

July 10, 1997

Mr. Dale R. Miller
President
Prime Mortgage Security Corporation
10424 SE Cherry Blossom Dr., Ste. 105
Portland, Oregon 97216

RE: Creekside Subdivision, Ron Manning, Jr.
Escrow Account # 098-0006753

YOU ARE HEREBY AUTHORIZED AND DIRECTED TO HOLD IN THE ABOVE REFERENCED ESCROW ACCOUNT FOR CREEKSIDE SUBDIVISION, THE SUM OF \$300,000.00 TO BE HELD PURSUANT TO THE FOLLOWING INSTRUCTIONS:

1. The parties are entering into a subdivision agreement with the City of Newberg, Oregon, relating to the subdivision known as Creekside Subdivision, which agreement provides for the construction of required subdivision improvements under the provisions of the city of Newberg Subdivision Ordinance and other regulations of the City of Newberg.
2. In the event all required subdivision improvements are constructed in accordance with said subdivision agreement, as determined by the City of Newberg, you are hereby authorized and directed to pay to the City of Newberg, from the sum held by you, an amount, determined the City of Newberg. City Engineer that is necessary to construct the required subdivision improvements.
3. In the event all required subdivision improvements are constructed in accordance with said agreement, a Certificate of Compliance shall be executed by the City of Newberg stating that said improvements are constructed in accordance with the City's Subdivision Ordinance. Upon receipt by you of said Certificate of Compliance, you are further instructed to release any sums then held by you.
4. The City of Newberg shall have the first claim and priority to the sum of \$300,000.00 held by you in the event of the failure to perform any of the conditions of said agreement. The sum held by you may be reduced from time to time to allow you to make progress payments to the subdivider's contractors as constructions is completed in conformance with the City's construction standards and specifications; provided, however, in no event shall the sum held by you be less than the sum required to complete construction of said subdivision improvements. No sum shall be released by you without first written approval by the City Engineer. The amount to be retained by you for completion of said construction shall be determined by the City Engineer.

IT IS UNDERSTOOD AND AGREED by Prime Mortgage Security Corporation, the subdivider and the City of Newberg, that the City of Newberg shall have the first claim and priority to the sums held by you under condition 4 above in the event of failure of the subdividers to construct said required subdivision improvements.

IT IS FURTHER UNDERSTOOD AND AGREED by said parties that the priority of claim of the City of Newberg is paramount to all other persons, firms or corporation. Prime Mortgage Security Corporation here covenants and agrees with the City of Newberg and the subdivider that the sums held by it under condition 4 above, shall be held available to satisfy any claim of the City of Newberg arising out of or relating to said subdivision agreement, notwithstanding default on any contract for the sale of real property or termination of any sale of real property located in said subdivision.

IT IS ACKNOWLEDGED by the parties that this agreement does not relieve the subdivider of the obligation to file a bond with the City of Newberg assuring the maintenance of said subdivision improvements for a period of one (1) year from the acceptance of the City of Newberg to be free of any defect in materials or workmanship.

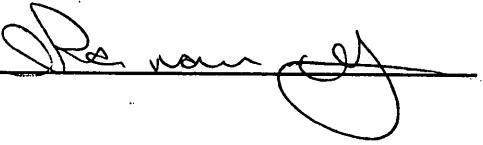
In consideration of Prime Mortgage Security Corporation holding said sums upon the conditions and for the purpose above stated, the City of Newberg shall agree to the following:

1. Accept the foregoing promises and covenants of the subdivider and Prime Mortgage Security Corporation in lieu of corporate surety bond as otherwise required in the provisions of the City of Newberg Subdivision Ordinance.
2. Issue it's public works permit authorizing the construction of said subdivision improvements subject to all applicable ordinances of the City of Newberg.
3. This agreement can not be changed without the written consent of the City of Newberg's Attorney.

In Witness Whereof, the parties have executed this Escrow Agreement on the 17th day of July, 1997.

RON MANNING, JR.

PRIME MORTGAGE SECURITY
CORPORATION

By: 

By: Dale R. Miller

By: _____

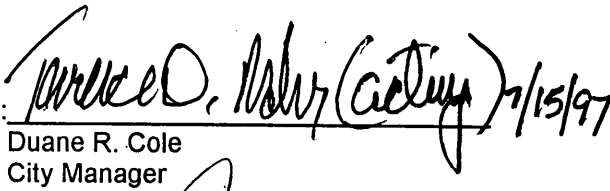
By: Pres.

'SUBDIVIDER'

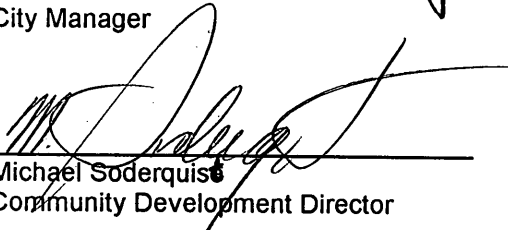
'TRUST DEED HOLDER'

CITY OF NEWBERG

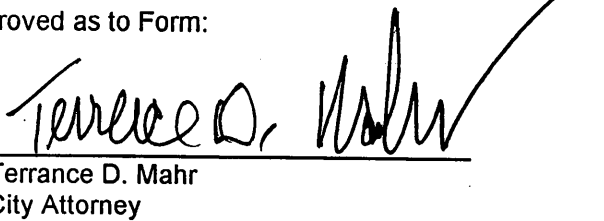
PRIME MORTGAGE SECURITY
CORPORATION

By:  7/15/97
Duane R. Cole
City Manager

By: Dale R. Miller
Dale R. Miller
President
Escrow Agent

By: 
Michael Soderquist
Community Development Director

Approved as to Form:

By: 
Terrance D. Mahr
City Attorney