

MODIFICATION OF MORTGAGE OR TRUST DEED

THIS AGREEMENT, made and entered into this 26th day of October, 2004 and between William T Shaffner and Barbara J Shaffner hereinafter called the "Borrower(s)" and South Valley Bank & Trust, an Oregon Banking Corporation, hereinafter called the "Lender".

WITNESSETH: On or about the May 7, 2004, the Borrower(s) (or the original maker(s) if the Borrower is an assignee of record) did make, execute and deliver to the Lender that certain promissory note in the sum of \$340,000.00 payable in monthly installments with interest at the rate of 5.250% per annum. For the purpose of securing the payment of said promissory note, the Borrower(s) (or the original maker(s) if the Borrower(s) is an assignee of record) did make, execute and deliver to the Lender their certain Mortgage or Trust Deed, hereinafter called a "Security Instrument" bearing date of May 7, 2004, conveying the following described real property, situated in the County of Klamath State of Oregon to-wit:

Lot 6 in Block 2 of Tract 1263, QUAIL RIDGE SUBDIVISION, according to the official plat thereof on file in the office of the County Clerk of Klamath County Oregon.

which Security Instrument was duly recorded in the records of said county and state. Vol M04 Page 28625

There is now due and owing upon the promissory note aforesaid, the principal sum of Three Hundred Twenty Thousand Four Hundred and no/100, together with the accrued interest thereon, and the Borrower(s) desire a modification of the terms of payment thereof, to which the Lender is agreeable on the terms and conditions hereinafter stated and not otherwise.

NOW THEREFORE, in consideration of the premises and of the promises and agreements hereinafter contained, the parties hereto do hereby agree that the balance now due and owing on the promissory note hereinafter described shall be and is payable in monthly installments of One thousand Six hundred Ninety Five dollars and 59/100, on the unpaid balance at the rate of 4.875%* per annum. The first installment shall be and is payable on December, 2004, and a like installment shall be and is payable on the 1st day of each month thereafter until the principal and interest are fully paid, except that the final payment of principal and interest if not sooner paid, shall be due and payable November 1, 2034. If any of said installments or either principal or interest are not so paid, the entire balance then owing shall, at the option of the Lender or its successors in interest, become immediately due and payable without notice. Interest Rate and payment subject to change in accordance with section A (D) of the Adjustable Rate Rider*

Except as herein modified in the manner and on the terms and conditions herein stated, the said promissory note and Security instrument shall be in full force and effect, with all the terms and conditions of which the Borrower(s) do agree to comply in the same manner and to the same extent as though the provisions thereof were in all respects incorporated herein and made a part of this agreement.

IN WITNESS WHEREOF, the Borrower(s) have hereunto set their hand (s) and seal (s) and the Lender has caused these presents to be executed on its behalf by its duly authorized representative this day and year first hereinabove written.

William T Shaffner
William T Shaffner

Barbara J Shaffner
Barbara J Shaffner

State of Oregon)
County of Klamath)

Personally appearing the above named William T Shaffner and Barbara J Shaffner and acknowledge the foregoing instrument to be their voluntary act and deed. Before me:

Courtney Hall
Notary Public for Oregon
My commission expires May 10, 2005

South Valley Bank & Trust

By: Neil Drew
Neil Drew VP/Real Estate Manager



AMERITITLE has recorded this instrument by request as an accommodation only, and has not examined it for regularity and sufficiency or as to its effect upon the title to any real property it may be described therein.

State of Oregon, County of Klamath
Recorded 10/27/04 3:35 P m
Vol M04 Pg 73624-27
Linda Smith, County Clerk
Fee \$ 36.00 # of Pgs 4

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ADJUSTABLE RATE RIDER
(1 Year LIBOR Index - Rate Caps)
(Assumable after Initial Period)

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THIS ADJUSTABLE RATE RIDER is made this 7 day of MAY, 2004, and is incorporated into and shall be deemed to amend and supplement the Mortgage, Deed of Trust, or Security Deed (the "Security Instrument") of the same date given by the undersigned (the "Borrower") to secure the Borrower's Adjustable Rate Note to SOUTH VALLEY BANK AND TRUST (the "Lender") of the same date and covering the property described in the Security Instrument and located at:
LOT 6 QUAIL RIDGE, KLAMATH FALLS OR 97601
 [Property Address]

THE NOTE CONTAINS PROVISIONS ALLOWING FOR CHANGES IN THE INTEREST RATE AND THE MONTHLY PAYMENT. THE NOTE LIMITS THE AMOUNT THE BORROWER'S INTEREST RATE CAN CHANGE AT ANY ONE TIME AND THE MAXIMUM RATE THE BORROWER MUST PAY.

ADDITIONAL COVENANTS. In addition to the covenants and agreements made in the Security Instrument, Borrower and Lender further covenant and agree as follows:

A. INTEREST RATE AND MONTHLY PAYMENT CHANGES

The Note provides for an initial interest rate of 5.25*%. The Note provides for changes in the interest rate and the monthly payments as follows: ***DURING CONSTRUCTION, SUBJECT TO MODIFICATION**

INTEREST RATE AND MONTHLY PAYMENT CHANGES

(A) Change Dates

The initial interest rate I will pay may change on the first day of JULY, 2011 and may change on that day every 12th month thereafter. Each date on which my interest rate could change is called a "Change Date."

(B) The Index

Beginning with the first Change Date, my interest rate will be based on an Index. The "Index" is the one-year London Interbank Offered Rate ("LIBOR") which is the average of interbank offered rates for one-year U.S. dollar-denominated deposits in the London market, as published in *The Wall Street Journal*. The most recent Index figure available as of the date 45 days before each Change Date is called the "Current Index."

If the Index is no longer available, the Note Holder will choose a new index which is based upon comparable information. The Note Holder will give me notice of this choice.

(C) Calculation of Changes

Before each Change Date, the Note Holder will calculate my new interest rate by adding TWO AND ONE QUARTER ~~ONE HALF~~ percentage points (2.50 ~~2.25~~%) to the Current Index. The Note Holder will then round the result of this addition to the nearest one-eighth of one percentage point (0.125%). Subject to the limits stated in Section 4(D) below, this rounded amount will be my new interest rate until the next Change Date.

The Note Holder will then determine the amount of the monthly payment that would be sufficient to repay the unpaid principal that I am expected to owe at the Change Date in full on the maturity date at my new interest rate in substantially equal payments. The result of this calculation will be the new amount of my monthly payment.

(D) Limits on Interest Rate Changes

The interest rate I am required to pay at the first Change Date will not be greater than 10.25*% or less than 2.50 ~~2.25~~%. Thereafter, my interest rate will never be increased or decreased on any single Change Date by more than TWO percentage point(s) (2.00%) from the rate of interest I have been paying for the preceding 12 months. My interest rate will never be greater than 10.25*%.

(E) Effective Date of Changes

My new interest rate will become effective on each Change Date. I will pay the amount of my new monthly payment beginning on the first monthly payment date after the Change Date until the amount of my monthly payment changes again.

(F) Notice of Changes

The Note Holder will deliver or mail to me a notice of any changes in my interest rate and the amount of my monthly payment before the effective date of any change. The notice will include information required by law to be given to me and also the title and telephone number of a person who will answer any question I may have regarding the notice.

B. TRANSFER OF THE PROPERTY OR A BENEFICIAL INTEREST IN BORROWER
1. UNTIL BORROWER'S INITIAL INTEREST RATE CHANGES UNDER THE TERMS
STATED IN SECTION A ABOVE, UNIFORM COVENANT 18 OF THE SECURITY
INSTRUMENT SHALL BE IN EFFECT AS FOLLOWS:

Transfer of the Property or a Beneficial Interest in Borrower. As used in this Section 18, "Interest in the Property" means any legal or beneficial interest in the Property, including, but not limited to, those beneficial interests transferred in a bond for deed, contract for deed, installment sales contract or escrow agreement, the intent of which is the transfer of title by Borrower at a future date to a purchaser.

If all or any part of the Property or any Interest in the Property is sold or transferred (or if Borrower is not a natural person and a beneficial interest in Borrower is sold or transferred) without Lender's prior written consent, Lender may require immediate payment in full of all sums secured by this Security Instrument. However, this option shall not be exercised by Lender if such exercise is prohibited by Applicable Law.

If Lender exercises this option, Lender shall give Borrower notice of acceleration. The notice shall provide a period of not less than 30 days from the date the notice is given in accordance with Section 15 within which Borrower must pay all sums secured by this Security Instrument. If Borrower fails to pay these sums prior to the expiration of this period, Lender may invoke any remedies permitted by this Security Instrument without further notice or demand on Borrower.

2. AFTER BORROWER'S INITIAL INTEREST RATE CHANGES UNDER THE TERMS
STATED IN SECTION A ABOVE, UNIFORM COVENANT 18 OF THE SECURITY
INSTRUMENT DESCRIBED IN SECTION B1 ABOVE SHALL THEN CEASE TO BE IN EFFECT,
AND THE PROVISIONS OF UNIFORM COVENANT 18 OF THE SECURITY INSTRUMENT
SHALL BE AMENDED TO READ AS FOLLOWS:

Transfer of the Property or a Beneficial Interest in Borrower. As used in this Section 18, "Interest in the Property" means any legal or beneficial interest in the Property, including, but not limited to, those beneficial interests transferred in a bond for deed, contract for deed, installment sales contract or escrow agreement, the intent of which is the transfer of title by Borrower at a future date to a purchaser.

If all or any part of the Property or any Interest in the Property is sold or transferred (or if Borrower is not a natural person and a beneficial interest in Borrower is sold or transferred) without Lender's prior written consent, Lender may require immediate payment in full of all sums secured by this Security Instrument. However, this option shall not be exercised by Lender if such exercise is prohibited by Applicable Law. Lender also shall not exercise this option if: (a) Borrower causes to be submitted to Lender information required by Lender to evaluate the intended transferee as if a new loan were being made to the transferee; and (b) Lender reasonably determines that Lender's security will not be impaired by the loan assumption and that the risk of a breach of any covenant or agreement in this Security Instrument is acceptable to Lender.

To the extent permitted by Applicable Law, Lender may charge a reasonable fee as a condition to Lender's consent to the loan assumption. Lender may also require the transferee to sign an assumption agreement that is acceptable to Lender and that obligates the transferee to keep all the promises and agreements made in the Note and in this Security Instrument. Borrower will continue to be obligated under the Note and this Security Instrument unless Lender releases Borrower in writing.

If Lender exercises the option to require immediate payment in full, Lender shall give Borrower notice of acceleration. The notice shall provide a period of not less than 30 days from the date the notice is given in accordance with Section 15 within which Borrower must pay all sums secured by this Security Instrument. If Borrower fails to pay these sums prior to the expiration of this period, Lender may invoke any remedies permitted by this Security Instrument without further notice or demand on Borrower.

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BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Adjustable Rate Rider.

Wm T Shaffner (Seal)
WILLIAM T SHAFFNER - Borrower

Barbara J. Shaffner (Seal)
BARBARA J SHAFFNER - Borrower