

AFTER RECORDING, RETURN TO:
 South Valley Bank & Trust
 P.O. Box 5210
 Klamath Falls, OR 97601

MTC 49994
 Mortgage Subordination
SUBORDINATION AGREEMENT

THIS AGREEMENT, made and entered into as of this 22nd day of December, 1999, by and between RUNNING Y RESORT, INC. an Oregon Corporation hereinafter called the first party, and South Valley Bank & Trust, hereinafter called the second party; WITNESSETH:

On or about October 19, 1997, The Pennbrook Company, an Oregon corporation, being the owner of the following described property in Klamath County, Oregon, to-wit:

Lots 297, 298, 299 within the plat of Running Y Resort (Phase 4) recorded September 24, 1997 in the office of the County Recorder, Klamath County, Oregon,

executed and delivered to the first party a certain Trust Deed and Fixture Filing (herein called the first party's lien) on the property, which lien was recorded on October 23, 1997 in the Official Records of Klamath County, Oregon in volume M97 at page 34865. Reference to the document so recorded or filed hereby is made. The first party has never sold or assigned first party's lien and at all times since the date thereof has been and now is the owner and holder thereof and the debt thereby secured.

The second party is about to loan the sum of \$1,569,054.00 to the present owner of the property, with interest thereon at a rate not exceeding the prime rate of South Valley Bank & Trust, plus one and one-half percent (1.5%) per annum. This loan is to be secured by the present owner's Trust Deed (hereinafter called the second party's lien) upon the property and is to be repaid by November 15, 2000, unless extended by second party.

To induce the second party to make the loan last mentioned, the first party heretofore has agreed and consented to subordinate first party's lien to the lien about to be taken by the second party as above set forth.

NOW, THEREFORE, for value received, and for the purpose of inducing the second party to make the loan aforesaid, the first party, first party's personal representatives (or successors) and assigns, hereby covenants, consents and agrees to and with the second party, second party's personal representatives (or successors) and assigns, that the first party's lien on the property is and shall always be subject and subordinate to the lien about to be delivered to the second party, as aforesaid, and that second party's lien in all respects shall be first, prior and superior to that of the first party, provided always, however, that if second party's lien is not duly filed or recorded or an appropriate financing statement thereon duly filed within thirty (30) days after the date hereof, this subordination agreement shall be null and void and of no force or effect. In the event of default by The Pennbrook Company on the second party loan described herein, the second party agrees to provide the first party with written notice of such default. It is further agreed by the second party that it will provide the first party a thirty (30) day period from the date of such notice during which the first party may, at its sole option, cure said default. Providing this notice and the period during which first party may cure such default shall not be construed as an obligation of first party to cure defaults on the second party loan.

It is expressly understood and agreed that nothing herein contained shall be construed to change, alter or impair the first party's lien, except as hereinabove expressly set forth. In construing this subordination agreement, and where the context so requires, the singular includes the plural, and all grammatical changes shall be made so that this agreement shall apply equally to corporations and to individuals.

IN WITNESS WHEREOF, the undersigned has executed this agreement on the day and year first above written; if the undersigned is a corporation, it has caused its name to be signed and its seal, if any, affixed by an officer or other person duly authorized to do so by order of its board of directors.

First Party:
RUNNING Y RESORT, INC.
An Oregon Corporation

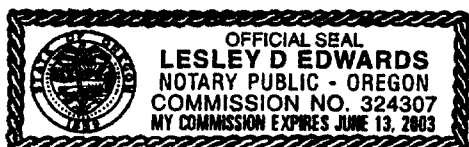
By Jerol Andres
Jerol Andres, President

STATE OF OREGON)
) SS.
County of Deschutes)

Second Party:
SOUTH VALLEY BANK & TRUST

By Stephen Van Buren

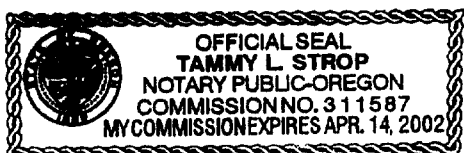
The foregoing instrument was acknowledged before me this 22nd day of December, 1999, by Jerol Andres, as President of Running Y Resort, Inc. an Oregon Corporation.



Lesley D. Edwards
Notary Public, State of Oregon
My commission expires 6/13/2003

STATE OF OREGON)
) SS.
County of Klamath)

The foregoing instrument was acknowledged before me this 30th day of December, 1999 by Stephen Van Buren, the Loan Manager of South Valley Bank & Trust.



Tammy L. Strop
Notary Public, State of Oregon
My commission expires 4/14/2002

State of Oregon, County of Klamath
Recorded 1/20/00, at 3:31 a.m.
In Vol. M00 Page 2064
Linda Smith,
County Clerk Fee \$ 26-