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WHEN RECORDED RETURN TO:

Jason C. Broesder
 Hornecker, Cowling, Hassen
 & Heysell, L.L.P.
 717 Murphy Road
 Medford, Oregon 97504

State of Oregon, County of Klamath
 Recorded 08/27/2002 10:53 a. m.
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 Linda Smith, County Clerk
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**RESIDENTIAL TRUST DEED, SECURITY AGREEMENT,
 ASSIGNMENT OF LEASES AND RENTS, AND FIXTURE FILING**

THIS TRUST DEED is made as of the 15 day of August, 2002, by and between WALT HAMMERICH and NANCY HAMMERICH, husband and wife, whose address is 3311 Haskins Road, Bonanza, Oregon 97623, (hereinafter "Grantors"), to FIRST AMERICAN TITLE COMPANY, having its offices at 422 Main Street, Klamath Falls, Oregon 97601 (hereinafter "Trustee"), for the benefit of JOHN HORTON and MARY HORTON, whose address is 4409 Bliss Road, Bonanza, Oregon 97623 (hereinafter "Beneficiaries").

WHEREAS, Beneficiaries have made a loan to Grantor in the sum of One Hundred Ninety Thousand Dollars (\$190,000.00), which loan is to be evidenced by a Promissory Note of even date herewith. The loan, if not sooner paid, is due and payable in full on December 31, 2010. (The Promissory Note, as it may be modified, extended, or replaced from time to time, is referred to herein as the "Note"); and

WHEREAS, as a condition of the making of the loan to Grantor, Beneficiary has required, and Grantor has agreed to provide, this Trust Deed.

NOW, THEREFORE, for valuable consideration, receipt of which is hereby acknowledged, and for the purpose of securing the Obligations described in Section 1.01 below, Grantors hereby irrevocably grant, bargain, sell, convey, assign, and transfer to Trustee in trust for the benefit and security of Beneficiaries, with power of sale, all of Grantors' right, title, and interest in and to the real property located in Klamath County, State of Oregon, and more particularly described in Exhibit A attached hereto and incorporated herein, together with (1) all dwellings and other improvements now or hereafter located thereon, (2) all easements, tenements, hereditaments, and appurtenances relating thereto, (3) all awards for any taking of all or any portion thereof, and (4) all insurance proceeds for any damage thereto (collectively, the "Trust Property").

TO HAVE AND TO HOLD the Trust Property to Trustee and its successors and assigns for the benefit of Beneficiary and its successors and assigns, forever.

PROVIDED ALWAYS, that if all the Obligations shall be paid, performed, and satisfied in full, then the lien and estate hereby granted shall be reconveyed.

1 - RESIDENTIAL TRUST DEED

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This Trust Deed, the Note, and all other agreements executed at any time in connection therewith, as they may be amended or supplemented from time to time, are sometimes collectively referred to as the "Loan Documents."

TO PROTECT THE SECURITY OF THIS TRUST DEED, GRANTORS COVENANT AND AGREE AS FOLLOWS:

**ARTICLE I.
PARTICULAR COVENANTS AND WARRANTIES OF GRANTOR**

1.01 Obligations Secured. This Trust Deed secures the payment of all indebtedness, including but not limited to principal and interest, and the performance of all covenants and obligations of Grantors, under the Note, this Trust Deed, and the other Loan Documents, whether such payment and performance is now due or becomes due in the future (collectively, the "Obligations").

This Trust Deed also secures the payment and performance of any and all other indebtedness and obligations of Grantors to Beneficiaries, present and future, of any nature whatsoever, whether direct or indirect, primary or secondary, joint or several, liquidated or unliquidated, whenever and however arising, and whether or not reflected in a written agreement or instrument.

1.02 Payment and Performance. Grantors shall pay and perform all of the Obligations when due.

1.03 Property. Grantors warrant that they hold good and merchantable title to the Trust Property, free and clear of all liens, encumbrances, reservations, restrictions, easements, and adverse claims except those described on the Residential Agreement entered into between Grantors and Beneficiaries.

1.06 Environmental Compliance.

(1) For purposes of this section, "Environmental Law" means any federal, state, or local law or regulation now or hereafter at any time pertaining to Hazardous Substances or environmental conditions. For purposes of this section, "Hazardous Substance" includes, without limitation, any substance that is or becomes classified as hazardous, dangerous, or toxic under any federal, state, or local law or regulation.

(2) Grantors will not use, generate, store, release, discharge, or dispose of on, under, or about the Trust Property or the groundwater thereof any Hazardous Substance and will not permit any other person to do so, except for storage and use of such Hazardous Substances (and in such quantities) as may commonly be used for household purposes, provided such

substances are stored and used in compliance with all Environmental Laws. Grantors will keep and maintain the Trust Property in compliance with all Environmental Laws.

1.07 Maintenance and Improvements. Grantors shall not permit the Trust Property or any part thereof to be removed, demolished, or materially altered without Beneficiaries prior written consent. Grantors shall maintain the Trust Property, and every portion thereof, in good repair and condition, except for reasonable wear and tear, and shall at Beneficiaries election restore, replace, or rebuild the Trust Property or any part thereof now or hereafter damaged or destroyed by any casualty (whether or not insured against or insurable) or affected by any Condemnation. Grantors shall not commit or suffer any waste or strip of the Trust Property.

1.08 Liens. Grantors shall pay when due all claims for labor and materials that, if unpaid, might become a lien on the Trust Property. Grantors shall not create or suffer any lien, security interest, or encumbrance on the Trust Property that may be prior to, or on a parity with, the lien of this Trust Deed.

1.09 Impositions. Grantors shall pay when due all taxes, assessments, fees, and other governmental and nongovernmental charges of every nature now or hereafter assessed against any part of the Trust Property or on the lien or estate of Beneficiaries or Trustee therein (collectively, the "Impositions"); provided, however, that if by law any such Imposition may be paid in installments, Grantors may pay the same in installments, together with accrued interest on the unpaid balance thereof, as they become due. Grantors shall furnish to Beneficiaries promptly on request satisfactory evidence of the payment of all Impositions. Beneficiaries are hereby authorized to request and receive from the responsible governmental and nongovernmental personnel written statements with respect to the accrual and payment of all Impositions.

1.10 Limitations of Use. Grantors shall not initiate or consent to any rezoning of the Trust Property or any change in any covenant or other public or private restrictions limiting or defining the uses that may be made of the Trust Property without the prior written consent of Beneficiaries.

1.11 Insurance.

(1) *Property and Other Insurance.* Grantors shall obtain and maintain during the term of this Trust Deed all-risk property insurance for the Real Property only.

(2) *Insurance Companies and Policies.* All insurance shall be written by a company or companies reasonably acceptable to Beneficiaries, shall contain a long-form mortgagee endorsement in favor of Beneficiary with proceeds under any policy payable to Beneficiaries, subject to the terms of this Trust Deed; shall require 10 days' prior written notice to Beneficiaries of cancellation or reduction in coverage; and shall contain a waiver of

subrogation. Grantors shall furnish to Beneficiaries on request a certificate evidencing the coverage required under this Trust Deed and a copy of each policy.

1.12 Casualty/Loss Restoration.

(1) After the occurrence of any casualty to the Trust Property, whether or not covered by insurance, Grantors shall give prompt written notice thereof to Beneficiaries. Beneficiaries may make proof of loss if it is not made promptly and to Beneficiaries satisfaction by Grantors.

(2) All insurance proceeds with respect to the Trust Property shall be payable to Beneficiaries. At Beneficiaries discretion, insurance proceeds may be applied to the Obligations or may be released to Grantors, on such terms and conditions as Beneficiaries elect, for restoration of the Trust Property.

1.13 Actions to Protect Trust Property; Reserves.

(1) If Grantors shall fail to pay, perform, or observe any of their covenants hereunder, Beneficiaries may, but shall not be required to, take such actions as they deem appropriate to remedy such failure. All sums, including reasonable attorney fees, so expended, or expended to maintain the lien or estate of this Trust Deed or its priority, or to protect or enforce any of Beneficiaries' rights hereunder, shall be a lien on the Trust Property, shall be secured by this Trust Deed, and shall be paid by Grantors on demand, together with interest thereon at the rate provided in the Note. No payment or other action by Beneficiaries under this section shall impair any other right or remedy available to Beneficiaries or constitute a waiver of any Event of Default.

(2) If Grantors fail to promptly perform any of their obligations under Section 1.09 or 1.11 of this Trust Deed, Beneficiaries may require Grantors thereafter to pay and maintain with Beneficiaries' reserves for payment of such obligations. In that event, Grantors shall pay to Beneficiaries each month a sum estimated by Beneficiaries to be sufficient to produce, at least 20 days before due, an amount equal to the Impositions, insurance premiums, or both. If the sums so paid are insufficient to satisfy any Imposition or insurance premium when due, Grantors shall pay any deficiency to Beneficiaries on demand. The reserves may be commingled with Beneficiaries' other funds. Beneficiaries shall credit to Grantors interest on such reserves at the minimum rate required from time to time by applicable law. Beneficiaries shall not hold the reserves in trust for Grantors, and Beneficiaries shall not be the agent of Grantor for payment of the taxes and assessments required to be paid by Grantors.

1.14 Estoppel Certificates. Grantors, within five days of request therefor, shall furnish Trustee and Beneficiaries a written statement, duly acknowledged, of the amount of the Obligations secured by this Trust Deed and whether any offsets or defenses exist against the Obligations secured hereby. If Grantors shall fail to furnish such a statement within the time

allowed, Beneficiaries shall be authorized, as Grantors' attorney-in-fact, to execute and deliver such statement.

ARTICLE II. CONDEMNATION

Should the Trust Property or any part thereof be taken or damaged by reason of any public improvement, eminent domain, condemnation proceeding, or in any other manner (a "Condemnation"), or should Grantor receive any notice or other information regarding such action, Grantor shall give immediate notice thereof to Beneficiary. Beneficiary shall be entitled to all compensation, awards, and other payments or relief therefor ("Condemnation Proceeds") up to the full amount of the Obligations, and may appear in any Condemnation proceeding in its own or Grantor's name and make any settlement in connection therewith. Beneficiary may, at its option, apply the Condemnation Proceeds to the Obligations or release the proceeds to Grantor, on such terms and conditions as Beneficiary elects, for restoration of the Trust Property.

ARTICLE III. LEASES AND RENTS

3.01 Assignment of Leases and Rents. Grantors assign to Beneficiaries all leases, rental contracts, and other agreements now or hereafter relating to the Trust Property or any portion thereof (the "Leases") and all rents and income derived therefrom (the "Rents"). Beneficiaries shall have the right, but shall not be obligated, after the occurrence of an Event of Default, to notify any and all obligors under any of the Leases that the same have been assigned to Beneficiaries; to discount, compromise, enforce, and collect the Leases and Rents; and to exercise any and all other rights and remedies of the lessor in connection with any of the Leases and Rents. Beneficiaries shall have the right to use and apply any Rents received (1) for any costs and expenses incurred in connection with enforcing this assignment and collecting Rents; (2) for the maintenance of the Trust Property; and (3) for reduction of the Obligations in such order as Beneficiaries shall determine. Beneficiaries hereby give Grantors a revocable license to collect and receive the Rents. Such license may be revoked by Beneficiaries, without notice to Grantors, on the occurrence of any Event of Default under this Trust Deed. Grantors agree not to collect any Rents more than 30 days in advance. This assignment shall not operate to place responsibility for the care, maintenance, or repair of the Trust Property on Beneficiaries.

3.02 Attorney-in-Fact. Grantors irrevocably constitutes and appoints Beneficiaries as their true and lawful attorney-in-fact, with power of substitution, to exercise any and all of the rights, powers, and authorities described in this Article III. and to endorse any instruments given in payment of any Rents.

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**ARTICLE IV.
SECURITY AGREEMENT AND FIXTURE FILING**

To secure the Obligations, Grantors hereby grant to Beneficiaries a security interest in all fixtures located on the Trust Property. This Trust Deed shall constitute a security agreement and fixture filing under the Uniform Commercial Code statutes of the State of Oregon. The mailing address of Grantors and the address of Beneficiaries from which information may be obtained are set forth in the cover sheet of this Trust Deed.

**ARTICLE V.
EVENTS OF DEFAULT; REMEDIES**

5.01 Events of Default. Each of the following shall constitute an Event of Default under this Trust Deed and under each of the other Loan Documents:

(1) *Nonpayment.* Failure of Grantors to pay any of the Obligations on or within 30 days after the due date.

(2) *Breach of Other Covenants.* Failure of Grantors to perform or abide by any other covenant included in the Obligations, including without limitation those covenants in the Note, in this Trust Deed, or in any other Loan Document.

(3) *Misinformation.* Falsity when made in any material respect of any representation, warranty, or information furnished by Grantors or their agents to Beneficiaries in connection with any of the Obligations.

(4) *Other Default.* The occurrence of any other event of default under the Note, the Loan Documents, or any of the other Obligations.

(5) *Other Indebtedness, Secondary Financing.* Grantors' default beyond applicable grace periods in the payment of any other indebtedness secured by all or any portion of the Trust Property.

(6) *Bankruptcy.* The occurrence of any of the following with respect to Grantors, any guarantor of the Obligations, or the then-owner of the Trust Property:
(a) appointment of a receiver, liquidator, or trustee for any such party or any of its properties;
(b) adjudication as a bankrupt or insolvent; (c) filing of any petition by or against any such party under any state or federal bankruptcy, reorganization, moratorium, or insolvency law; or
(d) inability to pay debts when due.

(7) *Transfer; Due-on-Sale.* Any sale, gift, conveyance, contract for conveyance, transfer, or assignment of the Trust Property, or any part thereof or any interest therein, either voluntarily, involuntarily, or by the operation of law (a "Transfer"), without Beneficiaries' prior written consent. Any lease for a term in excess of three years, and any lease

containing an option to purchase the Trust Property or any portion thereof, shall be a Transfer. The provisions of this subsection (7) shall apply to each and every Transfer, regardless of whether or not Beneficiaries have consented or waived their rights in connection with any previous Transfer. Beneficiaries may attach such conditions to their consent under this subsection (7) as Beneficiaries may determine in their sole discretion, including without limitation an increase in the interest rate or the payment of transfer or assumption fees, and the payment of administrative and legal fees and costs incurred by Beneficiaries.

5.02 Remedies in Case of Default. If an Event of Default shall occur, Beneficiaries or Trustee, as the case may be, may exercise any one or more of the following rights and remedies, in addition to any other remedies that may be available by law, in equity, or otherwise:

(1) *Acceleration.* Beneficiaries may declare all or any portion of the Obligations immediately due and payable.

(2) *Rents.* Beneficiaries may revoke Grantors' right to collect the Rents, and may collect the Rents. Beneficiaries shall not be deemed to be in possession of the Trust Property solely by reason of exercise of the rights contained in this subsection (2).

(3) *Power of Sale.* Beneficiaries may direct Trustee, and Trustee shall be empowered, to foreclose the Trust Property by advertisement and sale under applicable law.

(4) *Foreclosure.* Beneficiaries may judicially foreclose this Trust Deed and obtain a judgment foreclosing Grantors' interest in all or any part of the Trust Property.

(5) *Fixtures and Personal Property.* With respect to any fixtures or other property subject to a security interest in favor of Beneficiaries, Beneficiaries may exercise any and all of the rights and remedies of a secured party under the Uniform Commercial Code.

5.03 Sale. In any sale under this Trust Deed or pursuant to any judgment, the Trust Property, to the extent permitted by law, may be sold as an entirety or in one or more parcels and in such order as Beneficiaries may elect. The purchaser at any such sale shall take title to the Trust Property or the part thereof so sold, free and clear of the estate of Grantors, the purchaser being hereby discharged from all liability to see to the application of the purchase money. Any person, including Beneficiaries, may purchase at any such sale. Beneficiaries are hereby appointed Grantors' attorney-in-fact, with power of substitution, to make all appropriate transfers and deliveries of the Trust Property or any portions thereof so sold. Nevertheless, Grantors shall ratify and confirm any such sale or sales by executing and delivering to Beneficiaries or to such purchaser or purchasers all such instruments requested by Beneficiaries for such purpose.

5.04 Application of Proceeds. All proceeds from the exercise of the rights and remedies under this Article V. shall be applied (1) to costs of exercising such rights and

remedies; (2) to the Obligations, in such order as Beneficiaries shall determine in their sole discretion; and (3) the surplus, if any, shall be paid to the clerk of the court in the case of a judicial foreclosure proceeding, otherwise to the person or persons legally entitled thereto.

ARTICLE VI. GENERAL PROVISIONS

6.01 Time Is of the Essence. Time is of the essence with respect to all covenants and obligations of Grantors under this Trust Deed.

6.02 Reconveyance by Trustee. At any time on the request of Beneficiaries, payment of Trustee's fees, if any, and presentation of this Trust Deed, without affecting the liability of any person for payment of the Obligations, Trustee may reconvey, without warranty, all or any part of the Trust Property. The grantee in any reconveyance may be described as the "person or persons legally entitled thereto," and the recitals therein of any facts shall be conclusive proof of the truthfulness thereof.

6.03 Notice. Except as otherwise provided in this Trust Deed, all notices shall be in writing and may be delivered by hand, or mailed by first-class certified mail, return receipt requested, postage prepaid, and addressed to the appropriate party at its address set forth at the outset of this Trust Deed. Any party may change its address for such notices from time to time by notice to the other parties. Notices given by mail in accordance with this paragraph shall be deemed to have been given on the date of mailing; notices given by hand shall be deemed to have been given when actually received.

6.04 Substitute Trustee. In the event of dissolution or resignation of Trustee, Beneficiaries may substitute one or more trustees to execute the trust hereby created, and the new trustee(s) shall succeed to all the powers and duties of the prior trustee(s).

6.05 Trust Deed Binding on Successors and Assigns. This Trust Deed shall be binding on and inure to the benefit of the heirs, legatees, personal representatives, successors, and assigns of Grantors, Trustee, and Beneficiaries.

6.06 Expenses and Attorney Fees. Grantors shall pay all fees and expenses, taxes, assessments, and charges arising out of or in connection with the execution, delivery, and recording of this Trust Deed. If Beneficiaries refer any of the Obligations to an attorney for collection or seeks legal advice following a default; if Beneficiaries are the prevailing party in any litigation instituted in connection with any of the Obligations; or if Beneficiaries or any other person initiates any judicial or nonjudicial action, suit, or proceeding in connection with any of the Obligations or the Trust Property (including but not limited to bankruptcy, eminent domain, or probate proceedings), and a lawyer is employed by Beneficiaries to appear in any such proceeding or seek relief from a judicial or statutory stay, or otherwise enforce Beneficiaries' interests, then in any such event Grantors shall pay reasonable attorney fees, costs,

and expenses incurred by Beneficiaries in connection with the above mentioned events and any appeals. Such amounts shall be secured by this Trust Deed and, if not paid on demand, shall bear interest at the rate specified in the Note.

6.07 Applicable Law. This Trust Deed shall be governed by the laws of the State of Oregon.

6.08 Person Defined. As used in this Trust Deed, the word *person* shall mean any natural person, partnership, trust, corporation, or other legal entity of any nature.

6.09 Severability. If any provision of this Trust Deed shall be held to be invalid, illegal, or unenforceable, the other provisions of this Trust Deed shall not be affected.

6.10 Entire Agreement. This Trust Deed contains the entire agreement of the parties with respect to the Trust Property. No prior agreement or promise made by any party to this Trust Deed that is not contained herein shall be binding or valid.

6.11 ORS 93.040 Warning. THIS INSTRUMENT WILL NOT ALLOW USE OF THE PROPERTY DESCRIBED IN THIS INSTRUMENT IN VIOLATION OF APPLICABLE LAND USE LAWS AND REGULATIONS. BEFORE SIGNING OR ACCEPTING THIS INSTRUMENT, THE PERSON ACQUIRING FEE TITLE TO THE PROPERTY SHOULD CHECK WITH THE APPROPRIATE CITY OR COUNTY PLANNING DEPARTMENT TO VERIFY APPROVED USES AND TO DETERMINE ANY LIMITS ON LAWSUITS AGAINST FARMING OR FOREST PRACTICES AS DEFINED IN ORS 30.930.

GRANTORS:

Walt Hammerich
Walt Hammerich

Nancy Hammerich
Nancy Hammerich

STATE OF OREGON)
) ss.
County of Klamath)

The foregoing instrument was acknowledged before me this 15th day of August, 2002, by Walt Hammerich and Nancy Hammerich.

Danise Brakeman
Notary Public for Oregon
My Commission Expires: 10-21-04

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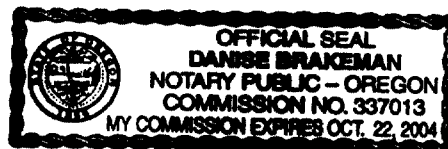


EXHIBIT "A"

The W $\frac{1}{2}$ W $\frac{1}{2}$ of Section 24, Township 38 South, Range 11 $\frac{1}{2}$ East of the Willamette Meridian Saving and Excepting any portion lying West of Bliss County Road, Klamath County, Oregon.