07-100-01

Recording requested by and when recorded mail to:

Novasel & Schwarte Investments, Inc. P.O. Box 11355
Tahoe Paradise, CA 96155

2001-32434 KJP

FIRST MODIFICATION TO ADDENDUM TO DEED OF TRUST AND ASSIGNMENT OF RENTS

This First Modification to Addendum to Deed of Trust and Assignment of Rents ("Modification") is made and entered into on May 9, 2001 ("Effective Date"), by and between FALCON CAPITAL, LLC, a Wyoming limited liability company ("Falcon"), WALTER E. and SALLY J. HARTMAN ("Hartman") (collectively, Falcon and Hartman are referred to hereinafter as "Borrower") and NOVASEL & SCHWARTE INVESTMENTS, INC., a California corporation, dba WESTERN HIGHLAND MORTGAGE COMPANY ("WHM") (collectively, Borrower and WHM are referred to herein as the "Parties").

WHEREAS, on December 30, 1999, WHM made three separate loans to Borrower, in the principal amounts of (i) One Million Seven Hundred and Six Thousand Dollars (\$1,706,000.00), (ii) Five Hundred Forty-Five Thousand Dollars (\$545,000.00), and (iii) Three Hundred Ninety-Nine Thousand Dollars (\$399,000.00), respectively. Each loan is evidenced by a separate Promissory Note Secured By Deed of Trust of even date (the "Notes"). The Parties acknowledge that, as of the Effective Date hereof, the principal balance of the \$1,706,000.00 note is \$632,000.00; the principal balance of the \$545,000.00 loan is \$545,000.00; and the principal balance of the \$399,000.00 is \$399,000.00.

WHEREAS, the Notes are secured, in part, by a Deed of Trust and Assignment of Rents and an Addendum to Deed of Trust and Assignment of Rents dated December 14, 1999, recorded in the Douglas County Records on December 30, 1999, against that certain real property commonly known as the Lake Park Apartments (APN 07-100-01) located in Stateline, Douglas County, State of Nevada, and more particularly described in the attached Exhibit "A" (the "Real Property"), as follows:

| Loan | Book | Page | Instrument No. |
|----------------|------|------|----------------|
| \$1,706,000.00 | 1299 | 5444 | 0483583 |
| \$ 545,000.00 | 1299 | 5457 | 0483585 |
| \$ 399,000.00 | 1299 | 5475 | 0483588 |

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WHEREAS, the Parties executed a Security Agreement on December 14, 1999, to provide to WHM additional security for the Notes by way of a security interest in certain Collateral described therein, to the extent the Collateral is not real property secured by the Deeds of Trust, including, but not limited to, seventy-nine (79) residential units of use (5 of which are banked on the Real Property and 74 of which are allocated to the two remaining buildings situated on the Real Property) and eighty-eight thousand eight hundred twenty seven (88,827) square feet of hard land coverage, as these terms are defined in the Tahoe Regional Planning Agency ("TRPA") Code of Ordinances (the "Development Rights").

WHEREAS, the Deeds of Trust and Security agreement provides that Borrower will not, without the prior written consent of WHM, sell, contract to sell, lease, encumber, demolish, or dispose of the Collateral or any interest in it until the debts secured thereby have been fully satisfied.

WHEREAS, notwithstanding the restrictions set forth in the preceding paragraph, WHM shall consent to the conveyance of the Development Rights on the terms and conditions set forth herein below.

NOW, THEREFORE, in consideration of the covenants set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

- WHM acknowledges that all buildings on the Real Property have been 1. demolished, except for Buildings 1 and 2, and that one hundred seven (107) residential units of use and seventy-six thousand four hundred thirty-two (76,432) square feet of hard land coverage appurtenant to the Real Property have been sold and transferred off the Real Property. No additional units of use or hard land coverage may be sold or transferred off the Real Property unless and until the following conditions have occurred.
- WHM consents to the demolition of Buildings 1 and 2 on the Real Property, each containing thirty-seven (37) units of use, and the sale and transfer of such units and an additional five (5) units of use presently unsold and banked on the Real Property, upon the occurrence of the following events:
 - (i) Borrower's payment of a principal reduction on the \$545,000.00 loan in the sum of Three Hundred Thousand Dollars (\$300,000.00), payable from the proceeds of sale of that certain real property commonly known as the future site of the Round Hill Vacation Resort project (APN 05-230-11) located in Stateline, Douglas County, State of Nevada. After such payment, the principal balance of said loan will be \$245,000.00.
 - (ii) Prior to the demolition of one of the two remaining apartment buildings situated on the Real Property, Borrower's payment of a principal

reduction of the Notes equal to the sum of one-half (½) of the principal balance of the Notes at the time of payment.

- (iii) Prior to the demolition of the remaining apartment building situated on the Real Property, Borrower shall pay off the remaining balance of principal and interest owed under the Notes.
- 3. WHM shall sign any documents reasonably required by the TRPA, Douglas County, or any other entity to facilitate the sale and transfer of the units of use and hard land coverage.
- 4. A copy of this Modification shall be provided by Borrower to TRPA with written notice to TRPA that the remaining 79 units of use and 88,827 square feet of hard land coverage may not be sold or transferred off the Real Property unless and until the foregoing conditions have occurred and TRPA has received WHM's written consent to such sale and/or transfer.

IN WITNESS WHEREOF, this Modification is executed as of the day and year first above written.

| above written. | WHM: |
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| BORROWER: | VVIIIVI. |
| FALCON CAPITAL, LLC A Wyoming limited liability company | NOVASEL & SCHWARTE INVESTMENTS, INC., a California |
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| By: 6/16/9000 | HIGHLAND MORTGAGE |
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| HARTMAN: | 125 516 |
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| Walter E. Hartman | |

[Acknowledgments follow]

Sally J. Hartman

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| County of | |
| | Karen_Pawloski |
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| to be the person(s) whose name(s) is/are subscribed to | the within instrument and acknowledged to me that he/she |
| executed the same in his/her/their authorized capacity | (les), and that by his/her signature(s) on the instrument the |
| person(s), or the entity upon behalf of which the perso | n(s) acted, executed the institution. |
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| WITNESS my hand and official seal. | Notary's Signature |
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| | KAREN PAWLOSKI |
| a s. Novada | Notary Public - State of Nevada Appointment Recorded in Douglas County |
| State of Nevada } SS. | No; 96-2898-5 - Expires May 24, 2004 |
| County of Douglas } | Comment of the Commen |
| County or Douglas | |
| | \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ |
| On 5/9/2001 , before me | Karen Pawloski |
| | Richard Schwarte |
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| to be the person(s) whose name(s) is/are subscribed to | the within instrument and acknowledged to me that he/she (ies), and that by his/her signature(s) on the instrument the |
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| | KAREN PAWLOSKI |
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reduction of the Notes equal to the sum of one-half (½) of the principal balance of the Notes at the time of payment.

- (iii) Prior to the demolition of the remaining apartment building situated on the Real Property, Borrower shall pay off the remaining balance of principal and interest owed under the Notes.
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- 4. A copy of this Modification shall be provided by Borrower to TRPA with written notice to TRPA that the remaining 79 units of use and 88,827 square feet of hard land coverage may not be sold or transferred off the Real Property unless and until the foregoing conditions have occurred and TRPA has received WHM's written consent to such sale and/or transfer.

IN WITNESS WHEREOF, this Modification is executed as of the day and year first above written.

| BORROWER: | WHM: |
|---|---|
| FALCON CAPITAL, LLC A Wyoming limited liability company | NOVASEL & SCHWARTE INVESTMENTS, INC., a California corporation, dba WESTERN |
| By: | HIGHLAND MORTGAGE COMPANY |
| | By: |
| | Its: |

HARTMAN:

Walter E. Hartman

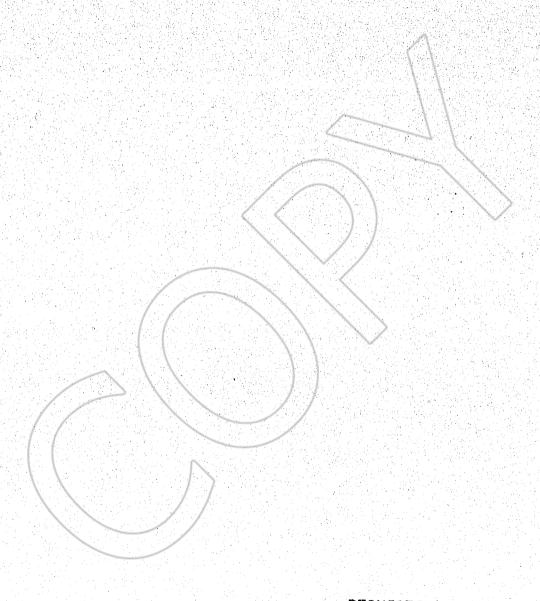
Sally J. Hartman

[Acknowledgments follow]

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First Modification to Addendum to Decd of Trust and Assignment of Rents BK 0 6 0 1 PG 4 0 8 2 Page 4



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