

M06-02773

Klamath County, Oregon

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After Recording, Please Return To:
Robert J. Sullivan, P.C.
One SW Columbia, Suite 1600
Portland, OR 97258

ST 723945

SUBORDINATION AGREEMENT

THIS SUBORDINATION AGREEMENT ("Agreement") is entered into as of the 20 day of January 2006, by and between Southview Properties, LLC, an Oregon limited liability company ("Borrower"), and Pac Equities, Inc., a Nevada corporation ("Pac Equities").

Recitals

A. Borrower has requested that Columbia Community Bank Corporation, an Oregon bank ("Columbia") extend to Borrower construction loans in the principal amounts outlined below:

Legal Description	Maximum Loan Amount
Lot 2, Tract 1416, THE WOODLANDS – PHASE 1, according to the official plat thereof on file in the office of County Clerk of Klamath County, Oregon.	\$136,000
Lot 20, Tract 1416, THE WOODLANDS – PHASE 1, according to the official plat thereof on file in the office of County Clerk of Klamath County, Oregon.	\$118,575
Lot 23, Tract 1416, THE WOODLANDS – PHASE 1, according to the official plat thereof on file in the office of County Clerk of Klamath County, Oregon.	\$123,250
Lot 29, Tract 1416, THE WOODLANDS – PHASE 1, according to the official plat thereof on file in the office of County Clerk of Klamath County, Oregon.	\$127,250
Lot 30, Tract 1416, THE WOODLANDS – PHASE 1, according to the official plat thereof on file in the office of County Clerk of Klamath County, Oregon.	\$148,750

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Lot 31, Tract 1416, THE WOODLANDS – PHASE 1, according to the official plat thereof on file in the office of County Clerk of Klamath County, Oregon.	\$146,625
Lot 32, Tract 1416, THE WOODLANDS – PHASE 1, according to the official plat thereof on file in the office of County Clerk of Klamath County, Oregon.	\$167,750
Lot 44, Tract 1416, THE WOODLANDS – PHASE 1, according to the official plat thereof on file in the office of County Clerk of Klamath County, Oregon.	\$133,875
Lot 45, Tract 1416, THE WOODLANDS – PHASE 1, according to the official plat thereof on file in the office of County Clerk of Klamath County, Oregon.	\$186,750
Lot 50, Tract 1416, THE WOODLANDS – PHASE 1, according to the official plat thereof on file in the office of County Clerk of Klamath County, Oregon.	\$129,200
Lot 59, Tract 1416, THE WOODLANDS – PHASE 1, according to the official plat thereof on file in the office of County Clerk of Klamath County, Oregon.	\$176,800
A total of 11 lots	

(collectively the “Columbia Loans”), a portion of the proceeds of which will be used to fund construction activities on the real property described above (the “Property”). The Columbia Loans are evidenced by promissory notes executed by Borrower in favor of Columbia (the “Columbia Notes”), which will be secured by, among other things, Deeds of Trust (the “Columbia Deeds of Trust”) encumbering the Property. The Columbia Notes, the Columbia Deeds of Trust and all other documents executed in connection with, or securing, the Columbia Loans are hereinafter collectively referred to as the “Columbia Loans Documents.”

B. Borrower has previously entered into a loan with Pac Equities (the “Loan”). Borrower executed a promissory note in the amount of \$1,500,000 in favor of Pac Equities (the “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 August 30, 2004 as Instrument No. M-04 on page 57194. The beneficial interest under the Pac Equities Trust Deed on Lot 30 only was assigned to Robert Neland, by Assignment recorded May 13, 2005, as Instrument No. M-05 on page 34875.

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

Agreement

NOW, THEREFORE, in consideration of Columbia making the Columbia Loans 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 \$700,000 of the Note (the other \$800,000 being held by LBLM Investments, LLC), and that it has not assigned, transferred or otherwise conveyed its interest in the Note or the Pac Equities Trust Deed to any person or entity not identified in Recital B.
3. Consent to Columbia Loans. Pac Equities consents to the Columbia Loans and agrees that the closing, funding and performance of such loan shall not result in a violation of or default under any of the Pac Equities 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 Note and the Pac Equities Trust Deed to the lien of the Columbia Loans and all rights of Columbia and its successors and assigns under the Columbia Loans Documents. As a result of this subordination, the Columbia Loans Documents shall be a prior lien on the Property and all other collateral encumbered by the Columbia Loans Documents, and the 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 Columbia Loans 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 Note or the Pac Equities Trust Deed or are in any way secured by the Property or any other collateral now or hereafter provided to Columbia as collateral for the Columbia Loans.
5. Covenants of Pac Equities. Pac Equities hereby covenants and agrees that it has no authority to and will execute any and all other instruments necessary, as reasonably required by Columbia, to subordinate the Pac Equities Trust Deed to the Columbia Loans.
6. 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 Columbia Loans have been paid in full and the Columbia Deeds of Trust has been released.

7. 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, Inc.
62968 O.B. Riley Road #3,
Bend, OR 97701
Attention: Michael Rich

If to Borrower:

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

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 7.

8. 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.

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

10. 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.

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

12. 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.

13. 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.

14. Authority. Each person signing below represents and warrants he has the authority to execute and deliver this Agreement.

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

PAC EQUITIES for itself and on behalf of all assignees:

Pac Equities, Inc.,
a Nevada corporation,

By: Michael Rich
Name: Michael Rich
Title: President

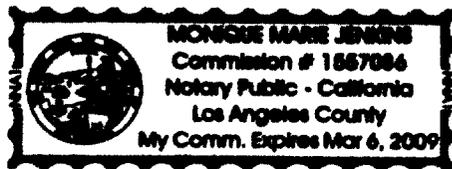
BORROWER:

SOUTHVIEW PROPERTIES, LLC,
an Oregon limited liability company

By: Gregory P. Bessert
Gregory P. Bessert, Manager

STATE OF California)
OREGON)
COUNTY OF Los Angeles) ss.

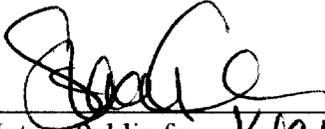
The foregoing instrument was acknowledged before me this 20 day of January, 2006, by Michael Rich, as President of Pac Equities, Inc., a Nevada corporation.



Monique Marie Jenkins
Notary Public for California

STATE OF OREGON)
COUNTY OF Deagon) ss.

The foregoing instrument was acknowledged before me this 30 day of January, 2006, by Gregory P. Bessert, as Manager of Southview Properties, LLC, an Oregon limited liability company.


Notary Public for Klamath

