

Newsletter of the Official Committee of Investors of Mortgages Ltd.

December 31, 2008—Newsletter #18

The members of the Official Investors Committee want to let you know about the current events regarding the bankruptcy of the Debtor Mortgages Ltd. (“Debtor”). Even though it has been about a month since our last newsletter, the Committee has been extremely active and has had numerous meeting with the Debtor and the other parties in the case trying to resolve open issues and get a plan on file that will end the bankruptcy.

1. PROOF OF CLAIM BAR DATE EXTENDED TO JANUARY 6, 2009. The Court has extended the proof of claim bar date for investors, the MP Funds and the VTL Fund to January 6, 2009. See our prior newsletters for contact information for the attorneys and for a copy of proofs of claims that have already been filed. ***THERE ARE IMPORTANT ISSUES FOR YOU TO CONSIDER CONCERNING THE PROOF OF CLAIM SO THE COMMITTEE RECOMMENDS YOU CONTACT AN ATTORNEY AND GET ASSISTANCE.***

2. LAWSUITS BY NATIONAL RETAIL DEVELOPMENT PARTNERS I AND PDG LOS ARCOS LLC. Investors in the two loans, as well as the MP Funds, have been sued by the two borrowers. If you are an Investor and have been served with a summons in these matters, please contact Dax Watson at (602) 778-9900 or dwatson@mackazlaw.com. The Debtor has also filed actions in Bankruptcy Court against the two borrowers which have been combined with these lawsuits. The Bankruptcy Court decided to keep the lawsuits against the investors and the MP Funds in the Bankruptcy Court. The Bankruptcy Court also denied dismissal of the suits for failure to sue Mortgages Ltd. and also granted the motion to dismiss the two tort claims for failing to plead a special relationship. Copies of those rulings will be posted on the website next week. Meanwhile the other counts in the lawsuits will proceed before the Bankruptcy Court. There may be other lawsuits filed against investors as well by borrowers or mechanics lien holders. It is anticipated that these will also be removed to Bankruptcy Court and resolved before the Bankruptcy Court.

3. CS 11 AND CGSR SETTLEMENTS. As to the Sorenson settlements, they have now been resolved to the satisfaction of the Committee and approved as modified by the Court. The Committee filed an objection to the substantial \$3.4 million of fees which the Debtor proposed to pay itself at the expense and to the detriment of the Investors through the settlement. The Debtor expressed willingness to compromise on the fees. Indeed, just before the hearing, the Debtor compromised. As to the significant fees that would have gone to the Debtor, all such fees after plan confirmation will go to the Investors. Depending on when a plan is confirmed (assuming sometime in April or May), the Debtor will have received only \$460,000 in fees. The rest of the almost \$3 million of fees will eventually be paid to Investors. In addition, as to the Debtor’s interest spread, the Debtor will be receiving the interest spread until confirmation of a plan or appointment of a trustee. After that time who will receive the interest spread will be determined under a plan. Thus the Investors might also receive that interest spread

depending on what is negotiated in a plan. We then approved a form of order which was entered by the Court. You should be receiving money from the Sorenson notes soon.

4. NEGOTIATION OF CONSENSUAL PLAN OF REORGANIZATION. As you are aware, the Committee and its counsel and the counsel for other major constituency groups in the case (including Radical Bunny, the Value To Loan Committee, the Unsecured Creditors Committee and some major Rev Op Investors) have been working together to propose with the Debtor a Consensual Plan of Reorganization that these groups can support. Many meetings have been held throughout December. Based on the most recent Court order, the Debtor's exclusive right to file a plan will end on January 6, 2009 at 5 pm unless the Debtor, the Committee and Radical Bunny agree to extend it. If there is not such an agreement to extend, then Radical Bunny and the Committee will be able to file a plan with or without the Debtor. We are still hopeful that we can do a consensual plan with the Debtor and are working to that end. However, if we are not able to reach such an agreement, then the Committee, Radical Bunny and others can move forward with their own plan after January 6, 2009.

5. CENTERPOINT LOAN. As we mentioned in prior newsletters, the Committee opposed the initial interim financing on the Centerpoint loan. At the September hearings, the Committee was successful in limiting the collateral for that interim financing to the Debtor's fractional interest in the Centerpoint loan. The Investor's fractional interests have not been pledged. The lender and the Debtor have advanced about \$2.2 million of that loan to Centerpoint. The final hearing was reset many times, most recently for mid-December. The Committee filed an objection to the final Centerpoint Financing which has been posted on the website. We had grave concerns about the proposed loan documents and about the way in which the advances have been misused and not applied according to the budget and in which advances were made without obtaining lien waivers or releases. Radical Bunny filed a detailed objection to the Centerpoint Financing Motion and attached exhibits and deposition testimony which specifically address and detail these concerns. We have posted the Radical Bunny objection on the website. Based on discovery we have learned that Centerpoint did not follow the Court approved budget but spent most of the money for items not yet approved by the Court in violation of the financing order. The Debtor filed an order to show cause why Centerpoint should not be held in contempt of Court. Radical Bunny filed its own order to show cause why the Debtor and its president should not also be held in contempt of Court. That evidentiary hearing is set for January 8, 2009 at 10:30 am. Centerpoint has also filed its own bankruptcy but this hearing before Judge Haines in the Mortgages Ltd. case will proceed regardless.

6. RIGHTPATH LOAN. The investors in one of the three Rightpath loans have probably heard about a bus tour and presentation by Rightpath about their proposal for the building of HUD guaranteed apartments on one of the sites. The Committee has asked for information on this proposal and for the analysis of the project. We have not received it from the Debtor and are not sure the status of the proposal. We will try to follow up on it and take a look at it when we receive it. Meanwhile we have asked the Debtor to stop any bus tours or solicitation or presentation by Rightpath until we have the chance to

review it. Any such tours or presentations are premature and may be improper solicitations. The proposal evidently contemplates that the deed of trust will be released and the loan will be converted to a minority equity interest in an entity controlled by Rightpath. We are concerned about improper securities solicitation and the lack of proper disclosures and adequate information being provided to investors.

7. SCOTT COLE'S PROBATE ESTATE AND SM COLES LLC BANKRUPTCY. In an abundance of caution, the Committee presented a claim to the probate estate for about \$729 million to preserve and protect the rights of the Investors, the MP Funds and Mortgages Ltd. as to any possible claims in the probate estate. The claim is due January 3, 2009. We do expect that the Debtor Mortgages Ltd. will present a claim as well but presented a claim as a protective measure. Radical Bunny, the VTL Committee and the Unsecured Committee may also present claims to protect their rights. The SM Coles LLC has filed its own bankruptcy. The SM Coles entity recently held an auction for personal property but the proceeds will be held and not disbursed until the disputes over ownership of the personal property are resolved by the Court. The Debtor Mortgages Ltd. is taking an active role in the SM Coles LLC case to protect the argument that certain property belongs to the Mortgages Ltd. bankruptcy estate. Recently the Court ordered the Debtor Mortgages Ltd. to pay about \$300,000 in unpaid rent to the SM Coles entity. The Debtor will probably need to leave the current office space by the end of January. The Debtor is considering its rental options.

8. UNIVERSITY & ASH LOANS. As you know from the last newsletter, the Court approved part of the settlement and denied part of the settlement. Concerned about the ruling on authority, the Committee has filed an appeal of this ruling with the United States District Court for the District of Arizona. While the Committee has had some additional discussions with University & Ash about a revised settlement and the alternatives, no decisions have been made by any of the parties. We will let you know when anything further happens on this matter.