

RETURN ADDRESS:

PEOPLES BANK
MOUNT VERNON OFFICE
1801 RIVERSIDE DRIVE
MOUNT VERNON, WA
98273



200807140103
Skagit County Auditor

7/14/2008 Page 1 of 5 11:29AM

NOTICE: THIS SUBORDINATION OF DEED OF TRUST RESULTS IN YOUR SECURITY INTEREST IN THE PROPERTY BECOMING SUBJECT TO AND OF LOWER PRIORITY THAN THE LIEN OF SOME OTHER OR LATER SECURITY INSTRUMENT.

SUBORDINATION OF DEED OF TRUST

200807140101

Reference # (if applicable): 200210310121

Additional on page _____

Grantor(s):

1. JOHNSON, LALE A.
2. HORIZON BANK

GUARDIAN NORTHWEST TITLE CO.
95173-3

Grantee(s)

1. PEOPLES BANK

Legal Description: PTN. TRACT 5, "PLAT OF MOUNT VERNON ACREAGE, SKAGIT COUNTY, WASH."

Additional on page 2

Assessor's Tax Parcel ID#: 3746-000-005-0008 (P53843)

THIS SUBORDINATION OF DEED OF TRUST dated July 8, 2008, is made and executed among HORIZON BANK ("Beneficiary"); WESTWARD FINANCIAL SERVICES, INC. ("Trustee"); LALE A. JOHNSON ("Borrower"); and PEOPLES BANK ("Lender").

SUBORDINATION OF DEED OF TRUST

Loan No: 5021884-202

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SUBORDINATED INDEBTEDNESS. Beneficiary has extended the following described financial accommodations, secured by the Real Property (the "Subordinated Indebtedness"):

PROMISSORY NOTE DATED OCTOBER 24, 2002 FROM LALE A. JOHNSON TO HORIZON BANK IN THE AMOUNT OF \$1,012,268.88.

SUBORDINATED DEED OF TRUST. The Subordinated Indebtedness is or will be secured by the Real Property and evidenced by a deed of trust dated October 24, 2002 from LALE A. JOHNSON ("Trustor") to WESTWARD FINANCIAL SERVICES, INC. ("Trustee"), in favor of HORIZON BANK ("Beneficiary") (the "Subordinated Deed of Trust") and recorded in SKAGIT County, State of Washington as follows:

RECORDED OCTOBER 31, 2002 UNDER AUDITOR'S FILE NO. 200210310121 RECORDS OF SKAGIT COUNTY, WA.

REAL PROPERTY DESCRIPTION. The Subordinated Deed of Trust covers the following described real property (the "Real Property") located in SKAGIT County, State of Washington:

THE WEST 266.41 FEET OF TRACT 5, EXCEPT THE SOUTH 26.50 FEET THEREOF, OF THE "PLAT OF MOUNT VERNON ACREAGE, SKAGIT COUNTY, WASHINGTON", AS PER PLAT RECORDED IN VOLUME 3 OF PLATS, PAGE 102, RECORDS OF SKAGIT COUNTY, WASHINGTON, (ALSO KNOWN AS TRACT "A" OF THAT CERTAIN SHORT PLAT NO. 25-76, APPROVED BY THE CITY OF MOUNT VERNON ON SEPTEMBER 10, 1976 IN VOLUME 1 OF SHORT PLATS, PAGE 176, RECORDS OF SKAGIT COUNTY, WASHINGTON; EXCEPT THAT PORTION CONVEYED TO THE CITY OF MOUNT VERNON BY DEED RECORDED FEBRUARY 7, 2002, UNDER AUDITOR'S FILE NO. 200202070097, RECORDS OF SAID COUNTY AND STATE, TOGETHER WITH A NON-EXCLUSIVE EASEMENT FOR SEWER LINE PURPOSES OVER THE SOUTH 15 FEET AND OVER THE WEST 16 FEET, EXCEPT THE NORTH 88 FEET THEREOF, OF TRACT "B" OF SAID SHORT PLAT NO. 25-76.

SITUATE IN COUNTY OF SKAGIT, STATE OF WASHINGTON

The Real Property or its address is commonly known as 1910 RIVERSIDE DRIVE, MOUNT VERNON, WA 98273. The Real Property tax identification number is 3746-000-005-0008 (P53843).

SUPERIOR INDEBTEDNESS. Lender has extended or has agreed to extend the following described financial accommodations to Borrower, secured by the Real Property (the "Superior Indebtedness"):

PROMISSORY NOTE DATED JULY 8, 2008 FROM LALE A. JOHNSON TO PEOPLES BANK IN THE AMOUNT OF \$393,000.00.

LENDER'S LIEN. The Superior Indebtedness is or will be secured by the Real Property and evidenced by a mortgage, deed of trust, or other lien instrument, dated July 8, 2008, from Borrower to Lender (the "Lender's Lien"). As a condition to the granting of the requested financial accommodations, Lender has required that the Lender's Lien be and remain superior to the Subordinated Deed of Trust.

REQUESTED FINANCIAL ACCOMMODATIONS. Beneficiary, who may or may not be the same person or entity as Trustor, and Borrower each want Lender to provide financial accommodations to Borrower in the form of the Superior Indebtedness. Borrower and Beneficiary each represent and acknowledge to Lender that Beneficiary will benefit as a result of these financial accommodations from Lender to Borrower, and Beneficiary acknowledges receipt of valuable consideration for entering into this Subordination.

NOW THEREFORE THE PARTIES TO THIS SUBORDINATION HEREBY AGREE AS FOLLOWS:

SUBORDINATION. The Subordinated Deed of Trust and the Subordinated Indebtedness secured by the Subordinated Deed of Trust is and shall be subordinated in all respects to Lender's Lien and the Superior Indebtedness, and it is agreed that Lender's Lien shall be and remain, at all times, prior and superior to the Lien of the Subordinated Deed of Trust. Beneficiary also subordinates to Lender's Lien all other Security Interests in the Real Property held by Beneficiary, whether now existing or hereafter acquired. The words "Security Interests" mean and include without limitation any type of collateral security, whether in the form of a lien, charge, mortgage, deed of trust, assignment, pledge, chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever, whether created by law, contract, or otherwise.

BENEFICIARY'S REPRESENTATIONS AND WARRANTIES. Beneficiary represents and warrants to Lender that: (A) no representations or agreements of any kind have been made to Beneficiary which would limit or qualify in any way the terms of this Subordination; (B) this Subordination is executed at Borrower's request and not at the request of Lender; (C) Lender has made no representation to Beneficiary as to the creditworthiness of Borrower; and (D) Beneficiary has established adequate means of obtaining from Borrower on a continuing basis information regarding Borrower's financial condition. Beneficiary agrees to keep adequately informed from such means of any facts, events, or circumstances which might in any way affect Beneficiary's risks under this Subordination, and Beneficiary further agrees that Lender shall have no obligation to disclose to Beneficiary information or material acquired by Lender in the course of its relationship with Beneficiary.

BENEFICIARY WAIVERS. Beneficiary waives any right to require Lender: (A) to make, extend, renew, or modify any loan to Borrower or to grant any other financial accommodations to Borrower whatsoever; (B) to make any presentation, protest, demand, or notice of any kind, including notice of any nonpayment of any Superior Indebtedness secured by Lender's Lien, or notice of any action or nonaction on the part of Borrower, Lender, any surety, endorser, or other guarantor in connection with the Superior Indebtedness, or in connection with the creation of new or additional indebtedness; (C) to resort for payment or to proceed directly or at once against any person, including Borrower; (D) to proceed directly against or exhaust any collateral held by Lender from Borrower, any other guarantor, or any other person; (E) to give notice of the terms, time, and place of any public or private sale of personal property security held by Lender from Borrower or to comply with any other applicable provisions of the Uniform Commercial Code; (F) to pursue any other remedy within Lender's power; or (G) to commit any act or omission of any kind, at any time, with respect to any matter whatsoever.

LENDER'S RIGHTS. Lender may take or omit any and all actions with respect to Lender's Lien without affecting whatsoever any of Lender's rights under this Subordination. In particular, without limitation, Lender may, without notice of any kind to Beneficiary, (A) make one or more additional secured or unsecured loans to Borrower; (B) repeatedly alter, compromise, renew, extend, accelerate, or otherwise change the time for payment or other terms of the Superior Indebtedness or any part of it, including increases and decreases of the rate of interest on the Superior Indebtedness; extensions may be repeated and may be for longer than the original loan term; (C) take and hold collateral for the payment of the Superior Indebtedness, and exchange, enforce, waive, and release any such collateral, with or without the substitution of new collateral; (D) release, substitute, agree not to sue, or deal with any one or more of Borrower's sureties, endorser, or guarantors on any terms or manner Lender chooses; (E) determine how, when and what application of payments and credits, shall be made on the Superior Indebtedness; (F) apply such



**SUBORDINATION OF DEED OF TRUST
(Continued)**

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security and direct the order or manner of sale of the security, as Lender in its discretion may determine; and (G) transfer this Subordination to another party.

DEFAULT BY BORROWER. If Borrower becomes insolvent or bankrupt, this Subordination shall remain in full force and effect. In the event of a corporate reorganization or corporate arrangement of Borrower under the provisions of the Bankruptcy Code, as amended, this Subordination shall remain in full force and effect and the court having jurisdiction over the reorganization or arrangement is hereby authorized to preserve such priority and subordination provided under this Subordination in approving any such plan of reorganization or arrangement. Any default by Borrower under the terms of the Subordinated Indebtedness also shall constitute an event of default under the terms of the Superior Indebtedness in favor of Lender.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of this Subordination:

Amendments. This Subordination constitutes the entire understanding and agreement of the parties as to the matters set forth in this Subordination. No alteration of or amendment to this Subordination shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

Attorneys' Fees; Expenses. If Lender institutes any suit or action to enforce any of the terms of this Subordination, Lender shall be entitled to recover such sum as the court may adjudge reasonable as attorneys' fees at trial and upon any appeal. Whether or not any court action is involved, and to the extent not prohibited by law, all reasonable expenses Lender incurs that in Lender's opinion are necessary at any time for the protection of its interest or the enforcement of its rights shall become a part of the Indebtedness payable on demand and shall bear interest at the Note rate from the date of the expenditure until repaid. Expenses covered by this paragraph include, without limitation, however subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses, whether or not there is a lawsuit, including attorneys' fees and expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services, the cost of searching records, obtaining title reports (including foreclosure reports), surveyors' reports, and appraisal fees, title insurance, and fees for the Trustee, to the extent permitted by applicable law. Beneficiary also will pay any court costs, in addition to all other sums provided by law.

Authority. The person who signs this Subordination as or on behalf of Beneficiary represents and warrants that he or she has authority to execute this Subordination and to subordinate the Subordinated Indebtedness and the Beneficiary's security interests in Beneficiary's property, if any.

Caption Headings. Caption headings in this Subordination are for convenience purposes only and are not to be used to interpret or define the provisions of this Subordination.

Governing Law. This Subordination will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the State of Washington without regard to its conflicts of law provisions. This Subordination has been accepted by Lender in the State of Washington.

Choice of Venue. If there is a lawsuit, Beneficiary agrees upon Lender's request to submit to the jurisdiction of the courts of SKAGIT County, State of Washington.

Successors. This Subordination shall extend to and bind the respective heirs, personal representatives, successors and assigns of the parties to this Subordination, and the covenants of Beneficiary herein in favor of Lender shall extend to, include, and be enforceable by any transferee or endorsee to whom Lender may transfer any or all of the Superior Indebtedness.


No Waiver by Lender. Lender shall not be deemed to have waived any rights under this Subordination unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Subordination shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Subordination. No prior waiver by Lender, nor any course of dealing between Lender and Beneficiary, shall constitute a waiver of any of Lender's rights or of any of Beneficiary's obligations as to any future transactions. Whenever the consent of Lender is required under this Subordination, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

Waive Jury. All parties to this Subordination hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by any party against any other party. (Initial Here *LAJ*)

NOTICE: THIS SUBORDINATION AGREEMENT CONTAINS A PROVISION WHICH ALLOWS THE PERSON OBLIGATED ON YOUR REAL PROPERTY SECURITY TO OBTAIN A LOAN, A PORTION OF WHICH MAY BE EXPENDED FOR OTHER PURPOSES THAN IMPROVEMENT OF THE LAND.

EACH PARTY TO THIS SUBORDINATION ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS SUBORDINATION, AND EACH PARTY AGREES TO ITS TERMS. THIS SUBORDINATION IS DATED JULY 8, 2008.

BORROWER:

x 
LALE A. JOHNSON, Individually

BENEFICIARY:

HORIZON BANK

By: 
Authorized Signer for HORIZON BANK

By: _____
Authorized Signer for HORIZON BANK



SUBORDINATION OF DEED OF TRUST

Loan No: 5021884-202

(Continued)

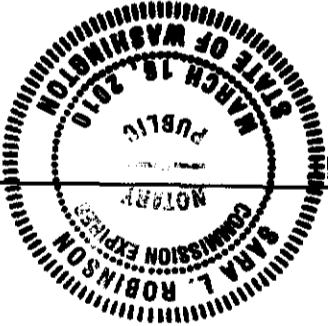
LENDER:

PEOPLES BANK

Authorized Officer

Carmel Carmack

INDIVIDUAL ACKNOWLEDGMENT



STATE OF Washington
COUNTY OF Skagit
)
) SS
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On this day before me, the undersigned Notary Public, personally appeared **LALE A. JOHNSON**, personally known to me or proved to me on the basis of satisfactory evidence to be the individual described in and who executed the Subordination of Deed of Trust, and acknowledged that he or she signed the Subordination as his or her free and voluntary act and deed, for the uses and purposes therein mentioned.

Given under my hand and official seal this

11

day of

July

20 08

Residing at Bellingham WA

My commission expires March 18, 2010

Notary Public in and for the State of WA

By Sara L. Robinson

CORPORATE ACKNOWLEDGMENT

STATE OF Washington
COUNTY OF Skagit
On this 11th day of July, 2008

Notary Public, personally appeared John Voth before me, the undersigned

and personally known to me or proved to me on the basis of satisfactory evidence to be (an) authorized agent(s) of the corporation that executed the Subordination of Deed of Trust and acknowledged the Subordination to be the free and voluntary act and deed of the corporation, by authority of its Bylaws or by resolution of its board of directors, for the uses and purposes therein mentioned, and on oath stated that he or she/they is/are authorized to execute this Subordination and in fact executed the Subordination on behalf of the corporation.

Residing at Mount Vernon

My commission expires 5-10-09

Notary Public in and for the State of

By John Voth



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Skagit County Auditor

SUBORDINATION OF DEED OF TRUST
(Continued)

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LENDER ACKNOWLEDGMENT

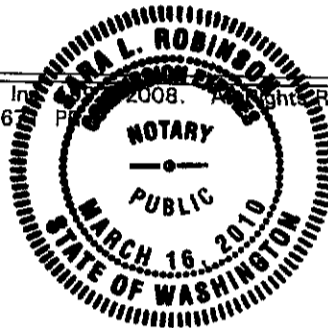
STATE OF Washington)
) SS
COUNTY OF Skagit)

On this 11 day of July, 20 08, before me, the undersigned Notary Public, personally appeared Carrie Cammock and personally known to me or proved to me on the basis of satisfactory evidence to be the Vice President-Assistant authorized agent for PEOPLES BANK that executed the within and foregoing instrument and acknowledged said instrument to be the free and voluntary act and deed of PEOPLES BANK, duly authorized by PEOPLES BANK through its board of directors or otherwise, for the uses and purposes therein mentioned, and on oath stated that he or she is authorized to execute this said instrument and in fact executed this said instrument on behalf of PEOPLES BANK.

By [Signature]
Notary Public in and for the State of WA

Residing at Bellingham WA
My commission expires March 16, 2010

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Skagit County Auditor