

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

**M06-02774**

Klamath County, Oregon

02/13/2006 03:38:00 PM

Pages 8 Fee: \$56.00

*1st 723945*

**SUBORDINATION AGREEMENT**

*2* THIS SUBORDINATION AGREEMENT ("Agreement") is entered into as of the day of January, 2006, by and between Southview Properties, LLC, an Oregon limited liability company ("Borrower"), and Pac Equities Fund 1, Limited Partnership ("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

*56F*

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	

(the “Columbia Loans”), a portion of the proceeds of which will be used to fund Phase I 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 \$1,100,000 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 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; 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 said Deed of Trust 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. Theresa Rankin and Jim Kail, by Assignment recorded May 5, 2005, as Instrument No. M-05 on page 32672.
4. Theresa Rankin and Jim Kail, by Assignment recorded May 5, 2005, as Instrument No. M-05 on page 32674.
5. Steve Lindemann, by Assignment recorded May 5, 2005, as Instrument No. M-05 on page 32676.
6. William and Kendall Welch, by Assignment recorded May 5, 2005, as Instrument No. M-05 on page 32678.
7. Lincoln Trust Custodian f/b/o Michael F. Stewart, IRS, by Assignment recorded May 5, 2005, as Instrument No. M-05 on page 32680.
8. George W. and Alice E Saylor, by Assignment recorded May 5, 2005, as Instrument No. M-05 on page 32682.
9. George W. and Alice E Saylor, by Assignment recorded May 5, 2005, as Instrument No. M-05 on page 32684.
10. Rhoda M. Tallman, by Assignment recorded May 5, 2005, as Instrument No. M-05 on page 32686.
11. Helen Johnson, by Assignment recorded May 5, 2005, as Instrument No. M-05 on page 32688.
12. Helen Johnson, by Assignment recorded May 6, 2005, as Instrument No. M-05 on page 33011.
13. Culley Polehn & Shiena Polehn, by Assignment recorded May 6, 2005, as Instrument No. M-05 on page 33013.
14. James or Rosemary Fieber, by Assignment recorded May 6, 2005, as Instrument No., M-05 on page 33015.
15. HP & C. Eder, by Assignment recorded May 6, 2005, as Instrument No. M-05 on page 33017.
16. HP & C. Eder, by Assignment recorded May 6, 2005, as Instrument No. M-05 on page 33019.

17. Ronald and Maryann Powell, by Assignment recorded May 6, 2005, as Instrument No. M-05 on page 33021.
18. Pensco Trust Company, Custodian f/b/o Theresa Rankin, by Assignment recorded May 13, 2005, as Instrument No. M-05 on page 34871 for Lot 56 only.
19. Robert R. Turner Trust, by Assignment recorded on May 13, 2005, as Instrument No. M-05 on page 34873 for Lot 56 only.
20. Robert Neland, by Assignment recorded May 13, 2005, as Instrument No. M-05 on page 34875 for lot 30 only.
21. Culley Polehn & Shiena Polehn, by Assignment recorded May 18, 2005, as Instrument No. M-05 on page 36050.
22. Melinda S. Edar Revocable Living Trust dtd 9/14/04, by Assignment recorded June 8, 2005, as Instrument No. M-05 on page 42544.
23. Melinda S. Edar Revocable Living Trust dtd 9/14/04, by Assignment recorded June 8, 2005, as Instrument No. M-05 on page 42546.
24. Melinda S. Edar Revocable Living Trust dtd 9/14/04, by Assignment recorded June 8, 2005, as Instrument No. M-05 on page 42548.
25. Melinda S. Edar Revocable Living Trust dtd 9/14/04, by Assignment recorded June 8, 2005, as Instrument No. M-05 on page 42550.
26. Melinda S. Edar Revocable Living Trust dtd 9/14/04, by Assignment recorded June 8, 2005, as Instrument No. M-05 on page 42552.
27. Melinda S. Edar Revocable Living Trust dtd 9/14/04, by Assignment recorded June 8, 2005, as Instrument No. M-05 on page 42554.

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 the Note, other than as stated above that it has not assigned, transferred or otherwise

conveyed its interest in the 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 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 up to the total principal amount of the Columbia Loans recited above.

(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 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 Fund 1 Limited Partnership  
c/o Pac Equities, Inc., General Partner  
62968 O.B. Riley Road #3,  
Bend, OR 97701  
Attention: Michael Rich

If to Borrower:

Southview Properties, LLC  
22101 NE 150<sup>th</sup> 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:**

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

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

Its: General Partner

By:

Name:

Title:

*M. Rich*

*M. Rich*

*Managing Partner*

**BORROWER:**

SOUTHVIEW PROPERTIES, LLC, an Oregon limited liability company

By:

*Gregory P. Bessert*

Gregory P. Bessert, Manager

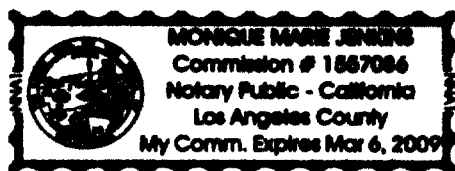
STATE OF OREGON )

COUNTY OF ) ss.

*california* *mmf*

*Los Angeles*


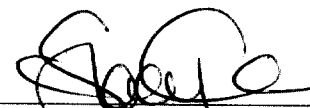
The foregoing instrument was acknowledged before me this 20 day of January, 2006, by Michael Rich, as President of Pac Equities, Inc., a Nevada corporation the General Partner of Pac Equities Fund 1, Limited Partnership, an Oregon limited partnership.



*Monique Marie Jenkins*  
Notary Public for *california*

STATE OF OREGON )  
COUNTY OF Klamath ) 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

