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Vol. 195 Page 1

AFTER RECORDING RETURN TO:

LIBERTY FEDERAL BANK, S.B.
P.O. BOX 10348
EUGENE, OR 97401

K-47828 [Space Above This Line For Recording Data]

DEED OF TRUST

THIS DEED OF TRUST ("Security Instrument") is made on May 2, 1995
The grantor is CHARLES L PANKEY and PAMELA L PANKEY

("Borrower"). The trustee is

KLAMATH COUNTY TILTE COMPANY

("Trustee"). The beneficiary is

LIBERTY FEDERAL BANK, S.B., ITS SUCCESSORS AND/OR ASSIGNS
which is organized and existing under the laws of THE UNITED STATES OF AMERICA
P.O. BOX 10348
EUGENE, OR 97401

, and whose address is

("Lender"). Borrower owes Lender the principal sum of

EIGHTY NINE THOUSAND SIX HUNDRED AND 00/100
Dollars (U.S. \$ 89,600.00). 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
December 1, 2025 . This Security Instrument secures to Lender: (a) the repayment of the debt evidenced
by the Note, with interest, and all renewals, extensions and modifications of the Note; (b) the payment of all other sums, with
interest, advanced under paragraph 7 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:

LOT 4, BLOCK 3, CHAPMAN TRACTS, ACCORDING THE THE OFFICIAL PLAT THEREOF
ON FILE IN THE OFFICE OF THE COUNTY CLERK OF KLAMATH COUNTY, OREGON.

NOT YET ASSIGNED

which has the address of NYA CHAPMAN ROAD

[Street]

GILCRIST

[City]

Oregon

97737

("Property Address");


[Zip Code]

OREGON - Single Family - Fannie Mae/Freddie Mac UNIFORM INSTRUMENT

Form 3038 9/90

ITEM 1947L1 (8305)

(Page 1 of 6 pages)

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

BORROWER COVENANTS that Borrower is lawfully seized 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.

THIS SECURITY INSTRUMENT combines uniform covenants for national use and non-uniform covenants with limited variations by jurisdiction to constitute a uniform security instrument covering real property.

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.

2. Funds for Taxes and Insurance. Subject to applicable law or to a written waiver by Lender, Borrower shall pay to Lender on the day monthly payments are due under the Note, until the Note is paid in full, a sum ("Funds") for: (a) yearly taxes and assessments which may attain priority over this Security Instrument as a lien on the Property; (b) yearly leasehold payments or ground rents on the Property, if any; (c) yearly hazard or property insurance premiums; (d) yearly flood insurance premiums, if any; (e) yearly mortgage insurance premiums, if any; and (f) any sums payable by Borrower to Lender, in accordance with the provisions of paragraph 8, in lieu of the payment of mortgage insurance premiums. These items are called "Escrow Items." Lender may, at any time, collect and hold Funds in an amount not to exceed the maximum amount a lender for a federally related mortgage loan may require for Borrower's escrow account under the federal Real Estate Settlement Procedures Act of 1974 as amended from time to time, 12 U.S.C. § 2601 *et seq.* ("RESPA"), unless another law that applies to the Funds sets a lesser amount. If so, Lender may, at any time, collect and hold Funds in an amount not to exceed the lesser amount. Lender may estimate the amount of Funds due on the basis of current data and reasonable estimates of expenditures of future Escrow Items or otherwise in accordance with applicable law.

The Funds shall be held in an institution whose deposits are insured by a federal agency, instrumentality, or entity (including Lender, if Lender is such an institution) or in any Federal Home Loan Bank. Lender shall apply the Funds to pay the Escrow Items. Lender may not charge Borrower for holding and applying the Funds, annually analyzing the escrow account, or verifying the Escrow Items, unless Lender pays Borrower interest on the Funds and applicable law permits Lender to make such a charge. However, Lender may require Borrower to pay a one-time charge for an independent real estate tax reporting service used by Lender in connection with this loan, unless applicable law provides otherwise. Unless an agreement is made or applicable law requires interest to be paid, Lender shall not be required to pay Borrower any interest or earnings on the Funds. Borrower and Lender may agree in writing, however, that interest shall be paid on the Funds. Lender shall give to Borrower, without charge, an annual accounting of the Funds, showing credits and debits to the Funds and the purpose for which each debit to the Funds was made. The Funds are pledged as additional security for all sums secured by this Security Instrument.

If the Funds held by Lender exceed the amounts permitted to be held by applicable law, Lender shall account to Borrower for the excess Funds in accordance with the requirements of applicable law. If the amount of the Funds held by Lender at any time is not sufficient to pay the Escrow Items when due, Lender may so notify Borrower in writing, and, in such case Borrower shall pay to Lender the amount necessary to make up the deficiency. Borrower shall make up the deficiency in no more than twelve monthly payments, at Lender's sole discretion.

Upon payment in full of all sums secured by this Security Instrument, Lender shall promptly refund to Borrower any Funds held by Lender. If, under paragraph 21, Lender shall acquire or sell the Property, Lender, prior to the acquisition or sale of the Property, shall apply any Funds held by Lender at the time of acquisition or sale as a credit against the sums secured by this Security Instrument.

3. Application of Payments. Unless applicable law provides otherwise, all payments received by Lender under paragraphs 1 and 2 shall be applied: first, to any prepayment charges due under the Note; second, to amounts payable under paragraph 2; third, to interest due; fourth, to principal due; and last, to any late charges due under the Note.

4. 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 these obligations in the manner provided in paragraph 2, or if not paid in that manner, Borrower shall pay them on time directly to the person owed 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.

Borrower shall promptly discharge any lien which has priority over this Security Instrument unless Borrower: (a) agrees in writing to the payment of the obligation secured by the lien in a manner acceptable to Lender; (b) contests in good faith the lien by, or defends against enforcement of the lien in, legal proceedings which in the Lender's opinion operate to prevent the enforcement of the lien; or (c) secures from the holder of the lien an agreement satisfactory to Lender subordinating the lien to this Security Instrument. If Lender determines that any part of the Property is subject to a lien which may attain priority over this Security Instrument, Lender may give Borrower a notice identifying the lien. Borrower shall satisfy the lien or take one or more of the actions set forth above within 10 days of the giving of notice.

5. Hazard or Property Insurance. Borrower shall keep the improvements now existing or hereafter erected on the Property insured against loss by fire, hazards included within the term "extended coverage" and any other hazards, including floods or flooding, 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. If Borrower fails to maintain coverage described above, Lender may, at Lender's option, obtain coverage to protect Lender's rights in the Property in accordance with paragraph 7.

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 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 30 days 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 30-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 paragraphs 1 and 2 or change the amount of the payments. If under paragraph 21 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.

6. Occupancy, Preservation, Maintenance and Protection of the Property; Borrower's Loan Application; Leaseholds. Borrower shall occupy, establish, and use the Property as Borrower's principal residence within sixty days after the execution of this Security Instrument and shall continue to occupy the Property as Borrower's principal residence for at least one year after the date of occupancy, unless Lender otherwise agrees in writing, which consent shall not be unreasonably withheld, or unless extenuating circumstances exist which are beyond Borrower's control. Borrower shall not destroy, damage or impair the Property, allow the Property to deteriorate, or commit waste on the Property. Borrower shall be in default if any forfeiture action or proceeding, whether civil or criminal, is begun that in Lender's good faith judgment could result in forfeiture of the Property or otherwise materially impair the lien created by this Security Instrument or Lender's security interest. Borrower may cure such a default and reinstate, as provided in paragraph 18, by causing the action or proceeding to be dismissed with a ruling that, in Lender's good faith determination, precludes forfeiture of the Borrower's interest in the Property or other material impairment of the lien created by this Security Instrument or Lender's security interest. Borrower shall also be in default if Borrower, during the loan application process, gave materially false or inaccurate information or statements to Lender (or failed to provide Lender with any material information) in connection with the loan evidenced by the Note, including, but not limited to, representations concerning Borrower's occupancy of the Property as a principal residence. If this Security Instrument is on a leasehold, Borrower shall comply with all the provisions of the lease. If Borrower acquires fee title to the Property, the leasehold and the fee title shall not merge unless Lender agrees to the merger in writing.

7. Protection of Lender's Rights in the Property. 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 forfeiture or to enforce laws or regulations), then 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 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 7, Lender does not have to do so.

Any amounts disbursed by Lender under this paragraph 7 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.

8. Mortgage Insurance. 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 mortgage insurance in effect. If, for any reason, the mortgage insurance coverage required by Lender lapses or ceases to be in effect, Borrower shall pay the premiums required to obtain coverage substantially equivalent to the mortgage insurance previously in effect, at a cost substantially equivalent to the cost to Borrower of the mortgage insurance previously in effect, from an alternate mortgage insurer approved by Lender. If substantially equivalent mortgage insurance coverage is not available, Borrower shall pay to Lender each month a sum equal to one-twelfth of the yearly mortgage insurance premium being paid by Borrower when the insurance coverage lapsed or ceased to be in effect. Lender will accept, use and retain these payments as a loss reserve in lieu of mortgage insurance. Loss reserve payments may no longer be required, at the option of Lender, if mortgage insurance coverage (in the amount and for the period that Lender requires) provided by an insurer approved by Lender again becomes available and is obtained. Borrower shall pay the premiums required to maintain mortgage insurance in effect, or to provide a loss reserve, until the requirement for mortgage insurance ends in accordance with any written agreement between Borrower and Lender or applicable law.

9. Inspection. Lender or its agent may make reasonable entries upon and inspections of the Property. Lender shall give Borrower notice at the time of or prior to an inspection specifying reasonable cause for the inspection.

10. 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 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. In the event of a partial taking of the Property in which the fair market value of the Property immediately before the taking is equal to or greater than the amount of the sums secured by this Security Instrument, immediately before the taking, unless Borrower and Lender otherwise agree in writing, the sums secured by this Security Instrument shall be reduced by the amount of the proceeds multiplied by the following fraction: (a) the total amount of the sums secured immediately before the taking, divided by (b) the fair market value of the Property immediately before the taking. Any balance shall be paid to Borrower. In the event of a partial taking of the Property in which the fair market value of the Property immediately before the taking is less than the amount of the sums secured immediately before the taking, unless Borrower and Lender otherwise agree in writing or unless applicable law otherwise provides, the proceeds shall be applied to the sums secured by this Security Instrument whether or not the sums are then due.

If the Property is abandoned by Borrower, or if, after notice by Lender to Borrower that the condemnor offers to make an award or settle a claim for damages, Borrower fails to respond to Lender within 30 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 paragraphs 1 and 2 or change the amount of such payments.

11. 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.

12. 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 17. 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 that 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 this Security Instrument or the Note without that Borrower's consent.

13. Loan Charges. If the loan secured by this Security Instrument is subject to a law which sets maximum loan charges, and that law is finally interpreted so that the interest or other loan charges collected or to be collected in connection with the loan exceed the permitted limits, then: (a) any such loan charge shall be reduced by the amount necessary to reduce the charge to the permitted limit; and (b) any sums already collected from Borrower which exceeded permitted limits will be refunded to Borrower. Lender may choose to make this refund by reducing the principal owed under the Note or by making a direct payment to Borrower. If a refund reduces principal, the reduction will be treated as a partial prepayment without any prepayment charge under the Note.

14. Notices. Any notice to Borrower provided for in this Security Instrument shall be given by delivering it 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 designates 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.

15. Governing Law; Severability. This Security Instrument shall be governed by federal law and 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.

16. Borrower's Copy. Borrower shall be given one conformed copy of the Note and of this Security Instrument.

17. Transfer of the Property or a 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 30 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.

18. 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 the earlier of: (a) 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; or (b) entry of a judgment enforcing 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 as if no acceleration had occurred; (b) cures any default of any other covenants or agreements; (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 that 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 paragraph 17.

19. Sale of Note; Change of Loan Servicer. The Note or a partial interest in the Note (together with this Security Instrument) may be sold one or more times without prior notice to Borrower. A sale may result in a change in the entity (known as the "Loan Servicer") that collects monthly payments due under the Note and this Security Instrument. There also may be one or more changes of the Loan Servicer unrelated to a sale of the Note. If there is a change of the Loan Servicer, Borrower will be given written notice of the change in accordance with paragraph 14 above and applicable law. The notice will state the name and address of the new Loan Servicer and the address to which payments should be made. The notice will also contain any other information required by applicable law.

20. Hazardous Substances. Borrower shall not cause or permit the presence, use, disposal, storage, or release of any Hazardous Substances on or in the Property. Borrower shall not do, nor allow anyone else to do, anything affecting the Property that is in violation of any Environmental Law. The preceding two sentences shall not apply to the presence, use, or storage on the Property of small quantities of Hazardous Substances that are generally recognized to be appropriate to normal residential uses and to maintenance of the Property.

Borrower shall promptly give Lender written notice of any investigation, claim, demand, lawsuit or other action by any governmental or regulatory agency or private party involving the Property and any Hazardous Substance or Environmental Law of which Borrower has actual knowledge. If Borrower learns, or is notified by any governmental or regulatory authority, that any removal or other remediation of any Hazardous Substance affecting the Property is necessary, Borrower shall promptly take all necessary remedial actions in accordance with Environmental Law.

As used in this paragraph 20, "Hazardous Substances" are those substances defined as toxic or hazardous substances by Environmental Law and the following substances: gasoline, kerosene, other flammable or toxic petroleum products, toxic pesticides and herbicides, volatile solvents, materials containing asbestos or formaldehyde, and radioactive materials. As used in this paragraph 20, "Environmental Law" means federal laws and laws of the jurisdiction where the Property is located that relate to health, safety or environmental protection.

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

21. Acceleration; Remedies. Lender shall give notice to Borrower prior to acceleration following Borrower's breach of any covenant or agreement in this Security Instrument (but not prior to acceleration under paragraph 17 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 30 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 21, 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 an 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 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 the sums secured by this Security Instrument; and (c) any excess to the person or persons legally entitled to it.

22. 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 Instrument to Trustee. Trustee shall reconvey the Property without warranty and without charge to the person or persons legally entitled to it. Such person or persons shall pay any recordation costs.

23. 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 Trustee herein and by applicable law.

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24. Attorneys' Fees. As used in this Security Instrument and in the Note, "attorneys' fees" shall include any attorneys' fees awarded by an appellate court.

25. 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 as if the rider(s) were a part of this Security Instrument. [Check applicable box(es)]

- | | | |
|--|---|---|
| <input type="checkbox"/> Adjustable Rate Rider | <input type="checkbox"/> Condominium Rider | <input type="checkbox"/> 1-4 Family Rider |
| <input type="checkbox"/> Graduated Payment Rider | <input type="checkbox"/> Planned Unit Development Rider | <input type="checkbox"/> Biweekly Payment Rider |
| <input type="checkbox"/> Balloon Rider | <input type="checkbox"/> Rate Improvement Rider | <input type="checkbox"/> Second Home Rider |
| <input checked="" type="checkbox"/> Other(s) [specify] ADDENDUM AND CONSTRUCTION LOAN AGREEMENT | | |

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in pages 1 through 6 of this Security Instrument and in any rider(s) executed by Borrower and recorded with it.

Witness:

Witness:

Charles L. Pankey (Seal)
CHARLES L. PANKEY -Borrower

Pamela L. Pankey (Seal)
PAMELA L. PANKEY -Borrower

____ (Seal)
____ -Borrower

____ (Seal)
____ -Borrower

____ (Seal)
____ -Borrower

____ (Seal)
____ -Borrower

STATE OF OREGON,

Deschutes

County ss:

On this 5th day of May, 1995, personally appeared the above named
Charles L. Pankey - Pamela L. Pankey
the foregoing instrument to be their voluntary act and deed.

(Official Seal)



Before me:

Karen Sue Headrick
Notary Public for Oregon

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 the 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.

Date: _____



ADDENDUM TO UNIFORM DEED OF TRUST

Date: MAY 2, 1995

Loan No: 141936889

Addendum attached to and forming part of the Deed of Trust ("Security Instrument") of even date by and between as CHARLES L PANKEY and PAMELA L PANKEY Grantor/Borrower;
LIBERTY FEDERAL BANK, S.B. as Trustee; and LIBERTY FEDERAL BANK, S.B. as Beneficiary.

1. OCCUPANCY OF THE PROPERTY BY BORROWER

There are two alternative covenants stated below which refer to occupancy of the Property by the Borrower, and only one alternative shall be a part of this Addendum. Lender has determined which alternative is a covenant of the Borrower by checking below the appropriate box opposite the paragraph immediately preceding the paragraph Lender has determined to be applicable to Borrower, and Borrower has agreed to this chosen alternative by executing this Addendum to the Security Instrument and pursuant to the terms of Lender's loan commitment.

☒ Occupation of Property by Borrower Required.

Uniform Covenant 6 of the Security Instrument is amended by deleting the first sentence and adding the following language:

"Borrower shall occupy, establish and use the Property as Borrower's principal residence within sixty (60) days after the execution of this Security Instrument and shall continue to occupy the Property as Borrower's principal residence for at least one year after the date of occupancy, unless lender otherwise agrees in writing and in its sole discretion; provided, however, that if the loan evidenced by the Security Instrument is a 'custom' construction loan as defined by a Construction Loan Agreement between Lender and Borrower, then Borrower shall begin to occupy, establish and use the Property as Borrower's principal residence within sixty (60) days after receipt of Certificate of Occupancy, or similar official document, from the applicable governmental authority, unless Lender in its discretion agrees in writing to waive any governmental requirement. Borrower acknowledges that Uniform Covenant 6, as here amended, is required by Lender in consideration of Lender extending Borrower an 'Occupancy Note Rate' which is less than the prevailing 'Non-Occupancy Note Rate'. If Borrower shall default on the terms of the occupancy as stated above, Lender may elect, at its option and notwithstanding any other terms of the Security Instrument to the contrary, any of the following remedies: (a) Lender may accelerate the terms of the Note and, upon fifteen (15) days notice, call the loan immediately due and payable in full, and if Borrower fails to make payment in full, Lender may thereafter exercise any remedy permitted by the Security Instrument, including suit on the Note or foreclosure upon the Security Interest and the Property; or (b) Lender may adjust the interest rate on the Note (and any monthly payment occasioned by such adjustment) to Lender's 'Non-Occupancy Note Rate' which existed as of the date of the Note and Security Instrument and require further consideration for not calling the loan immediately due and payable, including but not limited to (i) having Borrower convey to Lender a Fannie Mae Multistate 1-4 Family Rider (Assignment of Rents) and (ii) having Borrower pay any amount of principal on the loan necessary (if at all) to make the loan conform to whatever loan-to-value ratio conditions Lender would have required of a 'Non-Owner-Occupied Loan' on the Property as of the date of the Note and Security Instrument."

☐ Occupancy of Property by Borrower Waived.

Uniform Covenant 6 of the Security Instrument is amended by deleting the first sentence.

2. ADDITIONAL SPECIAL COVENANTS.

A. **Lender's Right of Acceleration and Judicial Foreclosure.** Uniform Covenant 18 of the Security Instrument is amended by changing the final period to a semicolon, and adding: "or if acceleration is made by Lender for default or breach by Borrower of any other term of this Security Instrument, then Lender may enforce its acceleration by judicial foreclosure".

B. **Reconveyance After Payment of Loan in Full.** Non-uniform Covenant 22 of the Security Instrument is revised to read as follows:

22. **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 Instrument to Trustee. Trustee shall reconvey the Property without warranty to the person or persons legally entitled to it. Such person or persons shall pay any recordation costs and reasonable trustee's fee for reconveyance."

- C. Assignment of the Loan. If Lender transfers its interest in or a right to receive loan payments under the Note secured by the Security Instrument, this Addendum, or any part of it, may be cancelled at the option of Lender and without advance notice to Borrower, and Lender may make and record any instrument, without signature of Borrower, which may be necessary to give record notice of such cancellation.

Charles L Pankey
CHARLES L PANKEY

Pamela L Pankey
PAMELA L PANKEY

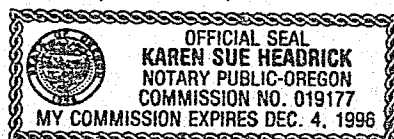
STATE OF Oregon)
)SS.
COUNTY OF Deschutes

I certify that I know or have satisfactory evidence that Charles L. Pankey, Pamela L. Pankey
[Name(s) of person(s)]

Pankey is/are the person(s) who appeared before me, and said person(s) acknowledged that (he/she/they) signed this instrument and acknowledged it to be (his/her/their) free and voluntary act for the uses and purposes mentioned in the instrument.

Dated: 5-5-95
(Seal or Stamp)

Karen Sue Headrick
(Signature)



Notary Public in and for the State of Oregon
residing at Bend

My commission expires 12-04-96

STATE OF _____)
)SS.
COUNTY OF _____)

I certify that I know or have satisfactory evidence that _____ is/are the persons
[Name(s) of person(s)]

who appeared before me, and said person(s) acknowledged that (he/she/they) signed this instrument, on oath stated that (he/she/they) was/were authorized to execute the instrument and acknowledged it as the _____
(type of Authority, e.g., Officer, Trustee) of _____
(Name of the Party on Behalf of Whom the Instrument was Executed) to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Notary Public in and for the State of _____
residing at _____

My commission expires _____

LOAN NUMBER: 141936889**CUSTOM CONSTRUCTION LOAN AGREEMENT**

THIS AGREEMENT is between the undersigned **BORROWER(S)** (individually and collectively, if more than one, "Borrower") whose address is 19234 SHOSHONE, BEND, OREGON 97702 and **LIBERTY FEDERAL BANK, S.B.**, a corporation, whose address is 899 Pearl Street, Eugene, OR 97401 (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 DESCHUTES County, Oregon (the "Land").

LOT 4, BLOCK 3, CHAPMAN TRACTS, 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 a contract between Borrower and ADAIR HOMES ("Contractor") dated 02/26/95 (the "Construction Contract"), plans and material specifications dated 04/14/95 (the "Plans"), and a construction budget dated 04/14/95 (the "Approved Budget"). The Construction Contract provides that the Improvements shall be constructed for EIGHTY ONE THOUSAND ONE HUNDRED TEN AND 000/1000 Dollars (\$ 81,110.00). The Loan will be evidenced by a promissory note (the "Note") from Borrower to the Association in the amount of EIGHTY NINE THOUSAND SIX HUNDRED AND 000/1000 Dollars (\$ 89,600.00) 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 and Contractor shall construct the Improvements on the Land in accordance with the Plans and Construction Contract. 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 or Construction Contract without the prior written approval of the Association. Prior to commencing construction, Borrower and Contractor 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 and Contractor agree 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 12/1/95 ten (10) 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 Breakdown as completion of construction progresses (but in no event more than costs of construction actually incurred, subject to the provisions of Section 3, option, also make disbursements to cover any expenses or changes which, but not limited to, the costs of any required inspections, certifications, or obligations to disburse funds other than the land purchase draw without recourse to its mortgagee's title insurance policy. In addition, the Association shall determine whether loan funds or funds deposited by Borrower or others if; (a) Borrower, the Note, or the Deed of Trust; or (b) the remaining undisbursed loan funds, in its opinion, to complete construction of the Improvements. Disbursements shall be made by Borrower pursuant to Sections 3, 7, and 8 of this Agreement and the Association may, at its sole option, disburse funds by payment to the supplier, and/or other person performing work or furnishing materials for the Improvements, or to any of the parties jointly.

Upon recordation of the Security Instrument and all Riders/Addendums, loan proceeds shall be disbursed during the construction period. As construction progresses, loan funds will be disbursed from time to time, but only after Lender has determined that the items for which disbursements are being requested have been completed in a workmanlike manner, and in accordance with a construction schedule, specifications, and contract, or modifications thereto, as previously approved by Lender.

The failure to commence construction within 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 Lender, shall constitute a breach of the Note and Security Instrument.

Failure to complete construction on or before 12/1/95, shall constitute a default of the Note, Security Instrument and the Construction Loan Agreement. If Lender elects not to declare a default for failure to complete construction by the date set forth in the previous sentence, Borrower agrees to pay Lender an additional amount equal to one-half of 1% of the Note amount for the first 30 day period (or any portion thereof) beyond the aforementioned date, and one-quarter of 1% of the Note amount for each subsequent 30 day period (or any portion thereof). In addition, if construction is not completed on or before the aforementioned date and Lender does not declare a default, Lender may transfer any funds that are remaining in the Loan-In-Process account to an interest bearing savings account of Borrower, with withdrawal subject to Lender approval.

Upon completion of the project, if funds are remaining in the Loan-In-Process account or an interest bearing savings account designated for this project, Borrower shall instruct Lender to disburse the remaining funds in accordance with one of the following methods; provided, however, Borrower may only select method 1 or method 3 if Borrower presents evidence satisfactory to Lender that said funds were expended on the improvement(s) and that construction was completed in compliance with the Construction Loan Agreement and appraisal:

1. Apply remaining funds to loan reserve account
2. Apply remaining funds to outstanding principal loan balance.
3. Disburse remaining funds to the Borrower

If Borrower does not instruct the Lender on how to disburse the remaining funds, the funds will be applied to the outstanding principal loan balance.

Borrower understands that Liberty is unable to deliver the Note to the secondary market until improvements are complete and that any delay will result in a monetary loss to Liberty. Therefore, Borrower agrees to pay Liberty an additional amount equal to one half of one percent (.5%) of the Note amount if construction is not completed by the expiration of the construction period for the first thirty (30) day period (or any portion thereof), and one quarter of one percent (.25%) of the Note amount for each subsequent thirty (30) day period (or any portion thereof).

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 and Contractor 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.

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 to any of the parties jointly.

Upon recordation of the Security Instrument and all Riders/Addendums, loan proceeds shall be held by Lender for disbursement during the construction period. As construction progresses, loan funds will be disbursed from time to time, but only after Lender has determined that the items for which disbursements are being requested have been completed in a workmanlike manner, and in accordance with a construction schedule, specifications, and contract, or modifications thereto, as previously approved by Lender.

The failure to commence construction within 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 Lender, shall constitute a breach of the Note and Security Instrument.

Failure to complete construction on or before 12/1/95, shall constitute a default of the Note, Security Instrument and the Construction Loan Agreement. If Lender elects not to declare a default for failure to completed construction by the date set forth in the previous sentence, Borrower agrees to pay Lender an additional amount equal to one-half of 1% of the Note amount for the first 30 day period (or any portion thereof) beyond the aforementioned date, and one-quarter of 1% of the Note amount for each subsequent 30 day period (or any portion thereof). In addition, if construction is not completed on or before the aforementioned date and Lender does not declare a default, Lender may transfer any funds that are remaining in the Loan-In-Process account to an interest bearing savings account of Borrower, with withdrawal subject to Lender approval.

Upon completion of the project, if funds are remaining in the Loan-In-Process account or an interest bearing savings account designated for this project, Borrower shall instruct Lender to disburse the remaining funds in accordance with one of the following methods; provided, however, Borrower may only select method 1 or method 3 if Borrower presents evidence satisfactory to Lender that said funds were expended on the improvement(s) and that construction was completed in compliance with the Construction Loan Agreement and appraisal:

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If Borrower does not instruct the Lender on how to disburse the remaining funds, the funds will be applied to the outstanding principal loan balance.

Borrower understands that Liberty is unable to deliver the Note to the secondary market until improvements are complete and that any delay will result in a monetary loss to Liberty. Therefore, Borrower agrees to pay Liberty an additional amount equal to one half of one percent (.5%) of the Note amount if construction is not completed by the expiration of the construction period for the first thirty (30) day period (or any portion thereof), and one quarter of one percent (.25%) of the Note amount for each subsequent thirty (30) day period (or any portion thereof).

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 and Contractor 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 among the potential lien claimant, Borrower, and Contractor 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 or Contractor to perform their obligations under the Construction Contract or their 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 borrowr or any of borrower' 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. The Association's acceptance of Contractor's creditworthiness is solely for the Association's own internal underwriting purposes and is not a representation to Borrower, any subcontractor, or any other party as to the creditworthiness of Contractor or the ability on Contractor to perform its obligations to Borrower, any subcontractor, or any other party in connection with construction of the Improvements.

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 or Contractor.
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 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.
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 Construction Contract, 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. Contractor consents to the foregoing Assignment and agrees that in the event of default, the Association may, but is not obligated to, perform the remaining obligations of Borrower under the Construction Contract on Borrower's behalf. Borrower and Contractor warrant and represent to the Association that the plans may be freely assignable without the consent of any other party.

Borrower and Contractor agree, 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 policy for no less than 89,600.00. This Custom Construction Loan Agreement shall be null and void at which time this loan is sold in part or whole.*

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:

LIBERTY FEDERAL BANK, S.B., a corporation

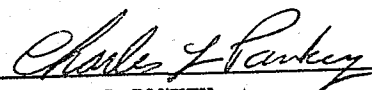
BORROWER(S):

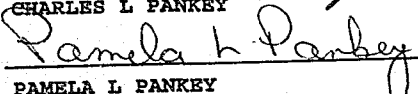
By: 

LESTER E. BRADLEY

DATE

May 2, 1995

 5-5-95
CHARLES L. PANKEY DATE

 5-5-95
PAMELA L. PANKEY DATE

DATE

DATE

CONTRACTOR:

ADAIR HOMES

DATE

(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.

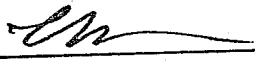
29. **OTHER CONDITIONS:** *Course of Construction Insurance policy for no less than 89,600.00. This Custom Construction Loan Agreement shall be null and void at which time this loan is sold in part or whole.*

30. APPRAISER'S REQUIREMENTS:


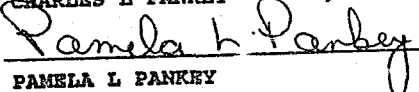
1) Completion of construction in accordance with the Plans.

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

LIBERTY FEDERAL BANK, S.B., a corporation

By: 
LESTER E. BRADLEY
May 2, 1995
DATE


BORROWER(S):

 DATE
CHARLES L. PANKEY
 DATE
PAMELA L. PANKEY

DATE

STATE OF OREGON, ss.
County of Klamath

Filed for record at request of:

Klamath County Title
on this 11th day of May A.D., 19 95
at 1:00 o'clock P.M. and duly recorded
in Vol. M95 of Mortgages Page 12221
Bernetha G. Letsch County Clerk
By 
Deputy.

Fee, \$75.00

CONTRACTOR:

 DATE
ADAIR HOMES