

M05-63588

Klamath County, Oregon

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Pages 13 Fee: \$81.00

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Robert J. Sullivan, P.C.
One SW Columbia, Suite 1600
Portland, OR 97258

1st 573568

TRUST DEED

SUBORDINATION AND STANDSTILL AGREEMENT

THIS SUBORDINATION AND STANDSTILL AGREEMENT ("Agreement") is entered into as of the 2 day of ~~August~~ ^{September}, 2005, by and between Southview Properties, L.L.C., an Oregon limited liability company ("Borrower"), and Pac Equities Fund 1, Limited Partnership, an Oregon limited partnership ("Pac Equities") for the benefit of Sterling Savings Bank, a Washington state chartered bank ("Sterling").

Recitals

A. Borrower has requested that Sterling extend to Borrower a loan in the principal amount of \$805,000 (the "Sterling Loan"), the proceeds of which will be used to pay off the existing first trust deed lien/senior secured lender on the real property described on the attached Exhibit A (the "Property"). The Sterling Loan is evidenced by a promissory note executed by Borrower in favor of Sterling in the original principal face amount of \$805,000 (the "Sterling Note"), which will be secured by, among other things, a Deed of Trust (the "Sterling Deed of Trust") encumbering the Property. The Sterling Note, the Sterling Deed of Trust and all other documents executed in connection with, or securing, the Sterling Loan, as the same may be amended, modified, extended, supplemented, renewed or replaced from time to time, are hereinafter collectively referred to as the "Sterling Loan Documents."

B. Borrower has previously entered into a loan with Pac Equities' predecessor-in-interest (the "Pac Equities Loan"). Borrower executed a promissory note in the amount of \$1,100,000 in favor of Pac Equities' predecessor-in-interest (the "Pac Equities Note"), which is secured by, among other things, a deed of trust (the "Pac Equities Trust Deed")

encumbering the Property. The Pac Equities Trust Deed was recorded on October 29, 2003 as Instrument No. M-03 on page 80323, as modified or amended by instrument in volumes: M-04 on page 53313, Records of Klamath County, Oregon and M-04 on page 57205, Records of Klamath County, Oregon. The beneficial interest under the Pac Equities Trust Deed was assigned to Pac Equities Fund 1, Limited Partnership by document recorded September 20, 2004 as Instrument No. M-04 on page 62879, Records of Klamath County, Oregon; and modified by instrument in volumes: M-04 on page 76011, Records of Klamath County, Oregon and M-05 on page 10565, Records of Klamath County, Oregon. The beneficial interest under the Pac Equities Trust Deed has been assigned to:

1. Thomas Nadermann, by Assignment recorded on May 5, 2005, as Instrument No. M-05 on page 32666.
2. Lyle H. Vandercook Revocable Living Trust UTA 8/27/03, by Assignment recorded May 5, 2005, as Instrument No. M-05 on page 32668.
3. Howard Short, by Assignment recorded May 5, 2005, as Instrument No. M-05 on page 32670.
4. Theresa Rankin and Jim Kail, by Assignment recorded May 5, 2005, as Instrument No. M-05 on page 32672.
5. Theresa Rankin and Jim Kail, by Assignment recorded May 5, 2005, as Instrument No. M-05 on page 32674.
6. Steve Lindemann, by Assignment recorded May 5, 2005, as Instrument No. M-05 on page 32676.
7. William and Kendall Welch, by Assignment recorded May 5, 2005, as Instrument No. M-05 on page 32678.
8. Lincoln Trust Custodian f/b/o Michael F. Stewart, IRS, by Assignment recorded May 5, 2005, as Instrument No. M-05 on page 32680.
9. George W. and Alice E Saylor, by Assignment recorded May 5, 2005, as Instrument No. M-05 on page 32682.
10. George W. and Alice E Saylor, by Assignment recorded May 5, 2005, as Instrument No. M-05 on page 32684.
11. Rhoda M. Tallman, by Assignment recorded May 5, 2005, as Instrument No. M-05 on page 32686.

12. Helen Johnson, by Assignment recorded May 5, 2005, as Instrument No. M-05 on page 32688.
13. Helen Johnson, by Assignment recorded May 6, 2005, as Instrument No. M-05 on page 33011.
14. Culley Polehn & Shiena Polehn, by Assignment recorded May 6, 2005, as Instrument No. M-05 on page 33013.
15. James or Rosemary Fieber, by Assignment recorded May 6, 2005, as Instrument No., M-05 on page 33015.
16. HP & C. Eder, by Assignment recorded May 6, 2005, as Instrument No. M-05 on page 33017.
17. HP & C. Eder, by Assignment recorded May 6, 2005, as Instrument No. M-05 on page 33019.
18. Ronald and Maryann Powell, by Assignment recorded May 6, 2005, as Instrument No. M-05 on page 33021.
19. Marie Parks, by Assignment recorded May 13, 2005, as Instrument No. M-05 on page 34869.
20. Pensco Trust Company, Custodian f/b/o Theresa Rankin, by Assignment recorded May 13, 2005, as Instrument No. M-05 on page 34871.
21. Robert Neland, by Assignment recorded May 13, 2005, as Instrument No. M-05 on page 34875.
22. Culley Polehn & Shiena Polehn, by Assignment recorded May 18, 2005, as Instrument No. M-05 on page 36050.
23. Melinda S. Edar Revocable Living Trust dtd 9/14/04, by Assignment recorded June 8, 2005, as Instrument No. M-05 on page 42544.
24. Melinda S. Edar Revocable Living Trust dtd 9/14/04, by Assignment recorded June 8, 2005, as Instrument No. M-05 on page 42546.
25. Melinda S. Edar Revocable Living Trust dtd 9/14/04, by Assignment recorded June 8, 2005, as Instrument No. M-05 on page 42548.

26. Melinda S. Edar Revocable Living Trust dtd 9/14/04, by Assignment recorded June 8, 2005, as Instrument No. M-05 on page 42550.
27. Melinda S. Edar Revocable Living Trust dtd 9/14/04, by Assignment recorded June 8, 2005, as Instrument No. M-05 on page 42552.
28. Melinda S. Edar Revocable Living Trust dtd 9/14/04, by Assignment recorded June 8, 2005, as Instrument No. M-05 on page 42554.
29. George W. and Alice E Saylor, by Assignment recorded June 23, 2005, as Instrument No. M-05 on page 47256.
30. Max R. Baker & Phillippa, by Assignment recorded July 21, 2005, as Instrument No. M-05 on page 56086.
31. Joe R. & Emily T. McDermott Revocable Living Trust, by Assignment recorded July 21, 2005, as Instrument No. M-05 on page 56088.
32. James E. Reardon Living Trust Agreement, by Assignment recorded July 21, 2005, as Instrument No. M-05 on page 56090.

The Pac Equities Note, the Pac Equities Trust Deed and all other documents executed in connection with, or securing, the Pac Equities Loan, as the same may be amended, modified, extended, supplemented, renewed or replaced from time to time, are hereinafter collectively referred to as the "Pac Equities Loan Documents."

C. Sterling will only make the Sterling Loan upon the agreement by Borrower and Pac Equities to the terms and conditions set forth in this Agreement.

Agreement

NOW, THEREFORE, in consideration of Sterling making the Sterling Loan and of the covenants and agreements set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Recitals. The recitals set forth above are hereby incorporated herein by this reference.
2. Pac Equities. Pac Equities represents and warrants that Pac Equities is the current holder of the Pac Equities Note and current beneficiary of the Pac Equities Trust

Deed, and that other than as stated above it has not assigned, transferred or otherwise conveyed its interest in the Pac Equities Note or the Pac Equities Trust Deed to any other person or entity and it has the absolute right to execute this Agreement for itself and on behalf of all assignees listed in Recital B.

3. Consent to Sterling Loan. Pac Equities consents to the Sterling Loan and agrees that the closing, funding and performance of the Sterling Loan shall not result in a violation of or default under any of the Pac Equities Loan Documents.

4. Subordination of Pac Equities Trust Deed.

(a) Pac Equities hereby expressly subordinates any lien of the Pac Equities Indebtedness (as defined below), and all of Pac Equities' liens and rights pursuant to the Pac Equities Note, the Pac Equities Trust Deed and the Pac Equities Loan Documents to the lien of the Sterling Deed of Trust and all rights of Sterling and its successors and assigns under the Sterling Loan Documents. As a result of this subordination, the Sterling Loan Documents shall be a prior lien on the Property and all other collateral encumbered by the Sterling Loan Documents, and the Pac Equities Indebtedness, the Pac Equities Note and the Pac Equities Trust Deed shall at all times be and remain absolutely subordinate, subject to and subservient to the prior lien of the Sterling Loan Documents.

(b) The term "Pac Equities Indebtedness," as used in this Agreement, shall mean and include any and all indebtedness, liabilities and obligations of Borrower to Pac Equities or others for whom Pac Equities acts as agent, whether absolute or contingent, direct or indirect, joint, several or independent, now outstanding or owing or which may hereafter be existing or incurred, arising by operation of law or otherwise, due or to become due, and which arise out of the Pac Equities Note, the Pac Equities Trust Deed, the Pac Equities Loan Documents or are in any way secured by the Property or any other collateral now or hereafter provided to Sterling as collateral for the Sterling Loan.

5. Standstill. Prior to the date on which the Sterling Loan has been paid in full and the Sterling Deed of Trust has been fully released of record, Pac Equities shall not, without the prior written consent of Sterling, which consent may be withheld by Sterling in its sole discretion:

(a) sue for, take or receive from Borrower, any person directly or indirectly owning an interest in Borrower or the Property, any grantor or surety of the Pac Equities Loan, in cash or other property or by setoff or in any other manner, payment of all or any of the Pac Equities Loan or any amounts due under the Pac Equities Loan

Documents, other than taking or receiving regular payments, excluding prepayments, made by or on behalf of Borrower when due and payable in accordance with the provisions of the Pac Equities Note and the Pac Equities Loan Documents; provided, however, Pac Equities shall not take or receive any amount due under the Pac Equities Loan Documents, so long as any event of default under the Sterling Loan Documents remains uncured;

(b) declare a default or event of default under the Pac Equities Loan Documents for any reason whatsoever; or

(c) foreclose or attempt to foreclose the Pac Equities Trust Deed, seek or obtain the appointment of a receiver for the Property, exercise any right of power of sale granted in the Pac Equities Trust Deed, attempt to realize upon any portion of the Property, any interest therein or upon any security furnished by Borrower with respect to the Pac Equities Loan, commence or cause any other person to commence a case against Borrower under 11 U.S.C. § 101, et seq., (the "Bankruptcy Code"), or state bankruptcy, insolvency or similar law, seek relief from any stay imposed under the Bankruptcy Code, or exercise any other right or remedy granted in the Pac Equities Loan Documents with respect to Borrower or the Property, including, without limitation, any right to accelerate the Pac Equities Loan, or available to Pac Equities at law, in equity or otherwise with respect to the Pac Equities Loan.

(d) Pac Equities may, at any time, pay the Sterling Loan and upon payment of the Sterling Loan in full, Sterling shall at Pac Equities' request, assign to Pac Equities all of Sterling's rights and obligations under the Sterling Loan Documents.

Notwithstanding the foregoing, nothing in this Section 5 shall prohibit Pac Equities from realizing, on a non-recourse basis, upon collateral, other than the Property, that is security for the Pac Equities Loan or other loans from Borrower to Pac Equities.

6. Covenants of Pac Equities. Pac Equities hereby covenants and agrees that it will execute any and all other instruments necessary, as reasonably required by Sterling, to subordinate the Pac Equities Trust Deed to the Sterling Loan.

7. Termination of Subordination. This Agreement shall automatically terminate and be of no further force and effect at the earlier of: (a) the Borrower's satisfaction of all of its obligations to Pac Equities; or (b) such time as all obligations under the Sterling Loan have been paid in full and the Sterling Deed of Trust has been released of record.

8. Covenants of Borrower. Borrower hereby covenants that the loan proceeds will be used to pay off the existing senior secured lender and release that lender's deed

of trust lien or other form of encumbrance so that Pac Equities' trust deed lien is subordinate only to Sterling.

9. Covenants of Sterling. Sterling agrees, it will not increase the principal amount of the Sterling Loan or loan additional funds to Borrower secured by the Property; provided nothing in this paragraph shall preclude Sterling from making advances pursuant to the terms of the Sterling Loan Documents or other documents and instruments evidencing or securing the Sterling Loan for the purpose of protecting its security for the Sterling Loan, enforcing its rights under the Sterling Loan documents, or preserving the lien of the Sterling Loan Documents and the other security documents.

10. Notices. All notices, requests or demands hereunder must be given in writing and will be considered to be duly and properly given on personal delivery or delivery by courier to the party or an officer of the party, or if mailed, upon the first to occur of actual receipt or the expiration of three (3) days after being sent by certified mail, postage prepaid, return receipt requested, addressed as follows:

If to Pac Equities:

Pac Equities Fund 1, Limited Partnership
c/o Pac Equities, Inc., General Partner

Attention: _____

If to Borrower:

Southview Properties, LLC
22101 NE 150th Avenue
Battleground, WA 98604
Attention: Gregory P. Bessert

If to Sterling:

Sterling Savings Bank
540 Main Street, Suite 301
Klamath Falls, OR 97601
Attn: Kit Lupinski

Any party may change such party's address for notices or copies of notices by giving notice to the other parties in accordance with this Section 8.

11. Assignment and Binding Effect. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.

12. Governing Law. This Agreement is executed in and shall be construed under and governed by the laws of the State of Oregon.

13. Severability. In case any one or more of the provisions contained in this Agreement should be held to be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.

14. Amendments. No provisions of this Agreement may be amended, modified, supplemented, changed, waived, discharged or terminated, unless Sterling consents thereto in writing.

15. Counterparts. This Agreement may be executed in multiple counterparts, each of which shall constitute a duplicate original, but all of which together shall constitute one and the same instrument.

16. Costs of Enforcement. In the event that any party to this Agreement commences any legal action to enforce its rights hereunder as a result of the breach of this Agreement by any other party, the prevailing party in such action shall be entitled to recover all of its costs and expenses in connection therewith, including all reasonable legal fees and costs.

**UNDER OREGON LAW, MOST AGREEMENTS, PROMISES AND COMMITMENTS
MADE BY LENDERS AFTER OCTOBER 3, 1989 CONCERNING LOANS AND
OTHER CREDIT EXTENSIONS WHICH ARE NOT FOR PERSONAL, FAMILY OR
HOUSEHOLD PURPOSES OR SECURED SOLELY BY THE BORROWER'S
RESIDENCE MUST BE IN WRITING, EXPRESS CONSIDERATION AND BE SIGNED
BY LENDER TO BE ENFORCEABLE.**

[SIGNATURES APPEAR ON SUBSEQUENT PAGE]

IN WITNESS WHEREOF, the parties have executed this Subordination Agreement as of the date first above written.

Pac Equities:

Pac Equities Fund 1, Limited Partnership, an Oregon limited partnership

By: Pac Equities, Inc., a Nevada corporation,

Its: General Partner

By: 

Name: Michael Rich

Title: General Partner

BORROWER:

SOUTHVIEW PROPERTIES, L.L.C., an Oregon limited liability company

By: 

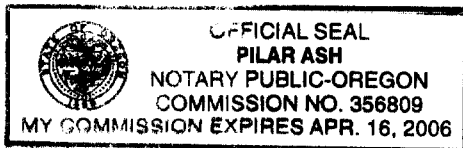
Gregory P. Bessert, Manager

STERLING SAVINGS BANK

By: 

STATE OF OREGON)
COUNTY OF Deschutes) ss.

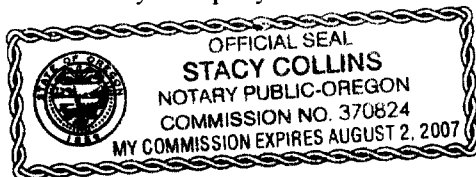
The foregoing instrument was acknowledged before me this 29th day of August, 2005, by Michael R. Zeh, as General Partner of Pac Equities, Inc., a Nevada corporation the General Partner of Pac Equities Fund 1, Limited Partnership, an Oregon limited partnership.



Re Oh
Notary Public for 4114106

STATE OF OREGON)
COUNTY OF Klamath) ss.

September The foregoing instrument was acknowledged before me this 2 day of ~~August~~, 2005, by Gregory P. Bessert, as Manager of Southview Properties, L.L.C., an Oregon limited liability company.



[Signature]
Notary Public for Klamath

STATE OF OREGON)
COUNTY OF Klamath) ss.

September The foregoing instrument was acknowledged before me this 6 day of ~~August~~, 2005, by Rita Lupina as Loan Officer of Sterling Savings Bank.



[Signature]
Notary Public for Oregon

Page 10 of 11 SUBORDINATION AGREEMENT (Southview Properties, LCC /Pac Equities Fund 1 Limited Partnership)

EXHIBIT A
to
SUBORDINATION AND STANDSTILL AGREEMENT
(Legal Description of the Property)

Page 11 of 11 - SUBORDINATION AGREEMENT (*Southview Properties, LCC /Pac Equities Fund I Limited Partnership*)

G:\S\Sterling Savings Bank Loan 81315\Southview Properties\Subordination Final 082905.DOC

Exhibit "A"

Real property in the County of Klamath, State of Oregon, described as follows:

Township 38 South, Range 8 East of the Willamette Meridian
Section 36: The SE $\frac{1}{4}$ NE $\frac{1}{4}$, and all of the SE $\frac{1}{4}$, also the SW $\frac{1}{4}$ NE $\frac{1}{4}$

Township 38 South, Range 9 East of the Willamette Meridian
Section 31: The SW $\frac{1}{4}$ NW $\frac{1}{4}$ and W $\frac{1}{2}$ SW $\frac{1}{4}$

Township 39 South, Range 9 East of the Willamette Meridian
Section 6: The N $\frac{1}{2}$ N $\frac{1}{2}$ and the SW $\frac{1}{4}$ NW $\frac{1}{4}$

Township 39 South, Range 8 East of the Willamette Meridian
Section 1: A portion of the N $\frac{1}{2}$ NE $\frac{1}{4}$ of the Section described as follows: Beginning at the Northeast corner of the Section; thence West along the North boundary of the section to the North-South center line of said Section; thence south to the intersection of the North-South center line of the Section with the Northerly boundary of State Highway 140; thence following the Northerly boundary of Highway 140 Southeasterly to its intersection with the South boundary of the N $\frac{1}{2}$ NE $\frac{1}{4}$ of said Section 1; thence East on the South boundary of the N $\frac{1}{2}$ NE $\frac{1}{4}$ of Section 1 to its intersection with the East boundary of Section 1; thence North to the point of beginning.

Section 1: Also the Easterly 40 feet of the SW $\frac{1}{4}$ NE $\frac{1}{4}$ that lies Northerly of Highway 140

Section 1: Also a portion of the SW $\frac{1}{4}$ NE $\frac{1}{4}$, more particularly described as follows: Beginning at a 5/8 inch iron pin on the North line of said SW $\frac{1}{4}$ NE $\frac{1}{4}$ from which the Northeast 1/16 corner of said Section 1 bears S. 89 degrees 31'34" E. 40.00 feet; thence S. 00 degrees 08'01" E. parallel to the East line of said SW $\frac{1}{4}$ NE $\frac{1}{4}$, 432.41 feet to a 5/8 inch iron pin on the Northeasterly right of way line of said State Highway 140; thence N. 56 degrees 11'22" West along said right of way line, 146.70 feet to a 5/8 inch iron pin in an existing fence; thence N. 11 degrees 57'35" E., generally along said existing fence, 358.95 feet to a 5/8 inch iron pin on the North line of said SW $\frac{1}{4}$ NE $\frac{1}{4}$; thence S. 89 degrees 31'34" E. 46.50 feet to the point of beginning.

Section 1: That portion of the SE $\frac{1}{4}$ NE $\frac{1}{4}$ lying Northeasterly of Highway 140

SAVING AND EXCEPTING THE FOLLOWING PARCEL:

A parcel of land situated in the NE 1/4 and SE 1/4 of Section 36, Township 38 South, Range 8 East of the Willamette Meridian, the NE 1/4 of Section 1, Township 39 South, Range 8 East of the Willamette Meridian, and the NE 1/4 NE 1/4 of Section 6, Township 39 South, Range 9 East of the Willamette Meridian, all in Klamath County, Oregon and being more particularly described as follows: Beginning at a point on the North-South centerline of Section 36 from which the NW corner of the SW 1/4 NE 1/4 of said section bears North 00°11'27" East 427.59 feet; thence South 89°58'12" East 619.61 feet; thence South 27°18'39" East 3530.91 feet; thence South 62°41'21" West 250.36 feet; thence South 27°18'39" East 1811.20 feet to a point on the South line of the NW 1/4 NW 1/4 of Section 6; thence along said South line south 89°28'21" West 199.91 feet to the SW corner thereof; thence along the South line of the NE 1/4 NE 1/4 of Section 1 North 89°29'44" West 1333.62 feet to the SW corner of said NE 1/4 NE 1/4; thence along the West line of the SE 1/4 NE 1/4 of Section 1 South 00°06'44" East 458.90 feet to the Northerly right of way line of State Highway 140; thence along said Northerly right of way line North 56°12'28" West 194.88 feet; thence leaving said right of way line North 11°59'09" East 364.18 feet to the South line of the NW 1/4 NE 1/4 of Section 1; thence along said South line South 89°56'08" West 516.20 feet to the said Northerly right of way line of State Highway 140; thence along said Northerly right of way line North 50°28'23" West 199.25 feet; thence North 59°17'52" West 439.78 feet; thence leaving said Northerly right of way line North 36°42'45" West 329.35 feet to the North-South center section line of Section 1; thence along said center section line North 00°04'15" East 722.87 feet to the 1/4 corner common to Section 1 and Section 36; thence along the center section line of Section 36 North 00°11'27" East 3508.58 feet to the point of beginning

Tax Parcel Number: R420315 and R420299 and R492292 and R428344 and R534979