

**AFTER RECORDING RETURN TO:**

FIRST MUTUAL BANK  
CONSTRUCTION ADMINISTRATION DEPARTMENT  
P.O. BOX 1647  
BELLEVUE, WA 98009

(Space Above Line for Recording Date)

Loan # 71-433021-07

**LOAN MODIFICATION AGREEMENT**  
**(Construction/Perm. Interest Only ARM)**

THIS LOAN MODIFICATION AGREEMENT ("Agreement") is made this 1ST day of OCTOBER, 2007, between JOHN R MACDONALD, AN UNMARRIED INDIVIDUAL (individually and collectively, if more than one, "Borrower") and FIRST MUTUAL BANK ("Lender") and amends and supplements: (1) the Deed of Trust from Borrower, as grantor, for the benefit of Lender, as beneficiary, as modified by an Adjustable Rate Rider of the same date (the "Security Instrument") dated NOVEMBER 6, 2006 and recorded under Recording Number 2006163656, Records of SKAMANIA County, WASHINGTON, and (2) the Promissory Note (the "Note") bearing the same date as, and secured by, the Security Instrument. The Security Instrument encumbers the following described Property, the street address of which is 11 KINGFISHER LANE, WASHOUGAL, WASHINGTON 98671 (the "Property"). Capitalized terms that are defined in the Note or Security Instrument shall have the same meaning when used herein:

LOT(S) 2 OF PELKY SP *Full legal pg 3*

Tax Parcel/Account Number(s): 02 05 32 3 0 1112 00

**THE TERMS OF MY LOAN DOCUMENTS PROVIDE FOR CONVERSION OF MY CONSTRUCTION LOAN TO A PERMANENT LOAN UNDER CERTAIN CIRCUMSTANCES. THIS AGREEMENT IMPLEMENTS THE CONVERSION TO A PERMANENT LOAN**

Borrower and Lender agree that the Note and Security Instrument are modified, effective as of the date of this Agreement, as follows:

1. **Conversion Date.** My Loan will be deemed to have been converted from a construction loan to a permanent loan as of OCTOBER 1, 2007 (the "Conversion Date").
2. **Principal Balance.** The unpaid principal balance of the Loan as of the Conversion Date, after application of the payment due on that date, will be \$613,000.00.
3. **Interest Rate.** Effective as of the Conversion Date, my interest rate will be changed to SIX AND THREE QUARTER percent (6.75%) per annum.

My interest rate may change on the first day of OCTOBER 2012, (the "Initial Change Date") and on the same day of every 12TH calendar month thereafter (each such date, together with the Initial Change Date, is referred to in this Agreement as a "Change Date"). Beginning with the Initial Change Date, my interest rate will be based on an Index. The "Index" is the Weekly Average Yield on United States Treasury Securities, adjusted to a constant maturity of one year, as made available by the Federal Reserve Board. 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 that is based upon comparable information. The Note Holder will give me notice of its choice.

Before each Change Date, the Note Holder will calculate my new interest rate by adding **TWO AND ONE QUARTER** percentage points (**2.25%**) per annum to the Current Index and rounding the result to the nearest one eighth of one percentage point (0.125%).

My new interest rate at the Initial Change Date will not be greater than **11.75%** per annum or less than **2.25%** per annum. Thereafter, my interest rate will never be increased or decreased on any single Change Date by more than **TWO** percentage point(s) (**2.00%**) per annum from the rate in effect immediately prior to the adjustment. In addition, my interest rate will never be increased above **11.75%** at any time during the remaining term of my Loan, or be less then the margin.


**4. Payments.** My last monthly payment under the old Construction Loan terms will be due on the Conversion Date. On **NOVEMBER 1, 2007** I will begin making permanent loan payments. Until the First Change Date, these payments will be in an amount equal to one twelfth (1/12) of one year's interest on the unpaid principal balance of my loan at the then applicable interest rate. Assuming I do not make any principal prepayments, this payment amount will be \$3,448.13. Beginning on **NOVEMBER 1, 2007** I will make monthly principal and interest payments in an amount sufficient to fully repay the unpaid principal balance of the Note as of the Initial Change Date, in full by the Maturity Date (as defined below) at the then applicable interest rate in substantially equal payments. The payment amount will be adjusted on the first payment due date following each subsequent Change Date to reflect any changes in my interest rate and any principal prepayments made prior to that Change Date. If on **OCTOBER 1, 2037** (the "**Maturity Date**"), I still owe any amounts under the Note or the Security instrument, as amended by this Agreement, I will pay those amounts in full on the Maturity Date.

All payments shall be made at **PO Box 1647, Bellevue, WA 98009** or at such other place as the Lender may require.


**5. Borrower Representations and Warranties.** I warrant and represent to the Lender that I am the sole owner of the Property, free and clear of liens (other than the lien created by the Security Instrument) and that I have complied with all conditions to conversion of my construction loan to a permanent loan.

**6. Miscellaneous.** Except as otherwise specifically provided in this Agreement, the Note and Security instrument remain in full force and effect without modification or change.

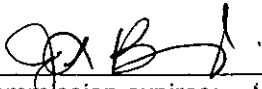
**DATED** as of the day and year set forth above.

  
\_\_\_\_\_  
JOHN R MACDONALD

FIRST MUTUAL BANK:


By:  Vice President  
\_\_\_\_\_  
[Authorized Officer Name]  
Howard J. Hoffmann, Vice President

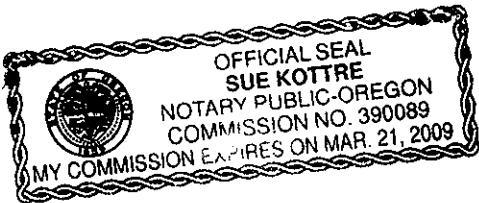
----- (Space Below this Line for Acknowledgments) -----  
STATE OF WASHINGTON, County: King  
I hereby certify that I know or have satisfactory evidence that Howard J. Hoffmann is the person(s) who appeared before me, and said person(s) acknowledged that he signed this instrument, on oath stated that he authorized to execute the instrument and acknowledged it as the VP of First Mutual Bank to be him free and voluntary act for the uses and purposes mentioned in this instrument.  
GIVEN under my hand and official seal this 17<sup>th</sup> day of October, 2007.

  
My Commission expires: 1-30-2010  
Notary Public in and for the State of WASHINGTON  
residing at: Kent

STATE OF ~~WASHINGTON~~ OREGON  
County: Deschutes  
On this day personally appeared before me JOHN R MACDONALD to me known to be the individual(s) described in and who executed the within and foregoing instrument, and acknowledged that they signed the same as they free and voluntary act and deed, for the uses and purposes therein mentioned.

GIVEN under my hand and official seal this 13 day of October, 2007

  
My Commission expires: 3-21-9  
Notary Public in and for the State of OREGON  
at: 3129 SW Lava Ave residing  
Redmond, OR 97756



A parcel of land situated within the South half of the Southwest quarter of Section 32, Township 2 North, Range 5 East, Willamette Meridian, Skamania County Washington, being a portion of Lots 1 & 2 of the PELKY SHORT PLAT, as shown on the map thereof, recorded December 9, 2005 in Auditor's File No. 2005159821, records of said County and described as follows:

Lot 2 of said Short Plat, plus a triangular parcel described as commencing at the most Southerly corner of said Lot 1 (being the most Easterly corner of said Lot 2); thence North  $62^{\circ}03'15''$  West along the Southwesterly line thereof, 195 feet to the Point of Beginning; thence continuing on said line North  $62^{\circ}03'15''$  West 292.47 feet to the center of the Washougal River; thence along said River, the chord of which bears North  $58^{\circ}43'26''$  East 84.51 feet; thence South  $45^{\circ}48'41''$  East 259.58 feet to the Point of Beginning.