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10/19/2004 Page 1 of 24 11:05AM

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LAND TITLE OF SKAGIT COUNTY

DEED OF TRUST, ASSIGNMENT OF RENTS AND LEASES,
SECURITY AGREEMENT AND FIXTURE FILING

Grantor: Skagit Council Housing, a Washington nonprofit corporation
Grantee (Trustee): Land Title Company of Skagit County, as trustee
Grantee (Beneficiary):: Skagit State Bank, a Washington corporation
Abbreviated Legal Description: ptn NW 1/4 NW 1/4, 16-34-4 E W.M.
Official legal description on Exhibit A attached.
Assessor's Tax Parcel ID#: P25028; P25034; P25019
Reference # (If applicable): N/A

TABLE OF CONTENTS

	<u>Page</u>
ARTICLE I TITLE AND USE	3
1.1 Warranty of Title.....	3
1.2 Non-Agricultural Use.....	4
ARTICLE II GRANTOR'S COVENANTS, REPRESENTATIONS AND WARRANTIES	4
2.1 Payment and Performance of Secured Obligations.	4
2.2 Transfer of Title.	4
2.3 Protection of Beneficiary's Security.....	4
2.4 Reimbursement of Beneficiary's and Trustee's Expenses.....	5
2.5 Hazardous Substances.....	5
2.6 Maintenance of Property; Insurance.....	7
ARTICLE III RESERVES	7
3.1 Deposits.....	7
3.2 Application of Deposits.....	8
3.3 Adjustments to Deposits.....	8
3.4 Conditional Waiver.....	8
ARTICLE IV RESTRICTIONS ON TRANSFER OR ENCUMBRANCE.....	8
4.1 Restrictions on Transfer or Encumbrance of the Property.....	8
ARTICLE V UNIFORM COMMERCIAL CODE SECURITY AGREEMENT.....	9
5.1 Grant to Beneficiary.....	9
5.2 Beneficiary's Rights and Remedies.....	9
ARTICLE VI ASSIGNMENT OF RENTS AND LEASES; LEASES OF PROPERTY; APPOINTMENT OF RECEIVER; BENEFICIARY IN POSSESSION	10
6.1 Assignment of Rents and Leases.	10
6.2 Collection of Rents.	10
6.3 Grantor's Representations and Warranties.	11
6.4 Leases of the Property.....	11
6.5 Beneficiary in Possession; Appointment of Receiver.....	11
6.6 Application of Rents.	12
6.7 Deficiencies.....	12
6.8 Beneficiary Not Mortgagee in Possession.	12
6.9 Enforcement.....	12
ARTICLE VII EVENTS OF DEFAULT.....	13
7.1 Events of Default.	13
7.2 Form of Notice.....	13



ARTICLE VIII REMEDIES..... 13

8.1 Acceleration Upon Default; Additional Remedies. 13

8.2 Exercise of Power of Sale..... 14

8.3 Application of Sale Proceeds..... 14

8.4 Waiver of Order of Sale and Marshalling..... 15

8.5 Non-Waiver of Defaults..... 15

8.6 Expenses During Redemption Period..... 15

8.7 Foreclosure Subject to Tenancies..... 15

8.8 Remedies Cumulative..... 15

8.9 Beneficiary's and Trustee's Expenses..... 15

ARTICLE IX GENERAL..... 16

9.1 Application of Payments..... 16

9.2 Reconveyance..... 16

9.3 Successor Trustee..... 16

9.4 Beneficiary's Powers..... 16

9.5 No Violation of Usury Laws..... 16

9.6 Additional Documents; Power of Attorney..... 17

9.7 Forbearance by Beneficiary Not a Waiver..... 17

9.8 Indemnity..... 17

9.9 Modifications and Waivers..... 17

9.10 Notice..... 18

9.11 Governing Law; Severability; Captions..... 18

9.12 Definitions..... 18

9.13 Successors and Assigns Bound; Agents..... 18

9.14 Number; Gender..... 18

9.15 Time..... 18

9.16 Request for Notice..... 18



**DEED OF TRUST, ASSIGNMENT OF RENTS AND LEASES,
SECURITY AGREEMENT AND FIXTURE FILING
(SKAGIT COUNCIL HOUSING PROGRAM – MOUNT VERNON MANOR I AND II)**

THIS DEED OF TRUST, ASSIGNMENT OF RENTS AND LEASES, SECURITY AGREEMENT AND FIXTURE FILING (this "Deed of Trust") is made as of October 18, 2004, by Skagit Council Housing, a Washington nonprofit corporation, as Grantor, whose mailing address is c/o Housing Authority of Skagit County, 2021 East College Way, Suite 101, Mount Vernon, Washington 98273. The Trustee is Land Title Company of Skagit County, whose mailing address is 111 East George Hopper Road, P O Box 445, Burlington, WA 98233. The Beneficiary is Skagit State Bank ("Beneficiary") whose mailing address is 301 East Fairhaven Avenue, Burlington, Washington 98233. For purposes of Article 9 of the Uniform Commercial Code (RCW 62A.9) (the "UCC"), Grantor is the Debtor, Beneficiary is the Secured Party and this Deed of Trust constitutes a Fixture Filing.

Grantor hereby irrevocably GRANTS, TRANSFERS, CONVEYS and ASSIGNS to Trustee, IN TRUST, WITH POWER OF SALE, all of Grantor's present and future estate, rights, title, claim, interest and demand, either in law or in equity, now existing or hereafter acquired, of, in and to the following property (the "Property"):

- (a) The real property and all rights to the alleys, streets and roads adjoining or abutting the real property described on Exhibit "A" attached hereto (the "Realty");
- (b) All buildings, improvements and tenements now or hereafter located on the Realty;
- (c) All fixtures and articles of property now or hereafter attached to, or used or adapted for use in the ownership, development, operation or maintenance of the buildings, improvements, and Realty (whether such items be owned absolutely or subject to any title-retaining or security instrument, or be otherwise used or possessed, but excluding leased property located on the Realty), including without limitation all heating, cooling, air conditioning, ventilating, refrigerating, plumbing, generating, power, lighting, laundry, maintenance, incinerating, lifting, cleaning, fire prevention and extinguishing, security and access control, cooking, gas, electric and communication fixtures, equipment and apparatus, all engines, motors, conduits, pipes, pumps, tanks, ducts, compressors, boilers, water heaters and furnaces, all ranges, stoves, disposers, refrigerators and other appliances, all escalators and elevators, baths, sinks, all cabinets, partitions, mantels, built-in mirrors, window shades, blinds, screens, awnings, storm doors, windows and sashes, all carpeting, underpadding, floor covering, paneling and draperies, all furnishings of public spaces, halls and lobbies, and all shrubbery and plants; all of which items shall be deemed part of the real property and not severable wholly or in part without material injury to the freehold;

SKAGIT COUNTY WASHINGTON
REAL ESTATE EXCISE TAX

OCT 19 2004

Amount Paid to
Skagit County Treasurer

50475201.02

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200410190039
Skagit County Auditor

(d) All assessments, all access, air and development rights, all minerals and oil, gas and other hydrocarbon substances, all royalties, all water, water rights and water stock, and all other rights, hereditaments, privileges, permits, licenses, franchises and appurtenances now or hereafter belonging or in any way appertaining to the Realty;

(e) All of the rents, revenues, issues, profits and income of the Property, and all rights, title and interests of Grantor in and to all present and future leases and other agreements for the occupancy or use of all or any part of the Realty, and all right, title and interest of Grantor thereunder, including without limitation all cash or security deposits, advance rentals and deposits or payments of similar nature; SUBJECT, HOWEVER, to the assignment of rents and other property to Beneficiary herein contained;

(f) All of Grantor's rights, title and interests in all intangible personal property used or useful in connection with the ownership, development, operation or maintenance of the buildings, improvements and Realty, including without limitation all permits, licenses and franchises with respect to the Property, the exclusive right to use of any trade names, all contract rights (including, but not limited to, architectural, engineering and management agreements), all accounts receivable, leases and rental agreements, escrow accounts, insurance policies, deposits (including but not limited to tenant deposits), instruments, documents of title, general intangibles and business records pertaining to the buildings, improvements and Realty excluding only cash on hand and in bank accounts;

(g) All of Grantor's rights, title and interests in materials, supplies and other goods, collectively referred to as "materials" now owned or hereafter acquired, wherever located, whether in the possession of Grantor or any warehouseman or bailee, or any other person, purchased for use in the construction or furnishing of improvements on the Realty, but excluding leased property located on the Realty, together with any documents covering such materials, all contract rights and general intangibles relating to such materials and proceeds of such materials, documents, contract rights and general intangibles;

(h) All other rights and privileges of every kind included within the Property, and all present and future contracts and policies of insurance which insure the Property or any part thereof, real or personal (whether or not Beneficiary is a loss payee thereof); and

(i) All products and proceeds of the foregoing property.

TO SECURE THE FOLLOWING (collectively the "Secured Obligations"):

(1) Payment of the principal of and premium, if any, and interest on the loan (the "Loan") to Grantor of the proceeds of the \$2,329,585 original principal amount Low-Income Housing Assistance Revenue Bond, 2004, Series 1 (Skagit Council Housing Program – Mount Vernon Manor I and II) (the "Bond") of the Housing Authority of Skagit County (the "Authority") pursuant to the Loan Agreement (the "Loan Agreement") dated as of October 18, 2004, between Grantor and Authority;



(2) The performance of the other covenants and agreements of Grantor contained in the Loan Agreement;

(3) Payment of all sums advanced to protect the security of this Deed of Trust, together with interest thereon as herein provided;

(4) Payment of all other sums which are or which may become owing under the Loan Documents (as defined below); and

(5) Performance of all of Grantor's other obligations under the Loan Documents.

As used herein, the term "Loan Documents" means this Deed of Trust, the Loan Agreement and any other instrument or document (other than the Hazardous Substances Agreement) securing the Loan or otherwise executed in connection therewith, together with all modifications, extensions, renewals and replacements thereof.

This Deed of Trust shall be effective, from the date of its recording, as a financing statement filed as a fixture filing with respect to all items of property described above that are or are to become fixtures. With respect to such security interest or interests, Beneficiary shall have all rights and remedies provided for in this Deed of Trust or otherwise available to Beneficiary and all rights and remedies of a secured party on default of a debtor under the UCC (whether or not the UCC applies to the affected property). If Beneficiary shall so require, Grantor in the event of default shall make such collateral available to Beneficiary at a place designated by Beneficiary that is reasonably convenient to all parties. Grantor shall execute such instruments and documents as Beneficiary from time to time may require to evidence further or perfect any rights or security interests.

GRANTOR HEREBY REPRESENTS, WARRANTS, COVENANTS AND AGREES AS FOLLOWS:

ARTICLE I

TITLE AND USE

1.1 Warranty of Title. Grantor covenants that it is lawfully seized of the estate hereby conveyed and has the right to grant, convey and assign the Property; that no other liens or encumbrances superior to this Deed of Trust will be created or suffered to be created by Grantor during the life of this Deed of Trust without the prior written consent of Beneficiary; and that Grantor will forever warrant and defend the Property unto Beneficiary against all claims and demands of any other person whomsoever. As to any mortgages, deeds of trust, real estate contracts or other liens presently existing or hereafter permitted by Beneficiary to be recorded against the Property (the "Liens"), Grantor expressly covenants and agrees as follows:



(i) Complete and current copies of the agreements relating to the Liens have been or will be furnished to Beneficiary, and none of them has been or will be modified in any way without Beneficiary's prior written consent.

(ii) Grantor is not and shall not be in default beyond any applicable cure period with respect to the Liens.

(iii) Grantor will fully comply with all material terms of all agreements relating to the Liens and will deliver a copy of any notice of default or notice of non-performance with respect to those agreements to Beneficiary.

(iv) Beneficiary has the right to contact the holder of the Liens to confirm the status of the agreements pertaining to the Liens, and Grantor will, from time to time, at the reasonable request of Beneficiary, request of those lienholders certificates stating that the agreements pertaining to the Liens are in full force and effect and are unmodified and that no notice of default thereunder has been served on Grantor, and specifying any defaults thereunder, if any.

1.2 Non-Agricultural Use. Grantor represents and warrants to Beneficiary that the Property is not and will not during the term of this Deed of Trust be used principally or at all for agricultural or farming purposes.

ARTICLE II

GRANTOR'S COVENANTS, REPRESENTATIONS AND WARRANTIES

2.1 Payment and Performance of Secured Obligations. Grantor will pay when due all sums which are now or which may become owing under the Loan Documents, and will pay and perform all other Secured Obligations, including all material covenants contained therein, in accordance with their terms.

2.2 Transfer of Title. If the Property is sold pursuant to Article VIII or if Beneficiary otherwise acquires title to the Property, Beneficiary shall have all of the rights, title and interests of Grantor in and to any insurance policies and unearned premiums thereon and in and to the proceeds resulting from any damage to the Property prior to such sale or acquisition that have not yet been applied to the repair of such damage.

2.3 Protection of Beneficiary's Security. Grantor will give notice to Beneficiary of and will, at its expense, appear in and defend any action or proceeding that might affect the Property or title thereto or the interests of Beneficiary or Trustee therein or the rights or remedies of Beneficiary or Trustee hereunder. If any such action or proceeding is commenced or if Beneficiary or Trustee is made a party to any such action or proceeding by reason of this Deed of Trust, or if Grantor fails to perform any obligation on its part to be performed hereunder, then Beneficiary and/or Trustee, each in its own discretion, may make any appearances, disburse any



sums, make any entries upon the Property and take any actions that may be reasonably necessary or desirable to protect or enforce the security of this Deed of Trust, to remedy Grantor's failure to perform its covenants (without, however, waiving any default by Grantor) or otherwise to protect Beneficiary's or Trustee's interests. Grantor agrees to pay all loss, damage, costs and expenses, including reasonable attorneys' fees, of Beneficiary and Trustee thus incurred. This section shall not be construed to require Beneficiary or Trustee to incur any expenses, make any appearances or take any actions.

2.4 Reimbursement of Beneficiary's and Trustee's Expenses. All amounts disbursed by Beneficiary and Trustee pursuant to Section 2.3 or any other provision of the Secured Obligations or this Deed of Trust to protect the security provided hereby, with interest thereon, shall be additional indebtedness of Grantor secured by this Deed of Trust. All such amounts shall be immediately due and payable and shall bear interest from the date of disbursement at an interest rate of 8% per annum, or at the maximum rate which may be collected from Grantor on such amounts by the payee thereof under applicable law if that is less.

2.5 Hazardous Substances. As used herein, the term "Environmental Laws" means all local, state and federal laws, ordinances, regulations, orders and reported state or federal court decisions thereunder related to: environmental protection; the use, storage, generation, production, treatment, emission, discharge, remediation, removal, disposal or transport of any Hazardous Substance; or any other environmental matter.

The term "Hazardous Substance" means any substance or material defined or designated as hazardous or toxic waste, hazardous or toxic material, a hazardous, toxic or radioactive substance, or other similar term, by any Environmental Laws, and shall include any such substance or material as may hereafter become defined or designated as a hazardous or toxic material by any Environmental Laws.

(a) No Litigation. There is no claim, action, suit, proceeding, arbitration, investigation or inquiry pending or, to the knowledge of Grantor, threatened against Grantor before any federal, state, municipal, foreign or other court, or any governmental, administrative or self-regulatory body or agency, or any private arbitration tribunal, and to the knowledge of Grantor there neither is nor has been any complaint, order, directive, claim, citation, notice of lien by or in favor of any governmental authority or private person with respect to (1) air emissions; (2) spills, releases or discharges of Hazardous Substances on, in or to the Property or surface water or groundwater affected by the Property or the sewer, septic system or waste water treatment system servicing the Property; (3) solid or liquid waste disposal; (4) the use, storage, generation, treatment, transportation or disposal of Hazardous Substances; (5) exposure to airborne or friable asbestos; (6) violation of any Environmental Law; or (7) any other environmental, health or safety matters affecting or pertaining to Grantor or the Property.

(b) No Existing Hazardous Substances. Except as to circumstances, matters or things that have been disclosed in writing to Beneficiary prior to the date hereof and as to which Grantor previously has completed, or is proceeding diligently and in the ordinary course



of Grantor's activities to complete, cleanup, removal or other remedial action that has fully remedied, or will fully remedy, all effects of any Hazardous Substances, (1) Grantor has no knowledge of any circumstance, matter or thing existing with respect to the Property which might give rise to any of the claims, actions or proceedings, without limitation, discussed in paragraph (a) of this section; (2) neither Grantor nor to the knowledge of Grantor any other Person has stored, disposed or released in, on or about the Property any Hazardous Substances the removal or remediation of which is or could be required, or the maintenance of which is prohibited or penalized, by any applicable Environmental Laws, and the Property is free from all such Hazardous Substances; (3) Grantor has not at any time disposed or caused to be disposed at any location any Hazardous Substances generated or existing as a result of Grantor's operation of the Property in violation of applicable Environmental Laws and that will or is reasonably likely to or could cause Grantor to be or become liable for a fine or penalty or a monetary or performance obligation arising from or related to such disposal; (4) to the knowledge of Grantor, Grantor has no contingent liability in connection with the release from the Property of any Hazardous Substances into the environment; (5) Grantor has not given any release or waiver of liability that would waive or impair any claim based on Hazardous Substances to (A) a prior owner or occupant of the Property, (B) the owner or any prior owner or occupant of any property leased by Grantor, or (C) any party who may be potentially responsible for the presence of Hazardous Substances on the Property.

(c) No Future Hazardous Substances. Grantor will not cause or permit the Property to be used to generate, manufacture, refine, transport, treat, store, handle, dispose of, transfer, produce or process any Hazardous Substance, except for Hazardous Substances used in the ordinary course of business in compliance with all applicable Environmental Laws, nor shall Grantor cause or permit, as a result of any intentional or unintentional act or omission on the part of Grantor or any of its agents, employees, contractors, tenants, subtenants, invitees or other users or occupants of the Property, in the operation of the Property, a release of any Hazardous Substance in violation of applicable Environmental Laws onto the Property or from the Property onto any other property.

(d) Compliance With Environmental Laws. Grantor will at all times in all respects comply, and will use its best efforts to cause all tenants, subtenants and other users and occupants of the Property to comply, with all Environmental Laws including, without limitation, the duty to undertake the following specific actions: (1) Grantor will, at its own expense, procure, maintain in effect, and comply with all conditions of any and all permits, licenses and other governmental and regulatory approvals required by all Environmental Laws, including, without limitation, permits required for discharge of (appropriately treated) Hazardous Substances into the ambient air or any sanitary sewers serving the Property; and (2) except as discharged into the ambient air or a sanitary sewer in strict compliance with all applicable Environmental Laws, all Hazardous Substances from or on the Property to be treated and/or disposed of by Grantor will be removed and transported solely by duly licensed transporters to a duly licensed treatment and/or disposal facility for final treatment and/or disposal (except when applicable Environmental Laws permit on-site treatment or disposal in a sanitary landfill).



(e) Notification of Beneficiary. Grantor will promptly give Beneficiary (1) written notice and a copy of any notice or correspondence it receives from any federal, state or other government authority regarding Hazardous Substances on the Property or Hazardous Substances which affect or will affect the Property, (2) written notice of any knowledge or information Grantor obtains regarding Hazardous Substances on the Property or Hazardous Substances which will affect the Property or expenses or losses incurred or expected to be incurred by Grantor or any government agency to study, assess, contain or remove any Hazardous Substances on or near the Property, and (3) written notice of any knowledge or information Grantor obtains regarding the release or discovery of Hazardous Substances on the Property in violation of applicable Environmental Laws.

Nothing in this Section 2.5 shall prejudice or impair the rights or claims of Grantor against any Person other than Beneficiary with respect to the presence of Hazardous Substances as set forth above.

2.6 Maintenance of Property; Insurance. Grantor will maintain the buildings and other improvements which are part of the Property in such condition as will not impair its operating unity or character as a multifamily residential facility, and will neither commit nor suffer any waste on the Property. Grantor will at all times maintain such insurance on the Property, with such insurers and in such amounts, as is normally maintained by prudent owners of similar property in the area in which the Property is located.

ARTICLE III

RESERVES

3.1 Deposits. If Beneficiary so requires, and subject to Section 3.4, Grantor will deposit with Beneficiary a monthly sum, as estimated by Beneficiary, equal to (a) the rents under any ground lease, (b) the taxes and special assessments, if any, next due on the Property, and (c) the premiums that will next become due on insurance policies required hereunder, less all sums already deposited therefor, divided by the number of months to elapse before two months prior to the date when such rents, taxes, special assessments and premiums will become delinquent. Subject to Section 3.4, Beneficiary may require Grantor to deposit with Beneficiary, in advance, such other sums for other taxes, assessments, premiums, charges and impositions in connection with Grantor or the Property as Beneficiary reasonably deems necessary to protect Beneficiary's interests (herein "Other Impositions"). Such sums for Other Impositions shall be deposited in a lump sum or in periodic installments, at Beneficiary's option. If requested by Beneficiary, Grantor will promptly deliver to Beneficiary all bills and notices with respect to any rents, taxes, assessments, premiums and Other Impositions. Unless Grantor and Beneficiary otherwise agree in writing, Beneficiary shall not be required to pay Grantor any interest, earnings or profits on any sums deposited with Beneficiary. All sums deposited with Beneficiary under this Section 3.1 are hereby pledged as additional security for the Secured Obligations.



3.2 Application of Deposits. All such deposited sums shall be held by Beneficiary and applied in such order as Beneficiary elects to pay such rents, taxes, assessments, premiums and Other Impositions or, in the event of default hereunder, may be applied in whole or in part, to indebtedness secured hereby. The arrangement provided for in this Article III is solely for the added protection of Beneficiary and entails no responsibility on Beneficiary's part beyond the allowing of due credit, without interest, for the sums actually received by it. Upon any assignment of this Deed of Trust by Beneficiary, any funds on hand shall be turned over to the assignee and any responsibility of Beneficiary with respect thereto shall terminate. Each transfer of the Property shall automatically transfer to the grantee all rights of Grantor with respect to any funds accumulated hereunder. Upon payment in full of the Secured Obligations, Beneficiary shall promptly refund to Grantor the remaining balance of any deposits then held by Beneficiary.

3.3 Adjustments to Deposits. If the total amount deposited by Grantor under Section 3.1 exceeds the amount deemed necessary by Beneficiary to provide for the payment of such rents, taxes, assessments, premiums and Other Impositions as the same fall due, then such excess shall, provided no event of default then exists hereunder, be credited by Beneficiary on the next due installment or installments of such deposits. If at any time the total amount deposited with Beneficiary is less than the amount deemed necessary by Beneficiary to provide for the payment thereof as the same fall due, then Grantor will deposit the deficiency with Beneficiary within 30 days after written notice to Grantor stating the amount of the deficiency.

3.4 Conditional Waiver. Notwithstanding any other provision of this Deed of Trust, Beneficiary agrees that it will not require the payment of reserves as provided in this Article III, so long as there is no delinquency in the payment of any taxes or assessments levied or assessed against the Property, nor any delinquency in the payment of the premiums for any insurance required hereunder, and there is no other event of default under this Deed of Trust.

ARTICLE IV

RESTRICTIONS ON TRANSFER OR ENCUMBRANCE

4.1 Restrictions on Transfer or Encumbrance of the Property. Except for tenant leases of individual dwelling units and except as permitted by the Financing Documents, neither the Property nor any part thereof or interest therein shall be encumbered, sold (by contract or otherwise), conveyed or otherwise transferred by Grantor without Beneficiary's prior written consent, which consent shall not be unreasonably withheld. Any such action without Beneficiary's prior written consent shall be void and, at the option of Beneficiary, may constitute an event of default hereunder and shall be deemed to increase the risk of Beneficiary, and Beneficiary may declare all sums secured hereby immediately due and payable or may at its sole option consent to such change in title, occupancy or ownership.



ARTICLE V

UNIFORM COMMERCIAL CODE SECURITY AGREEMENT

5.1 Grant to Beneficiary. This Deed of Trust constitutes a security agreement pursuant to the UCC with respect to:

(a) Any of the Property which, under applicable law, is not real property or effectively made part of the real property by the provisions of this Deed of Trust; and

(b) Any and all other property now or hereafter described on any UCC Financing Statement naming Grantor as Debtor and Beneficiary as Secured Party and affecting property in any way connected with the use and enjoyment of the Property (any and all such other property constituting "Property" for purposes of this Deed of Trust);

and Grantor hereby grants Beneficiary a security interest in all property described in clauses (a) and (b) above as security for the Secured Obligations, and authorizes Beneficiary to file such Financing Statements as Beneficiary deems necessary or advisable to perfect such security interest. Grantor and Beneficiary agree, however, that neither the foregoing grant of a security interest nor the filing of any such financing statement shall ever be construed as in any way derogating from the parties' hereby stated intention that everything used in connection with the production of income from the Property or adapted for use therein or which is described or reflected in this Deed of Trust is and at all times shall be regarded for all purposes as part of the Realty.

5.2 Beneficiary's Rights and Remedies. With respect to Property subject to the foregoing security interest, Beneficiary has all of the rights and remedies (i) of a secured party under the UCC, (ii) provided herein, including without limitation the right to cause such Property to be sold by Trustee under the power of sale granted by this Deed of Trust, and (iii) provided in the Loan Agreement, any other Loan Document or by law. In exercising its remedies, Beneficiary may proceed against the items of real property and any items of personal property separately or together and in any order whatsoever, and against any other real or personal property of the Grantor subject to any other deed of trust securing payment of the Bond, separately or together and in any order, without in any way affecting the availability of Beneficiary's remedies hereunder. Upon demand by Beneficiary following an event of default hereunder, Grantor will assemble any items of personal property and make them available to Beneficiary at the Property, a place which is hereby deemed to be reasonably convenient to both parties. Beneficiary shall give Grantor at least five days' prior written notice of the time and place of any public sale or other disposition of such Property or of the time of or after which any private sale or any other intended disposition is to be made. Any person permitted by law to purchase at any such sale may do so. Such Property may be sold at any one or more public or private sales as permitted by applicable law. All expenses incurred in realizing on such Property shall be borne by Grantor.



ARTICLE VI

ASSIGNMENT OF RENTS AND LEASES; LEASES OF PROPERTY;
APPOINTMENT OF RECEIVER; BENEFICIARY IN POSSESSION

6.1 Assignment of Rents and Leases. As part of the consideration for the indebtedness evidenced by the Loan, and not as additional security therefor, Grantor hereby absolutely and unconditionally assigns and transfers to Beneficiary all right, title and interest of Grantor in and to: (a) any and all present and future leases and other agreements for the occupancy or use of all or any part of the Property, and any and all extensions, renewals and replacements thereof (collectively "Leases"); (b) all cash or security deposits, advance rentals and deposits of a similar nature under the Leases; (c) any and all guarantees of tenants' or occupants' performances under any and all Leases, and (d) all rents, issues, profits and revenues (collectively "Rents") now due or which may become due or to which Grantor may now or shall hereafter become entitled or may demand or claim (including Rents coming due during any redemption period), arising or issuing from or out of any and all Leases, including without limitation minimum, additional, percentage and deficiency rents and liquidated damages.

6.2 Collection of Rents. Prior to written notice given by Beneficiary to Grantor of an event of default hereunder, Grantor shall have a license to, and will, collect and receive all Rents, if any, as trustee for the benefit of Beneficiary and Grantor, to apply the Rents so collected first to the payment of taxes, assessments and other charges on the Property prior to delinquency, second to the cost of insurance, maintenance and repairs required by the terms of the Loan Documents, third to the costs of discharging any obligation or liability of Grantor under the Leases, and fourth to the indebtedness secured hereby, with the balance, if any, so long as no such event of default has occurred, to the account of Grantor. Upon delivery of written notice by Beneficiary to Grantor of an event of default hereunder and stating that Beneficiary exercises its rights to the Rents, and without the necessity of Beneficiary entering upon and taking and maintaining full control of the Property in person, by agent or by a court-appointed receiver, Beneficiary shall immediately be entitled to possession of all Rents as the same become due and payable, including without limitation Rents then due and unpaid, and all such Rents shall immediately upon delivery of such notice be held by Grantor as trustee for the benefit of Beneficiary only. Upon delivery of such written notice by Beneficiary, Grantor hereby agrees to direct each tenant or occupant of the Property to pay all Rents to Beneficiary on Beneficiary's written demand therefor, without any liability on the part of such tenant or occupant to inquire further as to the existence of a default by Grantor; Grantor hereby authorizes Beneficiary as Grantor's attorney-in-fact to make such direction to tenants and occupants upon Grantor's failure to do so as required herein. Payments made to Beneficiary by tenants or occupants shall, as to such tenants and occupants, be in discharge of the payors' obligations to Grantor. Beneficiary may exercise, in Beneficiary's or Grantor's name, all rights and remedies available to Grantor with respect to collection of Rents. Nothing herein contained shall be construed as obligating Beneficiary to perform any of Grantor's obligations under any of the Leases.



6.3 Grantor's Representations and Warranties. Grantor hereby represents and warrants to Beneficiary that Grantor has not executed and will not execute any other assignment of the Leases or Rents, if any (except in and as contemplated by the Loan Documents), that Grantor has not performed and will not perform any acts and has not executed and will not execute any instrument which would prevent Beneficiary from exercising its rights under this Article VI, and that at the time of execution of this Deed of Trust there has been no anticipation or prepayment of any Rents for more than two months prior to the due dates thereof. Grantor will execute and deliver to Beneficiary such further assignments of rents and leases of the Property as Beneficiary may from time to time request.

6.4 Leases of the Property. Grantor will comply with and observe its material obligations as landlord under all Leases and will do all that is reasonably necessary to preserve all Leases in force and free from any right of counterclaim, defense or setoff. At Beneficiary's request, Grantor will furnish Beneficiary with executed copies of all Leases now existing or hereafter made. All Leases made hereafter will specifically provide that the tenant attorns to any person succeeding to the interest of Grantor upon any foreclosure of this Deed of Trust or conveyance in lieu thereof; such attornment shall be in such form as Beneficiary may approve but shall provide that the tenant shall not have the right of set off or defense to payment of rents for any event or act that occurred prior to such successor obtaining title to Grantor's interest except to the extent such event or act continues beyond the time such successor obtains such title. The tenant must also agree to execute such further evidences of attornment as Beneficiary may from time to time request. Without Beneficiary's written consent, Grantor will not collect or accept payment of any Rents more than two months prior to the due dates thereof; will not execute, modify, surrender or terminate any Lease now existing or hereafter made providing for a term (including any renewal term(s)) of five years or more, will not in any manner waive, discharge, release or modify the obligations of any tenant or other occupant of the Property under any Lease, or request or consent to the subordination of any Lease to any lien subordinate to this Deed of Trust.

6.5 Beneficiary in Possession; Appointment of Receiver. Upon any event of default hereunder, Beneficiary may, in person, by agent or by a court-appointed receiver, regardless of the adequacy of Beneficiary's security, enter upon and take and maintain full control of the Property in order to perform all acts necessary and appropriate for the operation and maintenance thereof in the same manner and to the same extent that Grantor could do, including without limitation the execution, enforcement, cancellation and modification of Leases, the collection of all Rents, the removal and eviction of tenants and other occupants, the making of alterations and repairs to the Property and the execution and termination of contracts providing for management or maintenance of the Property, all on such terms as are deemed best by Beneficiary to protect the security of this Deed of Trust. From and after the occurrence of any such event of default, if any owner of the Property shall occupy the Property or part thereof such owner shall pay to Beneficiary in advance on the first day of each month a reasonable rental for the space so occupied, and upon failure so to do Beneficiary shall be entitled to remove such owner from the Property by any appropriate action or proceedings. Following an event of default hereunder, Beneficiary shall be entitled (regardless of the adequacy of Beneficiary's security) to the



appointment of a receiver, Grantor hereby consenting to the appointment of such receiver, and the receiver shall have, in addition to all the rights and powers customarily given to and exercised by such receivers, all the rights and powers granted to Beneficiary in this Article VI. Beneficiary or the receiver shall be entitled to receive a reasonable fee for so managing the Property.

6.6 Application of Rents. All Rents collected subsequent to delivery of written notice by Beneficiary to Grantor of an event of default hereunder shall be applied first to the costs, if any, of taking control of and managing the Property and collecting the Rents, including without limitation attorneys' fees, receiver's fees, premiums on receiver's bonds, costs of maintenance and repairs to the Property, premiums on insurance policies, taxes, assessments and other charges on the Property, and the costs of discharging any obligation or liability of Grantor under the Leases, and then to the indebtedness secured hereby. Beneficiary or the receiver shall be liable to account only for those Rents actually received. Beneficiary shall not be liable to Grantor, anyone claiming under or through Grantor or anyone having an interest in the Property by reason of anything done or left undone by Beneficiary under this Article VI.

6.7 Deficiencies. To the extent, if any, that the costs of taking control of and managing the Property, collecting the Rents, and discharging obligations and liabilities of Grantor under the Leases exceed the Rents, the excess sums expended for such purposes shall be indebtedness secured by this Deed of Trust. Such excess sums shall be payable upon demand by Beneficiary and shall bear interest from the date of disbursement at the rate of 8% per annum, or the maximum rate which may be collected from Grantor therefor under applicable law if that is less.

6.8 Beneficiary Not Mortgagee in Possession. Nothing herein shall constitute Beneficiary a "mortgagee in possession" prior to its actual entry upon and taking possession of the Property, entry upon and taking possession by a receiver not constituting possession by Beneficiary.

6.9 Enforcement. Beneficiary may enforce this assignment without first resorting to or exhausting any security or collateral for the indebtedness. This assignment shall terminate at such time as this Deed of Trust ceases to secure payment of the Secured Obligations.

ARTICLE VII

EVENTS OF DEFAULT

7.1 Events of Default. The occurrence of any one or more of the following shall constitute an event of default hereunder:

(a) Failure by Grantor to make any payment when due under any of the other Loan Documents, if not cured within any applicable grace period set forth in such documents, or



under this Deed of Trust, if not cured within 10 days after written notice thereof given to Grantor by Beneficiary.

(b) Failure by Grantor to perform any other material covenant, agreement or obligation under any of the Loan Documents, if not cured within 60 days after written notice thereof given to Grantor by Beneficiary (or if such cure cannot be completed within such 60-day period through the exercise of diligence, the failure by Grantor to commence the required cure within such 60-day period and thereafter to continue the cure with diligence and to complete the cure).

7.2 Form of Notice. At Beneficiary's option, any written notice of default required to be given to Grantor under Section 8.1 may be given in the form of a statutory notice of default under the Washington Deed of Trust Act or any other form Beneficiary may elect.

ARTICLE VIII

REMEDIES

8.1 Acceleration Upon Default; Additional Remedies. In the event of default hereunder, Beneficiary may, at its option and without notice to or demand upon Grantor, exercise any one or more of the following actions:

- (a) Declare any or all indebtedness secured by this Deed of Trust to be due and payable immediately;
- (b) Bring a court action to enforce the provisions of this Deed of Trust or any of the indebtedness or obligations secured by this Deed of Trust;
- (c) Foreclose this Deed of Trust as a mortgage;
- (d) Cause any or all of the Property to be sold under the power of sale granted by this Deed of Trust in any manner permitted by applicable law;
- (e) Elect to exercise its rights with respect to the Leases and the Rents (notice of exercising this right will be given by Beneficiary to Grantor);
- (f) Exercise any or all of the other rights and remedies provided for herein in the event of default hereunder; or
- (g) Exercise any other right or remedy available under law or in equity.

8.2 Exercise of Power of Sale. For any sale under the power of sale granted by this Deed of Trust, Beneficiary or Trustee shall record and give all notices required by law and then, upon the expiration of such time as is required by law, Trustee may sell the Property upon any

terms and conditions specified by Beneficiary and permitted by applicable law. Trustee may postpone any sale by public announcement at the time and place noticed for the sale. If the Property includes several lots or parcels, Beneficiary in its discretion may designate their order of sale or may elect to sell all of them as an entirety. The Property, real, personal and mixed, may be sold in one parcel. To the extent any of the Property sold by the Trustee is personal property, then Trustee shall be acting as the agent of Beneficiary in selling such Property. Any person permitted by law to do so may purchase at any sale. Upon any sale, Trustee will execute and deliver to the purchaser or purchasers a deed or deeds conveying the Property sold, but without any covenant or warranty, express or implied, and the recitals in the Trustee's deed showing that the sale was conducted in compliance with all the requirements of law shall be prima facie evidence of such compliance and conclusive evidence thereof in favor of bona fide purchasers and encumbrancers for value.

8.3 Application of Sale Proceeds. The proceeds of any sale under this Deed of Trust will be applied in the following manner:

FIRST: Payment of the costs and expenses of the sale, including without limitation Trustee's fees, legal fees and disbursements, title charges and transfer taxes, and payment of all expenses, liabilities and advances of Trustee, together with interest on all advances made by Trustee from the date of disbursement at an interest rate of 8% per annum or at the maximum rate permitted to be charged by Trustee under applicable law if that is less.

SECOND: Payment of all sums expended by Beneficiary under the terms of this Deed of Trust and not yet repaid, together with interest on such sums from date of disbursement at an interest rate of 8% per annum or the maximum rate permitted by applicable law if that is less.

THIRD: Payment of all other indebtedness secured by this Deed of Trust in any order that Beneficiary chooses.

FOURTH: The remainder, if any, to the person or persons legally entitled to it.

8.4 Waiver of Order of Sale and Marshalling. Beneficiary shall have the right to determine the order in which any or all portions of the secured indebtedness are satisfied from the proceeds realized upon the exercise of any remedies provided herein or in any other deed of trust securing payment of the Bonds. Grantor, any party who consents to this Deed of Trust and any party who now or hereafter acquires a security interest in the Property and who has actual or constructive notice hereof, hereby waives any and all right to require marshalling of assets in connection with the exercise of any of the remedies permitted by applicable law or provided herein or in any such other deed of trust, or to direct the order in which any of the Property will be sold in the event of any sale under this Deed of Trust.



8.5 Non-Waiver of Defaults. The entering upon and taking possession of the Property, the collection of Rents or the proceeds of fire and other insurance policies or compensation or awards for any taking or damage of the Property, and the application or release thereof as herein provided, shall not cure or waive any default or notice of default hereunder or invalidate any act done pursuant to such notice.

8.6 Expenses During Redemption Period. If this Deed of Trust is foreclosed as a mortgage and the Property sold at a foreclosure sale, the purchaser may during any redemption period allowed, make such repairs or alterations on the Property as may be reasonably necessary for the proper operation, care, preservation, protection and insuring thereof. Any sums so paid together with interest thereon from the time of such expenditure at the rate of 8% per annum or the highest lawful rate if that is less shall be added to and become a part of the amount required to be paid for redemption from such sale.

8.7 Foreclosure Subject to Tenancies. Beneficiary's right at its option to foreclose this Deed of Trust is subject to the rights of any tenant or tenants of the Property.

8.8 Remedies Cumulative. To the extent permitted by law, every right and remedy provided in this Deed of Trust is distinct and cumulative to all other rights or remedies under this Deed of Trust or afforded by law or equity or any other agreement between Beneficiary and Grantor, and may be exercised concurrently, independently or successively, in any order whatsoever. Beneficiary may exercise any of its rights and remedies at its option without regard to the adequacy of its security.

8.9 Beneficiary's and Trustee's Expenses. Grantor will pay all of Beneficiary's and Trustee's expenses incurred in any efforts to enforce any terms of this Deed of Trust, whether or not any suit is filed, including without limitation legal fees and disbursements, foreclosure costs and title charges. All such sums, with interest thereon, shall be additional indebtedness of Grantor secured by this Deed of Trust. Such sums shall be immediately due and payable and shall bear interest from the date of disbursement at an interest rate of 8% per annum, or the maximum rate which may be collected from Grantor under applicable law if that is less.

ARTICLE IX

GENERAL

9.1 Application of Payments. Except as applicable law or this Deed of Trust may otherwise provide, all payments received by Beneficiary under the Loan Documents shall be applied by Beneficiary pursuant to the Loan Agreement.

9.2 Reconveyance. Upon payment of all sums secured by this Deed of Trust, Beneficiary shall request Trustee to reconvey the Property and shall surrender this Deed of Trust and all notes evidencing indebtedness secured by this Deed of Trust to Trustee. Trustee shall reconvey the Property without warranty to the person or persons legally entitled thereto. The



grantee in any reconveyance may be described as the "person or persons legally entitled thereto," and the recitals therein of any matters or facts shall be conclusive proof of the truthfulness thereof. Such person or persons shall pay Trustee's reasonable costs incurred in so reconveying the Property.

9.3 Successor Trustee. In accordance with applicable law, Beneficiary may from time to time appoint a successor trustee to any Trustee appointed hereunder. Without conveyance of the Property, the successor trustee shall succeed to all the title, power and duties conferred upon the Trustee herein and by applicable law.

9.4 Beneficiary's Powers. Without affecting the liability of any person for payment or performance of the Secured Obligations, Beneficiary, at its option but only if not prohibited by the resolution of the Authority pursuant to which the Bond was issued, the Loan Agreement, may extend the time for payment of the indebtedness secured hereby or any part thereof, reduce payment thereon, release anyone liable on any of such indebtedness, accept a renewal note or notes thereof, modify the terms and time of payment of the indebtedness, release the lien of this Deed of Trust on any part of the Property, take or release other or additional security, release or reconvey or cause to be released or reconveyed all or any part of the Property, or consent and/or cause Trustee to consent to the making of any map or plat of the Property, consent or cause Trustee to consent to the granting of any easement or the creating of any restriction on the Property, or join or cause Trustee to join in any subordination or other agreement affecting this Deed of Trust or the lien or charge hereof. Grantor shall pay Beneficiary a reasonable service charge, together with such title insurance premiums and attorneys' fees as may be incurred at Beneficiary's option, for any such action if taken at Grantor's request.

9.5 No Violation of Usury Laws. Interest, fees and charges collected or to be collected in connection with the indebtedness secured hereby shall not exceed the maximum, if any, permitted by any applicable law. If any such law is interpreted so that such interest, fees and/or charges would exceed any such maximum and Grantor is entitled to the benefit of such law, then: (a) such interest, fees and/or charges shall be reduced by the amount necessary to reduce the same to the permitted maximum; and (b) any sums already paid to Beneficiary which exceeded the permitted maximum will be refunded. Beneficiary may choose to make the refund either by treating the payments, to the extent of the excess, as prepayments of principal or by making a direct payment to the person(s) entitled thereto. No prepayment premium shall be assessed on prepayments under this section. The provisions of this section shall control over any inconsistent provision of this Deed of Trust or the Bond or any other Loan Documents.

9.6 Additional Documents; Power of Attorney. Grantor, from time to time, will execute, acknowledge and deliver to Beneficiary upon request, and hereby irrevocably appoints Beneficiary its attorney-in-fact to the extent permitted by applicable law, to execute, acknowledge, deliver and if appropriate file and record, such security agreements, assignments for security purposes, absolute assignments, financing statements, affidavits, certificates and other documents, in form and substance satisfactory to Beneficiary, as Beneficiary may request in order to perfect, preserve, continue, extend or maintain the assignments contained herein, the



lien and security interest under this Deed of Trust and the priority thereof. Grantor will pay to Beneficiary upon request therefor all costs and expenses incurred in connection with the preparation, execution, recording and filing of any such document.

9.7 Forbearance by Beneficiary Not a Waiver. Any forbearance by Beneficiary in exercising any right or remedy hereunder, or otherwise afforded by applicable law, shall not be a waiver of or preclude the exercise of any right or remedy, and no waiver by Beneficiary of any particular default by Grantor shall constitute a waiver of any other default or of any similar default in the future. Without limiting the generality of the foregoing, the acceptance by Beneficiary of payment of any sum secured by this Deed of Trust after the due date thereof shall not be a waiver of Beneficiary's right either to require prompt payment when due of all other sums so secured or to declare a default for failure to make prompt payment. The procurement of insurance or the payment of taxes or other liens or charges by Beneficiary shall not be a waiver of Beneficiary's right to accelerate the maturity of the indebtedness secured by this Deed of Trust, nor shall Beneficiary's receipt of any condemnation awards or damages or insurance proceeds operate to cure or waive Grantor's default in payment of sums secured by this Deed of Trust.

9.8 Indemnity. Grantor agrees to defend and hold Beneficiary harmless from any claims made against Beneficiary which arise as a result of actions taken by Grantor. This indemnity shall survive foreclosure or other acquisition of the Property by Beneficiary.

9.9 Modifications and Waivers. This Deed of Trust cannot be waived, changed, discharged or terminated orally, but only by an instrument in writing signed by the party against whom enforcement of any waiver, change, discharge or termination is sought.

9.10 Notice. Except as applicable law may otherwise require, all notices and other communications shall be in writing and shall be deemed given when delivered by personal service or when mailed, by certified or registered mail, postage prepaid, addressed to the address set forth at the beginning of this Deed of Trust. Any party may at any time change its address for such purposes by delivering or mailing to the other parties hereto as aforesaid a notice of such change.

9.11 Governing Law; Severability; Captions. This Deed of Trust shall be governed by the laws of the State of Washington without regard to the conflict of laws provisions thereof. If any provision or clause of this Deed of Trust conflicts with applicable law, such conflicts shall not affect other provisions or clauses hereof which can be given effect without the conflicting provision, and to this end the provisions hereof are declared to be severable. The captions and headings of the sections and articles of this Deed of Trust are for convenience only and are not to be used to interpret or define the provisions hereof.

9.12 Definitions. As used herein, the term "Grantor" means the Grantor herein named, together with any subsequent owner of the Property or any part thereof or interest therein, the term "Trustee" means the Trustee herein named, together with any successor Trustee, and the



term "Beneficiary" means the Beneficiary herein named, together with any assignee of the Beneficiary.

9.13 Successors and Assigns Bound; Agents. This Deed of Trust shall bind and inure to the benefit of the parties hereto and their respective heirs, devisees, legatees, administrators, executors, successors and assigns, subject to the provisions of Article IV. In exercising any rights hereunder or taking actions provided for herein, Beneficiary and Trustee may act through their respective employees, agents or independent contractors as authorized by Beneficiary and Trustee.

9.14 Number; Gender. This Deed of Trust shall be construed so that wherever applicable the use of the singular number shall include the plural number, and vice versa, and the use of any gender shall be applicable to all genders.

9.15 Time. Time is of the essence in connection with all obligations of Grantor herein.

9.16 Request for Notice. Grantor hereby requests that a copy of any notice of default and notice of sale hereunder be mailed to it at its address set forth at the beginning of this Deed of Trust.

IN WITNESS WHEREOF, Grantor has executed this Deed of Trust as of the date first above written.

PLEASE BE ADVISED THAT ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT, OR FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.

SKAGIT COUNCIL HOUSING, a Washington nonprofit corporation

By: James M. VanderMey
James M. VanderMey
President



STATE OF WASHINGTON)
) ss.
COUNTY OF SKAGIT)

On this day before me personally appeared James M. VanderMey, known or proved to me to be the President of Skagit Council Housing, a Washington nonprofit corporation, the entity that executed the within and foregoing instrument, and acknowledged that instrument to be the free and voluntary act and deed of that entity, for the uses and purposes mentioned therein, and on oath stated that he was authorized to execute such instrument.

IN WITNESS WHEREOF I have hereunto set my hand and official seal this 18th day of October, 2004.



(Signature of Notary)

Carrie Huffer

(Legibly Print or Stamp Name of Notary)

Notary public in and for the state of Washington,
residing at Burlington

My appointment expires 12/31/2007

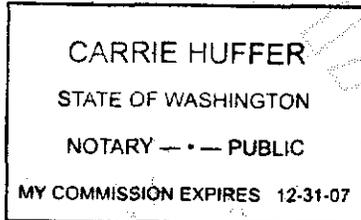


EXHIBIT "A"

LEGAL DESCRIPTION

PARCEL "A":

All that portion of the Northwest $\frac{1}{4}$ of the Northwest $\frac{1}{4}$ of Section 16, Township 34 North, Range 4 East, W.M., described as follows:

Beginning at the Northwest corner of Tract "B", Short Plat No. MV-3-81, approved January 15, 1981, recorded in the Auditor's Office of Skagit County, Washington;
thence North $89^{\circ}47'35''$ East and along the North line of said Tract "B", for a distance of 393.70 feet to the Northeast corner of said Tract "B";
thence South $00^{\circ}33'01''$ East and along the East line of said Tract "B" and its Southerly extension for a distance of 305.00 feet;
thence South $89^{\circ}47'35''$ West, for a distance of 393.13 feet to a point on the West line of said Tract "B" extended Southerly;
thence North $00^{\circ}39'29''$ West along said extension and the West line of Tract "B", a distance of 305.01 feet to the point of beginning.

EXCEPT that portion thereof lying within Austin Lane, as dedicated for street purposes by Short Plat No. MV-17-81, approved September 16, 1981.

TOGETHER WITH a non-exclusive 25 foot easement for ingress, egress, utilities and drainage, lying East of the East line of Austin Lane and West of the East line of the above described tract extended South, the North line of said easement being the South line of the above described tract.

Situate in the County of Skagit, State of Washington.

PARCEL "B":

Tract 4, Short Plat No. MV-17-81, approved September 16, 1981, and recorded in Volume 5 of Short Plats, page 128, under Auditor's File No. 8109160089, being a portion of the Northwest $\frac{1}{4}$ of the Northwest $\frac{1}{4}$ of Section 16, Township 34 North, Range 4 East, W.M.

Situate in the County of Skagit, State of Washington.

PARCEL "C":

All that portion of the Northwest $\frac{1}{4}$ of the Northwest $\frac{1}{4}$ of Section 16, Township 34 North, Range 4 East, W.M., lying North of the North line of Tract 4, Short Plat MV-17-81, as recorded in Volume 5 of Short Plats, page 128, lying East of the Easterly line of Austin Lane as shown on said Short Plat, and lying South of the following described line:

Beginning at the Northeast corner of Tract "B", Short Plat MV-3-81, as recorded in Volume 5 of Short Plats, page 24;
thence South $00^{\circ}33'01''$ East and along the East line of said Tract "B" and its Southerly extension for a



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Skagit County Auditor

distance of 305 feet to the true point of beginning of this line description;
thence South 89°47'35" West for a distance of 393.13 feet to the terminus of this line description.

Situate in the County of Skagit, State of Washington.



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Skagit County Auditor