

AFTER RECORDING RETURN TO:

Washington Mutual Bank
956 N.W. Bond Street
Bend, Oregon 97701

Attention: Commercial Loan Department
[Loan No.: 0010139946-109]

State of Oregon, County of Klamath
Recorded 11/14/2002 8:31 a. m.
Vol M02, Pg 65895-65908
Linda Smith, County Clerk
Fee \$ 101.00 # of Pgs 14

BE ADVISED THAT THE PROMISSORY NOTE SECURED BY THIS TRUST DEED PROVIDES
FOR A VARIABLE RATE OF INTEREST.

**TRUST DEED, SECURITY AGREEMENT,
ASSIGNMENT OF LEASES AND RENTS,
AND FIXTURE FILING**

THIS TRUST DEED, SECURITY AGREEMENT, ASSIGNMENT OF LEASES AND RENTS, AND FIXTURE FILING ("Trust Deed"), is made this 18th day of OCTOBER, 2002, among SCOTT L. RUNELS AND MARGIE B. RUNELS, with title vested as, SCOTT LEE RUNELS and MARGIE B. RUNELS, whose address is HC 63 Box 305, Chiloquin, Oregon 97624 ("Grantor"); FIRST AMERICAN TITLE INSURANCE COMPANY OF OREGON, whose address is P.O. Box 151, Klamath Falls, Oregon 97601, and its successors in trust and assigns ("Trustee"), and WASHINGTON MUTUAL BANK, a Washington corporation, whose address is 956 N.W. Bond Street, Bend, Oregon 97701 ("Beneficiary").

1. **GRANTING CLAUSE.** Grantor, in consideration of the acceptance by Trustee of the trust hereunder, and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and in order to secure the obligations described in Section 3 below, grants, bargains, sells, and conveys to Trustee and its successors in trust and assigns, forever, in trust, with power of sale, all of Grantor's estate, right, title, interest, claim, and demand in and to the property in the county of Klamath, state of Oregon, described as follows, whether now existing or hereafter acquired (all of the property described in all parts of this Section 1 and all additional property, if any, described in Section 2 is herein called the "Property"):

1.1 **Land and Appurtenances.** The land described in Exhibit A hereto, and all tenements, hereditaments, rights-of-way, easements, appendages, and appurtenances thereto belonging or in any way appertaining, including without limitation all of the right, title, and interest of Grantor in and to any avenues, streets, ways, alleys, vaults, strips, or gores of land adjoining that property, and all claims or demands of Grantor either in law or in equity in possession or expectancy of, in, and to that property; and

1.2 **Improvements and Fixtures.** All buildings, structures, and other improvements now or hereafter erected on the property described in Section 1.1 above, and all facilities, fixtures, machinery, apparatus, installations, goods, equipment, inventory, furniture, and other properties and agreements of whatsoever nature now or hereafter related or located in or used or procured for use in connection with that property, it being the intention of the parties that all property of the character hereinabove described that is now owned or hereafter acquired by Grantor and that is affixed or attached to, stored upon, or used in connection with the property described in Section 1.1 above shall be, remain, or become a portion of that property and shall be covered by and subject to the lien of this Trust Deed; and

1.3 **Enforcement and Collection.** Any and all rights of Grantor without limitation to make claim for, collect, receive, and receipt for any and all rents, income, revenues, issues, royalties, and profits, including mineral, oil, and gas rights and profits, insurance proceeds, condemnation awards, and other moneys, payable or receivable from or on account of any of the Property, including interest thereon, or to enforce all other provisions of any other agreement (including those described in Section 1.2 and 1.4) affecting or relating to any of the Property, to bring any suit in equity, action at law, or other proceeding for the collection of such moneys or for the specific or other enforcement of any such agreement, award, or judgment, in the name of Grantor or otherwise, and to do any and all things that Grantor is or may be or become entitled to do with respect thereto, provided, however, that no obligation of Grantor under the provisions of any such agreements, awards, or judgments shall be impaired or diminished by virtue hereof, nor shall any such obligation be imposed upon Trustee or Beneficiary; and

1.4 **Accounts and Income.** Any and all rights of Grantor in any and all accounts, rights to payment, contract rights, chattel paper, documents, instruments, licenses, contracts, agreements, and general intangibles relating to any of the Property, including, without limitation, income and profits derived from the operation of any business on the Property or attributable to services that occur or are provided on the Property or generated from the use and operation of the Property; and

1.5 Leases. All of Grantor's rights as landlord in and to all existing and future leases and tenancies, whether written or oral and whether for a definite term or month to month or otherwise, now or hereafter demising all or any portion of the property described in Sections 1.1 and 1.2 above, including all renewals and extensions thereof and all rents, deposits, and other amounts received or receivable thereunder. In accepting this Trust Deed neither Beneficiary nor Trustee assumes any liability for the performance of any such lease.

1.6 Books and Records. All books and records of Grantor relating to the foregoing in any form and all computer software necessary or useful to reading such books and records.

2. SECURITY AGREEMENT. To the extent any of the Property described in Section 1 is personal property, Grantor, as debtor, grants to Beneficiary, as secured party, a security interest therein together with a security interest in all other personal property of whatsoever nature that is located on or used or to be used in connection with any of the Property described in Section 1, and any products or proceeds of any thereof, pursuant to the Uniform Commercial Code of the state of Oregon (the "UCC"), on the terms and conditions contained herein. Beneficiary hereby assigns such security interest to Trustee, in trust, for the benefit of Beneficiary to be dealt with as a portion of the "Property" except as otherwise specified herein.

3. OBLIGATIONS SECURED. This Trust Deed is given for the purpose of securing:

3.1 Performance and Payment. The performance of the obligations contained herein and the payment of ONE MILLION TWO HUNDRED FORTY THOUSAND SEVEN HUNDRED TWENTY-SIX AND 71/100 DOLLARS (\$1,240,726.71) with interest thereon and all other amounts payable according to the terms of a promissory note of even date herewith made by Grantor, payable to Beneficiary or order, having a maturity date of JULY 15, 2003, and any and all extensions, renewals, modifications, or replacements thereof, whether the same be in greater or lesser amounts (the "Note"), which Note contains provision for a variable rate of interest; and

3.2 Future Advances. The repayment of any and all sums advanced or expenditures made by Beneficiary subsequent to the execution of this Trust Deed for the maintenance or preservation of the Property or advanced or expended by Beneficiary pursuant to any provision of this Trust Deed subsequent to its execution, together with interest thereon.

4. WARRANTIES AND COVENANTS OF GRANTOR. Grantor warrants, covenants, and agrees:

4.1 Warranties

(a) Grantor has full power and authority to grant the Property to Trustee and warrants the Property to be free and clear of all liens, charges, and other encumbrances EXCEPT those identified on Exhibit B hereto (the "Permitted Encumbrances").

(b) The Property is free from damage and no matter has come to Grantor's attention (including, but not limited to, knowledge of any construction defects or nonconforming work) that would materially impair the value of the Property as security.

4.2 Preservation of Lien. Grantor will preserve and protect the priority of this Trust Deed as a second lien on the Property, and will not permit the creation or recording of any other or additional lien against the Property so long as any of the Obligations hereby secured remain unpaid.

4.3 Repair and Maintenance of Property. Grantor will keep the Property in good condition and repair; will complete and not remove or demolish, alter, or make additions to any building or other improvement that is part of the Property without the express written consent of Beneficiary; will underpin and support when necessary any such building or other improvement and protect and preserve the same; will complete or restore promptly and in good and workmanlike manner any such building or other improvement that may be damaged or destroyed and pay when due all claims for labor performed and materials furnished therefor; will not commit, suffer, or permit any act upon the Property in violation of law; and will do all other acts which from the character or use of the Property may be reasonably necessary for the continued operation of the Property in a safe and legal manner, the specific enumerations herein not excluding the general.

4.4 Insurance

4.4.1 Hazard. Grantor will provide, maintain and deliver to Beneficiary, as further security for the faithful performance of this Trust Deed, insurance covering fire, casualty, and such other hazards as may be specified by Beneficiary. Grantor shall be responsible for any uninsured losses and any deductibles. All existing and future policies for such insurance, and the proceeds thereof, are hereby assigned to Beneficiary, but no such assignment shall be effective to invalidate or impair any insurance policy. Should the Property or any part thereof be damaged by reason of any cause covered by

insurance, Beneficiary may, at its option, commence, appear in, and prosecute, in its own name, any action or proceeding, or make any reasonable compromise or settlement in connection with such damage, and obtain all proceeds, or other relief therefor, and Grantor agrees to pay Beneficiary's costs and reasonable attorney fees in connection therewith. No insurance proceeds at any time assigned to or held by Beneficiary shall be deemed to be held in trust, and Beneficiary may commingle such proceeds with its general assets and shall not be liable for the payment of any interest thereon. The amount collected under any insurance policies required to be maintained by Grantor pursuant to this Section 4.4.1 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. Beneficiary shall in no case be obligated to see to the proper application of any amount paid over 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.

4.4.2 Liability. Grantor will maintain comprehensive general liability insurance covering the legal liability of Grantor against claims for bodily injury, death, or property damage occurring on, in, or about the Property with coverage of One Million Dollars (\$1,000,000) combined single limit, and naming Beneficiary an additional insured.

4.4.3 General Provisions. All policies of insurance required to be maintained by Grantor pursuant to this Section 4.4 shall be in form and substance and with companies acceptable to Beneficiary and that have a current rating of A-/10 or better from the current Best Key Rating Guide, and contain waiver of any coinsurance clauses. Beneficiary reserves the right, in its reasonable discretion, to increase the amount of the required coverages, require insurance against additional risks, or withdraw approval of any insurance company at any time. Grantor shall deliver to Beneficiary an original of all policies of insurance and shall obtain renewals of any policies that expire and deliver evidence of such renewals to Beneficiary no later than ten (10) days prior to the expiration date of the policy being replaced. All policies and renewals thereof shall contain provision for thirty-(30) days' notice to Beneficiary prior to any cancellation thereof. Notwithstanding any of the foregoing, neither Trustee nor Beneficiary shall be responsible for any such insurance or for the collection of any insurance moneys, or for any insolvency of any insurer or insurance underwriter. Any and all unexpired insurance shall inure to the benefit of and pass to the purchaser of the Property at any trustee's or sheriff's sale held hereunder.

4.5 Right of Inspection. Grantor shall permit Beneficiary or its agents, at all reasonable times, to enter upon and inspect the Property.

4.6 Preservation of Licenses, Etc. Grantor shall observe and comply with all requirements necessary to the continued existence and validity of all rights, licenses, permits, privileges, franchises, and concessions relating to any existing or presently contemplated use of the Property, including but not limited to any zoning variances, special exceptions, and nonconforming use permits.

4.7 Further Assurances. Grantor will, at its expense, from time to time execute and deliver any and all such instruments of further assurance and other instruments and do any and all such acts, or cause the same to be done, as Trustee or Beneficiary deems necessary or advisable to grant to Trustee the Property or to carry out more effectively the purposes of this Trust Deed.

4.8 Legal Actions. Grantor will appear in and defend any action or proceeding before any court or administrative body purporting to affect the security hereof or the rights or powers of Beneficiary or Trustee; and will pay all costs and expenses, including cost of evidence of title, title insurance premiums, and any fees of attorneys, appraisers, environmental inspectors, and others, incurred by Beneficiary or Trustee, in a reasonable sum, in any such action or proceeding in which Beneficiary or Trustee may appear, in any suit brought by Beneficiary or Trustee to foreclose this Trust Deed, and in any nonjudicial foreclosure of this Trust Deed.

4.9 Taxes, Assessments, and Other Liens. Grantor will pay not later than when due all taxes, assessments, encumbrances, charges, and liens with interest, on the Property or any part thereof, that at any time appear to be or are alleged to be prior and superior hereto, including but not limited to any tax on or measured by rents of the Property, the Note, this Trust Deed, or any obligation or part thereof secured hereby.

4.10 Trust Expenses. Grantor will pay all costs, fees, and expenses reasonably incurred by Beneficiary or Trustee in connection with this Trust Deed.

4.11 Repayment of Expenditures. Grantor will pay immediately and without demand all amounts secured by this Trust Deed, other than principal or interest on the Note, with interest from date of expenditure at the default rate of interest specified in the Note (the "Default Rate") and the repayment thereof shall be secured hereby.

4.12 Financial & Operating Information. Grantor will, from time to time, furnish to Beneficiary in such form as it may request, financial statements and balance sheets of Grantor.

4.13 Sale, Transfer, or Encumbrance of Property. Grantor shall not, without the prior written consent of Beneficiary, sell, transfer, or otherwise convey the Property or any interest therein, further encumber the Property or any interest therein, cause or permit any change in the entity, ownership, or control of Grantor or agree to do any of the foregoing without first repaying in full the Note and all other sums secured hereby.

Consent to any one such occurrence shall not be deemed a waiver of the right to require consent to any future occurrences.

4.14 Performance of Rental Agreements. Grantor will in all respects promptly and faithfully keep, perform, and comply with all of the terms, provisions, covenants, conditions, and agreements in each of the agreements pursuant to which any tenant of any part of the Property is occupying such Property (the "rental agreements") to be kept, performed, and complied with by the lessor therein, and will require, demand, and strictly enforce, by all available means, the prompt and faithful performance of and compliance with all of the terms, provisions, covenants, conditions, and agreements in the rental agreements to be performed and complied with by the lessees therein.

4.15 Hazardous Waste

(a) For purposes of this Trust Deed, "hazardous substance" means any hazardous or toxic substances, materials, or wastes, including, but not limited to, those substances, materials, and wastes listed in the United States Department of Transportation Hazardous Materials Table (49 CFR 172.101) or by the Environmental Protection Agency as hazardous substances (40 CFR Part 302) and amendments thereto, or such substances, materials and wastes that are or become regulated under any applicable local, state, or federal law including, without limitation, any material, waste, or substance which is (i) petroleum; (ii) asbestos; (iii) polychlorinated biphenyls; (iv) defined as a "hazardous waste," "extremely hazardous waste," "restricted hazardous waste," or "hazardous substance" under Hazardous Substances, Radiation Sources, ORS Chapters 453.001, *et seq.*, Solid Waste Control, ORS Chapters 459.005, *et seq.*, Hazardous Waste and Hazardous Materials, ORS Chapters 466.005, *et seq.*, Pollution Control, ORS Chapters 468.005, *et seq.*, Oregon Drinking Water Quality Act, ORS Chapters 448.123, *et seq.*, and Ground Water Act of 1955, ORS Chapters 537.505, *et seq.*; (v) designated as a "hazardous substance" pursuant to Section 311 of the Clean Water Act, 33 U.S.C. § 1251 *et seq.* (33 U.S.C. § 1321) or listed pursuant to Section 307 of the Clean Water Act (33 U.S.C. § 1317); (vi) defined as a "hazardous waste" pursuant to Section 1004 of the Resource Conservation and Recovery Act, 42 U.S.C. § 6903; or (vii) defined as a "hazardous substance" pursuant to Section 101 of the Comprehensive Environmental Response, Compensation, and Liability Act, 42 U.S.C. § 9601, *et seq.* (42 U.S.C. § 9601), all as amended, replaced, or succeeded, and any other substance or matter defined as a toxic or hazardous substance or material or pollutant or contaminant under any other federal, state, or local laws, ordinances, or regulations or under any reported decision of a state or federal court, or any substance or matter imposing liability for clean-up costs or expenses on any person or entity under any statutory or common law theory.

(b) To Grantor's best knowledge and after due and diligent inquiry, Grantor represents and warrants that neither Grantor nor any previous owner or user of the Property has used, generated, stored, or disposed of above, in, on, under, or around the Property any hazardous substance and that there is not now, nor have there ever been, tanks or facilities on, under, or at the Property that contained materials that, if known to be present in soils or ground water, would require cleanup, removal, or some other remedial action under any federal, state, or local law or regulation. Grantor hereby covenants and agrees that Grantor will not conduct, permit, or authorize the generation, transportation, storage, treatment, or disposal at the Property of any hazardous substance, and neither Grantor or any agent, servant, or employee shall generate, store, bury, or dispose of any hazardous substance on or in a location that will adversely affect the Property. Grantor shall promptly and diligently comply with all requirements of federal, state, or local laws, statutes, ordinances, or regulations, or court or administrative orders or decrees, or private agreements pertaining to hazardous substances.

(c) If the presence, release, threat of release, placement on or in the Property, or the generation, transportation, storage, treatment, or disposal at the Property of any hazardous substance (i) gives rise to liability (including but not limited to, a response action, remedial action, or removal action) under RCRA, CERCLA, state toxic waste laws, or otherwise; (ii) causes a significant public health effect; or (iii) pollutes or threatens to pollute the environment, Grantor shall, at its sole expense, promptly take any and all remedial and removal action necessary to clean up the Property and mitigate exposure to liability arising from the hazardous substance, whether or not required by law. Any provision of this Trust Deed to the contrary notwithstanding, if Grantor fails to perform its obligations under this subsection 4.18(c), any funds advanced by Beneficiary to pay for any and all remedial and removal action to clean up the Property and mitigate exposure to liability from the hazardous substance shall not be secured by the lien of this Trust Deed but rather shall be covered by the separate Certificate and Indemnity Agreement Regarding Hazardous Substances executed concurrently herewith.

(d) Grantor shall promptly give Beneficiary (i) written notice and a copy of any notice or correspondence it receives from any federal, state, or other government authority regarding

hazardous substances on the Property or hazardous substances that affect or will affect the Property; (ii) written notice of any knowledge or information Grantor obtains regarding hazardous substances on the Property or hazardous substances that will affect the Property or expenses or losses incurred or expected to be incurred by Grantor or any government agency to study, assess, contain, or remove any hazardous substances on or near the Property; and (iii) written notice of any knowledge or information Grantor obtains regarding the release or discovery of hazardous substances on the Property or on other property owned by Grantor or for which Grantor is or may be responsible.

(e) In the event Beneficiary requires, from time to time, Grantor to implement an operations and maintenance plan because of the presence or potential presence of asbestos, lead-containing paint, or other hazardous substances on the Property, Grantor shall implement and follow the requirements of any such operations and maintenance plan, maintain records of such compliance at the Property, and make such records immediately available to Beneficiary upon request by Beneficiary. If Grantor defaults in its obligation to provide Beneficiary with any information or reports required to be provided under the operations and maintenance plan or this subsection 4.18(e) and such default continues after Beneficiary has provided Grantor with thirty (30) days' notice and opportunity to cure such default, Grantor shall pay to Beneficiary, as liquidated damages for the extra expense in servicing the loan secured hereby, Five Hundred Dollars (\$500) on the first day of the month following the expiration of such thirty (30) day period and One Hundred Dollars (\$100) on the first day of each month thereafter until such default is cured. All such amounts shall be secured by this Trust Deed.

5. DEFAULT

5.1 Definition. Any of the following shall constitute an "Event of Default" as that term is hereinafter used:

(a) Any representation or warranty made by or for the benefit of Grantor herein or elsewhere in connection with the loan secured hereby, including but not limited to any representations in connection with the security therefor, shall prove to have been incorrect or misleading in any material respect;

(b) Grantor or any other person or entity liable therefor shall fail to pay when due any indebtedness secured hereby;

(c) Grantor or any other signatory thereto shall default in the performance of any covenant or agreement contained in this Trust Deed, the Note, or any other agreement securing the indebtedness secured hereby;

(d) Grantor or any other person or entity liable for the repayment of the indebtedness secured hereby shall become unable or admit in writing its inability to pay its debts as they mature, or file, or have filed against it, a voluntary or involuntary petition in bankruptcy, or make a general assignment for the benefit of creditors, or become the subject of any other receivership or insolvency proceeding;

(e) Grantor or any other signatory thereto shall default in the performance of any covenant or agreement contained in any mortgage or Trust Deed encumbering the Property, or the note or any other agreement evidencing or securing the indebtedness evidenced thereby; or

(f) A tax, charge, or lien shall be placed upon or measured by the Note, this Trust Deed, or any obligation secured hereby which Grantor does not or may not legally pay in addition to the payment of all principal and interest as provided in the Note.

5.2 Beneficiary's and Trustee's Right To Perform. Upon the occurrence of any Event of Default, Beneficiary or Trustee, but without the obligation so to do and without notice to or demand upon Grantor and without releasing Grantor from any obligations hereunder, may: make any payments or do any acts required of Grantor hereunder in such manner and to such extent as either may deem necessary to protect the security hereof, Beneficiary or Trustee being authorized to enter upon the Property for such purposes; commence, appear in, and defend any action or proceeding purporting to affect the security hereof or the rights or powers of Beneficiary or Trustee; pay, purchase, contest, or compromise any encumbrance, charge, or lien in accordance with the following paragraph; and in exercising any such powers, pay necessary expenses, employ counsel, and pay a reasonable fee therefor. All sums so expended shall be payable on demand by Grantor, be secured hereby (except as otherwise provided in Section 4.15) and bear interest at the Default Rate from the date advanced or expended until repaid.

Beneficiary or Trustee in making any payment herein and hereby authorized, in the place and stead of the Grantor, in the case of a payment of taxes, assessments, water rates, sewer rentals, and other governmental or municipal charges, fines, impositions, or liens asserted against the Property, may make such payment in reliance on any bill, statement, or estimate procured from the appropriate public office without inquiry into the accuracy of the bill, statement, or estimate or into the validity of any tax,

assessment, sale, forfeiture, tax lien, or title or claim thereof; in the case of any apparent or threatened adverse claim of title, lien, statement of lien, encumbrance, Trust Deed, claim, or charge Beneficiary or Trustee, as the case may be, shall be the sole judge of the legality or validity of same; and in the case of a payment for any other purpose herein and hereby authorized, but not enumerated in this paragraph, such payment may be made whenever, in the sole judgment and discretion of Trustee or Beneficiary, as the case may be, such advance or advances shall seem necessary or desirable to protect the full security intended to be created by this instrument, provided further, that in connection with any such advance, Beneficiary at its option may and is hereby authorized to obtain a continuation report of title prepared by a title insurance company, the cost and expenses of which shall be repayable by the Grantor without demand and shall be secured hereby.

5.3 Remedies on Default. Upon the occurrence of any Event of Default all sums secured hereby shall become immediately due and payable, without notice or demand, at the option of Beneficiary and Beneficiary may:

(a) Have a receiver appointed as a matter of right, without regard to the sufficiency of the Property or any other security for the indebtedness secured hereby and, without the necessity of posting any bond or other security, such receiver shall take possession and control of the Property and shall collect and receive all of the rents, issues, and profits thereof;

(b) Foreclose this Trust Deed as a mortgage or otherwise realize upon the Property;

(c) Cause Trustee to exercise its power of sale; or

(d) Sue on the Note according to law.

5.4 No Waiver. By accepting payment of any sum secured hereby after its due date, Beneficiary does not waive its right either to require prompt payment when due of all other sums so secured or to declare an Event of Default for failure to do so.

5.5 Remedies Cumulative. The rights and remedies accorded by this Trust Deed shall be in addition to, and not in substitution of, any rights or remedies available under now existing or hereafter arising applicable law. All rights and remedies provided for in this Trust Deed or afforded by law or equity are distinct and cumulative and may be exercised concurrently, independently, or successively. The failure on the part of Beneficiary to promptly enforce any right hereunder shall not operate as a waiver of such right and the waiver of any default shall not constitute a waiver of any subsequent or other default. Beneficiary shall be subrogated to the claims and liens of those whose claims or liens are discharged or paid with the loan proceeds hereof.

6. CONDEMNATION. Any award of damages, whether paid as a result of judgment or prior settlement, in connection with any condemnation or other taking of any portion of the Property, for public or private use, or for injury to any portion of the Property is hereby assigned and shall be paid to Beneficiary, which may apply such moneys received by it in the same manner and with the same effect as provided in Section 4.4.1 above for disposition of proceeds of hazard insurance. Should the Property or any part or appurtenance thereof or right or interest therein be taken or threatened to be taken by reason of any public or private improvement, condemnation proceeding (including change of grade), or in any other manner, Beneficiary may, at its option, commence, appear in, and prosecute, in its own name, any action or proceeding, or make any reasonable compromise or settlement in connection with such taking or damage, and obtain all compensation, awards, or other relief therefor, and Grantor agrees to pay Beneficiary's costs and reasonable attorney fees incurred in connection therewith. No condemnation award at any time assigned to or held by Beneficiary shall be deemed to be held in trust, and Beneficiary may commingle such award with its general assets and shall not be liable for the payment of any interest thereon.

7. TRUSTEE

7.1 General Powers and Duties of Trustee. At any time or from time to time, without liability therefor and without notice and without affecting the liability of any person for the payment of the indebtedness secured hereby, upon written request of Beneficiary, payment of its own fees and presentation of this Trust Deed and the Note for endorsement (in case of full reconveyance, for cancellation or retention), Trustee may:

(a) Consent to the making of any map or plat of the Property;

(b) Join in granting any easement or creating any restriction thereon;

(c) Join in any subordination or other agreement affecting this Trust Deed or the lien or charge thereof; or

(d) Reconvey, without warranty, all or any part of the Property.

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7.2 Reconveyance. Upon written request of Beneficiary stating that all sums secured hereby have been paid, and upon surrender of this Trust Deed and the Note to Trustee for cancellation and retention and upon payment of its fees, Trustee shall reconvey, without warranty, the Property then held hereunder. The recitals in any reconveyance executed under this Trust Deed of any matters of fact shall be conclusive proof of the truthfulness thereof. The grantee in such reconveyance may be described as "the person or persons legally entitled thereto."

7.3 Powers and Duties on Default. Upon written request therefor by Beneficiary specifying the nature of the default, or the nature of the several defaults, and the amount or amounts due and owing, Trustee shall execute a written notice of default and of its election to cause the Property to be sold to satisfy the obligation secured hereby, and shall cause such notice to be recorded and otherwise given according to law.

Notice of sale having been given as then required by law and not less than the time then required by law having elapsed after recordation of such notice of breach, Trustee, without demand on Grantor, shall sell the Property at the time and place of sale specified in the notice, as provided by statute, either as a whole or in separate parcels and in such order as it may determine, at public auction to the highest and best bidder for cash in lawful money of the United States, payable at time of sale. Grantor agrees that such a sale (or a sheriff's sale pursuant to judicial foreclosure) of all the Property as real estate constitutes a commercially reasonable disposition thereof, but that with respect to all or any part of the Property that may be personal property Trustee shall have and exercise, at Beneficiary's sole election, all the rights and remedies of a secured party under the UCC. Whenever notice is permitted or required hereunder or under the UCC, ten (10) days shall be deemed reasonable. Trustee may postpone sale of all or any portion of the Property, and from time to time thereafter may postpone such sale, as provided by statute. Trustee shall deliver to the purchaser its deed and bill of sale conveying the Property so sold, but without any covenant or warranty, express or implied. The recital in such deed and bill of sale of any matters or facts shall be conclusive proof of the truthfulness thereof. Any person other than Trustee, including Grantor or Beneficiary, may purchase at such sale.

After deducting all costs, fees, and expenses of Trustee and of this trust, including the cost of evidence of title search, title insurance, and reasonable counsel fees in connection with sale, Trustee shall apply the proceeds of sale to payment of: all sums secured hereby in such order as Beneficiary may determine; and the remainder, if any, to Grantor.

7.4 Reassignment of Security Interest. At the request of Beneficiary, Trustee shall reassign to Beneficiary the security interest created hereby and after such reassignment Beneficiary shall have the right, upon the occurrence or continuance of any Event of Default, to realize upon the personal property subject to this Trust Deed, independent of any action of Trustee, pursuant to the UCC.

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

7.6 Reliance. Trustee, upon presentation to it of an affidavit signed by Beneficiary setting forth facts showing a default by Grantor under this Trust Deed, is authorized to accept as true and conclusive all facts and statements therein, and to act thereon hereunder.

7.7 Replacement of Trustee. Beneficiary may, from time to time, as provided by statute, appoint another trustee in place and stead of Trustee herein named, and thereupon Trustee herein named shall be discharged and the trustee so appointed shall be substituted as Trustee hereunder, with the same effect as if originally named Trustee herein.

8. APPLICATION OF RENTS. Grantor hereby gives to and confers upon Beneficiary the right, power, and authority during the continuance of this Trust Deed to collect the rents, issues, and profits of the Property, reserving unto Grantor the right, prior to any default in payment of any indebtedness secured hereby or hereunder, to collect and retain such rents, issues, and profits as they become due and payable. Upon any such default, Grantor's right to spend or retain any rents, issues, or profits of the Property shall cease immediately and without notice of demand and Beneficiary may at any time and without notice, either in person, by agent, or by a receiver to be appointed by a court, without regard to the adequacy of any security for the indebtedness hereby secured and without the necessity of posting any bond or other security, enter upon and take possession of the Property or any part thereof, or in its own name sue for or otherwise collect such 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. The entering upon and taking possession of the Property, the collection of such rents, issues, and profits and the application thereof as aforesaid, shall not cure or waive any default or notice of default hereunder or invalidate any act done pursuant to such notice.

9. NOTICES

9.1 **Trustee.** Any notice or demand upon Trustee may be given or made at:

First American Title Insurance Company of Oregon
P.O. Box 151
Klamath, Oregon 97601

9.2 Grantor and Beneficiary. Any notice to or demand upon Grantor (including any notice of default or notice of sale) or notice to or demand upon Beneficiary shall be deemed to have been sufficiently made for all purposes when deposited in the United States mails, postage prepaid, registered or certified, return receipt requested, addressed as follows:

Grantor: Scott L. and Margie B. Runels
HC 63 Box 305
Chiloquin, Oregon 97624

Beneficiary: Washington Mutual Bank
956 N.W. Bond Street
Bend, Oregon 97701
Attention: Commercial Loan Department

or to such other address as may be filed in writing by Grantor or Beneficiary with Trustee.

9.3 Waiver of Notice. The giving of notice may be waived in writing by the person or persons entitled to receive such notice, either before or after the time established for the giving of such notice.

10. MODIFICATIONS. Upon written request of any party then liable for any sum secured hereby, Beneficiary reserves the right to extend the term, or otherwise modify the terms, hereof or of the Note as Beneficiary and such person may from time to time deem appropriate and any such change shall not operate to release, in any manner, the liability of the original Grantor or Grantor's successors in interest.

11. SUCCESSORS AND ASSIGNS. All provisions herein contained shall be binding upon and inure to the benefit of the respective successors and assigns of the parties.

12. GOVERNING LAW; SEVERABILITY. This Trust Deed shall be governed by the law of the state of Oregon. In the event that any provision or clause of this Trust Deed or the Note conflicts with applicable law, the conflict shall not affect other provisions of this Trust Deed or the Note which can be given effect without the conflicting provision and to this end the provisions of this Trust Deed and the Note are declared to be severable.

13. GRANTOR'S RIGHT TO POSSESSION. Grantor may be and remain in possession of the Property for so long as it is not in default hereunder or under the terms of the Note and Grantor may, while it is entitled to possession of the Property, use the same.

14. MAXIMUM INTEREST. No provision of this Trust Deed or of the Note shall require the payment or permit the collection of interest in excess of the maximum permitted by law. If any excess of interest in such respect is herein or in the Note provided for, neither Grantor nor its successors or assigns shall be obligated to pay that portion of such interest that is in excess of the maximum permitted by law, and the right to demand the payment of any such excess shall be and is hereby waived and this Section 14 shall control any provision of this Trust Deed or the Note that is inconsistent herewith.

15. ATTORNEYS FEES AND LEGAL EXPENSES. In the event of any default under this Trust Deed, or in the event that any dispute arises relating to the interpretation, enforcement, or performance of any obligation secured by this Trust Deed, Beneficiary shall be entitled to collect from Grantor on demand all fees and expenses incurred in connection therewith, including but not limited to fees of attorneys, accountants, appraisers, environmental inspectors, consultants, expert witnesses, arbitrators, mediators, and court reporters. Without limiting the generality of the foregoing, Grantor shall pay all such costs and expenses incurred in connection with (a) arbitration or other alternative dispute resolution proceedings, trial court actions, and appeals; (b) bankruptcy or other insolvency proceedings of Grantor, any guarantor or other party liable for any of the obligations secured by this Trust Deed or any party having any interest in any security for any of those obligations; (c) judicial or nonjudicial foreclosure on, or appointment of a receiver for, any of the Property; (d) postjudgment collection proceedings; (e) all claims, counterclaims, cross-claims, and defenses asserted in any of the foregoing whether or not they arise out of or are related to this Trust Deed; (f) all preparation for any of the foregoing; and (g) all settlement negotiations with respect to any of the foregoing.

16. PREPAYMENT PROVISIONS. If at any time after default and acceleration of the indebtedness secured hereby there shall be a tender of payment of the amount necessary to satisfy such indebtedness by or on behalf of the Grantor, its successors or assigns, the same shall be deemed to be a voluntary prepayment such that the sum required to satisfy such indebtedness in full shall include, to the extent permitted by law, the additional payment required under the prepayment privilege as stated in the Note.

17. TIME IS OF THE ESSENCE. Time is of the essence under this Trust Deed and in the performance of every term, covenant, and obligation contained herein.

18. MISCELLANEOUS

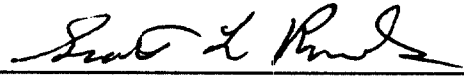
18.1 Whenever the context so requires the singular number includes the plural herein, and the impersonal includes the personal.

18.2 The headings to the various sections have been inserted for convenient reference only and shall not modify, define, limit, or expand the express provisions of this Trust Deed.

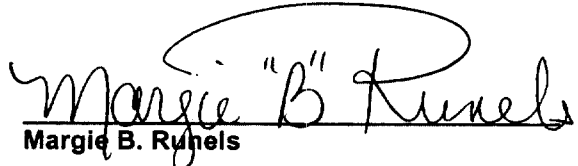
18.3 This Trust Deed, the Note, and the other documents, instruments, and agreements entered into by Grantor and Beneficiary in connection therewith (collectively, the "Loan Documents") constitute the final expression of the entire agreement of the parties with respect to the transactions set forth therein. No party is relying upon any oral agreement or other understanding not expressly set forth in the Loan Documents. The Loan Documents may not be amended or modified except by means of a written document executed by the party sought to be charged with such amendment or modification.

DATED as of the day and year first above written.

THIS TRUST DEED WILL NOT ALLOW USE OF THE PROPERTY DESCRIBED IN THIS TRUST DEED 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 OR LAWSUITS AGAINST FARMING OR FOREST PRACTICES AS DEFINED IN ORS 30.390.



Scott L. Runels



Margie B. Runels

STATE OF OREGON

65904

COUNTY OF Seuchutes

ss.

This instrument was acknowledged before me on November 6, 2002 by SCOTT L. RUNELS.

Dated this 6th day of November, 2002.



Carol Callahan

(Signature of Notary)

CAROL CALLAHAN

(Legibly Print or Stamp Name of Notary)

Notary public in and for the state of Oregon, residing at Bend Or

My appointment expires 7-19-04

STATE OF OREGON

COUNTY OF Seuchutes

ss.

This instrument was acknowledged before me on November 6, 2002 by MARGIE B. RUNELS.

Dated this 6th day of November, 2002.



Carol Callahan

(Signature of Notary)

CAROL CALLAHAN

(Legibly Print or Stamp Name of Notary)

Notary public in and for the state of Oregon, residing at Bend Or

My appointment expires 7-19-04

**EXHIBIT A
LEGAL DESCRIPTION**

65905

This EXHIBIT "A" is attached to and by this reference is made a part of the Trust Deed, Security Agreement, Assignment of Leases and Rents, and Fixture Filing, dated October 18, 2002, and executed in connection with a loan or other accommodations between WASHINGTON MUTUAL BANK and Scott L. Runels and Margie B. Runels.

PARCEL 1:

Government Lots 1, 6, 7 and 8 of Section 32, Township 30 South, Range 8 East of the Willamette Meridian, Klamath County, Oregon, and the NE ¼ of Section 5, and the N ½ of Section 6, Township 31 South, Range 8 East of the Willamette Meridian, in Klamath County, Oregon.

PARCEL 2:

The SE ¼ and the E ½ SW ¼, and Government Lots 3 and 4, in Section 7, Township 31 South, Range 8 East of the Willamette Meridian EXCEPT that part lying in the Railroad right of way, in Klamath County, Oregon.

PARCEL 3:

The W ½ of the NE ¼ of Section 9, Township 31 South, Range 8 East of the Willamette Meridian, in Klamath County, Oregon.

The E ½ of the NE ¼ of Section 9, Township 31 South, Range 8 East of the Willamette Meridian, in Klamath County, Oregon.

The SE ¼ of Section 9, and the SW ¼ of Section 10, all in Township 31 South, Range 8 East of the Willamette Meridian, in Klamath County, Oregon.

PARCEL 4:

Township 31 South, Range 7 East of the Willamette Meridian, in Klamath County, Oregon.

Section 13: N ½ SE ¼

Township 31 South, Range 8 East of the Willamette Meridian, in Klamath County, Oregon.

Section 6: S ½

Section 8: All

Section 9: W ½

Section 10: SE ¼

Section 15: N ½

Section 16: All, EXCEPT that portion of the S ½ SE ¼ of Section 16, lying Southerly of the Silver Lake Road

Section 17: SE ¼

Section 18: All

Section 19: All, EXCEPT that portion of the S ½ of Section 19 lying Southerly of the Silver Lake Road

Section 21: N ½ N ½, EXCEPT that portion lying Southerly of the Silver Lake Road

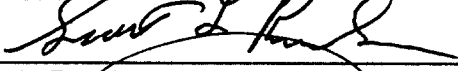
SAVING AND EXCEPTING from the above described parcels any portion thereof lying within the right of way of the Southern Pacific Railroad.

ALSO EXCEPTING that portion conveyed to Klamath County by Deed recorded June 19, 1987 in Volume M87, page 10661, Microfilm Records of Klamath County, Oregon

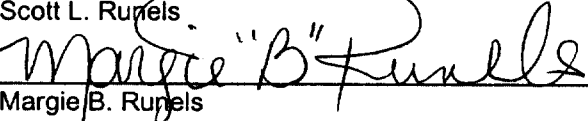
An easement for vehicular and foot traffic as recorded in Agreement recorded July 2, 1985 in Volume M85, page 10178; recorded July 2, 1985 in Volume M85, page 10181 and recorded July 18, 1985 in Volume M85, page 11391, Microfilm Records of Klamath County, Oregon. An easement for road as recorded July 1, 1985 in Volume M85, page 10184, Microfilm Records of Klamath County.

THIS EXHIBIT "A" IS EXECUTED AS OF OCTOBER 18, 2002.

GRANTOR:

X 

Scott L. Runels

X 

Margie B. Runels

EXHIBIT B
(Permitted Encumbrances)

This EXHIBIT "B" is attached to and by this reference is made a part of the Trust Deed, Security Agreement, Assignment of Leases and Rents, and Fixture Filing, dated October 18, 2002, and executed in connection with a loan or other accommodations between WASHINGTON MUTUAL BANK and Scott L. Runels and Margie B. Runels.

Permitted Encumbrances on the real property described in Exhibit A include the following:

1. Trust Deed, subject to the terms and provisions thereof, given to secure an indebtedness with interest thereon and such future advances as may be provided therein;
 Dated: August 19, 1997
 Recorded: September 17, 1997
 Volume: M97, page 30504, Microfilm Records of Klamath County, Oregon
 Re-Recorded: November 25, 1997
 Volume: M97, page 38570, Microfilm Records of Klamath County, Oregon
 Amount: \$918,053.00
 Grantor: Scott L. Runels, also known as and who acquired title as Scott Lee Runels, and Margie B. Runels, husband and wife
 Trustee: AmeriTitle
 Beneficiary: Central Coast Federal Land Bank Association, FLCA
2. Trust Deed, subject to the terms and provisions thereof, given to secure an indebtedness with interest thereon and such future advances as may be provided therein;
 Dated: October 11, 2002
 Recorded: (In process of being recorded)
 Volume: (In process of being recorded.), Microfilm Records of Klamath County, Oregon
 Amount: \$250,000.00
 Grantor: Scott L. Runels, also known as and who acquired title as Scott Lee Runels, and Margie B. Runels, husband and wife
 Trustee: (Unknown at this time.)
 Beneficiary: Farm Credit West, ACA
3. The assessment roll and the tax roll disclose that the premises described in Exhibit A have been specifically assessed as Farm Use Land. If the land becomes disqualified for the special assessment under the statute, an additional tax may be levied; in addition thereto a penalty may be levied if notice of disqualification is not timely given.
4. Rights of the public in and to any portion of the above described premises lying within the limits of streets, roads or highways.
5. Rights of the public and of governmental bodies in and to that portion of the premises described above, now or at any time lying below the high water mark of the Sand Creek and Klamath Marsh, including any ownership rights which may be claimed by the State of Oregon, in and to any portion of the premises now or at any time lying below the ordinary high water mark thereof.
6. Any claim based on any prohibition or limitation on the use, occupancy, or improvements of the land resulting from the rights of the public to use any waters which may cover the land for fishing or navigation, or to use any portion of the land which is now or may formerly have been covered by water.
7. An easement created by instrument, subject to the terms and provisions thereof,
 Dated: June 13, 1928
 Recorded: August 28, 1928
 Volume: 82, page 192, Deed Records of Klamath County, Oregon
 To: The Pacific Telephone and Telegraph Company
 For: Rights of way for pole line
 (Affects W ½ SE ¼ of Section 6, Township 31 South, Range 8 East of the Willamette Meridian, Klamath County, Oregon)
8. An easement created by instrument, subject to the terms and provisions thereof,
 Recorded: August 10, 1928
 Volume: 82, page 132, Deed Records of Klamath County, Oregon
 To: The Pacific Telephone and Telegraph Company
 For: right of way for pole line
 (Affects SW ¼ NW ¼ of Section 19 and W ½ E ½ of Section 18)

9. An easement created by instrument, subject to the terms and provisions thereof,
 Recorded: November 23, 1928
 Volume: 82, page 592, Deed Records of Klamath County, Oregon
 To: The Pacific Telephone and Telegraph Company
 For: Pole line
 (Affects SE ¼ of Section 19)
10. An easement created by instrument, subject to the terms and provisions thereof,
 Dated: May 6, 1930
 Recorded: May 6, 1930
 Volume: 84, page 382, Deed Records of Klamath County, Oregon
 To: Lamm Lumber Company
 (Affects N ½ NE ¼ of Section 21, Township 31 South, Range 8 East of the Willamette Meridian)
11. An easement created by instrument, subject to the terms and provisions thereof,
 Dated: October 25, 1928
 Recorded: January 18, 1930
 Volume: 88, page 518, Deed Records of Klamath County, Oregon
 To: Lamm Lumber Company
 (Affects Sections 16 and 21, Township 31 South, Range 8 East of the Willamette Meridian)
12. Reservations and restrictions contained in deed from Homer Hutchinson et al., to Gerald Captain dated November 14, 1932, recorded October 14, 1933 in Deed Volume 101, page 530, Deed Records of Klamath County, Oregon, as follows:

"There is reserved from the land hereby granted a right of way for ditches or canals constructed by the authority of the United States. Any unpaid irrigation charges now or hereafter assessed shall constitute a first lien against the property involved, Act of March 7, 1928, 45 Stat. L. 200-210 as amended or supplemented by the Act of July 1, 1932 (Public 240-72nd Congress-H.R. 10884.)"

 (Affects Lot 4 and SE ¼ SW ¼ of Section 18 and NE ¼ NE ¼ of Section 19, Township 31 South, Range 8 East of the Willamette Meridian, Klamath County, Oregon)
13. Reservation of all subsurface rights, except water to the heirs of Solan Dial Chiloquin, as reserved in U.S. Patent recorded December 27, 1955 in Volume 280, page 141, Deed Records of Klamath County, Oregon.
 (Affects SE ¼ of Section 17)
14. Reservation of all subsurface rights except water to the heirs of Edith Jonah as reserved in U.S. Patent recorded December 27, 1955 in Volume 280, page 143, Deed Records of Klamath County, Oregon.
 (Affects SE ¼ of Section 4)
15. Right of Way for roadway 100 feet in width, subject to the terms and provisions thereof, over and across Sections 16, 19 and 21 as disclosed by Statement of Owners of Indian Lands to Accompany application for Right of way recorded August 17, 1956 in Deed Volume 286, page 73, Deed Records of Klamath County, Oregon.
16. Reservations and restrictions contained in United States Patent to Gerald Captain, recorded June 9, 1958 in Deed Volume 300, page 58, Deed Records of Klamath County, Oregon, as follows:

"NE ¼ NW ¼, Lot 1 said Section 19 are subject to such rights for railroad as the Southern Pacific Railway Company may have under the Act of March 2, 1899 (30 Stat. 990) as amended by the Act of June 21, 1906 (34 Stat. 325-330) and Section 16 of the Act of June 25, 1910 (36 Stat. L., 855-859) Subject to such rights as the Pacific Telephone and Telegraph Company may have under the Act of March 3, 1901 (31 Stat. 1082)."

 (Affects Lot 4 and SE ¼ SW ¼ of Section 18 and N ½ NE ¼ NW ¼, and Lot 1, Section 19)
17. Reservations contained in Land Status Report recorded December 16, 1958 in Volume 307, page 642, Deed Records of Klamath County, Oregon.
 (Affects S ½ NE ¼ and Lots 1 and 2 of Section 6, Township 31 South, Range 8 East of the Willamette Meridian)
18. Reservations contained in Land Status Report recorded December 22, 1958 in Volume 308, page 73, Deed Records of Klamath County, Oregon.
 (Affects S ½ NE ¼ and Lots 1 and 2 of Section 5, Township 31 South, Range 8 East of the Willamette Meridian)

19. Reservations contained in Land Status Report recorded December 22, 1958 in Volume 308, page 97, Deed Records of Klamath County, Oregon.
(Affects SE $\frac{1}{4}$ NW $\frac{1}{4}$ and Lots 3, 4 and 5 of Section 6, Township 31 South, Range 8 East of the Willamette Meridian)
20. An easement created by instrument, subject to the terms and provisions thereof,
Dated: May 17, 1983
Recorded: September 13, 1983
Volume: M83, page 15635, Microfilm Records of Klamath County, Oregon
In favor of: Telephone Utilities of Eastern Oregon, Inc., an Oregon corporation
For: Telephone line right of way easement
(Affects SW $\frac{1}{4}$ of Section 32, Township 30 South, Range 8 East of the Willamette Meridian, Klamath County, Oregon)
21. An easement created by instrument, subject to the terms and provisions thereof,
Dated: July 27, 1983
Recorded: September 13, 1983
Volume: M83, page 15669, Microfilm Records of Klamath County, Oregon
In favor of: Telephone Utilities of Eastern Oregon, Inc., an Oregon corporation
For: Telephone line right of way easement
(Affects SW $\frac{1}{4}$ of Section 32, Township 30 South, Range 8 East of the Willamette Meridian, Klamath County, Oregon)

THIS EXHIBIT "B" IS EXECUTED AS OF OCTOBER 18, 2002.

GRANTOR:

x Scott L. Runels
Scott L. Runels

x Margie B. Runels
Margie B. Runels