

To keep all improvements on the premises insured against loss or damage by fire or other hazard in a safe reliable company approved by the Beneficiary, in an amount not less than eighty percent (80%) of the total replacement cost new. All policies shall be held by the Beneficiary with the loss payable first to the Beneficiary as his interest may appear and then to the Grantor. Grantor shall also procure and maintain comprehensive general liability insurance in such coverage amounts as Beneficiary may request in its Letter of Commitment. Should the real property at any time become located in an area designated by the Director of the Federal Emergency Management Agency as a special flood hazard area, Grantor agrees to obtain and maintain Federal Flood Insurance in the amount of the full unpaid balance of the loan. The amount collected under any insurance policy may be applied upon any indebtedness hereby secured in such order as the Beneficiary shall determine. Such application of the proceeds shall not cause discontinuance of any proceedings to foreclose this Deed of Trust. In the event of foreclosure, all rights of the Grantor in insurance policies then in force shall pass to the purchaser at the foreclosure sale.

3 Reserves for Property Assessments

Grantor shall pay, in addition to the periodic payments payable under the Note evidencing the debt secured by this Deed of Trust a sum equal to one-twelfth of the annual assessments for real estate taxes, hazard insurance premiums, assessments, rent (if subject property is a leasehold), all as reasonably estimated initially and from time to time by Lender, in Lender's sole discretion (herein "funds"). Any waiver by Lender of a requirement that Borrower pay such funds may be revoked by Lender, in Lender's sole discretion, at any time upon notice in writing to Borrower. Lender shall apply these funds to pay said taxes, insurance premiums, assessments, rents, and other impositions effecting the subject property securing the loan. Lender shall provide borrower with an accounting, without charge, an annual accounting of the funds in Lender's normal format showing credits and debits to the funds and the purpose for which each debit to the funds was made. The funds are pledged as additional security for the sums secured by this Deed of Trust. Lender may provide the Borrower with the option of lower payments or a cash refund if there is an excess in the fund for payment of assessments effecting the property, or in the alternative, if there is a shortage in the account the Lender may require the Borrower to make higher periodic payments or to make one cash payment to eliminate the shortage. Upon Borrower's breach of any covenant or agreement made between Borrower and Lender, Lender may apply these funds to pay the assessments which effect the subject property, or to apply these funds to the sums secured by this Deed of Trust. Upon payment in full of all sums secured by this Deed of Trust, Lender shall promptly refund to Borrower any funds held by Lender.

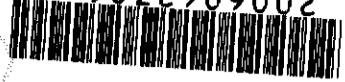
4 Repair

To keep the property in good condition and repair, to permit no waste thereon, to complete any improvement or structure being built or about to be built thereon, to restore promptly any building, structure or improvement thereon which may be damaged or destroyed, to comply with all laws, ordinances, regulations, covenants, conditions and restrictions affecting the property; to permit no liens to be placed thereon, or if so placed, to take action to have such lien promptly removed or satisfied.

5 Protect Security

To defend any action or proceeding purporting to affect the security hereof or the rights or power of the Beneficiary or Trustee, and to pay all costs and expenses, including costs of title search and attorney fees paid out by the Beneficiary to protect the security hereof. The Grantor shall not, without first obtaining the Beneficiary's written consent, change the general nature of the occupancy, initiate any zoning reclassification, approve a Local Improvement District assessment, or approve or allow the placing of any encumbrance on the property which would take priority over Beneficiary's secured interest, or do or suffer any act or thing which would impair the security for the debt or the Beneficiary's lien or the priority thereof upon the property or the rents thereof. In the event of breach of any of the requirements of this paragraph, the Beneficiary may, in addition to any other rights or remedies, at any time thereafter, declare the entire indebtedness secured hereby immediately due and payable.

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6. Personal Property Security

This Deed of Trust shall be deemed a security agreement, as defined in the Uniform Commercial Code as adopted or amended by the state in which the property is located, and the remedies for any violation of the covenants, terms and conditions of the agreements contained herein shall be as prescribed herein, or by general law, or as to such part of the security which is also reflected in said financing statement by the specific statutory consequences now or hereafter enacted, and specified in the Uniform Commercial Code as enacted by the State of Washington, all at Beneficiary's sole election. Grantor and Beneficiary agree that the filing of such financing statement and the records normally having to do with personal property shall not be construed from impairing this declaration and the hereby stated intention of the parties that everything used in connection with the production of income from the property and/or contracts adapted for use therein and/or any other property which is described or reflected by the security of this Deed of Trust and at all times and for all purposes in all proceedings, both legal and equitable, shall be regarded as part of the real estate, whether physically attached or specifically identified or not. The remedies available to the Beneficiary for any violation of the provisions of such security agreement shall be as provided by specific statutory provision or as prescribed herein, at the Beneficiary's option.

7. Court Costs and Fees

To pay costs and reasonable attorney fees in any suit brought by Beneficiary to foreclose this Deed of Trust; to pay all costs, fees and expenses of this trust, including the expenses of the Trustee incurred in enforcing this obligation, and to pay reasonable Trustee and attorney fees as provided by statute.

MUTUALLY AGREED

1. Condemnation

In the event any portion of the property is taken or damaged in an eminent domain proceeding, the entire amount of the award shall be paid to the Beneficiary to be applied as a payment to the obligation secured. Any portion of the award in excess of the obligation secured shall be paid to the Grantor.

2. Not Agricultural

The real property hereby conveyed is not used principally for agricultural or farming purposes.

3. Waiver

Any forbearance by Beneficiary in exercising any right or remedy hereunder, or otherwise afforded by applicable law, shall not be a waiver or preclude the exercise of any right or remedy. The acceptance by Beneficiary of payment of any sum secured by this Deed of Trust after the due date of such payment shall not be a waiver of Beneficiary's right to either 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 the receipt of any awards, proceeds or damages operate to cure or waive Grantor's default in payment of sums secured by this Deed of Trust.

4. Reconveyance by Trustee

The Trustee shall reconvey all or part of the property covered by this Deed of Trust to the person entitled thereto, on written request of the Grantor and the Beneficiary, or upon satisfaction of the obligation secured and written request for reconveyance made by the Beneficiary or the person entitled thereto.

5. Default

Upon default by Grantor in the payment of any indebtedness secured hereby or upon breach of any promise made in this Deed of Trust or in any other agreement between the borrowers, or any of them and BANNER BANK, or its assignees, including without limiting the generality of the foregoing Deed of Trust, Security Agreement, Assignment of Leases and Rents, Construction Loan Agreement of even date (if applicable), together with Letter of Commitment dated June 08, 2006 of BANNER BANK, addressed to AJ Homes LLC

in the performance of any agreement contained herein, all sums secured hereby shall immediately become due and payable at the option of the Beneficiary. In such event and upon written request of the Beneficiary, the Trustee may sell the trust property, in accordance with the Deed of Trust Act of the State of Washington, at public auction to the highest bidder. Any person may bid at the Trustee's sale. At the Trustee's sale, all property held as security, whether real, personal, or mixed, may be sold as one parcel. Trustee shall apply the proceeds of the sale as follows: (a) to the expense of sale, including reasonable Trustee's fee and attorney's fee; (b) to the obligation secured by this Deed of Trust; (c) the surplus, if any, shall be distributed to the persons entitled thereto.



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6 Deed of Sale

In the event of default and upon written request of the Beneficiary, Trustee shall sell the trust property in accordance with the Deed of Trust Act of the State of Washington at public auction to the highest bidder. Any person may bid at the Trustee's Sale. The Trustee shall apply the proceeds of the sale as provided in the Deed of Trust Act. Trustee shall deliver to the purchaser at the sale, its Deed, without warranty, which shall convey to the purchaser the interest in the property which Grantor had or had the power to convey at the time of his execution of this Deed of Trust, and such as he may have acquired thereafter. Trustee's Deed shall recite the facts showing that the sale was conducted in compliance with all the requirements of the law and of this Deed of Trust, which recital shall be prima facie evidence of such compliance and the conclusive evidence thereof in favor of bona fide purchasers and encumbrances for value. At any time Beneficiary may appoint in writing a successor Trustee in the place of any Trustee named herein, which successor shall be vested with all powers of the original Trustee.

7 Remedies

The power of sale conferred by this Deed of Trust and by the Deed of Trust Act of the State of Washington is not an exclusive remedy and when not exercised, Beneficiary may foreclose this Deed of Trust as a mortgage in case of sale under this Deed of Trust, either non-judicially or judicially, the property, real, personal and mixed, may be sold in one parcel. In the event this Deed of Trust is foreclosed as a mortgage and the property is sold at a foreclosure sale, the purchaser at such sale, may, during any period of redemption, make such repairs or alterations to the property as may be reasonably necessary for the proper operation, care, preservation, protection, and insuring thereof. Any sums so paid, together with interest at the note rate from the date of expenditure, shall become part of the amount required to be paid for redemption from such sale.

8 Rents, Issues and Profits

Grantor irrevocably and absolutely assigns to Beneficiary, the rents, issues, profits and proceeds of contracts of the property, together with all future leases, profits and contracts, and any and all extensions, renewals and replacements thereof. However, as long as no default shall exist in compliance with any requirement thereof or any further instrument executed at any time with respect to this Deed of Trust, Grantor may collect assigned rents and profits as the same shall fall due; but upon the occurrence of any default, all rights of the Grantor to collect and receive rents and profits shall wholly and immediately terminate without notice, and Beneficiary shall thereafter have the absolute right to all such rents and profits. All rents or profits receivable from or in respect to said property which Grantor shall be permitted to collect hereunder shall be received by it to pay the usual and reasonable operating expenses of, and the taxes upon, said property and the sums owing the Beneficiary as they become due and payable as provided in this Deed of Trust, or in the Note or any modification of either.

9 Hazardous Substance

For purposes of this Deed of Trust, the term "hazardous or toxic wastes or substances" means any substance or material defined or designated as hazardous or toxic wastes, hazardous or toxic material, a hazardous, toxic or radioactive substance or other similar term by any applicable federal, state or local statute, regulation or ordinance now or hereafter in effect. The terms "hazardous waste" and "hazardous substance" shall also include, without limitation, petroleum and petroleum by-products or any fraction thereof, and asbestos.

Grantor shall not use any asbestos or maintain any asbestos on the property in any regard, and if Grantor becomes aware of the use of asbestos in any facility or improvement located on the property, Grantor shall immediately notify the Beneficiary, who shall have the right to contact appropriate consulting engineers, environmental specialists, and/or municipal, state or federal authorities for an examination and evaluation of the risks and problems associated therewith with respect to the property. Grantor shall be solely responsible for complying with all environmental regulations, and the failure to satisfy any such environmental regulations shall constitute a default under the terms of this Deed of Trust. Grantor hereby irrevocably holds Beneficiary harmless from and against any actions, causes of action, penalties or cost whatsoever arising out of or in any regard associated with the use or existence of asbestos with respect to the property.

10 Transfer of Property or a Beneficial Interest in Grantor

In the event the property, or any portion thereof, is sold, transferred hypothecated or otherwise alienated, without Beneficiary's prior written consent, Beneficiary may, at its option, require immediate payment in full of all sums secured by this Security Instrument. Provided, however, that the Beneficiary may, but is not required to, consent to the transfer of the property if the Grantor, new owner, or transferee has a satisfactory credit standing and qualified management ability to operate the property, the loan is not in default, the Grantor pays all costs of the sale, and the terms of the underlying obligations are adjusted as requested by Beneficiary.

To the extent permitted by applicable law. Beneficiary may charge a fee as a condition to Beneficiary's consent to the loan assumption. Beneficiary may also require the transferee to sign an assumption agreement that is acceptable to Beneficiary and that obligates the transferee to keep all the promises and agreements made in the Note on this Security Instrument. Grantor will continue to be obligated under the Note and this Security Instrument unless Beneficiary releases Grantor in writing.

If Beneficiary exercises the option to require immediate payment in full, Beneficiary shall give Grantor notice of acceleration. The notice shall provide a period of not less than 30 days from the date the notice is delivered or mailed within which Grantor must pay all sums secured by this Security Instrument. If Grantor fails to pay these sums prior to the expiration of this period, Beneficiary may invoke any remedies permitted by this Security Instrument without further notice or demand on Grantor.

11. Notice

The Trustee is not obligated to notify any party hereto of any pending sale under any other Deed of Trust or of any action or proceeding which Grantor, Trustee or Beneficiary shall be a party unless such action or proceeding is brought by the Trustee.

12. Disability of Trustee

In the event of the death, incapacity, disability or resignation of Trustee, the Beneficiary may appoint, in writing, a successor trustee, and upon the recording of such appointment in the mortgage records of the county in which the Deed of Trust is recorded, the successor trustee shall be vested with all powers of the original trustee.

This Deed of Trust applies to, inures to the benefit of, and is binding not only on the parties hereto, but on their heirs, devisees, legatees, administrators, executors, successors and assigns. The term "Beneficiary" shall mean the holder and owner of the note secured hereby, whether or not named as Beneficiary herein.

13. Financial Statements of Grantor

During the term of this Deed of Trust, Grantor shall furnish Beneficiary within ninety (90) days of the end of Grantor's fiscal year, annual statements itemizing the income and expenses of the operations conducted on the secured property, including an itemized rent roll. At the request of Beneficiary, Grantor shall provide Beneficiary with a complete financial statement of Grantor's assets and liabilities and its profit and loss statement. Grantor shall permit the Beneficiary or its representative to examine all books and records pertaining to the Property.

14. Governing Law - Severability

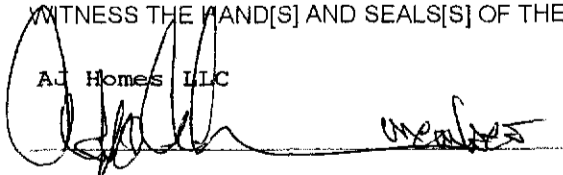
This Deed of Trust and any judicial or non-judicial foreclosure hereof shall be governed by the laws of the state in which the real property described in this Deed of Trust is located. In the event that any provision or clause in this Deed of Trust or the Note conflicts with applicable law, such conflict shall not affect other provisions of this Deed of Trust or the Note which can be given effect without the conflicting provisions and to this end the provisions of this Deed of Trust and Note are declared to be severable.

15. Future Advances

Upon request of Grantor, Beneficiary, at Beneficiary's option so long as this Deed of Trust secures indebtedness held by Grantor, may make Future Advances to Grantor. Such Future Advances, with interest thereon, shall be secured by this Deed of Trust when evidenced by promissory notes stating that said notes are secured hereby. At no time shall the principal amount of the indebtedness secured by this Deed of Trust exceed the original amount of the Note by more than one hundred percent.

"ORAL AGREEMENT OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT, OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW."

WITNESS THE HAND[S] AND SEALS[S] OF THE UNDERSIGNED:

AJ Homes LLC

Arlyn A Livingston, Manager


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Skagit County Auditor

EXHIBIT A

Lot 2, CITY OF MOUNT VERNON SHORT PLAT NO. LU04-052, recorded February 24, 2005, under Auditor's File No 200502240127, records of Skagit County, Washington; being a portion of Government Lot 11, Section 19, Township 34 North, Range 4 East of the Willamette Meridian. Situated in Skagit County, Washington.

SPAANY7B 4-17-02 BANNER BANK



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Skagit County Auditor