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REAL ESTATE MORTGAGE FOR OREGON

THIS MORTGAGE is made and entered into by JOHN L. MCPHERSON and JANI K.

MCPHERSON, Husband and wife

residing in KLAMATH County, Oregon, whose post office

address is 13555 Tingley Lane, Klamath Falls, Oregon 97603, herein
called "Borrower," and the United States of America, acting through the Farmers Home Administration, United

States Department of Agriculture, whose mailing address is 2316 South Sixth Street, Suite C,

Klamath Falls, Oregon 97601, herein called the "Government," and:

WHEREAS Borrower is indebted to the Government, as evidenced by one or more promissory note(s) or assumption
agreement(s) or any shared appreciation or recapture agreement, herein called "note," which has been executed by Borrower, is
payable to the order of the Government, authorizes acceleration of the entire indebtedness at the option of the Government upon
any default by Borrower, and is described as follows:

<u>Date of Instrument</u>	<u>Principal Amount</u>	<u>Due Date of Final Installment</u>
5/31/2002	\$60,000.00	5/31/2009

(The interest rate for limited resource farm ownership or limited resource operating loan(s) secured by this instrument may
be increased as provided in the Farmers Home Administration regulations and the note.)

And the note evidences a loan to Borrower, and the Government, at any time, may assign the note and insure the payment
thereof pursuant to the Consolidated Farm and Rural Development Act, or Title V of the Housing Act of 1949, or any other statutes
administered by the Farmers Home Administration;

And it is the purpose and intent of this instrument that, among other things, at all times when the note is held by the
Government, or in the event the Government should assign this instrument without insurance of the note, this instrument shall
secure payment of the note; but when the note is held by an insured holder, this instrument shall not secure payment of the note
or attach to the debt evidenced thereby, but as to the note and such debt shall constitute an indemnity mortgage to secure the
Government against loss under its insurance contract by reason of any default by Borrower;

And this instrument also secures the recapture of any deferred principal and interest or of any interest credit and subsidy
which may be granted to the Borrower by the Government pursuant to 42 U.S.C. §§ 1472 (g) or 1490a, respectively, or any amount
due under any Shared Appreciation/Recapture Agreement entered into pursuant to 7 U.S.C. § 2001.

NOW THEREFORE, in consideration of the loan(s) and (a) at all times when the note is held by the Government, or in the
event the Government should assign this instrument without insurance of the payment of the note, to secure prompt payment of
the note and any renewals and extensions thereof and any agreements contained therein, (b) at all times when the note is held by
an insured holder, to secure performance of Borrower's agreement herein to indemnify and save harmless the Government against
loss under its insurance contract by reason of any default by the Borrower, and (c) in any event and at all times to secure the prompt
payment of all advances and expenditures made by the Government, with interest, as hereinafter described, and the performance
of every covenant and agreement of Borrower contained herein or in any supplementary agreement, Borrower does hereby grant,
bargain, sell, convey, mortgage and assign with general warranty unto the Government the following property situated in the State

of Oregon, County(ies) of Klamath

See Attached Property Description

Wherever "Farmers Home Administration", "FmHA", "Rural Economic and Community Development", "RECD", "Agricultural Stabilization and Conservation Service", or "ASCS" may appear, the term United States Department of Agriculture is substituted.

32394

Initials LFH Initials JKW

together with all rights (including the right to mining products, gravel, oil, gas, coal or other minerals), interests, easements, hereditaments and appurtenances thereunto belonging, the rents, issues, and profits thereof and revenues and income therefrom (including any Government payments contingent on an agreement to restrict the use of the land), all improvements and personal property now or later attached thereto or reasonably necessary to the use thereof, including, but not limited to, irrigation systems, including pumps, motors, electrical panels, pipe, sprinklers, and other accessories pertaining thereto; milking, milk handling, and milk storage systems, and other accessories pertaining thereto; manure handling systems; livestock feeding systems; ranges, refrigerators, clothes washers, clothes dryers, or carpeting purchased or financed in whole or in part with loan funds, whether or not attached to the real estate; all water, water rights, water certificates, water permits, water allotments, and water stock pertaining thereto, no matter how evidenced; and all payments at any time owing to Borrower by virtue of any sale, lease, transfer, conveyance, or condemnation of any part thereof or interest therein-all of which are herein called "the property";

TO HAVE AND TO HOLD the property unto the Government and its assigns forever in fee simple.

IN ADDITION to its other rights, the Government is hereby granted a security interest in the above-described property pursuant to ORS 79.1010 - 79.5070.

BORROWER for Borrower's self, Borrower's heirs, executors, administrators, successors and assigns WARRANTS THE TITLE to the property to the Government against all lawful claims and demands whatsoever except any liens, encumbrances, easements, reservations, or conveyances specified hereinabove, and COVENANTS AND AGREES as follows:

(1) To pay promptly when due any indebtedness to the Government hereby secured and to indemnify and save harmless the Government against any loss under its insurance of payment of the note by reason of any default by Borrower. At all times when the note is held by an insured holder, Borrower shall continue to make payments on the note to the Government, as collection agent for the holder.

(2) To pay to the Government such fees and other charges as may now or hereafter be required by regulations of the Farmers Home Administration.

(3) If required by the Government, to make additional monthly payments of 1/12 of the estimated annual taxes, assessments, insurance premiums and other charges upon the mortgaged premises.

(4) Whether or not the note is insured by the Government, the Government may at any time pay any other amounts including advance for payment of prior and/or junior liens, required herein to be paid by Borrower and not paid by Borrower when due, as well as any costs and expenses for the preservation, protection, or enforcement of this lien, as advances for Borrower's account. All such advances shall bear interest at the rate borne by the note which has the highest interest rate.

(5) All advances by the Government, including advance for payment of prior and/or junior liens, in addition to any advances required by the terms of the note, as described by this instrument, with interest shall be immediately due and payable by Borrower to the Government without demand at the place designated in the latest note and shall be secured hereby. No such advance by the Government shall relieve Borrower from breach of Borrower's covenant to pay. Any payment made by Borrower may be applied on the note or any indebtedness to the Government secured hereby, in any order the Government determines.

(6) To use the loan evidenced by the note solely for purposes authorized by the Government.

(7) To pay when due all taxes, liens, judgments, encumbrances, and assessments lawfully attaching to or assessed against the property, including all charges and assessments in connection with water, water rights, and water stock pertaining to or reasonably necessary to the use of the real property described above, and promptly deliver to the Government without demand receipts evidencing such payments.

(8) To keep the property insured as required by and under insurance policies approved by the Government and, at its request, to deliver such policies to the Government.

(9) To maintain improvements in good repair and make repairs required by the Government; operate the property in a good and husbandmanlike manner; comply with such farm conservation practices and farm and home management plans as the Government from time to time may prescribe; and not to abandon the property, or cause or permit waste, lessening or impairment of the security covered hereby, or, without the written consent of the Government, cut, remove, or lease any timber, gravel, oil, gas, coal, or other minerals except as may be necessary for ordinary domestic purposes.

(10) To comply with all laws, ordinances, and regulations affecting the property.

(11) To pay or reimburse the Government for expenses reasonably necessary or incidental to the protection of the lien and priority hereof and to the enforcement of or the compliance with the provisions hereof and of the note and any supplementary agreement (whether before or after default), including but not limited to costs of evidence of title to and survey of the property, costs of recording this and other instruments, attorneys' fees, trustees' fees, court costs, and expenses of advertising, selling, or conveying the property.

(12) Except as otherwise provided in the Farmers Home Administration regulations, neither the property nor any portion thereof or interest therein shall be leased, assigned, sold, transferred, or encumbered, voluntarily or otherwise, without the written consent of the Government. The Government shall have the sole and exclusive rights as mortgagee hereunder, including but not limited to the power to grant consents, partial releases, subordinations, and satisfaction, and no insured holder shall have any right, title or interest

in or to the lien or any benefits hereof. All rents, profits, and income, including any amounts arising out of an agreement by which the Borrower substantially reduces its use of the property in return for payments, are hereby assigned to the Government for the purpose of discharging the debt hereby secured. Permission is hereby given to the Borrower, so long as no default exists hereunder, to collect such rents, profits and income for use in accordance with the provisions of the borrower's agreement with Farmers Home Administration and the applicable regulations.

(13) At all reasonable times the Government and its agents may inspect the property to ascertain whether the covenants and agreements contained herein or in any supplementary agreement are being performed.

(14) This instrument secures to the Government the repayment of the debt evidenced by the note, including all adjustments, renewals, extensions or modifications in the interest rate, payment terms or balance due on the loan; the payment of all other sums, with interest, advanced under paragraph 4; and the performance of Borrower's covenants and agreements under this instrument and the note. The Government may (a) adjust the interest rate, payment, terms or balance due on the loan, (b) increase the mortgage by an amount equal to deferred interest on the outstanding principal balance, (c) extend or defer the maturity of, and renew and reschedule the payments on, the debt evidenced by the note or any indebtedness to the Government secured by this instrument, (d) release any party who is liable under the note or for the debt from liability to the Government, (e) release portions of the property and subordinate its lien, and (f) waive any other of its rights under this instrument. Any and all this can and will be done without affecting the lien or the priority of this instrument or Borrower's or any other party's liability to the Government for payment of the note or debt secured by this instrument unless the Government says otherwise in writing. HOWEVER, any forbearance by the Government—whether once or often—in exercising any right or remedy under this instrument, or otherwise afforded by applicable law, shall not be a waiver of or preclude the exercise of any such right or remedy.

(15) If at any time it shall appear to the Government that Borrower may be able to obtain a loan from a production credit association, a Federal land bank, or other responsible cooperative or private credit source, at reasonable rates and terms for loans for similar purposes and periods of time, Borrower will, upon the Government's request, apply for and accept such loan in sufficient amount to pay the note and any indebtedness secured hereby and to pay for any stock necessary to be purchased in a cooperative lending agency in connection with such loan.

(16) Default hereunder shall constitute default under any other real estate or crop or chattel security instrument held or insured by the Government and executed or assumed by Borrower, and default under any such other security instrument shall constitute default hereunder.

(17) SHOULD DEFAULT occur in the performance or discharge of any obligation in this instrument or secured by this instrument, or should any one of the parties named as Borrower die or be declared an incompetent, a bankrupt, or an insolvent, or make an assignment for the benefit of creditors, the Government, at its option, with or without notice, may: (a) declare the entire amount unpaid under the note and any indebtedness to the Government hereby secured immediately due and payable, (b) for the account of Borrower incur and pay reasonable expenses for repair or maintenance of and take possession of, operate or rent the property, (c) upon application by it and production of this instrument without other evidence and without notice of hearing of said application, have a receiver appointed for the property, with the usual powers of receivers in like cases, (d) foreclose this instrument as provided herein or by law, and (e) enforce any and all other rights and remedies provided herein or by present or future law.

(18) The proceeds of foreclosure sale shall be applied in the following order to the payment of: (a) costs and expenses incident to enforcing or complying with the provisions hereof, (b) any prior liens required by law or a competent court to be so paid, (c) the debt evidenced by the note and all indebtedness to the Government secured hereby, (d) inferior liens of record required by law or a competent court to be so paid, (e) at the Government's option, any other indebtedness of Borrower owing to or insured by the Government, and (f) any balance to Borrower. At foreclosure or other sale of all or any part of the property, the Government and its agents may bid and purchase as a stranger and may pay the Government's share of the purchase price by crediting such amount on any debts of Borrower owing to or insured by the Government, in the order prescribed above.

(19) Borrower agrees that the Government will not be bound by any present or future laws, (a) providing for valuation, appraisal, homestead or exemption of the property, (b) prohibiting maintenance of an action for a deficiency judgment or limiting the amount thereof or the time within which such action may be brought, (c) prescribing any other statute of limitations, (d) allowing any right of redemption or possession following any foreclosure sale, or (e) limiting the conditions which the Government may by regulation impose, including the interest rate it may charge, as a condition of approving a transfer of the property to a new Borrower. Borrower expressly waives the benefit of any such State law. Borrower hereby relinquishes, waives, and conveys all rights, inchoate or consummate, of descent, dower, and curtesy.

(20) If any part of the loan for which this instrument is given shall be used to finance the purchase, construction or repair of property to be used as an owner-occupied dwelling (herein called "the dwelling") and if Borrower intends to sell or rent the dwelling and has obtained the Government's consent to do so (a) neither Borrower nor anyone authorized to act for Borrower will, after receipt of a bona fide offer, refuse to negotiate for the sale or rental of the dwelling or will otherwise make unavailable or deny the dwelling to anyone because of race, color, religion, sex, national origin, age, handicap, or familial status, and (b) Borrower recognizes as illegal and hereby disclaims, and will not comply with or attempt to enforce any restrictive covenants on the dwelling relating to race, color, religion, sex, national origin, age, handicap, or familial status.

(21) Borrower further agrees that the loan(s) secured by this instrument will be in default should any loan proceeds be used for a purpose that will contribute to excessive erosion of highly erodible land or to the conversion of wetlands to produce an agricultural commodity, as further explained in 7 CFR Part 1940, Subpart G, Exhibit M.

(22) This instrument shall be subject to the present regulations of the Farmers Home Administration, and to its future regulations not inconsistent with the express provisions hereof.

(23) Notices given hereunder shall be sent by certified mail, unless otherwise required by law, addressed, unless and until some other address is designated in a notice so given, in the case of the Government to Farmers Home Administration, United States Department of Agriculture, at the mailing address mentioned above, and in the case of Borrower at the address shown in the Farmers Home Administration Finance Office records (which normally will be the same as the post office address shown above).

(24) If any provision of this instrument or application hereof to any person or circumstances is held invalid, such invalidity will not affect other provisions or applications of the instrument which can be given effect without the invalid provision or application, and to that end the provisions hereof are declared to be severable.

EXECUTED this 31st date of May, 192002

Partnership or Corporation

Individual(s)

32396

(Name of Borrower)

By: _____

By: _____

By: _____

Attest: _____

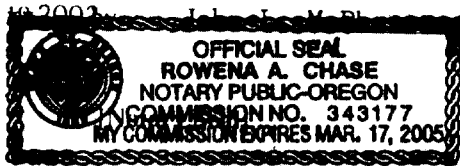
John L. McPherson
JOHN L. MCPHERSON
Jani K. McPherson
JANI K. MCPHERSON

[Corporate Seal]

ACKNOWLEDGMENT FOR INDIVIDUALS

STATE OF OREGON } ss:
COUNTY OF Klamath

The foregoing instrument was acknowledged before me this 31st day of May, 2002.



John L. McPherson and Jani K. McPherson, husband and wife
(Name of persons acknowledging)

Rowena A. Chase
Notary Public of and for the State of Oregon

My Commission expires _____

ACKNOWLEDGMENT FOR A PARTNERSHIP

STATE OF OREGON } ss:
COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of _____, 19____ by _____ on behalf of _____ a partnership.

(Names of acknowledging partners) (Name of partnership)

[Notary Seal]

Notary Public of and for the State of Oregon

My Commission expires _____

ACKNOWLEDGMENT FOR A CORPORATION

STATE OF OREGON } ss:
COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of _____, 19____ by _____

(Name of Corporate Officer) (Title of Corporate Officer)

of _____, a _____ corporation, on behalf of the corporation.
(Name of Corporation) (State of Incorporation)

[Notary Seal]

Notary Public of and for the State of Oregon

My Commission expires _____

The following described real property situated in Klamath County, Oregon:

PARCEL 1:

The NE $\frac{1}{4}$, NW $\frac{1}{4}$ SE $\frac{1}{4}$, S $\frac{1}{2}$ NW $\frac{1}{4}$, N $\frac{1}{2}$ SW $\frac{1}{4}$ Section 5, Township 40 South, Range 9 East of the Willamette Meridian, EXCEPT a tract of land situated in the NE $\frac{1}{4}$ of Section 5, Township 40 South, Range 9 East of the Willamette Meridian, more particularly described as follows: Beginning at a 5/8 inch iron pin marking the North one-quarter corner of said Section 5, which point is on the centerline of the Old Midland County Road; thence South along an old existing fence line and fence line extended (said line being the one-quarter section line as described in Volume 326 page 411, Deed records of Klamath County, Oregon) a distance of 1363 feet to an old fence post; thence South 88°41'42" East (East by said Deed record) 465.00 feet to a one-half inch iron pipe; thence North 71°52'00" West 303.76 feet to a steel fence post; thence North 52°33'00" East 237.03 feet to a steel fence post; thence North 25°14'00" West 143.78 feet to a steel fence post; thence North 18°26'00" East 192.44 feet to a steel fence post; thence North 28°03'00" East 472.17 feet to a steel fence post; thence North 47°49'00" East 463.30 feet to a steel fence post; thence continuing North 47°49'00" East 151.09 feet to a 1/2 inch iron pin in the centerline of said County Road; thence South 89°36'55" West (West by said Deed record) a distance of 948.31 feet to the point of beginning. The bearing of the above described tract of land is based on the said one-quarter section line as being South. ALSO EXCEPTING the S $\frac{1}{2}$ NE $\frac{1}{4}$ NE $\frac{1}{4}$ and the N $\frac{1}{2}$ SE $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 5.

PARCEL 2:

The South 150 feet of the N $\frac{1}{2}$ SE $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 5, Township 40 South, Range 9 East of the Willamette Meridian. SAVING AND EXCEPTING a parcel of land situate in the NE $\frac{1}{4}$ of Section 5 more particularly described as follows: Commencing at the Southeast corner of the N $\frac{1}{2}$ SE $\frac{1}{4}$ NE $\frac{1}{4}$ of said Section 5; thence N. 00°22'00" W. along the East line of said Section 5, 150.00 feet to the point of beginning for this description; thence leaving said section line S. 89°48'00" W. 739.34 feet; thence S. 81°17'43" E. along a fence, 247.78 feet; thence N. 87°28'53" E. along a fence, 176.47 feet; thence S. 88°12'35" E. along a fence 168.39 feet; thence N. 82°51'26" E. along a fence and the Easterly extension thereof, 151.09 feet to a point on the Easterly line of said Section 5; thence N. 00°22'00" W. along said section line, 18.80 feet to the point of beginning.

PARCEL 3:

A parcel of land situate in the NE $\frac{1}{4}$ of Section 5, Township 40 South, Range 9 East of the Willamette Meridian, being more particularly described as follows: Commencing at the Southeast corner of the N $\frac{1}{2}$ SE $\frac{1}{4}$ NE $\frac{1}{4}$ of said Section 5; thence N. 00°22'00" W. along the East line of said Section 5, 150.00 feet; thence leaving said section line S. 89°48'00" W, 739.34 feet to the point of beginning for this description; thence N. 81°17'43" W. along a fence, 25.39 feet; thence N. 79°48'21" W, along a fence, 172.97 feet to the end of fence; thence N. 78°54'42" W, 125.00 feet; thence North to a point on the North line of the S $\frac{1}{2}$ NE $\frac{1}{4}$ NE $\frac{1}{4}$ of said Section 5; thence West along said North line to the Northwest corner of the S $\frac{1}{2}$ NE $\frac{1}{4}$ NE $\frac{1}{4}$; thence South along the West line of the E $\frac{1}{2}$ NE $\frac{1}{4}$ of said Section 5 to a point which is 150.0 feet North of the Southwest corner of the N $\frac{1}{2}$ SE $\frac{1}{4}$ NE $\frac{1}{4}$; thence S. 89°48'00" E, 580.66 feet to the point of beginning.

EXCEPTING therefrom any portion of the above described parcels lying within the limits of roads or highways.

PARCEL 4:

Lot 6 in Section 8, Township 40 South, Range 9 East of the Willamette Meridian.

The W $\frac{1}{2}$ NW $\frac{1}{4}$, SE $\frac{1}{4}$ NW $\frac{1}{4}$, Lots 7, 8, 9, 10, 11 and 12 in Section 17, Township 40 South, Range 9 East of the Willamette Meridian.

PARCEL 5:

The NE $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 8, Township 40 South, Range 9 East of the Willamette Meridian, Klamath County, Oregon, AND

The N $\frac{1}{2}$ SW $\frac{1}{4}$ and NW $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 9, Township 40 South, Range 9 East of the Willamette Meridian, ALSO

A parcel of land being a strip of land 40 feet in width lying along the full length of the East side of the NE $\frac{1}{4}$ of Section 8, Township 40 South, Range 9 East of the Willamette Meridian, Klamath County, Oregon.