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**SECURITY AGREEMENT AND  
COLLATERAL ASSIGNMENT**

This Security Agreement and Collateral Assignment (hereinafter "Agreement") made this 15<sup>th</sup> day of April, 2004, between Mercantile National Bank of Indiana as trustee under Trust Agreement dated the 6<sup>th</sup> day of June, 2000 and known as Trust Number 6687, an Indiana corporation of 1270 Stoney 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 Diamond Veil Development, Inc. (hereinafter, collectively, "Borrowers"), are indebted to the Secured Party in the principal sum of One Million Four Hundred Seventy-Seven Thousand and NO/100---Dollars (\$1,477,000.00), plus accrued interest pursuant to a certain Secured Adjustable Rate Note dated April 15<sup>th</sup>, 2004; 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, as successor in title to Stillwater Properties, LLC, 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 April 15<sup>th</sup>, 2004, in the amount of One Million Four Hundred Seventy-Seven Thousand and No/100---Dollars (\$1,477,000.00), (hereinafter "Note"), and all renewals, extensions, rewrites, 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 obligations 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 as Successor in title to Stillwater Properties, LLC in and to certain Purchase Agreements (hereinafter collectively Purchase Agreement) described in Schedule "A" annexed hereto, between Debtor, as Successor in title to Stillwater Properties, LLC, and Valenti Construction, Inc. and Van Gogh Homes, Inc. as Purchasers thereto, 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 copy 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.
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- D. The names and signatures on the Purchase Agreement are not forged, fictitious or assumed, and are genuine in all respects.
- 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.

SCHEDULE "A" TO COLLATERAL ASSIGNMENT AND  
SECURITY AGREEMENT BY MERCANTILE NATIONAL BANK OF INDIANA AS TRUSTEE UNDER  
TRUST AGREEMENT DATED THE 6<sup>TH</sup> DAY OF JUNE, 2000 AND KNOWN AS TRUST NUMBER 6687 TO  
MERCANTILE NATIONAL BANK OF INDIANA  
DATED APRIL \_\_\_\_\_, 2004

<u>LEGAL NAME OF PURCHASER</u>	<u>SALES PRICE</u>	<u>DATE OF AGREEMENT</u>
Valenti Construction, Inc.	\$43,000.00 per Lot	November 21, 2003
Van Gogh Homes, Inc.		December 15, 2003



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:**

Mercantile National Bank of Indiana as trustee under Trust Agreement dated the 6<sup>th</sup> day of June, 2000 and known as Trust Number 6687

See Attached Signature Page

**SECURED PARTY:**

MERCANTILE NATIONAL BANK OF INDIANA

By William H. Stoll  
Its: Sr. Vice President

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 15<sup>th</sup> day of April, 2004.

Peggy D. Petersen  
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



This SECURITY AGREEMENT AND COLLATERAL ASSIGNMENT is executed by the undersigned Trustee, not personally, but solely as Trustee under the terms of that certain agreement dated June 06, 2000, creating trust number 6687; and it is expressly understood and agreed by the parties hereto, anything herein to the contrary notwithstanding, that each and all of the covenants, undertakings, representations, agreements and liabilities, herein made are made and are intended, not as personal covenants, undertakings, representations, agreements and liabilities, of the Trustee, individually, or for the purpose of binding it personally, but this instrument is executed and delivered by the MERCANTILE NATIONAL BANK OF INDIANA, AS TRUSTEE, solely in the exercise of the powers conferred upon it as such Trustee under said agreement and no personal liability or personal responsibility is assumed by, nor shall at any time be asserted or enforced against MERCANTILE NATIONAL BANK OF INDIANA, on account hereof, or on account of any covenant, undertaking, representation or agreement herein, either expressed or implied, all such personal liability, if any, being expressly waived and released by the parties hereto or holder hereof, and by all persons claiming by or through or under said parties or holder hereof.

Nothing contained herein shall be construed as creating any liability upon MERCANTILE NATIONAL BANK OF INDIANA, personally under the provisions of the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) or the Indiana Responsible Property Transfer Law (the "Act") as amended from time to time or any other federal, state or local law, rule or regulation. MERCANTILE NATIONAL BANK OF INDIANA, personally, is not a "Transferor or Transferee" under the Act and makes no representations concerning any possible environmental defects. In making any warranty herein, the Trustee is relying solely on information furnished to it by the beneficiaries and not of its own knowledge and specifically exculpates itself from any liabilities, responsibilities or damages as a result of including any warranty in this instrument.

Furthermore, the information contained in this instrument has been furnished to the undersigned by the beneficiary/beneficiaries under aforesaid Trust and the statements made therein are made solely in reliance thereon and no responsibility is assumed by the undersigned in its individual capacity for the truth or accuracy of the facts herein stated.

IN WITNESS WHEREOF, said MERCANTILE NATIONAL BANK OF INDIANA, has caused its name to be signed to these presents by an Assistant Vice President and Trust Officer and attested by its Assistant Vice President and Trust Officer the day and year first above written.

MERCANTILE NATIONAL BANK OF INDIANA, AS TRUSTEE  
AFORESAID AND NOT PERSONALLY

By:   
Stephanie Gerdes, Vice President & Trust Officer

ATTEST:

  
Name: Claudia Phalen  
Title: Vice President and Trust Officer

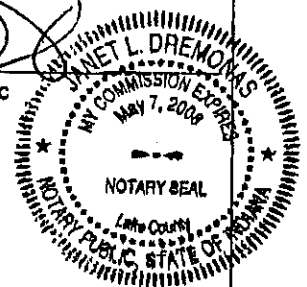
STATE OF INDIANA )  
                                  ) SS:  
COUNTY OF LAKE )



Before me, a Notary Public in and for said County, in the State aforesaid, personally appeared before me, Stephanie Gerdes, Vice President and Trust Officer, and Claudia Phalen, Vice President & Trust Officer, of MERCANTILE NATIONAL BANK OF INDIANA, a national banking association, who acknowledged the execution of the foregoing instrument as the free and voluntary act of said national banking association, and as their free and voluntary act, on behalf of said national banking association, as Trustee.

Given under my hand and notarial seal this 15th day of April, 2004.

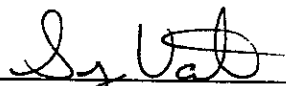
Signed:   
Janet L. Dremonas, Notary Public



**CERTIFICATION**

I, Greg Valenti, an authorized representative of Valenti Construction, Inc., do hereby certify the foregoing to be a true and accurate copy of the original Security Agreement and Collateral Assignment entered into on April 15, 2004, by and between Mercantile National Bank of Indiana, as Trustee u/a/d June 6, 2000, and known as Trust 6687-LT, (hereinafter called "Debtor") and Mercantile National Bank of Indiana. (hereinafter called "Secured Party").

**IN WITNESS WHEREOF**, I have executed this Certification this 14<sup>th</sup> day of February, 2006.



**GREG VALENTI, authorized  
representative of Valenti Construction, Inc.**

STATE OF INDIANA     )  
                                  ) SS:  
COUNTY OF LAKE     )

Before me, a Notary Public in and for said County and State, this 14<sup>th</sup> day of February, 2006, personally appeared **GREG VALENTI** who acknowledged the execution of the foregoing instrument as his free and voluntary act.

Given under my hand and notarial seal, this 14<sup>th</sup> day of February, 2006.



**Michael J. Jasaitis, Notary Public**

My Commission Expires: 12/17/08  
County of Residence: Lake

Prepared by: Rhett L. Tauber, Esq.  
Tauber Westland & Jasaitis, P.C.  
1415 Eagle Ridge Drive  
Scherville, IN 46375  
Phone: 219/865-8400



Prescribed by the  
State Board of Accounts  
(2005)

County form 170

Declaration

This form is to be signed by the preparer of a document and recorded with each document in accordance with IC 36-2-7.5-5(a).

I, the undersigned preparer of the attached document, in accordance with IC 36-2-7.5, do hereby affirm under the penalties of perjury:

1. I have reviewed the attached document for the purpose of identifying and, to the extent permitted by law, redacting all Social Security number in attached document.
2. I have redacted, to the extent permitted by law, each Social Security number in the attached document.

I, undersigned, affirm under the penalties of perjury, that the foregoing declarations are true.



  
Signature of Declarant

MICHAEL JABART LS  
Printed Name of Declarant