

TRUST DEED

THIS TRUST DEED, made this Twentieth day of June, 1996, between Jeffrey D. Davies and Jacquelyn D. Davies as Grantor, and Klamath County as Trustee, and ASSOCIATES FINANCIAL SERVICES COMPANY OF OREGON, INC. as Beneficiary.

ASSOCIATES FINANCIAL SERVICES COMPANY OF OREGON, INC.

Witnesseth: That the said Grantor has granted, bargained, sold and conveyed to the said Trustee, with power of sale, the property in

Klamath County, Oregon, described as:
Lot 2 in Block 21 of Mills Second 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.

Which real property is not currently used for agricultural, timber or grazing purposes, together with all and singular the tenements, hereditaments and appurtenances and all other rights thereunto belonging or in anywise attached to or used in connection with said real estate.

For the purpose of securing: (1) Payment of the indebtedness in the principal sum of \$ 21959.91 and all other lawful charges evidenced by a loan agreement of even date herewith, made by grantor, payable to the order of beneficiary at all times, in monthly payments, with the full debt, if not paid earlier, due and payable on 7/15/97 and any extensions thereof;

(2) performance of each agreement of grantor herein contained; (3) payment of all sums expended or advanced by beneficiary under or pursuant to the terms hereof, together with interest at the note rate thereon.

To protect the security of this trust deed, grantor agrees:

1. To keep said property in good condition and repair, not to remove or demolish any building thereon; to complete or restore promptly and in good and workmanlike manner any building which may be constructed, damaged or destroyed thereon and to pay when due all claims for labor performed and materials furnished thereon; to comply with all laws affecting said property or requiring any alterations or improvements to be made thereon; not to commit or permit waste thereon; not to do any act upon said property in violation of law; and do all other acts which from the character or use of said property may be reasonably necessary to preserve the specific enumerations herein not excluding the general.
2. To provide, maintain and deliver to the beneficiary insurance on the premises satisfactory to the beneficiary and with loss payable to the beneficiary. The amount collected under any fire or other insurance policy may be applied by beneficiary upon any indebtedness secured hereby and in such order as beneficiary may determine, or any part thereof may be released to grantor. Such application or release shall not cure or waive any default or notice of default hereunder or invalidate any act done pursuant to such notice.
3. To pay all costs, fees and expenses of the trust including the cost of title search as well as other costs and expenses of the trustee incurred in connection with or enforcing this obligation, and the trustee's and attorney's fees actually incurred as permitted by law.
4. To appear in and defend any action or proceeding purporting to affect the security hereof or the rights or powers of beneficiary or trustee; and to pay all costs and expenses, including costs of evidence of title and attorney's fees in a reasonable sum as permitted by law, in any such action or proceeding in which beneficiary or trustee may appear.
5. To pay at least ten (10) days prior to delinquency all taxes or assessments affecting the property; to pay when due all encumbrances, charges and liens with interest on the property or any part thereof that at any time appear to be prior or superior hereto.
6. If grantor fails to perform any of the above duties to insure or preserve the subject matter of this trust deed, then beneficiary may, but without obligation to do so and without notice to or demand on grantor, and without releasing grantor from any obligation hereunder, perform or cause to be performed the same in such manner and to such extent as beneficiary may deem necessary to protect the security hereof. Beneficiary may, for the purpose of exercising said powers; enter onto the property; commence, appear in or defend any action or proceeding purporting to affect the security hereof or the rights and powers of beneficiary; pay, purchase, contest or compromise any encumbrance, charge or lien, which in the judgment of beneficiary appears to be prior or superior hereto; and in exercising any such powers beneficiary may incur any liability, expend whatever amounts in its absolute discretion it may deem necessary therefor including cost of evidence of title, employ counsel and pay his reasonable fees. Grantor covenants to repay immediately and without demand all sums expended hereunder by beneficiary, together with interest from date of expenditure at the note rate until paid, and the repayment of such sums are secured hereby.

It is mutually agreed that:

7. Any award of damages in connection with any condemnation for public use of or injury to said property or any part thereof is hereby assigned and shall be paid to beneficiary who may apply or release such monies received by it in the same manner and with the same effect as above provided for disposition of proceeds of fire or other insurance.

ASSOCIATES FINANCIAL SERVICES COMPANY OF OREGON, INC.

Deliver to
RETURN TO: 259 Barnett Rd. Suite J Medford OR 97501

2 ORIGINAL (1)
BORROWER COPY (1)
RETENTION (1)

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Upon any default by grantor or any part of the property, the beneficiary may, at any time, without notice, either in person or by agent, and without regard to the adequacy of any security for the indebtedness secured hereby, enter upon and take possession of the property and the same shall not cure or waive any default or notice of default or invalidate any action brought to such end.

9. Upon default by grantor in payment of any indebtedness secured or in his performance of any agreement, the beneficiary may declare all sums secured immediately due and payable. In such event beneficiary at his election may proceed to foreclose this trust deed by advertisement and sale. In the latter event the beneficiary or the trustee shall execute and cause to be recorded its written notice of default and its election to sell the said described real property to satisfy the obligations secured hereby and proceed to foreclose this trust deed in a manner provided by law.

10. If after default and prior to the time and date set by trustee for the trustee's sale, the grantor or other person pays the entire amount then due under the terms of the trust deed and the obligation secured thereby, the grantor or other person making such payment shall also pay to the beneficiary all the costs and expenses actually incurred in enforcing the terms of the obligations as permitted by law.

11. Upon any default by grantor hereunder, grantor shall pay beneficiary for any reasonable attorney fees incurred by beneficiary consequent to grantor's default. Grantor will pay these fees upon demand.

12. After a lawful lapse of time following the recording of the notice of default and the giving of notice of sale the trustee shall sell the property as provided by law at public auction to the highest bidder for cash payable at the time of sale. Trustee shall deliver to the purchaser a deed without express or implied covenants or warranty. Any person excluding the trustee may purchase at the sale.

13. When the trustee sells pursuant to the powers provided, trustee shall apply the proceeds of sale to payment of (1) the expenses of sale, including the lawful fees of the trustee and the reasonable fees of the trustee's attorney, (2) the obligations secured by this trust deed, (3) to all persons having recorded liens subsequent to the interest of the beneficiary and the trust deed as their interest may appear in the order of their priority, and (4) the surplus, if any, to the grantor or to his successor in interest entitled to such surplus.

14. For any reason permitted by law, the beneficiary may from time to time appoint a successor or successors to any trustee named herein or to any successor trustee appointed hereunder. Upon such appointment, and without conveyance to the successor trustee, the latter shall be vested with all title, powers and duties conferred upon any trustee herein named or appointed hereunder.

The grantor covenants and agrees to and with the beneficiary and those claiming under him, that he is lawfully seized in fee simple of said described real property and has valid, unencumbered title thereto and that he will warrant and forever defend the same against all persons whomsoever.

THIS INSTRUMENT DOES NOT GUARANTEE THAT ANY PARTICULAR USE MAY BE MADE OF THE PROPERTY DESCRIBED IN THIS INSTRUMENT. A BUYER SHOULD CHECK WITH THE APPROPRIATE CITY OR COUNTY PLANNING DEPARTMENT TO VERIFY APPROVED USES.

This deed applies to, inures to the benefit of and binds all parties hereto, their heirs, legatees, devisees, administrators, executors, successors and assigns. The term beneficiary shall mean the holder and owner, including pledgee, of the note secured hereby, whether or not named as a beneficiary herein, in construing this deed and whenever the context so requires, the masculine gender includes the feminine and the neuter, and the singular number includes the plural.

WITNESS WHEREOF, the grantor has hereunto set his hand and seal the day and year first above written.

David G. Smith
Witness

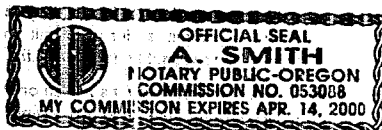
David G. Smith
Witness

Jeffrey D. Davies
Grantor

Jacalyn T. Davies
Grantor

STATE OF OREGON

County of _____



Personally appeared the above named Jeffrey D. Davies and Jacalyn T. Davies and

acknowledged the foregoing instrument to be Their voluntary act and deed.

Before me, [Signature] My commission expires: Apr 14, 2000
Notary Public

STATE OF OREGON; COUNTY OF KLAMATH: ss.

Filed for record at request of Klamath County Title Company the 1st day of June A.D., 19 96 at 11:17 o'clock AM., and duly recorded in Vol. M96 of Mortgages on Page 19486.

FEE \$15.00

By Jermetha G. Letsch, County Clerk

[Signature]

DATED: _____

Beneficiary

Do not lose or destroy this Trust Deed OR THE NOTE which it secures. Both are to be delivered to the trustee for cancellation before reconveyance will be made.