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SECURITY AGREEMENT AND COLLATERAL ASSIGNMENT
LAKE COUNTY
INDIANA
RECORDED

This Security Agreement and Collateral Assignment (hereinafter "Agreement") made this 28th day of October, 2002, between Diamond Veil Development, Inc., an Indiana corporation of 1270 Stony Brook Ct., Crown Point, IN 46307 (hereinafter, individually, "Debtor") and MERCANTILE NATIONAL BANK OF INDIANA, with offices at 5243 Hohman Avenue, Hammond, Indiana 46320 (hereinafter "Secured Party").

WHEREAS, Debtor, and Mercantile National Bank of Indiana as trustee under Trust Agreement dated the 6th day of June, 2000 (hereinafter, collectively, "Borrowers"), are indebted to the Secured Party in the principal sum of Seven Hundred Thirteen Thousand Two Hundred Twenty-Two and NO/100---Dollars (\$713,222.00), plus accrued interest pursuant to a certain Secured Adjustable Rate Note dated October 28th, 2002; and

WHEREAS, to secure said Note and all other obligations and indebtedness of Borrowers now existing and hereafter incurred, Debtor has agreed to grant and transfer a security interest in and collaterally assign to Secured Party its interest in certain collateral as set forth in Section 2 below.

NOW THEREFORE, in consideration of the foregoing, the mutual covenants and promises of the parties herein, the Debtor and Secured Party agree as follows:

1. Creation of Security Interest and Collateral Assignment Interest:

Debtor hereby collaterally assigns and transfers to Secured Party and grants to Secured Party a security interest in the collateral described in Section 2 hereof to secure performance and payment of Borrowers' Secured Adjustable Rate Note to Secured Party dated October 28th, 2002, in the amount of Seven Hundred Thirteen Thousand Two Hundred Twenty-Two and No/100-----Dollars (\$713,222.00), (hereinafter "Note"), and all renewals, extensions, rewrites, refinances, modifications, consolidations and replacements thereof, and substitutions therefor, and all costs and expenses incurred by Secured Party in the collection or enforcement thereof, and all other indebtedness of Borrowers to Secured Party, future advances to Borrowers to be evidenced by like promissory notes to be made by Borrowers to Secured Party at the option of Secured Party, and all other liabilities and liabilities of Borrowers to Secured Party, now existing or hereafter incurred, matured or unmatured, direct or contingent, joint or several, whether of a different class or whether or not secured by other collateral, and all renewals, extensions, rewrites, refinances, modifications, consolidations and replacements thereof, and substitutions therefor (all of which are hereinafter "Liabilities").

2. Designation of Collateral:

The collateral included in this agreement consists of the entire right, title and interest of Debtor in and to a certain Purchase Agreement described in Schedule "A" annexed hereto, between Debtor, as Developer/Seller, and Valenti Construction, Inc. as Purchaser thereto (hereinafter Purchase Agreement), by which the Debtor has contracted to sell certain improved real estate, located in Lake County, Indiana (hereinafter "Premises") together with:

- A. All rights and benefits of whatever nature derived or to be derived by Debtor by virtue of the Purchase Agreement, including, but not limited to any renewals, extensions, or replacements thereof; together with all rents, income, proceeds and profits arising there from and renewals, extensions or replacements thereof; together with all rents, income proceeds and profits for the use and occupancy of the Premises prior to closing (if any); and
- B. All rights of Debtor under any condemnation award, whether for taking or damaging, full or partial, and the proceeds of any and all insurance policies written in connection with the Premises or the improvements thereon;

all of which is hereunto referred to as "Collateral".

3. Warranties:

Debtor represents and warrants to Secured Party that:

- A. The Purchase Agreement is in full force and effect, is valid and enforceable legal obligations, not subject to any set-offs, deductions, defenses or counterclaims; that the Purchase Agreement is bona fide Purchase Agreement of real estate described therein; and that full, true and correct copies of the Purchase Agreement is annexed hereto as Exhibit "A".
- B. Debtor has not and shall not alter or modify any of the terms or provisions of the Purchase Agreement, waive or release any party to the Purchase Agreement or any obligations or conditions of the Purchase Agreement, cancel, terminate, reject pursuant to Section 365(h)(1) of the U. S. Bankruptcy Code, as amended, or agree to any assignment by the purchaser without prior written consent of Secured Party.
- C. Debtor maintains and shall continue to maintain records concerning sums now or hereafter payable on account of the Purchase Agreement at its principal office.
- D. The names and signatures on the Purchase Agreement are not forged, fictitious or assumed, and are genuine in all respects.

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T.A.
H.J.

- E. The Purchase Agreement is free from any and all liens and encumbrances whatsoever, except: NONE.
- F. The execution of this Agreement does not breach or violate any agreement between Debtor and any third party.

4. Indemnity:

Debtor agrees to indemnify Secured Party, its officers, agents, and employees against any and all claims, actions, liabilities and judgments, costs, attorney's fees or other charges of whatsoever kind or nature arising out of the Purchase Agreement of the Premises by the Purchaser or any other person. The Secured Party may choose its own counsel, and in its sole discretion, compromise or settle any claims on such terms as Secured Party, in its sole judgment, deems to be in its best interest.

5. Default of Purchaser:

The Debtor and Borrowers warrant and agree to immediately notify the Secured Party of any default under the Purchase Agreement by either the Debtor and Borrower or Purchaser in the event the default is not cured by the defaulting party within thirty (30) days from the date of the occurrence thereof. Debtor and Borrowers will not institute legal proceedings versus such defaulting Purchaser without the written consent of Secured Party.

The Debtor and Borrowers hereby covenant and agree to not encumber any Purchase Agreement of the Premises, subsequent to the execution of this Agreement without the prior written consent of the Secured Party.

6. Additional Documents:

Upon request of the Secured Party, the Borrowers shall execute and deliver to Secured Party certified copies of all documents relating to any sale of the Premises; and give all notices that, in the judgment of the Secured Party, may be necessary to evidence or secure to Secured Party the security interest granted herein and other rights.

7. Financing Statements:

Debtor hereby authorizes the Secured Party to prepare and file financing statements signed only by the Secured Party, and to record this Agreement with the appropriate state and local offices necessary to perfect its security interest herein.

8. Default:

The occurrence of a default or event of default in any instrument or agreement made in connection herewith or any one of the following events shall constitute default of this Agreement.

- A. Failure to perform any obligation, term, covenant, agreement or warranty contained herein;
- B. Any statement, representation, or warranty at any time furnished by the Debtor and Borrowers is untrue in any material respect as of the date made;
- C. Any levy, seizure or attachment of any part of the collateral;

When a default or an event of default shall be existing, the Note and all other Liabilities may, at the option of Secured Party, regardless of their terms and for the purpose of this Agreement, and without notice or demand, be declared and thereupon immediately shall become due and payable; and Secured Party may exercise from time to time any rights and remedies of a secured party under the Uniform Commercial Code of Indiana or other applicable law.

9. Books and Records:

Debtor shall at all reasonable times allow Secured Party, its officers, attorneys, and accountants, to inspect and make abstracts of Debtor's books and records to verify the status of the Purchase Agreement.

The Debtor agrees to provide the Secured Party with all books, documents, records, instruments and related papers relating to any Purchase Agreement to effect collection thereof upon default by the Purchaser thereunder.

10. Additional Instruments:

The Debtor agrees to execute and deliver to Secured Party such additional instruments, financing statements and related papers as Secured Party may request, from time to time, whenever necessary in its opinion to establish, maintain and effectuate the validity and enforceability of this Agreement and of the claims versus any purchases under a Purchase Agreement.

11. Effect of this Agreement:

It is expressly understood by the Debtor that this Agreement does not operate as a pro tanto discharge of the Liabilities, but that the Liabilities will be reduced only by the sum equivalent to the actual amount of monies collected by Secured Party from the Purchaser of the Premises and all other sources.

12. Miscellaneous:
- A. All covenants, promises, representations and agreements herein contained shall be binding upon, apply and inure to the benefit of Debtor and Secured Party and their respective heirs, legal representatives, successors and assigns.
 - B. The rights and remedies hereby created are cumulative, and the use of one remedy shall not be taken to exclude or waiver the rights of the use of another.
 - C. If any clause, phrase, provision or portion of this Agreement, or the application thereof to any person or circumstance, shall be invalid or unenforceable under applicable law, such event shall not effect, impair or render invalid or unenforceable the remainder of this Agreement nor any other clause, phrase, provision or portion hereof, nor shall it affect the application of any clause, phrase, provision or portion hereof to other persons and circumstances.
 - D. No verbal agreement or understanding contrary to any of the terms, specifications and conditions of this Agreement has been made.
 - E. All headings set forth herein are for descriptive purposes only.
 - F. No delay on the part of the Secured Party in the exercise of any right or remedy shall operate as a waiver thereof; and no single or partial exercise by the Secured Party of any right or remedy shall preclude other or further exercise thereof, or the exercise of any other right or remedy. If more than one party shall execute this Agreement, the terms "Debtor" shall mean all parties signing this Agreement and each of them, and all such parties shall be jointly and severally obligated hereunder. The neuter pronoun when used herein, shall include the masculine and the feminine and also the plural.

IN WITNESS WHEREOF, Debtor and Secured Party have executed this Agreement, or have caused same to be executed by their representatives, duly authorized thereunto on the day and year first written above.

DEBTOR:

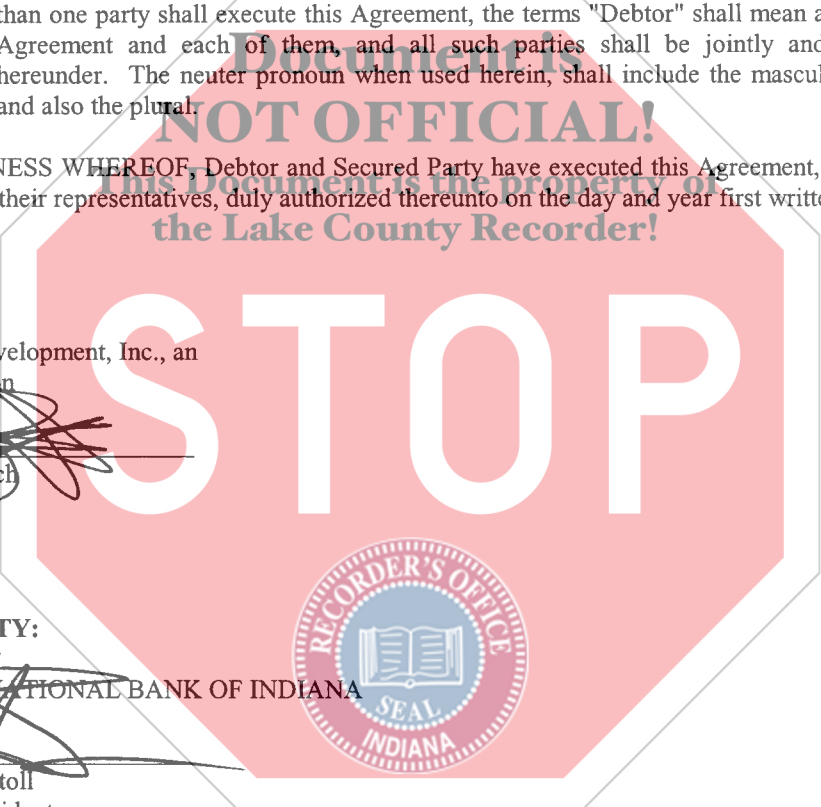
Diamond Veil Development, Inc., an
Indiana corporation

[Signature]
By: Robert Stiglich
Its: President

SECURED PARTY:

MERCANTILE NATIONAL BANK OF INDIANA

[Signature]
By: William H. Stoll
Its: Sr. Vice President



STATE OF INDIANA)
) SS:
COUNTY OF LAKE)

I, the undersigned, a Notary Public in and for said County, in the State aforesaid, do hereby certify that on this day personally appeared before me, Robert Stiglich, personally known to me to be the same persons whose names are subscribed to the foregoing Instrument and personally known to me to be the President, respectively, of Diamond Veil Development, Inc., an Indiana corporation, and acknowledged that they signed, sealed and delivered the said Instrument as their free and voluntary act, for the uses and purposes therein set forth, as President, respectively, of said corporation, that the seal affixed to the foregoing Instrument is the corporate seal of said corporation and that said Instrument was signed, sealed and delivered in the name and behalf of said corporation by the authority of its stockholders and Board of Directors as the free and voluntary act of said corporation for the uses and purposes therein set forth.

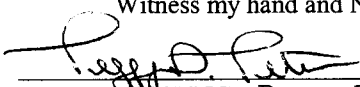
Witness my hand and Notarial Seal this 28th day of October, 2002.

[Signature]
NOTARY PUBLIC Peggy D. Petersen
My Commission Expires: June 27, 2010
County of Residence: Lake

STATE OF INDIANA)
) SS:
COUNTY OF LAKE)

Before me, a Notary Public in and for said County and State, personally appeared William H. Stoll, as Sr. Vice President, known to me to be such officer of Mercantile National Bank of Indiana, and acknowledged execution of the foregoing Security Agreement and Collateral Assignment as such officer, as the free and voluntary act of said corporation and as her free and voluntary act, acting for such corporation.

Witness my hand and Notarial Seal this 28th day of October, 2002.


NOTARY PUBLIC Peggy D. Petersen

My Commission Expires: June 27, 2010

County of Residence: Lake

This instrument prepared by William H. Stoll as Sr. Vice President of
Mercantile National Bank of Indiana
7701 Broadway, Merrillville, IN 46410

NOT OFFICIAL!

**This Document is the property of
the Lake County Recorder!**

STOP



SCHEDULE "A" TO COLLATERAL ASSIGNMENT AND
SECURITY AGREEMENT BY DIAMOND VEIL DEVELOPMENT, INC.
TO MERCANTILE NATIONAL BANK OF INDIANA
DATED OCTOBER 28th, 2002

LEGAL NAME OF PURCHASER

SALES PRICE

DATE OF AGREEMENT

Valenti Construction, Inc.

\$28,500.00 per Lot

June 27, 2002



"EXHIBIT A"

Clear Water Cove
AGREEMENT TO PURCHASE

This agreement made and entered into this 27th day of June, 2002, by and between Diamond Veil Development, Inc. (hereinafter called "Developer/Seller" and Valenti Construction, Inc. (Hereinafter called "Purchaser"). CV. DS.

Whereas, the developers are the owners of a certain parcel of real estate described as: 34 Lots in proposed Clearwater Cove, Crown Point, Indiana.

Whereas the developers are desirous of maintaining certain standards of construction within the subdivision, as set forth in the restrictions and covenants of said subdivision, a true and exact copy of which restrictive covenants have not been received by purchaser.

Now, therefore, the parties do hereby agree as follows:

1. **Purchase Price:** Purchaser agrees to pay: Twenty-eight Thousand Five Hundred Dollars (\$28,500.00) per Lot.
2. **Method of Payment:** Twenty thousand Dollars (\$20,000.00) deposit with signing offer. After Developer work (roads, utilities and curbs) is complete and building permits can be obtained; Three (3) lots of Purchaser's choice shall be paid in full. If all lots are not closed in 36 months, seller shall have option to sell lots to other builders unless Valenti Construction, Inc. continues to have Sunday Open Houses, a minimum of 40 Sundays per year until all lots are sold and/or closed.
3. The above lots shall be fully improved as shown in the final engineering plat approved by the City of Crown Point.
4. The subject lots will be deeded to purchaser after purchaser makes the payments and performs the terms and conditions included in this contract.
5. The subject lots transfer is subject to certain restrictive covenants and is also subject to certain easements and building line setbacks as set forth on the plat of the subdivision which shall be recorded in the Office of the Recorder of Lake County, Indiana.
6. The subject lots will not be subject to any liens or encumbrances at the time of transfer except standard title exceptions.
7. Valenti Construction, Inc. agrees to begin construction of two models within 30 days of available building permits and completion of utilities, roads and curbs. A Model shall be maintained until all 34 units are closed. Model will have sale agent present for at least 40 Sundays per year until all units are sold or closed.

8. Purchaser agrees to comply with the soil erosion control plan established by the developer in 327 IAC 15-5 associated with construction activity rule 5, and hold the developer harmless from any and all liability of whatever kind and nature including payment of damages and attorney fees, which may result from non-compliance of the purchaser with the terms of this provision.

9. Purchaser of Purchasers subsequent builder agrees to set top of foundation height at attached "T/F" elevation and to return rear and side line elevations to final grade as shown on the plan to be provided by Intercom Engineering Corporation and approved by the City of Crown Point Planning Commission. It is the responsibility of the Purchaser to adjust dirt quantity for required foundation and finish grade elevations. Purchaser shall be liable for any errors by contractor.

10. All Real Estate taxes assessed against the property after closing shall be paid by the purchaser. If construction commences on lot prior to closing, all taxes after issuance of building permit shall be paid by the purchaser.

11. A title commitment by Ticor Title in the amount of the lot purchase price shall be furnished to the purchaser by the developer at the time of final closing.

12. The closing shall occur at the office of the title company issuing title commitment. If the purchaser desires to close at an alternate location, all costs of the closing shall be paid by the purchaser.

13. All the covenants and conditions herein contained shall extend and be obligatory upon the heirs, executors, administrators and assigns of the party hereto.

14. The rights and obligations of the purchaser herein shall not be assignable unless such assignment shall be approved by the developer in writing.

15. The purchaser and developer hereby acknowledge that the listing broker is the agent of the seller and the selling broker is the agent of the buyer. If Century 21 Executive Realty, Inc. is both the selling and listing broker, the agent(s) shall operate as a Limited Agent under the laws of the State of Indiana. If you have any questions, contact an attorney or review the limited agency disclosure available to you.

16. Purchaser shall receive a copy of the plat of subdivision for the phase in which they are purchasing. Seller shall have all lots surveyed and staked, four corners.

17. Soil Guarantee: Developer guarantees soil suitable for normal building loads to a depth for a standard 4' wall under the main structure and garage. In the event unsuitable soil is found, it shall be the sellers option to refund the cost of the lot or repair soils to be suitable for building. Any soil tests ordered and paid for by purchaser shall be reimbursed by seller at closing. All building shall cease until a mutual decision is reached. If buyer

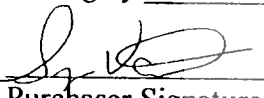
proceeds without authorization from seller, seller shall be held harmless for any costs of over-dig or soil repair.

18. Purchaser agrees that any controversy or claim arising out of or relating to this agreement or breach thereof shall be settled in accordance with the American Arbitration Association, and judgment upon the award by Arbitrator(s) may be entered in any Court having jurisdiction thereof. Arbitration may be initiated by contacting the American Arbitration Association, 206 W. Wacker, Suite 1100, Chicago, Illinois 60606. Cost of the Arbitrator will be paid equally by the Developer and the Purchaser.

19. All lots will have side yard setbacks wide enough to allow a 60' wide Villa Lots along Route 8 shall have a berm constructed and trees planted at Developer's expense. Design to be agreed upon by Seller and Purchaser.

20. All lots shall be ready for building permits by ^{Sept. 1, 2002} ~~August 1, 2002~~. Including all utilities, roads and curbs completed. If building permits are not available by August 1, 2002; earnest money to be returned within 7 days and contract void unless otherwise mutually agreed in writing.

EXPIRATION AND APPROVAL: This purchase agreement is void if not accepted in writing by _____, 2002 at 5:00 p.m. by sellers, authorized agent or attorney.


Purchaser Signature

^{6256 UNCLDWT}
Printed Name

^{VALENTI COURT INC}
Company

9111 Broadway H
Address

Merrillville, IN 46410
City, State, Zip

219-769-6656
Phone Number

The above purchase agreement is hereby accepted on 6/27/, 2002.

By Developer:


Robert Stiglich, President
Diamond-Veil Development, Inc.

