

Grantor's Name & Address

Klamath River Mortgage
Owner-Lloyd C. Sorg
409 Pine Street Suite 311
Klamath Falls, OR 97601

Beneficiary's Name & Address

City of Klamath Falls
500 Klamath Avenue
Klamath Falls, OR 97601
Attn: Chief Finance Officer

After Recording Return To:
City Recorder
City of Klamath Falls

STATE OF OREGON)

:SS

County of Klamath)

I certify that the within instrument was received for record on the _____ day of _____, 2001, at _____ o'clock _____ M., and recorded in book/reel/volume No. _____ on page _____ or as fee/file/instrument/microfilm/ reception No. _____, Record of Mortgages of said County.

Witness my hand and seal of County affixed.

Name _____ Title _____

By: _____ Deputy _____

THIS TRUST DEED, made this 18th day of October, 2001, between Klamth River Mortgage (Owner-Lloyd C. Sorg) as Grantor(s), Rick Whitlock, City Attorney for Klamath Falls, as Trustee, and City of Klamath Falls, a municipal corporation, as Beneficiary.

Grantor irrevocably grants, bargains, sells and conveys to Trustee in trust, with power of sale, the property in Klamath County, Oregon, described as: 412 Michigan Avenue; Lot 6, Block 54, Hot Springs 2nd Addition to the City of Klamath Falls, Klamath County, Oregon; Tax Lot R-3809-028CC-02400-000 (Hereinafter referred to as "Subject Property")

together with all and singular the tenements, hereditaments and appurtenances and all other rights thereunto belonging or in any wise now or hereafter attached to or used in connection with the said real estate.

FOR THE PURPOSE OF SECURING PERFORMANCE of each agreement of Grantor herein contained and payment of the sum of Nine hundred thirty-six and 00/100 Dollars (\$936.00), with interest thereon according to the terms of a promissory note of even date herewith, payable to Beneficiary and made by Grantor, the final payment of principal and interest hereof, if not sooner paid, to be due and payable upon any sale or transfer of the Subject Property or upon Grantor's death.

The date of maturity of the debt secured by this instrument is the date, stated above, on which the final installment of the note becomes due and payable. Should the Grantor either agree to, attempt to, or actually sell, convey, or assign all (or any part) of the property of all (or any part) of Grantor's interest in it without first obtaining the written consent or approval of the Beneficiary, then, at the Beneficiary's option, all obligations secured by this instrument, irrespective of the maturity dates expressed therein, or herein, shall become immediately due and payable. The execution by Grantor of an earnest money agreement does not constitute a sale, conveyance or assignment.

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

1. To protect, preserve and maintain Subject Property in good condition and repair, not to remove or demolish any building or improvement thereon, not to commit or permit any waste of the property.
2. To complete or restore promptly and in good and habitable condition any building or improvement which may be constructed, damaged or destroyed thereon, and pay when due all costs incurred therefor.
3. To comply with all laws, ordinances, regulations, covenants, conditions and restrictions affecting Subject Property, including all applicable building codes.
4. To provide and continuously maintain insurance on the buildings now or hereafter erected on the Subject Property against loss or damage by fire and such other hazards as the Beneficiary may require, in an amount not less than the evaluated assessment of the house including the renovation costs with Beneficiary designated on said policies. Such beneficiary policies of insurance shall be delivered to the Beneficiary to insert in Grantor's file; if Grantor shall fail for any reason to procure any such insurance and to deliver the policies to the Beneficiary at least within fifteen (15) days of signing this TRUST DEED, Beneficiary may procure the same at Grantor's expense. 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 at the option of Beneficiary, the entire amount so collected, 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.
5. To keep the Subject Property free from construction liens and to pay all taxes, assessments and other charges that may be levied or assessed upon or against the property before any part of such taxes, assessments and other charges become past due or delinquent and promptly deliver receipts therefor to Beneficiary; should the Grantor fail to make payment of any taxes, assessments, insurance premiums, liens or other charges payable by Grantor, either by direct payment or by providing Beneficiary with funds with which to make such payment, Beneficiary may, at its option, make payment thereof, and the amount so paid, with interest at the rate set forth in the note secured hereby, together with the obligations described in paragraph 6 of this trust deed, shall be added to and become a part of the debt secured by this trust deed, without waiver of any rights arising from breach of any of the covenants hereof and for such payments, with interest as aforesaid, the Subject Property, as well as the Grantor, shall be bound to the same extent that they are bound for the payment of the obligation herein described, and all such payments shall be immediately due and payable without notice, and the nonpayment thereof shall, at the option of the Beneficiary, render all sums secured by this trust deed immediately due and payable and constitute a breach of this trust deed.
6. To appear in and defend any action or proceeding purporting to affect the security rights or powers of Beneficiary or Trustee, and in any suit, action or proceeding in which the Beneficiary or Trustee may appear, including any suit for the foreclosure of this deed or any suit or action related to this instrument, including, but not limited to its validity and/or enforceability, to pay all costs and expenses, including evidence of title and the attorney fees of Beneficiary or Trustee; the amount of attorney fees mentioned in this paragraph 6 in all cases shall be fixed by the trial court and in the event of an appeal from any judgment or decree of the trial court, Grantor further agrees to pay such sums the appellate court shall adjudge reasonable as the attorney fees of Beneficiary or Trustee on such appeal.

It is mutually agreed that:

7. In the event that any portion or all Subject Property shall be taken under the right of eminent domain or condemnation, Beneficiary shall have the right if it so elects, to require that all or any portion for the monies payable as compensation for such taking, which are in excess of the amount required to pay all reasonable costs, expenses and attorney fees necessarily paid or incurred by Grantor in such proceedings, shall be paid to Beneficiary.

8. Upon any default by Grantor hereunder, Beneficiary may at any time without notice, either in person, by agent or by a receiver to be appointed by a court and without regard to the adequacy of any security for the indebtedness hereby secured, enter upon and take possession of the Subject Property and any part thereof, in its own name sue or otherwise collect the rents, issues and profits, including those past due and unpaid, and apply the same, less costs and expenses of operation and collection, including reasonable attorney fees upon any indebtedness secured hereby, and in such order as Beneficiary may determine operation and collection, including reasonable attorney's fees upon any indebtedness secured hereby, and in such order as Beneficiary may determine.

9. Upon default by Grantor in payment of any indebtedness secured hereby or in Grantor's performance of any agreement hereunder, time being of the essence with respect to such payment and/or performance, the Beneficiary may declare all sums secured hereby immediately due and payable. In such an event, the Beneficiary may elect to proceed to foreclose this trust deed in equity as a mortgage or direct the Trustee to foreclose this trust deed by advertisement and sale, or may direct the Trustee to pursue any other right or remedy, either at law or in equity, which the Beneficiary may have. In the event the Beneficiary elects to foreclose by advertisement and sale, the Beneficiary or the Trustee shall execute and cause to be recorded a written notice of default and election to sell the Subject Property to satisfy the obligation secured hereby, whereupon the Trustee shall fix the time and place of sale, give notice thereof as then required by law and proceed to foreclose this trust deed in the manner provided in ORS 86.735 to 86.795.

10. After the Trustee has commenced foreclosure by advertisement and sale, and at any time prior to 5 days before the date the Trustee conducts the sale, the Grantor or any other person so privileged by ORS 86.753, may cure the default or defaults. If the default consists of a failure to pay, when due, sums secured by the trust deed, the default may be cured by paying the entire amount due at the time of the cure other than such portion as would not then be due had no default occurred. Any other default that is capable of being cured may be cured by tendering the performance required under the obligation of trust deed. In any case, in addition to curing the default or defaults, the person effecting the cure shall pay to the Beneficiary all costs and expenses actually incurred in enforcing the obligation for the trust deed together with

Trustee's fees and attorney fees not exceeding the amounts provided by law.

11. Otherwise, the sale shall be held on the date and at the time and place designated in the notice of sale or the time to which the sale may be postponed as provided by law. The Trustee may sell the Subject Property either in one parcel or in separate parcels and shall sell the parcel or parcels at auction to the highest bidder for cash, payable at the time of sale. Trustee shall deliver to the purchaser its deed in form as required by law conveying the property so sold, but without any covenant or warranty, express or implied. The recitals in the deed of any matters of fact shall be conclusive proof of the truthfulness thereof. Any person, excluding the Trustee, but including the Grantor and Beneficiary, may purchase at the sale.

12. When Trustee sells pursuant to the powers provided herein, Trustee shall apply the proceeds of sale to payment of (1) the expenses of sale, including the compensation of the Trustee and a reasonable charge by Trustee's attorney, (2) to the obligation secured by the trust deed, (3) to all persons having recorded liens subsequent to the interest of the Trustee in the trust deed as their interests may appear in the order of their priority and (4) the surplus, if any, to the liens subsequent to the interest of the Trustee in the trust deed as their interests may appear in the order of their priority and (4) the surplus, if any, to the Grantor or to any successor in interest entitled to such surplus.

13. 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. Each such appointment and substitution shall be made by written instrument executed by Beneficiary, which, when recorded in the mortgage records of the county in which the property is situated, shall be conclusive proof of proper appointment of the Successor Trustee.

14. Trustee accepts this trust when this deed, duly executed and acknowledged is made a public record as provided by law. Trustee is not obligated to notify any party hereto of pending sale under any other deed of trust or of any action or proceeding in which Grantor, Beneficiary or Trustee shall be a party unless such action or proceeding is brought by Trustee.

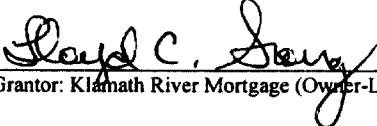
The Grantor covenants and agrees to and with the Beneficiary, and those claiming under him, that he is lawfully seized in fee simple of Subject Property and has a valid, unencumbered title thereto, and that he will warrant and forever defend the same against all persons whomsoever.

WARNING: Unless Grantor provides Beneficiary with evidence of insurance coverage as required by the contract or loan agreement between them, Beneficiary may purchase insurance at Grantor's expense to protect Beneficiary's interest. This insurance may, but need not also protect Grantor's interest. If the collateral becomes damaged, the coverage purchased by Beneficiary may not pay any claim made by or against Grantor. Grantor may later cancel the coverage by providing evidence that Grantor has obtained property coverage elsewhere. Grantor is responsible for the cost of any insurance coverage purchased by Beneficiary, which cost may be added to Grantor's contract or loan balance. If it is so added, the interest rate on the underlying contract or loan will apply to it. The effective date of coverage may be the date Grantor's prior coverage lapsed or the date Grantor failed to provide proof of coverage. The coverage Beneficiary purchases may be considerably more expensive than insurance Grantor might otherwise obtain alone and may not satisfy any need for property damage coverage or any mandatory liability insurance requirements imposed by applicable law.

The Grantor warrants that the proceeds of the loan represented by the above described note and this trust deed are primarily for Grantor's personal, family or household purposes, to-wit: conversion of the dwelling heating system on described property.

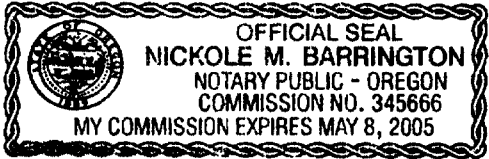
This deed applies to, inures to the benefit of and binds all parties hereto, their heirs, legatees, devisees, administrators, executors, personal representatives, successors and assigns. The term "Beneficiary" shall mean the holder and owner, including pledges, or the contract secured hereby, whether 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, and that generally all grammatical changes shall be made, assumed and implied to make the provisions hereof apply equally to corporations and to individuals.

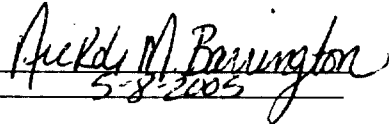
IN WITNESS WHEREOF, said Grantor has hereunto set his hand the day and year first above written.


Grantor: Klamath River Mortgage (Owner-Lloyd C. Sorg)

STATE OF OREGON)
County of Klamath) :ss

This instrument was acknowledged before me on October 18th, 2001, by Klamath River Mortgage (Owner-Lloyd C. Sorg).



Notary Public for Oregon: 
My Commission Expires: 5-8-2005

REQUEST FOR FULL CONVEYANCE
(To be used only when obligations have been paid)

To: City Attorney Rick Whitlock, Trustee

The undersigned is the legal owner and holder of all indebtedness secured by the foregoing trust deed. All sums secured by the trust deed have been fully paid and satisfied. You are hereby directed, on payment to you of any sums owing to you under the terms of the trust deed, or pursuant to statute, to cancel all evidences of indebtedness secured by the trust deed (which are delivered to you herewith together with the trust deed) and to reconvey, without warranty, to the parties designated by the terms of the trust deed the estate now held by you under the same.

Mail reconveyance and documents to : _____

DATED: _____

CITY OF KLAMATH FALLS, Beneficiary

By: _____
Title: _____

**PROMISSORY NOTE & LOAN AGREEMENT
FOR
CONVERSION TO ALTERNATIVE HEATING SYSTEM**

55295

Owner/Promisor: Klamath River Mortgage (Owner-Lloyd C. Sorg)

Subject Property: 412 Michigan Avenue

City: City of Klamath Falls

Dated: October 18th, 2001

Purpose of Note/Loan: Conversion of geothermal heating system at residence on Subject Property

The Owner/Promisor acknowledges the terms and conditions of this Promissory Note and deferred payment Loan. The loan is provided from funds received originally from the Department of Housing and Urban development, through the Oregon Community Development of Oregon State Economic Development Department and repaid by other participants in City sponsored rehabilitation projects.

1. The undersigned jointly and severally promise(s) to pay to the order of City, or its successors, the sum of Nine hundred thirty-six and no/100 Dollars (\$936.00) ("Loan Proceeds"). The Loan Proceeds shall include the fees paid to Klamath County for recording this agreement and the Trust Deed per §6 below.
2. Loan proceeds shall be exclusively used to pay the cost of the conversion of the geothermal heating system at the Subject Property pursuant to the terms of the attached contract or proposal to perform the work. Owner/Promisor expressly authorizes City to issue a check payable to both Owner/Promisor and the proposed contractor. Owner/Promisor agrees to negotiate the check and deliver it to the contractor when the work has been satisfactorily completed.
3. This loan shall be interest-free (0%) and shall be due and payable in full upon sale or transfer of the subject property or upon the death of the last surviving Owner/Promisor. The Owner/Promisor reserves the right to repay at any time all or any portion of the principal amount of this Note and Loan Agreement in a single payment without the payment of penalties, discount or premiums.
4. Owner/Promisor agrees to complete the heating conversion within 45 days of signing this Note and Agreement, unless City agrees to an extension.
5. Owner/Promisor shall notify City in writing of the sale or transfer, whether for consideration or not, of any legal or equitable interest in any part of the Subject Property whether it is voluntary or involuntary. Such notice shall be sent as soon as Owner/Promisor knows there will be a sale or transfer, and not later than one week before the expected sale or transfer, except in the case of the death of the last surviving Owner/Promisor, in which case the Owner/Promisor's estate shall notify the City as soon as reasonably possible. The notice must include the name of the Owner/Promisor, the address of the property, the name of the person to whom the property is being sold or transferred, and the name of any person or company who is acting as a closing agent for the sale or transfer or is otherwise participating in the transaction. Owner/Promisor authorizes City to contact any of the persons so named, and agrees to authorize and direct such persons to pay City any obligations owing under this agreement from any monies such persons owe to Owner/Promisor.
6. Owner/Promisor has executed on the same date as this Agreement a Trust Deed in favor of the City to secure performance of the obligations set forth herein. Owner/Promisor acknowledges that the Trust Deed will be recorded by City, and that City may also record this agreement.
7. Each Owner/Promisor who signs this Agreement shall be individually and jointly responsible for performing the obligations in this Agreement. This Agreement shall be binding upon the successors and assigns of the parties. Owner/Promisor shall not assign this Agreement.

