveys to Trustee, in trust, with power of sale, the following described property located in Klamath County, Oregon:

ALL OF LOT 3 AND THE WASTERLY 25.00 FEET OF LOT 4, BLOCK 79 BUENA VISTA ADDITION TO THE CITY OF KLAMATH FALLS, ACCORDING TO THE OFFICIAL PLAT THEREON ON FILE IN THE OFFICE OF THE COUNTY CLERK OF KLAMATH COUNTY, OREGON.

which has the address of 2081 CALIFORNIA AVENUE

(Street)

KLAMATH FALLS

OREGON

(city)

(State)

(Zip)

("Property Address"),

TOGETHER WITH all the improvements now or hereafter erected on the property, and all easements, rights, appurtenances, rents, royalties, mineral, oil and gas rights and profits, water rights, stock, and all fixtures now or hereafter a part of the property. All replacements and additions shall also be covered by the Security Instrument. All of the foregoing is referred to in this Security Instrument as the "Property".

BORROWER COVENANTS that Borrower is lawfully seised of the estate hereby conveyed and has the right to grant and convey the Property and that the Property is unencumbered, except for encumbrances of record. Borrower warrants and will defend generally the title to the Property against all claims and demands subject to any encumbrances of record.

UNIFORM COVENANTS: Borrower and Lender covenant and agree as follows:

1. PAYMENT OF PRINCIPAL AND INTEREST; PREPAYMENT AND LATE CHARGES: Borrower shall promptly pay when due the principal of, and interest on, the debt evidenced by the Note and any prepayment and late charges due under the Note.

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2. APPLICATION OF PAYMENTS: Unless applicable law provides otherwise, all payments received by Lender under paragraph 1 shall be applied: first, to late charges due under the Note; second, to prepayment charges due under the Note; third, to interest due; and last to principal.

3. CHARGES; LIENS: Borrower shall pay all taxes, assessments, charges, fines and impositions attributable to the Property which may attain priority over this Security Instrument, and leasehold payments or ground rents, if any. Borrower shall pay them on time directly to the person entitled to payment. Borrower shall promptly furnish to Lender all notices of amounts to be paid under this paragraph. If Borrower makes these payments directly, Borrower shall promptly furnish to Lender receipts evidencing the payments.

4. HAZARD INSURANCE: Borrower shall keep the improvements now existing or hereafter erected on the Property insured against loss by fire, hazards included within the term "all risks coverage", and any other hazards for which Lender requires insurance. This insurance shall be maintained in the amounts and for the periods that Lender requires. The insurance carrier providing the insurance shall be chosen by Borrower subject to Lender's approval which shall not be unreasonably withheld.

All insurance policies and renewals shall be acceptable to Lender and shall include a standard mortgage clause. Lender shall have the right to hold the policies and renewals. If Lender requires, Borrower shall promptly give to Lender all receipts of paid premiums and renewal notices. In the event of loss, Borrower shall give prompt notice to the insurance carrier and Lender. Lender may make proof of loss if not made promptly by Borrower.

Unless Lender and Borrower otherwise agree in writing, insurance proceeds shall be applied to restoration or repair of the Property damaged if the restoration or repair is economically feasible and Lender's security is not lessened. If the restoration or repair is not economically feasible or Lender's security would be lessened, the insurance proceeds shall be applied to the sums secured by this Security Instrument, whether or not then due, with any excess paid to Borrower. If Borrower abandons the Property, or does not answer within ten (10) days to a notice from Lender that the insurance carrier has offered to settle a claim, then Lender may collect the insurance proceeds. Lender may use the proceeds to repair or restore the Property, or to pay sums secured by this Security Instrument, whether or not then due. The ten (10) day period will begin when the notice is given.

Unless Lender and Borrower otherwise agree in writing, any application of proceeds to principal shall not extend or postpone the due date of the monthly payments referred to in paragraph 1 or change the amount of the payments. If under paragraph 17 the property is acquired by Lender, Borrower's right to any insurance policies and proceeds resulting from damage to the Property prior to the acquisition shall pass to Lender to the extent of the sums secured by this Security Instrument immediately prior to the acquisition.

5. PRESERVATION AND MAINTENANCE OF PROPERTY; LEASEHOLDS: Borrower shall not destroy or damage the Property or allow the Property to deteriorate or commit waste. If this Security Instrument is on a leasehold, Borrower shall comply with the provisions of the lease. If Borrower acquires fee title to the Property, the leasehold and fee title shall not merge unless Lender agrees to the merger in writing.

6. PROTECTION OF LENDER'S RIGHTS IN THE PROPERTY; MORTGAGE INSURANCE: If Borrower fails to perform the covenants and agreements contained in this Security Instrument, or there is a legal proceeding that may significantly affect Lender's rights in the Property (such as a proceeding in bankruptcy, probate, for condemnation or to enforce laws or regulations), the Lender may do and pay for whatever is necessary to protect the value of the Property and Lender's rights in the Property. Lender's actions may include paying any sums secured by a lien which has, or may have, priority over this Security Instrument, appearing in court, paying reasonable attorneys' fees and entering on the Property to make repairs. Although Lender may take action under this paragraph 6, Lender does not have to take any action. Any amounts disbursed by Lender under this paragraph 6 shall become additional debt of Borrower secured by this Security Instrument. Unless Borrower and Lender agree to other terms of payment, these amounts shall bear interest from the date of disbursement at the Note rate and shall be payable, with interest, upon notice from Lender to Borrower requesting payment.

If Lender required mortgage insurance as a condition of making the loan secured by this Security Instrument, Borrower shall pay the premiums required to maintain the insurance in effect until such time as the requirement for the insurance terminates in accordance with Borrower's and Lender's written agreement or applicable law.

7. **INSPECTION:** Lender or its agent may make reasonable entries upon and inspections of the Property.

8. **CONDEMNATION:** The proceeds of any award or claim for damages, direct or consequential, in connection with any condemnation or other taking of any part of the property, or for conveyance in lieu of condemnation, are hereby assigned and shall be paid to Lender.

In the event of a total or partial taking of the property, the proceeds shall be applied to the sums secured by this Security Instrument, whether or not then due, with any excess paid to Borrower.

If the Property is abandoned by Borrower or, if after notice by Lender to Borrower that the condemnor offers to make an award to settle a claim for damages, Borrower fails to respond to Lender within ten (10) days after the date the notice is given, Lender is authorized to collect and apply the proceeds, at its option, either to restoration or repair of the property or to the sums secured by this Security Instrument whether or not then due.

Unless Lender and Borrower otherwise agree in writing, any application of proceeds to principal shall not extend or postpone the due date of the monthly payments referred to in paragraph 1 or change the amount of such payments.

9. **BORROWER NOT RELEASED; FORBEARANCE BY LENDER NOT A WAIVER:** Extension of the time for payment or modification of amortization of the sums secured by this Security Instrument granted by Lender to any successor in interest of Borrower shall not operate to release the liability of the original Borrower or Borrower's successors in interest. Lender shall not be required to commence proceedings against any successor in interest or refuse to extend time for payment or otherwise modify amortization of the sums secured by this Security Instrument by reason of any demand made by the original Borrower or Borrower's successors in interest. Any forbearance by Lender in exercising any right or remedy shall not be a waiver of, or preclude the exercise of, any right or remedy.

10. **SUCCESSORS AND ASSIGNS BOUND; JOINT AND SEVERAL LIABILITY; CO-SIGNERS:** The covenants and agreements of this Security Instrument shall bind and benefit the successors and assigns of Lender and Borrower subject to the provisions of paragraph 15. Borrower's covenants and agreements shall be joint and several. Any borrower who co-signs this Security Instrument but does not execute the Note; (a) is co-signing this Security Instrument only to mortgage, grant, and convey Borrower's interest in the Property under the terms of this Security Instrument; (b) is not personally obligated to pay the sums secured by this Security Instrument; and (c) agrees that Lender and any other Borrower may agree to extend, modify, forbear, or make any accommodations with regard to the terms of the Security Instrument or the Note without the Borrower's consent.

11. **LEGISLATION AFFECTING LENDER'S RIGHTS:** If enactment or expiration of applicable laws has the effect of rendering any provision of the Note or this Security Instrument unenforceable according to its terms, Lender, at its option, may require immediate payment in full of all sums secured by this Security Instrument and may invoke any remedies permitted by paragraph 17. If Lender exercises this option, Lender shall take the steps specified in the second paragraph of paragraph 15.

12. **NOTICES:** Any notice to Borrower provided for in this Security Instrument shall be given by personally delivering it to the addressee or by mailing it by first class mail unless applicable law requires use of another method. The notice shall be directed to the Property Address or any other address Borrower designated by notice to Lender. Any notice to Lender shall be given by first class mail to Lender's address stated herein or any other address Lender designates by notice to Borrower. Any notice provided for in this Security Instrument shall be deemed to have been given to Borrower or Lender when given as provided in this paragraph.

13. **GOVERNING LAW; SEVERABILITY:** This Security Instrument shall be governed by the law of the jurisdiction in which the Property is located. In the event that any provision or clause of this Security

Instrument or the Note conflicts with applicable law, such conflict shall not affect other provisions of this Security Instrument or the Note which can be given effect without the conflicting provision. To this end the provisions of this Security Instrument and the Note are declared to be severable.

14. **BORROWER'S COPY:** Borrower shall be given one conformed copy of the Note and of this Security Instrument.

15. **TRANSFER OF THE PROPERTY OF BENEFICIAL INTEREST IN BORROWER:** If all or any part of the Property or any interest in it is sold or transferred (or if a beneficial interest in Borrower is sold or transferred and Borrower is not a natural person) without Lender's prior written consent, Lender may, at its option, require immediate payment in full of all sums secured by this Security Instrument. However, this option shall not be exercised by Lender if exercise is prohibited by federal law as of the date of this Security Instrument.

If Lender exercises this option, Lender shall give Borrower notice of acceleration. The notice shall provide a period of not less than ten (10) days from the date the notice is delivered or mailed within which Borrower must pay all sums secured by this Security Instrument. If Borrower fails to pay these sums prior to the expiration of this period, Lender may invoke any remedies permitted by this Security Instrument without further notice or demand on Borrower.

16. **BORROWER'S RIGHT TO REINSTATE:** If Borrower meets certain conditions, Borrower shall have the right to have enforcement of this Security Instrument discontinued at any time prior to five (5) days (or such other period as applicable law may specify for reinstatement) before sale of the Property pursuant to any power of sale contained in this Security Instrument. Those conditions are that Borrower: (a) pays Lender all sums which then would be due under this Security Instrument and the Note had no acceleration occurred; (b) cures any default of any other covenants or agreement; (c) pays all expenses incurred in enforcing this Security Instrument including, but not limited to reasonable attorneys' fees; and (d) takes such action as Lender may reasonably require to assure the lien of this Security Instrument, Lender's rights in the Property, and Borrower's obligation to pay the sums secured by this Security Instrument shall continue unchanged. Upon reinstatement by Borrower, this Security Instrument and the obligations secured hereby shall remain fully effective as if no acceleration had occurred. However, this right to reinstate shall not apply in the case of acceleration under paragraphs 11 and 15.

NON-UNIFORM COVENANTS: Borrower and Lender further covenant and agree as follows:

17. **ACCELERATION; REMEDIES:** Lender shall give notice to Borrower prior to acceleration following Borrower's breach of any covenant or agreement in the Security Instrument (but not prior to acceleration under paragraphs 11 and 15 unless applicable law provides otherwise). The notice shall specify: (a) the default; (b) the action required to cure the default; (c) a date, not less than ten (10) days from the date the notice is given to Borrower, by which the default must be cured; and (d) that failure to cure the default on or before the date specified in the notice may result in acceleration of the sums secured by this Security Instrument and sale of the Property. The notice shall further inform Borrower of the right to reinstate after acceleration and the right to bring a court action to assert the non-existence of a default or any other defense of Borrower to acceleration and sale. If the default is not cured on or before the date specified in the notice, Lender, at its option, may require immediate payment in full of all sums secured by this Security Instrument without further demand and may invoke the power of sale and any other remedies permitted by applicable law. Lender shall be entitled to collect all expenses incurred in pursuing the remedies provided in this paragraph 17 including, but not limited to reasonable attorneys' fees and costs of title evidence.

If Lender invokes the power of sale, Lender shall execute or cause Trustee to execute a written notice of the occurrence of any event of default and of Lender's election to cause the Property to be sold and shall cause such notice to be recorded in each county in which any part of the Property is located. Lender or Trustee shall give notice of sale in the manner prescribed by applicable law to Borrower and to other persons prescribed by applicable law. After the time required by applicable law, Trustee, without demand on Borrower, shall sell the Property at public auction to the highest bidder at the time and place and under the terms designated in the notice of sale in one or more

parcels and in any order Trustee determines. Trustee, or Trustee's agent, may postpone sale of all or any parcel of the Property by public announcement at the time and place of any previously scheduled sale. Lender or its designee may purchase the Property at any sale.

Trustee shall deliver to the purchaser Trustee's deed conveying the Property without any covenant or warranty, expressed or implied. The recitals in the Trustee's deed shall be prima facie evidence of the truth of the statements made therein. Trustee shall apply the proceeds of the sale in the following order: (a) to all expenses of the sale including, but not limited to reasonable Trustee's and attorneys' fees; (b) to all sums secured by this Security Instrument; and (c) any excess to the person or persons legally entitled to it.

Beneficiary may also file one or more suits at law or in equity, for the foreclosure of this Trust Deed or to collect the indebtedness owed by Grantor. In the event of the commencement of judicial proceedings to foreclose this Trust Deed, Grantor does hereby expressly waive, to the extent permitted by applicable law, any and all rights of appraisal, valuation, stay, extension, and redemption from sale under any order or decree of foreclosure of this Trust Deed on behalf of Grantor.

18. **LENDER IN POSSESSION:** Upon acceleration under paragraph 15 or abandonment of the Property, Lender (in person, by agent, or by judicially appointed receiver) shall be entitled to enter upon, take possession, manage, and collect rents of the Property including those past due. Any rents collected by Lender or the receiver shall be applied first to payment of the costs of management of the Property and collections of rents including, but not limited to receiver's fees, premiums on receiver's bonds, and reasonable attorneys' fees, and then to the sums secured by this Security Instrument.

19. **RECONVEYANCE:** Upon payment of all sums secured by this Security Instrument, Lender shall request Trustee to reconvey the Property and shall surrender this Security Instrument and all notes evidencing debt secured by this Security to Trustee. Trustee shall reconvey the Property without warranty and without charge to the persons legally entitled to it. Such person or persons shall pay any recordation costs.

20. **SUBSTITUTE TRUSTEE:** Lender may from time to time remove Trustee and appoint a successor trustee to any Trustee appointed hereunder. Without conveyance of the Property, the successor trustee shall succeed to all the title, power, and duties conferred upon the Trustee herein and by applicable law.

21. **ATTORNEYS' FEES:** In the event of default by either party in the performance of their obligations under this lease, the defaulting party agrees to pay all reasonable attorney fees and legal expenses incurred by the non-defaulting party as a result of said default, whether or not litigation is commenced. In the event any legal proceeding is commenced for the purpose of interpreting or enforcing any provision of this lease or to collect any indebtedness secured hereby (including, but not limited to, any and all proceedings in the bankruptcy court for relief from stay or otherwise), the prevailing party in such proceeding shall be entitled to recover reasonable attorney fees in such proceeding or any appeal thereof, in addition to the costs and disbursements allowed by law. Such sums shall include any amount estimated by the court as the reasonable costs and fees to be incurred by the prevailing party in collecting and monetary judgement or award or otherwise enforcing any order, judgement or decree entered in such suit or action.

22. **RIDERS TO THIS SECURITY INSTRUMENT:** If one or more riders are executed by Borrower and recorded together with this Security Instrument, the covenants and agreements of each such rider shall be incorporated into and shall amend and supplement the covenants and agreements of this Security Instrument. [Check applicable box(es)]

- | | |
|--|---|
| <input type="checkbox"/> 1. Adjustable Rate Rider | <input type="checkbox"/> 2. Condominium Rider |
| <input type="checkbox"/> 3. 2-4 Family Rider | <input type="checkbox"/> 3. Graduated Payment Rider |
| <input type="checkbox"/> 4. Planned Unit Development Rider | <input type="checkbox"/> 4. Release Rider |
| <input type="checkbox"/> 5. Construction Loan Rider | <input type="checkbox"/> 5. Other(s) [specify] |

BY SIGNING BELOW Borrower accepts and agrees to the terms and covenants contained in this Security Instrument and in any rider(s) executed by Borrower and recorded with it.

MONTI'S CONSTRUCTION, INC., AN OREGON CORPORATION

MARTIN I. MONTI, PRESIDENT - Borrower JAMES J. MONTI, VICE PRESIDENT - Borrower

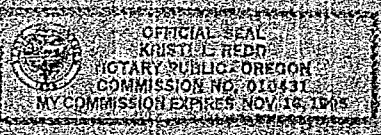
JANET L. MONTI - Borrower DEBRA A. MONTI - Borrower

-Borrower -Borrower

State of Oregon)
County of Klamath) ss.

Before me did JANET L. MONTI and DEBRA A. MONTI personally appear and if (are) known or proved to me to be the person(s) who, being informed of the contents of the foregoing instrument, have executed same, and acknowledged said instrument for the purposes and uses therein set forth.

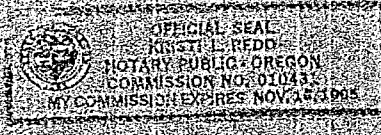
Witness my hand and official seal this 28th day of March 19 94



Kristine L. Redd
Notary Public for Oregon
My Commission Expires 11/16/95

State of Oregon)
County of Klamath) ss.

On this 28th day of March, 19 94, before me appeared MARTIN I. MONTI and JAMES J. MONTI who being duly sworn did say that are the President and Vice President of MONTI'S CONSTRUCTION, INC., an Oregon Corporation; and by the authority of its Board of Directors, acknowledged said instrument to be the free act and deed of said Corporation.



Kristine L. Redd
Notary Public for Oregon
My Commission Expires 11/16/95

REQUEST FOR RECONVEYANCE

TO TRUSTEE:
The undersigned is the holder of the note or notes secured by this Deed of Trust. Said note or notes, together with all other indebtedness secured by this Deed of Trust, have been paid in full. You are hereby directed to cancel said note or notes and this Deed of Trust, which are delivered hereby, and to reconvey, without warranty, all the estate now held by you under this Deed of Trust to the person or persons legally entitled thereto.

Dated _____



3401

Loan No. 141920420

CONSTRUCTION LOAN AGREEMENT

THIS AGREEMENT is between the undersigned BORROWER(S) (individually and collectively, if more than one, "Borrower") whose address is 1504 OREGON AVE, KLAMATH FALLS, OR 97601 and LIBERTY FEDERAL BANK, S.B., a corporation, whose address is 1000 BIDDLE RD., MEDFORD, OR 97504 (the Association").

The Association has issued Borrower a commitment for financing (the "Loan") to assist in the construction of a one-to-four family residence and other improvements (collectively, the "Improvements") on the following described property located in Klamath County, Oregon (the "Land").

ALL OF LOT 3 AND THE WESTERLY 25.00 FEET OF LOT 4, BLOCK 79 BUENA VISTA ADDITION TO THE CITY OF KLAMATH FALLS, ACCORDING TO THE OFFICIAL PLAT THEREOF ON FILE IN THE OFFICE OF THE COUNTY CLERK OF KLAMATH COUNTY, OREGON.

The Land and Improvements are sometimes collectively referred to herein as the "Property". If any portion of the loan is for use in purchasing any part of the Land, such portion shall be deemed to constitute a land purchase loan and the remaining portion shall be deemed to constitute a construction loan. The Improvements shall be constructed pursuant to the plans and material specifications dated N/A ("the Plans") and construction budget dated March 15, 1994 (the "Approved Budget") which provides that the Improvements shall be constructed for EIGHTY THOUSAND

TWO HUNDRED FIFTY AND 00/100 Dollars (\$ 80,250.00). The Loan will be evidenced by a promissory note (the "Note") from Borrower to the Association in the amount of SEVENTY SIX THOUSAND EIGHT HUNDRED AND 00/100 Dollars (\$ 76,800.00) and secured by a deed of trust and security agreement on the Property (the "Deed of Trust").

The parties wish to define certain of their rights and obligations with respect to the Loan. In consideration of the mutual covenants contained herein, the parties agree as follows:

1. CONSTRUCTION. Borrower shall construct the Improvements on the Land in accordance with the Plans. Construction shall be at a cost as set forth on the cost breakdown and inspection report ("Itemized Cost Breakdown") and by this reference incorporated herein. No changes may be made in the Plans without the prior written approval of the Association. Prior to commencing construction, Borrower shall have provided the Association copies of all necessary grading and building permits and evidence that the improvements will be serviced by water, sewer, or septic adequate to insure issuance of a Certificate of Occupancy. No work of any character is to be commenced on construction of the Improvements or materials delivered to the Property prior to recording of the Deed of Trust unless the Association has expressly approved same in writing. The Improvements shall be constructed in a workmanlike manner satisfactory to the Association and shall comply with all applicable laws and regulations. In the event of deviations from the Plans, unworkmanlike performance, or the use of defective materials, the Association may order immediate stoppage of construction, and Borrower agrees to immediately correct and remedy the same at their sole expense.

2. TIME. The failure to commence construction within thirty (30) days from the date of the Note, or the cessation or substantial cessation of productive construction for more than fifteen (15) consecutive days without the prior written consent of the Association, shall constitute a breach of this Agreement. The Improvements shall be completed and the residence ready for occupancy no later than January 31, 1995 (18) months from the date of the Note.

3. **BORROWER'S FUNDS.** At or prior to closing, Borrower shall deposit with the Association an amount sufficient to cover the cost of both: (a) placing the Deed of Trust in a first lien position on the Property; and (b) the difference between: (i) the loan amount less the portion deemed to constitute a land purchase loan, less any loan fees, closing costs, and other expenses payable to Borrower in connection with the loan (unless paid out-of-pocket at the time of closing), and (ii) the estimated cost of constructing the Improvements. No funds deposited with the Association by Borrower pursuant to this Section 3 shall bear interest, and all such funds shall be subject to the sole control of the Association and disbursed to pay the cost of construction prior to the disbursement of any loan funds.

4. **ENVIRONMENTAL AND LAND USE REQUIREMENTS.** Borrower warrants and represents that the Land is a separately identified tax parcel, has been properly subdivided in accordance with state law and any applicable municipal rules or ordinances, and that the improvements, when constructed, will comply with all applicable zoning, land use, and environmental laws and regulations. Prior to the first disbursement (or at the Association's option, any subsequent disbursement) the Association may, at its sole option, require Borrower to supply evidence that all requirements of all such laws and regulations have been complied with, and that no action has been taken to set aside, enjoin, review, or otherwise challenge the granting of any permit or governmental approval necessary for the construction of the Improvements.

5. **DISBURSEMENT OF FUNDS.** Disbursements shall be made from time to time in accordance with the Itemized Cost Breakdown as completion of construction progresses (but in no event more frequently than monthly) to pay for costs of construction actually incurred, subject to the provisions of Section 6 below. The Association may, at its option, also make disbursements to cover any expenses or changes which are to be borne by Borrower including, but not limited to, the costs of any required inspections, certifications, or surveys. The Association shall have no obligation to disburse funds other than the land purchase draw without receipt of an acceptable survey certification to its mortgagee's title insurance policy. In addition, the Association shall have no obligation to disburse funds, whether loan funds or funds deposited by Borrower or others if: (a) Borrower is in default under this Agreement, the Note, or the Deed of Trust; or (b) the remaining undisbursed loan funds are not sufficient, in the Association's opinion, to complete construction of the Improvements. Disbursements shall be made first from funds deposited by Borrower pursuant to Sections 3, 7, and 8 of this Agreement and then from available loan funds. The Association may, at its sole option, disburse funds by payment to Borrower, any contractor, subcontractor, supplier, and/or other person performing work or furnishing materials in connection with the construction of the Improvements, or any of the parties jointly.

6. **EVIDENCE OF PAYMENT AND JOB PROGRESS.** Before making disbursement, the Association shall be entitled to receive a true and correct statement of all indebtedness incurred for labor performed and materials ordered or delivered, shall have the right to inspect all books, records, and accounts relating to such work, and may, at its option, require execution by Borrower and any subcontractors, laborers, and materialmen of such affidavits, endorsements, and releases as it deems necessary. Prior to any disbursement, Borrower shall execute and deliver to the Association such certifications of job progress, in forms satisfactory to the Association, as the Association may request. Prior to final disbursement, the Association shall have received a final Certificate of Occupancy for the Improvements, final approval of the sanitary waste disposal system servicing the Property, and recertification of value by an Association approved appraiser, all in form satisfactory to the Association. The Association shall not be obligated to disburse funds in excess of NINETY percent (90 %) of the loan amount until receipt of the final Certificate of Occupancy, final approval of the sanitary waste disposal system, and recertification of value.

7. **EXCESS COSTS.** If at any time it reasonably appears that the remaining loan funds not yet disbursed would not be sufficient to complete the Improvements free of all liens, encumbrances, and charges, then at the Association's request, Borrower shall deposit with the Association sufficient funds to insure completion (the "excess costs") or shall make arrangements satisfactory to the Association to ensure that funds will be available when needed to pay such excess costs. Until the Association is satisfied that Borrower will supply such funds, the Association shall not be required to make any further disbursements hereunder. No funds deposited with the Association by Borrower pursuant to Section 7 herein shall bear interest.

All such funds shall be subject to the sole control of the Association and disbursed to pay the cost of construction prior to the disbursement of any loan funds.

8. **DAMAGE TO IMPROVEMENTS.** Should Improvements be damaged or destroyed during construction by any casualty, whether insured against or not, Borrower agrees to restore the same to their pre-casualty condition with Borrower's own funds if required by the Association and, to the extent available, insurance proceeds. The Association is not obligated to make insurance proceeds available for application towards the cost of restoration and may, at its sole option, apply the same, less expenses of collection, toward reduction of the unpaid balance of the Note. All insurance proceeds which are not applied toward the cost of restoration shall remain under the sole control of the Association, which shall have no obligation to release the same until Borrower shall have deposited with the Association such additional funds as in the Association's sole judgement are sufficient to restore the Improvements to the pre-casualty condition. Insurance proceeds and funds of Borrower deposited with the Association pursuant to Section 8 herein shall not bear interest, and the Association shall have no obligation to disburse any further loan funds until the Improvements are restored to their pre-casualty condition.

9. **INSURANCE.** Prior to closing, Borrower shall obtain and deliver to the Association a policy or policies of insurance against fire and extended coverage perils, in "course of construction" form (and flood, if the Real Property is located in a designated flood zone), in the full insurable value of the Improvements, as completed, or such other amount as the Association may agree in writing.

All such policies shall be in form and with companies acceptable to the Association, with mortgagee clauses acceptable to the Association. The Association shall be named as first loss payee. The Association reserves the right to increase the amount of the required coverages or require insurance against additional risks at any time. Borrower shall obtain renewals of any policies which expire and deliver the same to the Association at least ten (10) days prior to the expiration of the policy being replaced. All policies and renewals thereof shall provide that the same may not be cancelled without at least thirty (30) days prior written notice to the Association.

10. **INSPECTION.** The Association shall have the right to enter upon the Property for the purpose of inspecting the Improvements and construction thereof at all times, and Borrower shall provide for the Association access thereto.

11. **STOP NOTICES.** In the event the Association receives a notice from any potential lien claimant against the Property, the Association may, at its option, either refuse to make any further disbursements or withhold from the next disbursements such amount as the Association feels is required to protect the Association before disbursing any further amounts to Borrower. Such withheld amount shall be retained by the Association until a date agreed upon between the potential lien claimant and Borrower as to the disbursement of the amount withheld in a form satisfactory to the Association or until the date of entry of a court order directing the Association to disburse the withheld funds. Interest shall accrue on any such funds as though they had been disbursed to Borrower on the date of such withholding.

12. **LIENS.** Borrower shall keep the Property free from liens and claims of all kinds whether or not arising in connection with construction of the Improvements and whether or not superior to the Deed of Trust.

13. **DEFAULT.** The occurrence of any one or more of the following events shall constitute a default under this Agreement; (a) the Breach by Borrower of any term, covenant, or condition of this Agreement or of the Note, the Deed of Trust, or any other loan documents; (b) the Association determines that any representation or warranty made by Borrower hereunder is false or misleading in any material respect; (c) the receipt of notice of any failure by Borrower to perform any obligations including obligations to subcontractors or materialmen; or (d) Borrower becomes unable or admits in writing the inability to pay debts as they mature, or files, or has filed against Borrower, a voluntary or involuntary petition of bankruptcy, or makes a general assignment for the benefit of creditors, or has a receiver appointed for Borrower or any of Borrower's assets, or consents to such appointment.

14. **REMEDIES.** Upon any default hereunder, the Association shall have the right to exercise any one or more of the following remedies in addition to such other remedies as may be available under law: (a) the Association may refuse to make any further disbursements of the undisbursed loan funds or of any funds deposited hereunder by or on behalf of Borrower; (b) the Association may take possession of the Property and complete construction of the Improvements according to the plans and disburse for that purpose first funds deposited by or for the benefit of Borrower and then any undisbursed loan funds. If the cost of completing the Improvements is more than the balance of the remaining undisbursed funds, such additional costs may be advanced by the Association, at its option, in which event such additional costs shall be considered as an additional loan to Borrower due and payable immediately upon disbursement and the repayment thereof, together with interest thereon from the date of the advance until paid at the Default Rate of Interest specified in the Note, shall be secured by the Deed of Trust; (c) the Association may declare the unpaid balance of the Note and all sums secured by the Deed of Trust immediately due and payable, apply the balance of any funds deposited hereunder by or for the benefit of Borrower toward payment thereof, and exercise any or all of the remedies available to it under the Note, the Deed of Trust, or otherwise.

15. **TRANSFER OF PROPERTY.** If the loan is being made to provide both construction and permanent financing, and the Note or Deed of Trust contain provisions which permit a sale or transfer of the Property without the full repayment of the loan, such provisions shall be inapplicable until such time as the Improvements have been completed and the loan has been fully disbursed hereunder.

16. **THIRD PARTIES.** No provision of this Agreement is made or shall be construed for the benefit of any third party. Borrower has accepted and hereby accepts the sole responsibility for the selection of Contractor, all subcontractors, and all materials, supplies, and equipment to be used in the construction of the Improvements. The Association assumes no responsibility to Borrower, any subcontractors, or any other person for the completion of the Improvements or for the quality thereof, nor does the Association assume any responsibility for the application of loan disbursements or payment of subcontractors. Inspection by the Association of the construction of the Improvements is for the purpose of protecting the security of the Association and is not to be construed as a representation by the Association that construction will be free from faulty material or workmanship.

17. **WAIVER.** The waiver by the Association of any breach or breaches of this Agreement, the Note, or the Deed of Trust shall not constitute a waiver of any other prior or subsequent breach.

18. **ASSIGNMENT.** This agreement may not be assigned by Borrower.

19. **JOINT AND SEVERAL LIABILITY.** Each undersigned Borrower shall be jointly and severally liable for the performance of each and every obligation of Borrower hereunder.

20. **SUBORDINATION OF CONTRACTOR'S INTEREST.** Any party who executes this Agreement as Contractor thereby subordinates any lien or other interest such party may have or hereinafter acquire in the Property to that of the Association, and agrees to execute a separate subordination agreement in form suitable for recording if requested to do so by the Association.

21. **BORROWER'S FINANCIAL CONDITION.** Borrower represents, warrants, and covenants that as of the date hereof Borrower's financial condition as heretofore reported to the Association is accurate, and that as of the date of each disbursement of funds made hereunder, there will not have been any material adverse change in such financial condition. During the term of the Loan, Borrower agrees not to incur additional indebtedness if such additional indebtedness will materially impair Borrower's ability to repay the Loan or obtain permanent financing.

22. **ATTORNEY'S FEES.** In the event of default by either party in the performance of their obligations under this Agreement, the defaulting party agrees to pay all reasonable attorney fees and legal expenses incurred by the non-defaulting party as a result of said default, whether or not litigation is commenced. In the event any legal proceeding is commenced for the purpose of interpreting or enforcing any provision of this Agreement or to collect any indebtedness secured hereby (including, but not limited to, any and all proceedings in the bankruptcy court for relief from stay or otherwise), the prevailing party in such proceeding shall be entitled to recover reasonable

attorney fees in such proceeding or any appeal thereof, in addition to the costs and disbursements allowed by law. Such sum shall include any amount estimated by the court as the reasonable costs and fees to be incurred by the prevailing party in collecting and monetary judgement or award or otherwise enforcing any order, judgement or decree entered in such suit or action.

23. **NOTICES.** Notices or demands on either party shall be deemed given when deposited in the United States mails, certified or registered, postage prepaid, to the address listed in the Agreement beside the name of the respective party, or such other address as that party may designate to the other party by notice given in the manner herein provided.

24. **GOVERNING LAW; CONFLICTS BETWEEN DOCUMENTS.** This Agreement shall be governed by and construed in accordance with the laws of the State of Oregon. Should there be a conflict between the terms of the various loan documents, the following order of priority shall control: (a) Note; (b) this Agreement; and (c) Deed of Trust.

25. **ASSIGNMENT OF CONTRACTS.** Borrower hereby assigns to the Association as additional security for the Loan all of Borrower's right, title, and interest in the plans and any performance or payment bonds procured in connection therewith; provided the Association shall have no obligation to perform Borrower's obligations in connection therewith by virtue of this assignment. Borrower warrants and represents to the Association that the plans are freely assignable without the consent of any other party.

Borrower agrees, from time to time, to furnish the Association, upon request, a complete list of all contractors, subcontractors, laborers and suppliers employed in connection with the construction of the Improvements together with copies of their contracts, purchase orders and related correspondence, and any performance or payment bonds. The Association shall have the right to make direct contact with any such contractors, subcontractors, laborers, or suppliers.

26. **TIME OF ESSENCE.** Time is of the essence of this Agreement and the performance of each and every term, covenant, and obligation herein or in the Note or Deed of Trust.

27. **HAZARDOUS SUBSTANCES.** The terms "hazardous waste", "hazardous substance", "disposal", "release", and "threatened release", as used in this Agreement, shall have the same meanings as set forth in the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq. ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986, Pub. L. No. 99-499 ("SARA"), the Hazardous Materials Transportation Act, 40 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 49 U.S.C. Section 6901, et seq., or other applicable state or federal laws, rules, or regulations adopted pursuant to any of the foregoing or intended to protect human health or the environment ("Environmental Laws"). Except as disclosed to and acknowledged by Lender in writing, Borrower represents and warrants that: (a) During the period of Borrower's ownership of the Property, there has been no use, generation, manufacture, storage, treatment, disposal, release or threatened release of any hazardous waste or substance by any person on, under, or about any of the Property. (b) Borrower has no knowledge of, or reason to believe that there has been (i) any use, generation, manufacture, storage, treatment, disposal, release, or threatened release of any hazardous waste or substance by any prior owners or occupants of any of the Property, or (ii) any actual or threatened litigation or claims of any kind by any person relating to such matters. (c) Neither Borrower nor any tenant, contractor, agent or other authorized user of any of the Property shall use, generate, manufacture, store, treat, dispose of, or release any hazardous waste or substance on, under, or about any of the Property; Borrower shall comply with all applicable federal, state, and local laws, regulations, and ordinances, including without limitation Environmental Laws. Borrower authorizes Lender and its agents to enter upon the Property to make such inspections and tests as Lender may deem appropriate to determine compliance of the Property with this section. Any inspections or tests made by Lender shall be for Lender's purposes only and shall not be construed to create any responsibility or liability on the part of Lender to Borrower or to any other person. The representations and warranties contained herein are based on Borrower's due diligence in investigating the Property for hazardous waste. Borrower hereby (a) releases and waives any future claims against Lender for indemnity or contribution in the event Borrower becomes liable for cleanup or other costs under any such laws, and (b) agrees to indemnify and hold harmless Lender against any and all claims, losses, liabilities, damages, penalties, and

expenses which Lender may directly or indirectly sustain or suffer resulting from a breach of this section or as a consequence of any use, generation, manufacture, storage, disposal, release or threatened release occurring prior to Borrower's ownership or interest in the Property, whether or not the same was or should have been known to Borrower, or as a result of a violation of any Environmental Laws. The provisions of this section, including the obligation to indemnify, shall survive the payment of the indebtedness and the satisfaction of this Agreement and shall not be affected by Lender's acquisition of any interest in any of the Property, whether by foreclosure or otherwise.

28. **LIABILITY.** Borrower shall indemnify and hold Lender harmless from any and all claims asserted against Lender or the Property by any person, entity, or governmental body, or arising out of or in connection with the Property. Lender shall be entitled to appear in any action or proceeding to defend itself against such claims, and all costs incurred by Lender in connection with such defense, including attorney fees, shall be paid by Borrower to Lender. Lender shall, in its sole discretion, be entitled to settle or compromise any asserted claims against it, and such settlement shall be binding upon Borrower for purposes of this indemnification. All amounts paid by Lender under this paragraph shall be secured by the Deed of Trust on the Property, shall be deemed an additional principal disbursement under the loan, payable upon demand, and shall bear interest at the rate applicable to the loan.

29. **OTHER CONDITIONS:** COURSE OF CONSTRUCTION INSURANCE FOR NO LESS THAN \$75,000. THIS CONSTRUCTION LOAN AGREEMENT SHALL BE NULL AND VOID AT THE TIME THIS LOAN IS SOLD

30. **APPRAISER'S REQUIREMENTS:**
 (1) Completion of construction in accordance with the Plans.

31. **EXHIBITS AND RIDERS.** The following exhibits and riders are attached to and made a part of this Agreement:

N/A

LIBERTY FEDERAL BANK, S.B., a CORPORATION		MONTI'S CONSTRUCTION, INC., AN OREGON CORPORATION	
BY: <u><i>Janice Brigham</i></u>	<u><i>[Signature]</i></u>	BORROWER	DATE SIGNED
JANICE BRIGHAM	MARTIN F. MONTI, PRESIDENT		
3/28/94			
DATE SIGNED		BORROWER	DATE SIGNED
	JAMES J. MONTI, VICE PRESIDENT		
	<u><i>[Signature]</i></u>	BORROWER	DATE SIGNED
	JANET L. MONTI		
	<u><i>[Signature]</i></u>	BORROWER	DATE SIGNED
	DEBRA A. MONTI		

STATE OF OREGON: COUNTY OF CLATSOP ss.

Filed for record at request of Mountain Title Co. the 31st day of March A.D. 1994 at 9:17 o'clock A.M. and duly recorded in Vol. 1494 of Mountages on page 2325.

BBE \$65,000

Shelvin Biehn County Clerk
[Signature]

the grantor, does hereby certify and publish, and the certain real property situated in the County of _____, State of Oregon, is situated as follows, to-wit:

This instrument will not allow use of the property for other than the purposes 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.

And said grantor hereby covenants to and with said grantee and grantee's heirs, successors and assigns, that grantor lawfully seized in fee simple and that above granted premises, free from all encumbrances

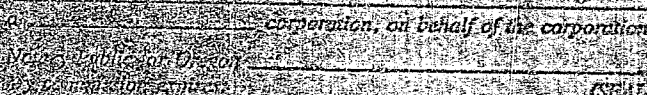
The true and actual consideration paid for this property stated in terms of dollars is \$ 85,000.00

STATE OF TEXAS

STREET OF THE HELEN I. de VRIES LIVING
EAST WOOD AVE 130 1990

and acknowledged the foregoing instruments.

State of OREGON, County of _____, ss. I, _____, a Notary Public in and for the State of Oregon, do hereby certify that the foregoing instrument was acknowledged before me on this _____ day of _____, 19____, by _____, _____, and by _____, _____, all of whom are personally known to me, and who are the persons whose names are subscribed to the foregoing instrument, and that they are the persons whose names are subscribed to the foregoing instrument, and that they are the persons whose names are subscribed to the foregoing instrument.



STATE OF OREGON,
County of Klamath

County of Klamath
 I certify that the within instrument was
 received for record on the 31st
 day of March 19 94
1919-19 6600 & 15, and recorded
 as Book 89 on page 1407 of the
 official number 7832
 record of Deeds of said county.
 Witness my hand and seal of County
 Clerk

Evelyn Blehn, County Clerk
Recording Officer
Dana J. Blehn, Deputy

TOP SECRET

MOUNTAIN TITLE COMPANY

MOUNTAIN TITLE COMPANY

MOUNTAIN TITLE COMPANY