

0138

**2. Funds for Taxes and Insurance.** Subject to Lender's option under paragraph 1 and 5 hereof, Borrower shall pay to Lender on the 15th day of each month installments of principal and interest on the Note and on the Note as paid in full. A separate Fund shall be set up to one-twelfth of the yearly taxes and assessments which may attach to the Property, and a second Fund shall be set up to one-twelfth of the yearly premium installments for hazard insurance, and a third Fund shall be set up to one-twelfth of the yearly premium installments for mortgage insurance, if any, all as reasonably estimated annually and from time to time by Lender on the basis of assessments and taxes and reasonable estimates thereof. The Funds shall be held in an institution in the State of California, the proceeds of which are insured or guaranteed by a Federal or state agency including Lender if Lender is such an institution. Lender shall apply the Funds to pay said taxes, assessments, insurance premiums and ground rents. Lender shall make no charge for collecting and applying the Funds or verifying and compiling said assessments, and Lender, Borrower and Lender may agree in writing at the time of execution of this Mortgage that interest on the Funds shall be paid to Borrower, and unless such agreement is made, Lender shall not be required to pay Borrower any interest on the Funds. Lender shall give to Borrower without charge an annual accounting of the Funds 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 Mortgage.

If the amount of the Funds held by Lender, together with the future monthly installments of Funds payable prior to the due dates of taxes, assessments, insurance premiums and ground rents, shall exceed the amount required to pay said taxes, assessments, insurance premiums and ground rents as they fall due, such excess shall be, at Borrower's option, either promptly repaid to Borrower or credited to Borrower on monthly installments of Funds. If the amount of the Funds held by Lender shall not be sufficient to pay taxes, assessments, insurance premiums and ground rents as they fall due, Borrower shall pay to Lender any amount necessary to make up the deficiency within thirty days after notice from Lender to Borrower requesting payment thereof.

Upon payment in full of all sums secured by this Mortgage, Lender shall promptly refund to Borrower any Funds held by Lender.

If under paragraph 18 hereof the Property is sold or the Property is otherwise acquired by Lender, Lender shall apply, no later than immediately prior to the sale of the Property or its acquisition by Lender, any Funds held by Lender at the time of application as a credit against the sums secured by this Mortgage.

**3. Application of Payments.** Unless applicable law provides otherwise, all payments received by Lender under the Note and paragraphs 1 and 2 hereof shall be applied by Lender first to payment of amounts payable to Lender by Borrower under paragraph 2 hereof, then to interest payable on the Note and on Future Advances, if any, and then to the principal of the Note and to the principal of Future Advances, if any.

**4. Charges; Liens.** Borrower shall pay all taxes, assessments and other charges, fines and impositions attributable to the Property which may attach to the Property over this Mortgage, and ground rents, if any, at Lender's option in the manner provided under paragraph 2 hereof or by Borrower making payment, when due, directly to the payee thereof. Borrower shall promptly furnish to Lender all notices of amounts due under this paragraph, and in the event Borrower shall make payment directly, Borrower shall promptly furnish to Lender receipts evidencing such payments. Borrower shall promptly discharge any lien which has priority over this Mortgage, provided that Borrower shall not be required to discharge any such lien so long as Borrower shall agree in writing to the payment of the obligation secured by such lien in a manner acceptable to Lender, or shall in good faith contest such lien, or defend enforcement of such lien in legal proceedings which operate to prevent the enforcement of the lien or forfeiture of the Property or any part thereof.

**5. Hazard Insurance.** Borrower shall keep the improvements now existing or hereafter erected on the Property insured against loss by fire, hazards included within the term "extended coverage", and such other hazards as Lender may require and in such amounts and for such periods as Lender may require, provided that Lender shall not require that the amount of such coverage exceed that amount of coverage required to pay the sums secured by this Mortgage.

The insurance carrier providing the insurance shall be chosen by Borrower subject to approval by Lender, provided that such approval shall not be unreasonably withheld. All premiums on insurance policies shall be paid at Lender's option in the manner provided under paragraph 2 hereof or by Borrower making payment, when due, directly to the insurance carrier.

All insurance policies and renewals thereof shall be in form acceptable to Lender and shall include a standard mortgage clause in favor of and in form acceptable to Lender. Lender shall have the right to hold the policies and renewals thereof, and Borrower shall promptly furnish to Lender all renewal notices and all receipts of paid premiums. In the event of loss, Borrower shall give prompt notice to the insurance carrier and Lender, and Lender may make proof of loss if not made promptly by Borrower.

Unless Lender and Borrower otherwise agree in writing, insurance proceeds shall be applied to restoration or repair of the Property damaged, provided such restoration or repair is economically feasible and the security of this Mortgage is not thereby impaired. If such restoration or repair is not economically feasible or if the security of this Mortgage would be impaired, the insurance proceeds shall be applied to the sums secured by this Mortgage, with the excess, if any, paid to Borrower. If the Property is abandoned by Borrower or if Borrower fails to respond to Lender within 30 days after notice by Lender to Borrower that the insurance carrier offers to settle a claim for insurance benefits, Lender is authorized to collect and apply the insurance proceeds at Lender's option either to restoration or repair of the Property or to the sums secured by this Mortgage.

Unless Lender and Borrower otherwise agree in writing, any such application of proceeds to principal shall not extend or postpone the due date of the monthly installments referred to in paragraphs 1 and 2 hereof or change the amount of such installments.

If under paragraph 18 hereof the Property is acquired by Lender, all right, title and interest of Borrower in and to any insurance policies and in and to the proceeds thereof, in the event of the sums secured by this Mortgage, immediately prior to such sale or acquisition resulting from damage to the Property due to the exercise of collection shall pass to Lender.

**6. Preservation and Maintenance of Property; Leaseholds; Condominiums.** Borrower shall keep the Property in good repair and shall not permit or cause, by neglect, impairment or deterioration of the Property, and shall comply with the provisions of any lease, if this Mortgage is on a leasehold. If this Mortgage is on a condominium, and Borrower shall perform all of Borrower's obligations under the declaration of condominium or master deed, the bylaws and regulations of the condominium project, and constituent documents.

**7. Protection of Lender's Security.** If Borrower fails to perform the covenants and agreements contained in this Mortgage, or if any action or proceeding is commenced which materially affects Lender's interest in the Property, including but not limited to, eminent domain, insolvency, safe enforcement, or arrangements or proceedings including a bankruptcy or receivership, then Lender at Lender's option may require to Borrower may make such appearances, defenses, such claims and take such action as is necessary to protect Lender's interest, including but not limited to the payment of reasonable attorney's fees and entry upon the Property to make repairs. Any amounts disbursed by Lender pursuant to this paragraph 7, with interest thereon, shall become additional indebtedness of Borrower secured by this Mortgage. Unless Borrower and Lender agree to other terms of payment, such amounts shall be payable upon notice from Lender to Borrower requesting payment thereof, and shall bear interest from the date of disbursement at the rate stated in the Note, unless payment of interest at such rate would be contrary to applicable law, in which event such amounts shall bear interest at the highest rate permissible by applicable law. Nothing contained in this paragraph 7 shall require Lender to incur any expense or do any act hereunder.

**8. Inspection.** Lender may make or cause to be made reasonable entries upon and inspections of the Property, provided that Lender shall give Borrower notice prior to any such inspection specifying reasonable cause therefor related to Lender's interest in the Property.

**9. Condemnation.** The proceeds of any award or claim for damages due to or consequent to, in connection with any condemnation or other taking of the Property, or part thereof, or for convenience in case of condemnation, are hereby assigned and shall be paid to Lender.

In the event of a total taking of the Property, the proceeds shall be applied to the sums secured by this Mortgage, with the excess, if any, paid to Borrower. In the event of a partial taking of the Property, unless Borrower and Lender otherwise agree in writing, the proceeds shall be applied to the sums secured by this Mortgage, with the excess, if any, paid to Borrower.

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