

July 11, 2008—Newsletter #2

The Unofficial Investor Committee (“Unofficial Committee”) has been active over the last week. This Unofficial Committee has added Bill Hawkins which brings the Unofficial Committee to 10 investors.

The Unofficial Committee has asked the United States Trustee’s Office (a Division of the United States Department of Justice) to appoint a formal investors committee in the Bankruptcy case of Mortgages Ltd. but that decision has not been made yet. So no formal committee has been selected.

Last week the Unofficial Committee interviewed and selected a financial advisors/forensic accountant to assist the Unofficial Committee. Ed McDonough of Alvarez and Marsal was selected and has already started to review financial and real estate information to assist the Committee.

Some of the borrowers have started making payments again. As of July 10, 2008, Mortgages Ltd. has about \$1.9 million of funds on hand from payments on 26 loans. The Unofficial Committee and the debtor Mortgages Ltd. will be filing a Join Motion with the Court to authorize Mortgages Ltd. to resume turning over the payments on the notes and deeds of trust to the investors. The Court may hear and rule upon the Joint Motion as early as Tuesday July 15, 2008 at 2:30 p.m. in Judge Curley’s courtroom.

The emergency portion of the Mortgages Ltd. working capital financing motion will be heard on Tuesday July 15, 2008 at 2:30 p.m. An amended motion and term sheet are expected to be filed by the debtor on Friday July 11, 2008. The Unofficial Committee and other parties have been looking for alternatives for financing on a short term basis with some positive results. As far as construction financing is concerned, we are focusing on and addressing the concerns about the construction financing proposals as well. The construction financing term sheet is expected to be filed within a week to 10 days and the construction financing is expected to be heard on August 6, 2008 at 2:00 p.m. before Judge Haines. We will continue to look at this construction financing and seek to have input into the terms of any financing but will continue to look for alternative financing.

Many Investors have received Proof of Claim forms from the Bankruptcy Court. No deadline has yet been set so we strongly suggest that you not file a Proof of Claim at this and wait for further notice. If we are correct that the notes and deeds of trust are not property of the Bankruptcy estate, then a proof of claim may not be needed at all.

We will keep you informed through a website at Fennemore Craig, which will list information as it becomes available. Go to www.fclaw.com/mortgages-ltd-investors. In addition, you are welcome to contact Karen Epstein, one of the committee members, through her email address kme818@cox.net. She has volunteered to be available to answer investor questions.

Finally, some investors have received a subpoena from the Sheppard Mullin law firm and attorney Christopher Reeder requesting copies of documents concerning Mortgages Ltd. Mr. Reeder has indicated that he has backed off this request for the time being with the understanding he can request the information at a later time. If you would like a letter stating this from Mr. Reeder’s office, contact Beverly Lou at (213) 620-1780. It is important that you keep the subpoena and do not destroy or dispose of any of your documents concerning Mortgages Ltd.