

MEMORANDUM OF UNDERSTANDINGPARTIES:

Lender: South Valley State Bank, an Oregon Corporation,
"Lender"

Borrower: Klamath Community Development Corporation,
"Borrower"

Witness: Klamath County, "County"

RECITALS:

The purpose of this agreement is to provide security for Lender and County for loans furnished Borrower by Lender and County and to provide security to ensure that County is in compliance with Article 11 Section 9 of the Oregon Constitution (Lending of Credit) and Article 11 of Section 10 of the Oregon Constitution (Debt Limit) by a shared assignment of lease rents from that property commonly known as the Frank N. Ganong Building (see attached legal description), leased by Borrower to International Paper Company. The monthly stream of lease rents will be shared in the ratio of 49% to Lender, and 51% to County. It is hereby acknowledged that for purposes other than sharing of the lease rent proceeds, such as default, that the Lender is in first position on the assignment of lease rents and County is in second position. Lender will notify County of any default by Borrower of its loan from Lender not later than fifteen (15) days after such default. Default notice is to be

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forwarded to County, 403 Pine Street, Suite 300, Klamath Falls, OR
97601 in care of Ron McCutcheon, County Contracting Officer.

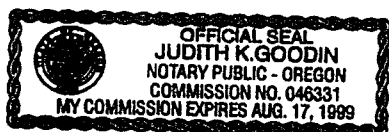
DATED this 31st day of January, 1996.

Borrower

KLAMATH COMMUNITY DEVELOPMENT CORPORATION

By: [Signature] Title: President

SUBSCRIBED and sworn to before me this 31st day of January,
1996.



Judith K. Goodin
Notary Public for Oregon
My Commission expires: 8-17-99

Lender

SOUTH VALLEY STATE BANK

By: William E. Pette Title: Exec Vice Pres

SUBSCRIBED and sworn to before me this 31st day of January,
1996.



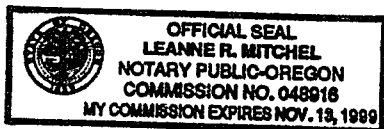
Mindy Rutledge
Notary Public for Oregon
My Commission expires: 8-6-97

Witness

KLAMATH COUNTY

By: Dave Henry Title: Chair

SUBSCRIBED and sworn to before me this 8 day of January,
1996.



Leanne R. Mitchel
Notary Public for Oregon
My Commission expires: 11-13-99

MEMORANDUM OF UNDERSTANDING - Page 2 of 2

STATE OF OREGON: COUNTY OF KLAMATH: ss.

Filed for record at request of Klamath County
of Feb A.D., 19 96 at 1:56 o'clock P M., and duly recorded in Vol. M96
of Mortgages on Page 4518.

FEE none

RETURN: County Counsel

By Bernetha G. Lasch County Clerk