

Doc # 2007165087
Page 1 of 30
Date: 02/22/2007 02:12P
Filed by: SKAMANIA COUNTY TITLE
Filed & Recorded in Official Records
of SKAMANIA COUNTY
SKAMANIA COUNTY AUDITOR
J MICHAEL GARVISON
Fee: \$112.00

RETURN ADDRESS
National City Bank
PO Box 8800
Dayton, OH 45401-8800

50229322
Document Title(s):

Order Number: V62693TH

Deed of Trust

Reference Number(s) of related documents:

Grantor(s): (Last name, First name and Middle Initial)

Ruge, Kevin L. and Amy L. Ruge

Grantee(s): (Last name, First name and Middle Initial)

National City Mortgage, a division of National City Bank

Trustee:

Skamania County Title

Legal Description: (abbreviated form: i.e. lot, block, plat or section township, range, quarter/quarter)

NW ¼ SEC 29th T2N R5E

Assessor's Property Tax Parcel/Account Number:

02-05-29-0-0-0402-00

The Auditor/Recorder will rely on the information provided on this form. The staff will not read the document to verify the accuracy or completeness of the indexing information provided herein.

I am requesting an emergency nonstandard recording for an additional fee as provided in RCW 36.18.010. I understand that the recording process may cover up or otherwise obscure some part of the text of the original document.

shelly Johson
Signature of Requesting Party

Return To:

0005315015

National City Bank
P.O. Box 8800
Dayton, OH 45401-8800

Assessor's Parcel or Account Number:

Abbreviated Legal Description: *92-05-29-0-0-0402-00*
NW 1/4 Sec 29, T2N, R5E

[Include lot, block and plat or section, township and range]

Full legal description located on page *16*

Trustee: *SKAMANIA County Title*

[Space Above This Line For Recording Data]

Sec 29322 DEED OF TRUST

DEFINITIONS

Words used in multiple sections of this document are defined below and other words are defined in Sections 3, 11, 13, 18, 20 and 21. Certain rules regarding the usage of words used in this document are also provided in Section 16.

(A) "Security Instrument" means this document, which is dated *February 15, 2007*, together with all Riders to this document.

(B) "Borrower" is

KEVIN L RUGE and AMY L RUGE Husband and Wife

Borrower is the trustor under this Security Instrument.

(C) "Lender" is **National City Mortgage a division of National City Bank**

WASHINGTON -Single Family- Fannie Mae/Freddie Mac UNIFORM INSTRUMENT

Form 3048 1/01

 -6(WA) (0012)

Page 1 of 15

Initials: *de KR*

VMP MORTGAGE FORMS - (800)521-7291



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Lender is a **National Banking Association**
organized and existing under the laws of **United States**
Lender's address is **3232 NEWMARK DRIVE, MIAMISBURG, OH 45342**

Lender is the beneficiary under this Security Instrument.

(D) "Trustee" is **SKAMANIA COUNTY TITLE**

(E) "Note" means the promissory note signed by Borrower and dated **February 15, 2007**
The Note states that Borrower owes Lender

FOUR HUNDRED SEVENTEEN THOUSAND & 00/100 Dollars
(U.S. \$ **417,000.00**) plus interest. Borrower has promised to pay this debt in regular Periodic
Payments and to pay the debt in full not later than **March 1, 2038**

(F) "Property" means the property that is described below under the heading "Transfer of Rights in the
Property."

(G) "Loan" means the debt evidenced by the Note, plus interest, any prepayment charges and late charges
due under the Note, and all sums due under this Security Instrument, plus interest.

(H) "Riders" means all Riders to this Security Instrument that are executed by Borrower. The following
Riders are to be executed by Borrower [check box as applicable]:

<input checked="" type="checkbox"/> Adjustable Rate Rider	<input type="checkbox"/> Condominium Rider	<input type="checkbox"/> Second Home Rider
<input type="checkbox"/> Balloon Rider	<input type="checkbox"/> Planned Unit Development Rider	<input type="checkbox"/> 1-4 Family Rider
<input type="checkbox"/> VA Rider	<input type="checkbox"/> Biweekly Payment Rider	<input checked="" type="checkbox"/> Other(s) [specify] CONST PERM RIDR

(I) "Applicable Law" means all controlling applicable federal, state and local statutes, regulations,
ordinances and administrative rules and orders (that have the effect of law) as well as all applicable final,
non-appealable judicial opinions.

(J) "Community Association Dues, Fees, and Assessments" means all dues, fees, assessments and other
charges that are imposed on Borrower or the Property by a condominium association, homeowners
association or similar organization.

(K) "Electronic Funds Transfer" means any transfer of funds, other than a transaction originated by check,
draft, or similar paper instrument, which is initiated through an electronic terminal, telephonic instrument,
computer, or magnetic tape so as to order, instruct, or authorize a financial institution to debit or credit an
account. Such term includes, but is not limited to, point-of-sale transfers, automated teller machine
transactions, transfers initiated by telephone, wire transfers, and automated clearinghouse transfers.

(L) "Escrow Items" means those items that are described in Section 3.

(M) "Miscellaneous Proceeds" means any compensation, settlement, award of damages, or proceeds paid by
any third party (other than insurance proceeds paid under the coverages described in Section 5) for: (i)
damage to, or destruction of, the Property; (ii) condemnation or other taking of all or any part of the Property;
(iii) conveyance in lieu of condemnation; or (iv) misrepresentations of, or omissions as to, the value and/or
condition of the Property.

(N) "Mortgage Insurance" means insurance protecting Lender against the nonpayment of, or default on, the
Loan.

(O) "Periodic Payment" means the regularly scheduled amount due for (i) principal and interest under the
Note, plus (ii) any amounts under Section 3 of this Security Instrument.

(P) "RESPA" means the Real Estate Settlement Procedures Act (12 U.S.C. Section 2601 et seq.) and its implementing regulation, Regulation X (24 C.F.R. Part 3500), as they might be amended from time to time, or any additional or successor legislation or regulation that governs the same subject matter. As used in this Security Instrument, "RESPA" refers to all requirements and restrictions that are imposed in regard to a "federally related mortgage loan" even if the Loan does not qualify as a "federally related mortgage loan" under RESPA.

(Q) "Successor in Interest of Borrower" means any party that has taken title to the Property, whether or not that party has assumed Borrower's obligations under the Note and/or this Security Instrument.

TRANSFER OF RIGHTS IN THE PROPERTY

This Security Instrument secures to Lender: (i) the repayment of the Loan, and all renewals, extensions and modifications of the Note; and (ii) the performance of Borrower's covenants and agreements under this Security Instrument and the Note. For this purpose, Borrower irrevocably grants and conveys to Trustee, in trust, with power of sale, the following described property located in the COUNTY of Skamania :

[Type of Recording Jurisdiction]

[Name of Recording Jurisdiction]

SEE ATTACHED LEGAL DESCRIPTION

Parcel ID Number:

LOT 2 CONNIE LN,
WASHOUGAL

which currently has the address of

[City] , Washington 98671 [Street]
[Zip Code]

("Property Address"):

TOGETHER WITH all the improvements now or hereafter erected on the property, and all easements, appurtenances, and fixtures now or hereafter a part of the property. All replacements and additions shall also be covered by this Security Instrument. All of the foregoing is referred to in this Security Instrument as the "Property."

BORROWER COVENANTS that Borrower is lawfully seised of the estate hereby conveyed and has the right to grant and convey the Property and that the Property is unencumbered, except for encumbrances of record. Borrower warrants and will defend generally the title to the Property against all claims and demands, subject to any encumbrances of record.

THIS SECURITY INSTRUMENT combines uniform covenants for national use and non-uniform covenants with limited variations by jurisdiction to constitute a uniform security instrument covering real property.

UNIFORM COVENANTS. Borrower and Lender covenant and agree as follows:

1. Payment of Principal, Interest, Escrow Items, Prepayment Charges, and Late Charges.

Borrower shall pay when due the principal of, and interest on, the debt evidenced by the Note and any prepayment charges and late charges due under the Note. Borrower shall also pay funds for Escrow Items pursuant to Section 3. Payments due under the Note and this Security Instrument shall be made in U.S. currency. However, if any check or other instrument received by Lender as payment under the Note or this Security Instrument is returned to Lender unpaid, Lender may require that any or all subsequent payments due under the Note and this Security Instrument be made in one or more of the following forms, as selected by Lender: (a) cash; (b) money order; (c) certified check, bank check, treasurer's check or cashier's check, provided any such check is drawn upon an institution whose deposits are insured by a federal agency, instrumentality, or entity; or (d) Electronic Funds Transfer.

Payments are deemed received by Lender when received at the location designated in the Note or at such other location as may be designated by Lender in accordance with the notice provisions in Section 15. Lender may return any payment or partial payment if the payment or partial payments are insufficient to bring the Loan current. Lender may accept any payment or partial payment insufficient to bring the Loan current, without waiver of any rights hereunder or prejudice to its rights to refuse such payment or partial payments in the future, but Lender is not obligated to apply such payments at the time such payments are accepted. If each Periodic Payment is applied as of its scheduled due date, then Lender need not pay interest on unapplied funds. Lender may hold such unapplied funds until Borrower makes payments to bring the Loan current. If Borrower does not do so within a reasonable period of time, Lender shall either apply such funds or return them to Borrower. If not applied earlier, such funds will be applied to the outstanding principal balance under the Note immediately prior to foreclosure. No offset or claim which Borrower might have now or in the future against Lender shall relieve Borrower from making payments due under the Note and this Security Instrument or performing the covenants and agreements secured by this Security Instrument.

2. Application of Payments or Proceeds. Except as otherwise described in this Section 2, all payments accepted and applied by Lender shall be applied in the following order of priority: (a) interest due under the Note; (b) principal due under the Note; (c) amounts due under Section 3. Such payments shall be applied to each Periodic Payment in the order in which it became due. Any remaining amounts shall be applied first to late charges, second to any other amounts due under this Security Instrument, and then to reduce the principal balance of the Note.

If Lender receives a payment from Borrower for a delinquent Periodic Payment which includes a sufficient amount to pay any late charge due, the payment may be applied to the delinquent payment and the late charge. If more than one Periodic Payment is outstanding, Lender may apply any payment received from Borrower to the repayment of the Periodic Payments if, and to the extent that, each payment can be paid in full. To the extent that any excess exists after the payment is applied to the full payment of one or more Periodic Payments, such excess may be applied to any late charges due. Voluntary prepayments shall be applied first to any prepayment charges and then as described in the Note.

Any application of payments, insurance proceeds, or Miscellaneous Proceeds to principal due under the Note shall not extend or postpone the due date, or change the amount, of the Periodic Payments.

3. Funds for Escrow Items. Borrower shall pay to Lender on the day Periodic Payments are due under the Note, until the Note is paid in full, a sum (the "Funds") to provide for payment of amounts due for: (a) taxes and assessments and other items which can attain priority over this Security Instrument as a lien or encumbrance on the Property; (b) leasehold payments or ground rents on the Property, if any; (c) premiums for any and all insurance required by Lender under Section 5; and (d) Mortgage Insurance premiums, if any, or any sums payable by Borrower to Lender in lieu of the payment of Mortgage Insurance premiums in accordance with the provisions of Section 10. These items are called "Escrow Items." At origination or at any time during the term of the Loan, Lender may require that Community Association Dues,

Fees, and Assessments, if any, be escrowed by Borrower, and such dues, fees and assessments shall be an Escrow Item. Borrower shall promptly furnish to Lender all notices of amounts to be paid under this Section. Borrower shall pay Lender the Funds for Escrow Items unless Lender waives Borrower's obligation to pay the Funds for any or all Escrow Items. Lender may waive Borrower's obligation to pay to Lender Funds for any or all Escrow Items at any time. Any such waiver may only be in writing. In the event of such waiver, Borrower shall pay directly, when and where payable, the amounts due for any Escrow Items for which payment of Funds has been waived by Lender and, if Lender requires, shall furnish to Lender receipts evidencing such payment within such time period as Lender may require. Borrower's obligation to make such payments and to provide receipts shall for all purposes be deemed to be a covenant and agreement contained in this Security Instrument, as the phrase "covenant and agreement" is used in Section 9. If Borrower is obligated to pay Escrow Items directly, pursuant to a waiver, and Borrower fails to pay the amount due for an Escrow Item, Lender may exercise its rights under Section 9 and pay such amount and Borrower shall then be obligated under Section 9 to repay to Lender any such amount. Lender may revoke the waiver as to any or all Escrow Items at any time by a notice given in accordance with Section 15 and, upon such revocation, Borrower shall pay to Lender all Funds, and in such amounts, that are then required under this Section 3.

Lender may, at any time, collect and hold Funds in an amount (a) sufficient to permit Lender to apply the Funds at the time specified under RESPA, and (b) not to exceed the maximum amount a lender can require under RESPA. Lender shall estimate the amount of Funds due on the basis of current data and reasonable estimates of expenditures of future Escrow Items or otherwise in accordance with Applicable Law.

The Funds shall be held in an institution whose deposits are insured by a federal agency, instrumentality, or entity (including Lender, if Lender is an institution whose deposits are so insured) or in any Federal Home Loan Bank. Lender shall apply the Funds to pay the Escrow Items no later than the time specified under RESPA. Lender shall not charge Borrower for holding and applying the Funds, annually analyzing the escrow account, or verifying the Escrow Items, unless Lender pays Borrower interest on the Funds and Applicable Law permits Lender to make such a charge. Unless an agreement is made in writing or Applicable Law requires interest to be paid on the Funds, Lender shall not be required to pay Borrower any interest or earnings on the Funds. Borrower and Lender can agree in writing, however, that interest shall be paid on the Funds. Lender shall give to Borrower, without charge, an annual accounting of the Funds as required by RESPA.

If there is a surplus of Funds held in escrow, as defined under RESPA, Lender shall account to Borrower for the excess funds in accordance with RESPA. If there is a shortage of Funds held in escrow, as defined under RESPA, Lender shall notify Borrower as required by RESPA, and Borrower shall pay to Lender the amount necessary to make up the shortage in accordance with RESPA, but in no more than 12 monthly payments. If there is a deficiency of Funds held in escrow, as defined under RESPA, Lender shall notify Borrower as required by RESPA, and Borrower shall pay to Lender the amount necessary to make up the deficiency in accordance with RESPA, but in no more than 12 monthly payments.

Upon payment in full of all sums secured by this Security Instrument, Lender shall promptly refund to Borrower any Funds held by Lender.

4. Charges; Liens. Borrower shall pay all taxes, assessments, charges, fines, and impositions attributable to the Property which can attain priority over this Security Instrument, leasehold payments or ground rents on the Property, if any, and Community Association Dues, Fees, and Assessments, if any. To the extent that these items are Escrow Items, Borrower shall pay them in the manner provided in Section 3.

Borrower shall promptly discharge any lien which has priority over this Security Instrument unless Borrower: (a) agrees in writing to the payment of the obligation secured by the lien in a manner acceptable to Lender, but only so long as Borrower is performing such agreement; (b) contests the lien in good faith by, or defends against enforcement of the lien in, legal proceedings which in Lender's opinion operate to prevent the enforcement of the lien while those proceedings are pending, but only until such proceedings are concluded; or (c) secures from the holder of the lien an agreement satisfactory to Lender subordinating the lien to this Security Instrument. If Lender determines that any part of the Property is subject to a lien which can attain priority over this Security Instrument, Lender may give Borrower a notice identifying the lien. Within 10 days of the date on which that notice is given, Borrower shall satisfy the lien or take one or more of the actions set forth above in this Section 4.

Lender may require Borrower to pay a one-time charge for a real estate tax verification and/or reporting service used by Lender in connection with this Loan.

5. Property Insurance. Borrower shall keep the improvements now existing or hereafter erected on the Property insured against loss by fire, hazards included within the term "extended coverage," and any other hazards including, but not limited to, earthquakes and floods, for which Lender requires insurance. This insurance shall be maintained in the amounts (including deductible levels) and for the periods that Lender requires. What Lender requires pursuant to the preceding sentences can change during the term of the Loan. The insurance carrier providing the insurance shall be chosen by Borrower subject to Lender's right to disapprove Borrower's choice, which right shall not be exercised unreasonably. Lender may require Borrower to pay, in connection with this Loan, either: (a) a one-time charge for flood zone determination, certification and tracking services; or (b) a one-time charge for flood zone determination and certification services and subsequent charges each time remappings or similar changes occur which reasonably might affect such determination or certification. Borrower shall also be responsible for the payment of any fees imposed by the Federal Emergency Management Agency in connection with the review of any flood zone determination resulting from an objection by Borrower.

If Borrower fails to maintain any of the coverages described above, Lender may obtain insurance coverage, at Lender's option and Borrower's expense. Lender is under no obligation to purchase any particular type or amount of coverage. Therefore, such coverage shall cover Lender, but might or might not protect Borrower, Borrower's equity in the Property, or the contents of the Property, against any risk, hazard or liability and might provide greater or lesser coverage than was previously in effect. Borrower acknowledges that the cost of the insurance coverage so obtained might significantly exceed the cost of insurance that Borrower could have obtained. Any amounts disbursed by Lender under this Section 5 shall become additional debt of Borrower secured by this Security Instrument. These amounts shall bear interest at the Note rate from the date of disbursement and shall be payable, with such interest, upon notice from Lender to Borrower requesting payment.

All insurance policies required by Lender and renewals of such policies shall be subject to Lender's right to disapprove such policies, shall include a standard mortgage clause, and shall name Lender as mortgagee and/or as an additional loss payee. Lender shall have the right to hold the policies and renewal certificates. If Lender requires, Borrower shall promptly give to Lender all receipts of paid premiums and renewal notices. If Borrower obtains any form of insurance coverage, not otherwise required by Lender, for damage to, or destruction of, the Property, such policy shall include a standard mortgage clause and shall name Lender as mortgagee and/or as an additional loss payee.

In the event of loss, Borrower shall give prompt notice to the insurance carrier and Lender. Lender may make proof of loss if not made promptly by Borrower. Unless Lender and Borrower otherwise agree in writing, any insurance proceeds, whether or not the underlying insurance was required by Lender, shall be applied to restoration or repair of the Property, if the restoration or repair is economically feasible and Lender's security is not lessened. During such repair and restoration period, Lender shall have the right to

Initials: JR KR

Applicable Law expressly requires otherwise. The notice address shall be the Property Address unless Borrower has designated a substitute notice address by notice to Lender. Borrower shall promptly notify Lender of Borrower's change of address. If Lender specifies a procedure for reporting Borrower's change of address, then Borrower shall only report a change of address through that specified procedure.

There may be only one designated notice address under this Security Instrument at any one time. Any notice to Lender shall be given by delivering it or by mailing it by first class mail to Lender's address stated herein unless Lender has designated another address by notice to Borrower. Any notice in connection with this Security Instrument shall not be deemed to have been given to Lender until actually received by Lender. If any notice required by this Security Instrument is also required under Applicable Law, the Applicable Law requirement will satisfy the corresponding requirement under this Security Instrument.

16. Governing Law; Severability; Rules of Construction. This Security Instrument shall be governed by federal law and the law of the jurisdiction in which the Property is located. All rights and obligations contained in this Security Instrument are subject to any requirements and limitations of Applicable Law. Applicable Law might explicitly or implicitly allow the parties to agree by contract or it might be silent, but such silence shall not be construed as a prohibition against agreement by contract. In the event that any provision or clause of this Security Instrument or the Note conflicts with Applicable Law, such conflict shall not affect other provisions of this Security Instrument or the Note which can be given effect without the conflicting provision.

As used in this Security Instrument: (a) words of the masculine gender shall mean and include corresponding neuter words or words of the feminine gender; (b) words in the singular shall mean and include the plural and vice versa; and (c) the word "may" gives sole discretion without any obligation to take any action.

17. Borrower's Copy. Borrower shall be given one copy of the Note and of this Security Instrument.

18. 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.

19. Borrower's Right to Reinstate After Acceleration. If Borrower meets certain conditions, Borrower shall have the right to have enforcement of this Security Instrument discontinued at any time prior to the earliest of: (a) five days before sale of the Property pursuant to any power of sale contained in this Security Instrument; (b) such other period as Applicable Law might specify for the termination of Borrower's right to reinstate; or (c) entry of a judgment enforcing this Security Instrument. Those conditions are that Borrower: (a) pays Lender all sums which then would be due under this Security Instrument and the Note as if no acceleration had occurred; (b) cures any default of any other covenants or agreements; (c) pays all expenses incurred in enforcing this Security Instrument, including, but not limited to, reasonable attorneys' fees, property inspection and valuation fees, and other fees incurred for the purpose of protecting Lender's interest in the Property and rights under this Security Instrument; and (d) takes such action as Lender may reasonably require to assure that Lender's interest in the Property and rights under this Security Instrument, and Borrower's obligation to pay the sums secured by this Security Instrument, shall continue unchanged. Lender may require that Borrower pay such reinstatement sums and expenses in one or more of the following forms, as selected by Lender: (a) cash; (b) money order; (c) certified check, bank check, treasurer's check or

cashier's check, provided any such check is drawn upon an institution whose deposits are insured by a federal agency, instrumentality or entity; or (d) Electronic Funds Transfer. Upon reinstatement by Borrower, this Security Instrument and obligations secured hereby shall remain fully effective as if no acceleration had occurred. However, this right to reinstate shall not apply in the case of acceleration under Section 18.

20. Sale of Note; Change of Loan Servicer; Notice of Grievance. The Note or a partial interest in the Note (together with this Security Instrument) can be sold one or more times without prior notice to Borrower. A sale might result in a change in the entity (known as the "Loan Servicer") that collects Periodic Payments due under the Note and this Security Instrument and performs other mortgage loan servicing obligations under the Note, this Security Instrument, and Applicable Law. There also might be one or more changes of the Loan Servicer unrelated to a sale of the Note. If there is a change of the Loan Servicer, Borrower will be given written notice of the change which will state the name and address of the new Loan Servicer, the address to which payments should be made and any other information RESPA requires in connection with a notice of transfer of servicing. If the Note is sold and thereafter the Loan is serviced by a Loan Servicer other than the purchaser of the Note, the mortgage loan servicing obligations to Borrower will remain with the Loan Servicer or be transferred to a successor Loan Servicer and are not assumed by the Note purchaser unless otherwise provided by the Note purchaser.

Neither Borrower nor Lender may commence, join, or be joined to any judicial action (as either an individual litigant or the member of a class) that arises from the other party's actions pursuant to this Security Instrument or that alleges that the other party has breached any provision of, or any duty owed by reason of, this Security Instrument, until such Borrower or Lender has notified the other party (with such notice given in compliance with the requirements of Section 15) of such alleged breach and afforded the other party hereto a reasonable period after the giving of such notice to take corrective action. If Applicable Law provides a time period which must elapse before certain action can be taken, that time period will be deemed to be reasonable for purposes of this paragraph. The notice of acceleration and opportunity to cure given to Borrower pursuant to Section 22 and the notice of acceleration given to Borrower pursuant to Section 18 shall be deemed to satisfy the notice and opportunity to take corrective action provisions of this Section 20.

21. Hazardous Substances. As used in this Section 21: (a) "Hazardous Substances" are those substances defined as toxic or hazardous substances, pollutants, or wastes by Environmental Law and the following substances: gasoline, kerosene, other flammable or toxic petroleum products, toxic pesticides and herbicides, volatile solvents, materials containing asbestos or formaldehyde, and radioactive materials; (b) "Environmental Law" means federal laws and laws of the jurisdiction where the Property is located that relate to health, safety or environmental protection; (c) "Environmental Cleanup" includes any response action, remedial action, or removal action, as defined in Environmental Law; and (d) an "Environmental Condition" means a condition that can cause, contribute to, or otherwise trigger an Environmental Cleanup.

Borrower shall not cause or permit the presence, use, disposal, storage, or release of any Hazardous Substances, or threaten to release any Hazardous Substances, on or in the Property. Borrower shall not do, nor allow anyone else to do, anything affecting the Property (a) that is in violation of any Environmental Law, (b) which creates an Environmental Condition, or (c) which, due to the presence, use, or release of a Hazardous Substance, creates a condition that adversely affects the value of the Property. The preceding two sentences shall not apply to the presence, use, or storage on the Property of small quantities of Hazardous Substances that are generally recognized to be appropriate to normal residential uses and to maintenance of the Property (including, but not limited to, hazardous substances in consumer products).

Borrower shall promptly give Lender written notice of (a) any investigation, claim, demand, lawsuit or other action by any governmental or regulatory agency or private party involving the Property and any Hazardous Substance or Environmental Law of which Borrower has actual knowledge, (b) any Environmental Condition, including but not limited to, any spilling, leaking, discharge, release or threat of

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As a result of these agreements, Lender, any purchaser of the Note, another insurer, any reinsurer, any other entity, or any affiliate of any of the foregoing, may receive (directly or indirectly) amounts that derive from (or might be characterized as) a portion of Borrower's payments for Mortgage Insurance, in exchange for sharing or modifying the mortgage insurer's risk, or reducing losses. If such agreement provides that an affiliate of Lender takes a share of the insurer's risk in exchange for a share of the premiums paid to the insurer, the arrangement is often termed "captive reinsurance." Further:

(a) Any such agreements will not affect the amounts that Borrower has agreed to pay for Mortgage Insurance, or any other terms of the Loan. Such agreements will not increase the amount Borrower will owe for Mortgage Insurance, and they will not entitle Borrower to any refund.

(b) Any such agreements will not affect the rights Borrower has - if any - with respect to the Mortgage Insurance under the Homeowners Protection Act of 1998 or any other law. These rights may include the right to receive certain disclosures, to request and obtain cancellation of the Mortgage Insurance, to have the Mortgage Insurance terminated automatically, and/or to receive a refund of any Mortgage Insurance premiums that were unearned at the time of such cancellation or termination.

11. Assignment of Miscellaneous Proceeds; Forfeiture. All Miscellaneous Proceeds are hereby assigned to and shall be paid to Lender.

If the Property is damaged, such Miscellaneous Proceeds shall be applied to restoration or repair of the Property, if the restoration or repair is economically feasible and Lender's security is not lessened. During such repair and restoration period, Lender shall have the right to hold such Miscellaneous Proceeds until Lender has had an opportunity to inspect such Property to ensure the work has been completed to Lender's satisfaction, provided that such inspection shall be undertaken promptly. Lender may pay for the repairs and restoration in a single disbursement or in a series of progress payments as the work is completed. Unless an agreement is made in writing or Applicable Law requires interest to be paid on such Miscellaneous Proceeds, Lender shall not be required to pay Borrower any interest or earnings on such Miscellaneous Proceeds. If the restoration or repair is not economically feasible or Lender's security would be lessened, the Miscellaneous Proceeds shall be applied to the sums secured by this Security Instrument, whether or not then due, with the excess, if any, paid to Borrower. Such Miscellaneous Proceeds shall be applied in the order provided for in Section 2.

In the event of a total taking, destruction, or loss in value of the Property, the Miscellaneous Proceeds shall be applied to the sums secured by this Security Instrument, whether or not then due, with the excess, if any, paid to Borrower.

In the event of a partial taking, destruction, or loss in value of the Property in which the fair market value of the Property immediately before the partial taking, destruction, or loss in value is equal to or greater than the amount of the sums secured by this Security Instrument immediately before the partial taking, destruction, or loss in value, unless Borrower and Lender otherwise agree in writing, the sums secured by this Security Instrument shall be reduced by the amount of the Miscellaneous Proceeds multiplied by the following fraction: (a) the total amount of the sums secured immediately before the partial taking, destruction, or loss in value divided by (b) the fair market value of the Property immediately before the partial taking, destruction, or loss in value. Any balance shall be paid to Borrower.

In the event of a partial taking, destruction, or loss in value of the Property in which the fair market value of the Property immediately before the partial taking, destruction, or loss in value is less than the amount of the sums secured immediately before the partial taking, destruction, or loss in value, unless Borrower and Lender otherwise agree in writing, the Miscellaneous Proceeds shall be applied to the sums secured by this Security Instrument whether or not the sums are then due.

If the Property is abandoned by Borrower, or if, after notice by Lender to Borrower that the Opposing Party (as defined in the next sentence) offers to make an award to settle a claim for damages, Borrower fails to respond to Lender within 30 days after the date the notice is given, Lender is authorized to collect and apply the Miscellaneous Proceeds either to restoration or repair of the Property or to the sums secured by this Security Instrument, whether or not then due. "Opposing Party" means the third party that owes Borrower Miscellaneous Proceeds or the party against whom Borrower has a right of action in regard to Miscellaneous Proceeds.

Initials: *AK KR*

Borrower shall be in default if any action or proceeding, whether civil or criminal, is begun that, in Lender's judgment, could result in forfeiture of the Property or other material impairment of Lender's interest in the Property or rights under this Security Instrument. Borrower can cure such a default and, if acceleration has occurred, reinstate as provided in Section 19, by causing the action or proceeding to be dismissed with a ruling that, in Lender's judgment, precludes forfeiture of the Property or other material impairment of Lender's interest in the Property or rights under this Security Instrument. The proceeds of any award or claim for damages that are attributable to the impairment of Lender's interest in the Property are hereby assigned and shall be paid to Lender.

All Miscellaneous Proceeds that are not applied to restoration or repair of the Property shall be applied in the order provided for in Section 2.

12. Borrower Not Released; Forbearance By Lender Not a Waiver. Extension of the time for payment or modification of amortization of the sums secured by this Security Instrument granted by Lender to Borrower or any Successor in Interest of Borrower shall not operate to release the liability of Borrower or any Successors in Interest of Borrower. Lender shall not be required to commence proceedings against any Successor in Interest of Borrower or to refuse to extend time for payment or otherwise modify amortization of the sums secured by this Security Instrument by reason of any demand made by the original Borrower or any Successors in Interest of Borrower. Any forbearance by Lender in exercising any right or remedy including, without limitation, Lender's acceptance of payments from third persons, entities or Successors in Interest of Borrower or in amounts less than the amount then due, shall not be a waiver of or preclude the exercise of any right or remedy.

13. Joint and Several Liability; Co-signers; Successors and Assigns Bound. Borrower covenants and agrees that Borrower's obligations and liability shall be joint and several. However, any Borrower who co-signs this Security Instrument but does not execute the Note (a "co-signer"): (a) is co-signing this Security Instrument only to mortgage, grant and convey the co-signer's interest in the Property under the terms of this Security Instrument; (b) is not personally obligated to pay the sums secured by this Security Instrument; and (c) agrees that Lender and any other Borrower can agree to extend, modify, forbear or make any accommodations with regard to the terms of this Security Instrument or the Note without the co-signer's consent.

Subject to the provisions of Section 18, any Successor in Interest of Borrower who assumes Borrower's obligations under this Security Instrument in writing, and is approved by Lender, shall obtain all of Borrower's rights and benefits under this Security Instrument. Borrower shall not be released from Borrower's obligations and liability under this Security Instrument unless Lender agrees to such release in writing. The covenants and agreements of this Security Instrument shall bind (except as provided in Section 20) and benefit the successors and assigns of Lender.

14. Loan Charges. Lender may charge Borrower fees for services performed in connection with Borrower's default, for the purpose of protecting Lender's interest in the Property and rights under this Security Instrument, including, but not limited to, attorneys' fees, property inspection and valuation fees. In regard to any other fees, the absence of express authority in this Security Instrument to charge a specific fee to Borrower shall not be construed as a prohibition on the charging of such fee. Lender may not charge fees that are expressly prohibited by this Security Instrument or by Applicable Law.

If the Loan is subject to a law which 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 the 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 sums already collected from Borrower which exceeded permitted limits will be refunded to Borrower. Lender may choose to make this refund by reducing the principal owed under the Note or by making a direct payment to Borrower. If a refund reduces principal, the reduction will be treated as a partial prepayment without any prepayment charge (whether or not a prepayment charge is provided for under the Note). Borrower's acceptance of any such refund made by direct payment to Borrower will constitute a waiver of any right of action Borrower might have arising out of such overcharge.

15. Notices. All notices given by Borrower or Lender in connection with this Security Instrument must be in writing. Any notice to Borrower in connection with this Security Instrument shall be deemed to have been given to Borrower when mailed by first class mail or when actually delivered to Borrower's notice address if sent by other means. Notice to any one Borrower shall constitute notice to all Borrowers unless

hold such insurance proceeds until Lender has had an opportunity to inspect such Property to ensure the work has been completed to Lender's satisfaction, provided that such inspection shall be undertaken promptly. Lender may disburse proceeds for the repairs and restoration in a single payment or in a series of progress payments as the work is completed. Unless an agreement is made in writing or Applicable Law requires interest to be paid on such insurance proceeds, Lender shall not be required to pay Borrower any interest or earnings on such proceeds. Fees for public adjusters, or other third parties, retained by Borrower shall not be paid out of the insurance proceeds and shall be the sole obligation of Borrower. If the restoration or repair is not economically feasible or Lender's security would be lessened, the insurance proceeds shall be applied to the sums secured by this Security Instrument, whether or not then due, with the excess, if any, paid to Borrower. Such insurance proceeds shall be applied in the order provided for in Section 2.

If Borrower abandons the Property, Lender may file, negotiate and settle any available insurance claim and related matters. If Borrower does not respond within 30 days to a notice from Lender that the insurance carrier has offered to settle a claim, then Lender may negotiate and settle the claim. The 30-day period will begin when the notice is given. In either event, or if Lender acquires the Property under Section 22 or otherwise, Borrower hereby assigns to Lender (a) Borrower's rights to any insurance proceeds in an amount not to exceed the amounts unpaid under the Note or this Security Instrument, and (b) any other of Borrower's rights (other than the right to any refund of unearned premiums paid by Borrower) under all insurance policies covering the Property, insofar as such rights are applicable to the coverage of the Property. Lender may use the insurance proceeds either to repair or restore the Property or to pay amounts unpaid under the Note or this Security Instrument, whether or not then due.

6. Occupancy. Borrower shall occupy, establish, and use the Property as Borrower's principal residence within 60 days after the execution of this Security Instrument and shall continue to occupy the Property as Borrower's principal residence for at least one year after the date of occupancy, unless Lender otherwise agrees in writing, which consent shall not be unreasonably withheld, or unless extenuating circumstances exist which are beyond Borrower's control.

7. Preservation, Maintenance and Protection of the Property; Inspections. Borrower shall not destroy, damage or impair the Property, allow the Property to deteriorate or commit waste on the Property. Whether or not Borrower is residing in the Property, Borrower shall maintain the Property in order to prevent the Property from deteriorating or decreasing in value due to its condition. Unless it is determined pursuant to Section 5 that repair or restoration is not economically feasible, Borrower shall promptly repair the Property if damaged to avoid further deterioration or damage. If insurance or condemnation proceeds are paid in connection with damage to, or the taking of, the Property, Borrower shall be responsible for repairing or restoring the Property only if Lender has released proceeds for such purposes. Lender may disburse proceeds for the repairs and restoration in a single payment or in a series of progress payments as the work is completed. If the insurance or condemnation proceeds are not sufficient to repair or restore the Property, Borrower is not relieved of Borrower's obligation for the completion of such repair or restoration.

Lender or its agent may make reasonable entries upon and inspections of the Property. If it has reasonable cause, Lender may inspect the interior of the improvements on the Property. Lender shall give Borrower notice at the time of or prior to such an interior inspection specifying such reasonable cause.

8. Borrower's Loan Application. Borrower shall be in default if, during the Loan application process, Borrower or any persons or entities acting at the direction of Borrower or with Borrower's knowledge or consent gave materially false, misleading, or inaccurate information or statements to Lender (or failed to provide Lender with material information) in connection with the Loan. Material representations include, but are not limited to, representations concerning Borrower's occupancy of the Property as Borrower's principal residence.

9. Protection of Lender's Interest in the Property and Rights Under this Security Instrument. If (a) Borrower fails to perform the covenants and agreements contained in this Security Instrument, (b) there is a legal proceeding that might significantly affect Lender's interest in the Property and/or rights under this Security Instrument (such as a proceeding in bankruptcy, probate, for condemnation or forfeiture, for enforcement of a lien which may attain priority over this Security Instrument or to enforce laws or regulations), or (c) Borrower has abandoned the Property, then Lender may do and pay for whatever is reasonable or appropriate to protect Lender's interest in the Property and rights under this Security Instrument, including protecting and/or assessing the value of the Property, and securing and/or repairing the Property. Lender's actions can include, but are not limited to: (a) paying any sums secured by a lien which has priority over this Security Instrument; (b) appearing in court; and (c) paying reasonable attorneys' fees to protect its interest in the Property and/or rights under this Security Instrument, including its secured position in a bankruptcy proceeding. Securing the Property includes, but is not limited to, entering the Property to make repairs, change locks, replace or board up doors and windows, drain water from pipes, eliminate building or other code violations or dangerous conditions, and have utilities turned on or off. Although Lender may take action under this Section 9, Lender does not have to do so and is not under any duty or obligation to do so. It is agreed that Lender incurs no liability for not taking any or all actions authorized under this Section 9.

Any amounts disbursed by Lender under this Section 9 shall become additional debt of Borrower secured by this Security Instrument. These amounts shall bear interest at the Note rate from the date of disbursement and shall be payable, with such interest, upon notice from Lender to Borrower requesting payment.

If this Security Instrument is on a leasehold, Borrower shall comply with all the provisions of the lease. If Borrower acquires fee title to the Property, the leasehold and the fee title shall not merge unless Lender agrees to the merger in writing.

10. Mortgage Insurance. If Lender required Mortgage Insurance as a condition of making the Loan, Borrower shall pay the premiums required to maintain the Mortgage Insurance in effect. If, for any reason, the Mortgage Insurance coverage required by Lender ceases to be available from the mortgage insurer that previously provided such insurance and Borrower was required to make separately designated payments toward the premiums for Mortgage Insurance, Borrower shall pay the premiums required to obtain coverage substantially equivalent to the Mortgage Insurance previously in effect, at a cost substantially equivalent to the cost to Borrower of the Mortgage Insurance previously in effect, from an alternate mortgage insurer selected by Lender. If substantially equivalent Mortgage Insurance coverage is not available, Borrower shall continue to pay to Lender the amount of the separately designated payments that were due when the insurance coverage ceased to be in effect. Lender will accept, use and retain these payments as a non-refundable loss reserve in lieu of Mortgage Insurance. Such loss reserve shall be non-refundable, notwithstanding the fact that the Loan is ultimately paid in full, and Lender shall not be required to pay Borrower any interest or earnings on such loss reserve. Lender can no longer require loss reserve payments if Mortgage Insurance coverage (in the amount and for the period that Lender requires) provided by an insurer selected by Lender again becomes available, is obtained, and Lender requires separately designated payments toward the premiums for Mortgage Insurance. If Lender required Mortgage Insurance as a condition of making the Loan and Borrower was required to make separately designated payments toward the premiums for Mortgage Insurance, Borrower shall pay the premiums required to maintain Mortgage Insurance in effect, or to provide a non-refundable loss reserve, until Lender's requirement for Mortgage Insurance ends in accordance with any written agreement between Borrower and Lender providing for such termination or until termination is required by Applicable Law. Nothing in this Section 10 affects Borrower's obligation to pay interest at the rate provided in the Note.

Mortgage Insurance reimburses Lender (or any entity that purchases the Note) for certain losses it may incur if Borrower does not repay the Loan as agreed. Borrower is not a party to the Mortgage Insurance.

Mortgage insurers evaluate their total risk on all such insurance in force from time to time, and may enter into agreements with other parties that share or modify their risk, or reduce losses. These agreements are on terms and conditions that are satisfactory to the mortgage insurer and the other party (or parties) to these agreements. These agreements may require the mortgage insurer to make payments using any source of funds that the mortgage insurer may have available (which may include funds obtained from Mortgage Insurance premiums).

release of any Hazardous Substance, and (c) any condition caused by the presence, use or release of a Hazardous Substance which adversely affects the value of the Property. If Borrower learns, or is notified by any governmental or regulatory authority, or any private party, that any removal or other remediation of any Hazardous Substance affecting the Property is necessary, Borrower shall promptly take all necessary remedial actions in accordance with Environmental Law. Nothing herein shall create any obligation on Lender for an Environmental Cleanup.

NON-UNIFORM COVENANTS. Borrower and Lender further covenant and agree as follows:

22. Acceleration; Remedies. Lender shall give notice to Borrower prior to acceleration following Borrower's breach of any covenant or agreement in this Security Instrument (but not prior to acceleration under Section 18 unless Applicable Law provides otherwise). The notice shall specify: (a) the default; (b) the action required to cure the default; (c) a date, not less than 30 days from the date the notice is given to Borrower, by which the default must be cured; and (d) that failure to cure the default on or before the date specified in the notice may result in acceleration of the sums secured by this Security Instrument and sale of the Property at public auction at a date not less than 120 days in the future. The notice shall further inform Borrower of the right to reinstate after acceleration, the right to bring a court action to assert the non-existence of a default or any other defense of Borrower to acceleration and sale, and any other matters required to be included in the notice by Applicable Law. If the default is not cured on or before the date specified in the notice, Lender at its option, may require immediate payment in full of all sums secured by this Security Instrument without further demand and may invoke the power of sale and/or any other remedies permitted by Applicable Law. Lender shall be entitled to collect all expenses incurred in pursuing the remedies provided in this Section 22, including, but not limited to, reasonable attorneys' fees and costs of title evidence.

If Lender invokes the power of sale, Lender shall give written notice to Trustee of the occurrence of an event of default and of Lender's election to cause the Property to be sold. Trustee and Lender shall take such action regarding notice of sale and shall give such notices to Borrower and to other persons as Applicable Law may require. After the time required by Applicable Law and after publication of the notice of sale, Trustee, without demand on Borrower, shall sell the Property at public auction to the highest bidder at the time and place and under the terms designated in the notice of sale in one or more parcels and in any order Trustee determines. Trustee may postpone sale of the Property for a period or periods permitted by Applicable Law by public announcement at the time and place fixed in the notice of sale. Lender or its designee may purchase the Property at any sale.

Trustee shall deliver to the purchaser Trustee's deed conveying the Property without any covenant or warranty, expressed or implied. The recitals in the Trustee's deed shall be prima facie evidence of the truth of the statements made therein. Trustee shall apply the proceeds of the sale in the following order: (a) to all expenses of the sale, including, but not limited to, reasonable Trustee's and attorneys' fees; (b) to all sums secured by this Security Instrument; and (c) any excess to the person or persons legally entitled to it or to the clerk of the superior court of the county in which the sale took place.

23. Reconveyance. Upon payment of all sums secured by this Security Instrument, Lender shall request Trustee to reconvey the Property and shall surrender this Security Instrument and all notes evidencing debt secured by this Security Instrument to Trustee. Trustee shall reconvey the Property without warranty to the person or persons legally entitled to it. Such person or persons shall pay any recordation costs and the Trustee's fee for preparing the reconveyance.

24. Substitute Trustee. In accordance with Applicable Law, Lender may from time to time appoint a successor trustee to any Trustee appointed hereunder who has ceased to act. Without conveyance of the Property, the successor trustee shall succeed to all the title, power and duties conferred upon Trustee herein and by Applicable Law.

Initials: *AR KM*

26. Attorneys' Fees. Lender shall be entitled to recover its reasonable attorneys' fees and costs in any action or proceeding to construe or enforce any term of this Security Instrument. The term "attorneys' fees," as never used in this Security Instrument, shall include without limitation attorneys' fees incurred by Lender in any bankruptcy proceeding or on appeal.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Security Instrument and in any Rider executed by Borrower and recorded with it.

KEVIN L RUGE (Seal)
-Borrower

 (Seal)
AMY L. RUGE
-Borrower

-Borrower

_____ (Seal) _____ (Seal)
-Borrower -Borrower

_____ (Seal) _____ (Seal)
-Borrower -Borrower

STATE OF WASHINGTON

County of Clallam

} ss:

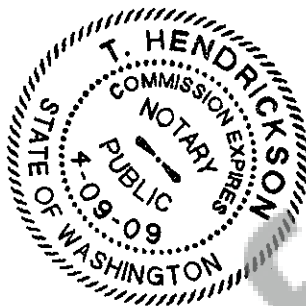
On this day personally appeared before me

Kevin L. Ruge & Amy L. Ruge

to me known to be the individual(s) described in and who executed the within and foregoing instrument, and acknowledged that he/she/they signed the same as his/her/their free and voluntary act and deed, for the uses and purposes therein mentioned.

GIVEN under my hand and official seal this

16 day of Feb 2007



[Signature]

Notary Public in and for the State of Washington, residing at

My Appointment Expires on 4.9.09

Unofficial Copy

EXHIBIT 'A'

A parcel of property located in the Northwest Quarter of Section 29, Township 2 North, Range 5 East of the Willamette Meridian, in Skamania County, Washington, described as follows:

Commencing at the Northwest corner of said Northwest Quarter of Section 29;

Thence South 01°21'56" West along the West line of said Northwest Quarter of Section 29 a distance of 1299.51 feet;

Thence North 89°49'38" East 915.71 feet;

Thence North 01°10'05" West 334.26 feet to the True Point of Beginning;

Thence North 89°30'14" East 719.46 feet;

Thence North 70°55'20" East 1064.99 feet to the East line of said Northwest Quarter of Section 29;

Thence North 01°15'49" East along said East line 548.23 feet to the North line of said Northwest Quarter of Section 29;

Thence North 88°41'28" West along said North line 1757.69 feet to a point which bears North 01°10'05" West from the True Point of Beginning.

Thence South 01°10'05" East 942.76 feet to the True Point of Beginning.

EXCEPT a strip of land 300 feet in width acquired by the United States of America for the Bonneville Power Administration's Bonneville-Vancouver No. 1 and No. 2 electric power transmission lines as recorded in Book 27 of Deeds at Page 319 of Skamania County.

TOGETHER WITH an easement for ingress, egress and utilities as disclosed by instrument recorded June 19, 2002 in Book 225, Page 504, Skamania County Records. Also as shown on survey recorded in Book 3 of Surveys, Page 417.

CONSTRUCTION/PERMANENT RIDER

THIS CONSTRUCTION/PERMANENT RIDER is made this 15th day of February, 2007, 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 Borrower's Note to

National City Mortgage a division of
National City Bank

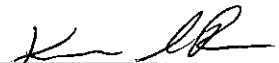
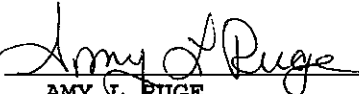
(The "Lender") of the same date and covering the property described in the Security Instrument and known as:
LOT 2 CONNIE LN, WASHOUGAL, Washington 98671
Skamania

(Property Address Including County)

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

1. Borrower and Lender have executed a Construction/Permanent Loan Agreement of even date. The terms of said Construction/Permanent Loan Agreement unless otherwise stated are incorporated herein by reference.
2. Borrower as owner, will construct a residence in accordance with the plans and specifications set forth in the Construction/Permanent Loan Agreement on the real property described in the Security Instrument.
3. Construction of the residence set out above shall be completed on or before 2/04/2008,
. If construction is not completed on that date, upon request of Lender, Borrower agrees to execute a modification agreement in form and substance satisfactory to Lender.
4. Borrower agrees that during the time of the construction of the Improvements as set forth in the Construction/Permanent Loan Agreement, interest only will be charged on the amounts of the Loan actually disbursed. Upon completion of construction of the Improvements, but in any event no later than 2/04/2008, whether or not the construction of the Improvements is completed, Borrower agrees to make payments of principal and interest set forth in the Note.
5. Borrower agrees that the proceeds of the loan evidenced by the Note will be disbursed pursuant to the Construction/Permanent Loan Agreement and Borrower further agrees to provide Lender with all documentation required under the Construction/Permanent Loan Agreement prior to requesting any disbursement.
6. Borrower agrees that this Construction/Permanent Rider will be null and void upon completion of the construction of the Improvements and/or the beginning of the amortization of principal as set forth in the Note and in any event at the time the loan is sold in whole or in part to Federal National Mortgages Association, Government National Mortgage Association, Federal Home Loan Mortgage Corporation or any other purchaser which so requires.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Construction/Permanent Rider.

 _____ KEVIN L. RUGE	(Seal) Borrower	 _____ AMY L. RUGE	(Seal) Borrower
_____ Borrower	(Seal)	_____ Borrower	(Seal)

Unofficial
Copy

ADJUSTABLE RATE RIDER

(Index: Six-Month London Interbank Offered Rate ("LIBOR") As Published in *The Wall St. Journal* - Rate Caps)
(Assumable After Initial Period) (45 Day Lookback)

This Adjustable Rate Rider is made this 15th day of February, 2007 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 Borrower's Adjustable Rate Note as amended and supplemented by the Interest Only Payment Period Note Addendum to Adjustable Rate Note (collectively the "Note") to **National City Mortgage**
a division of National City Bank

(the "Lender") of the same date and covering the property described in the Security Instrument and located at:

LOT 2 CONNIE LN , WASHOUGAL , Washington 98671

[Property Address]

THE NOTE PROVIDES FOR A PERIOD OF MONTHLY PAYMENTS OF INTEREST ONLY FOLLOWED BY MONTHLY PAYMENTS OF BOTH PRINCIPAL AND INTEREST. THE NOTE CONTAINS PROVISIONS ALLOWING FOR CHANGES IN THE INITIAL INTEREST RATE AND MONTHLY PAYMENT DURING AND AFTER THE INTEREST ONLY PAYMENT PERIOD. THE NOTE ALSO 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 **7.375 %**. The First Principal and Interest Due Date is the first monthly payment date after the one hundred twentieth (120th) monthly payment is due. The Note provides for changes in the interest rate and the monthly payments as follows:

4. INTEREST RATE AND MONTHLY PAYMENT CHANGES

(A) Change Dates

The interest rate I will pay may change on the first day of **March 2013**, and may change on that day every sixth (6th) 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 six month Interbank Offered Rate ("LIBOR") which is the average of interbank offered rates for six-month 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 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 3/4THS** percentage points (**2.750** %) 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 my new monthly payment as follows:

(i) Interest Only Payment Period. For monthly payments due after the first Change Date up to but not including the First Principal and Interest Due Date, the Note Holder will determine the amount of the monthly payment that would be sufficient to pay the interest that accrues on the unpaid principal that I am expected to owe at the Change Date at my new interest rate determined above in this Section 4(C). The result of this calculation will be the new amount of my Interest Only Payment until the next Change Date unless I make a partial Prepayment as provided in Section 5 of the Note.

(ii) Principal and Interest Payments Due Beginning With the First Principal and Interest Due Date. For monthly payments due on or after the First Principal and Interest Due Date, the Note Holder will 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 determined above in this Section 4(C) 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 **12.375** % or less than **2.750** %. Thereafter, my interest rate will never be increased or decreased on any single Change Date by more than **ONE** percentage points (**1.000** %) from the rate of interest I have been paying for the preceding six months. My interest rate will never be greater than **12.375** %.

(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 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 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.

DOC # 2007165087
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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:**

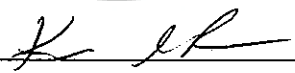
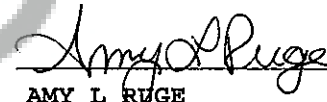
Transfer of the Property or a Beneficial Interest in Borrower. As used in this Section 18, "Interest in the Property" means any legal or beneficial interest in the Property, including, but not limited to, those beneficial interests transferred in a bond for deed, contract for deed, installment sales 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.

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

 _____ KEVIN L RUGE	(Seal) _____ Borrower	 _____ AMY L RUGE	(Seal) _____ Borrower
_____ Borrower	(Seal) _____ Borrower	_____ Borrower	(Seal) _____ Borrower
_____ Borrower	(Seal) _____ Borrower	_____ Borrower	(Seal) _____ Borrower
_____ Borrower	(Seal) _____ Borrower	_____ Borrower	(Seal) _____ Borrower

[Sign Original Only]

CONSTRUCTION/PERMANENT LOAN AGREEMENT

THIS CONSTRUCTION/PERMANENT LOAN AGREEMENT ("Agreement") is made on February 15 2007, by and among KEVIN L RUGE , AMY L RUGE ("Borrower") of 6307 NW MCKINNEY DR VANCOUVER Washington 98665 and National City Mortgage a division of National City Bank ("Lender") of 3232 NEWMARK DRIVE MIAMISBURG, OH 45342

WHEREAS, Lender has agreed to advance monies to Borrower relating to certain real property located at LOT 2 CONNIE LN, WASHOUGAL, Washington 98671

(the "Property") for the purpose of financing the construction of or improvements to a residence (the "Improvements") on said Property, the purchase of the property, if applicable and also if applicable the refinancing of any existing loans on the Property, which monies will be charged against Borrower's promissory note to Lender of even date herewith in the original principal sum of

FOUR HUNDRED SEVENTEEN THOUSAND & 00/100
Dollars (\$ 417,000.00) (the "Note");

WHEREAS, the Borrower has set aside funds (the "Borrower's Funds") which have been deposited into a non-interest bearing account with Lender. It is anticipated that Borrower's Funds, when combined with the Loan, will be sufficient to complete the construction of said Improvements. The Lender has not agreed to lend any additional funds to complete the Improvements, or for extras, or for any other purpose. The borrower shall be solely responsible for any funds, in addition to the Loan and Borrower's Funds, needed to complete the Improvements; and

WHEREAS, the Borrower shall erect and have completed the Improvements on the land described in the attached Exhibit "A" (the "Property"). The Improvements and the Property shall be free from mechanics claims or liens and shall comply with building restrictions, governmental regulations, zoning ordinances or laws, deed or plan restrictions and be in accordance with the Contract Documents as defined below; and

WHEREAS, the Note represents Borrower's obligation to repay the loan made by Lender to Borrower pursuant to the terms of this Agreement (the "Loan"), the terms of which Note are incorporated here for all purposes; and

WHEREAS, the payment of said Note is secured by a Deed of Trust, Mortgage or Security Deed (the "Security Instrument") in favor of Lender evidencing a lien on the Improvements and Property, which Property is located in Skamania County, _____, and more particularly described as follows:

WHEREAS, the Construction Period is defined as the period of Construction of the Improvements beginning no later than thirty (30) days from the date of this Agreement and ending no later than the Initial Completion Date.

NOW, THEREFORE, in consideration of the mutual obligations contained herein and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Lender and Borrower hereby agree as follows:

1. Agreement to Advance. Upon Borrower's compliance with the requirements of Lender set forth in this Agreement, Lender shall advance to Borrower an amount not to exceed (\$FOUR HUNDRED SEVENTEEN THOUSAND & 00/100) & Borrower agrees that this Loan Amount will be applied to purchase of the Property, if applicable 15,000.00 incurred by Borrower in the construction of the Improvements and may be applied to refinance any existing lien on the Property, and that repayment of the Loan shall be pursuant to the terms of the Note as secured by the Security Instrument.

2. Conditions Precedent for Advances. Prior to the first advance of the Loan, Borrower shall, as Lender requires, execute and deliver to or obtain for Lender, in a form or forms acceptable to Lender, the following:

- This Agreement.
- The Note.
- The Security Instrument.

- d. A Mortgagee Policy of Title Insurance (the "Title Policy") insuring Lender that the Security Instrument is a valid lien and has the priority required by Lender. The Title Policy shall be in form and substance acceptable to Lender
- e. An Endorsement to the Title Policy extending coverage to each such advance, if requested by Lender.
- f. A liability and/or builders risk insurance policy or policies with loss payable endorsements insuring the Improvements and all materials and supplies on the Property against risks, hazards, and loss. Said policy or policies shall include Flood Insurance, unless Borrower provides evidence that the Property is not located within a Flood Hazard Boundary Area or Flood Plain. Each such policy and endorsement shall be in an amount and form and issued by an insurer acceptable to Lender and shall designate Lender as a loss payee. Each such policy shall also provide that Lender receive written notice sixty (60) days prior to cancellation of said policy. In case of loss, Lender, at its option, shall be entitled to receive and retain the proceeds of the insurance policies, applying the proceeds to the amount then due under the Note, and the balance of such proceeds, if any, shall be paid to Borrower.
- g. If requested by Lender, two copies of all plans, drawings, and specifications, and any modifications thereof, which describe the Improvements and its construction together with any builder or construction contract (the "Contract") or agreement, (the "Plans and Specifications"). Lender's receipt of the Plans and Specifications shall not constitute a warranty or representation as to the quality or suitability of the Plans and Specifications.
- h. A list of all subcontractors and suppliers with whom borrower or Contractor has contracted or intends to contract for the furnishing of labor or materials to be used in the construction of the Improvements; if requested by Lender.
- i. If requested by Lender, a current survey made and certified by a registered public surveyor or professional engineer in a form acceptable to Lender, which survey will include a flood stamp.
- j. Satisfactory evidence that the Plans and Specifications have been approved by all governmental units having jurisdiction and, if applicable, by appropriate subdivision planning or architectural review committees, and that said Plans and Specifications are in compliance with any applicable land use restrictions placed on the Property and building codes; if requested by Lender.
- k. A written draw request or requisition (the "Requisition"), in a form acceptable to Lender. Each such Requisition shall be accompanied by invoices, receipts, certificates, and other documents; if requested by Lender.
- l. Any consents, certificates, approvals, permits, licenses, bonds, agreements, releases, lien waivers, evidence of partial or final completion, bills, invoices, receipts, subordinations, affidavits, or such other documents as Lender may reasonably require.
- m. Based on the required loan to value ratio determined by Lender prior to closing, Borrower's equity in the project, exclusive of any loan proceeds, must already be in the project or placed with Lender, before Lender shall have any obligation to fund the Loan or any part thereof. Further, Lender's loan to value requirements must continue to be met and/or maintained throughout the entire construction phase of the Loan.
- n. Prior to the last advance, Borrower agrees, if applicable:
 - (i) To deliver a final survey that removes survey exceptions from the Title Policy; if requested by Lender.
 - (ii) To deliver a final inspection, in form and substance satisfactory to Lender.
 - (iii) To deliver a flood insurance application reflecting the current address; if requested by Lender.
 - (iv) That all payments due under the Note and Rider to Note are current.

Lender recommends that borrower obtain each of the above items regardless of Lender's requirements.

3. Advances

- a. Lender shall advance proceeds of the Loan periodically, as construction of the Improvements progresses, in the amounts and for the work described in Exhibit "B", which is attached hereto and incorporated herein for all purposes. All such advances shall be charges against the Note.
- b. The amount of each advance shall be the value of the work completed and approved by Lender measured by the proportion that the work done bears to the work to be done using the contract price, less the total for all monies previously advanced and less ten percent (10%) of each such advance retained by Lender or alternatively, in Lender's sole discretion, the amount of each advance may be the full amount of its corresponding Requisition provided, however, in such event the final 10% of the total amount of the contract price will be retained by Lender for 30 days following the completion of all work, (the "Retainage"). The Retainage shall be payable thirty-one (31) days after Lender has been provided with an Affidavit of Completion executed by Borrower and Contractor, Lender and all governmental authorities or other entities having jurisdiction over the Property have approved such work, and Lender has received satisfactory evidence that all obligations incurred in connection with such work have been fulfilled or paid. If Borrower so requests and at Borrower's expense upon completion all Retainage may be held by an Escrow Agent acceptable to Borrower pursuant to an Escrow Agreement which Borrower has of even date herewith approved. Borrower may waive the Retainage if circumstances so permit and if Lender so approves; however, Borrower accepts full responsibility and liability for such waiver. Lender shall have no liability whatsoever.
- c. At least five (5) business days prior to the date on which each advance is to be made, the Requisition and all other documents, instrument, and writings which may then be required by Lender shall be delivered to Lender. The proceeds of each advance shall be applied solely to the payment of those items set forth in the Requisition and approved by Lender. Any advance made by Lender prior to the fulfillment by Borrower of any requirements made by Lender or of any condition precedent set forth in this Agreement shall not be deemed a waiver of Lender's right to have such requirement or condition precedent fulfilled prior to advancing future Loan proceeds. Lender may, but shall not be obligated to, advance an amount that exceeds the face amount of the Note. Lender may at its option and from time to time as a condition precedent to subsequent advances, require Borrower and/or contractor to provide Lender with affidavits certifying and affirming any or all of the applicable representations and warranties set out in Article 9 herein.
- d. Presentation of the Requisition to Lender by or on behalf of Borrower shall constitute Borrower's representation to Lender that all representations and warranties set forth herein are and continue to be true and correct, all work completed through the date of the Requisition has been fully accepted by Borrower, completed in a good and workmanlike manner, in conformity with the Plans and Specifications and shall additionally constitute borrower's unconditional waiver of any claims to the effect that such work was not performed in such manner.
- e. Lender shall have no obligation to make any advance if at the time the request for such advance is made:
 - (i) Borrower, Contractor, or both are in default with respect to any provision of this Agreement or of any Instrument, document, or writing referenced herein. Each Requisition shall be deemed a representation and warranty by Borrower that no such default exists.
 - (ii) Lender determines that there are insufficient monies remaining to be advanced to complete the Improvements in accordance with the Plans and Specifications or the Contract. Lender may make such advance upon the deposit with Lender of funds deemed sufficient by Lender, when added to remaining monies to be advanced, to so complete the Improvements. Any funds so deposited by Borrower shall be advanced prior to the advancement of any future Loan proceeds by Lender.
 - (iii) Lender determines that construction of the Improvements has not been in accordance with the provisions of the Plans and Specifications or Contract.
 - (iv) A period of less than seven (7) days or a period of time mutually agreed upon by Borrower and Lender has elapsed since the time the previous request for advance has been made.
 - (v) The Endorsement increasing coverage of the Title Policy to such advance indicates any change in the state of title other than the recording of the Contract, the Security Instrument, this Agreement, or any financing statement filed in connection herewith. Lender may make such advance upon the resolution by Borrower of such change in a manner acceptable to Lender.

- (vi) Lender in its reasonable estimation, determines from information obtained from any source, that Borrower will be unable to complete the Improvements in accordance with the Plans and Specifications and the Contract as well as this Agreement, by the Completion Date set out in the Construction Loan Rider to the Note.

- f. Lender shall have no obligation, either expressed or implied, to Borrower, to Contractor or to any third parties, to verify that advances made pursuant to the Agreement are actually used to pay for labor or materials furnished in connection with the construction of the Improvements. Borrower agrees to assume all risks in the event Contractor fails to pay for any labor or material so furnished.
- g. Lender shall have no liability or obligation, either expressed or implied, to Borrower, to Contractor, or to any third parties, in connection with the Improvements or its construction, except to advance monies as provided under this Agreement. Further, Lender is not liable for the performance of Contractor or any other third parties nor for any failure to construct, complete, protect, or insure the Improvements or Property. Nothing under this Agreement shall be construed as a representation or warranty, expressed or implied, on Lender's part.
- h. Lender shall have the right, but not the obligation, to disburse and directly apply the proceeds of any advance to the satisfaction of any of Borrower's obligations hereunder, whether the Loan is in default or not. Any advance by Lender for such purpose, except for any deposit required of Borrower, shall be part of the Loan and shall be secured by the Security Instruments. Borrower hereby authorizes Lender to hold, use, disburse and apply the Loan and any deposit required of Borrower for payment of costs of construction of the Improvements, expenses incident to the Loan and the Property, and the payment or performance of any obligation of Borrower hereunder. Borrower hereby assigns and pledges the proceeds of the Loan and any deposit required of Borrower to Lender for such purposes. Lender may advance and incur such expenses as Lender reasonably deems necessary for the completion of construction of the Improvements and to preserve the Property, and any other security for the Loan, and such expenses, even if in excess of the amount of the Loan, shall be secured by the Security Instruments and shall be payable to Lender upon demand. Lender may disburse any portion of any advance at any time, and from time to time, to persons other than Borrower for the purposes specified herein irrespective of any other provisions of this Agreement, and the amount of advances to which Borrower shall thereafter be entitled shall be correspondingly reduced. Borrower hereby agrees to indemnify and hold Lender harmless of and from any and all actions it may in good faith reasonably take pursuant to the terms of this paragraph.

4. Right of Lender to Inspect. Lender shall have the right, but not the obligation, to inspect the Property and Improvements from time to time and Borrower agrees to provide proper facilities for making such inspections by such inspector or inspectors as may be appointed by Lender; provided, however, that Lender shall not be obligated to make any such inspections and, if such inspections are made, Lender shall have no responsibility or liability for the failure or default of Contractor or any original contractor, subcontractor, material supplier, or laborer to construct the Improvements in accordance with the Contract or Plans and Specifications; for the payment of any cost or expense incurred in connections with such construction; or for the performance or non-performance of any obligation of Contractor or Borrower to any person furnishing labor or materials in connection with such construction, it being agreed that neither Borrower, Contractor, nor any person having an interest in the Property or Improvements shall have a right to rely on the procedures employed by Lender, such procedures being for the sole benefit of Lender. Further, Lender's agreement to advance funds under this Agreement is expressly conditioned upon Lender's right to inspect the Property and Improvements and to determine compliance with this Agreement. Lender's inspection of the Improvements and determination to advance funds under the provisions of this Agreement shall not be, and may not be deemed to be, a warranty or representation as to the quality, serviceability, habitability, or merchantability of the construction of the Improvements or any portion hereof.

5. Right of Lender to Complete. Borrower agrees that should construction of the Improvements be delayed or suspended for a period in excess of thirty (30) days without cause reasonably deemed satisfactory by Lender, or should Contractor fail to supply workmen and materials as shall be satisfactory to Lender at any time during the progress of construction, or if Contractor or any other third parties engaged in such construction or any part thereof fail, refuse, omit, or neglect to supply a quantity of material or workmen necessary to complete the work within the time period required, or should Contractor fail to complete or construct the Improvements as shall be satisfactory to Lender, or if Borrower shall default with respect to any provision of this Agreement or of any instrument, document, or writing referenced in this Agreement, Lender may and is hereby authorized, in its sole discretion, to proceed with the construction in such manner and with such contractors or subcontractors as Lender may choose, and the cost or expense of so doing shall for all purposes be considered as advanced made by Lender to Borrower under the provisions of this Agreement. For these purposes, Lender and any persons authorized or employed by it are expressly authorized to enter into and upon the Property and Improvements and

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take charge thereof, together with all materials, equipment, and other personal property thereon and to proceed with the construction of said improvements, or to require Borrower to complete construction, with any such changes, alterations, or modifications as may be deemed necessary or expedient by Lender and to do whatever Lender may, in its sole discretion, deem necessary to insure completion of the construction.

6. Power of Attorney. Borrower hereby constitutes and appoints Lender its true and lawful attorney-in-fact with full power of substitution to complete, or cause to be completed, the Improvements in the name of Borrower including the right to cause to be advanced any balance which may be held in escrow and any funds which may remain unadvanced hereunder for the purpose of completing the Improvements in the manner called for by the Plans and Specifications; to make such additions and changes and corrections in the Plans and Specifications which shall be necessary or desirable to complete the Improvements in substantially the manner contemplated by the Plans and Specifications; to employ such contractors, subcontractors, agents, architects and inspectors as shall be required for said purposes; to pay, settle or compromise any liens or claims filed or threatened against said Property, or which may be necessary or desirable for the completion of the work or the clearance of title; to execute all applications and certificates in the name of Borrower which may be required by any Construction Contract; and to do any and every act with respect to the construction of the Improvements which Borrower may do in its own behalf. It is understood and agreed that this power of attorney shall be deemed to be a power coupled with an interest which cannot be revoked. Said attorney-in-fact shall also have power to prosecute and defend all actions or proceedings in connection with the construction of the Improvements on the Property and to take such action and require such performance as is deemed necessary. Borrower hereby assigns and quitclaims to Lender all sums to be advanced hereunder and all sums in escrow conditioned upon the use of said sums, if any, for the completion of the Improvements.

7. Subrogation. It is understood and agreed that the funds advanced by Lender hereunder, to the extent that such funds are utilized to pay, discharge, or release in whole or in part any outstanding liens and charges against the Property, have been advanced by Lender at the request of Borrower and Contractor and upon the representations by borrower and Contractor that such funds are due and are secured by valid and enforceable liens against the Property. Lender shall be subrogated to any and all rights, superior titles, liens and equities owned or claimed by any owner or holder of any such outstanding liens, charges and indebtedness which are acquired by Lender by assignment or releases by the holder thereof upon payment.

8. Taxes and Insurance. Lender has the option, but not the obligation, without demand or notice and without waiver of any right whatever, to:

- a. Pay or discharge any lien or claims upon the Property or Improvements or pay any delinquent tax or assessment thereon, and upon such payment Lender shall be subrogated respectively to the rights of the holder of such lien or claim or to the rights of the taxing authority.
- b. Advance any unpaid insurance premiums and obtain and maintain any insurance policy required by this Agreement, but not provided by Borrower.

Borrower hereby expressly agrees to pay to Lender, upon demand, any and all disbursements made under this Agreement to cure any default, together with interest thereon at the rate specified in the Note from the respective dates of such disbursements until paid, and that all such disbursements shall become a part of the indebtedness represented by the Note.

9. Representations, Covenants and Warranties.

- a. Borrower further warrants, covenants, agrees, and represents, which warranties, covenants, agreements, and representations shall be deemed to be made with each advance hereunder and shall survive the making of any and all advances, as well as the Loan, as follows:
 - (i) That all obligations shall be performed under the Contract, Note, Security Instrument, this Agreement and any instrument, document, or writing referenced herein, and Borrower shall promptly pay when due, from the proceeds of the Loan or from Borrower's separate funds in the event of any change order or variance with the Plans and Specifications, all costs, charges, and expenses incurred in connection with the construction of the Improvements.
 - (ii) That no labor has been performed or furnished and no materials have been delivered to the Property and that no labor will be performed or furnished and no materials will be delivered prior to the recording of the Contract and the Security Instrument.
 - (iii) That there are no pending lawsuits or judgments against Borrower that may in any way impair the ability of Borrower to fully perform all agreements contained in this Agreement or that may affect the Property, Contract, or Security Instrument.

- (iii) That the Property will be kept free and clear of any and all liens other than the Contract, Security Instrument and any financing statements filed in connection herewith, and to protect the Property and Improvements from events and circumstances that cause or may cause the Property or Improvements to decrease in value.
- (iv) That the Property and Improvements shall remain vacant so as not to impair any insurance policy described under this Agreement.
- (v) That the Plans and Specifications, this Agreement and the Contract constitute the entire agreement between Borrower and Contractor in connection with the construction of the Improvements, and that no material change in said Plans and Specifications, this Agreement or Contract shall be binding upon Lender unless approved by Lender in writing.
- (vi) That Borrower and Contractor have paid, or will pay, contemporaneously with the advance in question, for all labor or materials furnished in connection with the construction of the Improvements.
- (vii) That all work performed to the date of the advance in question has been performed in a good and workmanlike manner pursuant to the provisions of the contract and this Agreement and in conformance with the Plans and Specifications.
- (viii) That all construction has been performed in strict compliance with all applicable ordinances, statutes, regulations, and subdivision requirements or restrictions, which affect the Property.
- (ix) That there are no liens or encumbrances against the Improvements or Property other than the Contract, the Security Instrument, or any financing statement filed in connection herewith.
- (x) That no default exists under the Note, the Security Instrument, the Contract, or this Agreement, and that no event has occurred that with the giving of notice, lapse of time or otherwise, would constitute an event of default under said Note, Security Instrument, Contract, or this Agreement.
- (xi) That all material delivered to and upon the Property for the purpose of being incorporated in the Improvements shall be considered annexed to the Improvements and Property and become a part thereof, and shall be subject, as against borrower, to the rights of Lender under the Contract and Security Instrument.
- (xii) That within thirty (30) days of the date hereof, Borrower shall commence construction of the Improvements, that the Improvements shall be completed substantially in accordance with the Plans and Specifications, this Agreement and Contract with only such changes as may be approved in writing by Lender, and that the construction of the Improvements shall be completed on or before the Completion Date stated and defined in the Construction Loan Rider to the Note.
- (xiii) That the monies to be advanced to Borrower under this Agreement, together with other funds now available to Borrower, are sufficient to fully construct the Improvements and pay all expenses necessary for such construction.
- (xiv) That each advance made under this Agreement shall be used solely for the payment of and for materials, labor, services, costs, and expenses provided for or incurred in connection with the construction of the Improvements or for such other costs and expenses agreed to by Lender in writing.
- (xv) That the Property is not now being used and to the best of Borrower's knowledge has not been used in violation of any federal, state or local environmental law, ordinance, or regulation; that Borrower has not filed or been required to file any federal, state or local report of hazardous substances found or disposed on any real property now or previously owned by borrower; that no proceeding has been commenced or notice received concerning any alleged violation of any Environmental law, ordinance or regulation; that to the best of Borrower's knowledge the Property is free of underground storage tanks, out-of-use transformers, hazardous, radioactive or toxic wastes, contaminants, oil or other materials; that the Property shall not


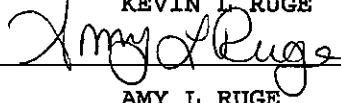
- d. Any notice, Requisition, request, or other communication required or permitted to be given under this Agreement shall be in writing and deemed given and received on (i) the date mailed to the addressee at the address indicated above for each respective party, (ii) on the date delivered if delivered in person, or (iii) on the date such communication is made by use of electronic facsimile transmission.
 - e. Payment Directly to Contractor. At its option, the Lender may provide for any or all disbursements to go directly to any general contractor or to any other contractors or subcontractors. The Borrower's execution of this Construction/Permanent Loan Agreement constitutes an irrevocable authorization to make these direct payments.
 - f. This Agreement may be amended only by contemporaneous or subsequent written agreement.
 - g. All rights, powers, and remedies of Lender contained in this Agreement are cumulative and in addition to all other rights, powers, and remedies created in any other document or existing under the law.
 - h. In the event any part or provision of this Agreement is held unenforceable or void, the enforceability or validity of the remaining parts and provisions shall remain unaffected.
 - i. Whenever this Agreement so requires, the masculine shall include the feminine and the neuter, and the singular shall include the plural and vice versa, unless the context clearly requires a different interpretation.
 - j. The headings contained in this Agreement are for reference purposes only and shall not in any way affect the meanings or interpretations hereof.
 - k. This Agreement shall be governed by the laws of the state in which the property described in Exhibit "A" is located.
 - l. Lender may record this Agreement.
 - m. Borrower hereby acknowledges receipt of a copy of this Agreement.
 - n. Time is of the essence of this Agreement.
 - o. This agreement represents the final agreement between the parties and may not be contradicted by evidence of prior, contemporaneous or subsequent oral agreements of the parties.
12. Modification. The Borrower agrees to complete the construction of the Improvements as set forth in the plans and specifications delivered to Lender on or before 2/04/2008, Initial Completion Date. If construction of Improvements is not completed on that date, upon request of Lender, Borrower agrees to execute a Rate Extension Agreement in form and substance satisfactory to Lender which may include an increase in the interest rate. In any event, if construction of Improvements is not completed by the Initial Completion Date, or if construction is completed and a modification agreement is not executed for any reason, Borrower agrees the interest rate charged under the Note shall be increased to 11.75% at Lender's sole discretion. Borrower agrees to pay Lender a Document Preparation Fee in addition to all applicable recording fees.

LENDER:

By: Nancy Pegg Yagich

Its: Senior Vice President

BORROWER:


 KEVIN L. RUGE

 AMY L. RUGE

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be used in conjunction with or for any activity involving, directly or indirectly, the generation, treatment, storage, transportation, manufacture, use or dispose of hazardous or toxic chemicals, materials, substances, or waste of any kind; neither the Property, the soil making up any portion thereof, nor the ground water thereunder making up any portion thereof shall be contaminated so as to be subject to any "clean-up" or similar requirement under any applicable rule, requirement, regulation, ordinance, or law or governmental authority that would in any way inhibit, impair, delay, or increase the cost of the improvement, operation, or use of the Property; and that Borrower shall not install or allow to remain upon the Property any chemical, material or substance, exposure to which is prohibited, limited, or regulated by any federal, state, county, regional or local authority, or which, even if not so regulated, may or could pose a hazard to the health and safety of the occupants of the Property, to the owners of the property adjacent to the Property, or to any person. Reference is hereby made to that certain Hazardous Substance Indemnification Certificate of even date herewith executed by Borrower, the terms and provisions of which are incorporated herein.

- (xvii) That Lender will be reimbursed for all expenses of any kind, including without limitation attorney's fees, that may be incurred by Lender in connection with or arising out of this Agreement, and that Lender may deduct from any advance to be made under this Agreement any amount necessary for the payment of any unpaid interest owing to Lender hereunder, any fees, expenses, charges, liens, or encumbrances relating to the construction of the Improvements or upon the Property, or any other amounts necessary for the payment of the cost of constructing the Improvements, and all such deductions may be applied to the payment of such sums, in which case said deductions shall be deemed advances under this Agreement.
- (xviii) BORROWER(S) AGREES THAT LENDER AND ITS AGENTS AND ATTORNEYS WILL BE INDEMNIFIED AND HELD HARMLESS FROM ANY AND ALL ACTIONS, CLAIMS, DEMANDS, DAMAGES, COSTS, EXPENSES, AND OTHER LIABILITIES, INCLUDING WITHOUT LIMITATION ATTORNEY'S FEES, THAT ANY SUCH PARTIES MAY INCUR OR THAT IN ANY WAY RELATE TO OR ARISE OUT OF THE CONSTRUCTION OF THE IMPROVEMENTS, INCLUDING WITHOUT LIMITATION THOSE ARISING OUT OF THE NEGLIGENCE OF LENDER.
- (xix) That this Agreement or any right that Borrower has under this Agreement shall not be assigned or transferred by borrower without the express written consent of Lender, and that Borrower and Borrower's heirs, representatives, successors, and assigns shall be bound by this Agreement.

10. Default. Any failure by Borrower to pay or perform any obligation or as otherwise required under any document, instrument, or writing referenced in or executed in connection with this Agreement, including, but not limited to, the Note, Security Instrument, and Contract, shall constitute a default under this Agreement. Further, any failure by Borrower to promptly comply with any provision of this Agreement or any requirement of Lender made under this Agreement shall constitute a default. In the event of any default by Borrower or of any material misrepresentation made by Borrower in this Agreement or any other document executed by Borrower in connection with this Agreement, Lender, at its option, may declare all sums owing under the Loan, this Agreement, and the Note immediately due and payable, and Lender, at its option, may advance and incur such expenses to preserve the Property and Improvements as security, and Borrower shall pay the same upon demand. Further, Lender, at its option may increase the interest rate being charged on the Loan to the higher of the Capped Rate as defined in the Capped Floating Rate Agreement or 11.75%. No waiver by Lender of any default shall constitute a waiver of any other or subsequent default.

11. General Provisions.

- a. Failure or delay by Lender to exercise or enforce any right, power, or remedy under this Agreement shall not constitute a waiver of such right, power, or remedy.
- b. During the term of the construction of the Improvements, the provisions of this Agreement shall control in the event there are any conflicts with any provisions of any instrument, documents, or writing referenced herein. After construction is completed, the terms of the Note and Security Instrument shall govern.
- c. Any representation or warranty made herein by Borrower, Contractor, or both shall survive the repayment of the indebtedness and the termination of this Agreement.