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2007-002797

Klamath County, Oregon

AFTER RECORDING, RETURN TO:
502 West Main Street, Suite 103
Medford, OR 97501



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02/16/2007 02:37:30 PM

Fee: \$61.00

ASPEN: 64330

TRUST DEED

THIS TRUST DEED ("Security Instrument") is made on February 12, 2007

BY "Grantor": Earl F. Fernlund and Carolyn L. Fernlund, husband and wife

whose address is 7711 Highway 66
Klamath Falls, OR 97601

TO "Trustee": **Lawyers Title Insurance Corporation, a Virginia corporation**
having its office at 1555 E. McAndrews Road, Medford, OR 97504

FOR THE BENEFIT OF "Beneficiary": Robert R. Smith and Scott G. Smith, or the survivor thereof

whose address is P.O. Box 5383
Central Point, OR 97502

Beneficiary has made a loan ("the Loan") to Grantor in the principal sum of One Hundred Eighty-six Thousand Seven Hundred Fifty and no/100 Dollars (U.S. \$186,750.00). The Loan is evidenced by Grantor's Promissory Note dated the same date at this Security Instrument. The Loan, if not sooner paid, is due and payable in full on FEBRUARY 16, 2009. The Promissory Note, as it may be modified, extended, or replaced from time to time, is referred to in this Security Instrument as the "Note." Grantor has agreed to provide this Security Instrument to Beneficiary as a condition of Beneficiary's loan to Grantor.

This Security Instrument secures to Beneficiary: (a) the repayment of the debt evidenced by the Note and all renewals, extensions and modifications; (b) the payment of all other sums advanced under the terms of this Security Instrument to protect the security interest of Beneficiary; and (c) the performance of Grantor's covenants and agreements under this Security Instrument and the Note.

For valuable consideration, receipt of which is hereby acknowledged; for the purposes stated above; and for the purpose of securing the Obligations described in Section 1.01 below, Grantor irrevocably grants, bargains, sells, conveys, assigns, and transfers to Trustee in trust for the benefit and security of Beneficiary, with power of sale, all of Grantor's right, title, and interest in and to the real property located in Klamath County, state of Oregon, and more particularly described in **Exhibit A** attached to, and incorporated by this reference into, this Security Instrument, TOGETHER WITH (1) all dwellings and other improvements now or hereafter located thereon, (2) all easements, tenements, hereditaments, rights and appurtenances relating thereto, (3) all replacements and additions thereto, (4) all awards for any taking of all or any portion thereof, and (5) all insurance proceeds for any damage thereto (collectively, the "Trust Property").

This Security Instrument, the Note, and all other agreements executed at any time in connection therewith, as they may be amended or supplemented from time to time, are sometimes collectively referred to in this instrument as the "Loan Documents."

GRANTOR AND BENEFICIARY COVENANT AND AGREE AS FOLLOWS:

ARTICLE ONE: Particular Covenants and Warranties of Grantor

1.01 Obligations Secured. This Security Instrument secures the payment of all indebtedness, including but not limited to principal and interest, and the performance of all covenants and obligations of Grantor, under the Note, this Security Instrument, and the other Loan Documents, whether such payment and performance is now due or becomes due in the future (collectively, the "Obligations").

\$61-A

Trust Deed -- Page 1

[Lawyers Title Ins. Corp. Oregon Form Trust Deed, Ver. 16 Dec 2003]



1.02 Payment and Performance. Grantor shall pay and perform all of the Obligations when due.

1.03 Property. Grantor warrants that Grantor holds good and merchantable title to the Trust Property, free and clear of all liens, encumbrances, reservations, restrictions, easements, and adverse claims except those specifically identified in a title insurance policy issued to Beneficiary in connection with the Loan or on **Exhibit B** attached to this Security Agreement. (If there is a title insurance policy or there are no such liens, etc., then Exhibit B is omitted.) Grantor covenants that it shall forever defend Beneficiary's and Trustee's rights under this Security Instrument and the priority of this Security Instrument against the adverse claims and demands of all persons.

1.04 Further Assurances. Grantor shall execute, acknowledge, and deliver, from time to time, such further instruments as Beneficiary or Trustee may require to accomplish the purposes of this Security Instrument.

1.05 Compliance with Laws. Grantor represents, warrants, and covenants that the Trust Property is currently in material compliance with, and will at all times be maintained in material compliance with, all applicable laws, and all covenants, conditions, easements, and restrictions affecting the Trust Property.

1.06 Environmental Compliance

(1) For purposes of this section, "Environmental Law" means any federal, state, or local law or regulation now or hereafter at any time pertaining to Hazardous Substances or environmental conditions. For purposes of this section, "Hazardous Substance" includes, without limitation, any substance that is or becomes classified as hazardous, dangerous, or toxic under any federal, state, or local law or regulation.

(2) Grantor will not use, generate, store, release, discharge, or dispose of on, under, or about the Trust Property or the groundwater thereof any Hazardous Substance and will not permit any other person to do so, except for storage and use of such Hazardous Substances (and in such quantities) as may commonly be used for household purposes, provided such substances are stored and used in compliance with all Environmental Laws. Grantor will keep and maintain the Trust Property in compliance with all Environmental Laws.

(3) Beneficiary shall have the right to participate in any legal proceeding initiated with respect to the Trust Property in connection with any Environmental Law and have its attorney fees paid by Grantor. If, at any time, Beneficiary has reason to believe that any violation of this Section 1.06 has occurred or is threatened, Beneficiary may require Grantor to obtain or may itself obtain, at Grantor's expense, an environmental assessment by a qualified environmental consultant. Grantor shall promptly provide to Beneficiary a complete copy of any environmental assessment obtained by Grantor.

(4) If any investigation, monitoring, containment, cleanup, or other remedial work of any kind is required on the Trust Property under any applicable Environmental Law or by any governmental agency or person in connection with a release of a Hazardous Substance, Grantor shall promptly complete all such work at Grantor's expense.

(5) All representations, warranties, and covenants in this Section 1.06 shall survive the satisfaction of the Obligations, the reconveyance of the Trust Property, or the foreclosure of this Security Instrument.

1.07 Maintenance and Improvements; Inspections. Grantor shall not permit the Trust Property or any part thereof to be removed, demolished, or materially altered without Beneficiary's prior written consent. Grantor shall maintain the Trust Property, and every portion thereof, in good repair and condition, except for reasonable wear and tear, and shall at Beneficiary's election restore, replace, or rebuild the Trust Property or any part thereof now or hereafter damaged or destroyed by any casualty (whether or not insured against or insurable) or affected by any Condemnation (as defined in Section 2.01). Grantor shall not commit or suffer any waste or strip of the Trust Property. Beneficiary or its agent may make reasonable entries upon and inspections of the Trust Property. Beneficiary shall give Grantor notice at the time of or prior to an inspection specifying reasonable cause for the inspection.

1.08 Liens. Grantor shall pay when due all claims for labor and materials that, if unpaid, might become a lien on the Trust Property. Grantor shall not create or suffer any lien, security interest, or encumbrance on the Trust Property that may be prior to, or on a parity with, the lien of this Security Instrument, except as expressly approved in writing by Beneficiary or as permitted in Section 1.09.



1.09 Impositions. Grantor shall pay when due all taxes, assessments, fees, and other governmental and nongovernmental charges of every nature now or hereafter assessed against any part of the Trust Property or on the lien or estate of Beneficiary or Trustee therein (collectively, the "Impositions"); provided, however, that if by law any such Imposition may be paid in installments, Grantor may pay the same in installments, together with accrued interest on the unpaid balance thereof, as they become due. Grantor shall furnish to Beneficiary promptly on request satisfactory evidence of the payment of all Impositions. Beneficiary is hereby authorized to request and receive from the responsible governmental and nongovernmental personnel written statements with respect to the accrual and payment of all Impositions.

1.10 Limitations of Use. Grantor shall not initiate or consent to any rezoning of the Trust Property or any change in any covenant or other public or private restrictions limiting or defining the uses that may be made of the Trust Property without the prior written consent of Beneficiary.

1.11 Insurance

(1) *Property and Other Insurance.* Grantor shall obtain and maintain during the term of this Security Instrument all-risk property insurance (including flood insurance unless waived by Beneficiary) in an amount not less than the full remaining principal balance of the Note or, if greater, in the amount of the full replacement cost of the Trust Property, without reduction for coinsurance.

(2) *Insurance Companies and Policies.* All insurance shall be written by a company or companies reasonably acceptable to Beneficiary; shall contain a long-form mortgagee endorsement in favor of Beneficiary with proceeds under any policy payable to Beneficiary, subject to the terms of this Security Instrument; shall require 10 days' prior written notice to Beneficiary of cancellation or reduction in coverage; and shall contain a waiver of subrogation. Grantor shall furnish to Beneficiary on request a certificate evidencing the coverage required under this Security Instrument and a copy of each policy.

1.12 Casualty/Loss Restoration

(1) After the occurrence of any casualty to the Trust Property, whether or not covered by insurance, Grantor shall give prompt written notice thereof to Beneficiary. Beneficiary may make proof of loss if it is not made promptly and to Beneficiary's satisfaction by Grantor.

(2) All insurance proceeds with respect to the Trust Property shall be payable to Beneficiary. At Beneficiary's discretion, insurance proceeds may be applied to the Obligations or may be released to Grantor, on such terms and conditions as Beneficiary elects, for restoration of the Trust Property.

1.13 Actions to Protect Trust Property; Reserves

(1) If Grantor shall fail to pay, perform, or observe any of its covenants hereunder, Beneficiary may, but shall not be required to, take such actions as it deems appropriate to remedy such failure. All sums, including reasonable attorney fees, so expended, or expended to maintain the lien or estate of this Security Instrument or its priority, or to protect or enforce any of Beneficiary's rights hereunder, shall be a lien on the Trust Property, shall be secured by this Security Instrument, and shall be paid by Grantor on demand, together with interest thereon at the rate provided in the Note. No payment or other action by Beneficiary under this section shall impair any other right or remedy available to Beneficiary or constitute a waiver of any Event of Default.

(2) If Grantor fails to perform promptly any of its obligations under Section 1.09 or 1.11 of this Security Instrument, Beneficiary may require Grantor thereafter to pay and maintain with Beneficiary reserves for payment of such obligations. In that event, Grantor shall pay to Beneficiary each month a sum estimated by Beneficiary to be sufficient to produce, at least 20 days before due, an amount equal to the Impositions, insurance premiums, or both. If the sums so paid are insufficient to satisfy any Imposition or insurance premium when due, Grantor shall pay any deficiency to Beneficiary on demand. The reserves may be commingled with Beneficiary's other funds. Beneficiary shall credit to Grantor interest on such reserves at the minimum rate required from time to time by applicable law. Beneficiary shall not hold the reserves in trust for Grantor, and Beneficiary shall not be the agent of Grantor for payment of the taxes and assessments required to be paid by Grantor.

1.14 Estoppel Certificates. Grantor, within five days of request, shall furnish Beneficiary a written statement, duly acknowledged, of the amount of the Obligations secured by this Security Instrument and whether any offsets or defenses exist against the Obligations secured hereby. If Grantor shall fail to furnish such a statement



within the time allowed, Beneficiary shall be authorized, as Grantor's attorney-in-fact, to execute and deliver such statement.

1.15 Loan Charges. If the Loan secured by this Security Agreement is subject to a law that sets maximum loan charges, and that law is finally interpreted so that the interest or other loan charges collected or to be collected in connection with the Loan exceed permitted limits, then: (a) any such loan charge shall be reduced by the amount necessary to reduce the charge to the permitted limit; and (b) any sum already collected from Grantor that exceeded permitted limits will be refunded to Grantor. Beneficiary may choose to make this refund by reducing the principal owed under the Note or by making a direct payment to Grantor. If a refund reduces principal, the reduction will be treated as a partial prepayment without any prepayment charge under the Note.

ARTICLE TWO: Condemnation

Should the Trust Property or any part thereof be taken or damaged by reason of any public improvement, eminent domain, condemnation proceeding, or in any other manner (a "Condemnation"), or should Grantor receive any notice or other information regarding such action, Grantor shall give immediate notice thereof to Beneficiary. Beneficiary shall be entitled to all compensation, awards, and other payments or relief therefor ("Condemnation Proceeds") up to the full amount of the Obligations, and may appear in any Condemnation proceeding in its own or Grantor's name and make any settlement in connection therewith. Beneficiary may, at its option, apply the Condemnation Proceeds to the Obligations or release the proceeds to Grantor, on such terms and conditions as Beneficiary elects, for restoration of the Trust Property.

ARTICLE THREE: Leases and Rents

3.01 Assignment of Leases and Rents. Grantor assigns to Beneficiary all leases, rental contracts, and other agreements now or hereafter relating to the Trust Property or any portion thereof (the "Leases") and all rents and income derived therefrom (the "Rents"). Beneficiary shall have the right, but shall not be obligated, after the occurrence of an Event of Default, to notify any and all obligors under any of the Leases that the same have been assigned to Beneficiary; to discount, compromise, enforce, and collect the Leases and Rents; and to exercise any and all other rights and remedies of the lessor in connection with any of the Leases and Rents. Beneficiary shall have the right to use and apply any Rents received (1) for any costs and expenses incurred in connection with enforcing this assignment and collecting Rents; (2) for the maintenance of the Trust Property; and (3) for reduction of the Obligations in such order as Beneficiary shall determine. Beneficiary hereby gives Grantor a revocable license to collect and receive the Rents. Such license may be revoked by Beneficiary, without notice to Grantor, on the occurrence of any Event of Default under this Security Instrument. Grantor agrees not to collect any Rents more than 30 days in advance. This assignment shall not operate to place responsibility for the care, maintenance, or repair of the Trust Property on Beneficiary.

3.02 Attorney-in-Fact. Grantor irrevocably constitutes and appoints Beneficiary as its true and lawful attorney-in-fact, with power of substitution, to exercise any and all of the rights, powers, and authorities described in this Article Three and to endorse any instruments given in payment of any Rents.

ARTICLE FOUR: Security Agreement and Fixture Filing

To secure the Obligations, Grantor hereby grants to Beneficiary a security interest in all fixtures located on the Trust Property. This Security Instrument shall constitute a security agreement and fixture filing under the Uniform Commercial Code statutes of the state of Oregon. The mailing address of Grantor and the address of Beneficiary from which information may be obtained are set forth on Page 1 of this Security Instrument.

ARTICLE FIVE: Events of Default; Remedies

5.01 Events of Default. Each of the following shall constitute an Event of Default under this Security Instrument and under each of the other Loan Documents:

- (1) *Nonpayment.* Failure of Grantor to pay any of the Obligations on or within 15 days after the due date.
- (2) *Breach of Other Covenants.* Failure of Grantor to perform or abide by any other covenant included in the Obligations, including without limitation those covenants in the Note, in this Security Instrument, or in any other Loan Document.



(3) *Misinformation.* Falsity when made in any material respect of any representation, warranty, or information furnished by Grantor or its agents to Beneficiary in connection with any of the Obligations.

(4) *Other Default.* The occurrence of any other event of default under the Note, the Loan Documents, or any of the other Obligations.

(5) *Other Indebtedness, Secondary Financing.* Grantor's default beyond applicable grace periods in the payment of any other indebtedness secured by all or any portion of the Trust Property.

(6) *Bankruptcy.* The occurrence of any of the following with respect to Grantor, any guarantor of the Obligations, or the then-owner of the Trust Property: (a) appointment of a receiver, liquidator, or trustee for any such party or any of its properties; (b) adjudication as a bankrupt or insolvent; (c) filing of any petition by or against any such party under any state or federal bankruptcy, reorganization, moratorium, or insolvency law; (d) inability to pay debts when due; or (e) any general assignment for the benefit of creditors.

(7) *Transfer; Due-on-Sale.* Any sale, gift, conveyance, contract for conveyance, transfer, or assignment of the Trust Property, or any part thereof or any interest therein, either voluntarily, involuntarily, or by the operation of law (a "Transfer"), without Beneficiary's prior written consent. Any lease for a term in excess of three years, and any lease containing an option to purchase the Trust Property or any portion thereof, shall be a Transfer. The provisions of this subsection (7) shall apply to each and every Transfer, regardless of whether or not Beneficiary has consented or waived its rights in connection with any previous Transfer. Beneficiary may attach such conditions to its consent under this subsection (7) as Beneficiary may determine in its sole discretion, including without limitation an increase in the interest rate or the payment of transfer or assumption fees, and the payment of administrative and legal fees and costs incurred by Beneficiary.

5.02 Remedies in Case of Default. If an Event of Default shall occur, Beneficiary or Trustee, as the case may be, may exercise any one or more of the following rights and remedies, in addition to any other remedies that may be available by law, in equity, or otherwise:

(1) *Acceleration.* Beneficiary may declare all or any portion of the Obligations immediately due and payable.

(2) *Rents.* Beneficiary may revoke Grantor's right to collect the Rents, and may collect the Rents. Beneficiary shall not be deemed to be in possession of the Trust Property solely by reason of exercise of the rights contained in this subsection (2).

(3) *Power of Sale.* Beneficiary may direct Trustee, and Trustee shall be empowered, to foreclose the Trust Property by advertisement and sale under applicable law.

(4) *Foreclosure.* Beneficiary may judicially foreclose this Security Instrument and obtain a judgment foreclosing Grantor's interest in all or any part of the Trust Property.

(5) *Fixtures and Personal Property.* With respect to any fixtures or other property subject to a security interest in favor of Beneficiary, Beneficiary may exercise any and all of the rights and remedies of a secured party under the Uniform Commercial Code.

5.03 Sale. In any sale under this Security Instrument or pursuant to any judgment, the Trust Property, to the extent permitted by law, may be sold as an entirety or in one or more parcels and in such order as Beneficiary may elect. The purchaser at any such sale shall take title to the Trust Property or the part thereof so sold, free and clear of the estate of Grantor, the purchaser being hereby discharged from all liability to see to the application of the purchase money. Any person, including Beneficiary, may purchase at any such sale. Beneficiary is hereby irrevocably appointed Grantor's attorney-in-fact, with power of substitution, to make all appropriate transfers and deliveries of the Trust Property or any portions thereof so sold. Nevertheless, Grantor shall ratify and confirm any such sale or sales by executing and delivering to Beneficiary or to such purchaser or purchasers all such instruments requested by Beneficiary for such purpose.

5.04 Cumulative Remedies. All remedies under this Security Instrument are cumulative. Any election to pursue one remedy shall not preclude the exercise of any other remedy. No delay or omission in exercising any right or remedy shall impair the full exercise of that or any other right or remedy or constitute a waiver of any Event of Default.



5.05 Application of Proceeds. All proceeds from the exercise of the rights and remedies under this Article Five shall be applied (1) to costs of exercising such rights and remedies; (2) to the Obligations, in such order as Beneficiary shall determine in its sole discretion; and (3) the surplus, if any, shall be paid to the clerk of the court in the case of a judicial foreclosure proceeding, otherwise to the person or persons legally entitled thereto.

ARTICLE SIX: General Provisions

6.01 Time Is of the Essence. Time is of the essence with respect to all covenants and obligations of Grantor under this Security Instrument.

6.02 Reconveyance by Trustee. At any time on the request of Beneficiary, payment of Trustee's fees, if any, and presentation of this Security Instrument, without affecting the liability of any person for payment of the Obligations, Trustee may reconvey, without warranty, all or any part of the Trust Property. The grantee in any reconveyance may be described as the "person or persons legally entitled thereto," and the recitals therein of any facts shall be evidence of the truthfulness thereof. If all the obligations under this Security Instrument and the Note shall be paid, performed, and satisfied in full, then the lien and estate hereby granted shall be reconveyed. A recorded reconveyance reciting that all obligations secured by this Security Instrument are fully satisfied shall constitute a discharge of this Security Instrument from the Trust Property in all respects, except that the representations, covenants and warranties of Section 1.06 shall survive the reconveyance without regard to recitals or statements of satisfaction and discharge in the reconveyance.

6.03 Notice. Except as otherwise provided in this Security Instrument, all notices shall be in writing and may be delivered by hand, or mailed by first-class certified mail, return receipt requested, postage prepaid, and addressed to the appropriate party at its address set forth at the outset of this Security Instrument. Any party may change its address for such notices from time to time by notice to the other parties. Notices given by mail in accordance with this paragraph shall be deemed to have been given on the date of mailing; notices given by hand shall be deemed to have been given when actually received.

6.04 Successor Trustee. Beneficiary may appoint one or more successor trustees to execute the trust created under this Security Instrument, and the successor trustee shall have, and shall succeed to, all the powers and duties of a trust deed trustee permitted and afforded by law and this Security Instrument.

6.05 Security Instrument Binding on Successors and Assigns. This Security Instrument shall be binding on and inure to the benefit of the heirs, legatees, personal representatives, successors, and assigns of Grantor, Trustee, and Beneficiary.

6.06 Indemnity. Grantor shall, to the fullest extent allowed by law, hold Beneficiary and Trustee and, if either is a corporation or other legal entity, their respective directors, officers, employees, agents, and attorneys harmless from and indemnify them for any and all claims, demands, damages, liabilities, and expenses, including but not limited to attorney fees and court costs, arising out of or in connection with Trustee's or Beneficiary's interests and rights under this Security Instrument.

6.07 Expenses and Attorney Fees. Grantor shall pay all fees and expenses, taxes, assessments, and charges arising out of or in connection with the execution, delivery, and recording of this Security Instrument. To the full extent permitted by law, Grantor shall pay all fees, costs and expenses, including without limitation costs of title search or title guarantee and trustee fees, costs and expenses, arising from the exercise of the remedies enumerated in this Security Instrument or available by law, in equity, or otherwise, to Beneficiary or Trustee, as the case may be. If Beneficiary refers any of the Obligations to an attorney for collection or seeks legal advice following a default; if Beneficiary is the prevailing party in any litigation instituted in connection with any of the Obligations; or if Beneficiary or any other person initiates any judicial or nonjudicial action, suit, or proceeding in connection with any of the Obligations or the Trust Property (including but not limited to bankruptcy, eminent domain, or probate proceedings), and a lawyer is employed by Beneficiary to appear in any such proceeding or seek relief from a judicial or statutory stay, or otherwise enforce Beneficiary's interests, then in any such event Grantor shall pay reasonable attorney fees, costs, and expenses incurred by Beneficiary in connection with the above mentioned events and any appeals. Such amounts that Grantor shall pay under this section shall be secured by this Security Instrument and, if not paid on demand, shall bear interest at the rate specified in the Note.

6.08 Applicable Law. This Security Instrument shall be governed by the laws of the state of Oregon.



6.09 **Person Defined.** As used in this Security Instrument, the word *person* shall mean any natural person, partnership, trust, corporation, limited liability company, or other legal entity of any nature.

6.10 **Severability.** If any provision of this Security Instrument shall be held to be invalid, illegal, or unenforceable, the other provisions of this Security Instrument shall not be affected.

6.11 **Entire Agreement.** This Security Instrument contains the entire agreement of the parties with respect to the Trust Property. No prior agreement or promise made by any party to this Security Instrument that is not contained herein shall be binding or valid.

6.12 **Joint and Several Liability.** If this Security Instrument is executed by two or more persons as Grantor, all of such persons shall be liable, jointly and severally, for payment of all sums and performance of all covenants in this Security Instrument.

6.13 **Standard for Discretion.** If this Security Instrument is silent on the standard for any consent, approval, determination, or similar discretionary action, the standard shall be sole and unfettered discretion as opposed to any standard of good faith, fairness, or reasonableness.

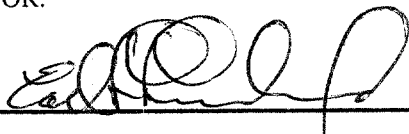
6.14 **WARNING: UNLESS GRANTOR PROVIDES BENEFICIARY WITH EVIDENCE OF INSURANCE COVERAGE AS REQUIRED BY THE CONTRACT OR LOAN AGREEMENT BETWEEN THEM, BENEFICIARY MAY PURCHASE INSURANCE AT GRANTOR'S EXPENSE TO PROTECT BENEFICIARY'S INTEREST. THIS INSURANCE MAY, BUT NEED NOT, ALSO PROTECT GRANTOR'S INTEREST. IF THE COLLATERAL BECOMES DAMAGED, THE COVERAGE PURCHASED BY BENEFICIARY MAY NOT PAY ANY CLAIM MADE BY OR AGAINST GRANTOR. GRANTOR MAY LATER CANCEL THE COVERAGE BY PROVIDING EVIDENCE THAT GRANTOR HAS OBTAINED PROPERTY COVERAGE ELSEWHERE. GRANTOR IS RESPONSIBLE FOR THE COST OF ANY INSURANCE COVERAGE PURCHASED BY BENEFICIARY, WHICH COST MAY BE ADDED TO GRANTOR'S CONTRACT OR LOAN BALANCE. IF IT IS SO ADDED, THE INTEREST RATE ON THE UNDERLYING CONTRACT OR LOAN WILL APPLY TO IT. THE EFFECTIVE DATE OF COVERAGE MAY BE THE DATE GRANTOR'S PRIOR COVERAGE LAPSED OR THE DATE GRANTOR FAILED TO PROVIDE PROOF OF COVERAGE. THE COVERAGE BENEFICIARY PURCHASES MAY BE CONSIDERABLY MORE EXPENSIVE THAN INSURANCE GRANTOR MIGHT OTHERWISE OBTAIN ALONE AND MAY NOT SATISFY ANY NEED FOR PROPERTY DAMAGE COVERAGE OR ANY MANDATORY LIABILITY INSURANCE REQUIREMENTS IMPOSED BY APPLICABLE LAW.**

BY SIGNING BELOW, Grantor accepts and agrees to the terms and covenants contained in this Security Instrument and in any addendum recorded with it.

NOTICE TO THE BORROWER: Do not sign this loan agreement before you read it. This loan agreement provides for the payment of a six (6) month interest only guarantee (penalty) to the Lender if you wish to re-pay the loan prior to the date provided for repayment in the loan agreement (six (6) months from close).

This Promissory Note and Trust Deed has an acceleration clause. All parties agree that if a late fee is assessed due to payment being received after the grace period, more than three times in a 12 month period, the loan term immediately ends and all funds are immediately due and payable as a balloon payment to the lender.

GRANTOR:



Earl F. Fernlund



Carolyn L. Fernlund



Trust Deed -- Page 7

[Lawyers Title Ins. Corp. Oregon Form Trust Deed, Ver. 16 Dec 2003]

ACKNOWLEDGMENT(S)

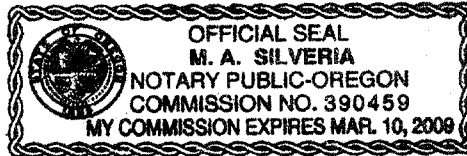
[Acknowledgment for Individuals]

STATE OF OREGON, County of Klamath:

The foregoing instrument was acknowledged before me this 13 day of February, 2002, by

Earl F. Fernlund and Carolyn L. Fernlund —

M. A. Silveria
Notary Public for Oregon
My commission expires: 3/10/09



REQUEST FOR RECONVEYANCE

TO TRUSTEE:

The undersigned is the holder of the note or notes secured by this Trust Deed. Said note or notes, together with all other indebtedness secured by this Trust Deed, have been paid in full. You are hereby directed to cancel said note or notes and this Trust Deed, which are delivered hereby, and to reconvey, without warranty, all the estate now held by you under this Trust Deed to the person or persons legally entitled thereto.

BENEFICIARY:

_____ DATE: _____



Beginning at the section corner common to Sections 29, 28, 32 and 33, Township 39 South, Range 9 East of the Willamette Meridian, Klamath County, Oregon; thence South along the section line 1346.72 feet to a point; thence North 89° 13' East 499.28 feet to a 3/8" iron pipe as per recorded Survey No. 328 in 1964 by Archie D. Corzatt; thence South 18° 59' East 640.20 feet to a point; thence South 40° 11' East 387.80 feet to a point; thence South 27° 58' 20" East 452.15 feet to a point; henceforth referred to as Point No. 1 which is the point of beginning; thence South 27° 58' 20" East 252.20 feet to a point; thence South 82° 57' 20" East 831.95 feet to a point; thence South 32° 08' 20" East 633.45 feet to a point; thence South 70° 52' 40" East 384.80 feet to a point; thence South 20° 04' 40" East 363.00 feet to a point; thence West along the 1/16 line 1573.0 feet to a point; thence South to a point which is the Southwest 1/16 corner of Section 33; thence West along the South section line of Section 33 to a point that is 1030 feet East of the section corner of Sections 32, 33, 4 and 5, Township 39 South, Range 9 East of the Willamette Meridian; thence North 460.0 feet to a point; thence West 500.00 feet to a point; thence North 382.29 feet to a point; thence West 530.00 feet to a point on the West line of Section 33 that is 1342.29 feet North of the section corner of Sections 32, 33, 5 and 4, Township 39 South, Range 9 and Township 40 South, Range 9 East of the Willamette Meridian; thence North along the West section line of Section 33 to a point that is the West quarter corner of Section 33; thence East along the quarter line to Point No. 1 which is the point of beginning.

SAVING AND EXCEPTING any portion lying within any roads or highways, and FURTHER EXCEPTING that portion deeded to Chavez in Deed Volume 69 on Page 344-1 and Deed Volume 69, Page 344-3, Records of Klamath County, Oregon.

ALSO FURTHER EXCEPTING that portion deeded to Klamath Irrigation District in Deed Volume M-78 on Page 29044, Microfilm Records of Klamath County, Oregon.

LESS that portion deeded to the United States of America for the No. 20-E Drain, recorded January 9, 1933 in Book 99 at Page 332, Deed Records of Klamath County, Oregon.

CODE 164 MAP 3909-03300 TL 01000 KEY #586547